

**Document of  
The World Bank**

**FOR OFFICIAL USE ONLY**

Report No. 63731-BR

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

AND

INTERNATIONAL FINANCE CORPORATION

COUNTRY PARTNERSHIP STRATEGY

FOR

THE FEDERATIVE REPUBLIC OF BRAZIL

FOR THE PERIOD FY2012-2015

September 21, 2011

Brazil Country Management Unit  
Latin America and Caribbean Region

International Finance Corporation  
Latin America and Caribbean Department

|  |
|--|
| <p>This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.</p> |
|--|

The last Country Partnership Strategy (CPS) Report No. 42677-BR was discussed by the Board on May 1, 2008, and the last CPS Progress Report No. 53356-BR was discussed by the Board on April 20, 2010

### **CURRENCY EQUIVALENTS**

(Exchange Rate Effective July 14, 2011)

Currency Unit = Real

Real 1.57 = US\$1.00

### **WEIGHTS AND MEASURES**

Metric System

### **FISCAL YEAR**

January 1 - December 31

### **ABBREVIATIONS AND ACRONYMS**

|         |   |   |
|---------|---|---|
| AAA     | Analytic and Advisory Activity                        | Atividade de Análise e Assessoria                           |
| BCB     | Central Bank of Brazil                                | Banco Central do Brasil                                     |
| BNDES   | National Bank of Economic and Social Development      | Banco Nacional de Desenvolvimento Econômico e Social        |
| COFIEEX | Commission on External Financing                      | Comissão de Financiamentos Externos                         |
| CONSAD  | Confederation of States' Administration Secretaries   | Conselho Nacional de Secretários de Estado da Administração |
| CY      | Calendar Year   | Ano Civil   |
| DPL     | Development Policy Loan                               | Empréstimo para Políticas de Desenvolvimento                |
| FY      | Fiscal year   | Ano Fiscal  |
| FRL     | Fiscal Responsibility Law                             | Lei de Responsabilidade Fiscal                              |
| GDP     | Gross Domestic Product                                | Produto Interno Bruto                                       |
| GEF     | Global Environmental Facility                         | Fundo para o Meio Ambiente Mundial                          |
| GoB     | Government of Brazil                                  | Governo do Brasil   |
| IBRD    | International Bank for Reconstruction and Development | Banco Internacional para a Reconstrução e o Desenvolvimento |
| IBGE    | Brazilian Institute of Geography and Statistics       | Instituto Brasileiro de Geografia e Estatística             |
| ICT     | Information and Communication Technology              | Tecnologia da Informação e Comunicação                      |
| IDEB    | Index of Development of Basic Education               | Índice de Desenvolvimento da Educação Básica                |
| IADB    | Inter-American Development Bank                       | Banco Interamericano de Desenvolvimento                     |
| IEG     | Independent Evaluation Group                          | Grupo Independente de Avaliação                             |
| IFC     | International Financial Corporation                   | Corporação Financeira Internacional                         |
| IMF     | International Monetary Fund                           | Fundo Monetário Internacional                               |
| M&E     | Monitoring and Evaluation                             | Monitoramento e Avaliação                                   |
| MIC     | Medium Income Countries                               | Países de Renda Média                                       |

|       |   |   |
|-------|---|---|
| NCB   | National Competitive Bidding  | Licitação Pública Nacional  |
| NCCAP | National Climate Change Action Plan                                     | Plano Nacional sobre Mudança do Clima   |
| NCR   | Net Current Revenue   | Receita Corrente Líquida  |
| NGO   | Non Governmental Organization   | Organização Não Governamental   |
| NLTA  | Non-Lending Technical Assistance  | Assistência Técnica Não-Reembolsável  |
| OECD  | Organization for Economic Co-operation and Development                  | Organização para a Cooperação e Desenvolvimento Econômico (OCDE)                  |
| PAC   | Growth Acceleration Program   | Programa de Aceleração do Crescimento   |
| PEFA  | Public Expenditure and Financial Accountability Assessment              | Avaliação dos Gastos Públicos e Avaliação Financeira da Prestação de Contas       |
| PPP   | Public-Private Partnerships   | Parcerias Público-Privadas  |
| SELIC | Headline interest rate from Central Bank (Clearance and Trustee System) | Taxa Básica de Juros do Banco Central (Sistema Especial de Liquidação e Custódia) |
| SEM   | Sustainable Environmental Management                                    | Gerenciamento Ambiental Sustentável   |
| SME   | Small and Medium Enterprises  | Pequenas e Médias Empresas  |
| SWAp  | Sector Wide Approach  | Abordagem Setorial Ampla  |
| TA    | Technical Assistance  | Assistência Técnica   |
| WB    | World Bank  | Banco Mundial   |

| <b>IBRD</b>       |                  | <b>IFC</b>         |                   |
|-------------------|------------------|--------------------|-------------------|
| Vice President:   | Pamela Cox       | Vice President:    | Thierry A. Tanoh  |
| Country Director: | Makhtar Diop     | Regional Director: | Paolo M. Martelli |
| Task Team Leader: | Pablo Fajnzylber | Country Manager:   | Loy Pires         |
| Team Support:     | Flavia Nahmias   | Task Manager:      | John Barham       |

## ACKNOWLEDGEMENTS

The World Bank Group greatly appreciates the close collaboration with the Brazilian authorities in the preparation of this Country Partnership Strategy. The preparation of the document involved extensive discussions with Government representatives at the Federal, State and Municipal levels. Internally, it represented a team effort of all the sector units of the LAC Region, as well as IFC. The team would like to thank Thadeu Abicalil, Erik Alda, Oscar Alvarado, Fátima Amazonas, Erica Amorim, Mauro Azeredo, Rafael Barroso, Garo Batmanian, Fabio Bittar, Edward Bresnayan, Barbara Bruns, Lily Chu, Roland Clarke, Manuel Contijoch, Paulo Guilherme Correa, Mariano Cortes, Alberto Costa, Georges Darido, Christoph De Gouvello, Erwin de Nys, Laurent Debroux, David Evans, Barbara Farinelli, Erick Fernandes, Paula Freitas, Anna Fruttero, Juliana Garrido, Joana Godinho, Arturo Gomez, Michele Gragnolati, Marianne Grosclaude, Francis Guesquiere, Melissa Johns, Augusto Jucá, Thomas Kenyon, Joseph Mubiro Kisito, Mariano Lafuente, Eric Lancelot, Tania Lettieri, Magnus Lindelow, Judith Lisansky, Mark Lundell, Catalina Marulanda, Andre Médiçi, Augusto Mendonça, Adriana Moreira, Marialisa Motta, Miriam Muller, Maria Beatriz Orlando, Daniela Pena, Ezau Pontes, Yaye Seynabou Sakho, Taimur Samad, Luis Alvaro Sanchez, Rogerio Santarrosa, Rodrigo Serraino, Parth Shri Tewari, Joaquin Toro, Boris Utria, Tarsila Velloso, Sameh Wahba, Ian Walker and Luciano Werzius for their contributions to the CPS.



