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Abbreviations and Acronyms

AAA	Analytical and advisory services
AIDS	Acquired Immune Deficiency Syndrome
BNDES	Banco Nacional de Desenvolvimento Economico e Social
CAE	Country Assistance Evaluation
CAS	Country Assistance Strategy
CMU	Country Management Unit
ECLAC	Economic Commission for Latin America
ESW	Economic and sector work
FDI	Foreign direct investment
GDP	Gross domestic product
GEF	Global Environmental Facility
HIV	Human immunodeficiency virus
IBGE	Instituto Brasileiro de Geografia e Estatistica
IBRD	International Bank for Reconstruction and Development
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IFIs	International financial institutions
IMF	International Monetary Fund
INSS	Instituto Nacional de Seguridade Social
IPEA	Instituto de Pesquisa Economica Aplicada
LAC	Latin America
LCR	Latin America and the Caribbean
MDGs	Millennium Development Goals
MIGA	Multilateral Investment Guarantee Agency
NGO	Non Governmental Organization
OECD	Organization for Economic Cooperation and Development
OED	Operations Evaluation Department
OEG	Operations Evaluation Group
OEU	Operations Evaluation Unit
PSD	Private Sector Development
QAG	Quality Assurance Group
SAL	Structural Adjustment Loan
SECAL	Sector Adjustment Loan
SMEs	Small and medium-size enterprises
SWC	State Water Companies
TA	Technical assistance

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Summary

1. Brazil entered the 1990s suffering the consequences of a "lost decade" of high inflation and slow growth. Between 1980 and 1990, per capita income had declined in real terms, and the share of the population in extreme poverty had risen from 16.5 to 19 percent—and from 36 to 42 percent in the Northeast. Income distribution had worsened. Key social indicators had improved little, particularly in the Northeast. These adverse conditions persisted in the early 1990s due to the Government's failure to stabilize the economy and articulate a development agenda. Conditions improved only with the success of the 1994 *Real Plan*. Stabilization contributed to a decline in poverty and enabled the Government to articulate a development agenda with clear goals for education and other sectors during the remainder of the 1990s.

Key aspects of the Bank's program

- *The alleviation of poverty was the central objective of the Bank's assistance to Brazil in the 1990s and early 2000s.* Growth was an intermediate objective and means to achieve the final objective of poverty alleviation.
- *The Bank's strategy was developed in a period when the institution became less important as a source of finance to Brazil.* Bank disbursements accounted for 16.5 percent of total financing to Brazil in the 1980s but only 6.5 percent in the 1990s.
- *The strategy became more selective, focusing on the poor Northeast and on activities expected to address directly the roots of poverty.* Priority was given to education and health (their share in total commitments increased from 5 percent in the 1980s to around 20 percent in 1990-2002) and to the provision of basic services and assets to the poor (water, sanitation, rural electricity, land).
- *The growth element of the strategy supported the Government's decentralization and privatization of infrastructure through technical assistance in regulation and selective lending.* These actions were expected to promote growth by stimulating private investment in infrastructure and generating efficiency gains.
- *Assistance to the environment expanded significantly in the 1990s and focused on green issues.*
- *At the end of the 1990s the Bank shifted to adjustment lending to assist the Government in its stabilization and reform efforts.* The share of adjustment lending in total lending increased from 6 percent in the 1980s to 26 percent in 1990-2002 and addressed fiscal and financial reform and social protection.

Key program results

2. *The Bank's assistance strategy in 1990-2002 was relevant overall.* The Bank's strategy was underpinned by high quality analytical work on poverty and growth, done with substantial participation by top Brazilian researchers. The shift to the social sectors and the focus on the Northeast were justified—given the very weak social indicators in the Northeast region—as was the shift to adjustment lending at the end of the decade. A scenario of crisis could have ignited inflation with negative consequences for the poor. When the Bank made adjustment and technical assistance loans, it maintained assistance to the social sectors.

3. *The main component of the program, comprising roughly half of total lending, addressed the roots of poverty through human resource development and access to basic services. This component produced satisfactory results.* Education gains were impressive. The net enrollment rate in primary education increased from 84 to 96 percent nationally, and from 72 to 93 percent in the Northeast. The youth illiteracy rate declined from 9.8 to 4.2 percent nationally, and from 22.7 to 9.6 percent in the Northeast. The Bank's program contributed to these outcomes by providing infrastructure and education materials, strengthening state secretariats of education (so they could manage higher student enrollments), and implementing information and evaluation systems for primary education and minimum operational standards in all schools. The decline in infant mortality was also pronounced, particularly in the Northeast—from 48 to 29 per 1,000 live births nationally, and from 73 to 44 per 1,000 live births in the Northeast. Other key health indicators such as life expectancy and communicable disease incidence/mortality improved significantly. The Bank's program contributed to these outcomes by combating communicable diseases and providing health infrastructure. Finally, the program helped expand basic infrastructure to the poor through its projects in rural poverty alleviation, water, sanitation, and urban transport.

4. *A second component of the program—designed to stimulate investment, economic efficiency, and growth—produced mixed results.* The average growth rate between 1990 and 2002 (2.5 percent per year) was higher than in the 1980s (1.5 percent per year) and surpassed the Latin American average in recent years but remained disappointing. The Bank's program strengthened the capacity of Brazilian states to manage their own infrastructure, increased private sector participation in infrastructure, and built regulatory capacity in energy and water. The program generated efficiency gains, but did not succeed in removing critical bottlenecks that continue to constrain public and private investment and to affect economic performance. Regulatory deficiencies remain. Key reforms supported through adjustment lending (social security, financial sector) started late in the decade and have not been completed. Pension expenditures and deficits remain large (12 and 5 percent of GDP, respectively), burdening public finances and depressing savings and investment. Interest spreads remain high and access to credit curtailed due to weak creditor rights and heavy taxes on financial intermediation. These reforms will need to be concluded to improve growth performance.

5. *A third component of the program, involving support to the environment, produced satisfactory results.* The Bank played a critical role in building environmental institutional capacity and in helping the Brazilian government address many important challenges. Brazil's environment indicators still lag those of developed countries but improved during the decade. Average annual rates of deforestation are still high but declined to 16,800 km^2 in the 1990s, down from 20,300 km^2 in the 1980s; the size of protected areas increased from 2.4 to around 6.5 percent of the national territory; and pollution in large cities such as São Paulo declined. The average emissions of carbon dioxide rose from 1.4 to 1.6 metric tons per capita between the two decades (as in most other regions), but this also happened in other regions and average emissions in Brazil remained substantially below the corresponding averages for Latin America (2.4), North America (19.2), and the OECD (12.1).

6. *Adjustment loans had variable impacts.* The fiscal reform loans achieved their main objectives—the reform of the public sector and the imposition of hard budget constraints at all levels of government. The social protection loan also achieved its objective of preserving critical social programs during fiscal adjustment. The social security, financial sector, and

energy loans supported important reform steps, including: changes in the pension benefit formula for private sector workers, restructuring and privatizing numerous insolvent state banks, and reforming energy tariffs. However, these reforms started late in the decade and have not gone far enough. Limited progress in reforming the pension system (especially for public sector workers) compromised the country's performance by constraining the availability of resources for investment and better targeted social programs.

7. *The Bank's assistance program to Brazil produced a sufficient mass of positive outcomes to be rated as satisfactory.* In the 1990s extreme poverty rates declined from 19 to 14.5 percent in the whole country and from 42 to 30 percent in the Northeast. The program contributed only modestly to the decline in income poverty rates—the gains resulted primarily from eliminating high inflation (which affected disproportionately the poor)—and the program contributed only indirectly by helping the Government sustain stabilization at the end of the decade. However, the program contributed importantly to the impressive improvement in social indicators and to the expanded access of the rural and urban poor to basic infrastructure. All are key pre-conditions for further reductions in poverty and inequality. The education gains are likely to translate into reduced poverty and inequality because incomes in Brazil are strongly related to education levels. Expanded access of the poor to infrastructure both alleviates poverty directly and creates the conditions for subsequent growth in household incomes.

8. *Going forward, these gains will need to be enhanced for Brazil to achieve further reductions in poverty and inequality.* In the early 2000s the country faced volatile capital markets, a difficult external environment, and lingering fiscal vulnerabilities (a large share of its public debt is indexed to the exchange rate and short-term interest rates). Currently (May, 2003), market perceptions about Brazil are improving due to renewed efforts to complete key reforms and improve the fiscal situation, but vulnerability to market volatility may remain for some time. Policies must maintain fiscal discipline to ensure access to external finance, keep inflation low, and prevent an erosion of the gains of the 1990s. The Government and the Bank must also continue addressing the roots of poverty. Further reductions in poverty and inequality will require improved growth performance and better targeting of social expenditures. In education, increasing years of schooling and improving education quality are still needed to obtain substantive results. Access of the poor to basic services also needs to be expanded. Completing tax, social security, and financial sector reforms is critical. The Bank can continue to play a relevant role in Brazil by helping the Government to increase gains in education and health and to remove the constraints to better growth performance.

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1. Purpose and Background

1.1 This report evaluates the World Bank assistance program to Brazil during the 1990-2002 period, covering the administrations of Presidents Fernando Collor de Mello/Itamar Franco (1990-94) and Fernando Henrique Cardoso (1995-02). The Country Assistance Evaluation (CAE) examines three main and inter-related questions. First, whether the objectives of Bank assistance were relevant, given Brazil's development needs and challenges in this period. Second, whether the Bank's assistance program was effectively designed and consistent with its objectives. Third, whether the Bank's program achieved its objectives and had a substantive impact on the country's development during this period. Examining these three main questions also allows the CAE to assess whether the Bank can still play a relevant role in a large middle-income country such as Brazil, and to draw lessons and recommendations for future Bank assistance to the country.

1.2 The Bank's program of assistance to Brazil can only be evaluated with an understanding of Brazil's development challenges in the 1990s. The country entered the 1990s after a decade of poor economic performance, characterized by high inflation and low growth. Brazilian society had succeeded in restoring democracy, but had also become frustrated with the many failed stabilization attempts and the stagnation of economic activity, after previous decades of high growth. The lack of growth was particularly problematic, given Brazil's high social inequalities and levels of poverty, as it tended to produce social tensions and unrest.[1]

Long Period of Growth Followed by the "Lost Decade"

1.3 During the 1950-1973 period Brazil had one of the best growth performances among developing countries, as indicated by growth rates of 7.5 percent per year (Table 1). Brazil was able to maintain high growth rates in the remainder of the 1970s (after the 1974 oil shock) at the cost of large current account deficits and a rapid build up of external debt, but debt ratios were considered acceptable and did not raise major concerns. Inflation was already high, but its effects seemed to have been largely neutralized by extensive indexation arrangements. Income inequality was one of the highest in the world, but all income classes benefited from the high growth rates, including the poorest segments of the population. All in all, growth seemed to be sustainable, and the country seemed poised to become a success story.

1.4 The second oil shock and the developing country debt crisis in the 1980s brought an abrupt end to this growth performance, and exposed the fragility of Brazil's economic strategy. First, the country's inability to adjust internally to the lack of foreign finance resulted ultimately in the acceleration of inflation and a decline in investment ratios (Table 1). Infrastructure, then almost exclusively a responsibility of the State, was especially affected. Second, it became apparent that the country had failed to build its human capital to the levels required to maintain high growth rates. Finally, the economy was plagued by severe inefficiencies in resource allocation caused by trade and exchange restrictions, distorting taxes, and the pervasive presence of the State in virtually all sectors of the

[1] A historical review of Brazil's development performance is provided in Gordon (2001) and Pinheiro et al (2001).

economy. The poor segments of the population were particularly penalized by the stagnation of economic activity and high inflation.

1.5 The 1980s were subsequently labeled as the "lost decade" for Brazil and most of Latin America. In the case of Brazil, the lost decade extended until the mid-1990s, due to the failure to stabilize the economy and implement a coherent program of structural reforms. The administration of President Collor initiated a number of reforms in 1990, including the reduction of trade restrictions and the privatization of some State enterprises. However, the failure to stabilize the economy and the emergence of corruption scandals reduced the reform impetus and caused the impeachment of President Collor by Congress in 1992. Vice-President Itamar Franco assumed the presidency for the remainder of Mr. Collor's term. Inflation remained unabated during most of his administration, reaching 5,000 percent per year in June 1994.

Table 1: Selected Economic Indicators, Annual Averages, 1950-2002

Period	*CPI Inflation (Average) (%)*	*GDP growth (%)*	*Real Fixed Investment, 1980 Prices (% of GDP)*	*Current Account (US$ million)*	*Current Account (% of GDP)*	*FDI (% of GDP)*	*External Debt (% of GDP)*
1950-1973	29.3	7.5	19.1	-354	-1.3	0.4	17.6
1974-1980	41.6	6.8	24.0	-7,745	-4.5	0.8	27.0
1981-1994	507.2	1.9	16.8	-2,716	-1.1	0.6	27.3
1995-1999	16.6	2.3	17.0	-26,218	-3.7	2.7	42.5
2000	6.6	4.5	16.0	-24,225	-4.0	5.5	36.5
2001	5.7	1.5	16.5	-23,214	-4.6	4.5	41.7
2002	8.3	1.5	n.a.	-7,696	-1.8	3.5	45.0

Notes: All variables are period averages except for external debt; 2002 figures are estimates.

Stabilization and Structural Reforms in the 1990s

1.6 Success at stabilization was only achieved with the implementation of the Real plan in June 1994. The success of the Real plan in reducing inflation was initially threatened by growing fiscal deficits in the first Cardoso administration (1995-1998), as they contributed to a real exchange rate appreciation, an expansion of current account deficits, and a substantial increase in the public and external debts. However, during the second Cardoso administration (1999-2002) there was a substantial fiscal adjustment at all levels of Government, as indicated by the shift in the primary balance (excluding interests), from deficits to surpluses of more than 3.5 percent of GDP. The adoption of tight fiscal policies for four consecutive years was instrumental for maintaining control of inflation, despite a large currency devaluation (following the move from a managed peg to a floating rate regime in 1999), and for reducing the current account deficit (Table 1 and Annex Table 9).[2]

[2] The professional literature analyzing fiscal and exchange rate policies in this period criticize the first Cardoso administration for not having contained the fiscal imbalances and for maintaining the managed peg regime for too long. At the same time, the literature also acknowledges that fiscal adjustment was complicated by several factors, including the rigidities introduced by the 1988 Constitution, the emergence of large hidden liabilities (e.g., past losses of public banks), and the imbalances at the level of states and municipalities. Tyler (1999) and Cardoso (1996 and 2000) stress the inconsistencies of the fiscal and exchange regimes in 1995-1998, and Giambiagi (2002) provides a comprehensive analysis of fiscal policy in the 1990s and early 2000s.

1.7 The Cardoso Government also implemented an ambitious program of reforms in other areas, including the abolition of State monopolies, the privatization of State enterprises, the restructuring and privatization of State banks, and land reform. Finally, there was also a more focused effort to improve education and health standards, as shown by the impressive improvement of most social indicators. For the sake of illustration, the net enrollment rate in primary education increased from 84 to 96 percent during the 1990s, and infant mortality declined from 48 to 29 per 1,000 live births in the same period (Annex Table 10).

1.8 By the year 2000 Brazil seemed to be harvesting the first fruits of its stabilization and reform efforts. As shown in Table 1, inflation had been brought under control despite a large devaluation of the *Real*, and GDP growth had increased to 4.5 percent. The current account deficit had declined from a peak of US$33 billion to US$23 billion, and was fully covered by a large volume of foreign direct investment (FDI). Real fixed investment was still low by historical standards, but the large FDI flows enhanced the prospects of large increases in productivity. The increase in external debt seemed to have been halted.

1.9 These positive trends were disrupted in 2001 and 2002, however, due to several adverse events. These included an international slowdown, a domestic energy crisis, spillovers from the Argentine crisis, and market fears that the 2002 elections would bring a new Government not committed to fiscal discipline and economic reforms. Market expectations about Brazil's economic performance worsened considerably, resulting in a strong devaluation of the currency and a sharp rise in international borrowing spreads, from 500 basis points in 2000 to 2,700 basis points in late 2002. The strong pressures on the exchange rate and interest rates in turn had adverse consequences for fiscal policy, as a significant part of public debt is indexed to the US dollar or at floating rates—during 2002 public debt increased from 50 to 63 percent of GDP due to these effects. The current account deficit declined further but the growth recovery lost momentum with the energy rationing, the tightening of macro policies, the restricted access to credit, and the fall of confidence.

1.10 In January 2003 Mr. Luiz Inacio Lula da Silva became president, and announced his commitment to fiscal discipline and the targets that had been agreed with the IMF in September 2002, under a US$30 billion standby supporting Brazil through December 2003. This announcement had a positive impact on financial markets, but will need to be followed by the implementation of coherent policies in order to consolidate the hard-won stabilization gains and restore confidence further. Mr. Lula da Silva also faces a challenging development agenda, despite the positive achievements in the 1990s. Brazil's per capita GDP is around US$7,500 on a PPP basis and its social indicators have improved significantly, but its distribution of income is still very unequal and 34 percent of the population is still below the poverty line. To restore growth and reduce poverty further, Mr. Lula da Silva will need to release fiscal resources for investment and well-focused social programs, and remove the remaining structural bottlenecks that also hinder growth. Success in these areas will depend, *inter alia*, on the implementation of well-designed social security, tax, financial, and judicial reforms.[3]

[3] Brazil's unfinished development agenda is examined in Scheinkman et al. (2002).

2. World Bank Assistance to Brazil in the 1990-2002 Period

World Bank Objectives and Strategies for the Decade

2.1 The alleviation of poverty was the central objective of Bank assistance to Brazil throughout the 1990s and early 2000s. This central objective was stated in the 1993 assistance strategy, and reiterated in the 1995, 1997 and 2000 assistance strategies. Growth was usually defined as an intermediate objective, or as a means to achieve the final objective of poverty alleviation. The strategy that was developed in this period called for elements expected to have a direct impact on poverty alleviation and elements designed to foster growth, but with an emphasis on the first set of elements.

2.2 The Bank's strategy was developed in a period when the institution was becoming less important as a source of finance to Brazil. As shown in Table 2, average Bank disbursements to Brazil increased slightly in nominal terms but declined sharply in relative terms between the two decades. Bank disbursements accounted for 16.5 percent of total debt financing flows to Brazil in the 1980s but only 6.5 percent in the 1990s. By the end of the decade Bank disbursements had declined to less than 4 percent of total financing flows (4.5 percent including IFC—see Annex Table 1). The institution had also become smaller relative to other development institutions, such as the Inter-American Development Bank (IDB) and the National Development Bank (BNDES).

2.3 It became apparent that the strategy had to reflect the diminishing importance of the Bank as a financing source. In particular, the Country Assistance Strategies (CASs) indicated that the Bank had to become more selective and concentrate its resources in the sectors and regions where its poverty alleviation impact would be strongest. The strategy that was developed called for a switch of assistance to the social sectors and other sectors expected to have a more direct impact on poverty alleviation. The strategy also called for a concentration of efforts in the poorest regions of the country, primarily the Northeast. In assisting the poor regions, the Bank perceived the need to deal directly with Brazilian states and municipalities, given their responsibility for the provision of public services mandated by the 1988 Constitution.

Table 2: Size of World Bank Lending, 1980-2001

	1980-1989	*1990-2001*	*1990-1994*	*1995-1998*	*1999-2001*
Annual IBRD Disbursements (US$ million)	894	1,100	663	1,254	1,621
% of total debt flows to Brazil	16.5	6.4	10.2	3.6	3.9
% of IDB disbursements	279.1	107.2	71.8	64.8	280.7
% of BNDES disbursements	24.2	15.8	20.2	10.0	16.4
IBRD Debt Outstanding, Disbursed (US$ million)	8,311	7,963	6,310	6,298	7,963
% of total Brazil debt stock outstanding	7.3	3.4	4.1	2.6	3.4
% of total IBRD stock of disbursed loans	9.8	6.1	5.7	5.4	6.1

Sources: IBRD, IDB, BNDES.

2.4 Education and health were elevated as priority sectors (especially the former), due to their perceived capacity to contribute to poverty alleviation and growth at the same time. Assistance to education would focus on early childhood development and basic education, whereas assistance to health would focus on the fight against transmittable diseases and improving the access of the poor to health services. Assistance to rural development would

continue, but these projects would be restructured to sharpen their focus on rural poverty alleviation.

2.5 Assistance to infrastructure would also continue, but with some changes. The Bank would support the Government's decentralization and privatization programs, assisting the Brazilian states and municipalities and encouraging private sector participation in infrastructure, in order to help Brazil meet its large infrastructure needs. Lending would focus on sectors more difficult to privatize, or needing an "honest broker," or with a more direct impact on poverty alleviation (e.g. roads, urban rail, water and sanitation). Finally, assistance to the environment was rationalized on the grounds that it would contribute to sustain growth as well as to reduce poverty (as the poor were disproportionately affected by environmental degradation).

2.6 The decision to switch to the social sectors and the environment implied the need to reduce assistance to other sectors. The Bank scaled down traditional agriculture projects (irrigation, agriculture extension) due to unsatisfactory outcomes in the 1980s. Energy projects were also scaled down due to unsatisfactory outcomes in the 1980s and early 1990s, caused primarily by the Government's tariff policies.[4] The CASs do not mention, however, that the Government also had reservations on Bank assistance to energy due to the Bank's safeguards, particularly the Bank's resettlement policies, after a traumatic and costly experience with resettlement in the previous decade.[5]

2.7 The sectoral reallocation of lending in the 1990s was generally consistent with the proposed strategy. As shown in Table 3, the share of education, health, and the environment in the total portfolio increased substantially — from around 6 percent in the 1980s to about 25 percent in the 1990-2002 period. The share of rural development/poverty remained roughly at the same levels. The share of transportation increased due to the increase in lending to urban transportation, a sub-sector with a stronger direct impact on the poor. The share of water and sanitation declined, although not by a wide margin. The shares of traditional agriculture projects and energy were substantially reduced. If the analysis is restricted to investment lending, the gains in the social sectors and the environment are even larger — their combined shares increase from around 6 to 34 percent of total investment loans (Annex Tables 2A and 2B provide more detailed information).

2.8 At the same time, Table 3 also reveals the emergence of Bank assistance in areas such as public sector management and social protection. It is also evident that assistance in these two areas was accompanied by the emergence of adjustment lending, which increased from 6.8 percent of the portfolio in the 1980-1989 to 26.4 percent in 1990-2002. The shift to adjustment lending in the 1990s reflects critical developments in international capital markets and in Brazil, and an evolution of the Bank's strategy in the second half of the decade. In order to appreciate the evolution of the Bank's assistance, it is useful to define three different phases: the 1990-1994 period of contraction *cum* sectoral shifts; the 1995-1998 period of recovery of lending, consolidation of the strategy and initial support to stabilization and

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[4] The completion report of a power distribution loan closed in 1992 includes an overview of the 1980s and points out the devastating effect of tariff policies on sector finances. In the same year the Bank cancelled a power transmission loan, due to the Government's unwillingness to adjust tariffs.

[5] In 1992, OED reviewed the environmental impact of Bank projects in Brazil, and noted that the final cost of rural resettlement supported by the Itaparica project had exceeded US$63,000 per family.

structural reforms; and the 1999-2002 period of shift to adjustment lending in support to stabilization and structural reforms.

Table 3: Sectoral Composition of Bank Loans, 1980-2002
(in percent of the value of commitments)

Sectors	*1980-1989*	*1990-2002*	
	All Loans	*All Loans*	*Investment Loans*
Agriculture	32.5	13.4	18.1
Rural Development/Poverty	11.4	10.1	13.6
Other	21.1	3.3	4.5
Education	2.0	11.7	15.9
Environment	0.9	6.2	8.5
Finance and PSD	12.7	8.9	4.9
Health	2.8	6.9	9.4
Infrastructure	43.4	28.7	34.9
Transportation	13.0	16.5	22.4
Urban	3.8	7.4	10.0
Other	9.2	9.2	12.4
Energy	21.0	5.8	3.8
Water and Sanitation	9.5	6.4	8.6
Public Sector Management	0.2	11.0	3.8
Social Protection	0.0	9.9	0.1
Urban Development	5.4	3.2	4.3
TOTAL	100.0	100.0	100.0
Share of Adjustment Loans	6.8	26.4	-

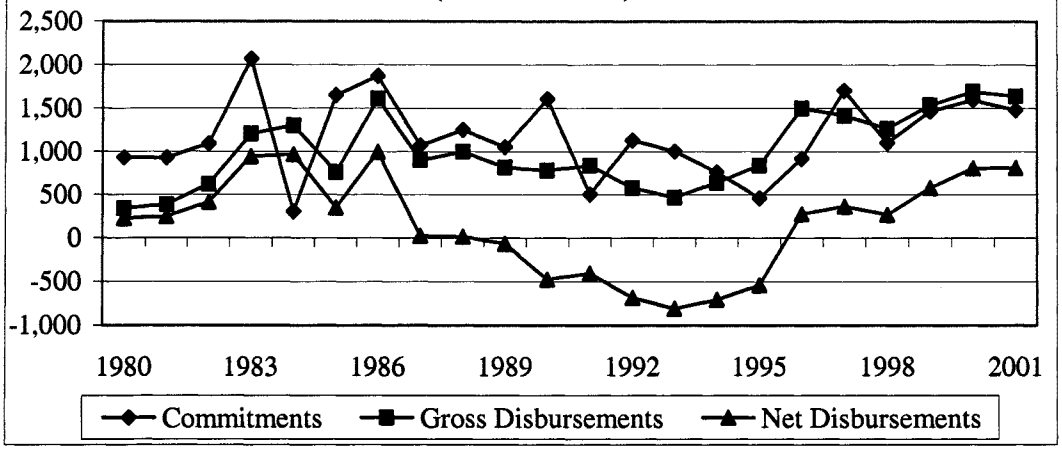
The First Phase (1990-1994): Contraction of Lending and Shift to the Social Sectors and the Environment

2.9 The early 1990s were a turbulent period in Brazil, as noted in Section 1. During this period Bank commitments and disbursements declined significantly and net transfers became large and negative, consolidating a trend initiated in the late 1980s (Figure 1). The sharp decline in the volume of lending reflected the Government's inability to provide counterpart funds, as well as the Bank's hesitation to initiate new lending in view of the portfolio deterioration (the share of projects at risk had increased to 85 percent), in a scenario of extreme macroeconomic disequilibria and political uncertainties.

2.10 The 1993 country strategy, written in the middle of this turbulent period, proposed a focus on poverty reduction and a sectoral reallocation of lending to education and other sectors more consistent with this objective. The 1993 document had the merit of outlining an assistance strategy that would be followed during most of the decade, but was also an incomplete document. It lacked a satisfactory discussion of the Government's program, did not assess the Government's capacity to absorb the assistance, and failed to address many important details. For example, it perceived the need to encourage private sector participation in infrastructure but did not elaborate a clear assistance strategy in this area.

2.11 During this phase, the combined share of education, health, and the environment rose sharply to 43 percent of new commitments (Table 4). The education portfolio comprised five projects dealing with basic education, whereas the new health portfolio included an innovative project to control AIDS and a project to strengthen health services in low income

Figure 1: World Bank Lending, 1980-2001
(in US$ millions)



areas of the Northeast. The Bank's green environmental agenda was initiated in this period with three green projects (the Bank had two projects dealing with industrial pollution in the 1980s). The share of infrastructure remained the same as in the 1980s, but with a strong reallocation of resources to water and transportation and with a focus on decentralization.

2.12 Although the sectoral shifts were consistent with the Bank's strategy, most of the new projects started facing the same difficulties experienced by the previous ones: lack of counterpart funds, poor institutional capacity, and slow implementation. Several projects that faced implementation difficulties had to be restructured by the following administration. Some of the main lessons that were extracted from this period were the need to ensure Government ownership of the assistance program, to make a candid assessment of the Government's implementation capacity, and to limit the set of objectives to those that could be realistically reached.

The Second Phase (1995-1998): Recovery of Lending, Consolidation of the Strategy, Initial Support to Structural Reforms

2.13 The conditions for Bank assistance improved dramatically after 1994. The Government's success in stabilizing the economy and elaborating a development agenda led to a sharp improvement in the quality of the portfolio and opened the way for a resumption of lending. The quality of the policy dialogue improved, especially after the decentralization of the Country Management Unit to Brasilia in 1997.[6] The Government became progressively more engaged in the elaboration of the assistance strategy. The assistance strategies in 1995 and 1997 reaffirmed the focus on poverty alleviation with growth as a second objective, but elaborated the assistance strategy with more detail and coherence, benefiting from a poverty assessment and a private sector development (PSD) strategy. The World Bank country strategy in 1997 was the first one for Brazil jointly elaborated by IBRD and IFC.

[6] The decentralization is examined further in Section 3.

Table 4: Sectoral Composition of Bank Loans, 1990-2002
(in percent of the value of commitments)

Sectors	*1990-1994*	*1995-1998*	*1999-2002*
Agriculture	6.1	26.3	10.3
Rural Poverty	0.7	24.7	7.4
Other	5.4	1.7	2.8
Education	22.1	5.2	8.2
Environment	11.2	7.1	1.9
Finance and PSD	6.3	4.5	13.8
Health	8.9	7.1	5.3
Infrastructure	40.2	34.0	16.4
Transportation	18.2	27.3	8.0
Urban	5.3	10.2	7.0
Other	12.9	17.1	1.0
Energy	5.4	3.1	7.9
Water and Sanitation	16.6	3.6	0.5
Public Sector Management	0.0	10.0	20.1
Social Protection	0.0	0.1	24.0
Urban Development	5.2	5.7	0.0
TOTAL	100.0	100.0	100.0
Share of Adjustment Loans	0.0	0.0	63.9

2.14 There was a significant expansion of Bank lending in this period, led by rural poverty (Table 4 and Figure 1). The Bank launched 13 new projects focused on rural poverty alleviation, most of which were in the Northeastern states. This cluster of projects was considered as the second generation of rural development projects, more focused on poverty alleviation and more community-driven (the first generation had been initiated in the mid-1980s). The basic objective of these projects was to improve the standards of living of the rural poor through the provision of basic services such as electricity, water and sanitation, on a community-driven basis. This cluster also included an innovative pilot project supporting market-based land reform.

2.15 There were few new education and health projects in this period, in good part due to the need to manage the existing projects and the fact that some of them required restructuring. The new education project was the first of a program of three projects supporting improvements in school management and quality in poor regions. The new health project supported improvements in the delivery of health care in poor regions. These projects were highly consistent with the strategy, but the absence of Bank assistance in the area of early childhood development and nutrition was disappointing, as the CASs had been proposing a project in this area since the early 1990s.

2.16 Support to infrastructure continued, but under a strategy that was more elaborated and consistent with the broader PSD strategy developed by IBRD and IFC. The PSD strategy had identified infrastructure deficiencies as one of the major obstacles to private sector development and growth (other obstacles included deficiencies in financial intermediation and in the legal and regulatory frameworks). The infrastructure strategy that was developed maintained the support to decentralization, but also included support to the Government's infrastructure privatization program, in order to help Brazil meet its large infrastructure needs. The strategy also assigned well-defined roles to IBRD, IFC and MIGA. IBRD would provide technical assistance in the regulatory area and catalytic lending to specific sectors,

IFC would make pioneer investments in infrastructure, and MIGA would help attract foreign investment.

2.17 IBRD assisted the federal government in the development of regulatory frameworks and agencies in the energy and water sectors. In the case of energy, an existing loan was restructured to provide funds for technical assistance. In the case of water, assistance was provided through an existing water modernization loan in the water portfolio and a new water management loan in the environment portfolio. IBRD's lending to infrastructure in this period was focused on the transportation sector, including two large projects accounting for half of the lending and supporting the restructuring and privatization of federal railways and highways. These actions were all consistent with the strategy, but IBRD provided little assistance to the development of regulation in the transportation sector, a surprising finding since most of the lending was directed to this sector.

2.18 IFC started investing in infrastructure (primarily ports and roads), although not to the extent that would be expected—the share of infrastructure investments increased to only 25 percent of new commitments and only 13 percent of commitments in the whole period (Annex Table 3). MIGA, which had started operations in Brazil in 1994, provided guarantees on foreign investments with an accumulated value of US$9 billion, mostly in infrastructure (Annex Table 3).

