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BRAZIL

**IDB COUNTRY STRATEGY
(2016-2018)**

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ABBREVIATIONS

| | |
|---------|---|
| ANTT | Agência Nacional de Transportes Terrestres [National Ground Transportation Agency] |
| BB | Banco do Brasil |
| BNDES | Banco Nacional de Desenvolvimento Econômico e Social [National Bank for Economic and Social Development] |
| CAF | Andean Development Corporation |
| CDC | Country Development Challenges |
| CRAS | Centro de Referência de Assistência Social [Social Welfare Referral Center] |
| DATASUS | Departamento de Informática do SUS [Unified Public Health System's information technology office] |
| DEFRA | Department for Environment, Food, and Rural Affairs |
| GDP | Gross domestic product |
| GEF | Global Environment Facility |
| GHG | Greenhouse gas |
| IBGE | Instituto Brasileiro de Geografia e Estatística [Brazilian Geography and Statistics Institute] |
| IBRD | International Bank for Reconstruction and Development |
| IDEB | Índice de Desenvolvimento da Educação Básica [Basic Education Development Index] |
| IIC | Inter-American Investment Corporation |
| INEP | Instituto Nacional de Estudos e Investigações Educacionais [National Institute of Education Studies and Research] |
| IPEA | Instituto de Pesquisas Econômicas Aplicadas [Institute of Applied Economic Research] |
| MCTI | Ministry of Science, Technology, and Innovation |
| MEC | Ministry of Education |
| NSG | Non-sovereign guaranteed operations |
| OECD | Organisation for Economic Co-operation and Development |
| OMJ | Opportunities for the Majority Sector |
| PISA | Programme for International Student Assessment |
| PNAD | Pesquisa Nacional por Amostra de Domicílios [National Household Sample Survey] |
| PNE | Plano Nacional de Educação [National Education Plan] |
| PPA | Plano Plurianual [Multiyear Government Plan] |
| PPPDs | Public-private partnerships for development |
| SCF | Structured and Corporate Financing Department |
| SEAIN | Secretaria de Assuntos Internacionais [International Affairs Department] |
| SG | Sovereign guaranteed |
| SMEs | Small and medium-sized enterprises |
| SNIS | Sistema Nacional de Informações sobre Saneamento [National Sanitation Information System] |
| TFFP | Trade Finance Facilitation Program |
| TFP | Total factor productivity |
| UIS | Update to the Institutional Strategy 2010-2020 |
| UNESCO | United Nations Educational, Scientific, and Cultural Organization |
| UNDP | United Nations Development Programme |

| | |
|-----|---|
| VPC | Vice Presidency for Countries |
| VPS | Vice Presidency for Sectors and Knowledge |
| WEF | World Economic Forum |

EXECUTIVE SUMMARY

Economic and social context

Reducing poverty and inequality is one of Brazil's great achievements of the past decade. In 2004, 7.6% of the population subsisted on a monthly income of less than R\$70, while by 2013 this proportion was reduced to 4%. More than 13 million people have been lifted out of extreme poverty. Inequality reduction was essentially based on labor market dynamics and social transfer programs. However, the economic growth of recent years has weakened. In 2015 GDP contracted by 4.0% according to Central Bank data, the unemployment and inflation rates rose, and real income began to drop. Fiscal results have deteriorated and the public debt burden has increased, causing the country's international risk rating to slip. In addition, the international environment for the 2016-2018 country strategy period is forecast to be less favorable than in prior years. Commodity prices face a negative outlook in the medium term, continuing the trend of recent years. International financial flows will be affected by the normalization of U.S. interest rates, the repercussions of which are somewhat uncertain but unlikely to be favorable for countries like Brazil. To resume and maintain growth and sustain gains in the reduction in poverty, the country will face economic policy challenges in the coming years. Despite the fact that this strategy will be implemented in an uncertain economic context that may impact the volatility and composition of the program with the country, a medium-term strategic vision is maintained that focuses on structural issues of inclusive and sustainable development.

The IDB in Brazil

The Bank's country strategy with Brazil for 2012-2014 defined six strategic objectives: (i) stimulate social and productive inclusion; (ii) improve the condition of the country's infrastructure; (iii) promote the development of sustainable cities; (iv) improve the institutional capacity of public entities; (v) improve the management of natural resources and climate change; and (vi) promote development through the private sector. The portfolio of loans approved during the strategy period totaled 84 operations, 68 of which were sovereign guaranteed (SG) for US\$7.4 billion, and 16 of which were non-sovereign guaranteed (NSG) for US\$950.7 million. The Bank's long relationship with the country is worthy of note. Brazil has been its largest borrower, representing 23.6% of the total sovereign guaranteed volume to date. From the perspective of Brazil's relationship with the Bank, its debt with the IDB represents 0.72% of the country's GDP, 40.09% of the multilateral external debt, and 11.21% of the public external debt. In this context, the Bank has always sought to have the greatest possible impact, notwithstanding the limitation in terms of amounts allocated vis-à-vis the requirements of a country of the size of Brazil.

Strategic areas

The country strategy for 2016-2018¹ will focus on three strategic areas: (i) increase productivity and competitiveness; (ii) reduce inequity and improve public services; and (iii) strengthen institutions at the three levels of government. Considering that Brazil is a middle-income, highly urbanized country of continental dimensions, with limited capacity for public investment in

¹ The country strategy will cover the period from March 2016 to December 2018.

infrastructure and public services, the following three implementation approaches are proposed to guide Bank interventions in relation to the strategic as: (i) strengthening of public-private partnerships for development (PPPDs); (ii) sustainable economic development of the metropolitan areas; and (iii) reduction in regional socioeconomic inequalities. The strategy will also support the policy objectives identified in the Update to the Institutional Strategy 2010-2020 (UIS), primarily social inclusion and equality, financial inclusion, development of quality human capital, value chains, strengthening of government capacity, and provision of infrastructure, as well as the crosscutting issues of gender, diversity, integration, and climate change. It is consistent with the strategic priorities of the IIC Business Plan for 2016-2019, principally in the priority areas of lending to infrastructure projects and direct and indirect lending to small and medium-sized enterprises (in both cases supporting the strategy's objective of boosting productivity and competitiveness), support for activities aimed at enhancing competitiveness through innovation, support for the provision of goods and services to vulnerable populations (supporting the strategy's objective of reducing inequality), and fostering of green growth by promoting the adoption of sustainable business practices (supporting the focus on climate change as a crosscutting area of the strategy), identified as priority business areas in the Renewed Vision for the Activities of the IDB Group with the Private Sector.

Financial envelope

The financial envelope for SG operations is estimated to range from US\$5 billion to US\$5.5 billion for the entire strategy period. While this amount will be absorbed, for the most part, by subnational borrowers, there is the possibility of some strategic operations at the federal level. Approvals are likely to be concentrated in the final two years of the strategy in view of the expected economic recovery and fiscal situation in 2017 and 2018.

Principal risks

The principal risks to the implementation of the strategy are: (i) macroeconomic, associated with fiscal sustainability and external shocks; (ii) political and institutional, associated with the political cycle of subnational governments; (iii) implementation, associated with the execution capacity of the local counterparts; and (iv) stemming from the possible occurrence of natural disasters.

I. COUNTRY CONTEXT

- 1.1 Since late in the 1990s, Brazil has demonstrated the ability to adjust macroeconomic policies in response to market shocks and turbulence. The country is richly endowed with a broad range of commodities (oil, food, mining) that provide not only a solid export base but also a platform for developing greater economic diversification. Lastly, Brazil has a large domestic economy, with a growing middle class characterized by a thirst for consumption. All these factors point to a great and unequivocal potential for growth, despite existing challenges.
- 1.2 Poverty, inequality, and unemployment have been in a downward trend for more than a decade, thanks in part to effective social policies. However, the challenge of generating further progress will critically depend on strong and sustained economic growth. Reducing poverty and inequality was one of Brazil's greatest achievements in the last decade. In recent years, millions of families were lifted out of poverty due to social policy interventions and real minimum wage increases, while at the same time unemployment fell to historically low levels. The proportion of people living in poverty in Brazil went from 22.4% in 2004 to 9.0% in 2013. Similarly, between 2002 and 2012, 35 million people joined the middle class, which came to account for 53% of Brazil's population.² At the same time, the country's urbanization level grew to 84% in 2013 and could reach 93.5% by 2050. This urbanization trend, coupled with the expansion of the middle class, creates increased demand for greater and better access to quality public services in cities and metropolitan areas. These changes were in line with a reduction in income inequality, reflected in a drop in the Gini coefficient from 0.545 in 2004 to 0.490 in 2014.³ These gains were made possible in particular by a rise in earned income. During this period there was also an improvement in access to health and education, and other social gains were achieved. The challenge of generating further progress toward improving quality of life depends on promoting strong, balanced, and lasting growth to ensure a continuous increase in employment and the necessary resources to provide continuity to essential social programs, primarily those aimed at the most vulnerable social groups.⁴
- 1.3 In that period, the Brazilian macroeconomic framework, based on an inflation target regime and on the fiscal responsibility law, was successful in maintaining macroeconomic sustainability while contributing to creating robust growth and

² Considering income as a criterion, a committee of experts set up by the Strategic Affairs Department of the Office of the President of the Republic estimates that the new middle class consists of individuals living in households with monthly per capita income (aggregating household income and dividing the result by the number of individuals in the household) of R\$1,019 to R\$291. Within this definition, the committee divides the middle class into three groups: lower middle class, with a per capita household income of R\$291 to R\$441, middle-middle class, with income of R\$441 to R\$641, and upper middle class, with income of more than R\$641 and less than R\$1,019.

³ Source: National Household Sample Survey (PNAD), measured by earned income.

⁴ The term vulnerable is used for the lowest income quintile of the middle class. For this group, the likelihood of a future decline in the level of household wellbeing is higher than for other groups. Gonçalves and Machado (2014) show that there is an inverse relationship between vulnerability and earned income. The higher the income, the lower the vulnerability of a household. Gonçalves, S. and A. Machado. (2014). *Vulnerabilidade das famílias à pobreza: uma análise empírica para seis regiões metropolitanas* (2002 to 2011). Mimeo, ANPEC.

sustaining poverty reduction.⁵ However, beginning in 2014, the country has been facing unfavorable internal and external economic conditions as well as judicial processes involving public institutions and private enterprises, affecting investment and growth in the short term.

- 1.4 Unlike the 2012-2014 country strategy period, when the international environment contributed positively to the country's economic expansion, the years covered by this new strategy will be marked by less favorable external conditions. Forecasts indicate that low commodity prices (particularly for metals, including iron ore) will persist in the short term, and growth in Brazil's major trading partners (mainly MERCOSUR, China, and the United States) will be positive but still limited. In addition, conditions in the global financial markets may be less propitious due to the gradual normalization of U.S. interest rates (chapter 1 of Country Development Challenges (CDC)).
- 1.5 GDP growth stagnated in 2014 at 0.1% and in 2015 there was a 4.0% contraction, which is expected to continue in 2016.⁶ In 2015, the unemployment rate rose and real income began to decline.⁷ In addition, fiscal results have deteriorated and the public debt burden has increased, which has contributed to its international credit rating slipping.⁸ This scenario jeopardizes the social and economic progress achieved over the last decades (detailed analysis in the CDC).
- 1.6 In this context, the coming years represent a challenge for Brazil's economic policy. The government has signaled that the macroeconomic policy framework is still in effect by setting fiscal targets, reducing inflation through a Central Bank hike in interest rates, and adopting measures to stimulate private investment, primarily in infrastructure (e.g. the Logistics Investment Program initially launched in 2012 and followed by a second phase in 2015). This situation has affected not only the federal but also the subnational levels (states and municípios). The three levels of government have been implementing various austerity measures (budget adjustments, administrative agency cutbacks, and others), in addition to measures to promote investment and growth. These are positive short-term adjustments designed to improve monetary and fiscal policy coordination, regain control over public-debt growth, and improve private sector expectations in order to encourage investment (chapter 1 of the CDC).

⁵ Between 2010 and 2014 the country grew an average of 3.22% yearly, basically driven by a 3.5% growth in household consumption. In the same period, Brazil had an average gross national savings rate of 17.8% and gross fixed-capital formation of 20.3%. The public sector showed an average primary surplus of 1.8% of GDP and gross debt of 54.0%. Details in Annex III to the strategy.

⁶ Latest Central Bank projections according to the January 2016 report available at: <http://www.bcb.gov.br/pec/gci/port/readout/r20160226.pdf>.

⁷ According to the continuous PNAD, the unemployment rate in the second quarter of 2015 reached 8.9%, an increase of 2.1 percentage points with respect to the same quarter in 2014. In addition to indicating a rise in unemployment, the data show a 5% drop in workers' real income in the third quarter of 2015 with respect to the third quarter in 2014.

⁸ Fiscal results have declined, with the primary balance showing a deficit. In addition, the agencies lowered Brazil's sovereign risk rating and, in the case of S&P and Fitch, the country lost its investment grade status due to the growing government debt burden, the rising challenges to fiscal consolidation, and the country's political dynamics.

- 1.7 In the short term it is anticipated that the Brazilian economy will continue to grow below its potential. With the implementation of the proposed measures, however, growth is expected to increase gradually over the medium term and, long-term growth will strongly depend on the country narrowing its main development gaps. Despite the uncertainty of the circumstances in which this strategy will be implemented, its potential impact on the program with the country and the Bank's capacity, the focus agreed upon with the government maintains its medium-term strategic vision, focusing more on structural issues of inclusive and sustainable development, as discussed in this document and other support materials.
- 1.8 The current macroeconomic situation, with fiscal constraints and low growth, reinforces the need to adopt a model that jointly addresses the progress in closing social gaps and reducing inequity and the achievement of sustainable growth. Some of the social policies adopted in the past, while having very positive effects with respect to reducing inequality, seem to have reached their limit of expansion, particularly in view of their impact on the country's fiscal balance. At the same time, the lack of balanced public accounts generates uncertainties that prevent sustainable economic growth from being achieved. Therefore, the adoption of policies that promote increased productivity and more efficient social spending is proposed, in order to underpin a path of sustainable growth with reduced inequality.⁹

II. THE IDB IN BRAZIL

- 2.1 **The IDB country strategy with Brazil for 2012-2014 had six strategic objectives:** (i) stimulate social and productive inclusion; (ii) improve the condition of the country's infrastructure; (iii) promote the development of sustainable cities; (iv) strengthen the institutional capacity of public entities; (v) improve the management of natural resources and climate change; and (vi) promote development through the private sector. It also considered three crosscutting issues that were to guide the Bank's¹⁰ work in the country—(i) promotion of regional cooperation and integration; (ii) respect for biodiversity; and (iii) reduction in economic and regional (Northeast and North) inequalities—framed by the promotion of actions to improve gender and racial conditions in Bank activities and the maintenance of a subnational agenda. The Bank's relationship with the country, which has been its biggest borrower, has a long history. Brazil's debt with the IDB represents 0.72% of the country's GDP, 40.09% of the multilateral external debt, and 11.21% of the public external debt. To the Bank, Brazil represents 23.6% of the total volume of approved sovereign guaranteed operations. Notwithstanding the limitation in financing amounts vis-à-vis the country's size, the Bank has always focused on generating the greatest possible impact.

⁹ With the deterioration of the fiscal situation, the government is reevaluating some of the social spending programs in order to keep those that have a positive impact and are based on consolidation of the social progress of recent decades. It also seeks to improve the management of those programs to streamline spending on them. The government seeks to promote certain reforms, such as the social security reform with the introduction of a minimum age for retirement and a review of some of the benefit parameters.

¹⁰ References to the Bank throughout the document are broad so as to include the IIC and MIF as part of the IDB Group in terms of SG and NSG operations.

- 2.2 **The portfolio of loans approved during the 2012-2014 strategy period¹¹ is comprised of 84 operations, including 68 sovereign guaranteed (SG) and 16 non-sovereign guaranteed (NSG) operations.¹²** Of the SG operations, 62 were with Brazilian states, state-owned enterprises, or municípios, thereby maintaining a subnational emphasis (91% of approved operations). In terms of the regional focus, 45% of SG operations (by number) are in the North (19%) and Northeast (26%). (See electronic link Portfolio Report on the Bank's Country Strategy with Brazil 2012-14).
- 2.3 **SG loan approvals during the 2012-2014 strategy period totaled US\$7.4 billion.** The resources for the country's North and Northeast regions accounted for more than 50% of the SG approved total, with 13% for the North (13 projects for a total of US\$948.5 million) and 37.7% for the Northeast (18 projects for a total of US\$2.8 billion). Total Bank activities in the country also included 15 SG operations in the South (US\$1.3 billion), 12 operations in the Southeast (US\$1.8 billion), 4 operations in the Center-West (US\$264 million), and 6 federal operations (US\$281 million).
- 2.4 **During the country strategy period, the four NSG windows approved a total of 26 operations** (US\$950.7 million),¹³ including 25 loans for US\$927.5 million, one guarantee for US\$9.2 million, three equity investments for US\$14 million, and four new lines under the Trade Finance Facilitation Program (TFFP) for US\$400 million. In terms of contributions by window, the Structured and Corporate Financing Department (SCF) approved a total of 18 loans for US\$813.5 million,¹⁴ the Opportunities for the Majority Sector (OMJ) approved a guarantee for US\$9.2 million, the Inter-American Investment Corporation (IIC) approved seven loan operations for US\$114 million and one equity investment operation for US\$5.0 million, and the Multilateral Investment Fund (MIF) approved two equity investment operations for US\$9 million.
- 2.5 With regard to technical support, **the IDB is the largest provider of technical assistance and knowledge transfer to public institutions.** During the strategy period, 45 technical-cooperation operations (SG) were approved for a total of US\$40.9 million, focusing on social and productive inclusion (14 operations for US\$7.3 million) and environmental and rural management and climate change (13 operations for US\$25.4 million). In addition, two investment grant operations were approved for a total of US\$37.5 million, notably including an operation carried out with the United Kingdom. In terms of NSG operations, 10 technical-cooperation projects were approved for a total of US\$13.2 million (MIF).
- 2.6 **Achievements.** The portfolio at the end of implementation of the 2012-2014 country strategy consists of 151 operations—132 SG operations with an available balance of US\$8.4 billion, representing 64.8% of the SG volume

¹¹ From 9 May 2012 to 31 December 2014.

¹² NSG, excluding guarantee operations under the TFFP and IIC operations.

¹³ SCF has three operations with two loans (BR-L1403, BR-L1410, BR-L1413). The MIF has two operations with one technical cooperation project and an associated equity investment (BR-M1112 and BR-M1130). Technical cooperation operations are not included.