# **FY12-15 COUNTRY ASSISTANCE STRATEGY FOR BRAZIL**

## **TABLE OF CONTENTS**

|   |           |
|---|-----------|
| <b>EXECUTIVE SUMMARY .....</b>  | <b>i</b>  |
| <b>I. INTRODUCTION.....</b>   | <b>1</b>  |
| <b>II. COUNTRY CONTEXT.....</b>   | <b>1</b>  |
| <b>III. BANK GROUP PARTNERSHIP STRATEGY FOR BRAZIL .....</b>                            | <b>10</b> |
| A. Lessons learned from the previous CPS and stakeholder feedback .....                 | 10        |
| B. Proposed World Bank Group Partnership Strategy .....                                 | 14        |
| Objective 1: Increasing the Efficiency of Public and Private Investments.....           | 18        |
| Objective 2: Improving the provision of public services for low income households ..... | 21        |
| Objective 3: Promoting regional economic development.....                               | 26        |
| Objective 4: Improving sustainable natural resource management and climate resilience   | 30        |
| C. Implementing the FY12-15 Partnership Strategy .....                                  | 34        |
| <b>IV. MANAGING RISKS .....</b>   | <b>37</b> |

## **TABLES**

|  |    |
|--|----|
| Table 1: Brazil - Key Macroeconomic Indicators and Projections, 2005-2015 .....      | 4  |
| Table 2: IBRD Indicative Lending Program for FY12-13 by CPS Strategic Objective..... | 16 |

## **FIGURES**

|   |    |
|---|----|
| Figure 1: Per Capita Income Growth by Decile (2001-2009).....             | 6  |
| Figure 2: Brazil FY12-15 CPS Strategic Objectives and Results Areas ..... | 18 |

## **BOXES**

|  |    |
|--|----|
| Box 1: Sub-national Multi-Sector Operations for Complex Development Solutions .....      | 11 |
| Box 2: Impact Evaluation - An Integral Part of the Knowledge and Innovation Agenda ..... | 13 |
| Box 3: A renewed partnership with the Northeast, Brazil's poorest region.....            | 27 |
| Box 4: The Amazon: Conservation <i>with</i> development and opportunities .....          | 30 |

## **CPS ANNEX TABLES**

|  |    |
|--|----|
| CPS Annex Table 1: A1 - Brazil: Key Economic & Program Indicators:.....                  | 40 |
| CPS Annex Table 2: A2 - Brazil at a glance .....   | 41 |
| CPS Annex Table 3: B2 - Selected Indicators of Bank Portfolio Performance and Management | 43 |
| CPS Annex Table 4: B3 - IBRD Indicative Lending Program for FY12-13 by CPS Objective ..  | 44 |
| CPS Annex Table 5: B3 - Brazil IFC Investment Operations Program .....                   | 46 |

|  |    |
|--|----|
| CPS Annex Table 6: B4 - Summary of Non lending Services .....                    | 47 |
| CPS Annex Table 7: B6 - Brazil: Key Economic Indicators.....                     | 49 |
| CPS Annex Table 8: B7 - Brazil: Key Exposure Indicators .....                    | 51 |
| CPS Annex Table 9: B8 - IFC for Brazil.....                                      | 52 |
| CPS Annex Table 10: B8 - Brazil Operations Portfolio (IBRD/IDA and Grants) ..... | 53 |

## **MAP**

|                       |    |
|-----------------------|----|
| Map of Brazil 1 ..... | 54 |
|-----------------------|----|

## **CPS ANNEXES**

|  |     |
|--|-----|
| CPS Annex 1: CPS Consultation .....                            | 55  |
| CPS Annex 2: Leveraging IBRD Lending Capacity in Brazil .....  | 64  |
| CPS Annex 3: Status of Gender Issues in Brazil .....           | 69  |
| CPS Annex 4: Brazil 2012-2015 CPS Results Matrix.....          | 88  |
| CPS Annex 5: Brazil Country Partnership Strategy FY08-F11..... | 125 |

## **CPS COMPLETION REPORT ANNEX**

|  |     |
|--|-----|
| CPS Completion Report Annex 1: A2 - IBRD Program Summary ..... | 166 |
|--|-----|

## EXECUTIVE SUMMARY

- i. **Brazil has made remarkable economic and social progress in the last decade and is on a path of inclusive and environmentally sustainable growth.** It has raised 22 million people out of poverty since 2003 and built a stable economy, which was able to overcome the 2008/9 global economic crisis successfully. It is the only major middle income country to have combined economic growth with reduced inequality. Brazil is making progress toward environmental sustainability and deforestation in the Amazon is on a downward trend. Child health outcomes have improved, and access to basic education is now almost universal. Brazil is likely to meet almost all MDGs ahead of 2015. It has also become an important voice in the international development debate, and is sharing its wealth of innovative experiences with the world.
- ii. **Brazil now faces the challenge of reaching a higher development level, which requires even more innovative, integrated and knowledge-intensive approaches.** A key challenge is to accelerate economic growth and further strengthen resilience to international shocks. This requires significant increases in savings and investment, reduction of infrastructure gaps, enhancing private sector productivity, and improving human capital. A second challenge is to further reduce inequality and offer human development opportunities to all, especially women. Despite its recent progress, Brazil remains among the 10 most unequal countries in the world. A third challenge is to further enhance the environmental sustainability and resilience of Brazil's development including by further enhancing biodiversity conservation, as well as natural resources and disaster risk management.
- iii. **In line with these challenges, and carrying forward the work of the Lula Administration, President Dilma Rousseff has set ambitious social and economic targets in coordination with sub-national governments.** The Government of Brazil (GoB) aims to significantly increase Brazil's growth potential above the current 4% to 4.5% through increased investments, higher public savings, and by maintaining fiscal discipline. The ongoing Growth Acceleration Programs (PAC I and II) infrastructure strategies will invest R\$1.4 trillion between 2007 and 2014. Part of this will be used for the world's largest slum upgrading and low-income housing program, involving 2 million new houses. The government's flagship social program, a pledge to eradicate extreme poverty, seeks to benefit 16 million people by 2014. Brazil's commitment to environmental sustainability is illustrated by ambitious and unilaterally adopted targets to reduce GHG emissions by about 38% by 2020.
- iv. **Likewise, the CPS for 2012-2015 will build on, and deepen, the last Country Strategy.** The World Bank Group has been a valued partner for Brazil, providing integrated and often multi-sector development solutions tailored to its needs. The GoB's demand for a continued strong partnership with the WBG is evidenced by its recent pre-payment of IBRD loans, aimed at opening space for sub-national lending. The Bank has also benefited greatly from Brazil's unique demands, which required the WBG to adapt and learn. Innovation and knowledge have been the central elements of this relationship, with strong flows of knowledge transfers to, from, and within Brazil, supported by a large impact evaluation program. The FY12-15 CPS seeks to take these achievements further by maintaining the focus on knowledge generation and transfer, with greater emphasis on inclusiveness in line with President Rousseff's