2.19 Another important development in this period was the Bank's initial support to stabilization. The assistance strategies in 1995 and 1997 had pointed out the risks to stabilization posed by growing fiscal imbalances at the federal and state levels, and had also indicated the Bank's willingness to support meaningful reforms through adjustment lending. The Government was not yet ready to start implementing a major reform, but requested Bank assistance in its efforts to sanitize the finances of Brazilian states. In response to these requests, the Bank initiated a policy dialogue with several states, culminating in the elaboration of four loans. These loans accounted for 10 percent of new commitments (Table 4) and supported the privatization of banks and several infrastructure enterprises owned by the respective states. These were *de facto* adjustment loans that had to be constructed as investment loans because of the lack of an appropriate lending instrument at that time.[7]

The Third Phase (1999-2002): Further Expansion of Lending and Shift to Adjustment Lending in Support to Stabilization and Structural Reforms

2.20 The 1997 Asian crisis and the 1998 Russian crisis exposed the inconsistencies of Brazil's policy mix, ultimately forcing the Government to adopt a floating exchange rate regime and tighten fiscal policies considerably. These efforts were supported by an international financial package led by the IMF and including the Bank and the IDB. The Bank's contribution would include several adjustment loans supporting fiscal and financial sector reforms, as described in the revised 1997 strategy approved by the Board in December 1998. The package proposed in the revised strategy had to be submitted to the Board because the original 1997 assistance strategy did not foresee a substantial amount of adjustment lending in the period.

[7] The Board had not yet approved sub-national adjustment loans.

2.21 The revised 1997 strategy and the assistance strategy in 2000 stress the need to avoid the economic stagnation and rising poverty that would result from a crisis and also indicate that the Government's willingness to pursue critical reforms justified a shift to adjustment lending. The documents also point out that investment lending had to be temporarily curtailed anyway—the fiscal effort involved limitations on counterpart funds and borrowing restrictions on the states that would slow project disbursements. The documents do not mention, however, that the decision to shift to adjustment lending was also a response to a Government complaint that the Bank had been inconsistent, by advocating fiscal adjustment at the macroeconomic level while pressing for project lending at the sectoral and state levels.

2.22 During the 1999-2002 period there was a further expansion of lending, accompanied by a strong shift to adjustment lending, as shown in Figure 1 and Tables 2 and 4. The Bank's share in total financing flows to Brazil increased for the first time since the 1980s, although it remained small. The package of adjustment loans included two loans supporting fiscal/public administration reforms, two loans supporting social security reforms, one loan preserving critical social expenditures, two loans supporting financial sector reforms and one loan supporting energy sector reform. The package was slightly different from the one originally envisaged in the revised strategy due to new policy developments. In particular, programmatic lending started in 2001 (this instrument did not exist previously), assistance to financial sector reforms was expanded, with a second loan approved in 2002, and one energy loan was approved in the same year, supporting changes in tariff policy and other sector reforms. These adjustment loans were accompanied by technical assistance loans supporting reform implementation.

2.23 The Bank scaled down assistance to infrastructure in order to make room for adjustment lending and maintain the assistance to the social sectors. In education, the Bank initiated four new basic education projects in poor regions, two of which focused on the states of Bahia and Ceará. These projects show an evolution in design, including greater concern with teacher training. In health, the Bank launched three projects, including a second AIDS project building on the first successful project, a project strengthening the national disease control system (an evolution from two previous projects that dealt successfully with transmittable diseases), and a promising family health project that supports prevention and a pro-active contact with the communities. The Bank also started the third generation of rural poverty alleviation projects, encouraged by the success of the second generation, and a larger land reform project, building on the successful pilot project. In the environment area, the Bank initiated four green projects and finalized the preparation of an ambitious project designed to protect 10 percent of the Amazon region financed by Global Environmental Facility (GEF) and G7 grants.

3. Assessment of Bank Products and Services

Assessment of Analytical and Advisory Services

3.1 Analytical and advisory services became an important component of the Bank's assistance to Brazil in the 1990s. The greater importance of non-lending services was due to the Bank's awareness of its declining importance as a source of finance, and its potential capacity to contribute to reforms and the quality of sectoral policies in Brazil. During the 1990-2002 period the Bank elaborated 75 formal reports (Economic and Sector Work—ESW) and numerous policy notes, covering all areas of assistance. Half of the ESW produced was prepared after 1997, indicating the increasing importance of non-lending services in the Bank's assistance strategy in the second half of the decade.

3.2 Bank ESW on Brazil has received positive reviews by the Quality Assurance Group (QAG). As shown in Table 5, all ESW on Brazil reviewed by QAG has been rated as satisfactory, compared to 82 and 81 percent for the Latin American region and the Bank, respectively. The Operations Evaluation Department's (OED) review of Bank ESW on Brazil concluded that QAG's positive assessment is largely justified. The issues covered by the ESW were relevant and the analyses were generally of high quality. The Government has valued the Bank ESW, as well as the more informal policy notes. Some ESW have had a significant and positive impact in the formulation of sectoral policies and the quality of Bank projects (Box 1).

Table 5: QAG Evaluation of ESW
Share of Satisfactory ESW (in %), 1996-2002

Brazil		*Latin America*		*Bank*	
Number	*% Sat.*	*Number*	*% Sat.*	*Number*	*% Sat.*
6	100	38	82	234	81

3.3 At the same time, OED has also found that the ESW program has fallen short of its potential, and that there is scope for improving ESW selection, clearance and, especially, dissemination. Government officials noted that on occasion ESW was initiated by the Bank after informal requests from officials in sector Ministries, rather than as part of a formally agreed work program. In some of these cases there was limited interest of the relevant Ministry to participate in the final review phases. In these cases the clearance process took longer than usual, diminishing the value of the ESW for policy purposes. At the time of the OED review, the Bank and the Government had agreed to ensure clear sponsorship for every ESW product by the relevant Ministry, to meet regularly to monitor the ESW program, and to establish a maximum period of 30 days for review and final clearance.

3.4 These measures will enhance the relevance of the Bank's ESW if implemented effectively, but the main problem limiting the impact of ESW — insufficient dissemination — still needs to be addressed. In some specific cases, the Bank made an effort at dissemination by organizing conferences with the participation of federal and state governments, politicians, academics, and NGOs, but in other cases active dissemination of the ESW was poor. The Bank's website in Brazil constitutes another channel for dissemination, providing a variety of useful information about the Bank, including its operations in Brazil, and an access to publications. However, very few publications are translated into Portuguese, creating a major obstacle for wider dissemination within the

country. The executive summaries containing the most important findings and recommendations have not been translated either, even though the cost of translation would have amounted to a small fraction of the ESW budget.

3.5 Government officials have indicated that the Bank is the multilateral institution that the Government mostly resorts to for technical advice. The Government has also indicated that the Bank can play an important "pedagogical" role in the country, informing Brazilian society about long-term structural issues, their potential solutions, and the trade-offs involved. To play this role effectively, however, the Bank must make a greater effort to disseminate its work among the several potential audiences and to the population at large.

Box 1: Examples of Outstanding ESW

A report on environmental policies for the Amazon in 1992 provided an accurate diagnosis of the causes of deforestation and recommended a coherent sustainable development strategy for the region. The report filled a strategic gap in the Bank and gave substance to the Government's agenda.

State Debt: Crisis and Reform (1995) was a timely report that examined the serious imbalances in the finances of Brazilian states that jeopardized the success of the Real plan. The report was the basis for key policy discussions with the Government, the provision of technical assistance to the National Treasury, and the starting point for *de facto* adjustment loans to state governments.

A report to improve education in 1997 portrayed accurately the difficulties facing primary education in the Northeast and had a substantial impact on the design of Government and Bank strategies to deal with this problem. The recommendations were incorporated in the design of the Government's FUNDESCOLA program, which has been supported by three Bank projects.

Critical Issues in Social Security (2001) presented a comprehensive analysis of the Brazilian pension system and detailed recommendations for reform. The report provided the analytical basis for the policy dialogue and the extensive Bank assistance, and its recommendations remain valid.

Attacking Brazil's Urban Poverty (2001) *and Rural Poverty Reduction in Brazil: Towards an Integrated Strategy* (2001) are two outstanding reports on urban and rural poverty providing solid material for the design of coherent and integrated poverty reduction strategies.

Assessment of Lending Services

3.6 During the 1990-2002 period OED reviewed a total of 94 closed Bank projects in Brazil, representing US$13.2 billion in commitments. The share of closed projects with outcomes rated as satisfactory by OED amounted to 73 percent, showing a significant improvement over the previous decade and relative to the benchmarks, as shown in Table 6. During the 1980s the outcomes of Brazil projects had on average worse ratings than projects in Latin America and Bankwide, whereas in the 1990-2002 period the ratings were comparable or better than these benchmarks. Computing the shares of satisfactory projects by the value of commitments yields similar results (Annex Tables 5A-5D).

3.7 The improvement in project outcomes for the decade as a whole was due to the sharp turnaround in project performance after 1994. As shown in Table 6, in the first half of the 1990s the share of projects with satisfactory outcomes declined further to 33 percent, but that was more than offset by the high performance in the 1995-2002 period. Furthermore, both investment and adjustment loans performed significantly better than the benchmarks during this period—90 percent of the investment loans reviewed had a satisfactory rating, compared

with only 70 percent for the whole Bank, and all the four adjustment loans reviewed had a satisfactory rating, compared with 82 percent for the whole Bank (Annex Table 5D).

Table 6: OED Evaluation of Closed Projects
Share of Projects with Satisfactory Outcomes (in %), 1980-2002

	1980-1989	*1990-2001*	*1990-94*	*1995-2002*
Brazil	59	73	33	91
Latin America	63	73	65	78
Bank	69	69	65	72

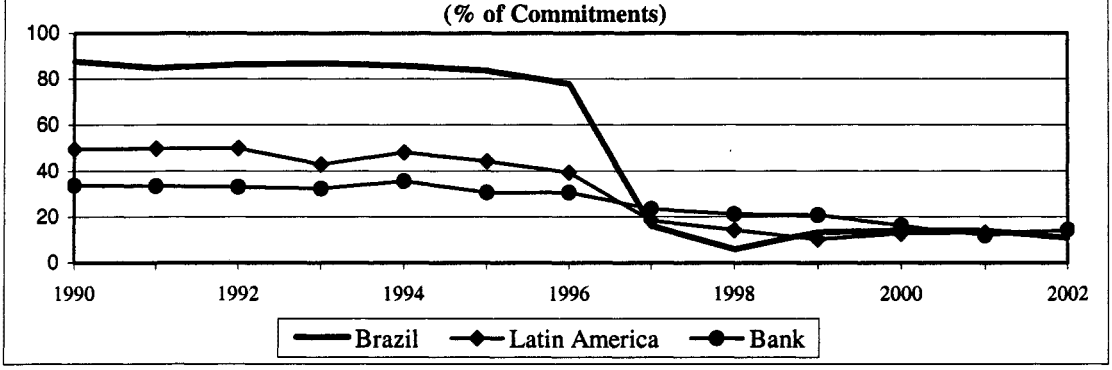
3.8 OED ratings on project sustainability and institutional development impact show a similar evolution—a pronounced decline in ratings in the first half of the 1990s followed by a sharp improvement after 1994. The sustainability of 81 percent of the projects closed after 1994 was rated as likely, compared with only 64 and 55 percent for the Latin American region and the Bank, respectively. The institutional development impact of 67 percent of the projects closed after 1994 was judged to be substantial, compared with only 45 and 39 percent for Latin America and the whole Bank, respectively (Annex Tables 5A-5D).

3.9 QAG evaluations of ongoing projects are consistent with OED evaluations. As shown in Table 7, since 1996 (when QAG started evaluating ongoing projects) Brazil projects have obtained better ratings than the benchmarks, both regarding quality at entry and quality at supervision. Finally, the annual computation of projects at risk from supervision reports also indicates a pattern consistent with all the previous results. As shown in Figure 2, in the first half of the 1990s 85 percent of active Brazil projects were considered at risk, compared with 50 and 35 percent for Latin America and the Bank, respectively. Since the mid-1990s the share of Brazil projects at risk has been equal or lower than the benchmarks.

Table 7: QAG Evaluation of Ongoing Projects
Share of Satisfactory Projects (in %), 1996-2002

	Brazil		*Latin America*		*Bank*	
	Number	*% Sat.*	*Number*	*% Sat.*	*Number*	*% Sat.*
Quality at Entry	18	100	81	98	429	87
Quality at Supervision	21	86	147	78	800	77

Figure 2: Projects at Risk, 1990-2002
(% of Commitments)



Factors that Have Contributed to the Improved Project Performance

3.10 Several factors have contributed to the improved performance of Bank projects in Brazil during the second half of the 1990s. On the Government's side two factors can be identified. First, success at stabilization lengthened the time horizons of policy-makers and allowed for a much better planning of public expenditures. The problems caused by deficient fiscal planning and lack of counterpart funds diminished considerably, benefiting all projects. Second, the Government that took office in 1995 was able to elaborate and implement a clear development agenda. Government ownership of the assistance program strengthened, several problematic projects were restructured, and project implementation units were generally strengthened as well. This also tended to benefit all projects. NGO involvement in the implementation of projects in areas such as health and environment may also have contributed to improved project performance in these areas.

3.11 On the Bank's side there were also two contributing factors. The first was the Bank's response to under-performing projects, involving changes in project design or curtailed lending to the sector. For example, some rural development projects of the first generation were rated as unsatisfactory due to heavy overhead costs and failure to respond to the demands of beneficiaries. The second generation was considered more effective at rural poverty alleviation (essentially because of the community-driven approach) and was generally rated as satisfactory. Irrigation projects closing in the early 1990s were rated as unsatisfactory due to their failure to boost rural growth and reduce poverty, and were curtailed in the second half of the decade. Most energy projects closing in the early 1990s were rated as unsatisfactory due primarily to low tariffs and the poor financial performance of energy companies, leading the Bank to curtail lending to the sector.

3.12 The second contributing factor on the Bank's side was the increasing Bank presence in the country. In 1996 the Bank increased the number of staff working in the environmental area. In 1997 the Country Management Unit (CMU) was transferred to Brasilia and the number of staff in the field increased considerably. In mid-2002 the Bank had a total of 85 technical and support staff working in three offices, of which 10 staff were from headquarters. The Brasilia office had 70 employees, including the country director, several sector specialists, and an implementation team dealing with procurement, disbursements, and audits. The Recife office had 10 employees and focused in the management of agriculture projects in the Northeast. The Fortaleza office had 5 employees and carried the policy dialogue in the Northeast. It was being upgraded to also manage education projects in the region and handle distance learning programs.

3.13 The decentralization of Bank operations has improved Bank knowledge of the Brazilian economy and the quality of the policy dialogue, resulting generally in better project design. Project implementation has also improved with the greater proximity of staff to project areas. For example, the presence of agriculture specialists in the Recife office has allowed the Bank to closely supervise a large number of agriculture projects and sub-projects in the Northeast. Procurement and disbursement problems, relatively common in the first half of the 1990s, have been reduced with the presence of the implementation team in the Brasilia office. Government officials indicated to OED that the quality of the Bank's work had improved significantly after decentralization. Officials stressed that the Bank had become more sensitive to political constraints and more responsive to the country's needs.

3.14 The improved performance of the Brazil portfolio did not result in high average costs relative to other areas of the Bank. As shown in Table 8, average project costs in Brazil were higher than average costs in Latin America, but not by a wide margin, and were significantly lower than average costs Bankwide. If average lending costs are defined as the ratio of costs to the value of commitments, average costs in Brazil drop significantly below the two benchmarks. The high share of local staff employed has probably helped the Bank maintain average costs under control. All in all, these indicators suggest that the decentralization enabled the Bank to manage effectively a large and complex assistance program, involving an average of 55 active projects every year, spread over many states and a large territory.

Table 8: Average Lending Costs, per Project and per Commitment, 1990-2002

	Brazil	*Latin America*	*Bank*
Lending Costs per Project (in US$ 000)	655	623	763
O/w: preparation costs	372	360	427
ESW Costs per ESW (in US$ 000)	146	143	125
Operational Costs per Project (in US$ 000)	715	667	819
Lending Costs per Commitment (in %)	0.45	0.58	0.85

Assessment of the Bank's Role in Aid Coordination

3.15 The Bank group and the IDB were the largest sources of external development finance to Brazil in the 1990-2001 period, with roughly US$16.5 billion in total commitments, including IFC but excluding MIGA's guarantees (Annex Tables 3 and 4). The Bank and the IDB performed largely complementary roles, with just a moderate overlapping between the two institutions. The IDB provided very limited assistance to agriculture, its education, health, and environment portfolios were smaller than the Bank's and generally focused on different areas (e.g., secondary education). Its infrastructure portfolio was much larger than the Bank's and the institution was also more active in urban development, filling a gap left by the Bank in the period. Japan and Germany were the third and fourth largest sources of external development finance, with US$3.2 and US$0.2 billion of lending, respectively, mostly to infrastructure.

3.16 The Bank held consultations with the IMF, the IDB and the bilateral agencies (all of which have offices in Brazil), but coordination of external assistance has essentially been performed by the Government. The Ministry of Finance is responsible for the overall policy dialogue with the IMF and the Bank, as well as the Bank's adjustment loans. The Ministry of Planning and COFIEX (an inter-ministerial committee) are responsible for screening and approving investment loans from all multilateral and bilateral agencies. The division of labor between the Bank and the IDB emerged essentially from the Government's dialogue with the two institutions. There does not seem to be a need for a more active Bank role in overall aid coordination, although the Bank and the IDB would both benefit from more frequent consultations and sharing of experiences.

4. Assessing the Development Impact of the Bank's Assistance

4.1 This section addresses the three major questions raised in Section 1, namely, whether the objectives of the Bank's assistance program were relevant, whether the program was well designed and consistent, and whether it achieved its two central objectives of poverty reduction and growth. The previous section showed the sharp improvement in the ratings of individual projects during the 1990s. The favorable ratings indicate that, in general, project objectives were relevant and achieved, but they provide little information on the overall impact of the Bank's assistance. To assess the latter, it is necessary to go beyond individual project ratings, examine the country's progress at poverty reduction and growth and assess the extent to which the Bank contributed to these outcomes.

4.1 Assessing the Relevance and Consistency of the Bank's Strategy

4.2 Brazil entered the 1990s suffering the consequences of more than a decade of high inflation and slow growth. The share of the population below the extreme poverty line had risen from 16.5 to 19 percent and income distribution had worsened further, due to a pronounced fall in the real incomes of the poor (Figure 3 and Table 9). Poverty indicators for the Northeast were appalling. Under these conditions, the Bank's focus on poverty alleviation was relevant and appropriate.

4.3 As mentioned in Section 2, the Bank's strategy to reduce poverty comprised elements expected to address the roots of poverty and elements designed to foster growth, with an emphasis on the first set of elements. The first set included essentially assistance to human resource development (education, health) and expansion of basic services to the poor, while the second set comprised financial and technical assistance to the build-up of infrastructure and to the removal of structural inefficiencies.

4.4 The decision to provide more intensive assistance to human resource development, especially education, was overall appropriate. Poverty and inequality are highly correlated with differences in educational outcomes,[8] and Brazil had made a very slow progress in improving key social indicators in the 1980s (Table 9). The country lagged Latin American and Middle-Income countries in many aspects, despite having a higher per capita income than these groups of countries. The decision to pursue a diversified strategy of poverty reduction (combining human resource development with other elements) was also justified by the finding that growth reduces poverty in Brazil, but with an elasticity lower than one.[9]

4.5 The presentation of the assistance strategy in the CASs may be criticized for failing to explain and justify more clearly the greater emphasis on human resource development. For example, the dichotomy between poverty reduction and growth objectives pursued in most CASs was to some extent artificial. Education and health are arguably essential ingredients to long-run growth as well, although there is an ongoing debate in the literature on the channels and the extent to which human capital affects growth.[10] Also, access of the poor to

[8] The empirical literature is extensive. See, e.g., Almeida and Barros (1992); Barros, Henriques and Mendonca (2000), Ferreira and Litchfield (2001); and Menezes-Filho (2001).

[9] The literature is also extensive. See, e.g., Neri (1999) and Pinheiro et al (2001).

[10] Krueger and Lindahl (2001) provide a comprehensive and critical review of the literature. See also Pritchet (2001) and Temple (1999).

basic services not only alleviates poverty in a broad sense but may also foster subsequent growth.[11] Another criticism that may be raised is the failure of the CASs to clarify the time horizon within which these interventions would produce their effects. Education may be an important ingredient for both poverty reduction and growth, but it may take several decades for its effects to materialize fully.

4.6 These criticisms on the presentation of the assistance strategy in the CASs do not imply criticisms on the substance of the strategy, however. On the contrary, the assistance program was overall well designed, underpinned by sound analytical work, consistent with the main program objectives, and with the Government's own development agenda. The analytical support to the CASs improved substantially during the 1990s, with the elaboration of high quality poverty assessments, PSD strategies, and other ESW, prepared with the substantial participation of top Brazilian researchers.

4.7 The consistency of the assistance program with the Government's own development agenda also improved during the 1990s, with increasing Government participation in the CASs, macroeconomic stability, and the formulation of clear sectoral programs (as defined in the 1996-1999 and 2000-2003 multi-year plans).[12] For example, the Government defined primary education as a clear priority and established the goal of reaching universal access to primary education by 2007. The Bank contributed to this effort through a significant assistance to primary education. In health, the Government's agenda stressed the need to expand the access of the population to health care and reduce infant mortality through reforms of the public health system, family health programs, and control of transmittable diseases. The Bank's assistance to the health sector covered these areas. In infrastructure, the Government's program included, *inter alia*, the recovery, decentralization, and partial privatization of federal highways, the recovery of state highways, the privatization of federal railways, and the decentralization of urban rail transportation. The Bank also contributed with transportation projects in all these areas.

4.8 During the 1990s the Bank had to operate in an increasingly decentralized mode, dealing directly with Brazilian states. The focus on the Northeastern states was appropriate, given the region's high levels of poverty (Table 9), and the strategy to provide assistance to these states was also reasonable and cost-effective. Rural poverty alleviation projects were prepared and implemented in every Northeastern state, an appropriate decision given the high levels of rural poverty in the region. Assistance to education and health was provided in part through federal projects covering all Northeastern states and other poor states. More specific assistance was provided to Bahia and Ceará, in the areas of education, health, water and sanitation, and urban development. The selection of these two specific states seems to have followed pragmatic rules. These are large states, accounting for 43 percent of the Northeast population. The two states had active and reformist Governments and also had the capacity to borrow from the Bank, as a result of previous efforts to adjust their public finances.

4.9 The shift to adjustment lending at the end of the decade was also justified and consistent with the Bank's central objectives of poverty reduction and growth. The 1995 CAS had already indicated the need to provide assistance to fiscal, social security and

[11] Pinheiro et al (2001).

[12] See Brasil em Ação (1996) and Avança Brasil (2000), Ministério do Planejamento, Brasilia.

financial reforms to consolidate stabilization and create the conditions for growth. Poverty assessments stressed the need to maintain stability and improve the targeting of social programs, and PSD strategies identified distortions in financial intermediation as a major obstacle to higher growth. When the Government requested support to its fiscal, social security, and financial sector reforms the Bank acted promptly through adjustment and technical assistance loans, while also preserving the assistance to the social sectors.

Table 9: Poverty and Social Indicators, 1990-2001

	1980	*1990*	*2000*
Poverty Rate (% of households)	40.0	40.7	33.6
Northeast	66.8	68.6	57.4
Northeast Rural	-	84.9	72.6
Extreme Poverty Rate (% of households)	16.6	19.1	14.6
Northeast	36.2	41.8	30.0
Gini Coefficient	58.4	61.6	59.6
Theil Coefficient	68.2	77.3	71.3
Ratio of Average Income 10% richest/40% poorest	21.5	26.7	23.6
Adult Illiteracy Rate (% of population ages 15 and above)	22.8	18.7	12.4
Northeast	41.6	36.4	24.3
Youth Illiteracy Rate (% of population ages 15-24)	12.0	9.8	4.2
Northeast	27.0	22.7	9.6
Net School Enrollment Rate, Primary Education (% of pop.)	80.1	83.8	95.4
Northeast	69.1	72.0	92.8
AIDS incidence (per 10,000 pop.)	-	0.6 1/	1.0
Malaria Incidence (per 1,000 pop.)	14.0	32.7	30.3
Life Expectancy at Birth (years)	62.6	65.6	68.6
Infant Mortality Rate (per 1,000 live births)	79.2	48.0	29.6
Northeast	112.8	72.9	44.2
Access to Electricity (% of households)	74.9	87.5	96.0
Northeast	50.8	70.5	89.4
Northeast Rural	12.6	35.4	66.5
Access to Improved Water Source (% of households)	60.7	74.2	87.3
Northeast	30.8	43.3	67.0
Northeast Rural	4.9	10.6	22.8
Access to Sanitation (% of households)	51.3	63.2	71.3
Northeast	30.9	43.2	54.2
Households with Refrigerators (% of households)	56.6	70.6	85.1
Northeast	28.7	41.5	64.9
Northeast Rural	5.9	14.5	33.9

Sources: IBGE (Household Surveys—PNAD); IPEA, INEP, Ministries of Education and Health.
Notes: 1/ AIDS incidence increased to 1.4 per 10,000 people in the mid-1990s (Annex Table 10).

4.2 Assessing the Contribution of the Assistance Program to Poverty Alleviation

The Program's Contribution to the Decline in Income Poverty Ratios

4.10 During the decade Brazil achieved progress at poverty reduction, as indicated by the decline of 7 and 5 percentage points in the share of the population below the poverty and extreme poverty lines, respectively (Figure 3 and Table 9). Brazil seems to have achieved greater progress at reducing poverty than most Latin American countries, according to a comparative analysis made by the United Nation's Economic Commission for Latin America (ECLAC).[13] Progress at poverty reduction was greater in the Northeast, as indicated by the 10 percentage point reduction in poverty rates. In the rural Northeast there was an even greater reduction of 12 percentage points (Table 9).

[13] UN-ECLAC (2002).

4.11 Most of these gains are related to the success of the 1994 stabilization plan, which stopped the erosion of the real incomes of the lowest two tenths of the income distribution (Figure 3). The gains at the end of the decade were minor. Stabilization had a strong impact on poverty reduction because high inflation affected disproportionately the poor.[14] The successful reduction in inflation also helps explain why Brazil achieved greater progress at reducing poverty than the average Latin American country, despite a similar growth performance—between 1990 and 2002 its per capita GDP grew at an average rate of 1.1 percent per year, similar to the Latin American average of 1.2 percent per year.

4.12 Assessing the contribution of the Bank's assistance program to the decline in national poverty rates in the 1990s involves assessing its contribution to stabilization, as the two events are clearly related. The Bank did not play any meaningful role in the 1994 *Real* Plan, but contributed to the consolidation of stabilization in the second half of the decade. The state reform loans contributed to the effort at fiscal reform and privatization within these states in the 1995-1998 period. After 1998 the Bank stepped up its support to stabilization, through a package of five adjustment loans amounting to US$2.8 billion and several complementary technical assistance loans. The package of adjustment loans (all of which were one tranche operations) included two fiscal reform loans, one social protection loan and two social security reform loans.

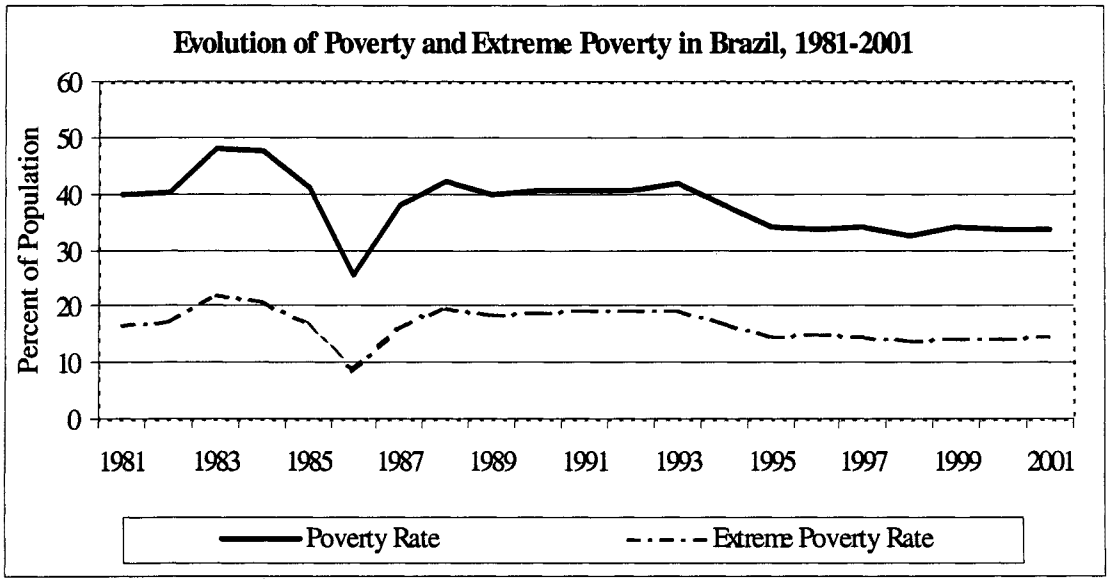
4.13 The two fiscal reforms loans supported the fiscal stability program that shifted the primary balance from deficits into surpluses of more than 3.5 percent of GDP, and the passage of an impressive body of legislation reforming public administration and the finances of Brazilian states. This included the Law of Fiscal Responsibility and the Law of Fiscal Crimes. This body of legislation has addressed a problem of fiscal imbalances and excessive debt in the states that seemed intractable in the mid-1990s. In particular, the Law of Fiscal Responsibility has institutionalized fiscal discipline, transparency and accountability, changing radically the way in which government officials at all levels think and act.

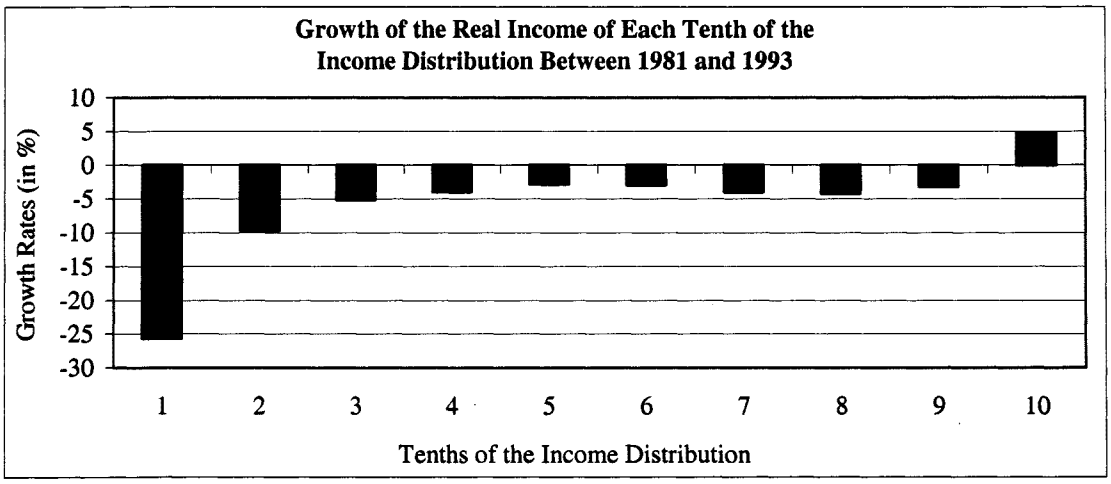
4.14 The social protection loan was designed to minimize the impact of the 1999 fiscal adjustment on the poor, by minimizing cuts to social assistance, health, and education, and preserving a number of programs targeted at the poor. The loan achieved its objectives and was rated as highly satisfactory by OED. Finally, the two social security loans supported a constitutional amendment that introduced the principle of actuarial balance for both public and private sector workers, introduced a minimum retirement age for public sector workers and a less generous benefit formula for private sector workers. These were important reform steps, but the Brazilian social security system remains imbalanced, a problem that will be further discussed below.