¹⁴ SCF approved 10 TFFP operations: BR-L1380, BR-L1382, BR-L1384, BR-L1390, BR-L1396, BR-L1397, BR-L1409, BR-L1416, BR-L1426, and BR-L1427.

approved (US\$13.01 billion) and 19 NSG operations, with an available balance of US\$391.7 million, equivalent to 50.8% of the NSG total approved (US\$769.85 million). The outstanding portfolio is relatively young and the infrastructure investment loans represent a significant proportion thereof. These factors contribute to slower execution and to the difficulty of verifying impact (more visible in the medium term). Taking the outstanding portfolio into account, in the three years of the previous strategy (2012-2014),¹⁵ **increased social and productive inclusion** of the population by improving coverage for poor families through the construction of Social Welfare Referral Centers (CRAS) and **expansion and strengthening of the social assistance network** were achieved,¹⁶ as well as the expansion of inclusion activities for vulnerable youth.¹⁷ Similarly, in terms of health, the quality of specialized services was improved by expanding prevention and care coverage for chronic-degenerative illnesses in the Northeast region and increasing the availability of secondary and tertiary health care services.¹⁸ Lastly, early childhood and secondary school education coverage was improved by expanding education infrastructure and strengthening the technical capacity of primary education teachers.¹⁹

- 2.7 **The country's infrastructure conditions were significantly improved.** The road quality and safety benefits delivered to users are of note, together with a reduction in average travel times, stemming from the completion of 17.29 kilometers of new roads and the paving of 195.29 kilometers and rehabilitation of 377.59 kilometers of existing roads.²⁰ The Bank also supported the delivery of better-quality basic sanitation services through the implementation of new residential sewage connections and the construction of drainage channels and linear parks.²¹ In the energy sector, system efficiency was enhanced by increasing the availability of services, expanding the useful life and restoring the

¹⁵ The outstanding portfolio includes inherited operations and those approved during the 2012-2014 country strategy that were in Brazil's portfolio on 31 December 2014. NSG operations do not include B loans.

¹⁶ In Ceará, in the country's Northeast, 27 CRAS, 15 service hubs, 48 sports centers and/or courts, and 2 social and educational service units were built under BR-L1053.

¹⁷ In Fortaleza, between 2012 and 2014, three urban culture, art, and sport centers (CUCA) were built and various inclusion programs were financed, directly benefiting more than 22,000 young people each year (BR-L1122). In São Paulo, nine culture factory centers were built, annually benefiting more than 54,000 young people through training courses (BR-0373).

¹⁸ Construction and outfitting of two regional hospitals (Cariri and Zona Norte), two dentistry specialization centers, and three polyclinics in Ceará, and implementation of integrated management system at 12 health units (BR-L1177).

¹⁹ Startup of 819 early childhood education units and construction of 9 new secondary education units, as well as training of 2,148 primary education teachers (BR-L1329, BR-L1327). In Ceará, between 2012 and 2014, BR-L1053 financed the startup of 23 early childhood education centers in the state's municípios with the lowest human development index.

²⁰ BR-L1336 and BR-L1263 for new road construction; BR-L1051, BR-L1263, BR-L1326, and BR-L1336 for paving, and BR-L1051, BR-L1161, BR-L1181, BR-L1263, BR-L1326, and BR-L1336 for road rehabilitation.

²¹ More than 790,000 residential sewage connections were implemented (BR-L1038, BR-L1164, BR-L1166, BR-L1335), as well as 13 kilometers of drainage channels (BR-L1065, BR-L1335, BR-L1297) and 29 hectares of linear parks (BR-L1006, BR-L1335).

generation capacity of power generation units,²² and providing distribution in the country's South.²³

- 2.8 **With regard to urban actions**, the quality of urban space utilization has been improved by expanding mobility,²⁴ increasing the supply of social services, creating more urbanized or revitalized neighborhoods, and regularizing property titles in various Brazilian municípios and cities. Support for registering thousands of informal properties has also helped to revitalize peripheral areas and improve the quality of life of low-income individuals living in informal areas.²⁵
- 2.9 **With regard to public management**, the Bank has supported State strengthening through actions to improve the management and technical skills of federal public employees by redesigning primary processes organizational structure processes, and training courses.²⁶ The effectiveness of legislative functions and services delivered to the public was improved by implementing a methodology that helps the municipal legislative chambers to use more effective processes to manage legislative work.²⁷ In addition, the Bank has helped improve the quality of public services in terms of public policy research, formulation, monitoring, and evaluation.²⁸ It has contributed to the effective use of public resources by strengthening state fiscal management through actions such as modernization of revenue collection systems and tax base expansion, adoption of management standards for state treasury processes, and implementation of the electronic tax invoice (between 2008 and 2013, the volume of authorized invoices grew more than 3000%, reaching R\$10 billion in September 2014).
- 2.10 **With regard to natural resource management**, the most noteworthy results were support for better management and environmental recovery of protected areas, including the registration of properties with previously informal status and the removal and resettlement of a number of families, thereby helping to reduce the deforestation rate in the affected areas.²⁹ The Bank also supported conservation efforts in protected areas by improving oversight and public management in environmental units.³⁰
- 2.11 Under the **objective of promoting development through the private sector**, urban infrastructure quality was improved in more than 200 municipalities in the

²² Four power generation units were rehabilitated (BR-L1278).

²³ Transmission lines were expanded/built for a total of 12.1 kilometers (BR-L1303 and BR-L1284).

²⁴ In the country's South, 20.9 kilometers of beltways were built (BR-L1163), along with 23.76 kilometers of roads (BR-L1099).

²⁵ In urbanized neighborhoods and four urbanized settlements, 2,402 parcels were regularized (BR-L1083 and BR-L1160).

²⁶ 44 primary processes, 10 organizational structure processes, and 121 training courses for public employees were redesigned (BR0403 and BR0405).

²⁷ The INTERLEGIS methodology was implemented in 238 legislative chambers (BR-L1068).

²⁸ Training for 27,231 technical experts and 1,045 employees (BR-L1047).

²⁹ 11 removal and resettlement projects were completed for 2,714 families, along with the registration of 3,072 rural properties (BR-L1241, BR-L0392).

³⁰ The necessary equipment was procured for environmental units in 52 municípios, 121 surveillance posts were set up, and 869 environmental police officers were trained (BR-L1103, BR-L1241).

state of Minas Gerais³¹ and the economic and social development of the poorest region in the state of Paraná was supported through the creation of more than 1,000 new jobs by the end of the project. With the SCF and OMJ portfolio of operations in execution, infrastructure conditions are expected to be improved for more than two million beneficiaries,³² greenhouse gas emissions will be reduced, and renewable electricity capacity will be created.³³ IIC operations mobilized close to US\$8 for each dollar approved and envisage creating 3,010 new jobs.

III. PRIORITY ISSUES

- 3.1 The purpose of the Bank's country strategy with Brazil for 2016–2018 is to support the Government Plan so that the country continues to advance toward medium- and long-term inclusive and sustainable growth. To achieve this purpose, the strategy calls for working on three strategic areas:³⁴ (i) increase productivity and competitiveness; (ii) reduce inequity and improve public services; and (iii) strengthen institutions at the three levels of government. The identification of these areas reflects the development challenges described in the CDC and the priority lines of action of the Multiyear Government Plan (PPA),³⁵ and its alignment with the UIS.
- 3.2 The CDC (see CDC chapter 2, pages 19-31) shows that the Brazilian economy has exhibited cycles of rapid growth difficult to sustain for long periods due to the low contribution of productivity to the country's growth in recent decades. In addition, the CDC identifies significant lags in the following areas as the main gaps that undermine growth and make it difficult to boost productivity: (i) business climate; (ii) transport and logistics infrastructure; (iii) citizen security; and (iv) education. These gaps are correlated and require comprehensive interventions.
- 3.3 The evidence indicates that an improvement in income distribution aids growth. At the same time, there are no permanent solutions to social problems and inequality unless the country grows sustainably. The evidence also indicates that countries that grow based on increased productivity produce more sustainable growth than countries like Brazil, which have historically grown based on capital accumulation or labor.³⁶ For example, in various countries and regions it has

³¹ BR-L1403 - BDMG Municipal Infrastructure and Services Financing Partnership, cofinanced by the China Cofinancing Fund for Latin America and the Caribbean (US\$50 million).

³² Close to 2 million people are expected to benefit from the financing of investments in municípios (for transport, water, sanitation, and energy) through operation BR-L1403, while close to 2,500 individuals and 32 SMEs will benefit through BR-L1410 and more than 3,000 individuals will benefit through BR-L1404.

³³ Between 2016 and 2020, greenhouse gas emissions are expected to be reduced by 6.9 tons (BR-L1404) and 15,270 MW of renewable energy capacity are expected to be created (BR-L1404 and BR-L1391).

³⁴ The current SG portfolio will contribute to addressing the challenges identified in the following proportions in terms of volume of resources: 28.3% to increase productivity; 33.7% to reduce inequity and improve public services; and 29.9% to institutional strengthening. In addition, 8.1% of the portfolio will contribute to two or more areas. In terms of the available balance, the proportion is 32% to increase productivity, 40.4% to reduce inequity and improve public services, and 12% to institutional strengthening. It is expected that 15.6% of the resources will contribute to two or more areas.

³⁵ PPA 2016-2019, Development, productivity, and social inclusion.

³⁶ Ellis (2003) reviews the evidence in the area. Ellis, H. (2003). On the Impact of Inequality on Productivity Growth in the Short and Long Term: a synthesis.

been noted that compatibility between economic growth and social development is not spontaneous. On one hand, sustainable growth is necessary for the adoption of long-term policies. On the other, an improvement in social indicators has a positive impact on productivity and growth.³⁷

- 3.4 The identification of the country strategy's strategic areas considers the main thrusts of the PPA, which reinforces the government's commitment to promoting economic and social development, while reducing inequality, in four priority areas: (i) quality education to foster social and economic development; (ii) social inclusion and inequality reduction through better distribution of opportunities and access to quality public goods and services; (iii) increase in economic productivity, competitiveness, and sustainability, with an emphasis on a combination of public and private investment, particularly in infrastructure;³⁸ and (iv) strengthening of public institutions through social participation and control, transparency, and quality in the workings of government.
- 3.5 Given the country's context, the CDC, and the PPA, the country would benefit from adopting a development strategy with mutually complementary pillars: grow through increased productivity and greater investment, reduce inequality, and improve the quality of life of the population. In this regard, the 2016-2018 country strategy seeks to contribute to sustainable and inclusive economic development by boosting the country's productivity and improving equitable access to quality public services for the most vulnerable population groups and the recently formed middle class, with an emphasis on metropolitan areas and regions lagging in their development levels. All of this is to be achieved within a framework of enhanced government efficiency, effectiveness, and transparency, and with significant private sector participation given the country's development challenges and the limited resources resulting from the fiscal adjustment.
- 3.6 The foregoing approach addresses the country's demand for comprehensiveness and the dialogue with the various sectors of society,³⁹ with regard to building a vision of sustainable and inclusive economic growth in a society with a robust middle class. The interventions are envisaged on the basis of the following aspects of comprehensiveness: (i) multisectorality, with systemically interconnected complementary approaches; (ii) multidimensionality, with coordinated actions at the three levels of government—federal, state, and municipal; and (iii) multi-participation, through the inclusion of public sector, private sector, and civil society stakeholders. Similarly, the approach presented reflects the importance of maximizing the impact potential of Bank interventions in a middle-income, highly urbanized country of continental dimensions, with limited capacity for public management and investment in infrastructure and public services, and with demand far exceeding the Bank's capacity; as well as the importance of ensuring the continuity of existing actions and of deepening

³⁷ Ostry, J.; A. Berg and C. Tsangarides (2014). Redistribution, Inequality and Growth. IMF Staff Discussion Note, February 2014, SDN/14/02.

³⁸ The PPA indicates that the large volume of resources involved in implementing infrastructure projects, coupled with the long period of maturation of such projects, suggest the need for planning and linkage with the private sector.

³⁹ Including dialogue with the Civil Society Consulting Group and with the private sector (October and November 2015, respectively).

support in areas in which the Bank has added value (SG and NSG⁴⁰). In this regard, the following three implementation approaches are proposed to guide the Bank's actions with respect to the priority areas: (i) strengthening of public-private partnerships for development (PPPDs); (ii) sustainable growth of metropolitan areas; and (iii) reduction in regional socioeconomic inequalities.

- 3.7 In summary, the 2016-2018 country strategy is structured around: (i) three strategic areas—boosting productivity and competitiveness, reducing inequity and improving public services, and institutional strengthening at the three levels of government—each of which provides for a set of strategic objectives with their expected outcomes; and (ii) three implementation approaches—strengthening the PPPDs, promoting sustainable growth in the metropolitan areas, and reducing regional inequalities—which will guide the Bank's interventions and have been identified to maximize the Bank's impact in the country.

STRATEGIC AREAS

I. Increase productivity and competitiveness:

- 3.8 As indicated in the CDC (see CDC, chapter 2, pages 19-25), in the past two decades total factor productivity (TFP) grew at an average rate of less than 0.1% per year. TFP did not account for more than 50% of Brazil's GDP growth in any of the decades of the past half century. A greater productivity contribution is necessary to generate more sustainable growth in the country. In the 2001-2011 period, TFP was responsible for 93% of growth in China, 82% of growth in India, 72% of growth in South Korea, and 60% of growth in Mexico.⁴¹
- 3.9 **Multiple factors impact productivity.** Factors such as maintaining a safe environment with a low level of violence, an educated workforce, an open economy with a satisfactory business climate and competitive markets, sound public infrastructure, and good access to financial markets are effective incentives for promoting productivity.⁴²
- 3.10 The CDC (see CDC, chapter 3, pages 45-57) shows that **a complex tax system and bureaucracy are major obstacles to an increase in productivity and competitiveness in Brazil.** The Brazilian tax system is governed by constitutional provisions, supplementary laws, ordinary laws, and non-statutory legislation regulating more than 60 taxes and assessments.⁴³ It is estimated that, considering the number of states in which business is done, a Brazilian company is on average required to comply with 3,422 tax rules. To carry out activities related to tax compliance, industrial companies spend an average of 1.16% of their annual turnover, which is equivalent to 10% of their annual expenditure on wages. For small businesses, this cost represents 3.13% of its annual turnover.⁴⁴ In addition, Brazilian companies operate under a heavy bureaucratic burden.

⁴⁰ This will continue through the renewed Inter-American Investment Corporation (CII).

⁴¹ Boston Consulting Group. (2013). Ukon, M.; Bezerra, J.; Cheng, S.; Aguiar, M.; Xavier, A. & Le Corre, J. Brazil: Confronting the productivity challenge. BCG Growth Publications.

⁴² The World Economic Forum concludes that Brazil is one of the countries in which violence entails a high cost for business.

⁴³ www.impostometro.com.br.

⁴⁴ FIESP: *Carga Extra na Indústria Brasileira. Parte 1 – Custos do Sistema Tributário*, 2011.

After Venezuela and Bolivia, nowhere in Latin America is starting a business more complex than in Brazil (according to Doing Business 2015, out of a sample of 189 countries, Brazil ranks 177th in terms of setting up a business and 117th in terms of tax burden).

- 3.11 The PPA argues that consolidating the regulatory framework, simplifying taxes, and reducing bureaucracy are important for expanding the business planning horizon and lowering transaction costs as well as for boosting the country's competitiveness. The plan indicates that coordinating all spheres of government—federal, state, and municipal—in the task of reducing the bureaucratic burden on businesses and individuals is a way of stimulating profitability and competitiveness and generating jobs and income.
- 3.12 **Limited investment in infrastructure**, primarily in transportation and logistics, results in weak infrastructure of limited quality, raises the cost of doing business, and hinders domestic and international trade, thus impeding progress in the country's productivity (see CDC, chapter 3, pages 58-66).⁴⁵ Transportation costs account for nearly 60% of total logistics costs for businesses in Brazil (11.6% of GDP), compared to 8.7% in the United States. According to an IDB study (2013), a 1% drop in the ad valorem cost of transportation would increase exports by almost 5% for agricultural products, 4% for manufactured products, and close to 1% for mining.
- 3.13 The CDC (see chapter 3, p. 63) also indicates that urban mobility represents a high cost for the country and has a negative impact on productivity. In 15 major metropolitan areas, it takes 20% of the population more than one hour to travel home from work.⁴⁶ According to Viana (2013), in 2010 that waste of time translated into a financial cost of R\$99 billion or 2.6% of GDP.⁴⁷
- 3.14 The CDC (see chapter 3, pages 61-65) explains which factors—such as the difficulty of investment execution and management by the government due to the limited number of technical experts, regulations that create barriers to the hiring of private companies to prepare plans, and scarcity of long-term financing sources—generate limited investment in transportation and logistics.⁴⁸ With regard to urban mobility, the CDC (see chapter 3, pages 63-65) identifies an increase in the use of individual rather than public transportation as the major cause of urban mobility problems in Brazil.

⁴⁵ In 2012, infrastructure spending in Brazil was equal to 2.39% of GDP (compared to 5.1% in Chile, 4.2% in Peru, 4.7% in India, and 8.5% in China). Only 11.8% of the country's roads are paved, and 90% are single-lane roads. In the WEF index, out of 148 countries, Brazil ranks 114th in infrastructure quality, 120th in road quality, and 103rd in railroad infrastructure.

⁴⁶ IPEA (2013), PNAD 2012 urban mobility indicators.

⁴⁷ Viana, Guilherme (2013). *Mobilidade Urbana no Brasil: uma estimativa do produto perdido em trânsito*. Mimeo, Federal University of Rio de Janeiro.

⁴⁸ IDB, 2013. For Logistics Investment Program II, the government has used the statement of interest procedure, a mechanism through which the granting authority requests plans, studies, etc. from the private sector for use by the federal government in making investment decisions. This procedure is aimed at expanding private sector participation in the development of infrastructure studies to ensure greater legal certainty for investors and for the public entity carrying out the project. Another aim is to expedite the investment program.

- 3.15 In addition, the PPA argues that the immediate path to growth and increased productivity is investment in infrastructure. Expanding and improving the economic infrastructure, comprised of the transport logistics systems (roads, railways, ports, and airports), reduces systemic costs and has a positive impact on the national economy's productivity and competitiveness. Investing in transport and logistics infrastructure also creates formal jobs, which is a prerequisite for improving the quality of life of the population and facilitating the country's integration into regional and global value chains.
- 3.16 **Furthermore, an improvement in the transportation sector's productivity and competitiveness has a direct impact on climate change.** According to the Ministry of Science, Technology, and Innovation (MCTI) (2014), the energy sector accounted for 37% of total greenhouse gas (GHG) emissions in 2012. More than 90% of energy sector emissions stem from the use of fossil fuels, almost half by the transportation sector. Data show that in 2012, GHG emissions from the energy sector were 35.9% higher than the 2005 emission levels (MCTI, 2012). The year 2005 was established as the baseline for the national commitment to reduce 43% of GHG emissions by 2030. This objective was included in Brazil's intended nationally determined contributions communiqués under the United Nations Framework Convention on Climate Change. The challenges to be addressed in order to achieve these mitigation commitments are vitally important to the transportation sector, particularly in terms of creating better conditions both for logistics and for the various types of transportation that can lead to reduced fuel consumption and the design of an infrastructure that is more resilient to the negative effects of climate change in Brazil.
- 3.17 **SMEs are particularly important for boosting productivity** (see Sector Contributions to the Country Strategy, section 3, pages 20-27). SMEs are important in all sectors of the Brazilian economy. They account for 50.2% of service sector jobs, 75.2% of trade sector jobs, and 67.0% of industrial sector jobs. In addition, SMEs provide 43.0% of the value added in the service sector, 61.7% of the value added in the trade sector, and 47.0% of the value added in the industrial sector.⁴⁹ Thus, the SME segment is particularly important for boosting productivity. In Brazil, SME productivity ranges from 10% to 40% of large-business productivity.⁵⁰
- 3.18 **In addition to the business climate gaps and inadequate infrastructure, which affect the productive sector in general, SMEs are affected by the lack of credit.** In Brazil, credit for SMEs accounts for 12.2% of total credit, below the average in Latin America (12.4%), Uruguay (38.5%), the Organisation for Economic Co-operation and Development (OECD) (25.5%), and Ecuador

⁴⁹ Source: Serviço Brasileiro de Apoio às Micro e Pequenas Empresas [Brazilian Micro and Small Enterprise Support Service] (SEBRAE).