goal of eradicating extreme poverty. In this context, the Bank and IFC will expand their support for the Northeast, Brazil's poorest region, and for sustainable development in the Amazon, the Cerrado, and other fragile ecosystems.

- v. **Brazil's priorities for its partnership with the WBG are focused on second-generation development problems that require innovative solutions, in terms of improving national policy frameworks and finding new ways to implement programs with sub-national governments and at the firm level.** The WBG will help address these challenges, and help achieve the overarching goal of higher rates of inclusive and sustainable growth by focusing on four strategic objectives: (i) increase the efficiency of public and private investments; (ii) improve the quality and expand the provision of public services for low income households; (iii) promote regional economic development through improved policies, strategic infrastructure investments, and support for the private sector in frontier areas; and (iv) further improve sustainable natural resource management and enhance climatic resilience while contributing to local economic development and helping to meet rising global food demand. Brazil is looking to the Bank as a partner in the dissemination of the country knowledge and development experiences to other countries.
- vi. **To respond to Brazil's broad spectrum of demands, the WBG must be flexible and agile in adapting products and delivery mechanisms.** In principle, at the Federal level, Brazil's demand is concentrated in knowledge and strategy development services, using a combination of AAA and knowledge-intensive lending, but also leaving room for other financial solutions as needed. The Federal Government is also interested in the Bank's support to sub-national Governments as a way of enhancing the implementation of national policies, ranging from the fiscal responsibility framework to strategic social and infrastructure investment programs. Sub-national governments demand integrated multi-sector development solutions, combining technical and financial support and using tailored instruments. The private sector seeks highly customized financing packages to help meet unique business and growth objectives.
- vii. **The CPS identifies an indicative IBRD lending program in the order of US\$5.8 billion for FY12-13.** While this is in line with annual lending in FY08-11, it is equivalent to about 0.3% of total public expenditures. IFC's own-account investment program is forecast at about US\$1.0 billion annually in FY12-13, a minute fraction of total private sector investment. Thus, if the WBG is to have a significant impact in Brazil, this cannot be derived exclusively from the size of its financial contributions, which are bound to be small with respect to the country's own resources. Rather, the WBG must seek to have a development impact in Brazil through the knowledge contributions that it will embed in its various activities. In particular, the Bank Group will deploy its resources according to the following principles. *Flexibility:* Adjusting areas of engagement and instruments to better respond to the country's evolving needs. *Selectivity:* Focusing on areas where Brazil faces second-generation development challenges and can benefit most from the Group's knowledge and experience. *Innovation:* Supporting innovative investments and policy reforms that can be replicated locally and internationally, and offering innovative services and instruments (e.g. result-based and multi-sector loans, partial credit risk and other guarantees). *Leveraging:* Increasing the use of leveraged resources from government, the private sector and other development partners, to maximize development impacts.



- viii. **IFC will continue responding to the needs of a rapidly-evolving private sector with a suite of competitive financial and advisory products.** In FY11, Brazil had IFC's largest single country new business and mobilization program in the world. While IFC does not expect to increase business volumes significantly, the nature of its involvement is changing toward (i) a greater focus on smaller, more difficult investments in poorer, frontier regions such as the Northeast and North; (ii) supporting innovation and competitiveness, promoting South-South knowledge transfers and encouraging access to new markets and products, and (iii) increasing IFC's advisory support to sub-national Governments for PPPs in infrastructure, social sectors, and the environment.
- ix. **Macroeconomic risks are derived from the possibility of a significant worsening of the global economic outlook.** While this could lead to a deceleration in economic growth, the risk of further negative impacts on the Brazilian economy are mitigated by the country's large external reserves, the solidity of its financial system and the strength of its domestic demand. The authorities also face the challenge of dealing with internal inflationary pressures while at the same time attempting to minimize the negative impact of external shocks. The risk that this situation may lead to deterioration in both growth and inflation prospects is mitigated by the fact that Brazil's fiscal policy stance has already become less expansionary. Moreover, the authorities have announced further increases in public sector savings to improve the balance between fiscal and monetary policy instruments in the control of domestic demand.
- x. **Bank-related risks to the CPS come from the prevailing constraints in the Bank's capacity to lend to Brazil, the relatively small size of the Bank program with respect to the Brazilian economy, and the relatively high complexity of multi-sector Bank projects.** The SBL framework currently limits the Bank's net exposure to Brazil to US\$16.5 billion. While there is a risk that this constraint affects the WBG's ability to fully implement the proposed program, the recognition of the mutual benefits that the partnership between the WBG and Brazil entails creates strong motivations for the parties involved to seek options to address it. The CPS is also subject to the risk of the WBG not being able to achieve a significant impact in Brazil, due to the small size of its program relative to that of Brazil's economy. This risk will be mitigated by the CPS's explicit recognition that the WBG's potential impact in Brazil cannot be derived exclusively from its financial contributions. The WBG will leverage its limited resources by focusing on knowledge-intensive activities aimed at supporting innovative interventions that, scaled-up, can provide benefits that could far exceed the direct impact of the original WBG projects. Finally, there are operational risks associated with the inherent complexity of the Bank projects that involve multiple implementing agencies across different sectors. These risks will be jointly and proactively assessed by the WBG and the GoB during project preparation. They will be mitigated through the design of appropriate implementation frameworks, the provision of training and other capacity building activities, and the increased use of country systems.



## I. INTRODUCTION

1. **The previous CPS for Brazil covers the period from May 2008 to June 2011.** The Board of Executive Directors discussed the FY08-11 CPS for Brazil on May 1<sup>st</sup>, 2008 (Report No. 42677-BR). The CPS was organized around four main areas of engagement: strengthening the macroeconomic and governance foundations of growth; increasing equity; boosting competitiveness; and improving environmental sustainability. As argued in the CPS Progress and Completion Reports, the WBG Bank's programs and activities have made significant contributions to Brazil's progress in those four areas.