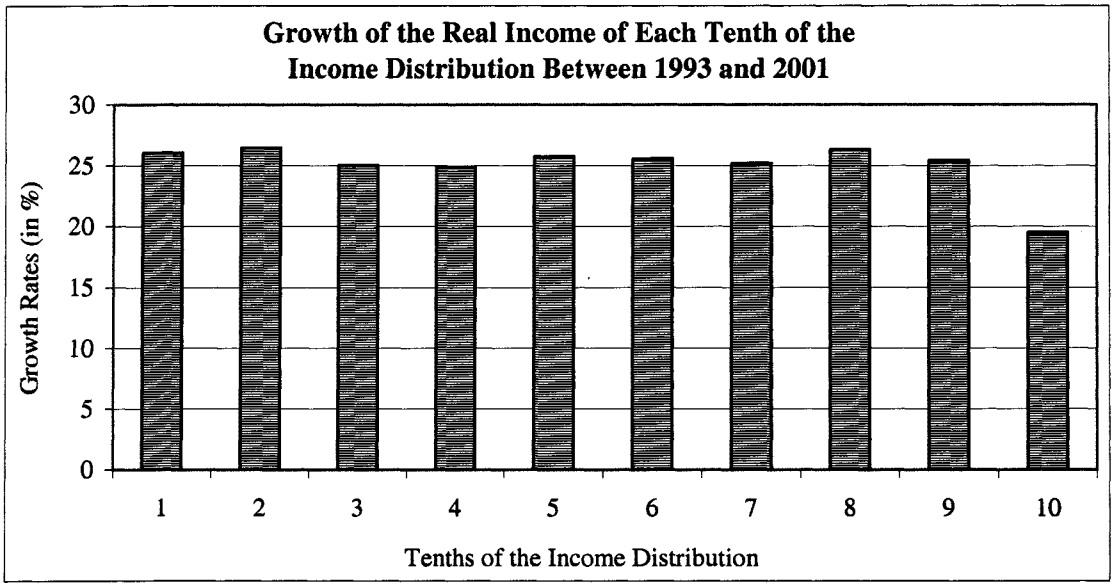
4.15 The program's contribution to the consolidation of stabilization must be acknowledged, both financially and in the provision of technical assistance, but should not be

[14] Poverty had also been sharply reduced in the mid-1980s, but such reduction was short-lived because the stabilization attempts in that period (the *Cruzado* Plan) did not succeed (Figure 3). Inflation may affect the poor through more than one channel. See, e.g., Neri (1995), Ferreira and Litchfield (2001), and Cardoso, Barros and Urani (1995).

Figure 3: Poverty Ratios and Income Growth by Deciles







exaggerated either. The IMF led the international financial package in 1998-1999, through a US$18 billion stand-by agreement, and the IDB also participated in the rescue package with two loans amounting to US$3.4 billion. Therefore, the Bank can claim only a moderate and shared contribution to the reduction in national income poverty rates in the 1990s.

4.16 The Bank's contribution to the decline in poverty rates in the Northeast and the rural Northeast was probably larger, as the institution was focusing its resources on the region. However, it is difficult to link Bank interventions such as the rural poverty alleviation projects to increases in household incomes and reductions in poverty—it would require a more detailed analysis of household incomes and poverty in municipalities covered by the projects (an impact evaluation study is planned for the third generation of rural projects but was not done for the second). Besides, there were also other factors at work, including the introduction of rural pensions early in the decade.

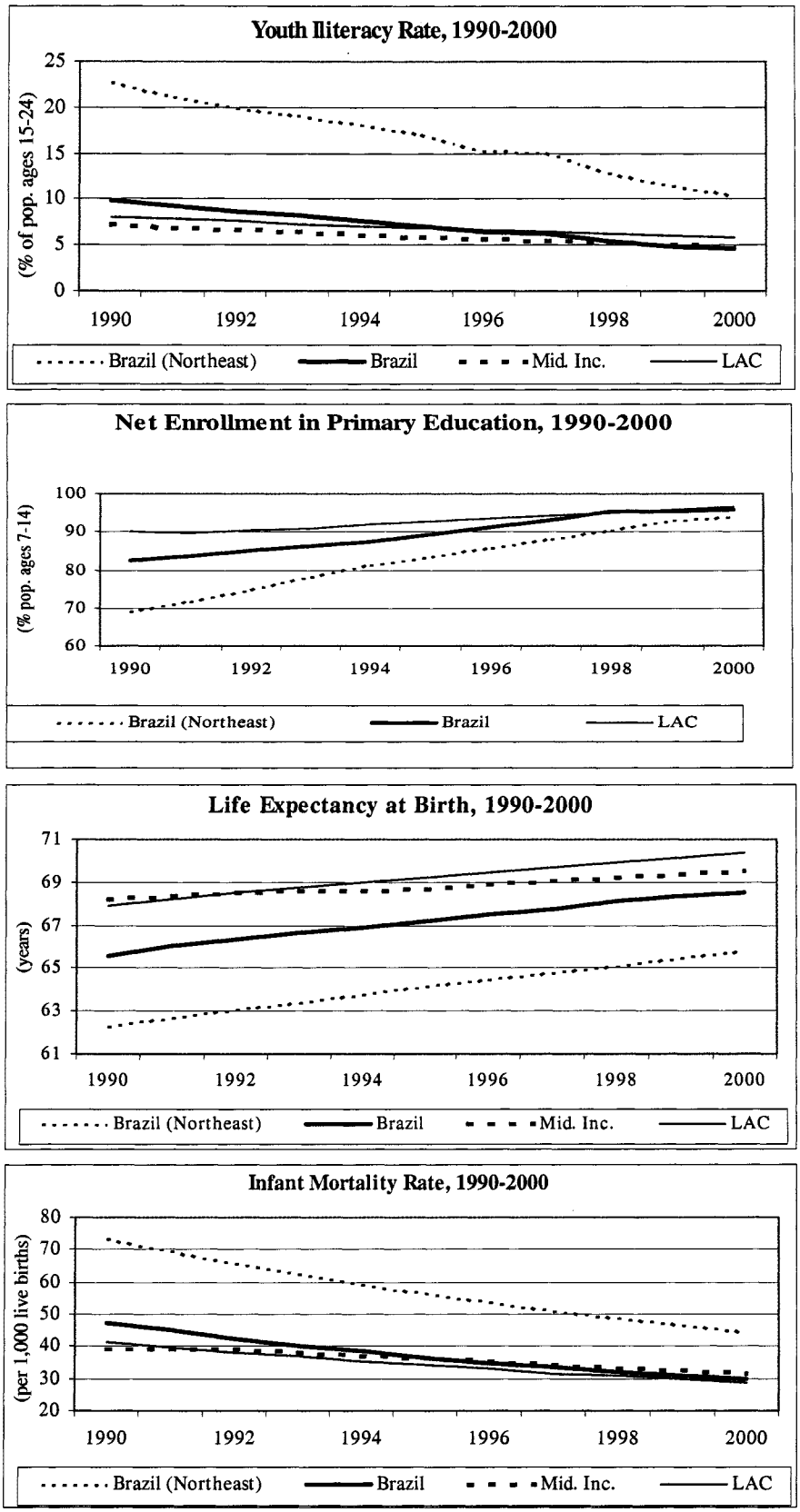
4.17 The Bank's main contribution to poverty alleviation in Brazil is more clearly reflected in other related indicators also shown in Table 9. The Bank contributed to poverty alleviation in Brazil by helping the Government address the fundamental determinants of poverty, including education and health outcomes among the poor and the access of poor urban and rural populations to basic services. The Bank's contribution to these two sets of outcomes is assessed below.

The Program's Contribution to Improved Education and Health Outcomes

4.18 During the 1990-2001 period there were impressive gains in the education area, as shown by the sharp decline in the youth illiteracy rate and the sharp increase in the net enrollment rate in primary education (Table 9). The gains in the Northeast were particularly impressive—the net enrollment rate in primary education had increased by only 3 percentage points in the 1980s but jumped from 72 to 93 percent in the 1990s, an impressive increase of 21 percentage points. The progress in the education area produced a double convergence of key education indicators—the Northeast indicators converged with the national averages and the latter converged with the averages of Latin American and Middle Income countries (Figure 4). This increase in net enrollment in the Northeast also implied that roughly one million and a half children in the lowest two tenths of the income distribution gained access to schooling in this period.

4.19 The Bank made an important contribution to these results. During the 1990-2002 period the institution launched ten projects focused on basic education, seven of which benefited the Northeast and other poor regions. Bank projects have contributed to the positive outcomes by, *inter alia*, enhancing access of poor children to education through the provision of infrastructure and education materials (benefiting directly one million poor children in the Northeast and other poor regions), building the capacity of state secretariats of education (enabling them to manage the increased student population), helping federal and state governments set up information and evaluation systems for primary education, implementing minimum operational standards in all schools, empowering local communities, and introducing programs for disadvantaged children.

Figure 4: Selected Education and Health Indicators



4.20 The two basic education projects launched in the Northeast in the early 1990s received only a moderately satisfactory rating by OED because they did not pay sufficient attention to teachers' training and classroom effectiveness. Quality of teaching in the Brazilian primary education system is still unsatisfactory, especially in the Northeast, as revealed by the national and state evaluation systems (which the Bank helped introduce) and international student comparisons. However, the design of Bank projects improved during the decade. Bank ESW provided important inputs for the design of the national school improvement program (Fundescola) initiated in 1997 and supported by three Bank projects. The full implementation of the program should lead to better learning outcomes. The recent basic education projects in Bahia and Ceará show further improvements in design, including better targeting of the poorest municipalities, improvements in school supervision, and a greater concern with teacher training programs.

4.21 In the health area the gains have also been impressive, as indicated by the sharp decline in infant mortality rates (especially in the Northeast), the increase in life expectancy, the decline in the transmission of HIV/AIDS and the decline in deaths from communicable diseases, such as, Malaria, Chagas, and Schistosomiasis (Table 9). As in the case of education, there was also a double convergence of key health indicators (Figure 4). The Bank contributed to these positive outcomes as well, although in the case of health the extent of the Bank's contribution varied between the two main classes of projects.

4.22 The first class of projects focused on the fight against communicable diseases and included five projects that produced satisfactory outcomes. The projects targeted effectively poor populations by the nature of the diseases addressed. For many diseases, mortality rates dropped and incidence rates stabilized or dropped as well. A good example is Malaria: a sharp increase in incidence in the 1980s was stopped in the 1990s and was accompanied by a dramatic reduction in mortality. The second class comprised three projects focused on improvements in health infrastructure and policy. Two of these projects were exclusively focused in the Northeast, and the third was a national project benefiting primarily the North, Northeast, and Center-West regions. These projects created or recovered infrastructure, provided equipment, and trained staff in hospital management. This class of projects also contributed to better health outcomes overall but was ultimately rated as only moderately satisfactory, due the partial success in expanding the access of the poor to health care.

4.23 Improvements in infrastructure and equipment are a necessary condition for expanding access of the poor to health care, but sometimes are not sufficient. In many cases, access remained constrained by factors not addressed by the projects, such as lack of health professionals and lack of adequate financing. The project was designed on the assumption that these constraints would be removed by other programs, but this did not happen to the extent that was expected, a problem that may be interpreted as a flaw in project design. In sum, the Bank's contribution to better health outcomes in Brazil was significant, particularly due to the first class of projects. The second class of health projects also contributed to improved health outcomes among the poor, but this contribution fell short of its potential, due to mismatches between the build-up of infrastructure and the development of human resources in the health sector.[15]

[15] A previous OED evaluation of Bank assistance to the health sector had achieved the same conclusions, but without including the AIDS-II and REFORSUS Projects, which had not progressed enough to be properly evaluated.

4.24 One disappointing aspect of the Bank's assistance to education and health was the absence of a project addressing early childhood development and nutritional issues. These issues were examined in Bank ESW but the program did not include even a pilot project, despite the well-known positive impact of early childhood development on educational outcomes, and the fact that several CASs proposed assistance in this area. A recent education project in Ceará addresses this issue for the first time, but not with the focus and intensity that it deserves.

The Program's Contribution to Expanding Access of the Poor to Basic Services

4.25 During the 1990s and early 2000s there was significant progress in expanding the access of the population to basic services, such as electricity, water and sanitation (Table 9 and Annex Table 10). It is difficult to pinpoint with accuracy the extent to which poor populations benefited from this expansion, but the relatively large gains in the Northeast and the rural Northeast suggest that large numbers of poor households were reached. The Bank participated in this effort through its rural poverty alleviation projects and through its water and sanitation projects, and can claim an important contribution to these outcomes.

4.26 The second generation of rural poverty alleviation projects was initiated in 1995 and comprised thirteen projects, eight of which located in Northeastern states. Roughly 60 percent of disbursements in the Northeast projects financed the provision of electricity and water to poor rural households, in approximately equal amounts. The number of households benefiting from access to water and electricity in these projects amounted to 541 and 294 thousand, respectively, corresponding to 2.1 and 1.2 million people. These numbers account for a large share of additional households in the rural Northeast covered by these services in the 1995-2001 period, according to household survey data (PNAD), suggesting that the Bank made a fundamental contribution to these positive outcomes.

4.27 The Bank's contribution to the provision of water and sanitation to the urban poor was also significant. The water portfolio included three classes of projects. The first class comprised two projects designed to extend water and sanitation to the urban poor with low cost technologies. The first project provided both water and sanitation to roughly one million poor people in the 1992-1997 period, accounting for about 15 percent of the increase in total coverage, and probably for a much larger share of the increase in the coverage of the poor. The second project is expected to extend coverage to a similar number of people.

4.28 The second class comprised three projects benefiting four states, and instituted a new approach to the recovery of some of the most polluted urban watercourses in the country, based on integrated water management and including environmental and land-use aspects. These projects benefited a large urban population and probably benefited a large number of the urban poor, judging by their location and design.[16] Finally, the third class comprised three projects designed to improve the sector's regulatory framework and encourage private sector participation. The need for modernization and investment in the water and sanitation sector is obvious given the low coverage rates, particularly in sanitation. The Bank provided substantial assistance to the Government in the regulatory area but, unfortunately, progress at passing critical legislation has been slower than expected, due to the lack of political

[16] Unfortunately, these projects do not always provide accurate estimates of the number of poor people that have benefited from greater access to these basic services. This deficiency can be interpreted as a flaw in design, as well as inadequate monitoring and evaluation.

passing critical legislation has been slower than expected, due to the lack of political consensus on key issues, such as the concession of water companies. It is possible that the Bank did not explore its potential mediation role in this sector, a role that was actually proposed in the CASs.

4.29 Another criticism that can be raised is the insufficient integration between different classes of projects dealing with water. In the late 1990s the Bank launched two water management projects in the environment portfolio, designed to improve the capacity of the federal government and Northeastern states in the area of water management, and also improve water supply in the rural Northeast. Therefore, the Bank had water projects in three different sectoral programs (water, rural poverty, and environment), some of them operating in the same regions and with similar objectives. It is not clear whether the policies that guide the Bank's assistance in this area are being harmonized across the three programs and whether the potential synergies among these projects are being explored.

4.3 Assessing the Contribution of the Bank's Program to Sustainable Growth

The Program's Contribution to Brazil's Growth Performance in the 1990s

4.30 Between 1990 and 2002 Brazil grew at an average rate of 2.5 percent per year and 1.1 percent per year in per capita terms, similar to the average growth rate of the rest of Latin America—2.9 percent per year and 1.2 percent in per capita terms. Brazil's growth performance was much worse than the rest of Latin America in the early 1990s but improved in the mid-1990s and was better than the region at the end of the decade (Table 10). Brazil seems to have been less affected by the international slowdown than the rest of Latin America, suggesting that the stabilization measures in 1999 have paid off, at least to some degree. However, its growth performance in the 1990s was generally disappointing, by comparison with other large countries and with its own historical record. Brazil's growth performance in the 1990s looks particularly disappointing considering that several structural reforms were implemented during the decade.

Table 10: GDP Growth Rates in Brazil and Selected Comparators, 1990-2002

	1991-1993	*1994-1998*	*1999-2002*	*1994-2002*
Brazil	**1.9**	**3.2**	**2.0**	**2.7**
Latin America w/o Brazil	5.4	3.6	0.3	2.1
Latin America w/o Brazil and Argentina	4.2	3.7	1.8	2.8
Mexico	3.3	2.9	2.8	2.9
China	12.3	9.9	7.3	8.7
India	3.6	6.6	5.1	5.9
OECD	1.2	2.7	2.3	2.5

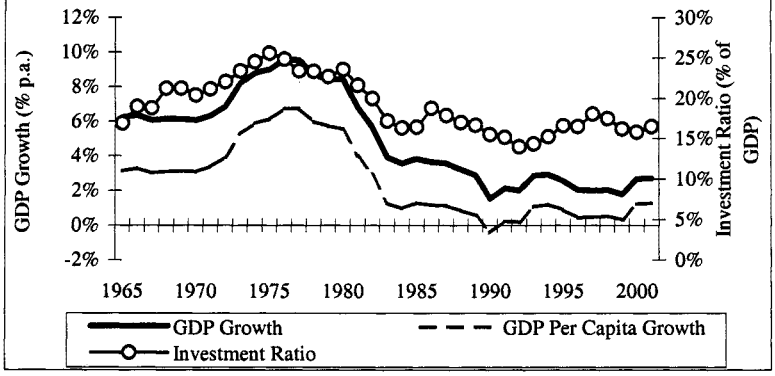
Sources: WDI electronic database, United Survey, Consensus Forecast (October, 2002), and OECD

4.31 The Brazilian growth literature indicates that Brazil's disappointing growth performance has been fundamentally due to the lower growth of capital accumulation in the last two decades, and that this factor may explain as much as 70 percent of the decline in output growth rates after 1980. The growth studies also show that the structural reforms implemented in the 1990s actually generated significant productivity gains—total factor productivity (TFP) increased more in the 1990s than in any other period and explains a large share of GDP growth in this period. The literature concludes that the reforms in the 1990s failed to restore high growth rates, not because they failed to generate productivity gains, but

because they failed to raise the levels of investment to a significant degree (Figure 5). The 2001 energy crisis provides a very illustrative example of how the insufficient level of investment in infrastructure has affected the country's growth performance—the rationing of energy in 2001 reduced GDP growth in that year alone by a full percentage point.[17]

4.32 The large flows of FDI in the 1990s have not contributed to substantive increases in investment in infrastructure and other sectors (excepting telecommunications) because a large portion of FDI was driven by mergers and acquisitions, including the privatization of state enterprises. This type of FDI generally produces efficiency gains but may not raise investment levels significantly, at least in the early stages. The problem of low investment levels during this period was essentially due to three factors, namely: (i) low domestic savings (arising in good part from public dissavings); (ii) lingering legal and regulatory deficiencies that increased risk and deterred new investments (including expansion investments by new private owners); and (iii) lingering deficiencies in financial intermediation, resulting in large intermediation spreads and lending rates.

Figure 5: GDP Growth, 10 Year Moving Averages (% p.a.) and Real Fixed Investment (% of GDP), 1965-2001



4.33 The Bank's assistance program contained many good elements addressing the causes of Brazil's weak growth performance. IBRD's adjustment loans in support to fiscal and social security reforms aimed at reducing fiscal imbalances (caused in good part by excessive wage and pension payments) and increasing public and national savings. IBRD also provided technical and financial support to the development of regulatory frameworks and agencies in the areas of energy and water. IBRD's transportation portfolio included operations supporting private sector participation in railways, highways, and urban transportation. IFC invested in toll roads, ports, and telecommunications, and also provided financial support to SMEs through lines of credit and venture capital. MIGA guaranteed foreign direct investments with an accumulated value of US$9 billion, mostly in energy and

[17] Pinheiro et al (2001) provide the most comprehensive analysis of Brazil's growth performance in recent decades. Abreu and Verner (1995), Bacha and Bonelli (2001), Bonelli and Fonseca (1997), Ferreira and Malliagros (1999) and Giambiagi (2002) also emphasize the weak pace of capital accumulation after 1980 and the larger productivity gains in the 1990s. The results of these studies contradict for Brazil the conclusions of Easterly and Levine (2001) based on cross-country data, that factor accumulation does not have a significant impact on growth. It is possible that an earlier correction of the overvaluation of the Real would have enabled somewhat higher growth rates in the late 1990s, but the supply constraints would still have limited Brazil's growth performance in this period.

telecommunications. Finally, the Bank's program also included support to financial sector reforms through two adjustment loans and two technical assistance loans.

4.34 The assistance was generally of good quality, but it did not have a strong impact on investment and growth in the 1990s, due to several factors. First, the fiscal and social security reforms supported by the program started late in the decade, and have produced so far only a modest increase in national savings (Annex Table 9). The fiscal reforms achieved their main objectives (para 4.10), but the social security reforms did not go far enough—the reforms have reduced the actuarially projected expenditures and deficits, but they have not reduced the disproportionately large pension expenditures and deficits (12 and 5 percent of GDP, respectively) that burden public finances and depress public and national savings. The reforms were less ambitious than expected because of strong political opposition. Among other setbacks, Congress did not pass measures to increase the retirement age of private sector workers and to reduce the large benefits of public sector retirees, and the Supreme Court overruled a law imposing contributions on public retirees.

4.35 Second, progress in developing the regulatory framework for infrastructure has been insufficient and uneven across sectors and layers of government. Federal regulatory agencies in the energy and water sectors were created with Bank support, but the transformation of the two sectors remains uncertain. In the case of water, a major piece of legislation (prepared with Bank support) has not been approved by Congress yet. The regulatory framework for energy was improved, including several changes in the structure of tariffs designed to ensure cost recovery and protect low-income consumers, but the transformation of the energy sector remains incomplete and uncertain—distribution was largely privatized but generation remains largely state-owned. Finally, there has been little progress in developing the regulatory framework for transportation and building regulatory capacity at the level of states and municipalities (which have responsibilities in several areas).

4.36 Third, the financial sector reforms supported by the Bank have not been completed either. The two programmatic loans have supported a number of important reform steps, including the liquidation or privatization of most banks owned by the states (a major achievement, as these banks had been repeatedly used as a source of finance by state governments and had become insolvent), the restructuring of federal banks, improvements in bank and corporate legislation, and improvements in financial supervision. However, federal state banks still account for 40 percent of banking assets, the share of directed credit remains large, financial intermediation is heavily taxed (by explicit and implicit taxes such as reserve requirements) and creditor rights remain weak. As a result, competitive access to credit has remained restricted and intermediation spreads have remained large.

4.37 In sum, the part of the Bank's assistance program designed to improve efficiency and growth produced mixed results. The program strengthened the institutional capacity of states and municipalities to manage their own infrastructure, promoted private sector participation in infrastructure, contributed to the creation of some federal regulatory agencies, and introduced several improvements in the financial sector. These outcomes have probably generated efficiency gains with some positive growth effects. However, Bank assistance in the regulatory area proved largely insufficient and some key reforms supported by the program started late in the decade and have not gone far enough. The regulatory framework needs to be substantially strengthened and key reforms need to be completed to generate the

increase in investment and the additional gains in efficiency that are required for a much better growth performance.[18]

The Program's Contribution to Improvements in the Environment

4.38 The Bank was the first international organization that provided financial and technical support to environment-related activities in Brazil. During the 1990s and early 2000s this assistance was greatly expanded, through nine projects and the management of grants from the Global Environment Fund (GEF) and the G7 countries (PPG7). The green agenda (forest management) accounted for 60 percent of the overall financial assistance, including loans and grants. Some of the projects in the green agenda were designed to correct the environmental degradation caused by infrastructure projects financed by the Bank in the 1980s (e.g. the Polonoroeste project). The brown agenda (industrial pollution) accounted for 10 percent of commitments and the blue agenda (water management) accounted for the remaining 30 percent. In addition, there were also projects in the water and sanitation portfolio dealing with the recovery of urban watercourses, as described above.

4.39 Bank assistance to the environment has been generally satisfactory, especially in the green area. Although environmental indicators in Brazil still lag those of developed countries in several areas, they generally improved during the decade. As shown in Table 11, the average rate of deforestation in the Amazon was still high during the 1990s but declined

Table 11: Environmental Indicators, 1980s and 1990s (unless otherwise indicated)

	1980s	*1990s*
Average Annual Deforested Areas in the Amazon (km^2) [1]	20,374	16,806
Share of Protected Areas in the National Territory (%) [2]	2.4	6.5
Proportion of Inadequate Days in Air Quality in the city of São Paulo (%) [3]	9.7	3.5
Average Annual Emissions of Carbon Dioxide (metric tons per capita) [4]	1.4	1.6
Average Annual Emissions of Carbon Dioxide (metric tons per capita) in other regions		
Latin America [4]	2.3	2.4
North America (Canada and the US) [4]	18.8	19.2
High Income OECD [4]	11.5	12.1

Notes and Sources: 1/ Average deforestation in 1977-1989 and 1990-2000; source: INPE; 2/ 1989 and 2002; source: WRI, World Bank; 3/ 1991 and 2000; source Cetesb; 4/ Average emissions in 1980-89 and 1990-1998; sources: World Bank and Carbon Dioxide Information Analysis Center.

[18] The Brazilian literature and OED audits of transportation projects generally conclude that the privatization of infrastructure has improved the financial and operational management of enterprises, increased efficiency in the utilization of the infrastructure, improved quality, and reduced the number of accidents. However, there has not been any significant expansion of capacity, with the exception of telecommunications, due in good part to lingering regulatory deficiencies. Annuati et al (2002) examine the financial and operational performance of privatized firms, Pinheiro (2000) provides an overview of the first results of privatization, and Castro (2001 and 2002) examine the regulatory challenges in the transportation sector.

to lower levels relative to the 1980s. The size of protected areas increased significantly and air pollution in large cities such as São Paulo declined. The emissions of carbon dioxide (measured in metric tons per capita) increased during the 1990s, but this also happened in other regions, and average emissions in Brazil remained substantially below the averages of Latin America, North America, and the OECD (Table 11).[19] The Bank's assistance program contributed to these results not only through specific project interventions but also through a critical build-up of institutional capacity in the Brazilian environment sector from relatively low levels in the early 1990s.

4.40 The Bank's strategy in the green area had some shortcomings but evolved significantly in recent years. An OED report published in 2000 noted that the Bank's forest strategy in most of the 1990s was excessively conservation-oriented and did not support production activities.[20] The report added that the forest strategy had not constrained Bank operations in Brazil, but the lack of balance between conservation and development had precluded a more active role for the Bank in forest management and the design of sustainable development policies. The OED report argued that pro-active development policies may not maintain forests intact but may succeed in reducing deforestation, mitigating its impact and deviating its course to less sensitive areas (in biodiversity parameters).

4.41 The Bank seems to have embraced this new forest strategy. A recent Bank ESW proposes a strategy that includes the imposition of taxes on non-sustainable logging and adequate credit schemes to reforestation in degraded areas.[21] Along the same principles, the Government has recently launched the National Forest Program with Bank assistance and the Bank has also finalized the preparation of a project on sustainable forests as part of the National Forest Program with strong support from NGOs. Finally, in 2002 the Bank and the Government also launched an ambitious project of strict conservation with support from GEF and G7 funds designed to protect an area equivalent to 10 percent of the Amazon region. This implies an increase in the total share of protected areas in the national territory of 2-3 percent (from 4.2 percent in 2000 to around 6.5-7 percent in 2002).

4.42 While Bank assistance under the green agenda has generally produced satisfactory results, it is more difficult to evaluate the outcomes of projects under the blue agenda (broadly defined to include water projects in both the water and the environment portfolios). As mentioned in the previous section, the projects addressing pollution of urban watercourses have generally achieved satisfactory results, but the projects designed to build capacity in water management are too recent to be evaluated. What can be stated at this stage is that there is still much progress to be made in developing and implementing a meaningful blue agenda. As mentioned before, access to sanitation services increased during the 1990s but still remains low, resulting frequently in the pollution of urban river basins and problems of quality in water supply. The lack of faster progress is to a large extent due to factors outside the Bank's control, such as delays in passing critical water legislation. However, there also seems to be scope for a more effective Bank assistance in this area, by pursuing more

[19] This is due mainly to the predominance of renewable energy sources, such as hydropower and ethanol, in Brazil's energy matrix.
[20] OED (2000).
[21] Schneider et al (2001).

integrated strategies and through closer collaboration with the IDB, which is also providing a substantial amount of assistance in this area.

4.4 Assessing the Overall Impact of the Assistance Program

4.43 Assessing the overall impact of the Bank's large assistance program in Brazil requires assessing its main blocks or components. A major component of the program was designed to reduce poverty in the long-run through human resource development and access to basic services. This component produced satisfactory results. Education and health outcomes improved significantly, and the access of the rural and urban poor to services was considerably expanded. The Bank can claim an important contribution to these outcomes, as it was the only international development agency providing substantial assistance to federal and state governments in most of these areas.

4.44 A second component of the program was designed to stimulate private investment, economic efficiency, and growth. This component produced mixed results. The Bank's strategy was reasonable and probably contributed to the efficiency gains observed in the decade, but did not succeed in stimulating savings and investment to a significant degree, and in removing some critical structural bottlenecks that continue affecting economic performance. The actions and reforms supported by the program were all necessary, but they were not sufficient. In particular, the regulatory framework in infrastructure needs to be substantially strengthened and some key reforms need to be concluded in order to generate a sharp turnaround in growth performance.

4.45 A third component of the program involved support to the environment. This component produced satisfactory results. The Bank played a critical role in the build-up of institutional capacity in the environment area, from relatively low levels in the early 1990s, helping the Brazilian government address many important challenges in the decade. Brazil's environment indicators still lag those of developed countries in many aspects but improved during the decade. The Bank's strategy was excessively rigid in the early 1990s but evolved during the decade, recognizing more explicitly the need to balance conservation and growth.

4.46 The package of adjustment loans merits a separate examination, given its size and the fact that it was proposed for both poverty reduction and growth objectives. Assessing the package requires assessing different clusters of loans, as they had an uneven impact on Brazil's performance in the period of evaluation. The state reform loans and the fiscal reform loans achieved their main objectives, which were essentially the reform of the public sector and the imposition of hard budget constraints at all levels of government. These loans could not be expected to produce much greater improvements in the public finances, because this would require other specific and complementary reforms, such as tax and social security reforms. The social protection loan also achieved its well-defined objective, which was the preservation of critical social programs in a scenario of fiscal adjustment. The social security, financial sector, and energy loans supported important reform steps, but these reforms started late in the decade and have not gone far enough, particularly the social security reform.

4.47 The Bank's assistance program to Brazil in the 1990s produced a sufficient mass of positive outcomes to be rated as satisfactory. The program had only a moderate contribution to the decline in income poverty rates and the slight reduction in inequality observed in the 1990s. As discussed above, these gains were primarily due to macroeconomic stabilization. However, the program helped the Government achieve some of the key pre-conditions for further and more substantive reductions in poverty and inequality. As also discussed above, the education (and health) gains should translate into reduced poverty and inequality because the income differences in Brazil are to a good extent related to differences in educational levels. The expanded access of the poor to infrastructure not only alleviates poverty in a broad sense, but also creates the conditions for a subsequent growth in household incomes.

4.48 Admittedly, these gains will need to be consolidated and deepened further for Brazil to achieve further reductions in poverty and inequality. For example, in the case of education it will be necessary to raise years of schooling further and improve education quality to obtain more substantive results. A large share of the poor still lack access to basic services and assets, despite the gains in recent years, because access was initially very limited. Therefore, further efforts in this area are also needed. However, these are developmental problems, whose solution will require more time and persistence with the right policies, and that do not diminish the achievements of the 1990s. [22]

4.49 Further reductions in poverty and inequality will also depend on an improved growth performance and better targeting of social expenditures. In this regard, the need to complete some critical reforms such as social security reform cannot be emphasized enough. Brazil's large pension payments are an obstacle to growth because they have contributed to low public and national savings and hindered a substantial investment recovery. They have also been a more direct obstacle to poverty reduction by diminishing the volume of resources available to better targeted social programs. Finally, they have also affected the poor by preventing a reduction in payroll tax rates and an increase in formal employment. Brazil's social security problem constitutes a major obstacle to development and should remain a priority item in the Government's and the Bank's agenda in the current decade. [23]

4.50 The effectiveness of the Bank's assistance can also be assessed by examining Brazil's progress in meeting the Millennium Development Goals (MDGs). As shown in Table 12, during the 1990s Brazil made substantial progress in all areas covered by the MDGs, and is likely to meet the targets at the national level by 2015.[24] The Bank contributed to many of

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[22] As shown in Table 9 and Figure 3, poverty rates in 2000 were below the 1980 levels, but the reduction in inequality in the 1990s was too slight to offset the legacy of the previous decades, especially the damage inflicted in the 1980s. Reducing inequality has proved more difficult than reducing poverty, not only in Brazil but in most other countries. Li, Squire and Zou (1998) show that there is much more variability of Gini coefficients across countries than within countries over time.