⁵⁰ Microenterprises 10%, small enterprises 27.5%, and medium-sized enterprises 40% (International Trade Centre). SME Competitiveness Outlook 2015: Connect, Compete and Change for Inclusive Growth Geneva: ITC, 2015. Increases in productivity are related not only to the actual size of the SMEs, but to their potential to connect to value chains and their expansion and export capacity. Similarly, the capacity to generate jobs will be a key factor, given the vulnerability in formal employment as a result of the low growth situation.

(16.0%). According to an IBGE study (2015),⁵¹ SMEs in Brazil contend with rationing in the credit market that affects their survival, their growth, and their productivity. According to the study, close to half the enterprises that start up are no longer in business four years later, partly due to low productivity.⁵² In the specific case of Brazil, research recently conducted by the Bank's Office of Evaluation and Oversight analyzed various types of IDB operations with different types of clients (public and private), as well as various types of SME support, identifying significant impacts stemming from IDB support to SMEs. The conclusion was that credit support is the only type of support that significantly influences all outcome variables, and is the type that has the most powerful positive effect on jobs and wages. Estimates indicate that in establishments that received credit support, the number of employees increased by 15% and wages rose by 2.4% and the range of export prices rose significantly.⁵³

- 3.19 The Bank has the products and capacity to contribute in the area of productivity, at both the federal and subnational levels. However, given the lending envelope and the mainly subnational agenda, the interventions are expected to be essentially aimed at the subnational level of government. At that level, priority would be given to interventions to improve the processes involved in opening a business (along the lines of the one-stop shop system in Minas Gerais) or in simplifying the payment of taxes (e.g. electronic tax invoice). Other areas include: support for infrastructure and logistics and urban mobility; availability of skilled labor through vocational technical education programs in coordination with the authorities and private enterprise; and citizen security, which is primarily the responsibility of the states. At the federal level, the Bank can support large infrastructure works (e.g. the Logistics Investment Program), guarantee systems for PPPs, financing through the National Bank for Economic and Social Development (BNDES), etc.
- 3.20 **Through SG and NSG operations, the Bank will help the country raise productivity and competitiveness by:** (i) reducing the "Brazil cost" through support for modernizing the regulatory framework to simplify the process of setting up a business and streamlining business tax payment processes;⁵⁴ (ii) investing in infrastructure, particularly in the areas of transportation, logistics, and urban mobility,⁵⁵ and where viable in view of tax limitations, implementing

⁵¹ Instituto Brasileiro de Geografia e Estatística [Brazilian Geography and Statistics Institute] (IBGE), 2015. *Demografia das Empresas: 2013*. Rio de Janeiro: IBGE, 2015.

⁵² The empirical evidence included in the annex Sector Contributions for the Country Strategy – section 3 indicates that access to financing is a decisive factor in the dynamics of raising productivity. In general, restrictions on access to financing limit the ability of SMEs to invest in capital projects (technology, processes, and market integration) in order to improve their productivity levels. This does not foster structural change and efficient factor allocation. The absence of credit limits technology and innovation financing, SME participation in the value chains of large companies, and access to new markets.

⁵³ IDB. *Uma Análise Comparativa das abordagens do BID no Apoio às PMEs: Analisando Resultados no Setor Industrial Brasileiro*. Washington: IDB, October 2014.

⁵⁴ The Bank currently has three SG operations aimed at improving the bureaucratic processes, particularly in the tax area (BR-L1102, BR-L1223, BR-L1407), for US\$80.85 million.

⁵⁵ The Bank currently has six SG operations (BR0302, BR-L1018, BR-L1227, BR-L1272, BR-L1315, BR-L1333), for a total of US\$984.841 million, and one NSG operation (BR-L1079), for US\$59.5 million, aimed at improving urban mobility.

PPPDs under different modalities; and (iii) building up SMEs through better access to long-term financing.⁵⁶

- 3.21 **These lines of action will ensure the sustainability of the support that the Bank has been providing in these areas. The proposed support will contribute to the UIS objectives** of enterprise incorporation into value chains, financial inclusion, and the establishment of suitable knowledge and innovation ecosystems, as well as to the Brazilian government's objectives of expanding the economy's productivity and competitiveness.

II. Reduce inequity and improve public services:

- 3.22 The CDC (see CDC, chapter 1, pages 8-9) shows that the proportion of people living in poverty in Brazil went from 22.4% in 2004 to 9.0% in 2013, while the proportion of those living in extreme poverty dropped significantly, from 7.6% in 2004 to 4% in 2013. This means that more than 13 million people were lifted out of extreme poverty. These changes were accompanied by a reduction in income inequality, reflected in a drop in the Gini coefficient from 0.572 in 2004 to 0.527 in 2013. This result, although positive, puts the country on the same level of inequality as in the 1960s and remains higher than that of several Latin American countries, such as Argentina (0.436), Costa Rica (0.486), Ecuador (0.466), Mexico (0.481), and Uruguay (0.413).
- 3.23 **Inequity is even more evident in the regional distribution of income.** In 2010, GDP per capita in the North region was R\$12,701 and the Northeast had the lowest GDP per capita in the country (R\$9,561). Both figures were significantly lower than the Brazilian GDP per capita (R\$19,766). The CDC (see CDC, chapter 1, pages 38-39) also points to inequalities in access to public services in both in regional terms and in terms of income level. The Thematic Note – Regional inequalities (pages 5-29) provides some examples of this.
- 3.24 In the case of Family Health Program coverage, the average number of physicians per 1,000 inhabitants at the country level is 2. However, this average is only 1.01 and 1.23 in the North and Northeast regions, respectively. In addition, disparities are very evident with regard to the availability of imaging equipment, for example CT scanners. The average at the national level is 1.58 per 100,000 inhabitants. However, there are significant regional inequalities: 1.93 in the Southeast and South, compared to 0.99 in the North and 0.97 in the Northeast. Water supply coverage follows a similar pattern. While national coverage reaches 83%, coverage in the North region is 52% and only rises to 64% if urban areas alone are considered. In the case of education, there is significant inequality in terms of resources available at schools in the North and Northeast regions in comparison to the rest of the country. For example, in 2014, Ministry of Education data showed that the percentage of public primary schools with a library or reading room was 77.1% in the South; 70.3% in the Southeast; 62.4% in the Center-West; 28.1% in the Northeast; and 25.3% in the North.⁵⁷ There are similar differences in the availability of Internet access, computer

⁵⁶ With 12.2% of total credit targeting SMEs (Source: Central Bank), Brazil ranks 89th out of 189 countries in the Doing Business (2015) index in terms of SMEs' ease of obtaining credit.

⁵⁷ Ministry of Education data - <http://portal.mec.gov.br/>.

laboratories, sports fields, facilities, and adequate pathways for students with special needs or reduced mobility.

- 3.25 As indicated above, **disparities in access to public services are not only regional but are also associated with income quintiles.** According to the 2010 IBGE Census, 73% of the population with no access to adequate sanitation services has a per capita income of less than half the minimum wage.
- 3.26 In addition to the issue of access, the Instituto Data Popular (2014) survey shows that **Brazilians are not satisfied with the quality of public services.** On a scale of 0 to 10 points, public safety received the lowest score (3.64). The scores for public education (4.56), transportation (3.87), and health (3.73) also reveal challenges in achieving an improvement in the population's perception of satisfaction. In this regard, 81% of respondents indicate that they would prefer an improvement in public services over a reduction in taxes.
- 3.27 In keeping with the PPA guidelines, the Bank's country strategy has a dual objective regarding access to public services. On one hand, it seeks to expand access to quality public services for the lowest income quintile segments and the regions that are currently underserved. On the other, it seeks to improve the quality of services in general, regardless of the level of coverage.
- 3.28 In addition to being an end in itself, **improved quality of and expanded access to public services have been associated with a greater potential for economic growth.**⁵⁸ For example, the average output per hour worked at the main job for individuals 16 or older ranges from R\$7.32 for those with up to 4 years of education to R\$8.63 for those with 5 to 8 years of education, R\$10.72 for those with 9 to 11 years of education, and R\$27.52 for those with 12 years of education or more. Consistent with all the above, the PPA pursues two objectives that it considers inseparable: economic growth and a reduction in social and regional inequalities.
- 3.29 Thus, based on the CDC diagnostic assessment and in line with the PPA guidelines, the strategic objective of reducing inequity by expanding access to and improving public services will focus on the following priority sectors: water and sanitation, education, health, and citizen security.
- 3.30 **With regard to basic sanitation services**⁵⁹ (see Sector Contributions to the Country Strategy, Water and Sanitation section, pages 9-19), while major progress has been made in Brazil in terms of coverage of water supply services (between 1990 and 2013, water supply coverage at the national level rose from 67% to 83%, and coverage in the urban sector reached 93%),⁶⁰ these **advances are still not enough for Brazil to achieve its goal of universal service within a reasonable time frame.** In addition to insufficient access, the existing services are deficient in terms of delivery quality, principally due to inefficiencies. These

⁵⁸ Hanushek, E. and L. Woessmann. (2012). Schooling, educational achievement, and the Latin American growth puzzle. *Journal of development Economics* 99, 497-512. Gimenez, G. (2007). *Violence and Growth in Latin America*. Mimeo, University of Zaragoza, Spain.

⁵⁹ In Brazil, the definition of basic sanitation includes drinking water, sewerage and wastewater treatment, drainage, and solid waste services.

⁶⁰ SNIS/Ministry of Cities – Diagnostic Assessment of Water Supply and Sewerage Services - 2013, published in 2014.

- quality deficiencies mainly refer to the following: (1) the potability of the water supplied is not guaranteed for a portion of the population (specifically, according to SISAGUA data,⁶¹ in 2011 close to 52 million Brazilians received water in their homes that did not fully comply with the potability standards established by the government⁶²); and (2) the water supply is consistently intermittent (in 2010, close to 19 million families experienced systematic service interruptions, 95% of them in the Southeast region). Moreover, high water losses⁶³—38% on average at the national level, with extreme values at 52% and 34%—pose a major challenge to the sustainability of the sector and to the country's water security.
- 3.31 Even with regard to basic sanitation, the percentage of people living in households with wastewater service reached close to 49%⁶⁴ at the national level in 2013. Nevertheless, the National Sanitation Plan (PLANSAB 2013) figures show that only 39.7% of households have a sanitary sewer network considered appropriate, 50.7% of households live under precarious sanitary conditions, and only 39% of the wastewater produced is subject to adequate treatment and final disposal, giving rise to serious environmental and health problems for the population.
- 3.32 It is worth noting the impact of inadequate water supply and basic sanitation service on the health of the population, primarily through the prevalence of water-borne illnesses. Data from the Ministry of Health show that, at the national level, hospitalization rates for diseases related to inadequate environmental sanitation (DRIES)⁶⁵ dropped by approximately 40% between 2003 (380 admissions per 100,000 inhabitants) and 2013 (230 admissions per 100,000 inhabitants). This reduction is highly correlated to the expansion of basic sanitation services. Nevertheless, as indicated throughout this document, there are significant regional disparities. In this regard and in connection with the foregoing, in 2013, the North region had the country's highest hospitalization rates—450 hospitalizations for water-borne diseases per 100,000 inhabitants—followed by the Northeast region with 400 per 100,000 inhabitants. As indicated in the preceding paragraph, these two regions have the lowest rates of access to water and public sewer networks.
- 3.33 **In the water resources management area, greater participation and integration is needed** among government agencies at the various levels, watershed committees, the private sector, and other sector-related government agencies (such as environmental agencies). According to the OECD report of

⁶¹ www.saude.gov.br/sisagua

⁶² According to Ministry of Health Rule 2,914/11 regarding the thermotolerant coliform parameter.

⁶³ For example, Brazil loses 36.9% of the water it treats, and the rates for the North and Northeast regions are 49.3% and 44.6%, respectively. (SNIS - Diagnostic Assessment of Water and Sewerage Services, 2012). A survey conducted by IBNET (International Benchmarking Network for Water and Sanitation Utilities) using 2011 data puts Brazil in 20th place in a ranking of 43 countries. According to the study, Brazil loses 39% of its treated water. Losses before the water reaches the end user are the result of water leaks and clandestine connections. Brazil lags behind countries such as Vietnam (which loses 31%), Mexico (24%), Russia (23%), and China (22%).

⁶⁴ SNIS/ Ministry of Cities – Diagnostic Assessment of Water and Sewerage Services - 2013, published in 2014.

⁶⁵ The DRIES classification has five large transmission categories: fecal-oral; insect vector; hygiene-related; water contact; and soil-transmitted helminths and taenia (Ministry of Health, 2015).

- February 2015,⁶⁶ the main factors standing in the way of an adequate integrated management of water resources in Brazil are the following: (a) the various water resource plans at the national, state, and local levels are poorly coordinated and are ultimately not implemented; (b) inconsistency between municipal, state, and federal administrative borders and hydrological boundaries makes it difficult to determine an appropriate functional scale; (c) sector isolation of ministries and public agencies undermines policy consistency across the water resource, agricultural, energy, environmental licensing, sanitation, and land-use sectors; (d) the availability of data and information on accessible and good-quality water is insufficient, impairing effective decision-making in terms of who receives water, where, and when; and (e) watershed committees have robust deliberative powers but limited implementation capacity. In this context, cities lack contingency plans that would allow them to properly face the effects of extreme climate events (droughts and floods) resulting from climate change.
- 3.34 The PPA indicates that the government's key objectives are to promote integrated and sustainable urban development with expanded and improved sanitation conditions, enhanced water security with investments in infrastructure and improved shared management and conservation of water resources, in addition to promoting conservation, recovery, and sustainable use of natural resources.
- 3.35 In view of these issues, **the sector's challenges primarily consist in reducing the gaps in coverage of water and basic sanitation services**, particularly in the North and Northeast regions, as well as improving the quality of service delivery, both associated with achieving efficient and sustainable management by service operators. **Accordingly, based on the diagnostic assessments, the Bank will:** (i) support reducing coverage gaps in terms of access to sustainable water supply and basic sanitation services as well as improving the quality of existing services within the framework of a territorial planning and integrated intervention approach (integrated approach to infrastructure development, including sustainable operations management, water resource management, and promotion of social participation); (ii) promote improved governance of water resource management by strengthening watershed committees, including preparing plans for integrated management of water resources in watersheds that produce water for human consumption, plans for contingencies and emergencies created by climate change-related events (including adaptation and mitigation measures), and sharing of experiences with other, similar regions; and (iii) given fiscal constraints, where viable, implement PPPDs under various modalities, whether through partial interventions (as in the operation of wastewater treatment plants, loss reduction agreements, and others) or integrated interventions (management agreements, comprehensive concessions, etc.).
- 3.36 **In education**, as presented in the CDC (see CDC, chapter 3, pages 73-81), despite significant advances in recent years, **Brazil continues to face challenges in terms of education coverage and quality and job market integration**. All stages of education have coverage gaps. The National Education Plan (PNE) calls for universal coverage for children and adolescents

⁶⁶ OECD. Governance of Water Resources in Brazil. February 2015.

ages 4 to 17 by 2016. According to the PNE Observatory, 2.9 million children and adolescents ages 4 to 17 are not in school. Of these, 1.6 million are between the ages of 15 and 17, and 700,000 are of preschool age. Another PNE goal is to enroll 50% of children ages 0 to 3 in daycare centers by 2024, which will require almost doubling the current rate of coverage.⁶⁷

- 3.37 Complying with the PNE means adding more children and adolescents to all levels of the education system. As laid out in the CDC, in terms of coverage in Brazil there is ample room to support the expansion of the suitable school infrastructure. For the Bank, a suitable school infrastructure is one that is appropriate for the children and young people who use it, and that includes learning resources, such as technology to reach remote areas.
- 3.38 **In terms of education quality**, PISA data show that Brazil is the country in which test results in mathematics rose the most in the 2003-2012 period. However, in 2012 nearly 70% of students were at the lowest performance limit in this subject (and more than 50% in language and science). These inadequate learning rates significantly compromise the educational flow, resulting in high over-age rates (exceeding 30% in the final years of primary and secondary school) and low completion rates: in 2013, only 54.3% of 19-year-olds completed secondary school. These age-grade distortions are associated with school dropout (Fernandes, 2009, 2010; Gremaud, 2010).
- 3.39 As indicated in the CDC (see CDC, page 74), **the quality of education is impacted by the fact that teaching is viewed as an unattractive profession,⁶⁸ the hiring processes are ineffective, and teacher training needs improvement.** In the hiring processes, examinations focus only on regulatory issues and knowledge of the subject to be taught. In other words, the profession fails to attract the best, the competitions for posts do not always result in selecting the most suitable candidates, and the newly hired teachers do not receive adequate training to strengthen their capabilities.⁶⁹
- 3.40 The CDC also indicates that an improvement in learning levels requires multiple convergent strategies involving rating teachers and their performance within the system, revising curricula to make them more relevant to a successful transition to the job market or continuing education, and introducing new teaching practices and materials. Brazil has a well-developed culture of learning evaluation, with broad experience in applying standardized tests (municipal, state, and national) to measure learning. However, there continue to be limitations in the use of outcomes as performance feedback, in terms of informing education policies and adjusting curricular offerings.

⁶⁷ Brazil does not have available data on the shortfall of primary and secondary schools. Consequently, the number of children not in school is taken as a proxy of the lack of school infrastructure (number of schools).

⁶⁸ According to research conducted by the Carlos Chagas Foundation with young people in eight Brazilian cities, to be a teacher is to work hard, be poorly compensated, and have no, or almost no, social recognition." The Victor Civita Foundation and the Carlos Chagas Foundation (2009). *A Atratividade da Carreira Docente no Brasil. Estudos e Perspectivas Educacionais*; p.41.

⁶⁹ The Victor Civita Foundation and the Carlos Chagas Foundation (2009). *A Atratividade da Carreira Docente no Brasil. Estudos e Perspectivas Educacionais*.