2. **Preparation of the Brazil CPS for FY12-15 coincided with the first semester in office of President Dilma Rousseff and all State governors.** Consultations for the CPS were carried out while the new authorities were developing four-year investment plans (PPAs). This allowed the WBG to align its strategies with those of newly elected authorities, ensuring that integration, innovation and knowledge could have the greatest impact.

3. **The proposed CPS is aligned with LCR and IFC regional strategies and with the WBG's strategic framework for middle income countries (MICs).** The LCR and IFC strategies focus on creating opportunities for poverty and inequality reduction by targeting the poor and vulnerable, supporting growth and employment, strengthening governance, promoting global collective action, stimulating private sector innovation and competitiveness, and addressing climate change. The CPS is consistent with the Bank Group's approach to MICs, which calls IBRD and IFC to be responsive, flexible, and innovative. It requires them to work with MICs as they take on an increasingly important role in a range of global issues, including climate change.

## II. COUNTRY CONTEXT

### *Social, Political and Economic Context*

4. **Brazil is the largest country in area and population in Latin America and the Caribbean.** It is an upper middle income country, with a GDP per capita of US\$8,327 and a population of 191 million in 2010. Brazil has immense natural resources and a strong industrial base, but still suffers from a wide gap between rich and poor. Innovative social programs and more inclusive growth are gradually reducing inequality. Reforms in the 1990s and sound macroeconomic and social policies have led to an extended period of political and economic stability, growth and social gains.

5. **Brazil has a highly decentralized Federal system. Sub-national governments account for over 50% of public sector expenditures and are the main providers of education, health care, infrastructure and public security.** Well-defined arrangements determine the allocation of taxation powers, expenditure responsibilities and transfer mechanisms among the three levels of government (Federal, State and Municipal). State and Municipal tax revenues are complemented by a system of intergovernmental transfers financed mainly through revenue-sharing rules laid down in the Constitution. The automatic and formula-based nature of these rules guarantees transparency and autonomy, keeping political interference at bay.

6. **Brazil held general elections in October 2010 for president, State governors and Congress.** The elections ratified Brazil's economic model and a policy strategy based on primary surpluses, inflation targets, and floating exchange rate. President Dilma Rousseff held key ministerial posts under President Lula da Silva, and vowed to continue his development priorities, focused on achieving Brazil's growth potential and deepening social gains. In particular, President Rousseff has announced a primary surplus target of R\$117.89 billion for 2011, which was equivalent to 3.1% of GDP at the time it was set, and the goal of further reducing government debt, allowing interest rates to fall while keeping inflation under control. The Government's coalition has a comfortable majority in Congress.

7. **Brazil has been reaping the growth benefits of more than a decade of sound macro policies and a favorable external environment.** During 2004-2010, annual GDP growth averaged 4.4%, compared to 1.9% in the previous seven years. A similar increase has been observed in Brazil's potential growth rate. This was the result of sound domestic policies and favorable external conditions. After several bouts of hyperinflation during the 1980s and early 1990s, the 1994 *Real Plan* reduced inflation from 2.287% to an average of 45% in 1995-96. During the past decade, stabilization efforts were grounded in an inflation targeting regime, together with a consistent emphasis on fiscal discipline and a flexible exchange rate. As a result of these efforts, inflation was reduced to an average of 6.4% in 1997-2010.

8. **Fiscal discipline has been consistently pursued at the Federal and sub-national levels, under the *Fiscal Responsibility Law (FRL)*.** Additional controls on sub-national fiscal performance were introduced in debt renegotiation contracts signed by the Federal government with the States in 1997, and with some of the largest municipalities in 2001. Passed in 2000, the FRL established limits for personnel expenditures and indebtedness at all levels of government, only allowed new permanent spending mandates if they were based on permanent revenue increases, and forbade debt refinancing between different levels of government. Strong government balances at the Federal and sub-national levels reduced the net public sector debt-to-GDP ratio from 57% in 2002 to 38.5% in 2008 (from 18% to 13% of GDP in the case of sub-nationals). Although counter-cyclical fiscal measures adopted during the 2008-2009 global financial crisis raised the net debt ratio to 42.8% in 2009, it declined to 39.7% in June 2011. The government also increased its debt maturity and the share of fixed-rate and local currency denominated bonds, significantly reducing exchange and interest rate risks. Credit rating agencies granted Brazil an investment grade in April 2008 and issued further upgrades in 2011.

9. **Growth has benefited from a favorable external environment, which contributed to a rapid rise in exports and international reserves.** Thanks to a strong export performance following the 2001 global economic slowdown and prior to the 2008-2009 global financial crisis, Brazil was able to generate sizable trade surpluses for most of the past decade – on average US\$32.5 billion per year in 2002-2008. During this period the country was able to accumulate large international reserves – US\$206 billion by the end of 2008 compared to US\$37 billion in 2002.

10. **While exports benefited from large increases in international commodity prices, exports of services and manufacturing goods grew strongly.** Brazil's terms of trade increased

by a modest 12% during 2002-2008, compared to an increase of more than 200% in international commodity prices. Accounting for 45% of total Brazilian exports in 2002-2008, manufacturing exports grew by 41% in volume, compared to 36% for commodities.<sup>1</sup> Brazil also diversified its export markets, with large increases in trade with Mercosul, the Asia-Pacific region (especially China), and the European Union.

**11. Steady credit growth also contributed to Brazil's performance.** Starting in the late 1990s, Brazil successfully restructured, strengthened, and modernized its financial system following the *Real Plan*. Between 1995 and 2008 the GoB instituted a rigorous regulatory and supervisory framework, created a deposit insurance mechanism, modernized payment and settlement systems, and passed new bankruptcy and home loan legislation. It also issued regulations allowing salaries and transfers to be used as collateral for consumer loans. Credit expanded from 26% of GDP in 2002 to 47.3% in July 2011 without compromising the Banking system's solvency.

### *Recent Economic Developments*

**12. Brazil's relative resilience during the global financial crisis reflected its good macroeconomic management and the solidity of its financial system.** Following the global economic crisis in September 2008, Brazil suffered a sudden reduction in external and domestic credit, and a sharp currency depreciation. Rapidly falling external demand and an acute decline in investment led to a 4.2% contraction in GDP in the fourth quarter of 2008, and a 2% contraction in the first quarter of 2009. The recession, however, lasted only two quarters. Prompt response by the authorities avoided a credit crunch, and mitigated the impact of the global financial crisis on the Brazilian economy, which recovered rapidly. After experiencing almost zero growth in 2009, Brazil grew at 7.5% in 2010.