[23] The Government made the comment that income distribution in Brazil is very unequal and must improve, but also pointed out that World Bank comparisons of inequality coefficients across countries are flawed and tend to worsen Brazil's ranking relative to other countries (Annex 4).

[24] In December 2002, the United Nations named President Cardoso the first winner of the Mahbub ul Haq Award for Outstanding Contribution to Human Development, in recognition for the improvement in Brazil's social indicators during his administration. The UN's 2002 Human Development Report (UNDP (2002)) also indicates that Brazil is on track to meet the MDGs, in all the areas where progress was assessed. Curiously, the areas that were not assessed are precisely those where progress was faster—the education and gender areas.

these outcomes, primarily through its assistance to education, health and the environment. Areas that require closer monitoring by the Government and that warrant Bank support include child nutrition and maternal mortality. Brazil's large regional inequalities also imply the need to monitor the progress of the poorer regions in meeting the MDGs.

Table 12: Brazil's Progress in Meeting the Millennium Development Goals

Goals/Targets	*Assessment*
Eradicate Extreme Poverty and Hunger 1. Halve between 1990 and 2015 the proportion of people whose income is below one dollar a day	The share of the population below the indigence line declined from 19.1 percent in 1990 to 14.3 percent in 2000. A further decline to 9.5 percent or less by 2015 is feasible—it would require average growth rates of 3 percent per year.
2. Halve between 1990 and 2015 the proportion of people who suffer from hunger	Child malnutrition rates declined by 30 percent between 1990 and 1996, to 10.5 percent (height) and 5.7 percent (weight). The decline suggests progress in meeting the target, but there are no recent reliable data.
Achieve universal primary education 3. Ensure that by 2015 boys and girls are able to complete primary education	The youth illiteracy rate has declined to 4.2 percent and the net enrollment rate in primary education has increased to 95.4 percent, approaching universality. Universal completion of primary education by 2015 is highly likely.
Promote gender equality 4. Eliminate gender disparity in primary and secondary education no later than 2015	Female educational indicators improved faster than male indicators in the 1990s and were slightly higher in 2000. This target has been achieved. Maintenance of this outcome by 2015 is highly likely.
Reduce child mortality 5. Reduce by two-thirds between 1990 and 2015, the under five mortality rate	The under-five mortality rate declined from 60/1000 births in 1990 to 37/1000 births in 1999. A further reduction to 20/1000 by 2015 is likely.
Improve maternal health 6. Reduce by three quarters, between 1990 and 2015 the maternal mortality ratio	Many related indicators such as number of prenatal exams or gynecological consultations through the public health system have improved, but the rates of maternal mortality are still high by comparison with other upper middle income countries. Achievement of this target is feasible but will require continuing efforts.
Combat AIDS, Malaria, and other diseases 7. Halt by 2015 and begin to reverse the spread of HIV/AIDS	AIDS incidence declined from 12.7/100,000 in 1995 to 10.3/100,000 in 2000. There is evidence that the epidemic is being stabilized overall, although some regions continue to show an increase in transmission and require close monitoring and concentrated control efforts.
8. Halt by 2015 and begin to reverse the incidence of Malaria and other diseases	Incidence of Malaria has been halted and, despite temporary setbacks, has started reversing relative to the population. Strong progress at reversibility by 2015 is likely. Incidence of Tuberculosis has increased recently, but control of this disease is feasible.
Ensure Environmental Sustainability 9.Integrate the principles of sustainable development into country policies	The Brazilian development agenda and multi-year development program incorporate the principles of sustainable development.
10. Halve by 2015 the proportion of people without access to safe drinking water	The share of households with access to improved water increased from 74.2 percent in 1990 to 87.3 percent in 2001. The aggregate target has been met, but meeting the target in rural areas will require further efforts.

4.5 Assessing the Sustainability of the Positive Outcomes

4.51 A critical question in country assistance evaluations is whether the positive outcomes achieved over a decade are likely to be sustained over time. Assessment of sustainability requires examining, *inter alia*, whether the hard-conquered macroeconomic stability will be consolidated by the new government, whether the infrastructure built and the programs

supported by Bank projects will be maintained, and whether the institutional capacity that has been built at the federal and sub-national governments will be preserved.

4.52 Macroeconomic instability could disrupt many of the positive outcomes of the 1990s. For one, poverty rates could increase again and growth performance could weaken. Macroeconomic instability could also affect the sustainability of outcomes at the sectoral level. Bank projects have financed a substantial volume of infrastructure benefiting poor populations and have also contributed to a substantial buildup of institutional capacity. Several programs supported by Bank projects have become regular Government programs and/or been expanded. The Water and Sanitation for the Poor, Urban Basin Management, School Improvement, and Disease Control programs are just a few examples. These gains could be eroded in a scenario of fiscal instability. Sectors such as education and health command priority and would probably be less affected, but sectors that are not considered a social priority such as the environment would be more vulnerable to funding cuts.

4.53 Sustainability of the Bank's results in the 1990s is closely associated with the preservation of macroeconomic stability, but not exclusively. It is also possible that the institutional capacity that has been built will be partly eroded with the termination of Bank projects, even without budgetary cuts to the sector. This is because in some sectors (e.g., the environment) Bank projects have played a critical role in the buildup of technical and managerial expertise. Some qualified experts recruited with project resources may find it unattractive to remain in the public sector after project closure, due in good part to uncompetitive salaries. However, this is a problem that affects Bank projects worldwide, not only in Brazil, and in any case poses a lower risk for sustainability than the risk of macroeconomic instability.

4.54 As mentioned in Section 1, in January 2003 the new Government expressed its commitment to macroeconomic stability and the targets agreed with the IMF, in the context of a standby of US$30 billion approved in September 2002. In the first quarter of 2003 the primary fiscal surplus had increased to around 6 percent of GDP, well in excess of the target of 3.75 percent of GDP agreed with the IMF and the Government's own target of 4.25 percent of GDP. Also, in April 2003 the Government submitted ambitious pension and tax reform proposals to Congress. Market reaction to these announcements was positive, and by May 2003 the pressures on the exchange rate and international spreads had subsided significantly—the rate of the Brazilian *Real* vis-à-vis the US Dollar had declined from 4 to 3 between October 2002 and May 2003, and international spreads had declined from 2,700 to 800 basis points in the same period. The exchange rate appreciation led to a decline in public debt to 52 percent of GDP in May 2003, from a peak of 63 percent of GDP in late 2002. If these trends persist it would be reasonable to rate sustainability as likely.

4.55 Unfortunately, even with the recent improvement in market sentiments Brazil's macroeconomic vulnerabilities will still persist for some time to come. Brazil's main vulnerability lies in the large share of the public debt indexed to the exchange rate and to short-term floating interest rates, which makes the debt service burden very sensitive to shifts in market perceptions and price movements. A negative shift in market perceptions due to external or internal events can have a substantial impact on debt service flows and impose severe financing constraints. At the time of writing (May 2003), insufficient time had passed

for the new Government to establish a track record that would permit a conclusion that current trends will be consolidated and that debt ratios will be placed on a sustainable path. Therefore, macroeconomic stability and the sustainability of the outcomes achieved in the 1990s and early 2000s were considered to be non-evaluable.[25, 26]

4.6 Assessing the Bank's Performance

4.56 Assessing the Bank's performance differs from assessing the program's performance because there are situations where the Bank's program produces limited outcomes despite the quality of the assistance, due to political limitations or other exogenous factors. The Bank had overall a good performance during the period of evaluation. The strategy that evolved in the 1990s was underpinned by good quality ESW, consistent with the Government's agenda, the country's development needs, and the Bank's own comparative advantages. The institution was able to learn the lessons from the early 1990s and to generally improve its *modus operandi* during the decade. The decentralization of the CMU and the build-up of technical expertise in the field were important factors contributing to the improvement in outcomes. The decentralization also seems to have enabled the Bank to manage a complex program in a cost-effective way (Section 3).

4.57 The Bank cannot be faulted for the lack of completion of some key reforms. When the 1998 crisis created the conditions for the implementation of structural reforms the institution responded quickly with financial and technical assistance. It was difficult to predict the extent and the speed with which different reforms would progress, and when some reforms stalled the Bank stopped adjustment lending while maintaining technical assistance. What can be criticized is the lack of a clear assessment of progress and of the measures required to complete the reform in some of the adjustment loans.

4.58 Likewise, the Bank should not be faulted for the energy crisis in the late 1990s. The institution had reasonable reasons to stop lending to the sector in the early 1990s, because the policy of low energy tariffs resulted in weak financial results and low rates of return in energy projects. The lack of investment in the sector dates back to the 1980s and has been to a good extent due to the low tariffs and the weak capacity of the sector to generate funds internally. When the Government started implementing its restructuring and privatization program in the mid-1990s the Bank responded quickly by restructuring an existing project and releasing funds for the development of the regulatory framework. At this point there was probably little rationale to resume large scale lending to a sector which was being privatized. It is possible that the Bank did not provide sufficient technical assistance to the sector in the second half of the 1990s, but it would be unfair to fault the institution for the crisis.

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[25] Brazil's macroeconomic fundamentals are still not sufficiently strong to rule out scenarios of instability. They are in fact in an intermediate range, giving rise to situations of multiple equilibria, where market psychology dominates the final outcomes. Williamson (2002) presents a numerical exercise of multiple equilibria applied to Brazil and Williamson (2003) provides an updated evaluation of Brazil's current situation.

[26] The Government expressed its disagreement with the CAE conclusion that sustainability could not be evaluated, stressing the positive evolution of economic indicators and the submission of key reforms to Congress (Annex 4).

4.59 Some Bank policies created difficult situations that had to be carefully managed by the CMU in Brazil. For example, during the elaboration of the assistance strategy in 2000, the Bank had to handle a delicate situation, resulting from its intention to discuss the assistance strategy with NGOs. The Government indicated that it supported NGO involvement in project implementation but not in the formulation of assistance strategies. The Government also pointed out that strategy formulation was the responsibility of democratically elected governments, and that the Government's program was already strenuously negotiated within the Government coalition and in Congress. Bank attempts to introduce other players in the formulation of the strategy could increase enormously the complexity of the exercise, contradict Government's priorities, and even decrease the legitimacy of the strategy.

4.60 As it happened, the institution had separate consultations with NGOs and other segments of civil society to discuss their views on key developmental issues. In general, the consultations did not reveal major objections against the main thrust of the Bank's assistance program. Some NGOs voiced objections to globalization, the Government's privatization program, and the effectiveness of regulatory schemes. The Bank considered these objections, but concluded that they did not justify any fundamental revision of the strategy. The situation was ultimately handled by the Bank in a satisfactory way, but it also exposed the potential conflicts that exist among some of the Bank's objectives (e.g. Government ownership, stakeholder participation, promotion of NGO activity).

4.61 Although the Bank's performance in the decade was generally good, it is also important to identify areas where Bank failed to provide adequate assistance. For example, the Bank failed to provide assistance in critical areas such as early childhood development and nutrition. The Bank may not have provided enough assistance to the development of regulatory agencies either, especially at the level of Brazilian states. Some projects did not provide reliable estimates of project benefits for the poor, a clear weakness, considering the poverty reduction objectives of the program. Also, there was not sufficient integration between related projects and important synergies may have been missed. More generally, monitoring and evaluation of projects was less than satisfactory—the Bank should be able to ascertain more systematically the impact of its assistance on the poor and on the efficiency of the Brazilian economy.

4.62 There are issues of a global nature that are more difficult to evaluate in a country assistance evaluation. Brazil's economic performance was to some extent affected by trade barriers in its main export markets. Multilateral trade relations are conducted in other international fora and the Bank has just a modest influence over the results of trade negotiations. However, it can be argued that the Bank could have been more vocal during the 1990s, advocating greater access of developing countries, including Brazil, to the markets of developed countries. This issue had already been raised in the mid-1970s by former President McNamara[27] but was not pursued by the institution in the following decades, until very recently.

[27] Address to the Board of Governors in the 1976 annual meetings in Manila, the Philippines.

4.7 The Counterfactual and the Bank's Relevance

4.63 The relevance of the Bank has been challenged in more than one occasion, particularly regarding its assistance to middle-income countries such as Brazil. Critics usually point out that these countries have access to private financial flows, that the links between Bank financing and project performance are weak due to money fungibility, and that the recent decentralization of Bank operations has intensified the problem of duplication and conflict with regional development banks.[28]

4.64 This evaluation concluded that these criticisms were not justified in the case of Brazil. The Bank did become less important as a source of finance during the 1990s, as Brazil gained greater access to private capital markets. However, the Brazilian authorities stated that Bank resources were still an important element of the Government's financing strategy, particularly in periods of volatile capital markets, curtailed access, and high spreads. Bank adjustment loans in the late 1990s and early 2000s helped the Government build a reserve cushion and manage the timing of their international bond issues more effectively, yielding important savings for the country.

4.65 The criticism that the link between Bank financing and projects is weak disregards the transfer of knowledge and technical assistance that takes place through Bank projects. The Bank played an important role in the transfer of knowledge and institutional building in Brazil during the 1990s. Although this transfer occurred in part through policy dialogue and ESW, a large share took place during the design and execution of projects. The Bank's contribution seems to have been particularly important in the Brazilian states, which have a much weaker institutional capacity than the federal government while being responsible for delivering basic services to the population.

4.66 The criticism that the expansion of regional offices would cause duplication and conflict with regional banks—the IDB in the Brazilian case—is not supported and overlooks the gains from a greater presence in the field. Bank and IDB programs were highly complementary, as noted in Section 3. Although the Bank and the IDB could both gain from closer cooperation, Brazil's large size and development needs open a wide room for the two institutions to operate without conflicts. Also, greater Bank presence in the field produced important improvements in project design and supervision.

4.67 This evaluation concluded that the Bank can still play a relevant role in a middle income country such as Brazil. The Bank is most relevant as a source of knowledge and technical assistance. It is less relevant as a source of finance but not irrelevant, particularly for poorer regions and in a scenario of volatile capital markets. Besides, financing and transfer of knowledge frequently come together. Substantial learning and experience accumulate during the life of a project, both on the side of the Government and the Bank, and this experience can be capitalized in future Bank projects and Government programs. The evolution in the design of education projects is a good illustrative example.

[28] For example, the well-disseminated Meltzer report (US Congress (2000)) raises these and other criticisms.

4.68 The assessment of a counterfactual scenario (how Brazil would have performed without the Bank) and the assessment of relevance are closely related. Brazil has a substantial amount of human resources but they are not evenly distributed across regions and are generally scarcer in the North and the Northeast. The country could eventually have achieved the same results without Bank assistance, but it would have taken longer to achieve these results. Several Government programs were started, accelerated, or expanded due to Bank assistance. Also, the technical assistance loans that accompanied the adjustment loans provided knowledge at a pace that would not have occurred otherwise. For example, the implementation of the inflation targeting system by the Central Bank in a very short period of time (the first half of 1999) was only possible due to the intensive use of a technical assistance loan. The blending of technical assistance and finance provided by the Bank was effective and probably would not have been provided by any other institution or bilateral donor in the Bank's absence.

5. Lessons and Recommendations

5.1 The greatest lesson learned from a decade of assistance was the need to ensure macroeconomic stability and Government ownership of the Bank's assistance program. The unsatisfactory project outcomes and the low effectiveness of the Bank's assistance in the early 1990s reflected fundamentally the lack of a stable macroeconomic framework and a clear development agenda. The Bank's central objectives of poverty alleviation and growth cannot be achieved under these circumstances. Other major lessons include the need for the Bank to build technical capacity in the field, maintain an open and frequent policy dialogue with federal and state authorities, employ the resources of the local academic community, and have the ability to closely supervise its projects.

5.2 The Bank can continue playing a relevant role in Brazil in the coming years, by helping the Government consolidate the important achievements of the 1990s, correcting some flaws in the assistance, and entering critical areas that remain largely uncovered. The following recommendations address the quality of the Bank's assistance. They include recommendations of a general and strategic nature and sector-specific recommendations.

5.3 *Strategic Direction of Bank Assistance.* It is very difficult to determine the optimal mix of human resource development projects and other projects (e.g. infrastructure) in the Bank's assistance program because the empirical literature on poverty and growth does not provide precise parametric information on the impact of all relevant variables. However, there is a strong case for continuing Bank involvement in the social sectors, particularly education. Primary education has been universalized but enrollment in secondary education is still low, and quality of education is deficient on both levels, particularly in the Northeast. The Bank can play an important role in this area, assisting the federal and state governments to address the problem of student learning, particularly in the poorer regions of the country.

5.4 *Improved Framework for Programmatic Lending.* There is justification for further programmatic lending in coming years to help the country complete critical reforms, such as the social security and financial sector reforms. However, programmatic lending requires discipline in the setting of the overall reform program, its final objectives and the

intermediary benchmarks. For example, the second social security loan supported improvements in the pay-as-you-go (PAYG) system for private workers but did not stress sufficiently that the imbalances of the pension system remained large and still constituted a major obstacle to Brazil's development, and that addressing the pension problem would require a more ambitious reform. This loan was not technically a programmatic loan (this instrument had not been approved by the Board yet), but had similar characteristics and should have followed similar rules. Agreement with the Government on final reform goals and meaningful benchmarks is essential to maintain programmatic lending on track.

5.5 *Building the Capacity of Sub-National Governments.* At the sub-national government level, public finance management and administration appear weak, especially in relation to the federal government. Possible Bank assistance to states and municipalities might reap high returns. For example, during the early 1990s the Bank helped Southern states such as Paraná strengthen the administrative capacity of municipal governments, enabling municipalities to manage their finances and meet their expanded obligations under the 1988 Constitution (through a state-wide program of technical assistance, training, and equipment). The Bank should explore the possibility of providing a similar type of assistance to Northeastern states.

5.6 *Further Support to Private Sector Development.* There is also scope for improving Bank support to private sector development. The Bank might consider assistance to judicial reform, as the judiciary has been identified as a bottleneck in private sector development strategies produced by the Bank and domestically.[29] Protracted judicial procedures, unpredictable outcomes, weak enforceability of contracts and rights are frequently identified as important constraints. The Bank is already providing some initial assistance through ESW. Depending on the results and the interest of the Government and the Judiciary, the assistance could evolve into an operation. More assistance to regulatory agencies is also needed, especially at the level of states, in order to reduce the lingering uncertainties and encourage private sector investment.

5.7 *Design of More Integrated Strategies.* There is scope for producing more integrated strategies and explore better the potential synergies across projects, by changing the focus of assistance from sectors to regions. The move towards more integrated projects may imply some trade-offs, such as the reduction in the geographical areas covered by the projects. However, the gains in project efficiency and sustainability may offset the possible losses. The Bank seems already to be proceeding in this direction in the state of Tocantins.[30]

5.8 Regarding the design and objectives of new projects, there is a need to review the outcomes of the 1990s and identify the changes that are needed. The following paragraphs provide the main recommendations for improved project design. More detailed recommendations are provided in Annex 2 and in the background papers prepared for each sector.

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[29] Pinheiro, A. (2001).

[30] The Prosanear projects provide a good illustration. These projects were able to extend water and sanitation to a large poor population at a low cost, but maintenance of the infrastructure became an issue, due to the lack of parallel investments in paved streets and electricity. A more integrated urban development project could have had to sacrifice geographical coverage, but could also have gained in sustainability.

5.9 *Education.* The Bank must change the emphasis of basic education projects, from improving management to improving quality of teaching. Operationally, this should be achieved by moving from system and efficiency goals to classroom and learning goals. The priority for Bank assistance to primary education should be to get inside the classroom in order to ensure better learning outcomes. This change will require a major role for technical assistance and supervision, to ensure the quality leap that is required to tackle student learning. Many poor states in the Northeast may need more focused assistance, and several of these states may not be able to borrow from the Bank due to fiscal constraints. Small and focused technical assistance loans may constitute one alternative to deal with specific learning problems faced by these states (e.g., teacher training and effectiveness). The Bank must also consider entering two areas that remain largely uncovered: early childhood development/pre-school and secondary education.

5.10 *Health.* The Bank has been only partially successful in targeting the poor and offering effective solutions for their problems vis-à-vis health care. Focus on diseases that by nature affect the poor is an effective manner of targeting, but is not sufficient. It is necessary to design projects to deal with the structure of the public system and that address specifically the barriers of the poor. These issues could be addressed through adjustment lending. The Bank must also consider a pilot project addressing child nutrition in the Northeast, preferably integrated with an early childhood development project. Another area to be considered is that of maternal mortality, due to its high rate and devastating impact.

5.11 *Rural Development.* The rural development projects have made an important contribution to alleviating poverty and providing the infrastructure on which agricultural growth can take place. However, there may now be a need for a more focused effort to raise farm productivity in areas of higher agricultural potential. This could be achieved through a combination of different approaches: (i) increasing the share of resources in rural development projects channeled to productive activities, including mechanization, commercialization, technical assistance, and training of community councils; (ii) land reform can also contribute to higher agricultural productivity. The pilot land reform project has built on the design of community-based projects and shows promising results; (iii) Despite past failures, irrigation may also contribute to an increase in productivity. The Bank could pursue a limited program, focusing on areas with good soils, access to markets and sound state finances.

5.12 *Water and Sanitation.* The Bank should explore its potential educational role in this sector. The key issue of which government level – state or municipal – has the jurisdiction to make concession of water and sanitation services has not been overcome. Studies on asset valuation of current water and sanitation infrastructure and compensatory schemes for the transfer of concession power could contribute to a satisfactory resolution of this problem. Regarding privatization, an issue that is highly misunderstood, studies should cover themes such as universality of services, economies of scale, partial against total concession, cross-subsidies, and regulation of natural monopolies. Bank strategies towards the water and sanitation sector must be more integrated with the Bank's environmental and poverty strategies. As a starting point, a common strategy plan should be prepared with the collaboration of the three areas. In this regard, there should be a greater effort to estimate the share of the poor benefiting from water and sanitation projects.

5.13 *Environment.* Regarding analytical work, the Bank should undertake a sound analysis of the private and social costs and benefits of deforestation, as well as studies integrating blue and brown issues and its activities in the water and sanitation sector. Regarding project work, the Bank should adopt more realistic criteria for the determination of the regional coverage and scale of projects, in relation to the institutional capacity of the implementing agencies. The Bank should also engage representatives of the private sector (timber producers, industries and farmers) in project formulation and implementation, forging additional sources of financing and risk sharing, and contributing to the political sustainability of its projects.

5.14 *Better Dissemination of ESW and Bank Activities in Brazil.* Last but not least, the Bank's relevance as a source of knowledge and technical assistance may not be sufficiently explored. Greater dissemination of its work may help the Bank enhance its credibility and provide more effective assistance to the Government in the design and implementation of complex reforms. The Bank should consider allocating a larger share of its budget in Brazil for translation, organization of workshops, distance training, and other activities designed to disseminate its work.

ANNEX 1

STATISTICAL TABLES

Annex Table 1: World Bank Lending to Brazil, 1980-2001

Average Annual Flows					
	80-89	**90-01**	**90-94**	**95-98**	**99-01**
US$ millions					
IBRD Commitments	1,221	1,143	1,001	1,044	1,512
IBRD Disbursements	894	1,100	663	1,254	1,621
IFC Disbursements	57	153	106	232	127
IFC Disbursements + IFC "B" loans	93	381	154	745	274
	80-89	**90-01**	**90-94**	**95-98**	**99-01**
Shares in Total Debt Finance (%)					
IBRD	16.5	6.4	10.2	3.6	3.9
IBRD + IFC	17.4	7.6	11.9	4.2	4.2
IBRD + IFC + IFC "B" Loans	17.7	8.3	12.4	5.6	4.5
Relative to Other Institutions (%)					
IBRD/BNDES	24.2	15.8	20.2	10.0	16.4
IBRD/IDB	279.1	107.2	71.8	64.8	280.7
End of Period Stocks					
	1989	**2001**	**1994**	**1998**	**2001**
US$ millions					
IBRD Disbursed	8,316	7,963	6,311	6,298	7,963
IBRD Undisbursed	4,672	2,770	4,950	3,546	2,770
IBRD Total	12,988	10,733	11,261	9,844	10,733
Shares in Total Stocks (%)					
IBRD Brazil/Total Brazil Stock	7.3	3.4	4.1	2.6	3.4
IBRD Brazil/IBRD Worldwide	9.9	6.1	5.7	5.4	6.1

Annex Table 2A: Sectoral Composition of IBRD Investment Loans, 1980-2002

	1980-1989			1990-2002			1990-1994			1995-1998			1999-2002		
(US$ million)	Commit.	Disburs.	#	Commit.	Disburs.	#	Commit.	Disburs.	#	Commit.	Disburs.	#	Commit.	Disburs.	#
Agriculture	3,409.3	2,802.9	34	2,047.2	878.5	31	290.0	211.3	3	1,108.6	661.8	18	649.6	5.4	10
Rural Pvty	1,356.0	1,008.8	20	1,540.6	665.6	22	33.0	33.0	1	1,039.0	632.4	13	469.6	0.3	8
Other	2,053.3	1,794.1	15	506.6	212.9	9	257.0	178.3	2	69.6	29.5	5	180.0	5.1	2
Education	238.5	163.6	5	1,798.7	1,248.6	12	1,059.6	1,017.5	6	217.5	90.4	2	521.6	140.8	4
Envirmnt	108.0	77.5	2	958.0	610.2	14	539.0	474.2	4	299.0	129.7	6	120.0	6.2	4
Finc & PSD	1,166.4	1,072.5	4	554.6	204.8	5	300.0	184.1	1	190.0	12.7	2	64.6	8.1	2
Health	338.0	283.1	5	1,060.0	662.3	6	427.0	376.4	2	300.0	167.5	1	333.0	118.4	3
Infrast	5,179.7	4,510.4	28	3,941.3	2,477.8	27	1,926.5	1,732.7	10	1,431.6	722.2	10	583.2	22.9	7
Transport	1,547.0	1,204.3	10	2,533.1	1,386.7	16	872.5	774.5	5	1,151.6	590.1	7	509.0	22.2	4
Urban	449.0	234.5	3	1,130.1	448.8	9	254.5	254.4	2	431.6	172.3	4	444.0	22.2	3
Other	1,098.0	969.8	7	1,403.0	937.9	7	618.0	520.1	3	720.0	417.8	3	65.0	0.0	1
Energy	2,505.1	2,183.8	11	433.9	390.4	4	260.0	260.0	1	130.0	130.0	2	43.9	0.4	2
W & S	1,127.6	1,122.3	7	974.3	700.7	6	794.0	698.3	4	150.0	2.1	1	30.3	0.3	1
PSM	29.0	24.0	1	428.8	345.4	4	0.0	0.0	0	420.0	344.6	3	8.8	0.8	1
Social Prot	0.0	0.0	0	10.0	4.0	2	0.0	0.0	0	5.0	1.7	1	5.0	2.4	1
Urban Dvlp	640.0	592.0	8	490.0	353.8	4	250.0	199.6	2	240.0	154.3	2	0.0	0.0	0
TOTALS	**11,108.9**	**9,526.0**	**87**	**11,288.7**	**6,785.5**	**105**	**4,792.1**	**4,195.7**	**28**	**4,211.7**	**2,284.9**	**45**	**2,285.8**	**305.0**	**32**

	1980-1989			1990-2001			1990-1994			1995-1998			99-01		
(Proportions)	Commit.	Disburs.	#	Commit.	Disburs.	#	Commit.	Disburs.	#	Commit.	Disburs.	#	Commit.	Disburs.	#
Agriculture	30.7%	29.4%	39.1%	18.1%	12.9%	29.5%	6.1%	5.0%	10.7%	26.3%	29.0%	40.0%	28.4%	1.8%	31.3%
Rural Pvty	12.2%	10.6%	23.0%	13.6%	9.8%	21.0%	0.7%	0.8%	3.6%	24.7%	27.7%	28.9%	20.5%	0.1%	25.0%
Other	18.5%	18.8%	17.2%	4.5%	3.1%	8.6%	5.4%	4.2%	7.1%	1.7%	1.3%	11.1%	7.9%	1.7%	6.3%
Education	2.1%	1.7%	5.7%	15.9%	18.4%	11.4%	22.1%	24.3%	21.4%	5.2%	4.0%	4.4%	22.8%	46.2%	12.5%
Envirmnt	1.0%	0.8%	2.3%	8.5%	9.0%	13.3%	11.2%	11.3%	14.3%	7.1%	5.7%	13.3%	5.2%	2.0%	12.5%
Finc & PSD	10.5%	11.3%	4.6%	4.9%	3.0%	4.8%	6.3%	4.4%	3.6%	4.5%	0.6%	4.4%	2.8%	2.7%	6.3%
Health	3.0%	3.0%	5.7%	9.4%	9.8%	5.7%	8.9%	9.0%	7.1%	7.1%	7.3%	2.2%	14.6%	38.8%	9.4%
Infrast	46.6%	47.3%	32.2%	34.9%	36.5%	25.7%	40.2%	41.3%	35.7%	34.0%	31.6%	22.2%	25.5%	7.5%	21.9%
Transport	13.9%	12.6%	11.5%	22.4%	20.4%	15.2%	18.2%	18.5%	17.9%	27.3%	25.8%	15.6%	22.3%	7.3%	12.5%
Urban	4.0%	2.5%	3.4%	10.0%	6.6%	8.6%	5.3%	6.1%	7.1%	10.2%	7.5%	8.9%	19.4%	7.3%	9.4%
Other	9.9%	10.2%	8.0%	12.4%	13.8%	6.7%	12.9%	12.4%	10.7%	17.1%	18.3%	6.7%	2.8%	0.0%	3.1%
Energy	22.6%	22.9%	12.6%	3.8%	5.8%	3.8%	5.4%	6.2%	3.6%	3.1%	5.7%	4.4%	1.9%	0.1%	6.3%
W & S	10.2%	11.8%	8.0%	8.6%	10.3%	5.7%	16.6%	16.6%	14.3%	3.6%	0.1%	2.2%	1.3%	0.1%	3.1%
PSM	0.3%	0.3%	1.1%	3.8%	5.1%	3.8%	0.0%	0.0%	0.0%	10.0%	15.1%	6.7%	0.4%	0.3%	3.1%
Social Prot	0.0%	0.0%	0.0%	0.1%	0.1%	1.9%	0.0%	0.0%	0.0%	0.1%	0.1%	2.2%	0.2%	0.8%	3.1%
Urban Dvlp	5.8%	6.2%	9.2%	4.3%	5.2%	3.8%	5.2%	4.8%	7.1%	5.7%	6.8%	4.4%	0.0%	0.0%	0.0%
TOTALS	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Annex Table 2B: Sectoral Composition of All IBRD Loans, 1980-2002

	1980-1989			1990-2002			1990-1994			1995-1998			1999-2002		
(US$ million)	Commit.	Disburs.	#	Commit.	Disburs.	#	Commit.	Disburs.	#	Commit.	Disburs.	#	Commit.	Disburs.	#
Agriculture	3,870.3	3,263.9	36	2,047.2	878.5	31	290.0	211.3	3	1,108.6	661.8	18	649.6	5.4	10
Rural Pvty	1,356.0	1,008.8	20	1,540.6	665.6	22	33.0	33.0	1	1,039.0	632.4	13	469.6	0.3	8
Other	2,514.3	2,255.1	15	506.6	212.9	9	257.0	178.3	2	69.6	29.5	5	180.0	5.1	2
Education	238.5	163.6	5	1,798.7	1,248.6	12	1,059.6	1,017.5	6	217.5	90.4	2	521.6	140.8	4
Envirmnt	108.0	77.5	2	958.0	610.2	14	539.0	474.2	4	299.0	129.7	6	120.0	6.2	4
Finc & PSD	1,518.4	1,424.5	5	1,362.6	1,012.8	7	300.0	184.1	1	190.0	12.7	2	872.6	816.1	4
Health	338.0	283.1	5	1,060.0	662.3	6	427.0	376.4	2	300.0	167.5	1	333.0	118.4	3
Infrast	5,179.7	4,510.4	28	4,395.8	2,932.3	28	1,926.5	1,732.7	10	1,431.6	722.2	10	1,037.7	477.4	8
Transport	1,547.0	1,204.3	10	2,533.1	1,386.7	16	872.5	774.5	5	1,151.6	590.1	7	509.0	22.2	4
Urban	449.0	234.5	3	1,130.1	448.8	9	254.5	254.4	2	431.6	172.3	4	444.0	22.2	3
Other	1,098.0	969.8	7	1,403.0	937.9	7	618.0	520.1	3	720.0	417.8	3	65.0	0.0	1
Energy	2,505.1	2,183.8	11	888.4	844.9	5	260.0	260.0	1	130.0	130.0	2	498.4	454.9	3
W & S	1,127.6	1,122.3	7	974.3	700.7	6	794.0	698.3	4	150.0	2.1	1	30.3	0.3	1
PSM	29.0	24.0	1	1,691.5	1,608.1	6	0.0	0.0	0	420.0	344.6	3	1,271.5	1,263.5	3
Social Prot	0.0	0.0	0	1,525.2	1,519.2	5	0.0	0.0	0	5.0	1.7	1	1,520.2	1,517.6	4
Urban Dvlp	640.0	592.0	8	490.0	353.8	4	250.0	199.6	2	240.0	154.3	2	0.0	0.0	0
TOTALS	**11,921.9**	**10,339.0**	**90**	**15,329.1**	**10,825.9**	**113**	**4,792.1**	**4,195.7**	**28**	**4,211.7**	**2,284.9**	**45**	**6,326.2**	**4,345.4**	**40**