- 3.41 **In addition to inadequate learning rates in traditional disciplines, young Brazilians attend schools that provide little preparation for the job market.** Research conducted by the IDB together with business people from Latin American countries showed a significant gap between the skills acquired by students in secondary school and those that are relevant for joining and successfully performing in the job market. Improvement in learning and the development of social and emotional skills are key to boosting labor force productivity, and are therefore directly associated with the competitiveness of the Brazilian economy. In addition, Brazil has a low proportion of students enrolled in technical schools aimed at providing vocational training and preparing young people for entry into the job market, particularly in the industrial and service sector: Brazil, 14.2%; Germany, 51.5%; Argentina 20.6%; Chile, 36.6% (UNESCO 2012). The CDC argues that the development of technical education can bring schools and companies closer, especially in the major urban centers, thus helping to increase school retention rates, offer opportunities for vulnerable youth, develop noncognitive skills, and increasing youth employability.
- 3.42 According to the PPA, expanding educational opportunities is essential to the country's development strategy. Thus, the PPA's approach goes far beyond the delivery of education services. The country needs the State, society, and the family to create the necessary conditions for ensuring education. This requires contending with poverty and inequality.
- 3.43 **Based on the diagnostic assessments presented, the Bank will act on education through SG and NSG operations to:** (i) increase coverage of education services by expanding school infrastructure and improving the existing school infrastructure and the use of technology to reach remote areas; (ii) improve quality through multiple convergent strategies, including improved teacher qualification, curriculum review, introduction of new teaching practices and materials, and strengthening of the use of learning data to provide feedback for education performance and offerings; (iii) build and strengthen vocational training technical schools; and (iv) given the fiscal constraints, strengthen the delivery of quality public education services by PPPDs when viable and appropriate.
- 3.44 **In health (see Sector Contributions to the Country Strategy, Health Section, pages 3-8), the PPA indicates the need to guarantee universal access to the primary and specialized network,** with an emphasis on high-quality comprehensive care and on strengthening the Unified Health System (SUS). In this regard, as a result of recent advances in primary health care, the share of maternal and child health problems in the burden of disease is progressively lower as compared to chronic non-communicable diseases (CNCD) and external causes, including violence and accidents, for which hospital care and the so-called rearguard of primary health care are critical. In addition to the impact on the workforce, the economic and fiscal costs of chronic diseases have also grown in recent years. A study of 23 low- and middle-income countries, including Brazil, Argentina, Mexico, and Colombia, estimated that US\$85 billion was spent between 2006 and 2015 in cardiac diseases, strokes, and diabetes. It is estimated that some US\$10 billion are spent each year in Latin America and the Caribbean on diabetes mellitus alone.

- 3.45 In fact, **the country's epidemiological pattern has created rising demand for hospitalization.** As shown by the volume of avoidable hospitalizations, this is partly due to the gaps in coverage and in the referral capacity of primary health care. In 2014, 31.87% of hospitalizations can be considered preventable if the primary care system were more effective. While the trend is favorable compared to 35.77% in 2008, the percentage is still high. The growth in hospitalizations is also due to demographic pressure and an aging population. Moreover, although the incidence of infectious-contagious diseases has been declining in recent decades, the country periodically experiences epidemic outbreaks (including the recent outbreaks of dengue and Zika, among others), which affect certain more vulnerable regions and population groups in particular, because these outbreaks are connected to precarious social and environmental conditions as well as specific seasons. Despite the fact that Brazil has a robust epidemiological surveillance system, some key challenges persist so that the information and data recorded in the context of the system can be processed and analyzed in a timely way in order to trigger a process of decision-making and timely and pertinent action by the various levels of government.
- 3.46 At the same time, despite the rise in access to primary health care, the network stopped expanding since 2002. Furthermore, the average national coverage of 70% is unequally distributed. There are significant gaps, primarily in large municípios (capital cities and metropolitan areas) that joined the Family Health Program at a late date and never made up the resulting lag, whose coverage now ranges on average between 35% and 55%. This pattern creates strong pressure on spending, which could be mitigated through an increase in primary health care coverage and referral capacity, an improvement in management throughout the service delivery network, and consolidation of a health care model based on health care networks coordinated by the primary health care system.
- 3.47 **In the health sector, the Bank will primarily focus on:** (i) promoting implementation/consolidation of the health care networks, not only to address the basic epidemiological profile but to prevent specialized care from being saturated by the increase in chronic diseases. This will be achieved by expanding access to primary health care in currently underserved areas and by increasing the quality of care through improved clinical and management performance using better management tools, effective information systems, clinical protocols, and ongoing training of health care professionals; (ii) structuring services to close delivery gaps and reduce regional inequities (by strengthening the primary health care rearguard for medium- and high-complexity services); (iii) consolidating regionalization by supporting governance bodies, regional agreement instruments, and the strengthening of regional regulatory systems; (iv) strengthening health surveillance systems, generating speedier decision-making and appropriate control responses for epidemic outbreaks; and (v) given the outlook of increased demand for health care and fiscal constraints, increasing the efficiency of resources by improving and introducing innovative management mechanisms and models, including PPPDs and purely NSG operations when viable and appropriate.
- 3.48 **As identified in the CDC, one of the most significant development gaps is in citizen security** (see CDC, chapter 3, pages 66-72). The CDC indicates that limited social and productive integration among youth, limited police

effectiveness in preventing, controlling, and investigating crime, and inefficient spending on security are the main factors responsible for the country's high crime rates. According to the Datafolha 2014 survey, Brazil has a homicide rate of 29 per 100,000 inhabitants, which is higher than the average for Latin America and the Caribbean (26.3 per 100,000 inhabitants in 2012). Perpetrators as well as victims of homicides are concentrated in the young male population aged 15 to 24. In 2012, the youth homicide rate reached 59.2 per 100,000 young people, more than double the rate for the general population. Because of the age bracket involved, this degree of violence has a negative impact on the country's productivity.

- 3.49 **The increase in homicide rates over the last decade was not very significant at the national level but was regionally very uneven.** While homicide rates dropped by 43% in the Southeast region, they experienced significant growth in the four other regions, primarily in the North region (71%) and in the Northeast region (73%). In addition, 76.3% of young victims of homicide were Afro-descendants.⁷⁰ The prevalence of murders of young blacks is a national trend in Brazil: on average, young blacks are 2.5 times more likely to die than young whites. In some states in the Northeast, such as Alagoas, the risk of dying is 8.75 times higher for a young black than for a young white. In Paraíba, the risk is 13.40 times higher; in Pernambuco it is 11.57 times higher; and in Ceará it is 4.01 times higher. As indicated in the CDC, sexual and domestic violence is also significant and has a major impact on the country's productivity (1.2% of GDP, according to the World Health Organization).
- 3.50 According to the PPA, strengthening public security and reducing homicide rates by integrating the public policies among federated entities, reinforcing border controls, and promoting a culture of peace are government priorities.
- 3.51 **Based on the diagnostic assessments presented, the Bank will act on citizen security to:** (i) support a comprehensive approach to youth crime and violence (homicides and robberies), including community police activity with the active participation of organized civil society and the provision of cultural, sports, and recreational services for young people, primarily in the North and Northeast regions, which have the highest rates of violence; (ii) foster greater progress in managing public safety through better information sharing, gathering of security-related information, and coordination between the various law enforcement and justice agencies; (iii) support actions to prevent and reduce the vulnerability of young Afro-descendants in situations of physical and symbolic violence by creating opportunities for social inclusion; and (iv) boost the efficiency of resources through improved and innovative management mechanisms and models, including PPPDs when viable and appropriate.
- 3.52 **The proposed support will contribute to the UIS objectives** of social inclusion and equality, development of quality human capital, and inclusive infrastructure. It also contributes to the Brazilian government objectives of fostering social inclusion by expanding effective social services. These actions will complement an extensive existing portfolio in the education, health, water and sanitation, and

⁷⁰ The IBGE uses the terms “*preto*” and “*pardo*” for Afro-descendants.

citizen security areas that has been supporting most of the above-described actions.

III. Strengthen institutions at the three levels of government (federal, state, and municipal):⁷¹

- 3.53 As indicated above (paragraphs 3.10, 3.12, and 3.14), a complex tax system, the heavy bureaucratic burden, and the difficulties of management and limited investment in infrastructure are impediments to increasing the Brazilian economy's productivity and competitiveness.
- 3.54 **The complexity of the tax system stems from the country's federative model,**⁷² which provides each level of government with a certain degree of fiscal autonomy to design and implement its own fiscal policy.⁷³ Tax powers include setting tax rates, granting exemptions, and administering taxes. This results in a tangle of tax compliance rules and a multiplicity of tax structures.⁷⁴ Such diversity creates a heavy bureaucratic burden that raises the cost of compliance for businesses and accordingly casts a pall on the business climate (see paragraph 3.10).
- 3.55 **The current system of tax autonomy generates incentives for subnational governments to adopt strategic fiscal behaviors** in an effort to create benefits in their jurisdictions to the detriment of others. One example is the so-called "fiscal war" used by states to attract investment through tax exemptions (Ter-Minassian, 2015).⁷⁵ In 2012, this dynamics totaled R\$52.7 billion (US\$15 billion) in tax waivers by states, accounting for 16.6% of the ICMS revenue and more than 200% of public investment in some states.⁷⁶
- 3.56 **The inadequate level of public investment is partly the result of an absence of fiscal headroom and inefficient public expenditure.** In 2013, total public sector investment slightly exceeded 3% of GDP.⁷⁷ In terms of fiscal headroom, the compulsory nature of pension and personnel expenditures and the high level of revenues earmarked for specific areas such as health and education (see

⁷¹ The vast majority of Bank projects in Brazil include an institutional strengthening component to support the sustainability of investments and improve the management and execution of public resources. For example, the projects carried out under the Program to Support Management and Integration of Tax Administrations in Brazil (PROFISCO), a Conditional Credit Line (CCLIP) aimed at helping to integrate tax administrations and modernize fiscal, financial, and property management by the states.

⁷² The model consists of three levels of government: federal, state (comprised of 27 states), and municipal (comprised of 5,565 municípios).

⁷³ For more information on the federative model, see CDC, pages 83-86.

⁷⁴ In the period from 1988 to 2010, close to 250,000 tax rules were issued, that is, an average of 31 a day. Of this total, only 7.4% were still in effect in 2010. With regard to the goods and service sales tax (ICMS), the main tax in Brazil, there are more than 40 different types of tax rates in the 27 states.

⁷⁵ Ter-Minassian, T. (2015). The elusive goal: Brazil's subnational revenue system reform. In *Decentralizing Revenue in Latin America: Why and How?* Fretes, V. and T. Ter-Minassian Eds. Inter-American Development Bank.

⁷⁶ IDB (2014). *A renúncia tributária do ICMS no Brasil*. José Roberto Afonso (coordinator). Ricardo Silveira, Célia Carvalho, Danielle Klintowitz, and Felipe de Azevedo. IDB Discussion Paper-DP 327.

⁷⁷ As calculated by the authors based on data from IBGE and the National Treasury Department. This investment includes not only infrastructure but other items as well, such as low-income housing, schools, hospitals, and public administration.

CDC, chapter 3, pages 83-84) have contributed to sustained growth in current expenditures and reduced headroom for investment. Moreover, in a context in which coordination among levels of government is still in construction, subnational current expenditures are under pressure by, for example, the establishment of spending requirements at the federal level with limited transfer of resources to the states and municípios (e.g. the Solid Waste Law, which can account for up to 15% of tax revenue in some municípios, and Law 11,738 of 2008, which provides a national wage floor for public school teachers in states and municípios, with annual readjustments). Similarly, federal government decisions regarding the shared tax system impacts subnational revenue levels and creates budget financing uncertainty for decentralized entities. For example, the federal government's decision regarding tax exemptions and rate reductions on the manufactured goods tax and other taxes in 2014 represented a loss of R\$88.2 billion (US\$25.2 billion) for the states and municípios.⁷⁸ The situation is even more complex for the subnational entities that are more dependent on federal transfers, such as the North and Northeast states, where transfers account for approximately 70% and 60%, respectively, of total revenue, compared to a national average of 45% (see Thematic Note: Regional inequalities, fiscal management section).

- 3.57 **With regard to the efficiency of public spending** (see CDC, chapter 3, pages 82-91), according to the 2015-2016 World Economic Forum (WEF) Global Competitiveness Index, Brazil attained a score of 1.9 in government efficiency,⁷⁹ ranking 133rd out of 144 countries, below the average for Latin America and the OECD. The country's public sector faces difficulties in expenditure execution and management, particularly in respect of investments. Each year, only a portion of the authorized public investment is implemented, whether at the federal or subnational level (see CDC, Tables 6 and 7). In 2014, only 77% and 68%, respectively, of the approved federal and state investment budgets were actually executed. The increase in execution of investments in infrastructure generates positive impacts on productivity trends.

⁷⁸ With regard to assigning expenditure functions, while Brazilian legislation identifies areas of jurisdiction by government level based on the standards recommended in international literature and experience (Afonso, 2010), there is in practice an overlap of responsibilities and activities. Certain responsibilities, primarily for health and education services, were decentralized to the states and municípios, although the federal government maintains a strong presence in both sectors in terms of policy decisions. In education, for example, the municípios are responsible for early childhood and primary education, states are responsible for secondary, vocational, and technical education, and the federal government is responsible for higher education. In health, all levels of government are responsible for social protection, primary care, and hospital care. The same is true in the social security area (Mártinez-Vázquez, 2010). Thus, while each level has a defined sphere of action in each sector, in fact there is a duplication of efforts, primarily due to a lack of coordination of actions among the different government levels. In terms of assigning jurisdiction over revenue, the taxation powers assigned to municípios, such as with respect to the property tax and the service tax, are those typically assigned to local governments. However, only in India and in Brazil are states assigned jurisdiction over the VAT. In other countries, federative or not, this tax is traditionally within the purview of the central government. In other federative countries in Latin America, such as Argentina and Mexico, there are tax alternatives for the intermediate level of government, such as the gross receipts tax and payroll tax, respectively.

⁷⁹ The score is based on responses to the following question: In your country, how efficiently does the government spend public revenue? (1 = extremely inefficiently to 7 = extremely efficiently).

- 3.58 **The main reasons for low public expenditure efficiency include weaknesses in strategic planning and management;** inefficient internal management of public entities; obsolescent public financial management systems; limited integration of information systems and management use of data; limited coordination between budget programming and strategic priorities; and insufficient capacity for analysis, monitoring, and evaluation of government programs and projects.⁸⁰ In addition, the planning instruments do not consider climate change impacts, raising investment risk levels in case of an increase in extreme climate events.⁸¹ While the weaknesses vary from state to state as well as between the states and the federal government, and there are different levels of progress, they have all been implementing actions related to financial management and budget mechanisms, management system integration, and public procurement, among others.
- 3.59 Given the above-described country context, **institutional strengthening in Brazil means enhancing public resource management by improving government financing** through a simpler and more efficient tax system and greater efficiency, quality, and transparency in public expenditure. This involves, on one hand, simplifying taxes, creating fiscal control mechanisms, and improving the collection and oversight processes;⁸² and on the other hand, improving public management throughout its value chain and promoting greater cooperation among the three levels of government.⁸³
- 3.60 **In the coming years, the Bank plans to continue supporting institutional strengthening of the various levels of government by:** (i) implementing fiscal management modernization programs⁸⁴ focused on planning and streamlining public expenditures and simplifying the tax system; (ii) implementing programs in support of fiscal reforms centered on balancing the public accounts, focusing on the need for states and municípios to mobilize their own resources and thereby

⁸⁰ For example, in the state of Bahia, one of the most advanced in terms of strategic planning, only 2 of the 47 thematic programs comprising the 2012-2015 PPA were implemented on baseline scenarios following the strategic planning methodology and only 20 (42.55%) are being periodically monitored for performance. This is well below international practice. Moreover, in only 2 of Bahia's 24 departments of state is budget planning aligned with the PPA strategic programming (Superintendence of Strategic Planning (SEPLAN/SPE)).

⁸¹ In the first half of 2015, the state of Amazonas support program identified a loss of more than R\$60 million in undertakings by small and medium-sized rural producers located in the state's high plateaus.

⁸² A partial evaluation of the PROFISCO program (BR-X1005) showed that ICMS revenue grew by 1.03% of GDP in states where execution is most advanced, while it grew by 0.3% of GDP in the other states. Econometric analyses indicate that PROFISCO is responsible for 6.16% of the ICMS revenue increase in states with more advanced execution.

⁸³ The country's level of transparency in the management of public resources remains low. According to the WEF's 2015-2016 Global Competitiveness Index, Brazil ranked 129th out of 140 countries. It also scored 3.1 points in terms of how easy it is for businesses to get information on changes in public policies and regulations that affect their activities (in a range where 1 means extremely difficult and 7 means extremely easy to obtain information). In Latin America, only Argentina (3 points) and Venezuela (1.8 points) fell below Brazil on this index.

⁸⁴ The Bank currently has 28 operations to modernize fiscal management: the Program to Support the Management and Integration of Finance Administrations in Brazil (PROFISCO) (BR-X1005), for US\$700 million, and the National Program to Support the Administrative and Fiscal Management of Brazilian Municípios (PNAFM) – phases 2 and 3 (BR-L1252 and BR-L1377), for US\$150 million.

reduce their dependence on federal transfers; (iii) implementing public management modernization programs on an integrated basis throughout the public value chain, from the most macro components with the incorporation of technology into their various aspects (strategic planning, improvement of prioritization systems, and preparation, monitoring, and evaluation of investment projects) to the intermediate components (improvement of management systems);⁸⁵ (iv) promoting studies and debates aimed at improving policies in those areas and mechanisms for intergovernmental cooperation; (v) strengthening the debate at the federal level to reduce the risks associated with the issue of climate change in Brazil; and (vi) creating strategies and tools to improve budgetary planning that include the relevant aspects of climate change.

- 3.61 **The proposed support will contribute to the UIS objectives** of strengthening the quality and accessibility of the services delivered to the population and reducing the constraints on business growth and productivity. These actions will complement actions under the portfolio in execution in the public and fiscal management areas (e.g. PROFISCO) as well as the Brazilian government's objectives of promoting democratic and transparent public management, focusing on the quality of public services.

IMPLEMENTATION APPROACHES

- 3.62 As indicated above, the proposed implementation approach takes into account the dialogue with public, private, and civil society actors, the gap analysis presented in the CDC, and the impact of the Bank's work in the country. These elements should guide implementation of the country strategy in a way that seeks to prioritize those interventions—in the context of priority areas—that contribute, directly or indirectly, to the promotion of PPPDs, the sustainable development of metropolitan areas, and the reduction of regional gaps.