**13. The authorities' response to the global crisis combined injection of liquidity into the banking system, a reduction in interest rates, and fiscal and quasi-fiscal stimuli.** The credibility built over the previous decade allowed the Government to adopt expansionary fiscal and monetary policies. The non-financial public sector primary surplus fell from 3.4% of GDP in 2008 to 2.0% in 2009, due mainly to automatic stabilizers, as well as tax reductions for selected consumer goods and public investment growth. The Central Bank cut its policy rate by 500 basis points, reduced reserve requirements, and encouraged larger banks to support smaller through loan portfolio sales. Credit markets recovered quickly.

**14. During the past two years, growth has been driven by domestic demand, fueled by expansionary fiscal policies and rapid credit growth.** Household consumption contributed with 4.4 percentage points of the 7.5% growth registered in 2010. Investments grew by a robust 21.9%. Fiscal policy was appropriately countercyclical in 2009. It remained expansionist in 2010, driven by strong rigidities in current expenditures, the political cycle (2010 was an election year), and difficulty in reversing the 2009 countercyclical measures. Treasury funding of BNDES, expanded from R\$1.8 billion in 2007, to R\$100 billion in 2009 and R\$80 billion in 2010. Overall, lending by public banks grew 105% between August 2008 and July 2011, compared to 53% for private banks.

---

<sup>1</sup> Blanco, Holanda Barbosa Filho and Pessôa (2010). *Brazil: Resilience in the Face of the Global Crisis*.

15. **The strength of domestic demand has contributed to a widening of the current account deficit**, which reached 2.3% of GDP in 2010 (compared to 1.5% in 2009). Going forward, the current account deficit is expected to expand gradually to 3.5% of GDP by 2015 (Table 1). Foreign direct investments are expected to remain strong and help finance the majority of the current account deficit. In addition, at least in the short term, foreign portfolio investments are also expected to remain very strong. Driven mainly by high real domestic interest rates at a time of exceptionally low interest rates internationally, these inflows have put strong upward pressure on the *Real* and prompted the authorities to increase from 2 to 6% the taxation of financial transactions of foreign fixed income investments.

**Table 1: Brazil - Key Macroeconomic Indicators and Projections, 2005-2015**

| Indicator                                   | 2005  | 2006  | 2007  | 2008                                       | 2009  | Est.  | Projection |       |       |       |        |
|---|-------|-------|-------|--|-------|-------|------------|-------|-------|-------|--------|
|   |       |       |       |  |       | 2010  | 2011       | 2012  | 2013  | 2014  | 2015   |
| <b>National Accounts</b>                    |       |       |       |  |       |       |            |       |       |       |        |
|   |       |       |       | (annual real percent change, unless noted) |       |       |            |       |       |       |        |
| Real GDP Growth (%)                         | 3.2   | 4     | 6.1   | 5.2  | -0.6  | 7.5   | 3.8        | 3.6   | 4.2   | 4.2   | 4.2    |
|   |       |       |       | (in percent of GDP, unless noted)          |       |       |            |       |       |       |        |
| Gross domestic investment                   | 15.9  | 16.4  | 17.4  | 19.1                                       | 16.9  | 18.4  | 19.6       | 20.6  | 21.4  | 21.8  | 21.8   |
| Public sector                               | 2.5   | 2.5   | 2.6   | 2.9  | 3.0   | 3.2   | 3.2        | 3.2   | 3.3   | 3.4   | 3.4    |
| Private sector                              | 13.5  | 13.9  | 14.8  | 16.2                                       | 13.9  | 15.2  | 16.4       | 17.5  | 18.2  | 18.5  | 18.5   |
| <b>External Sector</b>                      |       |       |       |  |       |       |            |       |       |       |        |
|   |       |       |       | (in US\$ billions, unless noted)           |       |       |            |       |       |       |        |
| Current account                             | 14.0  | 13.6  | 1.6   | -28.2                                      | -24.3 | -47.5 | -55.4      | -63.3 | -83.2 | -96.7 | -107.6 |
| Trade balance                               | 44.7  | 46.5  | 40.0  | 24.8                                       | 25.3  | 20.3  | 23.0       | 12.3  | 12.1  | 20.2  | 29.8   |
| Exports (fob)                               | 118.3 | 137.8 | 160.6 | 197.9                                      | 153.0 | 201.9 | 244.0      | 269.6 | 289.9 | 312.2 | 335.9  |
| Imports (fob)                               | 73.6  | 91.4  | 120.6 | 173.1                                      | 127.7 | 181.6 | 221.0      | 257.3 | 277.8 | 292.0 | 306.1  |
| Nonfactor services, net                     | -8.3  | -9.6  | -13.2 | -16.7                                      | -19.2 | -31.1 | -38.4      | -43.2 | -44.7 | -47.0 | -49.1  |
| Income and current transfers, net           | -22.4 | -23.2 | -25.3 | -36.3                                      | -30.3 | -36.7 | -40.0      | -32.4 | -50.5 | -69.9 | -88.3  |
| Direct investment, net                      | 12.5  | -9.4  | 27.5  | 24.6                                       | 36.0  | 37.0  | 57.9       | 65.3  | 69.7  | 74.4  | 82.6   |
| Portfolio investment, net                   | 4.6   | 4.3   | 37.9  | 3.5  | 50.5  | 57.8  | 44.7       | 41.4  | 42.6  | 45.7  | 48.8   |
| Gross international reserves                | 53.3  | 85.2  | 179.5 | 192.9                                      | 237.4 | 287.5 | 348.5      | 401.5 | 438.0 | 470.7 | 484.6  |
| Current account (% of GDP)                  | 1.6   | 1.2   | 0.1   | -1.7                                       | -1.5  | -2.3  | -2.2       | -2.4  | -3.0  | -3.3  | -3.5   |
| <b>Non Financial Public Sector</b>          |       |       |       |  |       |       |            |       |       |       |        |
|   |       |       |       | (in percent of GDP, unless noted)          |       |       |            |       |       |       |        |
| Total Revenues and Grants                   | 35.8  | 35.9  | 35.7  | 36.6                                       | 36.1  | 36.2  | 37.7       | 37.7  | 37.7  | 37.8  | 37.8   |
| Total Expenditure                           | 39.2  | 39.4  | 38.3  | 38.0                                       | 39.3  | 37.8  | 40.4       | 40.6  | 40.3  | 40.3  | 40.2   |
| Current Expenditure                         | 37.0  | 37.4  | 36.3  | 35.5                                       | 36.8  | 35.2  | 37.2       | 37.5  | 37.1  | 37.0  | 36.9   |
| of which: Interest payments                 | 7.3   | 6.8   | 6.0   | 5.4  | 5.3   | 5.3   | 5.6        | 5.6   | 5.6   | 5.5   | 5.4    |
| Capital Expenditure                         | 2.1   | 2.1   | 2.0   | 2.5  | 2.5   | 2.6   | 3.2        | 3.1   | 3.2   | 3.3   | 3.3    |
| Primary Balance                             | 3.9   | 3.3   | 3.4   | 4.1  | 2.1   | 2.4   | 2.9        | 2.7   | 3.0   | 3.0   | 3.0    |
| Overall Balance                             | -3.4  | -3.5  | -2.6  | -1.3                                       | -3.2  | -2.9  | -2.7       | -2.9  | -2.6  | -2.5  | -2.4   |
| Gross Public Sector Debt                    | 69.2  | 68.1  | 66.5  | 70.7                                       | 67.9  | 66.8  | 63.3       | 61.2  | 58.9  | 56.6  | 54.3   |
| Domestic Debt                               | 59.9  | 60.3  | 61.4  | 65.2                                       | 63.8  | 63.4  | 60.7       | 58.5  | 56.1  | 53.8  | 51.6   |
| External Debt                               | 9.3   | 7.8   | 5.1   | 5.5  | 4.1   | 3.4   | 2.6        | 2.7   | 2.8   | 2.8   | 2.7    |
| <b>Prices and Economic Activity</b>         |       |       |       |  |       |       |            |       |       |       |        |
|   |       |       |       | (annual percent change, unless noted)      |       |       |            |       |       |       |        |
| GDP Deflator                                | 7.2   | 6.1   | 5.9   | 8.3  | 5.7   | 7.3   | 6.2        | 4.9   | 4.5   | 4.8   | 4.8    |
| Consumer Price Index (eop)                  | 5.7   | 3.1   | 4.5   | 5.9  | 4.3   | 5.9   | 6.3        | 4.5   | 4.5   | 4.5   | 4.5    |
| Producer Prices (av)                        | 5.6   | 0.8   | 5.6   | 13.7                                       | -0.2  | 5.7   | 5.9        | 5.3   | 4.9   | 4.8   | 4.7    |
| Memorandum items:                           |       |       |       |  |       |       |            |       |       |       |        |
| Nominal GDP (LCU)                           | 2,147 | 2,369 | 2,661 | 3,032                                      | 3,185 | 3,675 | 4,051      | 4,403 | 4,794 | 5,235 | 5,717  |
| Source: IMF, BCB, IBGE, EIU, WB Calculation |       |       |       |  |       |       |            |       |       |       |        |