	1980-1989			1990-2001			1990-1994			1995-1998			99-01		
(Proportions)	Commit.	Disburs.	#	Commit.	Disburs.	#	Commit.	Disburs.	#	Commit.	Disburs.	#	Commit.	Disburs.	#
Agriculture	32.5%	31.6%	40.0%	13.4%	8.1%	27.4%	6.1%	5.0%	10.7%	26.3%	29.0%	40.0%	10.3%	0.1%	25.0%
Rural Pvty	11.4%	9.8%	22.2%	10.1%	6.1%	19.5%	0.7%	0.8%	3.6%	24.7%	27.7%	28.9%	7.4%	0.0%	20.0%
Other	21.1%	21.8%	16.7%	3.3%	2.0%	8.0%	5.4%	4.2%	7.1%	1.7%	1.3%	11.1%	2.8%	0.1%	5.0%
Education	2.0%	1.6%	5.6%	11.7%	11.5%	10.6%	22.1%	24.3%	21.4%	5.2%	4.0%	4.4%	8.2%	3.2%	10.0%
Envirmnt	0.9%	0.7%	2.2%	6.2%	5.6%	12.4%	11.2%	11.3%	14.3%	7.1%	5.7%	13.3%	1.9%	0.1%	10.0%
Finc & PSD	12.7%	13.8%	5.6%	8.9%	9.4%	6.2%	6.3%	4.4%	3.6%	4.5%	0.6%	4.4%	13.8%	18.8%	10.0%
Health	2.8%	2.7%	5.6%	6.9%	6.1%	5.3%	8.9%	9.0%	7.1%	7.1%	7.3%	2.2%	5.3%	2.7%	7.5%
Infrast	43.4%	43.6%	31.1%	28.7%	27.1%	24.8%	40.2%	41.3%	35.7%	34.0%	31.6%	22.2%	16.4%	11.0%	20.0%
Transport	13.0%	11.6%	11.1%	16.5%	12.8%	14.2%	18.2%	18.5%	17.9%	27.3%	25.8%	15.6%	8.0%	0.5%	10.0%
Urban	3.8%	2.3%	3.3%	7.4%	4.1%	8.0%	5.3%	6.1%	7.1%	10.2%	7.5%	8.9%	7.0%	0.5%	7.5%
Other	9.2%	9.4%	7.8%	9.2%	8.7%	6.2%	12.9%	12.4%	10.7%	17.1%	18.3%	6.7%	1.0%	0.0%	2.5%
Energy	21.0%	21.1%	12.2%	5.8%	7.8%	4.4%	5.4%	6.2%	3.6%	3.1%	5.7%	4.4%	7.9%	10.5%	7.5%
W & S	9.5%	10.9%	7.8%	6.4%	6.5%	5.3%	16.6%	16.6%	14.3%	3.6%	0.1%	2.2%	0.5%	0.0%	2.5%
PSM	0.2%	0.2%	1.1%	11.0%	14.9%	5.3%	0.0%	0.0%	0.0%	10.0%	15.1%	6.7%	20.1%	29.1%	7.5%
Social Prot	0.0%	0.0%	0.0%	9.9%	14.0%	4.4%	0.0%	0.0%	0.0%	0.1%	0.1%	2.2%	24.0%	34.9%	10.0%
Urban Dvlp	5.4%	5.7%	8.9%	3.2%	3.3%	3.5%	5.2%	4.8%	7.1%	5.7%	6.8%	4.4%	0.0%	0.0%	0.0%
TOTALS	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Annex Table 3: Sectoral Composition of World Bank Group Assistance, 1980-01										
	1980-89				1990-2002					
	IBRD		IFC		IBRD		IFC		MIGA*	
	US$ million	#	US$ million	#	US$ million	#	US$ million	#	US$ million	#
Agriculture	3870.3	36	54.1	6	2,047.2	31	400.2	15		
Education	238.5	5			1,798.7	12	3.3	1		
Envirmnt	108.0	2			958.0	14				
Finc & PSD	1,518.4	5	88.5	46	1,362.6	7	1069.0	56	770.5	12
Health	338.0	5			1,060.0	6	40.3	3	150.5	1
Infrastructure	5,179.7	28	0.4	1	4,395.8	28	235.9	11	12,297.2	10
Telecom							106.1	5	4,005.2	3
Transport	1,547.0	10			2,533.1	16	99.8	5		
Urban	449.0	3			1,130.1	9		0		
Other	1,098.0	7			1,403.0	7	99.8	5		
Energy	2,505.1	11	0.4	1	888.4	5	30	3	8,292.0	7
W & S	1,127.6	7			974.3	6				
PSM	29.0	1			1,691.5	6				
Social Prot	0.0	0			1,525.2	5				
Urban Dvlp	640.0	8			490.0	4				
TOTALS	**11,921.9**	**90**	**143.0**	**53**	**15,329.0**	**113**	**1,748.7**	**97**	**13,218.2**	**23**
%	**IBRD**		**IFC**		**IBRD**		**IFC**		**MIGA***	
Agriculture	32.5%	40.0%	37.8%	11.3%	13.4%	27.4%	22.9%	15.5%		
Education	2.0%	5.6%			11.7%	10.6%	0.2%	1.0%		
Envirmnt	0.9%	2.2%			6.2%	12.4%				
Finc & PSD	12.7%	5.6%	61.9%	86.8%	8.9%	6.2%	61.1%	57.7%	5.8%	52.2%
Health	2.8%	5.6%			6.9%	5.3%	2.3%	3.1%	1.1%	4.3%
Infrastructure	43.4%	31.1%	0.3%	1.9%	28.7%	24.8%	13.5%	11.3%	93.0%	43.5%
Telecom							6.1%	5.2%	30.3%	13.0%
Transport	13.0%	11.1%			16.5%	14.2%	5.7%	5.2%		
Urban	3.8%	3.3%			7.4%	8.0%				
Other	9.2%	7.8%			9.2%	6.2%	5.7%	5.2%		
Energy	21.0%	12.2%			5.8%	4.4%	1.7%	3.1%	62.7%	30.4%
W & S	9.5%	7.8%			6.4%	5.3%				
PSM	0.2%	1.1%			11.0%	5.3%				
Social Prot	0.0%	0.0%			9.9%	4.4%				
Urban Dvlp	5.4%	8.9%			3.2%	3.5%				
TOTALS	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Annex Table 4: Sectoral Composition of Inter-American Development Bank Projects								
	1980-1989				1990-2001			
	US$ million	%	#	%	US$ million	%	#	%
Agriculture	328.4	11.7%	8	15.4%	130.8	0.8%	2	2.4%
Education	218.2	7.8%	4	7.7%	862.0	5.3%	5	6.1%
Environment					701.9	4.3%	6	7.3%
Finc & PSD	397.4	14.1%	14	26.9%	3,436.0	21.0%	8	9.8%
Health					535.0	3.3%	2	2.4%
Infrastructure	1,758.8	62.6%	24	46.2%	6,094.7	37.2%	41	50.0%
Transport	715.5	25.5%	10	19.2%	3,090.5	18.9%	21	25.6%
Urban					560.6	3.4%	4	4.9%
Other	715.5	25.5%	10	19.2%	2,529.9	15.5%	17	20.7%
Energy	592.19	21.1%	9	17.3%	818.8	5.0%	9	11.0%
W & S	406.61	14.5%	3	5.8%	2,185.4	13.3%	11	13.4%
General	44.51		2	3.8%				0.0%
PSM					1,083.0	6.6%	8	9.8%
Social Prot					2,242.0	13.7%	2	2.4%
Urban Dvlp	107.5	3.8%	2	3.8%	1,285.5	7.9%	8	9.8%
TOTALS	**2,810.4**	**100%**	**52**	**100%**	**16,370.9**	**100%**	**82**	**100%**

Annex Table 5.A - OED Ratings of Closed Projects 1980-89

by net commitments	Net Commitments			% SAT			% LIK			%SUB		
	World	LCR	Brazil	World	LCR	Brazil	World	LCR	Brazil	World	LCR	Brazil
Agriculture	21,677	4,553	905	58	31	37	30	6	18	21	20	49
Education	3,241	468	84	87	85	75	66	80	100	42	46	51
Electric Power & Other Energy	10,701	3,479	1,514	75	63	44	69	62	21	40	13	0
Environment	80	34	34	100	0	0	100	100	100	100	100	100
Finance	6,000	1,571	251	73	65	12	41	27	0	34	50	0
Health Nutrition & Population	475	76	31	57	43	0	65	0	0	31	0	0
Industry	4,405	896	464	70	57	90	33	0	0	25	0	0
Mining	638	346	239	37	17	0	73	84	100	40	0	0
Multisector	8,903	3,024	351	66	78	0	55	74	0	37	44	0
Oil & Gas	2,688	295	0	88	56	0	65	53	0	38	39	0
Private Sector Development	782	231	0	71	37	0	45	0	0	5	0	0
Public Sector Management	297	110	0	63	81	0	30	40	0	16	27	0
Social Protection	10	10	0	100	100	0	100	100	0	100	100	0
Telecommunications	1,640	249	0	94	100	0	98	100	0	18	43	0
Transportation	11,132	3,260	1,169	74	56	62	54	48	69	27	19	21
Urban Development	3,195	1,772	319	62	44	100	45	26	98	20	17	54
Water Supply & Sanitation	3,764	1,264	678	63	49	38	40	43	43	37	24	43
Total	79,629	21,639	6,038	69	55	47	48	42	39	30	26	21
Adjustment	11,256	3,810	653	58	61	0	42	57	0	31	48	0
Investment	68,374	17,828	5,385	70	53	52	49	37	47	29	20	23

by # of projects	# of Projects			% SAT			% LIK			%SUB		
	World	LCR	Brazil	World	LCR	Brazil	World	LCR	Brazil	World	LCR	Brazil
Agriculture	689	98	20	59	56	45	34	18	36	22	22	50
Education	180	36	3	80	79	67	58	69	100	30	46	50
Electric Power & Other Energy	172	53	12	79	73	67	68	74	50	31	19	0
Environment	4	1	1	100	0	0	100	100	100	100	100	100
Finance	159	34	2	69	68	50	34	26	0	31	42	0
Health Nutrition & Population	28	7	2	54	43	0	42	0	0	25	0	0
Industry	85	14	7	63	62	86	29	0	0	26	0	0
Mining	25	8	1	63	50	0	38	25	100	36	0	0
Multisector	82	24	1	63	61	0	35	44	0	22	33	0
Oil & Gas	63	11	0	89	64	0	57	45	0	43	36	0
Private Sector Development	25	5	0	76	60	0	47	0	0	7	0	0
Public Sector Management	47	15	0	57	60	0	20	20	0	17	25	0
Social Protection	1	1	0	100	100	0	100	100	0	100	100	0
Telecommunications	46	9	0	87	100	0	86	100	0	33	67	0
Transportation	298	68	11	72	53	73	41	34	80	19	13	20
Urban Development	87	31	5	79	74	100	59	56	75	24	33	50
Water Supply & Sanitation	130	34	7	72	59	43	35	33	33	39	13	33
Total	2,121	449	72	69	63	59	43	39	51	26	26	34
Adjustment	98	28	2	60	52	0	33	35	0	21	36	0
Investment	2,023	421	70	69	64	61	43	40	55	26	24	35

Annex Table 5.B: OED Ratings of Closed Projects 1990-02

by net commitments	Net Commitments			% SAT			% LIK			%SUB		
	World	LCR	Brazil									
Agriculture	32,457	6,859	3,364	74	77	69	54	64	63	42	49	47
Economy Policy	20,213	1,977	0	83	88	0	68	74	0	42	46	0
Education	11,632	2,490	978	80	76	98	64	73	81	43	37	28
Electric Power & Other Energy	23,202	4,356	1,240	67	37	4	63	58	49	41	17	4
Environment	1,417	561	337	74	84	89	65	91	87	41	51	62
Finance	21,873	6,585	483	74	69	0	68	59	0	44	50	0
Health Nutrition & Population	5,602	1,915	647	79	87	91	66	70	91	41	56	49
Industry	9,606	2,656	0	65	80	0	62	85	0	33	21	0
Mining	2,097	592	0	86	99	0	75	81	0	58	81	0
Multisector	12,222	4,410	0	81	86	0	62	79	0	46	47	0
Oil & Gas	6,148	1,408	664	70	78	100	75	91	100	30	48	61
Private Sector Development	4,128	1,945	170	64	74	100	57	66	0	45	61	0
Public Sector Management	10,029	4,023	834	86	91	97	71	85	85	52	61	85
Social Protection	6,632	3,693	1,515	86	99	100	79	78	100	42	55	50
Telecommunications	2,497	49	0	90	45	0	91	100	0	65	0	0
Transportation	23,626	6,693	1,418	86	91	100	68	61	47	50	64	59
Urban Development	9,798	3,191	516	82	85	79	59	80	47	29	27	42
Water Supply & Sanitation	7,945	2,349	1,056	58	56	70	32	35	44	22	20	20
Total	211,125	55,754	13,222	77	78	75	63	69	66	42	46	42
Adjustment	71,771	21.278	2.502	80	85	100	70	78	100	44	53	50
Investment	139,353	34,476	10,720	75	74	69	60	64	58	41	41	40

by # of projects	# of Projects			% SAT			% LIK			%SUB		
	World	LCR	Brazil	World	LCR	Brazil	World	LCR	Brazil	World	LCR	Brazil
Agriculture	657	96	32	64	68	72	41	50	66	33	39	63
Economy Policy	134	16	0	80	86	0	63	64	0	32	46	0
Education	239	42	9	78	78	89	55	61	67	34	34	33
Electric Power & Other Energy	233	41	6	64	61	17	54	66	50	35	34	17
Environment	43	15	6	72		83	65	87	83	47	47	50
Finance	163	44	2	63		0	52	63	0	38	43	0
Health Nutrition & Population	129	23	6	67		83	52	55	83	29	39	50
Industry	74	9	0	59	78	0	53	78	0	32	22	0
Mining	29	8	0	71	88	0	62	75	0	62	75	0
Multisector	100	25	0	71	88	0	46	68	0	27	42	0
Oil & Gas	78	12	3	74	92	100	58	83	100	49	50	67
Private Sector Development	55	18	1	46	53	0	43	56	0	26	29	0
Public Sector Management	179	44	4	69	86	75	58	72	50	40	53	50
Social Protection	79	25	3	86	96	100	53	52	100	47	56	67
Telecommunications	46	3	0	83	67	0	80	67	0	50	0	0
Transportation	301	55	10	80	77	90	60	55	50	44	47	50
Urban Development	148	32	6	73	69	83	45	53	67	29	28	50
Water Supply & Sanitation	128	29	6	60	48	67	38	43	50	30	25	33
Total	2815	537	95	69	73	73	51	60	63	36	41	49
Adjustment	397	87	5	76	86	100	60	71	100	38	52	60
Investment	2418	450	90	68	71	72	50	58	61	36	38	48

Annex Table 5.C: OED Ratings of Closed Projects, 1990-94

by net commitments	Net Commitments			% SAT			% LIK			%SUB		
	World	LCR	Brazil	World	LCR	Brazil	World	LCR	Brazil	World	LCR	Brazil
Agriculture	15279	3652	1637	70	77	58	48	65	46	36	42	3
Economy Policy	2768	1179	0	88	89	0	53	89	0	46	51	0
Education	2873	360	116	90	96	100	79	82	74	63	78	62
Electric Power & Other Energy	10062	2651	1240	64	15	4	71	66	49	34	3	4
Finance	5683	2013	483	56	59	0	50	53	0	38	40	0
Health Nutrition & Population	666	74	57	76	0	0	57	0	0	31	0	0
Industry	6455	2085	0	72	74	0	68	81	0	32	12	0
Mining	572	111	0	55	100	0	68	6	0	52	6	0
Multisector	10012	3818	0	78	84	0	64	79	0	49	45	0
Oil & Gas	2050	575	0	80	45	0	92	97	0	42	43	0
Private Sector Development	1153	773	0	77	92	0	52	70	0	43	64	0
Public Sector Management	2165	956	24	68	71	0	53	61	0	62	70	0
Social Protection	71	47	0	94	100	0	66	100	0	94	100	0
Telecommunications	671	27	0	75	0	0	78	100	0	37	0	0
Transportation	8478	2422	347	80	88	99	58	56	0	32	51	0
Urban Development	3663	1307	132	77	71	18	53	82	18	31	34	0
Water Supply & Sanitation	2044	553	313	72	37	0	28	18	0	29	18	0
Total	74665	22605	4349	73	69	34	59	69	34	39	38	4
Adjustment	25198	10798	482	73	82	100	62	82	100	45	49	0
Investment	49467	11807	3867	72	58	26	58	57	26	36	26	5
by # of projects	# of Projects			% SAT			% LIK			%SUB		
	World	LCR	Brazil	World	LCR	Brazil	World	LCR	Brazil	World	LCR	Brazil
Agriculture	323	41	10	60	61	30	35	39	20	29	27	11
Economy Policy	14	4	0	79	75	0	54	75	0	31	50	0
Education	83	14	3	80	77	100	63	54	67	38	46	33
Electric Power & Other Energy	111	24	6	64	52	17	57	67	50	30	24	17
Finance	64	18	2	56	65	0	40	59	0	28	35	0
Health Nutrition & Population	29	2	1	69	0	0	45	0	0	17	0	0
Industry	56	7	0	63	71	0	55	71	0	34	14	0
Mining	13	2	0	58	100	0	54	50	0	46	50	0
Multisector	67	19	0	67	84	0	50	63	0	31	33	0
Oil & Gas	36	4	0	75	75	0	50	75	0	61	50	0
Private Sector Development	13	4	0	46	75	0	23	50	0	8	25	0
Public Sector Management	52	13	1	49	77	0	33	62	0	27	62	0
Social Protection	4	2	0	75	100	0	50	100	0	75	100	0
Telecommunications	17	2	0	76	50	0	76	50	0	41	0	0
Transportation	129	22	3	72	73	67	51	45	0	29	32	0
Urban Development	55	11	2	75	45	50	38	45	50	24	18	0
Water Supply & Sanitation	47	9	2	70	33	0	33	25	0	36	25	0
Total	1113	198	30	65	65	32	45	53	26	31	33	10
Adjustment	141	42	1	67	80	100	52	71	100	34	44	0
Investment	972	156	29	65	61	30	44	48	24	31	29	10

Annex Table 5.D: OED Ratings of Closed Projects, 1995-02

by net commitments	Net Commitments			% SAT			% LIK			%SUB		
	World	LCR	Brazil	World	LCR	Brazil	World	LCR	Brazil	World	LCR	Brazil
Agriculture	17,178	3,207	1,727	78	77	79	58	63	79	48	56	83
Economy Policy	17,444	799	0	82	87	0	70	52	0	41	39	0
Education	8,759	2,130	862	77	73	98	59	72	82	36	30	24
Electric Power & Other Energy	13,140	1,705	0	70	70	0	56	44	0	46	39	0
Environment	1,417	561	337	74	84	89	65	91	87	41	51	62
Finance	16,190	4,572	0	80	74	0	75	62	0	47	54	0
Health Nutrition & Population	4,936	1,841	590	80	90	100	68	73	100	42	59	53
Industry	3,151	571	0	52	100	0	50	100	0	34	56	0
Mining	1,525	481	0	98	99	0	78	99	0	60	99	0
Multisector	2,210	592	0	94	100	0	53	81	0	29	58	0
Oil & Gas	4,098	833	664	64	100	100	67	86	100	25	51	61
Private Sector Development	2,975	1,171	170	59	60	0	59	63	0	45	58	0
Public Sector Management	7,864	3,067	810	90	97	100	76	93	87	49	58	87
Social Protection	6,561	3,646	1,515	86	99	100	79	78	100	41	55	50
Telecommunications	1,826	22	0	95	100	0	96	100	0	75	0	0
Transportation	15,149	4,272	1,071	90	94	100	73	64	63	60	72	78
Urban Development	6,135	1,883	384	85	95	100	63	79	56	28	22	56
Water Supply & Sanitation	5,901	1,796	743	53	62	100	34	40	62	20	20	29
Total	136,460	33,149	8,873	79	85	93	66	70	81	44	51	60
Adjustment	46,573	10,480	2,020	84	89	100	74	74	100	43	56	63
Investment	89,887	22,669	6,853	76	83	91	61	67	75	44	49	59
by # of projects	# of Projects			% SAT			% LIK			%SUB		
	World	LCR	Brazil	World	LCR	Brazil	World	LCR	Brazil	World	LCR	Brazil
Agriculture	334	55	22	68	74	91	46	58	86	38	48	86
Economy Policy	120	12	0	81	90	0	64	60	0	32	44	0
Education	156	28	6	76	79	83	51	64	67	32	29	33
Electric Power & Other Energy	122	17	0	64	71	0	51	65	0	40	47	0
Environment	43	15	6	72	73	83	65	87	83	47	47	50
Finance	99	26	0	67	76	0	60	67	0	44	48	0
Health Nutrition & Population	100	21	5	66	76	100	54	60	100	32	43	60
Industry	18	2	0	50	100	0	44	100	0	28	50	0
Mining	16	6	0	81	83	0	69	83	0	75	83	0
Multisector	33	6	0	79	100	0	38	83	0	20	67	0
Oil & Gas	42	8	3	74	100	100	66	88	100	38	50	67
Private Sector Development	42	14	1	46	46	0	50	58	0	32	31	0
Public Sector Management	127	31	3	78	90	100	69	77	67	46	50	67
Social Protection	75	23	3	87	96	100	53	48	100	45	52	67
Telecommunications	29	1	0	86	100	0	83	100	0	55	0	0
Transportation	172	33	7	86	81	100	67	61	71	56	58	71
Urban Development	93	21	4	71	81	100	48	57	75	32	33	75
Water Supply & Sanitation	81	20	4	55	55	100	41	50	75	26	25	50
Total	1,702	339	64	72	78	92	55	64	81	39	45	67
Adjustment	256	45	4	82	91	100	65	70	100	40	60	75
Investment	1,446	294	60	70	76	91	53	63	80	39	43	66

Annex Table 6: Performance of the Active Portfolio

Fiscal year	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002[a]	2001	2001
Country / Region	Brazil												LCR	WB
No. of Projects under Supervision	58	57	56	59	63	50	49	58	52	54	55	56	289	1448
Projects At Risk	49	48	48	49	52	22	7	3	6	5	5	5	36	184
% Projects at Risk	84.5	84.2	85.7	83.1	82.5	44	14.3	5.2	11.5	9.3	9.1	8.9	12.5	12.7
Actual Problem Projects	26	13	8	20	23	10	4	3	4	3	5	5	29	145
% Actual Problem Projects	44.8	22.8	14.3	33.9	36.5	20	8.2	5.2	7.7	5.6	9.1	8.9	10	10
% IP Problem	44.8	21.1	14.3	33.9	33.3	16	8.2	5.2	7.7	5.6	9.1	8.9	7	39
% DO Problem	13.8	7	8.9	6.8	11.1	8	4.1	3.4	5.8	3.7	3.6	3.6	2.4	2.7
Potential Problem Projects	23	35	40	29	29	12	3	0	2	2	0	0	7	39
% Pot Problem Projects	39.7	61.4	71.4	49.2	46	24	6.1	0	3.8	3.7	0	0	2.4	2.7
Realism Index[b] (%)	53.1	27.1	16.7	40.8	44.2	45.5	57.1	100	66.7	60	100	100	80.6	78.8
Proactivity[c] (%)	0	0	0	0	0	0	76.9	75	66.7	100	66.7	66.7	82.8	89.4
Net Commitment Amount	$8,170	$8,268	$7,240	$7,728	$7,534	$6,913	$6,663	$7,342	$6,093	$5,711	$5,537	$5,571	$22,500	$103,847
Commitment At Risk ($m.)	$6,941	$7,139	$6,293	$6,637	$6,307	$5,383	$1,078	$440	$757	$799	$776	$776	$3,005	$12,539
Commitmentit at Risk (%)	85	86.3	86.9	85.9	83.7	77.9	16.2	6	12.4	14	14	13.9	13.4	12.1
Total Undisbursed Balance	$0	$0	$0	$0	$0	$0	$0	$0	$0	$2,914	$2,828	$2,817	$12,289	$57,327
Total Cancelled	$262	$217	$118	$113	$602	$344	$258	$142	$104	$192	$140	$140	$768	$5,411
Average Project Age (yrs)	3.8	4.1	4.5	4.8	5.2	4.7	3.6	3.1	3	3.5	3.6	3.8	3.5	3.4
Lag Approval-Signing[d]	255.9	271	264.3	269.2	300.1	267.7	297.1	336.4	260.8	372.6	363.6	365.8	1315.4	3637.2
Lag Approval-Effectiveness[d]	515.4	523.5	524.8	535.2	580	464.8	458.4	468.6	354.9	514	480.9	487.2	2445.9	9535
Disbursement Ratio	16.0	12.2	10.8	9.1	16.5	24.0	36.9	35.4	23.7	18.0	19.4	3.4	23.6	19.6

Source: BW

[a] FY2002 is incomplete.

[b] **Realism Index**

Measures the ratio of actual problem projects to total actual and potential problem projects. In order to have 100 percent realism, the potential problem projects need to be given some attention. The first question to ask when a project has three or more flags, is whether the project really deserves the satisfactory IP and DO ratings that have been given to it. If after consultation with CMU and SMU management the Task Team decides that the project does deserve satisfactory IP and DO ratings and that the ratings will not be downgraded, then the Task Team could intensify project supervision on the issues that are flagged, so that over time performance on those issues improves. In some cases, a project will have two or even three flags because of country or subsector risks, even though project implementation is satisfactory and the development objectives are being met. In these cases, the Country Director may decide to request the use of a Golden Flag. Data is not available prior to FY1989. Calculated as follows: ((AtRisk Actual Problem (IP/DO/GO)))/(AtRisk, No of Projects))*100.

[c] **Percent Proactivity**

Measures the proportion of projects rated as actual problem projects twelve months earlier which have been upgraded, restructured, suspended, or partially or fully canceled. In order to have 100 percent proactivity, action must be taken on a project. Data is not available prior to FY1997. Calculated as follows: (Proactivity action)/(Problem Projects 12 months ago) * 100.

[d] Elapsed time (in days) between the Signing Date/ Effectiveness Date and the Board Date.

Annex Table7A: Average Costs of World Bank Operations, Costs per Project, 1990-2002

	Lending preparation costs*** per project, ($'000)			Supervision costs**** per project, ($'000)			ESW costs per ESW, ($'000)			Total operational costs* per project, ($'000)			Total lending costs** per project, ($'000)		
Sector	**Brazil**	**LCR**	**Bank**	**Brazil**	**LCR**	**Bank**	**Brazil**	**LCR**	**Bank**	**Brazil**	**LCR**	**Bank**	**Brazil**	**LCR**	**Bank**
Agriculture	249	406	550	207	282	351	87	183	146	454	733	936	446	681	896
Education	394	306	394	347	293	310	182	188	124	857	623	728	741	592	697
Electric Pwr & Engy.	1796	604	524	55	312	331	..	16	104	1852	916	875	1852	915	855
Environment	355	402	446	557	401	342	176	139	140	895	826	834	866	795	783
Finance	650	462	529	138	177	261	227	150	139	805	691	854	760	629	777
Hlth, Nutn & Popultn	404	333	418	340	310	378	189	148	143	718	650	821	687	624	783
Industry	..	..	1661	..	..	322	..	162	173	..	..	2054	..	..	1962
Mining	..	434	464	..	411	409	..	..	49	..	845	882	..	845	873
Multisector	..	325	579	..	133	190	145	137	151	..	794	1453	..	459	766
Oil & Gas	552	589	643	393	350	442	..	0	57	944	939	1110	944	939	..
Private Sector Devel	378	296	368	217	291	337	..	89	68	595	597	710	595	588	703
Public Sector Mgmt.	443	309	353	132	215	250	144	128	123	647	547	706	575	507	589
Social Protection	151	222	302	41	171	246	120	136	107	371	455	626	192	390	545
Telecommunications	..	313	531	..	164	345	..	0	93	..	478	890	..	478	875
Transportation	258	337	428	242	305	310	90	94	69	506	646	745	500	642	735
Unidentified	..	..	..	..	..	..	..	..	35	..	..	..	..	..	..
Urban Development	235	386	501	425	303	359	168	109	94	703	720	880	661	689	855
Water Supply & Santn	353	431	522	508	330	331	90	110	98	892	778	869	862	761	849
Average for all sectors	**372**	**360**	**457**	**296**	**270**	**312**	**146**	**143**	**125**	**715**	**667**	**819**	**655**	**623**	**763**

Source: World Bank Business Warehouse as of May 2002.

* Total operational costs include lending preparation, supervision, and ESW costs.

** Total lending costs include lending preparation and supervision costs.

*** Lending preparation costs include both costs of approved and dropped projects.

**** Supervision costs include both costs of approved and dropped projects.

Annex Table 7B: Average Costs of World Bank Operations, Costs per Commitment, 1990-2002

	Bank	LCR	Brazil	Bank	LCR	Brazil	Bank	LCR	Brazil
Sector Group	**Total lending costs, $000***	**Total lending costs, $000***	**Total lending costs, $000***	**Gross Commit. $million**	**Gross Commit. $million**	**Gross Commit. $million**	**Total Lending Costs per $1000 of gross commitment**	**Total Lending Costs per $1000 of gross commitment**	**Total Lending Costs per $1000 of gross commitment**
Agriculture	428248	53150	9814	33105	5723	1639	12.94	9.29	5.99
Economic Policy	97661	11008	..	27937	5190	..	3.50	2.12	..
Education	205063	43205	8154	20614	6560	1639	9.95	6.59	4.98
Electric Pwr & Engy.	151329	15560	1852	24420	1965	385	6.20	7.92	4.81
Environment	107336	35765	10390	7274	2757	1019	14.76	12.97	10.20
Finance	128212	24547	3799	27985	8415	789	4.58	2.92	4.82
Hlth, Nutn & Popultn	193324	31183	4120	15430	4584	1060	12.53	6.80	3.89
Industry	29425	2346	1643	1687	..	..	17.44	..	..
Mining	25325	4225	42	3437	534	..	7.37	7.92	..
Multisector	59771	11465	55	9623	3415	..	6.21	3.36	..
Oil & Gas	59667	7509	2833	5327	545	433	11.20	13.77	6.54
Private Sector Devel	87133	15864	1190	7374	1749	215	11.82	9.07	5.53
Public Sector Mgmt.	132004	39048	3449	14962	7316	1652	8.82	5.34	2.09
Social Protection	103087	17931	767	12616	4691	1520	8.17	3.82	0.50
Telecommunications	32380	1912	273	3039	56	..	10.66	34.01	..
Transportation	228498	41741	8007	35204	9247	2534	6.49	4.51	3.16
Unidentified	2234	444	35	..	..	..	..	..	..
Urban Development	125663	14460	2642	11145	2334	490	11.28	6.20	5.39
Water Supply & Santn	133247	24357	5169	11578	2820	974	11.51	8.64	5.31
Grand Total	**2329606**	**395718**	**64233**	**272759**	**67900**	**14348**	**8.54**	**5.83**	**4.48**

* Total lending costs include preparation and supervision costs.