A. Strengthening of public-private partnerships for development (PPPDs)⁸⁶ (see Thematic Note: Public-private partnerships for development (PPPDs)):

- 3.63 As indicated above, Brazil's investment rate as a percentage of GDP is lower than that of countries of similar income and other countries in the region. Brazil has invested less than the amount required to grow sustainably and in line with its potential and reduce the nation's social inequalities. According to the WEF, Brazilian infrastructure ranks 123rd out of 140 countries evaluated.⁸⁷
- 3.64 The size and complexity of the investment challenges faced by Brazil in infrastructure and public service delivery require a combination of public and private financial and nonfinancial resources. PPPDs are a significant public policy alternative for encouraging investment and managing public expenditure while

⁸⁵ The Bank currently has four operations aimed at modernizing public management: BR-L1269; BR-L1224; BR-L1269; and BR-L1060, for a total amount of US\$42.15 million.

⁸⁶ PPPDs are partnerships encompassing various types of public-private relationships focused on development objectives, particularly in the financing of infrastructure and the delivery of quality public services. They include, among others, PPPs; corporate social responsibility (CSR); Social Impact Bonds (SIBs), and consortium-based urban operations. (International Business Leaders Forum – 1998; CIDEAL Foundation 2013).

⁸⁷ The Global Competitiveness Report 2015-2016.

- helping to support fiscal sustainability.⁸⁸ This alternative should be examined in the context of infrastructure financing programs, such as the Logistics Investment Program, or the subnational programs, and in the public service delivery frameworks identified by the public entities.
- 3.65 The current climate of weak growth and low productivity raises expectations regarding the potential role of PPPDs in the infrastructure sector⁸⁹ and in other areas that are key to the country's economic growth. However, advancing this agenda requires reinforcing the institutional capacity of the federative entities to enable this type of strategic partnership to make an efficient and effective contribution. The current practice of maintaining an ongoing and timely dialogue with the private sector will be continued during the process of developing and managing these partnerships. One source of potential synergy is creating capacities to manage PPPDs in the metropolitan agencies, which would make it possible to consolidate PPPDs within a larger territorial area⁹⁰ and foster access to smaller municípios efficiently.
- 3.66 In terms of public service offerings, PPPDs have helped to expand the spectrum of offerings by attracting private investment in, for example, health, education, and water and sanitation, and by strengthening management models through the introduction of best practices from the private sector. For example, as indicated above, a significant space for private-sector participation has been developed in the health sector using the PPPs established under Federal Law 11,079/04, and several hospitals are already operating under this arrangement.⁹¹ This is also the case in the education and water and sanitation sectors.
- 3.67 There are multiple and significant potential spaces for PPPD action to help close the infrastructure financing gap and provide support for project structuring and management. In terms of Bank actions, the role of the IDB, together with BNDES and the International Finance Corporation, in the Project Structuring Area Facility (AEP) is worth noting.⁹² The AEP is an example of high value added, where a low investment by the IDB has made it possible to structure 21 PPP projects over the course of eight years for an aggregate amount of US\$1.6 billion.

⁸⁸ As of June 2014, according to the PPP Unit at the Ministry of Planning, there were 42 PPP contracts for an approximate aggregate investment of R\$105.4 billion in various sectors such as urban transportation, roads, sanitation, health, citizen security, etc.

⁸⁹ In 2015, the Government of Brazil launched the Logistics Investment Program, which involves granting a package of logistics-related public service concessions (roads, airports, railways, and ports) to the private sector for a total of R\$198.4 billion.

⁹⁰ Thematic Note: Metropolitan regions. 2015.

⁹¹ Private sector participation as a supplement in the area of health care, including emergency services and primary health care, has been explored in recent years. This is an important field for experimentation, as illustrated by cases such as the Hospital do Subúrbio and Diagnostic Imaging Center in Bahia and the Hospital Regional Metropolitano in Ceará.

⁹² The role of the AEP is to support the structuring of concession/PPP projects in all spheres of government. There is no cost to interested parties and no obligation to secure financing with BNDES. As of November 2015, of the 24 completed projects, 89% (21 projects) for a total of R\$5.942 billion (US\$1.559 billion), had secured financing. These projects are in the areas of urban mobility, sanitation, security, education, health, and others. The PPPs took an average time of 20 months to structure and the bidding processes had an average of 5 participants.

3.68 In addition, the Bank has been strategically positioning itself in this field since 2013 in the framework of the PPPD Debate Cycle by providing training, dissemination of best practices, and support for states and municípios in specific projects.⁹³ Through existing NSG operations and participation, we are supporting the development of a solid institutional capacity in the areas of governance, fiscal management, treatment of contingent liabilities, support for oversight agencies, accounting records, guarantees, feasibility and contracting studies, monitoring and evaluation, financial models, technical assistance, and bidding processes, among others, with a view to promoting the development and implementation of successful PPPD projects.⁹⁴

B. Sustainable economic development of the metropolitan areas (see Thematic Note: Metropolitan regions):

3.69 Brazil is one of the most urbanized emerging countries (84% of the population lives in urban areas),⁹⁵ and the proportion is expected to reach 93.5% by 2050.⁹⁶ This high degree of urbanization underscores the importance of improving access to public services in cities and metropolitan areas.⁹⁷ Such an improvement plays an essential role in reducing inequity and enhancing quality of life. For example, in the case of violence, 19 of the world's 50 most violent cities are in Brazil and all are either capitals or are in metropolitan regions.⁹⁸ These problems create significant institutional and fiscal pressures to generate the resources needed to address a growing demand for public services associated with the high urbanization rates.⁹⁹

3.70 The Bank has experience in multisector, multidimensional urban interventions in which various stakeholders participate (e.g. Procidades, Emergin and Sustainable Cities Initiative, municipal management, urban transportation). However, undertaking actions in metropolitan areas poses a major challenge in terms of the institutional and regulatory framework, primarily with regard to strengthening management mechanisms, to find a balance among the federative

⁹³ One example of our support (SG and NSG) in PPPDs is the LED lighting project for the city of São Paulo. Such support included: (i) technical cooperation to support the project's operational analysis; (ii) training for managers and oversight agencies in the preparation and management of PPP contracts; and (iii) advice on procurement issues. SCF has also been monitoring the process with a potential interest in providing Bank financing to the winning consortium.

⁹⁴ For example, in project BR-T1327, SG and NSG efforts collaborating with the Ministry of Finance combine to develop an electronic platform aimed at facilitating private investment in the infrastructure sector.

⁹⁵ Adding together the country's metropolitan regions and integrated economic development regions, Brazil now has 39 urban agglomerations that house 90 million inhabitants, accounting for 47% of the country's total population and generating 61% of the national GDP (IPEA, 2013, with IBGE data for 2010). Taking up barely 6% of Brazil's territory, these regions face similar challenges in terms of organization and delivery of public services.

⁹⁶ Source: Demographic Trends 2000, IBGE.

⁹⁷ According to the criteria adopted by the Brazilian Geography and Statistics Institute (IBGE), a metropolitan area is an urban agglomeration that qualifies as a metropolis; in other words, an urban space with territorial continuity that, because of its population size and political and socioeconomic significance, has influence on the nation as a whole or on a region.

⁹⁸ Consejo Ciudadano para la Seguridad Pública y Justicia Penal A.C. (2014). Security, Justice, and Peace.

⁹⁹ Of the households that in 2012 lived on monthly income of up to R\$140 per capita, 58.7% lived in cities (IBGE/PNAD; IDB preparation).

entities through joint action with positive repercussions in the area of intervention.¹⁰⁰ In addition, actions in metropolitan areas allow the Bank to more efficiently support smaller municípios.

- 3.71 In addition to its high degree of urbanization, Brazil's population is in large part concentrated in coastline areas. This entails significant urban infrastructure and management requirements in sectors such as water and sanitation, mobility, education, health, and disaster management during extreme climate events. There is a need to design and disseminate effective instruments to provide local governments with the required support in terms of managing climate risk, mapping vulnerabilities, and assessing opportunities to reduce greenhouse gas emissions. NSG participation in the planning and management process would help to identify and take advantage of synergies between SG and NSG actions and mobilize private sector resources.
- 3.72 Support for urban areas will need to reinforce actions for social and economic inclusion of the most vulnerable population groups, address the growing demand for quality public services by the new middle class, boost the country's productivity, address the challenges of environmental sustainability and climate change in an urban environment, and support the institutional strengthening and fiscal sustainability efforts of the respective federative entities.

C. Reduction of regional socioeconomic inequalities (see Thematic Note: Regional inequalities):

- 3.73 Despite the economic growth of recent years, inequalities persist not only among the various geographic regions but even within states. These inequalities must be reduced in order for all regions to achieve sustainable growth to enhance equity and diminish the pressure on the population to migrate to urban areas. GDP is a key indicator of existing regional inequality. In 2012, the Southeast region's GDP was respectively 4.1 and 10.5 times higher than the GDP of the North and Northeast regions. While the population living below the poverty line in the North and Northeast regions respectively fell from 45.4% and 59.4% in 2001 to 25.8% and 28.8% in 2013, it is still much higher than in the country's other regions, where the poverty rates fell below 8% in 2013.¹⁰¹
- 3.74 Regional disparities are additionally evident in the access to quality public services. Existing geographic and sanitary barriers and low population density make the North and Northeast regions particularly challenging for modeling public health supply. In fact, the same is true of potable water coverage and citizen security issues.
- 3.75 Even in the country's richest states, significant asymmetries remain, such as income distribution. For example, in the state of São Paulo,¹⁰² the richest in the country, there is a significant difference among its municípios. The 64 municípios

¹⁰⁰ Known as inter-federative governance, it refers to the assignment of responsibilities and actions among the federation's entities in terms of organizing, planning, and executing public functions of common public interest.

¹⁰¹ Source: IBGE.

¹⁰² Source: IPEA/João Pinheiro Foundation/UNDP—*Atlas do Desenvolvimento Humano no Brasil*—2013 with data from the census (IBGE).

(10% of the total number of municípios) with the lowest percentage of poor people had an average of 8.71% of their population living below the poverty line. Meanwhile, the 64 municípios with the highest percentage of poor people had an average of 42.12% of their population living below the poverty line (almost six times more). In the city of São Paulo, the richest in the country, 14.69% of its households are vulnerable to poverty, 4.27% are poor, and 0.92% is extremely poor.

- 3.76 In terms of equity, there is also a significant racial and gender difference among states, with a greater preponderance of Afro-descendants in several of the states in the Northeast region and restrictive access to education and basic services for this portion of the population. In 2013, an Afro-descendant male had an average of 6.1 years of education in the Northeast and 7.6 years in the Southeast, while a white male had an average of 7.4 years of education in the Northeast and 9.2 years in the Southeast. An Afro-descendant female had an average of 6.9 years of education in the Northeast and 7.9 years in the Southeast, while a white female had an average of 8.1 years of education in the Northeast and 9.3 years in the Southeast.¹⁰³ Regardless of education level, women earned a lower income in all regions. In 2012 in the Northeast, men had an average income of R\$1,713.50 compared to R\$1,567.82 for women. In the Southeast, men had an average income of R\$2,447.20 compared to R\$1,920.62 for women.¹⁰⁴ Furthermore, in the job market, women, young people, Afro-descendants, and the extremely poor are the most vulnerable groups in terms of access to employment. These groups have the highest unemployment and informal employment rates, as well as the lowest income. Moreover, more than 6 million Brazilians ages 15 to 24, comprising close to 20% of the population in this age bracket, neither study nor seek employment.
- 3.77 In terms of climate change there is still a need to improve the dissemination of instruments for evaluating the costs of negative impacts on the Brazilian economy, society, and ecosystems. The Bank will promote environmental and social sustainability practices among private sector actors. Equally important is gaining a better understanding of the costs associated with climate change adaptation policies in the country's most vulnerable areas, namely: the semiarid parts of the country's Northeast, the Amazon basin, urban areas with low human development indexes, and coastline areas highly exposed to sea level rises.¹⁰⁵

CROSSCUTTING ISSUES IN THE INSTITUTIONAL STRATEGY

- 3.78 **Brazil has the largest Afro-descendant population in Latin America and has broad ethnic and racial diversity.** However, there are persistently significant racial and gender disparities in terms of education levels, access to basic

¹⁰³ Source: IBGE/PNAD.

¹⁰⁴ Source: RAIS.

¹⁰⁵ The data presented by the Office of the President of Brazil during the Conference of the Parties to the United Nations Framework Convention on Climate Change held in Copenhagen (COP-15) indicate that achieving full compliance with nationally appropriate mitigation actions will require investing US\$166 billion through 2020. These investments would focus on agriculture (low-carbon technologies), deforestation reduction in the Amazon basin and in Cerrado, renewable energy and energy efficiency, biofuel, and the use of charcoal from planted forests and the iron and steel industry.

services, and job market returns.¹⁰⁶ According to the country's 2010 demographic census, the Afro-descendant population accounts for 50.7% of Brazil's total population. Despite the strides made in recent years to promote social inclusion, 67% of Brazil's illiterate population is Afro-descendant. In addition, 60% of those who earn less than the minimum wage are Afro-descendants, while only 17% of those who earn more than 10 minimum wages are Afro-descendants. In the private sector, only 4.7% of executives are Afro-descendants (94.2% are white and only 13.6% are women).¹⁰⁷ The Bank promotes the social inclusion of various vulnerable groups through programs with the public and private sectors in areas such as: (i) access to job markets by diverse groups; (ii) incorporation of diversity in the value chains of businesses; and (iii) selection for senior management posts and promotion of groups that have been historically excluded from executive positions in the private sector.¹⁰⁸ Public policy can promote social inclusion by: (i) improving the state job placement system so as to make it more inclusive; (ii) preventing and reducing the vulnerability of young Afro-descendants and women to violence; and (iii) strengthening education system monitoring and evaluation through the use of statistics broken down by race, so as to improve the design of evidence-based public policies.

- 3.79 **In terms of climate change**, Brazil is vitally important on the global stage. It accounts for 12% of the world's fresh water and has the world's largest tropical forest cover.¹⁰⁹ At the same time, as indicated in the CDC, the water and energy crises are examples of the challenge faced by the country in terms of adapting to climate change. While there is a degree of uncertainty as to the potential negative impacts, it is clear that water variability has a significant effect on economic activity (particularly in sectors such as agriculture, hydroelectric power production, mining, and infrastructure) and on social wellbeing (rationed access to water and energy for human consumption).
- 3.80 Bank interventions will take their environmental impact into account. The specific actions being proposed are to: (i) create innovative mechanisms and instruments to leverage national and external resources to reduce carbon emissions and socioeconomic vulnerabilities; (ii) support the production of strategic knowledge for decision-making; (iii) boost cooperation initiatives among the countries in the region to improve climate risk mapping and management, and support public-private best practices and strategies to expand investments aimed at reducing greenhouse gas emissions; and (iv) for private entities, promote the adoption of sustainable business practices, including increased energy efficiency and other efforts to mitigate greenhouse gas emissions.

¹⁰⁶ Afro-descendants have fewer years of education than whites (7.2 years versus 8.8 years). In addition, Afro-descendant males have a lower average income than white males (R\$1,633.41 versus R\$2,870.27), and a young Afro-descendant is 2.5 times more likely than a young white to die a violent death. Source: *Mapa de Violência*, 2014.

¹⁰⁷ *Perfil Social, Racial e de Gênero das 500 Maiores Empresas do Brasil e Suas Ações Afirmativas*, Instituto Ethos, forthcoming 2016.

¹⁰⁸ Specific actions include: (i) expanding public-private dialogue in socioeconomic inclusion forums (such as *São Paulo Diverso*) to develop innovative solutions; (ii) conducting research to systematize and encourage greater participation by diverse groups in the private sector; and (iii) developing programs to encourage entrepreneurship through training and awareness-raising in businesses.

¹⁰⁹ Source: Ministry of Environment.

Dialogue areas

- 3.81 The Bank will promote dialogue on the strategic issues identified above as well as on supplementary matters that can strengthen public decision-making and support the identification of new and relevant issues for the country's sustainable development. One of the issues identified by various actors is communication and a search for solutions among the legislative, executive, and judicial branches of government. More dialogue between the different branches increases synergies and makes it possible to deliver services to the population more efficiently and timely.
- 3.82 The Bank will encourage discussions regarding innovation in Brazil and how this affects business productivity by facilitating dialogue between the various actors, thus increasing exchanges between the public and private sectors to stimulate investment in innovation and technology. In this regard, successful cases in the agricultural, aerospace, and biotechnology industries, which have benefited from innovation policies, are worthy of note. In addition, the Bank will foster debate on the importance of regional integration and its impact on corporate competitiveness and economic productivity. Furthermore, the Bank will promote a dialogue on agriculture, food security, and the significant role of small and medium-sized producers and their impact on the country's sustainable development. Dialogue between energy sector actors regarding energy costs in Brazil and their potential impact on productivity will also be promoted. The solution alternatives¹¹⁰ are diverse and require dialogue between the public and private sectors as well as participation by authorities at all levels of government and by businesses. Lastly, the Brazilian pension system is a very important dialogue area. The country's population has been aging in recent years, a factor that will increase the pressure on the pension system. The pension-related fiscal challenge is probably one of the most significant to be faced by Brazil in the coming decades. Unless pension reforms are tackled, it is estimated that Brazil will spend 16.8% of GDP on public pensions by 2050 (Clements, 2012).¹¹¹

Knowledge agenda

- 3.83 Within the framework proposed for the strategy, a knowledge agenda is proposed that will enable a better understanding of the topics identified in the strategic areas and dialogue areas by compiling data and conducting evaluations, studies, and seminars to support public policy formulation. The knowledge agenda seeks to guide the Bank's action to continue moving forward in the deepening of its expertise in the design and execution of investment projects with an impact on sustainable and inclusive development at the subnational level. To this end, work on the knowledge agenda and on the strengthening of PPPDs, which began in 2013, will continue, thereby deepening the framework of action on topics such as metropolitan areas and regional inequalities. In terms of boosting productivity and competitiveness, the agenda

¹¹⁰ There are opportunities in the development of nonconventional renewable energies (solar, wind, biofuels, etc.), and in the promotion of commercial and industrial energy efficiency that could help reduce the business sector's costs.

¹¹¹ Clements, B., D. Coady, F. Eich, S. Gupta, A. Kangur, B. Shang, and M. Soto. "The Challenge of Public Pension Reform in Advanced and Emerging Market Economies," International Monetary Fund, Occasional Paper 275 (2012).

seeks to understand how the country can increase the export of differentiated and more complex goods with more value added. In addition, the question of how improving business capacities can stimulate the country's productivity trend will be analyzed. The design of a long-term financing model mainly for investment in infrastructure and SME development is being proposed. As to reducing inequity and improving public services, the agenda will analyze how the country can respond to social demands in a period with no fiscal headroom, and existing synergies in investment projects in different areas, such as security and education, will be reviewed. Lastly, in terms of institutional strengthening at the three levels of government, the fiscal situation of the subnational governments will be analyzed together with policies to generate a balance in the public accounts and improved public sector management and transparency.