16. **The upward pressure on the *Real*, together with widening current account deficits and growing private sector indebtedness create difficult economic policy trade-offs.** The Central Bank has rapidly accumulated international reserves, reaching US\$346.1 billion in July 2011 (from US\$238.5 billion in December 2009). However, this has been accompanied by an increase in broadly defined gross external debt – including intercompany loans and nonresident holdings of domestic fixed income instruments – from about US\$373.4 billion at the end of 2009 to US\$538.8 billion in July 2011. In particular, the private sector's gross external debt increased

by 63% between December 2009 and July 2011 (116% in the case of Banks), reaching US\$340.9 billion (\$137.3 billion for Banks). Going forward, the pattern of capital flows that is financing the growing current account deficit and the continued build-up of reserves may lead to further increases in gross indebtedness. The Central Bank has stepped up its monitoring of prudential and macro-prudential risks associated with potential currency mismatches by financial and non-financial companies, by increasing reporting requirements on foreign borrowing by non-financial corporations. It has also taken measures to mitigate those risks by tightening regulations on banks' net open positions, and tightening capital requirements to curtail credit growth. These measures are being combined with efforts to use monetary and fiscal policy instruments to control growth in domestic demand, which should indirectly help lower the upward pressure on the exchange rate (through lower portfolio inflows) and the current account deficit.

**17. To address risks of overheating, the Central Bank has first adopted a contractionary monetary policy stance but recently eased it in response to a considerable worsening of the global economic outlook.** Inflation, as measured by IBGE (IPCA), closed 2010 at 5.9%, and reached almost 6.9% in the year to July 2011, thus surpassing the upper limit of the inflation target (6.5%). Labor market conditions have tightened, with record levels of job creation and historically low unemployment (6% in July 2011). To control inflation, the Central Bank increased the policy rate by 375 basis points, starting in April 2010, to 12.5% in June 2011. However, on August 31<sup>st</sup> 2011, in response to a perceived deterioration in the outlook for global growth and the assessment that this will have a disinflationary bias going forward, the Central Bank reduced its policy rate by 50 basis points to 12%.

**18. The Central Bank has also taken macro-prudential measures to contain rapid credit growth.** While credit has already started decelerating, early stage delinquency indicators (overdue loans between 15 and 90 days) have gradually risen in the last year, mainly in the consumer segment (6.3% in July 2011 up from 5.3% in December 2010). While this development portends higher non performing loan (NPL) ratios in the upcoming months, the banking system appears well prepared to absorb a worsening of the credit portfolio. The system-wide solvency ratio is currently estimated at around 17%. Indeed, banks have managed to organically grow their capital base through the capitalization of robust profits. Furthermore, supervisors are phasing in tightened capital requirements in anticipation of Basel III. Similarly, while housing loans have grown very strongly (49% in the year to July 2011), they still represent only 10% of total private sector credit. Moreover, the risk of an "asset bubble" developing in Brazil's real estate markets is mitigated by high real interest rates.