Annex Table 8A: A Selected List of Economic and Sector Work		
Sector/Report Title	Date	Report #
Country Assistance Strategies		
Brazil - 2002 Country assistance strategy progress report (Vol.1)	5/20/2002	24182
Brazil - 2001 Country assistance strategy progress report (Vol.1)	5/1/2001	22116
Country Report		
Bahia State Economic Memorandum	10/26/2001	21377
Ceara State Economic Memorandum	8/21/2000	19217
Agriculture		
Rural poverty alleviation in Brazil: towards an integrated strategy	12/27/2001	21790
Decentralized Rural Development, and Enhanced Community Participation: a case study from Northeast Brazil	8/31/1995	WPS1498
Brazil - The management of agriculture, rural development and natural resources (Vol.1)	7/31/1994	11783
Rural Development : From Vision to Action?	9/30/1998	23925
Education		
Brazil - Teachers development and incentives - a strategic framework	12/6/2001	20408
Brazil - Early Child Develop. A Focus on the Impact of Preschools	9/24/2001	22841
Brazil - Assessment of the Bolsa Escola Programs (Vol.1)	3/15/2001	20208
Brazil - Higher education sector study (Vol.1)	6/30/2000	19392
Brazil - Early Childhood Development: a Focus on the Impact of Preschools	9/24/2001	22841
Environment		
Brazil - Managing pollution problems : the brown environmental agenda (Vol.1)	2/27/1998	16635
Brazil - Managing environmental pollution in the state of Rio de Janeiro (Vol.1)	8/22/1996	15488
Brazil - National Biodiversity Project	3/1/1996	14523
Finance & PSD		
Brazil - The Custo Brasil since 1990-92 (Vol.1)	12/10/1996	15663
Brazil - The development of Brazilian capital markets (Vol.1)	10/7/1994	11581
Brazil - Private sector and social services in Brazil : who delivers, who pays, who regulates (Vol.1)	6/30/1994	13205
Brazil - An assessment of the private sector (Vol.1)	6/24/1994	11775
Health		
Brazil - Maternal and Child Health	2/26/2002	23811
The Brazil Health System: Impact Evaluation Report	6/30/1998	18142
Brazil - Addressing nutritional problems in Brazil	10/18/1996	16010
Brazil - The organization, delivery and financing of health care in Brazil : agenda for the 90s	6/30/1994	12655
Brazil - The new challenge of adult health	8/31/1990	PUB7807

Infrastructure		
Brazil - Rural electrification with renewable energy systems in the Northeast : a preinvestment study	7/31/2000	ESM232
Brazil - Multimodal freight transport : selected regulatory issues	10/15/1997	16361
Brazil - Hydro and thermal power sector study	9/30/1997	ESM197
Brazil - Natural gas pricing and regulatory study	10/25/1996	12772
Brazil - Energy efficiency and conservation: strategic pathways for energy efficiency in Brazil	1/1/1995	ESM170
Brazil - Attacking Brazil's Poverty - poverty report focus on urban poverty reduction policies	3/31/2001	20475
Brazil - Rio de Janeiro - a city study	6/19/1999	19747
Public Sector Management		
Brazil - Public expenditures for poverty alleviation in Northeast Brazil	6/11/2001	22425
Brazil - Financing municipal investment : issues and options	4/20/2001	20313
Brazil - State debt : crisis and reform	11/14/1995	14842
Brazil - An agenda for stabilization	10/7/1994	13168
Brazil - From Stability to Growth through Public Employment Reform	2/17/1998	16793
Brazil - Issues in Fiscal Federalism	6/4/2002	22523
Social Protection		
Brazil - Attacking Brazil's Poverty - Poverty Report Focus Urban Poverty	3/31/2001	20475
Brazil - Critical issues in social security	5/1/2001	22513
Brazil - Gender Review: Issues and Recommendations	1/23/2002	23442
Brazil - Poverty assessment	6/27/1995	14323
Brazil - Social insurance and private pensions	1/25/1995	12336
Brazil - Public spending on social programs: issues and options	5/27/1988	7068
Urban Development		
Brazil - Rio de Janeiro: A City Study	6/19/1999	19747

Annex 8B: List of Projects

Loan #	Name	Commitment	Approval Date	Closing Date
	AGRICULTURE			
31300	Agriculture Research III	47	24-Oct-89	30-Jun-96
31600	BR LND MGMT II-S. CATAR	33	30-Jan-90	18-Oct-91
31700	NE IRRIG I	210	30-Jan-90	30-Jun-99
grant	ITAPARICA SUPPLEM		20-Feb-90	
grant	ITAPARICA	232	20-Feb-90	31-Dec-97
grant	SCIENCE CENTERS-EMERGENCY ASSISTANCE		1-Jul-94	
grant	EMERGENCY ASSISTANCE		28-Oct-94	
grant	EXTRACTIVE RESERVES		16-Nov-94	
grant	INDIGENOUS LANDS		19-Jun-95	
39170	RURAL POV. (BAHIA)	105	29-Jun-95	29-Jun-95
39180	RURAL POV.- CEARA	70	29-Jun-95	30-Jun-01
39190	RURAL POV.-SERGIPE	36	29-Jun-95	30-Jun-01
40600	BR (PR)R.POVERTY	175	27-Jun-96	30-Sep-02
40600	BR(PR)R. POVERTY	175	27-Jun-96	30-Sep-02
grant	FOREST RESOURCES MNGMT		12-Dec-96	
41200	R.POVERTY(RGN)	24	12-Dec-96	30-Jun-02
grant	R.POVERTY(PE)	39	12-Dec-96	31-Dec-01
41210	(PIAUI)R.POVERTY	30	12-Dec-96	31-Dec-01
41470	LAND RFM PILOT	90	22-Apr-97	30-Jun-02
41480	RGS LAND MGT/POVERTY	100	22-Apr-97	30-Jun-03
41690	AG TECH DEV.	60	22-May-97	22-May-97
41900	CEARA WATER PILOT	9.6	12-Jun-97	12-Jun-97
42380	BR LAND MGT 3 (SAO PAULO)	55	28-Oct-97	28-Oct-97
42510	PARAIBA R.POVERTY	60	20-Nov-97	20-Nov-97
42520	MARANHAO R.POVERTY	80	20-Nov-97	30-Jun-03
44800	ANIMAL&PLANT DIS. CO	44	27-May-99	31-Dec-03
45310	CEARA WTR MGT (PROGERIRH)	136	6-Jan-00	30-Jun-06
70370 7037T001	LAND-BASED POVERTY ALLEVIATION I	218.19	30-Nov-00	30-Sep-04
46260	RURAL POVERTY REDUCTION PROJECT - CE	37.5	26-Jun-01	30-Jun-05
46250	RURAL POVERTY REDUCTION PROJECT - PE	30.1	26-Jun-01	30-Jun-05
46240	RURAL POVERTY REDUCTION PROJECT - PI	22.5	26-Jun-01	30-Jun-05
46230	RURAL POVERTY REDUCTION PROJECT - BA	54.35	26-Jun-01	30-Jun-05
	EDUCATION			
33750	BR: INNOV BASIC ED	245	26-Jun-91	30-Dec-98
36040	BR NE BASIC EDUC II	212	13-May-93	31-Dec-98
36630	BR NE BASIC EDUC III	206.6	23-Nov-93	31-Dec-99
37330	BR- MINAS GERAIS BASIC EDU.	150	17-May-94	28-Jun-02
37660	BR- PARANA BASIC EDUC	96	28-Jun-94	31-Dec-01
42660	BR- SC. & TECH 3	155	18-Dec-97	31-Dec-02
43110	BR- FUNDESCOLA I	62.5	2-Apr-98	30-Jun-01
44870	BR- FUNDESCOLA 2	202.03	8-Jun-99	31-Dec-04
45920	BR- BA BASIC EDU PROJECT (PHASE I)	69.6	20-Dec-00	30-Jun-03
45910	BR- CEARA BASIC EDUCATION	90	20-Dec-00	30-Jun-06

ENVIRONMENT				
34800	NATL IND POLLUTN	50	28-May-92	30-Jun-97
34920	MATO GROSSO NAT RES	205	18-Jun-92	31-Dec-01
grant	NATURAL RESOURCES POLICY PROJECT		22-Nov-94	
39240	BR ENV/CONS(CVRD)	50	11-Jul-95	30-Jun-00
grant	N'TL BIODIVERSITY		16-Apr-96	
grant	BR BIODIVERSITY FUND		16-Apr-96	
42320	BAHIA WTR RESOURCES	51	11-Sep-97	31-Dec-02
43100	FED.WTR MGT	198	2-Apr-98	31-Dec-03
grant	MONITORING/ANALYSIS		14-Aug-98	
43890	BR EMER. FIRE PREVENTION	15	10-Sep-98	31-Dec-01
45240	NATL ENV 2	15	9-Dec-99	30-Jun-03
FINANCE & PSD				
32680	PRIVATE SCTR FIN	300	29-Nov-90	14-Mar-91
42450	CEN.BANK TAL	20	18-Nov-97	2-Mar-98
45540	NE MICROFINANCE DEVELOPMENT	50	30-May-00	6-Sep-00
70530	Prgrm Financial Sect Adj I	404	24-May-01	23-Jun-01
46370	TA FINANCIAL SECTOR	14.46	4-Sep-01	
HEALTH				
26990	NE BASIC HLTH SRV I	59.5	22-May-86	31-Dec-95
29310	NE ENDEMIC DIS. CTL	109	31-Mar-88	30-Jun-96
30720	AMAZON BASIN MALARIA	99	25-May-89	30-Jun-96
31350	NE BASIC HLTH SRV II	267	30-Nov-89	30-Dec-97
36590	BR: AIDS CONTROL	160	9-Nov-93	30-Jun-98
40470	BR- HEALTH SECTOR REFORM - REFORSUS	300	20-Jun-96	31-Dec-01
43920	BR- AIDS & STD CONTROL II	165	15-Sep-98	9-Feb-99
43940	BR- DISEASE SURVEILLANCE - VIGISUS	100	17-Sep-98	17-Feb-99
INFRASTRUCTURE				
31690	HWY MGMT AND REHAB	310	13-Feb-90	31-Dec-96
32270	ELEC TRNS&CONSRVTN	385	14-Jun-90	30-Jun-95
33760	HYDROCARBN TRNSP/PRO	260	26-Jun-91	31-Dec-01
34570	METRO TRANSP.SPAULO	126	31-Mar-92	31-Mar-98
35480	STATE HWY MGMT	88	22-Dec-92	31-Dec-99
36330	METRO TRANSP. RIO	128.5	29-Jun-93	14-Oct-93
37150	STATE HIGHWAY MANAGEMENT II	220	15-Mar-94	25-Mar-94
39160	BELO H M.TSP	98.6	29-Jun-95	30-Nov-95
39150	RECIFE M.TSP	102	29-Jun-95	3-Apr-96
40460	RAILWAYS RESTRUCTURG	350	20-Jun-96	17-Sep-96
41650	RGS HWY MGT	70	15-May-97	31-Dec-03
41880	FED HWY DECENTR	300	12-Jun-97	31-Dec-02
42650	GAS SCTR DEV PROJECT	130	18-Dec-97	31-Dec-00
42910	RJ M.TRANSIT PRJ.	186	5-Mar-98	30-Jun-02
43120	(BF-R)SP.TSP	45	7-Apr-98	31-Dec-02
44940	SALVADOR URBAN TRANS	150	17-Jun-99	31-Dec-03
45140	ENERGY EFFICIENCY (ELETROBRAS)	43.4	5-Oct-99	31-Dec-03
grant	BR ENERGY EFFICIENCY (GEF)		5-Oct-99	
grant	GUARANTEED NOTE TRANSPORTADORA BRASILEI		14-Dec-00	
46360	GOIAS STATE HIGHWAY MANAGEMENT	65	23-Aug-01	31-Dec-04

PUBLIC SECTOR MANAGEMENT				
27210	PUB SECTOR MGMT	29	19-Jun-86	31-Dec-93
41390	BR RGS ST.REF	125	4-Mar-97	31-Dec-98
41890	BR MT STATE PRIV.	45	12-Jun-97	30-Sep-01
42110	BR RJ ST.PRIV.	250	17-Jul-97	31-Dec-98
43180	MG STATE PRIV.	170	28-Apr-98	31-Dec-99
45430	BR ADMIN & FISC REF	505.06	30-Mar-00	31-Dec-00
70460	BR PRGM.FISCAL REFORM SAL	757.6	18-Jan-01	31-Mar-02
46040	BR FISCAL & FIN. MGMT. TAL	8.88	24-May-01	31-Dec-05
SOCIAL PROTECTION				
43690	BR PENSION REFORM LIL	5	30-Jun-98	31-Dec-01
44310	BR SOC SECURITY REF I	757.57	7-Jan-99	30-Jun-99
44300	BR SOCIAL PROTECTION	252.52	7-Jan-99	30-Jun-99
45370	INSS REF LIL	5.05	7-Feb-00	31-Dec-02
45420	SECOND SOCIAL SECURITY SPEC. SEC. ADJ LN	505.06	30-Mar-00	31-Dec-00
URBAN DEVELOPMENT				
25320	RURAL WS & S PILOT	16.3	7-May-85	30-Sep-90
26230	STA CATARINA TOWNS	24.5	19-Sep-85	31-Dec-93
26450	NE URBN RECON (FL'D)	100	19-Dec-85	31-Dec-88
26810	SALVADOR METRO DEVT	55	22-Apr-86	30-Jun-97
29750	RIO EMERG FL'D RECON	175	24-Jun-88	30-Sep-95
29830	W&S/PROSANEAR	80	29-Jun-88	30-Dec-96
31000	MUNIC DEV	100	22-Jun-89	31-Dec-95
31020	WATER SCTR SAO PAULO	280	28-Jun-89	30-Jun-97
31290	MUN DEV (RIO GRANDE)	100	24-Oct-89	31-Dec-95
34420	WATER SECTOR MODERNIZATION PROJECT	250	10-Mar-92	30-Jun-00
35050	BR WTR Q/PLN(SP/PR/FED)	245	2-Jul-92	31-Dec-02
35540	WTR Q/PLN(MINAS GERA	145	5-Jan-93	30-Sep-99
36390	BR MINAS MNC.DEVELOPMT	150	20-Jul-93	31-Dec-01
37670	ESP.SANTO WATER	154	28-Jun-94	31-Dec-02
37890	CEARA URBAN DEVELOPMENT & WATER RESOURCE	140	6-Sep-94	31-Mar-02
41400	BAHIA MUN.DV	100	4-Mar-97	31-Mar-02
42920	WATER S.MOD.2	150	5-Mar-98	30-Jun-04
45320	PROSANEAR 2	30.3	6-Jan-00	31-Dec-04

Annex Table 9: Key Economic Indicators, 1990-2001

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Brazil Average 1991-2001	LAC Average 1991-2001	Middle Inc Average 1991-2001
GDP growth (annual %)	-4.3	1.3	-0.5	4.9	5.9	4.2	2.7	3.3	0.2	0.8	4.5	1.5	2.6	3.1	3.2
Population, total (m)	147.6	149.9	152.2	154.5	156.8	159.0	161.2	163.5	165.7	167.9	170.1	172.4	161.2	485.2	2,527.8
Population growth (annual %)	1.7	1.6	1.5	1.5	1.5	1.4	1.4	1.4	1.4	1.3	1.3	1.3	1.4	1.6	1.2
GNI per capita (US$), Atlas method	2,780	2,950	2,820	2,780	3,100	3,700	4,320	4,740	4,600	3,870	3,590	3,060	3,060	3,560	1,647
GNI per capita (US$), PPP	5,410	5,530	5,620	5,910	6,280	6,670	6,820	6,930	6,800	6,910	7,300	7,450	7,450	7,070	4,497
GDP per capita growth (annual %)	-5.9	-0.3	-2.0	3.3	4.4	2.8	1.3	1.9	-1.1	-0.5	3.2	0.2	1.2	1.4	2.0
Gross Domestic Savings, Current Prices (% of GDP)	21.4	20.5	21.4	22.3	22.5	20.5	18.6	18.9	18.6	19.3	20.1	19.9	20.2	19.8	25.4
Fixed Investment, Current Prices (% of GDP)	20.6	18.1	18.4	19.3	20.7	20.5	19.3	19.9	19.7	19.1	19.4	19.4	19.4	19.6	25.4
Fixed Investment, Constant Prices (1975 = 100)	60.7	59.3	54.7	56.3	59.7	65.0	64.6	70.6	68.5	63.4	62.0	64.6	62.6	-	-
Exports of Goods and Services (% of GDP)	8.2	8.7	10.9	10.5	9.5	7.7	7.1	7.5	7.3	10.6	10.8	13.4	9.5	14.9	24.5
Imports of Goods and Services (% of GDP)	7.0	7.9	8.4	9.1	9.2	9.5	9.2	10.1	9.9	11.7	12.4	14.4	10.2	16.1	24.6
Current Account Balance (US$ millions)	-3,784	-1,408	6,109	-668	-1,811	-18,384	-23,502	-30,453	-33,417	-25,335	-24,226	-23,212	-16,028	-	-
Current Account Balance (% of GDP)	-0.8	-0.4	1.6	0.0	-0.2	-2.6	-3.0	-3.8	-4.3	-4.8	-4.1	-4.6	-2.4	-2.7	-1.2
Foreign Direct Investment (US$ millions)	989	1,102	2,061	1,291	2,150	4,405	10,792	18,993	28,856	28,578	32,779	22,457	13,951	-	-
Foreign Direct Investment (% of GDP)	0.2	0.3	0.5	0.3	0.4	0.6	1.4	2.4	3.7	5.4	5.5	4.5	2.3	-	-
Total Debt Service (% of exports of goods and services)	22.2	22.6	20.2	23.6	30.0	36.6	42.2	62.7	74.8	112.8	90.7	-	51.6	-	-
External Debt (% of GDP)	26.3	30.5	35.1	33.9	27.3	22.6	23.2	24.8	30.7	45.5	39.7	44.9	32.6	38.5	35.6
Gross International Reserves (in months of imports)	2.7	2.7	7.5	8.2	8.4	7.9	8.6	6.4	5.3	5.0	4.2	4.5	6.3	6.0	6.2
Inflation, Consumer Prices (annual %)	2947.7	432.8	951.6	1928.0	2075.9	66.0	15.8	6.9	3.2	4.9	7.0	6.9	499.9	39.6	40.9
Current Fiscal Revenues, Central Government (% of GDP)	22.8	20.9	23.5	25.6	27.0	-	-	23.8	24.9	-	-	-	24.3	20.0	18.3
Fiscal Expenditures, Central Government (% of GDP)	34.9	24.4	29.2	37.2	33.8	-	-	24.5	26.8	-	-	-	29.3	22.8	21.4
Pension Expenditures (% of GDP)	4.7	4.9	5.9	8.4	9.0	9.3	9.8	10.1	10.8	11.1	11.0	11.5	9.2	-	-
Nominal Deficit, General Government (% of GDP)	-	-	-	-	27.0	7.3	5.9	6.1	7.5	5.8	3.7	3.6	8.3	-	-
Primary Deficit, General Government (% of GDP)	-	-	-	-	-5.2	-0.3	0.1	1.0	0.0	-3.2	-3.5	-3.7	-1.9	-	-
Total Public Debt, General Government (% of GDP)	-	-	-	-	26.0	27.3	30.9	30.7	38.9	44.6	45.2	49.2	36.6	-	-

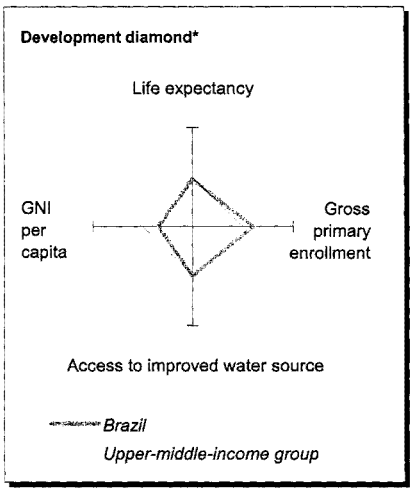
Annex Table 10: Key Social Indicators, 1990-2001

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	LAC Average 1990	LAC Average 2000	Middle Income Average 1990	Middle Income Average 2000
1. Poverty and Inequality Indicators																
Population Below the Poverty Line	40.7	40.8	40.8	41.7	37.8	33.9	33.5	33.9	32.7	34.0	33.8	33.6	48.3	43.8	-	-
Northeast	68.6	67.2	65.7	66.9	63.0	59.1	59.1	60.0	57.6	58.6	58.0	57.4	-	-	-	-
Northeast Rural	84.9	-	80.1	77.8	-	73.4	72.8	74.9	73.3	72.6	-	-	-	-	-	-
Population Below the Extreme Poverty Line	19.1	19.2	19.3	19.5	17.1	14.6	15.0	14.8	13.9	14.3	14.5	14.6	22.5	18.5	-	-
Northeast	41.8	41.5	41.2	43.7	36.8	29.9	31.9	31.7	29.3	29.9	29.9	30.0	-	-	-	-
Northeast Rural	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gini Coefficient	61.5	59.9	58.3	60.5	60.3	60.1	60.2	60.2	60.1	59.5	59.6	59.7	-	-	-	-
Income 10% richest/40% poorest	26.7	24.3	21.8	24.5	24.3	24.1	24.6	24.5	24.1	23.2	-	23.6				
2. Education Indicators																
Illiteracy rate, adult total (% of pop. ages 15 and above)	18.7	-	17.2	16.4	-	15.5	14.6	14.7	13.8	13.3	-	12.4	14.9	11.1	19.0	13.8
Northeast	36.4	-	32.8	31.8	-	30.5	28.7	29.4	27.5	26.6	-	24.3	-	-	-	-
Illiteracy rate, youth total (% of pop. ages 15-24)	9.8	-	8.6	8.2	-	7.1	6.4	6.3	5.4	4.9	-	4.2	7.2	5.0	6.9	4.9
Northeast	22.7	-	19.9	19.2	-	17.0	15.3	15.1	13.0	11.4	-	9.6	-	-	-	-
School enrollment, primary (% net)	-	83.8	-	-	87.5	-	-	-	95.3	95.4	-	-	89.3	96.9	94.5	-
Northeast	-	72.0	-	-	81.5	-	-	-	90.4	93.2	-	-	-	-	-	-
School enrollment, secondary (% net)	-	17.6	-	-	20.8	-	-	-	30.8	32.6	-	-	29.1	-	-	-
Northeast	-	8.5	-	-	10.3	-	-	-	14.5	15.7	-	-	-	-	-	-
Average Years of Schooling	4.8	-	4.9	5.1	-	5.2	5.4	5.5	5.6	5.7	5.8	6.0	5.9	6.6	-	-
Northeast	3.3	-	3.5	3.7	-	3.8	3.9	4.0	4.1	4.2	4.3	4.5	-	-	-	-
3. Health Indicators																
Immunization, DPT (% of children under 12 months)	66.0	78.0	71.0	75.0	69.0	84.0	75.0	79.0	90.0	90.0	-	-	70.7	86.8	88.4	89.0
Immunization, measles (% of children under 12 months)	78.0	85.0	91.0	85.0	72.0	90.0	80.0	99.0	96.0	99.0	-	-	76.7	93.0	89.3	90.1
AIDS Incidence (per 10,000 pop.)	0.6	0.8	1.0	1.1	1.1	1.3	1.4	1.5	1.5	1.3	1.0	-				
Life expectancy at birth, total (years)	65.6	66.0	66.3	66.6	66.9	67.2	67.5	67.8	68.1	68.4	68.6	68.8	67.9	70.4	68.2	69.5
Northeast	62.3	62.7	63.1	63.4	63.8	64.2	64.5	64.8	65.1	65.5	65.8	66.1				
Mortality rate, infant (per 1,000 live births)	47.5	45.0	42.6	40.4	38.4	36.6	34.9	33.4	32.0	30.8	29.7	-	42.2	28.9	40.0	31.7
Northeast	73.4	69.6	66.0	62.6	59.4	56.4	53.7	51.1	48.8	46.7	44.7	-	-	-	-	-
Mortality rate, under-5 (per 1,000 live births)	60.0	56.4	51.7	48.8	46.7	44.5	41.8	39.9	38.2	37.1	-	-	53.0	35.7	51.6	39.3
Northeast	84.1	79.1	75.2	71.3	67.4	63.9	60.9	57.9	55.7	53.2	-	-	-	-	-	-
Malnutrition Prevalence, height for age (% children under 5)	15.4	-	-	-	-	-	10.5	-	-	-	-	-	-	-	-	-
Malnutrition Prevalence, weight for age (% children under 5)	7.0	-	-	-	-	-	5.7	-	-	-	-	-	-	-	-	-
4. Access to Services																
Access to Electricity (% of households)	87.5	-	88.8	90.0	-	91.8	92.9	93.4	94.2	94.8	-	96.0				
Northeast	70.5	-	73.3	75.8	-	79.1	81.7	82.6	84.5	85.8	-	89.4	-	-	-	-
Northeast Rural	35.4	-	37.2	40.9	-	47.5	52.3	54.4	58.9	62.9	-	66.5	-	-	-	-
Access to Improved Water (% of households)	74.2	-	77.1	78.3	-	80.5	83.6	83.3	84.7	85.6	-	87.3				
Northeast	43.3	-	49.9	51.0	-	53.8	59.4	58.1	61.4	62.5	-	67.0	-	-	-	-
Northeast Rural	10.6	-	11.6	11.6	-	13.7	18.6	18.8	20.9	23.3	-	22.8	-	-	-	-
Access to Water Networks (% of households)	65.7	-	68.4	69.6	-	71.3	74.3	73.8	75.2	76.1	-	77.8				
Northeast	40.9	-	47.5	48.2	-	51.1	56.2	54.7	57.9	58.7	-	62.0	-	-	-	-
Access to Sanitation (% of households)	63.2	-	64.0	65.5	-	66.0	69.5	68.0	68.9	69.5	-	71.3				
Northeast	43.2	-	46.3	47.7	-	45.9	51.7	47.4	47.5	47.7	-	54.2	-	-	-	-
Households with Fixed Telephone Lines (% of households)	-	-	19.0	19.8	-	22.4	25.5	27.9	32.0	37.6	-	51.1				
Northeast	-	-	9.3	10.2	-	11.5	13.8	15.9	18.0	21.0	-	30.8	-	-	-	-
Households with Refrigerators (% of households)	70.6	-	71.6	71.8	-	74.9	78.4	80.3	81.9	82.8	-	85.1				
Northeast	41.5	-	44.0	44.3	-	47.8	53.0	56.6	58.5	60.2	-	64.9	-	-	-	-
Northeast Rural	14.5	-	14.8	14.7	-	18.2	22.0	25.3	27.9	31.7	-	33.9	-	-	-	-
Households with Television (% of households)	-	-	74.0	75.9	-	81.2	84.5	86.2	87.6	87.8	-	89.1				
Northeast	-	-	49.9	53.1	-	61.6	68.0	72.3	74.8	75.5	-	78.4	-	-	-	-
Northeast Rural	-	-	19.2	22.2	-	31.3	38.5	44.4	49.5	51.5	-	51.9	-	-	-	-

Annex Table 11: Brazil at a glance

9/12/02

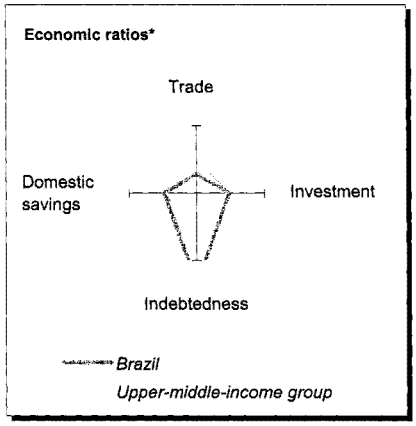
POVERTY and SOCIAL	Brazil	Latin America & Carib.	Upper-middle-income
2001			
Population, mid-year *(millions)*	172.6	524	504
GNI per capita *(Atlas method, US$)*	3,060	3,560	4,460
GNI *(Atlas method, US$ billions)*	528.7	1,862	2,248
Average annual growth, 1995-01			
Population *(%)*	1.3	1.5	1.3
Labor force *(%)*	1.8	2.2	1.8
Most recent estimate (latest year available, 1995-01)			
Poverty *(% of population below national poverty line)*	22	..	..
Urban population *(% of total population)*	82	76	77
Life expectancy at birth *(years)*	68	70	71
Infant mortality *(per 1,000 live births)*	30	29	24
Child malnutrition *(% of children under 5)*	6	9	9
Access to an improved water source *(% of population)*	87	85	87
Illiteracy *(% of population age 15+)*	14	11	10
Gross primary enrollment *(% of school-age population)*	154	130	127
Male	156	131	128
Female	152	128	126



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

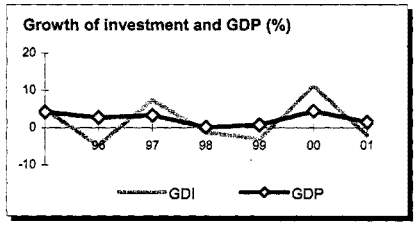
	1981	1991	2000	2001
GDP *(US$ billions)*	263.6	407.7	593.8	502.0
Gross domestic investment/GDP	23.1	19.8	21.7	21.0
Exports of goods and services/GDP	9.4	8.7	10.8	13.4
Gross domestic savings/GDP	22.7	20.5	20.1	19.9
Gross national savings/GDP	18.6	18.6	17.2	16.4
Current account balance/GDP	-4.5	-0.3	-4.1	-4.6
Interest payments/GDP	3.1	0.5	2.2	2.1
Total debt/GDP	30.9	29.7	39.8	45.0
Total debt service/exports	66.4	23.3	92.0	60.5
Present value of debt/GDP	..	..	37.7	..
Present value of debt/exports	..	..	327.4	..