IV. ESTIMATED LENDING FRAMEWORK

- 4.1 In the period of the 2012–2014 strategy, while the federal government obtained its funding almost exclusively from the domestic financial market by issuing National Treasury securities, the states and municípios financed their expenditures by increasing their bank and external debt. The bank debt of states and municípios went from R\$34 billion (US\$17.4 billion) in 2012 to R\$90.8 billion (US\$38.6 billion) in 2014. In turn, external debt went from R\$30.5 billion (US\$15.6 billion) in 2012 to R\$70.5 billion (US\$30.0 billion) in 2014. Notable for its priority status for multilateral development banks, which are the principal source of external borrowing by states and municípios, the Northeast region showed the largest increase in external debt, which went from R\$6.1 billion (US\$3.12 billion) in 2012 to R\$19.1 billion (US\$8.12 billion) in 2014.
- 4.2 In 2015, the country adopted measures designed to balance the public accounts and reduce debt. In addition to reducing expenditures, eliminating subsidies, and raising taxes, the federal government limited subnational entities' access to various sources of credit, including public banks and multilateral development banks.
- 4.3 During the 2016-2018 strategy period, the Bank estimates approval and disbursement levels averaging on the order of US\$1.8 billion per year in approvals and US\$1.2 billion per year in disbursements. An SG financial envelope of US\$5.0 billion to US\$5.5 billion is estimated, to be absorbed mostly by subnational borrowers in line with historical demand but with an opening for new demand at the federal level, particularly to support infrastructure programs (e.g. the Logistics Investment Program). Approvals are projected to rise in the last two years of the strategy, generating a backloaded financial scenario. This indicative scenario will in large measure depend on the space for loan operations generated by the country's fiscal policy. These preliminary projections are subject to uncertainties with respect to the scope and impact of the fiscal adjustment program that the government is implementing to resume economic growth. This could have an impact on the volatility and makeup of the program with the country.

V. STRATEGY IMPLEMENTATION

- 5.1 **Adoption of country systems.**¹¹² The most recent diagnostic assessments of fiduciary systems in Brazil¹¹³ indicate that these systems are supported by a legal framework that provides a basis for sound management of administrative procedures and financial, control, and procurement processes, in compliance with principles of transparency, economy, and efficiency. During the strategy period, plans call for performing diagnostic assessments of the states' financial administrative systems. At present, the Bank relies 100% on the budget, treasury, and accounting systems and strengthening work is under way to increase the use of procurement, accounting and reporting, internal audit, and external control systems.
- 5.2 **Aspects of execution.** During the strategy period, the Bank will continue to work on strengthening and using the country systems at the federal, state, and municipal levels. It will also work on supporting modernization of the processes and roles of the Supreme Audit Institutions (SAIs) and application of more advanced auditing standards, and on fostering awareness of international good practices in the areas of financial management and procurement. To such ends, dialogue with and systematic strengthening of SAIs will continue through training events, sharing of experiences, south-south cooperation, and other means. In addition, support for the strengthening of the operational capacity of the Office of the Comptroller General of the Union (responsible for auditing Bank projects at the federal level).
- 5.3 Similarly, support the states will continue in order to strengthen the financial administration systems through PROFISCO loan operations and specific consulting services with a view to increasing the use of the accounting and reporting subsystem. The adoption of International Financial Reporting Standards will be supported. Furthermore, the Bank will continue to support the Government of Brazil in the reform and modernization process under Law 8,666 and in training and strengthening the skills of public procurement officials. It will also continue to promote the sharing of best practices in the areas of procurement and financial management, particularly by participating in and supporting meetings of the country's various technical committees at both the federal and state levels.
- 5.4 At the federal level, the Bank will continue to take steps to implement use of the Federal Procurement System. In addition, use of the procurement and financial management fiduciary systems in the Bank's portfolio will continue to be expanded through the evaluation and approval of state procurement systems and accreditation of new audit offices.
- 5.5 In the framework of the country strategy for 2016-2018, the Bank's private sector actions (IIC and MIF) will be guided by the strategic areas, as well as by the comprehensive implementation approaches. In this regard, the IDB Group will in particular explore actions in areas related to private-sector participation in

¹¹² Fiduciary Note

¹¹³ PEFA (Public Expenditure and Financial Accountability) and MAPS (OECD / DAC Methodology for Assessing Procurement Systems), both of 2009.

infrastructure investment, including transportation, energy, agribusiness, and delivery of public services (PPPDs) when viable and appropriate. The Bank will promote the inclusion of more IIC specialists to strengthen the activities of the PPPD multisector work group. In addition, the agenda of the multisector work group on metropolitan regions will include intersector and public-private collaboration activities.

- 5.6 Lastly, the Bank will continue to explore potential partnerships with private entities (e.g. financial intermediaries) and public entities (e.g. BNDES, Banco do Brasil, Caixa Econômica Federal) aimed at jointly participating in non-sovereign guaranteed operations with high development impact, such as SME and energy efficiency financing. However, it is understood that, given the nature of the private sector, each transaction will be evaluated independently.

Table 1. Country systems

| Use of country systems ¹¹⁴ | Baseline 2015 ¹¹⁵ | Estimated use 2018 ¹¹⁶ | Comments |
|---------------------------------------|------------------------------|-----------------------------------|--|
| Financial management | | | |
| Budget | 100% | 100% | Support for dissemination and application of best practices. |
| Treasury | 100% | 100% | Support for dissemination and application of best practices. |
| Accounting | 100% | 100% | Support for implementation of IPSAS* in the states through technical cooperation projects and events. |
| Accounting and reporting | 16% | 35% | Support for strengthening the financial management system for project management in at least seven states. |
| Internal audit | 19% | 20% | Strengthening of internal control systems through loan BR- L1223 and through seminars and training. |
| External control | 41% | 55% | Validation of the external control subsystem in three new courts. Strengthening of external control agencies (Office of the Comptroller General of the Union and audit offices) through seminars and training. South-south cooperation. |
| Procurement | | | |
| Information system | 100% | 100% | |
| Shopping | 82% | 100% | Validation of electronic reverse auction (<i>pregão eletrônico</i>) subsystems in at least eight states. Support for dissemination and application of best practices in public procurement. |
| Individual consulting | 0% | 7% | Measure to implement the agreement to use the federal procurement system in Bank-financed operations executed at the federal level. |
| Partial NCB | 34% | 60% | Measure to implement the agreement to use the federal procurement system in Bank-financed operations executed at the federal level. Validation of electronic reverse auction (<i>pregão eletrônico</i>) subsystems in at least eight states. |
| Advanced NCB | 0% | 7% ¹¹⁷ | Measure to implement the agreement to use the federal procurement system in Bank-financed operations executed at the federal level. |

* International Public Sector Accounting Standards.

¹¹⁴ % of Bank-financed operations using the country system.

¹¹⁵ Baseline: rate of use at the start of the strategy period.

¹¹⁶ Estimate at the end of the strategy period, stated as a percentage of eligible operations.

¹¹⁷ Estimated use in the portfolio, covering 100% of portfolio of projects executed at the federal level, which was the purpose of validation for advanced use.

- 5.7 **Lessons learned and challenges resulting from implementation of the 2012-2014 strategy.** The lessons learned notably include:
- 5.8 **Keep the subnational agenda at better efficiency levels.** The average value of projects rose to US\$67 million in 2014 from US\$47 million in 2012. Municipal demand was addressed by raising the minimum indicative amount for new projects to US\$50 million. With a view towards improving the efficiency level of applied resources, the discussion was promoted at different levels of governments—federal, state, and municipal—in sectors such as health and education,¹¹⁸ the outcomes of which generated closer coordination among those different levels.
- 5.9 **Further speed up the negotiation processes.** The 70% increase in the number of operations in preparation and negotiated between 2012 and 2013 (from 18 to 30) and the 20% increase from 2012 to 2014 (from 18 to 21) have made it necessary to adopt more efficient measures to speed up the processing times. The executing agencies were supported through specialized consulting services to, for instance, ensure delivery of the documents even before the Bank's formal submission of the minutes. This made it possible to support the annual approvals on a sustained basis and increase the level of progress and maturity of the operations that passed from one year to the next.
- 5.10 Systematically seek participation and complementarity among the sectors in projects and among stakeholders. While significant strides were made in multisector and double-booking projects during the current strategy, considering lessons learned, it is essential to continue to strengthen ties in terms of a comprehensive vision and work among the sectors (multi-sectorality), establishing mechanisms for coordination and clear identification of the interlocutor responsible for leading execution; and multi-participation, with the intervention of the public and private sectors and civil society, particularly in view of the new demands and opportunities that will develop with the Corporation starting in 2016.
- 5.11 **Coordination with other donors.** Brazil's financing needs provide opportunities for action by a number of international and national agencies. The Bank will continue its dialogue with the different agencies,¹¹⁹ particularly the United Kingdom's Department for Environment, Food, and Rural Affairs (DEFRA), the Global Environment Facility (GEF), and the China Fund. In the case of DEFRA, the Bank is the executing agency for a US\$39 million technical-cooperation operation to promote low-carbon agriculture among small producers that has broad government support as an initiative to be replicated. With respect to the GEF, two initiatives will be implemented for a total of more than US\$60 million in the Atlantic Forest and mobility areas, in addition to Forest Investment Program

¹¹⁸ For example, project BR-L1328 – Program to Accelerate Education Progress in Amazonas (state) and project BR-L1392 – Project to Improve Quality and Expand Coverage of the Manaus Municipal Public Education System (municipal).

¹¹⁹ During the current strategy with Brazil, the Bank coordinated with the World Bank on two PBLs (BR-L1385 - PROCONFIS-AM and BR-L1375 - PROCONFIS II) with the States of Amazonas and Rio Grande do Sul. The Bank led the first PBL in each state and the World Bank led the second PBL, with the same areas of intervention in each state (fiscal and citizen security areas for the first and fiscal and water resources area for the second).

funding of US\$16.5 million to conduct a forest inventory. Furthermore, the China Fund will continue to provide support on climate change. Given the multiple opportunities for action, it does not seem appropriate to pre-establish specific areas of coordination. These areas will vary according to the needs, in particular south-south cooperation and availability of financing sources.

- 5.12 **Implementation framework for the 2016-18 country strategy:** The complex macroeconomic situation, with domestic imbalances and a difficult domestic and global climate, gives rise to significant challenges in terms of implementing the new country strategy, particularly in 2016. It is therefore necessary to maintain design flexibility so as to be able to respond effectively in the context of the short- and medium-term challenges in a manner consistent with the long-term development challenges. In this regard, backended implementation is anticipated, with a greater weight of approvals between 2017 and 2018. In addition, we should consider the possibility of programming scenarios involving some strategic operations at the federal level to support the Logistics Investment Program, among others. The Bank has a history of interventions at the three levels of government, making it possible to maintain the ability to respond comprehensively within the proposed parameters for the 2016-2018 country strategy. It is essential to continue with the position on implementation approaches—PPPDs, metropolitan regions, and regional inequalities—through knowledge products, technical cooperation operations, and other means. It will also be necessary to closely monitor the evolution of the financial envelope during the first years of the strategy.

VI. RISKS

- 6.1 **Macroeconomic risks.** Brazil is implementing a macroeconomic adjustment program with a view to improving fiscal results, stabilizing the debt, and strengthening the country's economic policy framework and its credibility with the markets. The adjustment program includes: a fiscal adjustment, adopting primary surplus targets through expenditure cutbacks and tax increases; a quasi-fiscal adjustment, reviewing the role of public banks; a monetary policy adjustment, having the Central Bank raise interest rates in order to lower inflation toward the target; and an adjustment in government-managed prices, especially energy and gasoline prices. These initiatives are expected to help the country recover from its economic recession. However, in a context of diminishing economic activity in the country, increased unemployment, and an uncertain and unfavorable environment abroad, the period in which this strategy will be implemented is marked by substantive challenges. In the current circumstances, the main external risks to the Brazilian economy are related to the following events: a worsening external environment, including a slowdown in China, lower commodity prices, higher international interest rates, contagion from problems within the eurozone, and strong contraction in capital flows. This is coupled with an internal environment of low or negative growth, a deteriorating fiscal situation, a rise in sovereign risk, and the drop in investment grade was removed by the three main risk rating agencies (S&P, Moody's, and Fitch). Although the Bank's impact is rather limited in view of the size of the economy, support could be provided to mitigate the socioeconomic impacts of the adjustments by redirecting resources on a priority basis toward investment and quick-disbursing projects in

the strategic sectors identified in the country strategy, in accordance with the country's priorities. The country's economic situation will be periodically monitored through the Bank's economic reports, such as the Independent Assessment of Macroeconomic Conditions (IAMC) and the RES Macroeconomic Report.

6.2 Political and institutional risk: Under Brazil's political and administrative design, the federative entities (the federal government, the states, and the municípios) are relatively autonomous, and the distribution of powers across these levels of government is determined by their respective constitutional and legal structure. As a result, effective implementation of public policies can sometimes require effective coordination across these levels. At the federal level, it is difficult to incorporate the risks of changes in priorities into the public policy proposals, since the actions of the federal government are based on a multiyear investment plan supported by a broad consultation process and approved by the National Congress. However, one of the risks of maintaining a subnational agenda in Brazil lies in the difficulties of achieving the political and institutional coordination required to implement initiatives involving different levels of government (states and municípios) and maintain their continuity across political cycles (e.g. elections). This risk can be aggravated by administrative discontinuity in some municípios due to mayoral elections during the strategy period, potentially leading to changes in priorities in municípios in which the Bank is acting or intends to act. To mitigate this risk and ensure that its projects will be executed, the Bank at all times seeks broad institutional support and public policy commitments that go beyond the term of office of the current government. Mitigating activities include providing technical assistance, promoting policy dialogues, creating spaces for integration and coordination, supporting civil society actions in applying public policies, and generating knowledge. Continuous monitoring will be performed during programming and portfolio review missions. Lastly, as mentioned in paragraph 5.9, the increase in the number of projects has contributed to generating pressure on the negotiation processes. This has made it necessary for the Bank to adopt more efficient measures to speed up processing times. Even though a reduction in the number of operations is expected, efforts should continue given the existing accumulation of operations to be negotiated. The fact that the negotiations are also affected by the electoral cycles is worth highlighting.

6.3 Portfolio execution risk. This risk is associated with two critical factors: **the institutional capacity of some executing units**, particularly subnational entities with limited institutional capacity (mainly small municípios) and new executing agencies that are not yet very familiar with the Bank's processes; and **the use of companies by a significant number of borrowers** to facilitate the processes of planning, financial oversight, and supervision of works. It has been observed that, in some cases, the management companies fail to fully perform their assigned tasks, creating execution problems and diminishing their potential value for project execution. To mitigate this risk, the Bank will continue to work with the executing agencies to harmonize the terms of reference for procurement and apply more rigorous selection criteria, seeking to ensure that this investment results in execution efficiency and effectiveness. The Bank will monitor the execution risks through operation supervision systems and periodic portfolio

review meetings with the government. In addition, it will continue to work assisting local audit and comptroller-general offices participating in project monitoring activities, as they become familiar with Bank procedures. Lastly, it is important to mention the exchange and fiscal risks (volatility and potential future depreciation or revaluation of the real), which can affect the capacity to comply with the required counterpart contributions. These risks can be managed similarly to how it was done in 2015: through proactive and responsible management of the portfolio, including reallocations, partial cancellations, and extensions.

- 6.4 **Natural disaster risks.** Notwithstanding Brazil's exposure to natural disasters, in particular those related to climate phenomena that can take on catastrophic proportions, recent experience shows that events of this nature tend to have only a marginal effect on the country's programming with the Bank. The Bank will engage in a dialogue with the country to mitigate and monitor these risks, especially those affecting infrastructure works, either through technical assistance or through financial instruments.

ANNEX I. RESULTS MATRIX

| Government objective | Strategic area | IDB strategic objective | Expected outcomes | Indicators | Baseline |
|--|---|--|---|--|---|
| Promote productive development and technological innovation to boost the productivity and competitiveness of the economy | Increase productivity and competitiveness | Improve the business climate | Simplified processes for starting a business | Average time to start a business | 83.6 days (Source: Doing Business 2015) |
| | | | Easier business tax payment processes | Average amount of time for the payment of taxes by businesses (hours/year) | 2,600 hours/year (Source: Doing Business 2015) |
| Invest in transport logistics improvement to boost competitiveness and improve quality of life throughout the country | | Expand and reform the transport and logistics infrastructure | Increased proportion of paved roads | Paved road network (% of total) | 13.0% (Source: ANTT 2014) |
| | | | Improved quality of logistics | Logistics Performance Index ³ | 2.9 (Source: World Bank 2014) |
| | | | Increased use of urban mass transportation system | Number of passengers transported | 400,834,079 (Source: NTU 2014) |
| Strengthen micro and small enterprises and individual microentrepreneurs | | Support the development of SMEs | Expanded access to financing for SMEs | Percentage of total credit going to SMEs | 12.2% (Source: Central Bank 2015) |

| Government objective | Strategic area | IDB strategic objective | Expected outcomes | Indicators | Baseline |
|--|---|--|---|---|--|
| Promote the quality of, and expand access to, education as a key instrument for the country's development, guaranteeing citizenship and enhancing the capacities of the population | Reduce inequity and improve public services | Support the country to help it achieve its school coverage goals | Expanded day care, preschool, and secondary school coverage | Percentage of children ages 0 to 3 in day care | 27.9% (Source: IBGE/PNAD 2013) |
| | | | | Percentage of children ages 4 to 5 enrolled in preschool | 87.9% (Source: IBGE/PNAD 2013) |
| | | | | Percentage of adolescents ages 15 to 17 enrolled in secondary school | 59.3% (Source: IBGE/PNAD 2013) |
| | | Improve the quality of education | Improved level of student learning in primary and secondary schools | National IDEB ² average in the final year of primary education | 4.2 (Source: INEP 2013) |
| | | | | National IDEB ² average in the final year of secondary school | 3.7 (Source: INEP 2013) |
| | | Support the country to prepare young people for the job market by developing technical education | Expanded proportion of students enrolled in technical schools focused on vocational skills | Percentage of secondary school enrollment of adolescents ages 15 to 17 in vocational training | 3.3% (Source: MEC/INEP/School census 2014) |
| Ensure access to quality primary and specialized health care services for the population, focusing on comprehensive assistance | | Expand and improve the primary health care network | Expanded access to and improved quality of primary health care services | Coverage of primary health care services (% of the population) | 70.75% (Source: DATASUS 2014) |
| | | | | Percentage of hospitalizations for conditions treatable through primary care (per 10,000 inhabitants) | 31.87% (Source: DATASUS 2014) |
| | | | | Hospitalization rate for diabetes mellitus and its complications among 30- to 59-year-olds (per 10,000 inhabitants) | 6.28 (Source: DATASUS 2014) |
| Enhance the effectiveness of public security services in controlling and preventing violent crime | | Help to reduce violence and crime involving the young population (15- to 24-year-olds) | Reduction in the number of homicides among 15- to 24-year-olds in the North and Northeast regions | Homicide rate per 100,000 15- to 24-year-olds in Brazil | 59.2 (Source: DATASUS 2012) |
| | | | | Homicide rate per 100,000 15- to 24-year-olds in the North and Northeast regions of Brazil | 78.3 (Source: DATASUS 2012) |

| Government objective | Strategic area | IDB strategic objective | Expected outcomes | Indicators | Baseline |
|---|--|--|---|--|--|
| Foster and promote investments in water security and improve water management to ensure good health conditions for the population and contribute to spring preservation and remediation | | Expand and improve water supply and basic sanitation | Reduced gaps in water supply and basic sanitation coverage | Number of households supplied by a distribution network or by a well or spring with internal pipes/ Total households | National: 83% North region: 52% Northeast region: 72% (Source: SNIS/ Ministry of Cities – 2013 Diagnostic Assessment of Water and Sewerage Services, published in 2014) |
| | | | | Number of households with a sewage connection or septic tank for excreta or wastewater / Total households | National: 48% North region: 6% Northeast region: 22% (Source: SNIS/ Ministry of Cities – 2013 Diagnostic Assessment of Water and Sewerage Services, published in 2014) |
| | | | Reduction in the hospitalization rate for waterborne diseases | Hospitalization rate for waterborne diseases per 100,000 inhabitants | North region: 450 Northeast region: 400 National: 230 (Source; Ministry of Health, 2013) |
| Promote democratic and transparent public management, focusing on the quality of services delivered to the public | Strengthen government institutions at the federal, state, and municipal levels | Enhance efficiency in the management of public resources | Improved public planning and management | Average ratio of executed budget (in absolute values) to total budget across all ministries | 74.2% (Source: National Treasury 2014) |
| | | | Promotion of fiscal sustainability at the subnational level | Percentage of own revenue in relation to total revenue of states | North: 31.6%; Northeast: 40.7%; Brazil: 55.4%. (Source: National Treasury 2013) |

- 1- According to the Conselho Nacional de Educação [National Board of Education] (CNE), basic education in Brazil encompasses various stages and modalities: regular education, consisting of early childhood education (daycare for 0- to 3-year-olds and preschool for 4- and 5-year-olds), primary education (nine years, divided into two cycles: 1st to 5th and 6th to 9th), and secondary education (three years), in addition to the special education and youth and adult education modalities.