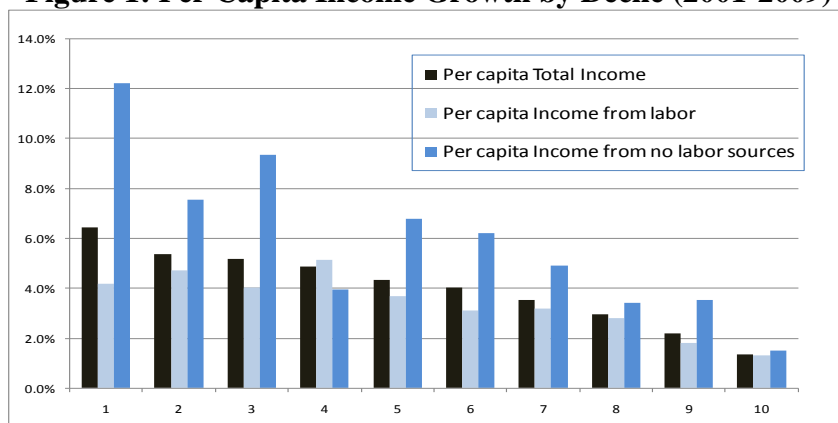
**19. Fiscal policy has also generated strong results in early 2011.** Between January and July 2011 the cumulative primary surplus stood at R\$92 billion, which is equivalent to 78% of the 2011 target of R\$117.9 billion. Despite the budget cuts of R\$50 billion announced in February 2011, fiscal performance has relied more on revenue strength than on lasting restraint in noninvestment spending. The GoB has recently announced its intent of implementing further cuts in current expenditures, which should contribute to a better balance in the control of domestic demand between fiscal and monetary policy instruments, and thus help address the challenges created by the large portfolio inflows attracted by Brazil's high real interest rates.

20. **The medium term macro outlook points to an annual GDP growth range of 4% to 4.5%.** In the short term, after a slowdown in economic activity in response to the initial tightening of monetary policy and worsening external conditions, growth could be further depressed by a further reduction in external demand, lower foreign investment flows, tighter international credit conditions and a deterioration of consumer and business confidence. In the medium term, growth is likely to be driven by strong domestic aggregate demand. Investment growth, in particular, will be spurred by the development of new offshore oil fields and the preparations for the 2014 World Cup and 2016 Olympics.

### *Poverty Trends*

21. **In recent years Brazil has achieved very rapid social progress.** Figure 1 shows that growth in per capita income was several times faster among the poorest than among the richest segments of the population. This was the case both for labor income and for non-labor income (e.g. from social programs), with the latter accounting for 42% of total income growth among the poorest 30%, compared to 29% among the richest 30%. As a result, between 2003 and 2009 poverty fell by 40% and extreme poverty by 52%. More than 22 million Brazilians emerged from poverty during that period and almost 13 million rose above extreme poverty. Rapid social progress was also observed in the areas of health and education. Malnutrition among children under five has been more than halved since the 1990s. Survival rates in that age group and the fraction of children with adequate weight for their age have both reached 98%. Almost all children are currently enrolled in school – 98% for those aged 7 to 14, and access to electricity is almost universal. Moreover, gender-related differences in education outcomes have been basically eliminated and, in fact, a gap favoring girls now exists in secondary and tertiary enrollment.<sup>2</sup>

**Figure 1: Per Capita Income Growth by Decile (2001-2009)**



Note: Annual rates. Source: own calculations using PNAD (2001, 2009).

22. **Economic growth explains about one half of the large reduction in poverty recently observed in Brazil.** The remaining 50% is the result of a decline in inequality, which can be decomposed in three main factors: growth in labor income (45% of the fall in inequality), increased government transfers (45%), and reduced dependency rates (10%). Inequality is likely to be further reduced by the rapid aging process, and as new and improved social protection

<sup>2</sup> Educational gains for girls and women are not yet, however, fully translated into labor market outcomes as women continue to earn lower wages than men with similar observable characteristics. See Annex 6.



programs come in. However, the largest potential sources of further poverty reduction are likely to be higher rates of aggregate growth and an increase in the productivity and salaries of workers at the bottom of the income distribution.

### ***Brazil's Development Challenges: Accelerating Growth***

23. **Significant increases in public and private investments will be needed to address existing infrastructure bottlenecks.** Brazil has had relatively low investment rates, with direct negative impacts on the economy's potential growth rate. Aggregate fixed capital accumulation averaged 16.7% of GDP during 2000-2009 and reached 18.4% GDP in 2010. Brazil's public sector investments have amounted to about 3% of GDP during recent years (3.3% in 2010).<sup>3</sup> Investments in infrastructure, in particular, have been falling over the past two decades as a share of GDP, affecting the competitiveness of Brazilian firms. Total investments (public and private) in electric power, land transportation, telecommunications, and water and sanitation fell from 5.1% of GDP in the early 1980s to 2.1% of GDP in 2001-06.<sup>4</sup> Private sector investment rates are also relatively low, especially in comparison to faster-growing Asian economies.

24. **A complementary challenge is that of increasing domestic savings in order to finance the country's large investment needs.** The *Growth Acceleration Plan* (PAC), started in 2007, intends to increase Brazil's aggregate investment rate to 22% of GDP in 2014.<sup>5</sup> Although external savings could help increase investment, maximizing domestic savings would better sustain long-term growth. Brazil's domestic saving rate is relatively low by international standards. It averaged 16.2% of GDP between 2000 and 2009, based mainly on private savings; public savings were negative or close to zero during this period.<sup>6</sup>

25. **Restraining growth in current expenditures and enhancing public sector efficiency will be key for increasing domestic public savings.** Increasing public savings while creating incentives for the expansion of private savings is one of the most important challenges faced by the GoB. Considering that Brazil already has a high ratio of taxes to GDP (about 35%), responding to this challenge without compromising increases in public investments calls for slower current public expenditures growth and increased effectiveness and cost-efficiency of government programs. The GoB has announced as one of its main priorities the modernization of public sector management to "do more with less". The Government has also announced its intent to limit growth in current expenditures below the rate of GDP growth. In addition, the GoB is exploring measures to increase domestic private savings, including through the development of housing and long-term finance markets.

26. **Increasing potential growth will also require significant increases in labor and total factor productivity (TFP).** During the second half of the twentieth century, Brazil's output per worker grew at an annual rate of 2.1%. Traditional aggregate growth accounting suggests that total factor productivity growth averaged 0.6% during this 50-year period, accounting for about

---

<sup>3</sup> In comparison, China, India and the Russian Federation had investment rates of respectively 39.1, 28.4% and 19.1% of GDP during 2000-2009.

<sup>4</sup> In comparison, during the same period Chile increased its investments in those sectors from 3.4 to 5.2% of GDP.

<sup>5</sup> Planned investments under PAC totaled R\$504 billion in 2007-2010 and R\$955 billion in 2011-2014.

<sup>6</sup> Over the same period, China, India and the Russian Federation had domestic savings of 30 to 47% of GDP.

20% of labor productivity growth.<sup>7</sup> More recently, TFP growth has accelerated, reaching 1.1% per year during 2002-2008.<sup>8</sup> This is equivalent to the rate of output per worker growth in the U.S. during the previous three decades. Thus, while Brazil appears to be accompanying the rate of global technological change, the aggregate efficiency of the economy would have to grow at an even faster rate to help reduce the country's income gap with more advanced economies.