	1981-91	1991-01	2000	2001	2001-05
(average annual growth)					
GDP	2.9	2.9	4.4	1.5	2.8
GDP per capita	0.9	1.5	3.1	0.2	1.6
Exports of goods and services	6.8	6.4	11.4	12.1	3.7

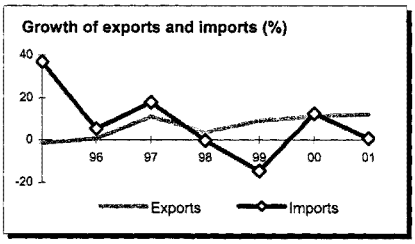


STRUCTURE of the ECONOMY

	1981	1991	2000	2001
(% of GDP)				
Agriculture	10.7	7.8	7.4	9.3
Industry	43.7	36.2	28.3	33.9
Manufacturing	32.9	25.3	17.4	21.0
Services	45.5	56.1	64.3	56.8
Private consumption	68.0	61.6	60.6	60.1
General government consumption	9.3	17.9	19.3	19.9
Imports of goods and services	9.8	7.9	12.4	14.4



	1981-91	1991-01	2000	2001
(average annual growth)				
Agriculture	2.5	3.4	3.0	5.1
Industry	2.2	2.5	4.9	-0.6
Manufacturing	1.4	1.9	6.1	0.6
Services	3.5	2.9	3.7	1.5
Private consumption	1.2	5.0	3.7	2.6
General government consumption	7.5	-1.0	0.0	4.8
Gross domestic investment	3.9	3.5	11.2	-2.0
Imports of goods and services	2.9	10.0	12.4	0.7

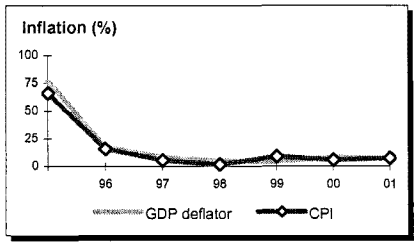


Note: 2001 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

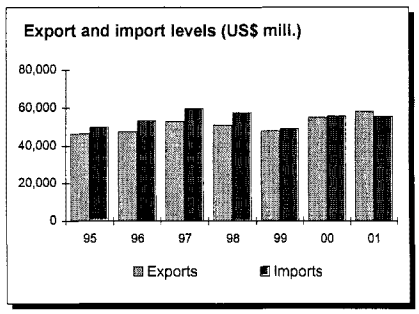
PRICES and GOVERNMENT FINANCE

	1981	1991	2000	2001
Domestic prices				
(% change)				
Consumer prices	101.7	432.8	6.0	7.7
Implicit GDP deflator	107.2	415.3	8.0	7.4
Government finance /a				
(% of GDP, includes current grants)				
Current revenue	..	..	21.9	23.0
Current budget balance	..	..	1.8	1.8
Overall surplus/deficit	..	..	3.2	3.8



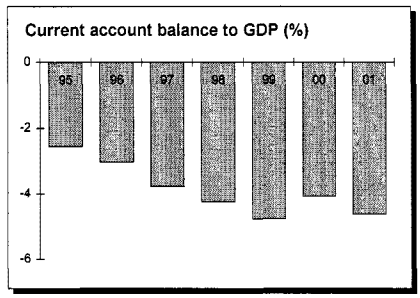
TRADE

	1981	1991	2000	2001
(US$ millions)				
Total exports (fob)	..	31,620	55,086	58,223
Coffee	..	2,870	3,048	2,932
Soybeans	..	2,031	2,188	2,726
Manufactures	..	20,483	41,027	41,144
Total imports (cif)	..	21,041	55,783	55,581
Food	..	1,275	1,507	1,169
Fuel and energy	..	3,371	6,362	6,276
Capital goods	..	5,966	13,591	14,803
Export price index *(1995=100)*	81	81	97	94
Import price index *(1995=100)*	70	68	118	114
Terms of trade *(1995=100)*	116	120	82	82



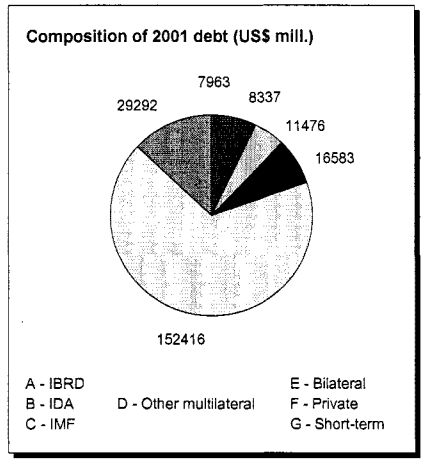
BALANCE of PAYMENTS

	1981	1991	2000	2001
(US$ millions)				
Exports of goods and services	25,522	34,333	64,584	67,545
Imports of goods and services	27,200	26,142	72,443	72,652
Resource balance	-1,678	8,191	-7,859	-5,107
Net income	-10,272	-11,154	-17,886	-19,743
Net current transfers	10	1,556	1,521	1,638
Current account balance	-11,940	-1,407	-24,224	-23,212
Financing items (net)	12,286	-3,272	31,904	19,468
Changes in net reserves	-346	4,679	-7,680	3,744
Memo:				
Reserves including gold *(US$ millions)*	6,693	8,763	33,011	35,866
Conversion rate *(DEC, local/US$)*	3.38E-11	1.48E-4	1.8	2.4



EXTERNAL DEBT and RESOURCE FLOWS

	1981	1991	2000	2001
(US$ millions)				
Total debt outstanding and disbursed	81,454	121,020	236,157	226,067
IBRD	2,286	8,165	7,377	7,963
IDA	0	0	0	0
Total debt service	17,874	8,340	62,891	42,977
IBRD	317	1,917	1,351	1,362
IDA	0	0	0	0
Composition of net resource flows				
Official grants	8	50	54	..
Official creditors	1,230	-1,062	-1,780	786
Private creditors	7,512	1,701	7,936	3,615
Foreign direct investment	2,520	1,103	32,779	22,457
Portfolio equity	0	803	3,076	2,481
World Bank program				
Commitments	1,039	1,348	1,290	1,609
Disbursements	387	840	1,692	1,639
Principal repayments	136	1,248	887	828
Net flows	251	-408	805	810
Interest payments	181	669	464	533
Net transfers	70	-1,077	341	277



a. Data refer to central government.

ANNEX 2

SUMMARIES OF SECTOR EVALUATIONS

1. Public Sector Management

The Bank's Assistance Strategy

1. The *Real Plan* succeeded in establishing greater macroeconomic stability and with it a conducive environment for a more active Bank role. The Bank's assistance included, *inter alia*, ESW, technical assistance loans and adjustment loans dealing with fiscal reform, social security reform, privatization of the state banks, and economic regulation.

2. In general, the ESW was relevant to the major policy problems facing the country, and the assessment of the problems and issues addressed was of satisfactory quality. The proposed solutions and policy suggestions were generally well founded, although not always realistic nor practical, given the political realities and constraints faced by the Government. Moreover, inadequate attention was given to report dissemination.

3. In great part derived from the ESW and related policy dialogue, the Bank undertook a number of lending operations as part of its assistance in the area of public sector management during the period 1995-2001. This lending consisted of: (a) four state reform loans; (b) two fiscal reform loans; (c) two social security reform loans; and (d) a series of technical assistance loans supporting the implementation of these reforms. The four state reform loans were prepared and approved in the 1995-1998 period, when it became apparent that fiscal imbalances in the states were part of the overall fiscal imbalances that jeopardized the *Real Plan*. The remaining loans were approved after 1998, in the aftermath of the Russia crisis and in support of the Government's effort at fiscal adjustment.

4. *State Reform and Privatization Loans (SRLs).* From the Bank's ESW, independent work within the Government, and the policy dialogue between the Bank and the Government, it was clear by 1995 that there was an emerging fiscal problem in the states of major proportions – a problem which threatened macroeconomic stabilization. This was the point of departure for the development of the SRLs, with the overall goal being to support fiscal adjustment in the states. As a partial means to this end, the divestiture of state-owned enterprises or the concession of their services became the main stay objective for the loans. Also, the establishment of a state regulatory agency for the newly concessioned or privatized public services was supported in all the SRLs. The SRL objectives were consistent with the CAS objectives of macroeconomic stability and public sector modernization, as well as private sector participation in infrastructure. The effects of the privatizations supported by the loans, with a few possible exceptions, were positive. There is also evidence of fiscal adjustment in these states.

5. *Fiscal Reform Loans (FRLs).* Brazil's increasingly weak macroeconomic fundamentals in 1996-98 and a looming currency crisis prompted the Brazilian Government to undertake the necessary and overdue fiscal adjustment. Assistance from the Fund, the Bank, and the IDB was requested in support for a fiscal adjustment program. A Fund Stand-by Arrangement, involving substantial fiscal adjustment, was negotiated and approved by the Fund's Board in November 1998. The Bank's participation in the special international financing package took the form of two successive fiscal reform loans (FRLs), along with two adjustment loans for social security reform and one adjustment loan for social protection (discussed below).

6. The fiscal reform loans entailed two separate, but sequentially linked, adjustment operations. Common features of both loans included: (a) support to overall improvements in Brazil's fiscal performance at all Government levels (including adherence to a number of quantitative performance criteria specified in a Fiscal Stability Program and supported by the

Fund SBA); and (b) specific components supporting, *inter alia*, public administration reforms and improvements in debt management. Both operations were designed as one-tranche loans, with up-front conditionality.

7. The outcomes and results of the FRLs have been positive. The primary balance of the General Government shifted from deficits to surpluses around 3.5 percent of GDP, exceeding the FRL targets. The proportion of government spending for personnel has been progressively reduced. Greater fiscal discipline has been imposed on the states, as supported by the FARL, through the implementation of legislation affording the National Treasury a central role in refinancing the debt of the states. Refinancing contracts between the state governments and the National Treasury now involve fiscal performance criteria. The PFR-SAL supported *inter alia* the implementation of the Fiscal Responsibility Law, which is currently being successfully pursued as a new *modus operandi* for government at all levels.

8. *Social Security Reform Loans.* As a part of the Bank's efforts to support fiscal adjustment, two adjustment loans were made to support reforms in the country's problematic social security and pension systems. The social security loan involved support for a Constitutional amendment which, upon enactment in December 1998, introduced the principle of actuarial and fiscal balance for both private and public sector workers, eliminated the benefit formula for private sector workers from the Constitutional text, introduced a minimum retirement age for public sector employees, eliminated most special regimes, and tightened eligibility criteria. The second loan was centered on the introduction of a new benefit formula for private workers in an attempt to reduce actuarial imbalances and to tighten contributions and benefits. It also included the restructuring of the Social Security Organization (INSS), a Law of Crimes Against Social Security, tightening of disability criteria, and incentives for expansion of coverage among the self-employed.

9. Both the Government and the Bank have acknowledged that these initial reforms would not by themselves reduce significantly the severe actuarial imbalances of the pension system. However, the reforms undertaken to date have introduced several important changes and, most importantly, opened the door for subsequent and more specific reforms through enactment of ordinary legislation.

Overall Evaluation of the Bank's Assistance

10. During the macroeconomic stabilization crisis of the early 1990s, the Bank did not appear disposed, or possibly able, to assist the Brazilian Government find a solution to the crisis. There is no evidence that the Bank had any role in the formulation or implementation of the *Real Plan*. Since the *Real Plan* the Bank has played a much more positive and supportive role. A central and consistent Bank assistance objective—as articulated in the recent CASs—has been to support the underlying fiscal adjustment to make stabilization sustainable. The objective was highly relevant and Bank loans supporting public sector reforms during the 1995-2001 period were very consistent with the CASs.

11. The overall assessment of the Bank's assistance to Brazil in the area of public sector reforms, is rated as satisfactory, encompassing the SRL cluster, the fiscal reform cluster, and the social security cluster. Within the areas of focus that the Bank set for itself, Bank assistance was both relevant and effective. The Bank contributed to the establishment of a framework and control mechanism for improving fiscal performance at several layers, including the federal government, states, municipalities and social security. This assistance has come in several ways,

including lending for adjustment and technical assistance, ESW, informal technical assistance in loan preparation and execution, and informal personnel exchange.

12. Brazilian policy-makers had a clear understanding of the macroeconomic issues and problems, including those related to public finance questions. The fiscal adjustment was delayed until 1998, but not for lack of understanding on the part of the policy-makers but a lack of political consensus. The unfolding currency crisis, beginning in 1997, created the political will to finally proceed with fiscal adjustment, and the Government effectively used that opportunity to implement a number of much needed reforms. If some reforms, such as social security reform, did not go as far as originally expected, it was not because of lack of Government commitment and ownership, but because of lack of political consensus and support.

13. Apart from the Brazilian Government, the IMF was unquestionably the institution that played the most central and critical role in supporting the fiscal adjustment beginning in 1998. The Fund exercised general leadership in defining the parameters of the fiscal program with the Brazilian authorities and in orchestrating financial support for that program. However, both the Bank and the IDB became important partners in providing necessary financial, as well as technical, support. The Bank supported fiscal adjustment and reform during the 1994-98 period through state reform loans. Once the Government finally decided to proceed with a concerted and significant fiscal adjustment program beginning in late 1998, the Bank responded quickly with adjustment lending in support of deeper fiscal reforms and social security reforms as well.

Recommendations for Future Assistance

14. Continued fiscal adjustment and public sector modernization will continue to be important challenges for the new Government that took office in January 2003. Bank responsiveness and potential support for these challenges should constitute high priorities for Bank assistance, and accordingly it is recommended that Bank assistance continue in the area of public sector reform and public sector management. Three broad areas of assistance are suggested, covering fiscal management, public governance, and social security reform.

15. First, under the heading of *fiscal management*, several specific interventions could include: (i) continued support for fiscal adjustment and reform, possibly in the form of additional programmatic adjustment lending, conditional on the generation of substantial primary fiscal surpluses and a reduction of public sector debt, the deepening of the administrative reforms, and the implementation of the long-delayed tax reform; and (ii) assistance to state governments and selected municipalities in public finance management, in the form of investment or technical assistance loans.

16. Second, in relation to *public governance*, specific Bank interventions could include: (i) support for improvements in the regulatory framework, assisting the recently established federal and state regulatory agencies to overcome their start-up problems; and (ii) assistance to "new" areas of public governance such as judicial system reform, the strengthening of property rights and the reform of labor legislation.

17. Third, for proceeding with high priority *social security reforms*, the Bank could: (i) provide assistance to the Government in the elaboration of a well-articulated educational/public relations campaign and opinion surveys designed to reduce resistance to further and deeper reforms; and (ii) support actual efforts on the part of the Government to reduce imbalances in the PAYG systems for private and public workers through further adjustment lending.

2. Agriculture

The Agriculture Sector in the 1990s

18. Agriculture in Brazil accounted for 11 percent of GDP and 22 percent of employment in 2000. Livestock production has outpaced crop production and now accounts for 40 percent of output value. The agriculture sector is particularly important to trade, with about 35 percent of merchandise exports coming from agriculture and processed food products. The country accounts for about 4 percent of global agricultural trade. It is the world's largest exporter of coffee, sugar and orange juice, the second biggest exporter of soybeans and the third largest exporter of beef and chicken.

19. Brazil has one of the most concentrated patterns of land distribution in the world. The last agricultural census (1996) revealed that 11 percent of rural property owners controlled 68 percent of arable land. There has been progress at land reform, as indicated by the redistribution of about 18 million hectares (equivalent to 6 percent of the land in farms) to 542,000 families (almost 2 million people). However, land reform has not yet changed significantly the skewed distribution of land in Brazil. Since the early 1990s Brazil has made progress in reducing rural poverty, but the incidence of poverty in rural areas remain extremely high, especially the Northeast—72 percent in 1999, down from 85 percent in 1990.

The Bank's Assistance to Agriculture

20. The share of total Bank commitments devoted to agriculture (broadly defined) slumped from 32 percent in 1980-89 (US$ 3.8 billion) to 14 percent in 1990-02 (US$ 1.9 billion), with important variations across types of interventions. There was an increasing focus on rural development/poverty alleviation projects in Northeast states. Most of the poor are located in the rural Northeast and the focus of the Bank's strategy towards the country and the sector has adequately reflected this. The share of this class of projects in total commitments increased from 47 percent in the 1980s to 74 percent in the 1990s. There was also a change in design in this class of projects in the 1990s, with greater focus on community-based poverty alleviation. Projects supporting land reform were also launched in the 1990s, as part of the poverty alleviation strategy. The Bank scaled down more traditional projects such as irrigation projects, due to unsatisfactory outcomes in the 1980s and early 1990s.

Overall Assessment of the Bank's Assistance

21. Since the middle of the last decade agriculture projects have been turned around. Between 1980 and 1989 agriculture projects in Brazil had on average worse ratings than the rest of the Brazilian portfolio, and the Brazilian portfolio had on average worse ratings than projects in the region and the rest of the Bank. In the 1990s, the performance of the Brazilian portfolio in general and agriculture projects in particular was turned around, primarily because of the sharp improvement after 1995, when Brazil outperformed the region and the Bank by a wide margin. Of the projects with an unsatisfactory outcome in 1990-2001, two were irrigation projects, two were credit projects, two were for Amazonian development, one was for rural water supply and sanitation and one for land administration. Of the projects whose outcome was rated satisfactory, roughly 60 percent correspond to the community-driven rural development program which covered all nine states in the Northeast plus Minas Gerais.

22. The overall assistance to agriculture for the decade as a whole is rated satisfactory, primarily due to the positive outcomes of rural development and land reform projects. The rural development projects were successfully restructured in the early 1990s, by building a demand-driven approach in a cost-effective manner. These projects have delivered electricity, water, and other essential services to large numbers of poor households in the region. Roughly 60 percent of disbursements were channeled towards the provision of electricity and water alone, benefiting 835,000 poor households and an estimated rural population of more than 3 million people. Second, although it is too early to pass judgment on the land reform projects, the early evidence shows that the cost of delivering parcels to small farmers is lower than in previous land reform models and the existence of supporting infrastructure and financing suggests that there is a viable base for raising productivity.

23. The less satisfactory project clusters were reduced in number and size of commitments. Research and extension efforts are rated moderately satisfactory. The research projects provided top-quality training to a critical mass of professionals, but were less successful in transferring appropriate technologies to poor Northeastern farmers. On the other hand, within the last three years, a concerted effort has been launched to conduct research more relevant to that region. Finally, the irrigation projects are rated unsatisfactory owing to persistent high costs and conspicuous design flaws. However, in important pockets, crop diversification exceeded appraisal expectations, farmers used their own resources to upgrade to drip irrigation, and there was significant growth of farm incomes.

24. The Bank is the only multilateral organization still devoting a significant attention to the agriculture sector. The Inter-American Development Bank has scaled back its involvement in agriculture to a much greater extent than the World Bank, with only one project in 1995-02. The Bank maintained a direct policy dialogue with most Northeastern states and contributed to better outcomes in the rural area, particularly through the rural development and land reform projects. It is probable that, at least in some states, these results would not have occurred without Bank involvement. Bank performance was stronger in the latter part of the period, owing in no small measure to increased Bank presence in the field. The Recife-based supervision team has been particularly effective, responding rapidly to requests and queries from the various state project management units. Less positive, however, has been the neglect of impact evaluation.

25. The outcomes of agriculture projects are likely to be sustained over time. In particular, rural development projects show good prospects for sustainability based on the maintenance record for infrastructure investments and the likelihood that skills created in the municipalities will endure. Land reform projects require groups of beneficiaries to take the initiative, keeping costs low to avoid excessive debt. Its outcomes should also be sustained for a significant number of new farms. It is to be expected that some of the newly-created farms will fail, but given the gross under use of farmland before the reforms, even if only half or so of the new farms prove sustainable, this will be an improvement on the past.

Recommendations for Future Assistance

26. Although the overall rating of the Bank's program is satisfactory there is still room for improvement. There are four areas in which more attention is needed. First, it is vital to avoid complacency in relation to the community-driven rural development projects. The most important challenge is to press forward with the comprehensive impact evaluation that is now being sponsored. There is good reason to believe that funds are adequately targeted, but supervision and implementation completion reports need to document this routinely.

27. Second, raising the productivity of Northeastern farms remains the biggest challenge for the government and the Bank. The rural development projects have made an important contribution to providing the infrastructure on which agricultural growth can take place. However, more is needed in generating and disseminating technology packages. There may now be a need for a more focused effort to raise farm productivity in areas of higher agricultural potential.

28. A third area to address is the possible shortfall in support to schooling in rural areas. In the 1990s, Brazil made great strides in raising school enrolments, but it is less clear what success there has been in reducing the gap that separates rural from urban areas. Monitoring the gap between urban and rural schools is an essential aspect of improving performance. If rural schooling is explicitly monitored and the results are widely reported there will be more pressure on politicians to provide the funding needed to boost performance of rural schools. Closer coordination is needed between sector units within the Bank. Finally, the case for Bank assistance to rural finance needs to be examined. Probably this should take the form of institutional development rather than a credit line.

3. Water and Sanitation

Main Developments in the Water and Sanitation Sector in the 1990s

29. The 1988 Constitution stated that public services should be provided by a public authority, either directly or through concessions, and also empowered municipalities to make these concessions. However, the 1988 Constitution and the 1995 Concession Law have left important gaps, creating obstacles for private sector participation and for a faster development of the sector. A Draft Law establishing the National Water Policy should have resolved all these ambiguities, by setting tariff policy and concession criteria and establishing the autonomy of the regulatory agency. However, the Draft Law has not been passed by Congress yet, because it is being challenged on some key privatization issues, and because it is facing strong opposition from municipalities (which disagree with the transfer of the conceding power to the states).

30. Coverage of water through network services increased from 66 to 78 percent of households in the 1990s, while coverage of sewerage through network services increased from 31 to 45 percent of households in the same period. Total water coverage compares relatively well with other Latin American countries, particularly for urban areas, but can get as low as 9 percent in poor rural areas and, although wells and springs supply safe water to some of the non-served rural population, a significant percentage still lacks access to safe water. Sewerage coverage in Brazil is one of the worst in the continent, reaching less than 60 percent of the urban population. Urban sewerage coverage reaches only 80 percent in the richest Southeast and bottoms 2 percent in the North. Coverage of sewerage networks in rural areas is extremely small although somewhat alleviated by septic tanks, which can provide safe disposal in low-density areas.

The Bank's Assistance to the Water and Sanitation Sector

31. The Bank's strategy for assisting the water and sanitation sector in Brazil has comprised three main components: (i) service extension to the poor; (ii) institutional and regulatory reform; and (iii) water quality, pollution control and urban drainage. The Bank's program of assistance to the sector seems to be based on a good diagnostic and to be consistent with the sector's needs. The three components were highly relevant: the first because of the low levels of service to the poor; the second because of the difficult regulatory issues that have hindered the development of

the sector; and the third for having introduced an integrated approach to the problem of water quality and pollution control.

32. The Bank's assistance to the sector since the late 1980s has comprised eight projects with total commitments of US$1.3 billion. Bank investments were concentrated in the early 1990s (about 85 percent of total commitments) when high inflation was the main bottleneck for domestic investments in the sector. With macroeconomic stabilization, domestic sources gradually returned to finance the sector and the Bank has moved its assistance towards modernization and regulation reforms in order to sustain the sector's development.

Overall Evaluation of the Bank's Assistance

33. The overall outcome of the Bank's assistance has been satisfactory. The objectives of individual projects and clusters of projects were relevant, and the projects already closed or near completion have met most of their objectives. The Bank has pioneered the introduction of river basin management, and the development and application of low-cost technologies in poor urban areas in the PROSANEAR projects. Extension of water and sewerage services to the population increased significantly, especially among the poor. Despite the ongoing controversy surrounding regulatory issues, the Bank has provided critical assistance to the revision and elaboration of the National Sanitation Policy.

34. ESW work was unsatisfactory, however, due mostly to its scarcity. Bank assistance could have been more effective if it had undertaken ESWs on specific areas such as privatization, concession, and pricing criteria, and had promoted discussion of these issues among the several interest groups. It is possible that such an effort could have reduced the current resistance to the approval of the Draft Law.

35. The institutional development impact of the Bank's assistance is rated as substantial. Bank projects required a significant degree of inter-governmental integration and stakeholder participation, with positive effects in institution building. Several projects were launched as pilot projects and have been replicated at a broader, national level. Sustainability of the outcomes is judged as likely, despite the problems that still affect the full development of the sector. The introduction of sound managerial practices was not fully implemented in some State Water Companies (SWCs), and some low-income areas may lack resources to prevent deterioration of the physical infrastructure. However, tariff pricing has generally improved with macroeconomic stabilization to sustain most of the investments, and several SWCs have improved their performance. The adoption of integrated approaches and river basin management units is also a step in the right direction and contributes to the sustainability of investments in the sector. More importantly, there is a growing awareness among policy-makers and politicians that this sector has been neglected for too long, and that further neglect would pose a risk to the health of the population.

Recommendations for the Future

36. Despite the satisfactory evaluation of the Bank's assistance during the past decade, there is room for further adjustment and improvements: First, the Bank should explore more effectively its knowledge and educational role. The key issue of conceding power, although a matter of law interpretation and political decision, can largely benefit from studies on asset valuation and compensatory schemes. Regarding privatization, an issue that is poorly addressed and highly misunderstood, studies should cover themes such as universality of services,

economies of scale, partial against total concession, cross-subsidies, and regulation of natural monopolies.

37. Second, achievements of PROSANEAR should be fully scrutinized and disseminated to promote their effective mainstreaming into government programs and more effective coverage of poor populations. Third, removal or mitigation of financing constraints is crucial for the future of the Bank's assistance. One alternative is partnership schemes with the private sector in concessions, thereby reducing the need for public expenditures. Another is to match funds with domestic sources (BNDES and CEF, for example). Attempts to forge partnerships with IDB must be made so that both institutions can share experiences in overcoming financial constraints in project analysis and implementation problems.

38. Finally, Bank strategies towards the water and sanitations sector must be more integrated with the Bank's environmental and poverty strategies. As a starting point, a common strategy plan should be prepared with the collaboration of the three areas. The new institutional arrangements in the Brazilian water management system have to be taken into account in future Bank projects. Issues such as water charging, water committee representation, and subordination to water agencies, require careful analysis in the design of future projects.

4. Environment

The Bank's Assistance Strategy

39. Bank assistance to Brazil in the environmental area started modestly in the 1980s, with only two projects amounting to US$108 million, representing only 1 percent of total commitments during the decade. By contrast, during the 1990s the environment was identified as one of the priority areas for Bank assistance. The intensification of Bank involvement in this area was enabled by the increased awareness of environmental problems in Brazil, as well as the improvements in the Brazilian institutional framework (in particular the creation of IBAMA and the Ministry of the Environment in the late 1980s). This translated into nine projects and almost US$ 900 million in commitments, accounting for 7 percent of new commitments in the 1990-2000 period. In addition, the Bank managed US$ 350 millions in grants from the Global Environment Fund (GEF) and the PPG7.

40. Bank assistance was channeled through three separate agendas. It started in the 1980s with industrial pollution control projects (the Brown Agenda) and during the 1990s it focused on ecosystems, particularly the Amazon (the Green Agenda). Since the late 1990s the assistance has been expanded to include river basin management (the Blue Agenda). The Brown Agenda included three operations amounting to 10 percent of the total environment portfolio. The Green Agenda comprised seven operations amounting to 60 percent of the portfolio. In addition, there were also grants supporting work on green issues. Finally, the new blue agenda includes two operations amounting to 30 percent of the portfolio.

41. In 1980 the Bank approved its first environmental project in Latin America—an industrial pollution control project for the state of São Paulo. This project was renewed in 1986 and a nation-wide version, the National Pollution Control Project, was launched in 1992. During the remainder of the 1990s the Bank seemed to struggle to distill the experiences of these projects and elaborate a Brown Strategy. A few reports were developed to stress the need for institutional strengthening, but they did not set up a clear agenda, nor elaborate a careful analysis of the main causes and consequences of pollution problems in Brazil.

42. In 1990 the Bank launched the Green Agenda with the first National Environmental Project to protect other national ecosystems, reedited later in 1998. Half of Bank commitments in the green agenda was allocated to two Amazonian states with specific projects, PLANAFLORO in Rondonia and PRODEAGRO in Mato Grosso. These projects focus on conservation, monitoring and financing of sustainable practices, and on correcting the adverse effects of some infrastructure projects supported by the Bank in the 1980s. The Green Agenda also included management of GEF grants for biodiversity (PROBIO and FUNBIO) and PPG7 grants to Amazonian projects. Overall, the Green Agenda seems to have been well timed and tuned with Brazil's policies and environmental challenges. However, most green projects lacked sound private and social analysis of costs and benefits of deforestation as well as a good understanding of issues related to international compensation for forest preservation.

43. The blue agenda was launched in the late 1990s with two large projects on water management in the Northeast (Federal PROAGUA and Bahia PROAGUA). Water provision in the Northeast has been a secular problem, not only because it has a large semi-arid region, but also due to political interference and lack of institutional capacity. The Bank's participation and support to the new blue agenda is welcome, but this work seems to be poorly connected with the Bank's work in the closely related area of water and sanitation, despite the recognition of the tight connections between sanitation and the environment in the CASs.

Overall Assessment of the Bank's Assistance

44. Bank projects generally had relevant objectives, consistent with the country's own agenda and needs. Some of these projects were designed to deal with the environmental degradation associated with infrastructure projects supported by the Bank in the 1980s. Although some individual projects have not been able to generate the expected results, outcomes have been generally positive. Some environmental indicators for Brazil are lagging behind those of developed countries but are in many cases ahead of those in developing countries and are showing a consistent trend of improvement. For example, air pollution in the city of São Paulo is still severe but the number of critical days dropped in the last ten years. The share of protected areas has increased by 75 percent. The average rates of deforestation in the Amazonian region are still high but declined relative to the 1980s. It is admittedly hard to measure with any degree of accuracy the extent of the Bank's contribution to these outcomes, but the Bank provided invaluable assistance to the Government through projects, ESW, and the policy dialogue, and contributed at least indirectly to these results.

45. Except for the three projects under the Brown Agenda, the institutional development impact of Bank projects is judged to be substantial. Environmental projects have promoted participation by stakeholders and ownership through integrated management among government institutions, NGOs, and social actors. Technical assistance components are present in all projects, in a mix of institutional strengthening, social infrastructure investments, and the pursuing of ecologically sustainable activities.

46. There is a risk that these positive outcomes might not be sustained over time. Environmental concerns are still a luxury good for Brazil (compared to education, health, and basic infrastructure) and, consequently, the environment could become a low priority sector during a fiscal crisis. Although the risk of this unfavorable outcome is considered to be modest (the degree of environmental awareness has increased and a fiscal crisis is not expected), it cannot be entirely ruled out.

Recommendations for Future Assistance

47. Despite the favorable assessment of the Bank's assistance to Brazil in the environmental area, there is still room for improvements. Regarding analytical work, the Bank should undertake a sound analysis of the private and social costs and benefits of deforestation, as well as studies integrating blue and brown issues and its activities in the water and sanitation sector. Regarding project work, the Bank should adopt more realistic criteria for the determination of the regional coverage and scale of projects, in relation to the institutional capacity of relevant implementing agencies. Managerial plans and risk assessment analyses could be improved. The Bank should engage representatives of the private sector (timber producers, industries and farmers) in project formulation and implementation, forging additional sources of financing and risk sharing, and contributing to the political sustainability of its projects. The Bank should also promote the inclusion of new donors in the PPG7 and IDB partnerships on the Brown and Blue Agendas.

5. Health

Main Developments in the Health Sector in the 1990s

48. During the 1990s there was a sustained improvement in major health indicators such as life expectancy and the infant mortality rate, although Brazil still lags Latin American and Middle Income countries in some areas and there remains room for improvement. The new constitution of 1988 set the goal of providing universal, free health care through the health care system (SUS). It also initiated a progressive decentralization of administration to municipalities. Financing mechanisms began to be reoriented from production-based payments to capitation, and new legislation was created to guarantee the sustainability of finance at all levels. Progress was made towards the regulation of the private health sector through the creation of an independent agency. The Family Health Program began to be implemented as the framework of a health care system which emphasizes prevention.

49. Despite these important advances, many challenges lie ahead. The process of decentralization of health care is not yet consolidated. Ensuring the financial sustainability of the system remains a challenge. The expansion of coverage by the Family Health Program will require special attention for the detection and prompt correction of errors. Chronic human resource deficiencies will need to be addressed in the public system.

The Bank's Assistance to the Health Sector

50. Bank assistance to health increased significantly in the 1990-2002 period. Projects initiated totaled US$992 million, representing 8 percent of the Bank's portfolio. Including three projects started in the late 1980s, the Bank maintained eight active health projects during the 1990s. Two new projects are set to initiate in 2002-2003: the Family Health Project, and the Bahia Health Project. Bank projects during the period of evaluation can be categorized into two classes. Class 1 comprises projects dealing with the control of transmittable diseases (PCDEN, PCMAM, AIDS-I, VIGISUS, AIDS-II), while class 2 comprises projects dealing with health infrastructure, health policy and finance, and aiming ultimately at improving access and quality (NE-I, NE-II, REFORSUS).

51. Class 1 projects began with a focus on control of specific infectious diseases such as Malaria, Chagas' Disease, Schistosomiasis and AIDs. They evolved into the strengthening of the national epidemiologic surveillance system. There were many problems with disbursement and

implementation, but ultimately financial and operational goals were achieved. PCDEN and PCMAM made significant contributions to disease control in the North and Northeast, introducing new frameworks and important lessons. The AIDS projects were singularly important in mounting an adequate response to the advance of the HIV/AIDS epidemic, establishing an institutional framework, training human resources and creating indispensable partnerships. VIGISUS has been somewhat impeded by barriers within government, but has still made important progress in strengthening the surveillance system.

52. Class 2 projects began with a traditional focus on constructing clinics in the Northeast, and evolved to include infrastructure rehabilitation, provision of equipment, and managerial and policy contributions to SUS. The Northeast projects had significant disbursement and implementation problems and lessons learnt from the first project were not incorporated into the second. Some difficulties were alleviated when the Bank became more flexible in adapting its rules to the reality of the national situation and to changes in a dynamic health sector. REFORSUS also has not met its disbursement goals yet. Inadequate assessment of implementation capacity and the excessive fragmentation of resources into many subprojects are part of the cause.

Overall Assessment of the Bank's Assistance

53. *Class 1 Projects: Control of Transmittable Diseases* – The projects aimed at control of specific infectious diseases had highly relevant objectives which were met with satisfactory success. PCDEN allowed the continuation of disease control in the Northeast which was threatened by lack of funds; transmission of Chagas' Disease was significantly reduced and important progress was made in controlling Schistosomiasis and treating Kala-Azar. PCMAM made an important contribution to the government's efforts in Malaria control in the Amazon, which dramatically reduced mortality and incidence, and clearly demonstrated the effectiveness of emphasizing rapid diagnosis and treatment as opposed to vector control alone. Despite significant external difficulties created within the government for VIGISUS, it has managed to organize, strengthen and enhance the national epidemiologic surveillance system. It has also played an important and effective role in some aspects of disease control, and in environmental and indigenous health. These projects adequately target the poor by the very nature of the diseases they aim to control.