- 2- The Basic Education Development Index (IDEB) ranges from 0 to 10. It consists of a performance indicator, such as “Prova Brasil” (mathematics and language tests every two years, in the 5th and 9th year of primary school and in the 3rd year of secondary school), and a flow indicator (passing rate). See: <http://portal.inep.gov.br/web/portal-ideb/o-que-e-o-ideb>
- 3- The data are taken from the Logistics Performance Index surveys conducted by the World Bank in partnership with international and academic institutions and private companies and individuals engaged in international logistics. The 2009 round of surveys covered more than 5,000 country assessments by nearly 1,000 freight forwarders. Respondents evaluate eight markets on six core dimensions on a scale from 1 (worst) to 5 (best). Markets are chosen based on the most important import and export markets of the respondent’s country, randomly selected, and, for landlocked countries, neighboring countries that connect them to international markets. Details of the survey methodology and index construction methodology are in the Arvis et al. report entitled Connecting to Compete 2010: Trade Logistics in the Global Economy. Respondents evaluate the quality of trade- and transport-related infrastructure (for example, ports, railways, roads, and information technology). Scores are averaged across all respondents.

ANNEX II. COUNTRY SYSTEMS MATRIX

| Government objective | IDB strategic objective | Expected outcomes | Indicator | Baseline | Indicative targets |
|---|--|--|---|------------|--------------------|
| Greater efficiency, effectiveness, and transparency in public procurement and finance | Strengthening of the country fiduciary systems or subsystems | International Standards of Supreme Audit Institutions (ISSAI) partially used. | % of progress in implementing ISSAI | 10% (2015) | 80% (2018) |
| | | International Public Sector Accounting Standards (IPSAS) implemented. | % of progress in implementing IPSAS. | 30% (2015) | 100% (2018) |
| | Use of the country fiduciary systems | Increase in the use of the country accounting and reporting systems in operations | % of use of the accounting and reporting subsystem | 16% (2015) | 35% (2018) |
| | | Increase in the use of the country external control systems in operations | % of use of the external control subsystem | 41% (2015) | 55% (2018) |
| | | Increase in the use of the country internal audit system in operations | % of use of the internal audit subsystem | 19% (2015) | 20% (2018) |
| | | Increase in the use of procurement modalities and functionalities of the country's public procurement system | % of SG portfolio projects that use at least one subsystem (other than the information subsystem) in IDB operations | 78% (2015) | 100% (2018) |
| | | | Number of subnational procurement subsystems validated for use in Bank-financed operations | 0 (2015) | 8 (2018) |

Indicators of measurable outcomes for the years of the strategy.

ANNEX III. MAIN ECONOMIC AND SOCIAL INDICATORS

| Economic and social indicators | 2010 | 2011 | 2012 | 2013 | 2014 | 2015* |
|---|----------|----------|----------|----------|----------|----------|
| Real GDP growth (%) (1) | 7.6 | 3.9 | 1.8 | 2.7 | 0.1 | -3.4 |
| GDP at current prices (US\$ billion) (1) | 2,210.3 | 2,613.5 | 2,411.5 | 2,387.9 | 2,345.4 | 1,903.9 |
| GDP per capita (US\$) (1) | 11,306.1 | 13,239.9 | 12,103.5 | 11,878.0 | 11,566.8 | 9,312.4 |
| GDP per capita (PPP) (2) | 14,342.3 | 15,065.4 | 15,461.6 | 15,978.9 | 16,096.3 | 15,940.6 |
| Gross fixed-capital formation (GFCF) (% of GDP) (3) | 20.6 | 20.6 | 20.2 | 20.5 | 19.7 | 18.0 |
| Gross domestic savings (% of GDP) (3) | 19.2 | 19.5 | 17.7 | 17.0 | 15.8 | 15.3 |
| Unemployment rate (EAP - %) (3) | 5.3 | 4.7 | 4.6 | 4.3 | 4.3 | 8.7 |
| Inflation (%) (3) | 5.9 | 6.5 | 5.8 | 5.9 | 6.4 | 10.4 |
| Exchange rate (R\$ / US\$- end period) (1) | 1.7 | 1.9 | 2.0 | 2.3 | 2.7 | 4.0 |
| Real exchange rate (end period - Jun 1994 = 100) (1) | 73.7 | 79.4 | 88.5 | 95.9 | 96.7 | 110.0 |
| Current account balance (% of GDP) (1) | -2.1 | -2.0 | -2.2 | -3.4 | -3.9 | -3.4 |
| Capital and financial account balance (% of GDP) (1) | 4.5 | 4.3 | 2.9 | 3.1 | 4.2 | 3.4 |
| Foreign direct investment (% of GDP) (1) | 2.2 | 2.6 | 2.7 | 2.7 | 2.7 | 2.7 |
| Portfolio investment (% of GDP) (1) | 2.9 | 1.4 | 0.4 | 1.1 | 1.3 | 1.0 |
| International reserves (US\$ billion, end period) (1) | 288.6 | 352.0 | 378.6 | 375.8 | 374.1 | 367.0 |
| Nominal public sector balance (% of GDP) (1) | -2.4 | -2.5 | -2.3 | -3.1 | -6.2 | -9.6 |
| Primary public sector balance (% of GDP) (1) | 2.6 | 2.9 | 2.2 | 1.8 | -0.6 | -1.20 |
| Net general government debt (% of GDP) (1) | 38.5 | 35.1 | 33.6 | 32.2 | 34.7 | 36.7 |
| Gross general government debt (% of GDP) (1) | 51.8 | 51.3 | 54.8 | 53.3 | 58.9 | 68.0 |
| SOCIAL INDICATORS | | | | | | |
| Population (million) (3) | 195.5 | 197.4 | 199.2 | 201.0 | 202.8 | 204.5 |
| Income inequality (Gini coefficient) (4) | 0.543 | 0.531 | 0.530 | 0.527 | ... | ... |
| Poverty (% of total population) (4) | ... | 18.42 | 15.93 | 15.09 | ... | ... |
| Internet users (per 100 people) (5) | 40.7 | 45.7 | 48.6 | 51.0 | 57.6 | ... |
| Mobile telephony subscribers (per 100 people) (5) | 100.9 | 119.0 | 125.0 | 135.3 | 139.0 | ... |

Sources: (1) Central Bank of Brazil, (2) World Economic Outlook (September 2011), (3) Brazilian Geography and Statistics Institute (IBGE), (4) Institute of Applied Economic Research (IPEA), (5) World Bank.

ANNEX IV. INDICATIVE LENDING FRAMEWORK

Projected flows and sovereign guaranteed debt ratios for the overall public sector (US\$ million)

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2016-2018 |
|--|----------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|
| Approvals 1/ | 2,025.8 | 2,218.3 | 1,914.7 | 3,258.0 | 2,240.8 | 56.0 | 1,252.2 | 2,123.9 | 2,123.9 | 5,500.0 |
| Disbursements | 1,873.9 | 701.0 | 1,261.0 | 1,594.0 | 1,772.8 | 1,109.0 | 1,000.0 | 1,250.0 | 1,350.0 | 3,600.0 |
| Repayments | 1,045.2 | 1,049.8 | 1,111.5 | 3,290.5 | 889.8 | 999.3 | 1,045.0 | 1,163.0 | 1,219.0 | 3,427.0 |
| Net loan flows | 828.7 | -348.8 | 149.5 | -1,696.5 | 883.0 | 109.7 | -45.0 | 87.0 | 131.0 | 173.0 |
| Subscriptions | 36.5 | 34.4 | 72.0 | 49.7 | 3.6 | 4.0 | 39.2 | 32.7 | 33.7 | 105.6 |
| Net capital flow | 792.2 | -383.2 | 77.5 | -1,746.2 | 879.4 | 105.7 | -84.2 | 54.3 | 97.3 | 67.4 |
| Interest and fees | 491.0 | 426.4 | 381.5 | 479.6 | 254.8 | 255.1 | 359.5 | 378.9 | 378.3 | 1,116.7 |
| Net cash flow | 301.2 | -809.6 | -304.0 | -2,225.8 | 624.6 | -149.4 | -443.7 | -324.6 | -281.0 | -1,049.3 |
| IDB debt 2/ | 17,523.7 | 16,715.0 | 16,972.2 | 15,156.5 | 15,749.2 | 15,727.3 | 15,845.3 | 16,258.1 | 16,662.7 | |
| IDB debt/GDP 3/(%) | 0.84% | 0.67% | 0.75% | 0.68% | 0.72% | 0.72% | 0.72% | 0.73% | 0.74% | |
| IDB debt/Public external debt 4/(%) | 16.69% | 16.32% | 14.53% | 12.47% | 11.79% | 11.21% | 10.64% | 10.28% | 9.91% | |
| IDB debt/External multilateral debt 5/(%) | 47.35% | 46.03% | 47.19% | 42.12% | 40.25% | 40.09% | 39.85% | 40.32% | 40.74% | |

Note: The funds flow table does not take loans to the private sector into account.

1/ The annual approval amounts are indicative and subject to availability of Bank resources.

2/ IDB debt: IDB Finance Department/Finance Data Mart

3/ GDP: Brazilian Geography and Statistics Institute (IBGE).

4/ External public debt: Central Bank of Brazil/Economic-financial press releases—includes the National Treasury, Central Bank, State-owned enterprises, states, and municípios.

5/ Multilateral external debt: Central Bank of Brazil/Economic-financial press releases

IDB financing

Approvals: Estimates based on dialogue with the country and Bank availability. During the strategy period, the financial scenario assumes total financing of US\$5 billion to US\$5.5 billion, backloaded.

Disbursements: Estimates based on dialogue, pipeline, approved portfolio, and portfolio in execution. Average annual disbursements for sovereign guaranteed operations are estimated at US\$1.2 billion. It is estimated that disbursements will increase gradually starting in 2017.

ANNEX V. COORDINATION WITH OTHER DONORS

Background. Pursuant to Decree 3502 of 12 June 2000, the Ministry of Planning, Budget, and Management (MPOG) is responsible for authorizing the preparation of financial cooperation projects to implement development cooperation programs and projects provided by multilateral, bilateral, regional, and nongovernmental organizations, subject to a prior favorable opinion by the External Financing Committee (COFIEX). In addition, under the aforementioned decree, COFIEX has authority over material changes in government agency projects in execution.

Donor dialogue and coordination, as well as strategic guidelines on international cooperation, are provided by the MPOG's International Affairs Department (SEAIN), which also acts as Executive Secretariat of COFIEX.

Brazil's external financing portfolio in execution entered into with the public sector¹²⁰ contains 189 operations. The IDB accounts for 49.7% of the number of projects in execution (94), followed by the World Bank with 23.2% (44 projects), and CAF with 5.8% (11 projects). In terms of volume, the IDB also has the largest share. Of the US\$37.2 billion in multilateral approvals, the Bank accounts for 28.7% (US\$10.669 billion) in execution, while the World Bank has 23.4% (US\$8.72 billion), and CAF has 2.9% (US\$1.07 billion). The International Fund for Agricultural Development (IFAD) and the Financial Fund for the Development of the River Plate Basin (FONPLATA) account for 0.6% (US\$225 million).

Autonomy in managing resources results in a variety of clients in Brazil. At the **federal** level, the Bank surpasses all other donors in number of projects (loans in the portfolio). According to SEAIN data, the Bank currently has eight operations for a total of US\$264 million, which is equivalent to 38% of all federal projects in execution. The World Bank has five operations for US\$1.154 billion. In addition to the federal projects, the Bank's presence is even more significant at the subnational level.

The **subnational** portfolio in Brazil is primarily with the IDB. The country's 161 subnational (municipal, state, and state enterprise) projects total US\$22 billion. Of these, the Bank has 86 projects (53.4%) for a total of US\$10.4 billion, while the World Bank has 37 projects (23%) for a total of US\$7.5 billion. CAF has 11 operations in execution (6.8%) for a total of US\$1.07 billion, and IFAD has the fourth largest portfolio, with 5 projects for a total of US\$138 million.

In sector terms, the IDB is present in virtually all sectors.¹²¹ The Bank's portfolio is the most diversified and has expanded with the implementation of the 2012-2014 country strategy. Tables 3 and 4 show that this period witnessed an expansion of the portfolio into sectors such as social protection and education.

During the strategy period the Bank's presence in the form of approvals in more than 90% of the listed sectors illustrates the portfolio's diversification (see Table 3). In the security, trade and services, and health sectors, the Bank's presence was exclusive.

¹²⁰ SEAIN data from 29 October 2015.

¹²¹ Except the defense sector.

Brazil's financing needs provide opportunities for action by a number of international and national agencies. The Bank will maintain a high degree of coordination with other multilateral organizations. On technical issues, there is an ongoing technical and financial relationship with the World Bank. During implementation of the 2012-2014 strategy, two multisector operations were implemented with the World Bank at the subnational level. On strategic issues, CAF, the World Bank, and the IDB have maintained a dialogue regarding the long-term outlook for Brazil with a view to maximizing investments and the impacts of projects. Moreover, the Bank is seeking to expand cooperation on projects, even in the private sector, with the European Investment Bank (EIB) and bilateral agencies such as the United Kingdom's Department for Environment, Food, and Rural Affairs (DEFRA) and the China Fund. In the case of DEFRA, the Bank is the executing agency for a US\$39 million technical-cooperation operation aimed to promote low-carbon agriculture among small-scale farmers. This operation has broad support from the Brazilian government as an initiative to be replicated. In addition, two Global Environment Facility initiatives will be carried out in the areas of mobility and the Atlantic Forest, totaling more than US\$60 million, and US\$16.5 million in Forest Investment Program funding will be allocated to conduct a forest inventory. The China Fund will continue to provide support in the area of climate change.

During the coming country strategy period, the Bank will continue to work in coordination and in close collaboration with the donors and multilateral agencies that have a presence in Brazil, with a view to leveraging resources and maximizing the impact of development aid. However, given the multiple opportunities for action, the specific areas of coordination will vary according to the needs, in particular south-south cooperation, and the availability of financing sources.

Table 1. Map of donors with a presence in Brazil – Main areas of intervention (number of operations)

| Donors/ Sectors | (Tax) administration | Agriculture | Social protection | Trade and services | National defense | Education | Special requests | Energy | Environmental management | Housing | Sanitation | Health | Transportation | Tourism | Urban development | Grand total |
|---------------------|-------------------------|-------------|-------------------|-----------------------|------------------|-----------|---------------------|--------|-----------------------------|---------|------------|--------|----------------|---------|----------------------|-------------|
| Bank | | | | | 3 | | 1 | | | | | | 2 | | | 6 |
| AB SEK | | | | | 1 | | | | | | | | | | | 1 |
| EIB | | | | | | | | | | | | | 1 | | | 1 |
| Consortium of banks | | | | | 1 | | | | | | | | | | | 1 |
| NIB | | | | | | | 1 | | | | | | | | | 1 |
| Santander | | | | | | | | | | | | | 1 | | | 1 |
| Société Générale | | | | | 1 | | | | | | | | | | | 1 |
| Bilateral | 1 | | | | | | 5 | 3 | 1 | | 7 | | 2 | | 3 | 22 |
| AFD | 1 | | | | | | | 2 | 1 | | 1 | | 1 | | 1 | 7 |
| JBIC | | | | | | | 5 | | | | | | 1 | | 1 | 7 |
| JICA | | | | | | | | | | | 3 | | | | 1 | 4 |
| KfW | | | | | | | | 1 | | | 3 | | | | | 4 |
| Multilateral | 31 | 16 | 7 | 2 | | 7 | 8 | 5 | 9 | 2 | 10 | 8 | 17 | 9 | 30 | 161 |
| IDB | 27 | 1 | 5 | 2 | | 3 | 4 | 2 | 5 | 1 | 7 | 4 | 8 | 6 | 19 | 94 |
| IBRD | 4 | 7 | 2 | | | 4 | 4 | 2 | 4 | | 2 | 4 | 6 | | 5 | 44 |
| IBRD/IDF | | | | | | | | 1 | | | | | | | | 1 |
| CAF | | | | | | | | | | | 1 | | 3 | 3 | 4 | 11 |
| IFAD | | 6 | | | | | | | | | | | | | | 6 |
| IFAD/FEFSA | | 2 | | | | | | | | | | | | | | 2 |
| FONPLATA | | | | | | | | | | 1 | | | | | 2 | 3 |
| Grand total | 32 | 16 | 7 | 2 | 3 | 7 | 14 | 8 | 10 | 2 | 17 | 8 | 21 | 9 | 33 | 189 |

* IDB compilation based on data provided by SEAIN.