54. The impact of these projects on institutional development has been significant at all levels of government. This included the acquisition of new managerial capacities and skills in monitoring and evaluation. Also of importance were innovative actions in infectious disease control such as those supported by PCMAM, which had great impact at the international level. The AIDS projects brought about a more sophisticated approach to prevention as well as new working relationships with institutions of different categories, most notably NGOs. The sustainability of the outcomes from the transmittable disease projects is rated as likely, as many of the new skills and approaches have been thoroughly assimilated into the institutional culture, although part of the built up capacity may be lost after project completion.

55. *Assessment of Class 2 Projects: Health Infrastructure, Policy, and Finance.* These projects ultimately attained several of their operational goals, but their impact on the health of the population has been only moderately satisfactory. Regional targeting of resources was satisfactory, with most project resources effectively directed to poorer regions, but it is difficult to ascertain the extent to which the project benefited the poor, as there are no reliable data showing the number of health interventions by income group over time. A major flaw of these projects is that they have aimed to improve access and quality primarily through the strengthening of health

infrastructure and equipment, but without addressing effectively other barriers, such as chronic human resource deficiencies and other financial constraints. These projects share some of the credit for the tangible improvements in the Northeast, especially the sharp decline in infant mortality, but their impact has been moderate compared to their potential. Class 2 projects also introduced diverse new skills at different levels of government, and their impact on institutional development has been substantial.

Recommendations for Future Assistance

56. *General Strategic Approach.* The Bank's assistance has been composed of a mixture of policy lending, technical assistance, and investment lending. In Brazil, it would be appropriate to designate a larger role for policy lending and technical assistance. To prevent delays in disbursement and execution, the Bank should undertake a careful evaluation of operational and managerial capabilities before finalizing project design, and maintain a reasonable level of flexibility in procedures. ESW should be more focused and investment loans also more focused and smaller. The Bank should consider addressing key issues such as decentralization, quality of care, regulation of the private health sector, and the creation of mechanisms for equitable distribution of resources. More difficult issues could be addressed in pilot projects. Direct lending to states could also lead to more effective health system solutions and more receptivity for their implementation.

57. *Poverty issues.* The Bank has only been partially successful in targeting the poor and offering effective solutions for their problems vis-à-vis health care. Focus on diseases that by nature affect the poor is an effective manner of targeting, but is not sufficient. It is necessary to design projects to deal with the structure of the public system as a whole and that address specifically the problems and barriers of the poor. Malnutrition is one of the major barriers to better educational outcomes for children. One particular pilot project to consider is an early childhood nutrition project in the Northeast ultimately aiming to show a concrete improvement in educational outcomes. The Bank also needs to understand and provide input to the evolving approach of regionalization and the efforts to bring about equity in health finance.

58. *Specific Disease Groups.* There are certain disease groups of high impact which need urgent and focused attention. Non-communicable diseases cause a large share of mortality in the Brazilian population; non-intentional injuries and certain types of neoplastic disease would be prime targets. Cardiovascular disease is the largest single cause of mortality and is susceptible to appropriate and well-designed preventive interventions. Programs for the detection and control of risk factors could have a potentially huge impact on the health of the population. Another area to be considered is that of maternal mortality, due to its extremely high rate and devastating impact. It would be appropriate to continue assistance in the area of HIV/AIDS control, but this should gradually taper off over the next few years.

6. Education

Main Developments in the Education Sector in the 1990s

59. In the early 1990s, political turmoil and failed stabilization program affected adversely all sectors, including education. Since 1995, economic stability and political continuity have provided a fertile ground for education reforms. Among them, one can list the introduction of evaluation systems for basic, secondary, and higher educations, (SAEB, ENEM and PROVÃO), the improvement of information systems, the establishment of curriculum guidelines (PCN), the formula for redistributing resources among municipalities, assuring a minimum level of unit

expenditures in all schools (FUNDEF), changes in procurement, quality control and distribution of textbooks, and the promulgation of the National Education Law (LDB), which provides flexibility for reforms. Many states and municipalities have also made substantial efforts to improve management and to accommodate the enrollment expansion.

60. There was an impressive gain in educational achievements during the 1990s, particularly in enrollment rates. The net enrollment rate in basic education increased from 84 to 95 percent for the country as a whole and from 72 to 93 percent in the poor Northeast. The net enrollment rates in secondary education doubled to 33 percent. Other indicators such as dropout and retention rates also show impressive improvements. Improving the quality of education is a battle that is just starting, however, as indicated by the poor results of Brazilian students in national and international evaluation tests. The expected income gains among the poor will increasingly depend on how fast learning outcomes reach acceptable standards.

Bank Assistance to the Education Sector

61. Bank assistance to the education sector became an important component of the overall assistance strategy to Brazil during the 1990s, as indicated by the significant increase in the number and dollar value of projects, as well as the number of ESW. Whereas in the 1980s there were only 5 education projects, amounting to US$239 million in commitments, and representing only 2 percent of the portfolio, after 1990 the Bank launched 12 education projects, amounting to more than US$1,800 million in commitments, and representing more than 11 percent of the portfolio.[31] The Bank's greater attention to the education sector is also reflected in the body of ESW produced—eight studies addressing specific education issues and additional analytical material in poverty assessments and other related studies.

62. The Bank's ESW covered a broad range of educational issues, but Bank projects were focused in assisting basic education in poor regions of the country. The assistance was provided through federal loans covering poor regions (North, Northeast, Center-West) and direct loans to specific Northeastern states (Bahia, Ceará). In the early 1990s there were also basic education loans to the states of Paraná, Minas Gerais, and São Paulo.

Overall Assessment of the Bank's Assistance

63. The overall objectives of Bank assistance in the education sector were highly relevant. The focus on primary education was correct and the attention to the poor regions of the country (especially the Northeast) was also correct, because this double emphasis assured that poor students would be the main beneficiaries. Although focusing on poor regions tends to tax management capacity, the benefits of promoting convergence between regions cannot be underestimated. The Bank's assistance comprised three education projects in higher income states in the first half of the decade. The selection of these states can be justified for at least two reasons. First, these projects focused on primary education, benefiting primarily poor students. Second, the experience acquired in these states was relevant for the Bank—these states had a better institutional capacity to execute Bank projects and the lessons learned could be replicated in poorer states.

64. The assessment of the actual outcomes of education projects needs to take into account the evolving conditions on the country's and the Bank's side. As mentioned before, the 1990-94 period was characterized by economic and political turmoil, coupled with the lack of a clear

[31] These numbers include three projects developed in the late 1990s but only approved in 2001 and 2002.

strategy for the education sector. After 1994 the projects benefited from macroeconomic and political stability, a well-articulated strategy for the education sector, and a more efficient project unit in the Ministry of Education. On the Bank's side, conditions also improved during the 1990s, with the transfer of the country management unit to Brasilia and the placement of education specialists in the Brasilia office, leading to better project design and supervision.

65. The projects reviewed can be divided into two groups. The first group comprises two federal projects focused in the Northeast (the NEBE projects) and a project in São Paulo, all initiated in the early 1990s. These projects suffered from design and implementation problems. The degree of project ownership and absorption capacity were low. All projects in this group required subsequent restructuring and more time to complete the disbursements and achieve their objectives. The NEBEs tried to solve too many education problems in the Northeast in a troubled period. Their inadequate design was reflected in confusing criteria for the choice of schools, inappropriate financial arrangements for poor states and faulty performance indicators. The São Paulo project introduced several pedagogical innovations, such as automatic promotion, but with mixed results. The São Paulo project was also overly complex, with school actions and health interventions requiring an implementation capacity unavailable, even in a rich state.

66. The first group of projects contributed to the increase in enrollment rates and to some other improvements, such as the introduction of evaluation systems. However, they did not achieve the improvements in management and teaching quality that are essential for improving actual learning outcomes. Possibly it was unrealistic to expect that these achievements could take place at all in a short period of time, especially in the Northeast. This cluster of projects is rated as only moderately satisfactory.

67. The projects pertaining to the second group comprise the sequence of three FUNDESCOLA projects and the Paraná and Minas Gerais projects. These projects are generally characterized by a strong emphasis on management and on attaining minimum standards in all schools. FUNDESCOLA is a federal project covering poor regions of the country—the North, Northeast and Center-West regions. All schools in urban and peri-urban areas meeting minimum size criteria can participate. The definition of participating schools has avoided political influences and has forced the rationalization of the use of classrooms in the area. The FUNDESCOLA program has set minimum operational standards that all schools have to satisfy, strengthened local empowerment and planning, through the school development plan and greater community participation, promoted institutional development in State and municipal secretariats, and introduced special learning programs such as *escola ativa* and accelerated classes. The Paraná and Minas Gerais projects have common features and similar performances. In both cases there was strong government ownership as well as good implementation capacity. The two projects proved to be fertile grounds for consistent policies such as school-based management, assessment and information systems, and training for state and municipal teachers.

68. Projects in this second group seem to have improved access and promotion rates, and to be generating gains in management and efficiency that are pre-conditions for better learning outcomes. They represent a very important step in the effort towards better quality, relative to the projects in the first group. For this reason, they are rated as satisfactory. However, the evidence regarding learning is still ambiguous, especially in the poor regions, as suggested by SAEB results. These disappointing results may be partly related to natural lags and the enrollment of poor and disadvantaged children from uneducated parents. However, they may also be due to insufficient attention to teacher training and classroom practices. FUNDESCOLA III, the last project in the FUNDESCOLA program, has started dealing with these issues, but it is too early to make an assessment of this project, as it has been initiated very recently.

69. The Bahia and Ceará basic education projects are very recent. Therefore, the evaluation of these projects also has to be restricted to their design. The two projects expand the area of coverage of FUNDESCOLA, with similar components. Actions such as early childhood development, pre-service teacher training and school supervision appear for the first time. Furthermore, the two state projects target the poorest municipalities for some activities, thus reaching directly the rural areas. The design of the two projects is satisfactory and reveals an enormous accumulation of lessons and experience from previous Bank projects. The prospects for favorable outcomes are positive, but close supervision will be required for many of these activities.

70. Bank projects have contributed significantly to the build-up of institutional capacity in the education sector, through their support to the implementation of school autonomy, greater participation of the communities, the introduction of information and evaluation systems, and a number of other innovations that are being mainstreamed by federal and state administrations. There are reasons to believe that the positive outcomes will be sustained in the future. The education reforms implemented in the 1990s, such as FUNDEF and Bolsa Escola, command broad political support and are likely to be maintained in the future. The management practices and the innovations implemented by the projects are also likely to be sustained in the future. Many states are mainstreaming project initiatives into the regular activities of the secretariat. The increased participation of the stakeholders has provided a firm ground for sustaining the projects' achievements.

Recommendations for Future Bank Assistance

71. The Bank should elaborate focused ESW on early childhood development, the performance of automatic promotion policies, the performance of SAEB and state evaluation systems, the problem of teacher training and classroom performance, and the problem of over aged students in secondary education.

72. Regarding future project work, primary education still deserves support from the Bank, given the low levels of proficiency. The emphasis should shift from management to quality of teaching and learning outcomes. The Bank should continue its main focus on the Northeast and other poor regions. Improving access and quality in rural areas may deserve a specific treatment. For this purpose, the targeting of poorest municipalities in Ceará and Bahia projects may suggest viable strategies. The Bank should consider the use of smaller Technical Assistance Loans (TALs) and Learning and Innovation Loans (LILs) in critical areas such as teacher training, and in states facing severe borrowing constraints due to fiscal problems.

73. A pilot project dealing with early childhood development and nutritional issues needs to be considered in the immediate future, especially for the Northeast. The Bank has touched on secondary education in its recent projects. There is an increasing space for projects in this sector, as many states face critical shortages of inputs and inadequate management. The need to focus on quality of teaching will require increasing supervision efforts from the side of the Bank. For this reason, it is recommended that the Bank places a senior education specialist in the Fortaleza or Recife offices.

An Evaluation of MIGA Activities in Brazil in the 1994-2002 period

1. MIGA's Strategy in Brazil

MIGA's mandate is to promote the flows of private investments to developing countries and to complement the activities of IBRD and IFC. To fulfill its mandate, MIGA offers insurance to foreign investors against the risks of expropriation, war and civil disturbance, transfer restrictions, and breach of contract. Additionally, MIGA provides technical and advisory services related to foreign direct investment (FDI).

The 1997 assistance strategy called on MIGA to focus on infrastructure and manufacturing, while the 2000 strategy indicated that MIGA should also consider guaranteeing investments in services, agribusiness, and SME projects. The 2000 country strategy noted that MIGA should also support highly developmental projects which would help Brazil reduce its current account deficit, as well as insure Brazilian companies investing in other developing countries. Additionally, the country strategy suggested that MIGA should generate additional insurance capacity to meet the demand for risk insurance, in the context of limited capacities.

2. MIGA's Products: Political Risk Guarantees for FDI

As of June 30, 2002, Brazil was MIGA's largest host country, with outstanding gross and net exposures (before and after reinsurance) of US$909 million and US$307 million, respectively, as shown in Table 1. Demand for MIGA guarantees was high during most of this period, stretching the Agency's capacity to meet requests for coverage. [32] During 2000-2002, MIGA made extensive use of opportunities to reinsure and coinsure investments with public and private insurers in order to leverage its own capacity, especially for large infrastructure projects. This trend is reflected in the growing difference between gross and net exposure shown in Table 1.

Table 1: MIGA Guarantee Projects and Exposure (in US$ millions, unless otherwise indicated)

Fiscal Year	Number of New Projects Guaranteed	Gross Exposure Outstanding	Net Exposure Outstanding	Share of Brazil in MIGA's Portfolio (Gross)*	Flows of FDI Insured
1994	3	95.0	95.0	9.1%	103.1
1995	1	107.0	107.0	6.6%	11.0
1996	3	163.8	163.8	7.2%	131.9
1997	2	201.0	173.5	8.0%	1,196.9
1998	0	195.0	167.5	6.8%	0
1999	6	356.7	225.2	9.6%	1,335.1
2000	4	631.4	284.8	14.5%	3,313.0
2001	5	888.5	312.1	16.8%	2,963.1
2002	2	908.6	307.3	17.3%	270.0
Total	26	-	-	-	9,324.1

* Brazil was MIGA's largest client country in fiscal years 1996-1997 and 2000-2002.

[32] In FY02, MIGA's limit on individual country exposure was US$420 million, defined as MIGA's net exposure plus 10 percent of the amount of reinsurance to account for the credit risk of reinsurers. MIGA's adjusted net exposure on Brazil was US$367.4 million as of June 30, 2002, about US$50 million below the country limit.

MIGA's guarantees are estimated to have facilitated US$9.3 billion of FDI during the 1994-2002 period (Table 1), or roughly 6 percent of the total accumulated flows of FDI in the same period. Only 8 percent of the FDI facilitated by MIGA was related to privatizations, compared with 20 percent for the total flows of FDI in this period. This implies that the FDI facilitated by MIGA had a greater component of greenfield investments and contributed more to capital accumulation in this period.

Infrastructure projects accounted for a large share of MIGA guarantees—45 percent of total exposures and 91 percent of the total FDI insured. Recently, MIGA has also guaranteed a banking project supporting SMEs and mortgage financing and a project in the health sector. The regional distribution of the portfolio was biased towards the more prosperous regions around Rio de Janeiro and Sao Paulo. However, MIGA insured three projects in the poorer northeastern states, in the automotive sector, municipal transportation, and power generation.

Table 2: Sectoral Breakdown of MIGA Guarantees

	Manufacturing	Finance	Services	Energy	Telecom	Transport
Shares in Exposure	7	27	21	29	12	4
Shares in FDI insured	2	5	2	58	31	2

3. MIGA's Products: Non-Guarantee Activities

MIGA has provided some limited investment marketing services in Brazil whose impacts have not yet been assessed. This has included a forum on new tools and techniques to promote FDI for the heads of South American investment promotion agencies, and a cooperation agreement with *Investe Brasil* to participate as a partner in MIGA's new FDI e-mail alert service that provides users with customized updates on new investment opportunities and market analysis.

No claims have been brought under policies issued by MIGA in Brazil. However, MIGA's Legal Department has mediated an investment dispute unrelated to a MIGA guarantee, in support of a Canadian claimant against the state of Ceará.

4. Assessment of MIGA Activities

MIGA's activities have generally followed the priorities set out in the CASs. The strong infrastructure component was consistent with World Bank Group's strategy to attract private capital in order to meet Brazil's large infrastructure needs, and also consistent with the Government's liberalization and privatization programs. However, MIGA has been only partially successful in diversifying its portfolio into the other sectors identified by the 2000 assistance strategy.

Facing capacity constraints imposed by country limits, MIGA has leveraged its country exposure well. By intensively pursuing cooperation with national and private insurers in reinsurance and coinsurance, MIGA has been able to facilitate large amounts of additional FDI, while limiting its net exposure. Each dollar of gross insurance in Brazil facilitated estimated investments of US$9.5, a very high leverage ratio. However, MIGA does not seem to have adopted clear selection criteria (e.g., developmental impact) or processes according to which it would select projects from a universe of potential projects under capacity constraints.

Although MIGA's Investment Marketing Services have not been evaluated, the Agency's decision to devote little resources to investment services activities appears to have been appropriate, given Brazil's record in attracting large amounts of FDI. It is consistent with MIGA's strategy to focus these activities on countries that attract little FDI and need to develop institutions to target foreign investors.

OEU has evaluated seven MIGA projects in Brazil guaranteed between FY94-96: four projects in the financial and three in the manufacturing sector. All seven projects had substantial effects in the development of human capital through general and specific training courses for their staff. Over 70 percent of the evaluated projects had high ratings for their downstream effects. For example, a financial project contributed to increasing the availability of medium-term US dollar capital equipment financing for the middle market in Brazil. All real sector projects had substantial upstream effects and achieved high development impacts in the dimensions of technology transfer and know-how and social/infrastructure provision.

The evaluated projects did not have a strong direct macroeconomic impact, as their scale was too small to generate sizeable tax revenues or improvements to the balance of payments. The direct impact on employment was either negative or negligible, although this result is not surprising given that entry of foreign capital usually contributes to sector restructuring.

Two real sector projects had positive impacts in the areas of environmental performance and corporate citizenship, respectively. The modernization of an automotive plant included the expansion of the wastewater treatment system and other improvements to attain ISO 14001 accreditation. Similarly, a soft drink bottler and distributor launched a successful aluminum can recycling program in partnership with local schools, the local recycler and the municipal government.

OEU conducted a survey of MIGA guarantee holders in Brazil, with a response rate of 71 percent. For 63 percent of the respondents, MIGA insurance was indispensable for the investment to go forward, another 25 percent considered MIGA coverage important, and 12 percent peripheral. From those investors who responded that MIGA coverage was indispensable, it can be inferred that foreign investments of US$5 billion would not have gone forward.

5. Lessons and Recommendations

Given MIGA's capacity constraints in Brazil, the Agency should continue to leverage its exposure well in order to maximize beneficial FDI flows into Brazil. MIGA should also explore alternative forms of cooperation to help meet the demand for political risk insurance of potential foreign investors in Brazil.

MIGA should establish transparent criteria for its selection of projects for coverage in Brazil and should give priority to projects with high developmental impact. MIGA also needs to diversify its existing portfolio in Brazil to take account of priority areas identified by the CAS, as well as reduce portfolio risk.

Government's Comments on the CAE

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Letter SAIN nº 1 /03

Brasília, April 16, 2003

Mr. Roberto Rocha
Lead Economist
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Washington, D.C.

Re: Brazil Country Assistance Evaluation (CAE)

Dear Sir,

The Country Assistance Evaluation provides a balanced and insightful analysis of the World Bank's assistance to Brazil over the past decade. We are generally in agreement with the main conclusions and recommendations of the report and believe that the report provides important inputs for the next phase of the Bank's assistance. At the same time, we would like to take advantage of this opportunity to present the Government's opinion on some of the specific issues pointed out in the report.

Although we agree that the Bank's shift from infrastructure into the social sectors in the 1990s was generally appropriate and justified by the poor social indicators at the start of the decade, we also feel that the Bank's exit from infrastructure was too abrupt, especially in the case of energy. The document mentions that the Bank could have provided more assistance to the development of regulatory frameworks (in energy and other infrastructure sectors), but we think that this problem was not sufficiently elaborated in the report.

We appreciate the document's analysis of Brazil's achievements in the social areas during the 1990s, but also believe that the analysis could be improved in some aspects. For example, the shift to social sectors followed the Government increased expenditures in this sectors, with the establishment of measures such as earmaked funds or floors of expenditures for specific sectors such education and health. The overall consequences for budget administration of the relationship of such measures and of Bank financed projects for the same sectors was not fully explored. Another example, the document stresses that income distribution remains highly unequal, despite the reduction in poverty and the improvement in social indicators during the decade. Although Brazil's income distribution must be improved, most international comparisons of inequality presented in World Bank documents contain two important flaws that worsen Brazil's ranking relative to other countries. First, the international comparisons frequently involve comparisons of

Gini income and Gini consumption coefficients across countries. Countries with income-based coefficients (such as Brazil) tend to fare worse in these comparisons. Second, Brazil's Gini income coefficient does not capture properly the impact of Brazil's income transfer programs on the incomes of poor families, and that also tends to overestimate the level of inequality in Brazil. Considering that Brazil spends substantial amount in income transfer programs, we think that this methodological problem should be taken into consideration in the document and the conclusions revised accordingly.

We also think that the document should do more justice to the improvements in social indicators by providing comparisons with other countries, particularly in Latin America. Moreover, the document should highlight Brazil's progress in meeting the Millennium Development Goals. In particular, the report should reflect the fact that some of these goals have already been met.

The document criticizes the Bank for not having provided more assistance to Brazil in the area of early childhood development and recommends attention to this area in the future. We agree with this conclusion and the related recommendation. In this regard, we feel that the Bank may play an important role in the associated area of maternal/reproductive health.

We disagree with the analysis of sustainability which is developed and presented in the document, or more precisely with the conclusion that sustainability cannot be evaluated. We believe that the Government has fully demonstrated its commitment to stability and its intention to honor international obligations. We would also like to point out the sharp improvement in Brazil's external accounts which has taken place in recent months, and stress that this improvement does not reflect only the effect of the currency devaluations that occurred after 1998. More importantly, the recent improvements reflect also the effect of structural reforms that started being implemented in previous years, and that have generated permanent gains in efficiency and competitiveness, leading to a steady increase in the production of tradable goods (both exportable goods and goods competing with imports). Additionally, the Government is working hard to present to Congress in the next few months important structural reforms in taxation and social security areas that will strengthen and consolidate even further the solid macroeconomic environment. Therefore, we think that this conclusion should be reviewed and elaborated further.

Let me finalize by congratulating you and your team for producing a good, comprehensive, balanced and insightful report, rich in recommendations that will prove useful for the joint elaboration of the next country assistance strategy by the Government and the Bank.

Sincerely

Otaviano Canuto dos Santos Filho
Secretary of International Affairs

Brazil Country Assistance Evaluation
Management Action Record

Recommendations	*Management Response*
(i) *Improved Framework for Programmatic Lending.* Further programmatic lending to help the country complete critical reforms are justified, but will require clarity in the setting of the final objectives and the intermediary benchmarks that would justify and trigger further loans within the programs.	(i) We fully agree with the recommendation that programmatic lending should have clear goals and benchmarks, but not with the assessment that this was not the case for Brazil. The framework and benchmarks for the Fiscal and Financial programmatic loans during the review period were explicit, within the constraints that prudent policy commitments. They were carefully designed in recognition of the trade-off between the need for specificity and flexibility vis-à-vis the reform path. *We are supporting reforms in macroeconomic and sectoral areas using a programmatic framework, but with flexibility in the lending instrument to be adopted.* High on this list of areas are fiscal and social security; competitiveness, urban & housing, the environment, water & sanitation.
(ii) *Further Support to Private Sector Development.* Improve support to private sector development, including assistance to judicial reform and more assistance to regulatory agencies, especially at the level of states.	(ii) We agree with the recommendation, *and its importance for overall progress as well as in key inter-related sectors such as transport, energy, water, urban and rural environment.* Recent work has an increased focus on PSD issues, including AAA on the link between the judicial system and the investment climate and competitiveness. The CAS recognized the importance of regulation. The limited traction was not due to lack of efforts on our part but rather due to weak counterpart responses.
(iii) *Education.* Education should continue commanding priority in the Bank's assistance. In basic education change the emphasis, from improving management to improving quality of teaching. Operationally, this should be achieved by moving from system and efficiency goals to classroom and learning goals. In states with borrowing constraints, consider focused TA loans to address problems of teacher training and classroom effectiveness. Enter two areas that remain largely uncovered: early childhood development and secondary education.	(iii) We agree with the recommendation and are moving in the indicated direction. We have attempted to work on early childhood development for years, first with AAA and later with a municipal lending operation, which was stalled until recently when the federal government decided to let us proceed with lending to selected municipalities. IDB has considerable presence in secondary education suggesting the need for careful coordination in that area. *It's such links at the sub-national levels and partnerships with others we are supporting across the board.*

(iv) *Health.* Deal with the structure of the public system as a whole addressing specifically the barriers of the poor. These issues could be addressed through adjustment lending. Address remaining child nutrition problems in the Northeast, preferably integrated with assistance to early childhood development. Address the problem of maternal mortality.	(iv) We agree with the recommendation and would emphasize recent steps to move the program in this direction. The recently approved Family Health project represents a shift toward broader support to the health sector with systemic impact in particular for basic care. We also see progress in health very much linked to institutional issues as well as progress in key sectors such as water& sanitation and the environment. *It's such integrated approaches among sectors that we are supporting across the board.*
(v) *Better Dissemination of ESW and Bank Activities in Brazil.* Allocate more resources for translation, workshops, distance training, and other activities designed to disseminate the Bank's work. Translate the executive summaries of all ESW into Portuguese.	(v) We agree with the recommendation and point to substantial improvement in recent years. Many reports (not just summaries) are routinely translated into Portuguese. Development fora organized in Brasilia in 2000 and 2001 provided broad coverage for several key AAA products. Also, we had an explicit annual budget for Outreach, and an External Affairs/Outreach officer, to provide incentives to TMs to do translations, seminars, and other outreach efforts. *We support broader efforts in two-way exchanges with multiple stakeholders using conventional and new means, including distance learning.*

Chairman's Summary: Committee on Development Effectiveness (Meeting of August 27, 2003)

Brazil Country Assistance

1. The Committee on Development Effectiveness (CODE) met on August 27, 2003 to solicit members' views on the Country Assistance Evaluation (CAE) for Brazil (R2003-94) as input to the Country Assistance Strategy (CAS) for Brazil, scheduled for Board discussion in October 2003. OEG's Country Impact Review (CIR) for Brazil (CODE2003-53) was circulated as a background document.

2. **Background.** The CAE evaluated the World Bank assistance program to Brazil during the 1990-2002 period. It examined (i) whether the Bank's assistance during this period was relevant; (ii) whether the Bank's assistance program was effectively designed and consistent with its objectives; and (iii) whether the Bank's program achieved its two central objectives of poverty reduction and growth. The report concluded that the Bank's assistance strategy in 1990-2002 was relevant overall. The strategy was underpinned by high quality analytical work on poverty and growth, conducted with substantial participation by top Brazilian researchers. The report also found that the shift to the social sectors and the focus on the Northeast were justified - given the very weak social indicators in the Northeast region - as was the shift to adjustment lending at the end of the decade. It noted that when the Bank made adjustment and technical assistance loans, it maintained assistance to the social sectors. Government's comments, and management's response to the CAE were included in the annexes.

3. The CIR reviewed IFC's operations in Brazil from FY90 to FY02. It concluded that IFC made a strong contribution to Brazil's sustainable development through financing many viable and pioneering projects that have substantial benefits on the ground. Overall within the large IFC portfolio, the success rates for development and combined development-and-investment outcomes were somewhat better than in other countries. However, IFC's returns on assets in Brazil have been low and fallen well below the average corresponding returns for the rest of IFC's portfolio. Key issues identified for further attention were corporate governance reform, strengthening the financial sector, and improving the profitability of IFC activities.

4. **Overall Conclusions and Next Steps.** Members welcomed the timing of the discussion of the CAE prior to Board consideration of the Brazil CAS. They broadly concurred with the CAE's conclusion that the Bank's assistance strategy in 1990-2002 was relevant overall, and that the shift to the social sectors and the focus on the Northeast were largely justified. At the same time, there were some differences of views on the ratings, with some members suggesting that the assessment was too positive and uncritical, and others indicating that it could have been even more positive. The Committee's discussion focused on the issues of ESW, lending services, growth, development impact, consultation process, the Bank's role in middle income countries, and the review of IFC's operations. Some members felt that the CIR deserved fuller attention from members, and it was agreed that the CODE Subcommittee would schedule a separate discussion of the CIR.

- **ESW.** Members highlighted the importance of ESW, and agreed that it was generally of high quality. They also agreed with the finding of the study that better dissemination of ESW could help the Bank provide more effective assistance to Brazil. A key step would be to ensure that the Bank's work is available in Portuguese. However, several members raised questions with regard to the abundance and relevance of ESW and suggested a more critical appraisal of the program based on the country's demand for it.

- **Lending services.** Members agreed that programmatic adjustment lending was warranted, to address critically needed reforms. They supported OED's recommendation that the Bank continue to further build on its approach on programmatic lending, particularly with respect to establishment of objectives linked to real economic outcomes, quantified and time bound benchmarks, and a framework for measuring and assessing outcomes and benchmarks. Some members felt that the Bank's assistance to infrastructure should be maintained or scaled up, particularly in regard to regulatory and environmental aspects. A member agreed with the Government view that the Bank's exit from infrastructure may have been too abrupt. Members also supported the shift from a sectoral to a more regional approach, and noted that the method for selecting the regions to receive the Bank's attention will be crucial.

- **Growth.** Members noted the report's finding that the component of the program designed to stimulate investment, economic efficiency, and growth, produced mixed results. Brazil's growth performance in the 1990s was generally disappointing considering that several structural reforms were implemented during the decade. Some members suggested that the Bank should focus its support more on the growth agenda, and expressed the view that Brazil will not be able to sustain the necessary expansion of coverage and improvement of quality of social services without a higher level of economic growth. A suggestion was made that the Bank pay attention to the qualitative determinants of growth and increase its focus on secondary and higher education.

- **Development impact.** Members commented on the complexity of attribution and the difficulty of assessing development impact of the Bank's assistance. They acknowledged the efforts made by the evaluation team in this regard, but suggested that further work and refinement was needed to assess more thoroughly the Bank's contribution. Members also encouraged the Bank to bring to bear its experiential knowledge and analytical resources to demonstrate the cost-benefit of reforms. The importance of addressing the issue of income inequality to further the poverty reduction agenda was highlighted.

- **Consultation process.** Some members agreed with the Government's position that the NGOs' involvement should be limited to project implementation rather than formulation of assistance strategies. Another member, while concurring with the view that Government bears the responsibility for policy and strategy formulation, suggested that broad public consultations inform and improve policy and strategy formulation and increase ownership, and urged the Bank and the Government to consult fully with the public in formulation of the new CAS.

- **Bank role in middle income countries.** Members agreed that the Bank can still play a relevant role in large middle income countries such as Brazil. The Bank is most relevant as a source of knowledge and technical assistance which could also enhance its relevance

as a source of finance. In this context, a member highlighted the need to address the issue of IBRD competitiveness and IFC's low profitability.

- **IFC support for second-tier companies.** In response to a member's recommendation of strong promotion of IFC support for rigorously screened second-tier companies, OEG indicated that screening would have to be dramatically tighter to raise the current 16% win-win rate to the 55% achieved for the 53 evaluated first-tier company projects. Demonstration effects of second-tier company lending can be valuable, and the preferred instrument for supporting them is wholesaling via credit lines with banks. However, for that alternative to be feasible, there needs to be a systemic solution to what is a systemic problem of public sector borrowing requirements driving up interest rates and driving out banks' appetite for lending to corporates.

- **IFC equity performance.** A member suggested that the depreciation of the *Real* since 1998 played a central role in IFC's poor equity performance. OEG responded that the impact of the currency decline was indeed significantly negative, as it had also been in both Argentina and Mexico over the same period, but it had been compounded by other Brazil-specific factors described in the report. For example, the sectoral mix of IFC investments was both unfavorable and more vulnerable to currency losses.

Finn Jonck, Chairman

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