Table 2. Map of donors with a presence in Brazil – Main areas of intervention (US\$ million)

| Donors/ Sectors | (Tax) administra tion | Agriculture | Social protection | Trade and services | National defense | Education | Special requests | Energy | Environment management | Housing | Sanitation | Health | Transportation | Tourism | Urban development | Grand total |
|---------------------|-----------------------------|-------------|----------------------|-----------------------|------------------|--------------|---------------------|------------|---------------------------|------------|--------------|--------------|----------------|------------|----------------------|---------------|
| Bank | | | | | 12,327 | | 60 | | | | | | 556 | | | 12,943 |
| AB SEK | | | | | 5,734 | | | | | | | | | | | 5,734 |
| EIB | | | | | | | | | | | | | 256 | | | 256 |
| Consortium of banks | | | | | 4,324 | | | | | | | | | | | 4,324 |
| NIB | | | | | | | 60 | | | | | | | | | 60 |
| Santander | | | | | | | | | | | | | 300 | | | 300 |
| Société Générale | | | | | 2,269 | | | | | | | | | | | 2,269 |
| Bilateral | 300 | | | | | | 1,250 | 206 | 12 | | 813 | | 686 | | 297 | 3,563 |
| AFD | 300 | | | | | | | 147 | 12 | | 131 | | 556 | | 51 | 1,196 |
| JBIC | | | | | | | 1,250 | | | | | | 130 | | 83 | 1,463 |
| JICA | | | | | | | | | | | 537 | | | | 162 | 699 |
| KfW | | | | | | | | 60 | | | 145 | | | | | 205 |
| Multilateral | 1,316 | 928 | 808 | 20 | - | 1,165 | 2,430 | 764 | 826 | 178 | 2,107 | 1,281 | 5,727 | 646 | 2,490 | 20,685 |
| IDB | 753 | 99 | 248 | 20 | | 411 | 1,034 | 219 | 443 | 150 | 1,738 | 569 | 3,196 | 463 | 1,326 | 10,669 |
| IBRD | 563 | 658 | 560 | | | 754 | 1,396 | 545 | 383 | | 164 | 712 | 2,076 | | 910 | 8,720 |
| IBRD/IDF | | | | | | | | - | | | | | | | | |
| CAF | | | | | | | | | | | 204 | | 455 | 184 | 228 | 1,070 |
| IFAD | | 141 | | | | | | | | | | | | | | 141 |
| IFAD/FEFSA | | 30 | | | | | | | | | | | | | | 30 |
| FONPLATA | | | | | | | | | | 28 | | | | | 27 | 54 |
| Grand total | 1,616 | 928 | 808 | 20 | 12,327 | 1,165 | 3,740 | 970 | 838 | 178 | 2,920 | 1,281 | 6,968 | 646 | 2,787 | 37,190 |

IDB compilation based on data provided by SEAIN.

Table 3. Approvals during the 2012-2014 strategy period. Map of donors with a presence in Brazil – Main areas of intervention

| | Tourism | Transportation | Agriculture | Environmental management | Administration | Sanitation | Special requests | Education | Urban development | Trade and services | Health | Social protection | Defense | Energy | Public safety | Total operations |
|-------------------------|----------|----------------|-------------|--------------------------|----------------|------------|------------------|-----------|-------------------|--------------------|----------|-------------------|----------|----------|---------------|------------------|
| Banks | | | | | | | | | | | | | | | | |
| AB SEK | | | | | | | | | | | | | 1 | | | 1 |
| Bank of America | | | | | | | 2 | | | | | | | | | 2 |
| BB AG VIENA | | | | | | 1 | | | | | | | | | | 1 |
| Santander | | 1 | | | | | | | | | | | | | | 1 |
| Bilateral | | | | | | | | | | | | | | | | |
| AFD | | 2 | | | 1 | 1 | | | 1 | | | | | 1 | | 6 |
| KfW | | | | | | | | | | | | | | 1 | | 1 |
| Multilateral | | | | | | | | | | | | | | | | |
| IDB | 2 | 6 | | 3 | 15 | 4 | 7 | 4 | 9 | 3 | 4 | 4 | | 1 | 3 | 65* |
| IBRD | | 2 | 2 | 1 | 3 | 1 | 10 | 2 | | | | 1 | | | | 22 |
| CAF | 3 | 4 | | 2 | | 2 | | | 6 | | | | | | | 17 |
| IFAD | | | 3 | | | | | | | | | | | | | 3 |
| IFAD/FEFSA | | | 2 | | | | | | | | | | | | | 2 |
| FONPLATA | | | | | | | | | 1 | | | | | | | 1 |
| Total operations | 5 | 15 | 7 | 6 | 19 | 9 | 19 | 6 | 17 | 3 | 4 | 5 | 1 | 3 | 3 | 122 |

* Approvals during the effective period of the strategy (9 May 2012 to 31 December 2014).

** This table does not count canceled operations.

IDB compilation based on data provided by SEAIN.

Table 4. Approvals during the 2012-2014 strategy period. Map of donors with a presence in Brazil – Main areas of intervention (US\$ million)

| Support Sector | | | | | | | | | | | | | | | | |
|---------------------|------------|----------------|-------------|--------------------------|----------------|------------|------------------|------------|-------------------|--------------------|------------|-------------------|--------------|------------|---------------|---------------|
| | Tourism | Transportation | Agriculture | Environmental management | Administration | Sanitation | Special requests | Education | Urban development | Trade and services | Health | Social protection | Defense | Energy | Public safety | Total |
| Banks | | | | | | | | | | | | | | | | |
| AB SEK | | | | | | | | | | | | | 5,734 | | | 5,734 |
| Bank of America | | | | | | | 1,388 | | | | | | | | | 1,388 |
| BB AG VIENA | | | | | | 75 | | | | | | | | | | 75 |
| Santander | | 300 | | | | | | | | | | | | | | 300 |
| Bilateral | | | | | | | | | | | | | | | | |
| AFD | | 803 | | | 391 | 100 | | | 9 | | | | | 59 | | 1,362 |
| KfW | | | | | | | | | | | | | | 46 | | 46 |
| Multilateral | | | | | | | | | | | | | | | | |
| IDB | 49 | 1,868 | | 163 | 1,058 | 406 | 1,391 | 463 | 560 | 159 | 650 | 220 | | 89 | 193 | 7,269 |
| IBRD | | 600 | 250 | 225 | 464 | 150 | 3,696 | 480 | | | | 360 | | | | 6,225 |
| CAF | 259 | 453 | | 160 | | 249 | | | 282 | | | | | | | 1,402 |
| IFAD | | | 47 | | | | | | | | | | | | | 47 |
| IFAD/FEFSA | | | 23 | | | | | | | | | | | | | 23 |
| FONPLATA | | | | | | | | | 40 | | | | | | | 40 |
| Total | 308 | 4,023 | 320 | 548 | 1,913 | 980 | 6,475 | 943 | 891 | 159 | 650 | 580 | 5,734 | 194 | 193 | 23,913 |

* Approvals during the effective period of the strategy (9 May 2012 to 31 December 2014).

** This table does not count canceled operations.

IDB compilation based on data provided by SEAIN.

ANNEX VI. DEVELOPMENT EFFECTIVENESS MATRIX (DEM)

| COUNTRY STRATEGY: DEVELOPMENT EFFECTIVENESS MATRIX | |
|--|--------|
| <p>In August 2008, the Board of Directors approved the Development Effectiveness Framework (GN-2489) to increase the evaluability of all Bank development products.</p> <p>The Development Effectiveness Matrix for Country Strategies (DEM-CS) is a checklist of the elements that are necessary to evaluate a country strategy. It is based on the evaluation criteria developed by the Evaluation Cooperation Group of the Multilateral Development Banks in the "Good Practice Standards for Country Strategy and Program Evaluation."</p> | |
| COUNTRY STRATEGY: BRAZIL | |
| <p>STRATEGIC ALIGNMENT <i>Refers to the degree to which the design and objectives of the CS are consistent with the country development challenges and with the government's development plans and priorities.</i></p> | |
| <p>EFFECTIVENESS <i>This measures whether the country strategy is likely to achieve its intended objectives, through an examination of three dimensions: (i) the quality of the diagnostics on which Bank action is based in each area of work; (ii) the quality of the results matrix for the strategy; (iii) the use and build up of country systems.</i></p> | |
| Effectiveness dimensions | |
| I. Country Diagnosis - Country Development Challenges (CDC)* | Yes/No |
| - The CDC is comprehensive / holistic / complete | yes |
| - The CDC clearly identifies the main development challenges | yes |
| - The CDC presents magnitudes of the main development challenges that are based on empirical evidence | yes |
| II. Priority Areas Diagnostics | % |
| - That clearly identify and dimension, based on empirical evidence, the priority area's specific constraints and challenges | 88% |
| - That clearly identify and dimension, based on empirical evidence, the main factors or causes contributing to the specific constraints and challenges | 88% |
| - That provide corresponding policy recommendations | 88% |
| III. Results matrix** | % |
| - The strategic objectives are clearly defined | 100% |
| - The expected outcomes are clearly defined | 93% |
| - The strategic objectives and expected results that are directly related to the main constraints identified in the Diagnosis | 93% |
| - The indicators are outcome indicators and are SMART | 91% |
| - The indicators have baselines | 100% |
| IV. Vertical logic | Yes/No |
| - The CS has vertical logic | yes |

* This analysis includes the sector contributions to the EPBR.

** The Result Matrix is composed by indicators that are meaningful to, and capture progress towards, the expected results. The expected results stem from the strategic objectives.

CS Diagnostic:

As part of the country strategy 2016-2018 a country development challenges diagnostic was presented, under the title of "Country Development Challenges - Desafios de Desenvolvimento de Brasil". This diagnostic was complemented by three sector contributions technical briefs. The CS diagnostic is comprehensive and based on empirical evidence. The diagnostic identifies three priority areas for the Bank's intervention: (i) increased productivity and competitiveness; (ii) reducing inequity and improving public services; and (iii) institutional strengthening of the three levels of government.

- The diagnostic clearly identifies and dimensions, based on empirical evidence, 88% priority area's specific constraints and challenges.

- The diagnostic clearly identifies and dimensions, based on empirical evidence, the main factors or causes contributing to the specific constraints and challenges for 88% of the priority areas.

- The diagnostic provides corresponding policy recommendations for Bank actions, which are based in empirical evidence, for 88% of the priority areas.

Results matrix: The section of the results matrix corresponding to the new strategic area includes 10 strategic objectives for Bank action, 15 expected results and 22 indicators to measure progress.

- 100% of the strategic objectives are clearly defined.

- 93% of the expected outcomes are clearly defined.

- 93% CS Objectives are directly related to the main constraints identified in the Diagnosis.

- 91% of the indicators used are SMART.

- 100% of the indicators have baselines.

Country Systems: The bank has diagnostics for all fiduciary subsystems. The Bank will continue working on strengthening and utilizing the national fiduciary systems at the Federal, State and Municipal levels, by strengthening external control agencies (CGU and Supreme Audit Institutions), through seminars and training workshops, and facilitating events with South-South cooperation in order to share and disseminate best practices in procurement and financial management.

The Bank will continue using 100% of the national systems for budgeting, treasury and accounting, and the Bank expects to expand the financial management and procurement systems of Bank projects by evaluating and approving state procurement systems and accrediting new supreme audit institutions.

Vertical logic. The CS has vertical logic.

"RISKS. This measures three dimensions: (i) identification of factors that actually do or might affect attainment of the proposed objectives; (ii) definition of mitigation measures; and (iii) monitoring mechanisms.

The Strategy identifies four risks : (i) macroeconomic; (ii) political and institutional: related to the challenge that the coordination of the different levels of government (states and municipalities) might entail, as well as related to those related to political cycles (ex.: elections); (iii) execution capabilities: related to the institutional capacity of some executing units and multi-agent coordination and exchange rate risk; and (iv) the natural disasters risk. Mitigation measures have been identified for all the mentioned risks. Monitoring measures have been identified for all of the above mentioned risks."

ANNEX VII. COMMENTS ON THE COUNTRY PROGRAM EVALUATION BRAZIL 2011-2014

| OVE recommendation | Management's response |
|---|--|
| <p>1. Work with the client to define a limited set of strategic thematic priorities to structure and integrate the Bank's program, taking into account country demands and the Bank's comparative advantage. While it is understandable, given Brazil's size and heterogeneity of borrowers, that the Bank should support a number of themes and activities, strategic prioritization is still important for Bank effectiveness. Increasing the program's focus on poverty, including on poorer areas of the country, could be one strategic priority to consider.</p> | <p>Partially agree. Management agrees with OVE's recommendation that the country strategy should prioritize the fight against poverty and social inclusion, especially through interventions in high-poverty areas. These priorities will be maintained as strategic pillars in the new 2016-2018 country strategy, which will prioritize interventions in poorer areas and emphasize improving access to basic public services against a backdrop of regional inequalities, increasing expansion of metropolitan areas (coupled with pockets of poverty), and demand for better services from the growing middle class. Moreover, agreeing on a limited group of strategic issues does not seem to be a feasible or efficient approach for a country like Brazil, given its highly complex socioeconomic environment and the extremely heterogeneous degree of development of its states, which are also facing a difficult economic situation. It is also important to consider the dynamics of demand in Brazil, which will become more pronounced in this context of greater macroeconomic uncertainty. As part of the preparation of the new 2015-2018 country strategy, the initial discussions with the Federal Government will focus on prioritizing implementation approaches and crosscutting issues, with emphasis on metropolitan and urban areas, in addition to the need to create public service options for the growing middle class.</p> |
| <p>2. Seek long-term partnerships with subnational governments (both states and municipalities) where possible, and devote substantial resources to cross-learning. Because the lack of previous experience in working with the Bank and weaker institutional capacity appear to be factors behind higher costs, longer-term relationships (such as CCLIPs with specific subnational governments) can reduce preparation and implementation costs and enhance institutional capacity. Heightened attention to sharing experiences across programs, states, and municipalities (for example, replicating mechanisms similar to PROFISCO's Finance Secretaries Commission) can enhance effectiveness while also controlling costs.</p> | <p>Partially agree. The financial and human resources effort to facilitate and promote cross-learning and the cross-fertilization of knowledge, both internally across sectors and externally across states, is a recommendation that Management agrees with and is being developed through a variety of activities. One such example is the territory-centered discussions held at the Country Office. At these meetings, the sector divisions involved present the projects they have under way, share information on execution issues, and identify challenges and solutions for the general good. This practice, which is employed for state and municipal projects in Ceará and Bahia, is being expanded to include other states and municípios. Although strengthening long-term relationships with subnational entities has been a focus of the Country Office—i.e. 91% (in terms of number) and 96.2% (in terms of volume) of the SG operations approved during the country strategy cycle were carried out with subnational entities—it is difficult to predict whether these same states will become Bank borrowers in the long term. Moreover, owing to the difficult fiscal position of some states and the limitations of the Fiscal Responsibility Law, Management does not believe it is feasible to anticipate the possibility of maintaining long-term relationships with certain subnational governments.</p> |

| OVE recommendation | Management's response |
|---|---|
| <p>3. To the extent demanded by clients, continue to work with states and municipalities on deepening public finance reform. A better fiscal position, more efficient public spending policies, and stronger public expenditure management will be critical to subnational governments if they are to extend the coverage and improve the quality of public services and infrastructure. The Bank has strong multisector expertise that can contribute to those reforms. Policy-based lending to states—particularly those with immediate financial need—appears to be an efficient and effective instrument for support, supplemented where appropriate with technical cooperation and/or investment lending. Given the breadth of important fiscal issues, programs of fiscal support should engage multiple Bank divisions to help clients identify some of the most pressing expenditure rigidities and inefficiencies and design appropriate solutions.</p> | <p>Agree. While it is not possible to predict the most appropriate type of financial instrument since that decision is based on an agreement with the country, Management agrees with the recommendation that it would be important to continue supporting public finance reform, with an emphasis on efficient spending. Such support is contingent on borrower demand and national legal constraints.</p> <p>Whenever applicable and efficient, the Bank will continue to support multisector analysis and potential projects.</p> |
| <p>4. Seek ways to work with the Brazilian authorities to help strengthen regulatory frameworks for public-private partnerships at various levels of government. Facilitating private investment in the delivery of public services will be essential to meeting the country's growing infrastructure needs, and can also be instrumental in increasing investments in the social, environment, and other areas.</p> | <p>Agree. For the past two years, the Bank has offered technical support to strengthen the country's regulatory framework to facilitate the creation and implementation of public-private partnerships (PPPs), and the plan is to deepen this support under the 2016-2018 country strategy. In response to growing demand by the Federal Government, Management will seek to mobilize resources and experts to, <i>inter alia</i>, train government workers, promote discussions on the role of control entities, and mobilize resources to prepare the terms of reference and evaluate expressions of interest involving competitive processes.</p> |
| <p>5. Develop a concrete plan to promote more effective cross-sector and public-private collaboration in the country program. Such collaboration will be essential to the achievement of the goals of strategic prioritization and support for integrated fiscal reform at the subnational level, as envisioned in the prior recommendations.</p> | <p>Agree. With respect to promoting more effective cross-sector and public-private collaboration in the country program, a multisector working group on PPPs for development was created, made up of the Vice Presidency for Sectors and Knowledge (VPS) and the Vice Presidency for Private Sector and Non-sovereign Guaranteed Operations (VPP), headed by the Representative of the Country Office in Brazil. The group has been actively working for two years to promote better coordination among the different types of PPPs in the country. The group will continue to coordinate the actions of the different SG and NSG sectors for future loan operations, knowledge products, and training.</p> <p>As regards the portfolio in execution, analyses of the technical cooperation and Multilateral Investment Fund (MIF) portfolios have been conducted in recent months to identify points of contact with the SG portfolio, potential areas of collaboration, and targets for regular monitoring. The plan is to continue this work. In addition, the Country Office has instituted monitoring of the NSG portfolio.¹²² Monitoring is conducted via portfolio progress reports, which aim to show, <i>inter alia</i>, the main sectors and location of portfolio investments.¹²³</p> |

¹²² This is monitoring, not supervision. Supervision of the NSG portfolio is performed at Headquarters by the Structured and the Corporation.

¹²³ Based on information prepared by the Corporation.

| OVE recommendation | Management's response |
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| <p>6. <i>Continue to strengthen the monitoring and evaluation of the Bank's portfolio.</i> The evaluability of the Bank's approved portfolio has improved significantly, as evidenced by higher Development Effectiveness Matrix scores in recent years. Carrying these improvements through to project completion and ex post evaluation can help the Bank learn more from experience and fine-tune future interventions.</p> | <p>Agree. Management will continue to support the joint efforts of VPS, the Vice Presidency for Countries (VPC), and the Office of Strategic Planning and Development Effectiveness (SPD) to improve project evaluability. This topic will be emphasized in eligibility review meetings and in quality and risk review meetings (QRR) for projects. Joint impact evaluations with executing agencies will also be a way to disseminate the results to the public. During the new country strategy period, technical support to project executing agencies will continue for the purpose of strengthening information systems, a basic premise for ensuring evaluability. In addition, Management will more systematically promote the inclusion of lessons learned contained in project completion reports in the design of future projects and in sector dialogue.</p> |