27. **The GoB has expressed its intention to revamp its productive development policy, with a renewed focus on stimulating private investments and exports while promoting innovation and productivity growth.** Brazil's approach for accelerating productivity growth implicitly distinguishes between, first, promoting innovation among the group of leading, world-class Brazilian firms and, second, reducing the productivity gap between those leading firms and the large number of small and medium enterprises that make up the rest of the economy and exhibit much lower levels of productivity. Some of the recent measures announced by the GoB in this regard include reductions in payroll taxes for selected labor and technology intensive industries, tax benefits for capital expenditures and exports, and further increases in public financing of research and development activities.

28. **Complementary improvements in the quantity and quality of human capital are key for increasing labor productivity.** The massive expansion of schooling in Brazil over the past 15 years has had dramatic effects on the labor force.<sup>9</sup> In 1993, close to 70% of the labor force had not completed secondary school. Today that number is 40%. The biggest change is not access to primary school, but the much higher share of children who stay in school through secondary education. For the basic education system, the overriding implication is the urgency of raising student learning, especially among poor children.

29. **Brazil's rapid demographic transition creates social and economic challenges and opportunities.** Brazil is currently in the so-called demographic bonus period of its demographic transition, exhibiting a falling ratio of dependents to working-age population. This situation, however, will be reverted starting in 2020. On one hand, this will allow for the share of GDP devoted to education to gradually decline without reducing investment levels per student. The challenge is to take advantage of this opportunity for improving the effectiveness of the education system, so as to raise the productivity of the next generation. On the other hand, health care and social security expenditures are likely to increase substantially, driven mainly by the growing population share of the elderly. While the 1999 and 2003 pension reforms more than halved the projected costs of pension expenditures, these are expected to more than double to 22.4% of GDP by 2050.<sup>10</sup>

### ***Making Growth more Inclusive and Environmentally Sustainable***

30. **President Dilma Rousseff has announced her intention to eradicate extreme poverty and focus on improving opportunities for vulnerable populations.** To that end, the GoB has announced the multi-sector "Brasil sem Miséria" program (BSM), which targets the 16.2 million

---

<sup>7</sup> See Gomes, Pessoa and Velloso (2003), *Evolução da TFP na Economia Brasileira: Uma Análise Comparativa*.

<sup>8</sup> See Blanco et al. (2010).

<sup>9</sup> World Bank (2010), *Achieving World Class Education in Brazil*.

<sup>10</sup> World Bank (2011), *Becoming Old in an Older Brazil*.

people that still live in extreme poverty in Brazil – i.e. with less than R\$70 per capita per month (about US\$1.5 per day). This implies a strong focus on the Northeast, where 59% of the extreme poor are located – another 21% live in the South and Southeast and 20% in North and Central regions. The BSM program is comprised of three main pillars: income transfers, productive inclusion and access to public services. The Government intends to expand the coverage of its main social programs to better reach the most vulnerable populations, and step-up efforts to improve the income generation capacity of the poor.

**31. Further reducing poverty and income inequality in a context of sustainable development is among Brazil's most important development challenges.** Despite Brazil's important social accomplishments, the living standards of tens of millions of Brazilians remain very far from OECD averages. Brazil remains among the 10 most unequal countries in the world and most of the poor still lack access to quality public services. More than 41 million Brazilians still live with less than US\$3.5 dollars per day – equivalent to the official average poverty line – and life expectancy at birth remains relatively low (72.3 years in Brazil, compared to 75.2 in Argentina and 78.5 in Chile). Regional inequality also remains very high. North and North-East regions trail national average incomes by approximately 30 to 40% and exhibit much lower life expectancy.<sup>11</sup>

**32. Large challenges also remain in terms of providing better opportunities for children of all backgrounds to pursue a productive and dignified life.** In particular, personal circumstances for which an individual cannot be held accountable—like race, gender, where they were raised or socioeconomic status— still considerably affect the probability of accessing basic services that are necessary to succeed in life, like education, health care, adequate nutrition or clean water.<sup>12</sup> Access to reliable water supply and sanitation services is particularly low among rural and peri-urban populations, which could impede Brazil from meeting the Millennium Development Goals in this specific area.

**33. Brazil also faces important challenges in order to implement its low carbon development strategy.** The country has already been making very important contributions to global climate change mitigation and, under its National Policy for Climate Change, it has adopted a unilateral goal of reducing greenhouse emissions by 36 to 39% by 2020.<sup>13</sup> Brazil continues to have one of the “cleanest” energy matrices in the world and is implementing new programs to finance renewable energy production and energy efficiency projects. Brazil also continues to implement its national policy for prevention and control of deforestation in the Amazon and is expanding this initiative to other biomes, such as the Cerrado and the Caatinga.<sup>14</sup>

---

<sup>11</sup> For example, life expectancy is below 69 years in Alagoas compared to almost 74 years in Santa Catarina. Income comparisons do not take into account differences in purchasing power parity and may thus be over-estimated in real terms.

<sup>12</sup> Socioeconomic status, in particular, plays a large role in the probability of accessing education, housing, and health services; rural-urban location is one of the main sources of exclusion in accessing housing services. Molinas Vega and Paes de Barros (2011), *Human Opportunities for Children in Brazil: an Assessment with the Human Opportunity Index*.

<sup>13</sup> This target is set with respect to a business as usual scenario, using projections from 2005.

<sup>14</sup> The Action Plan for Prevention and Control of Deforestation in the Amazon (PPCDAm, 2004) and the Action Plan for Prevention and Control of Deforestation and Forest Fires in the Cerrado (PPCerrado, 2010) are instruments of Brazil's National Policy for Climate Change. A similar plan for the Caatinga biome is being designed.

The coverage of Brazil's protected areas has increased from 9% (790,000 km<sup>2</sup>) of the national territory in 2007 to 14% (1,200,000 km<sup>2</sup>) in 2010.<sup>15</sup> Amazon deforestation has been cut by 66% since 2005.<sup>16</sup>

34. **Increasing Brazil's resilience to climatic shocks is an important GoB priority.** The country faces the challenge of enhancing its institutional capabilities and protecting its population and infrastructure from the anticipated impacts of climate change. Negative effects include prolonged droughts, reduced potential for agriculture production, and increased evaporation from lakes, dams, and reservoirs. Moreover, long periods without rain will be punctuated by brief torrential downpours resulting in floods. Some of these effects are already evident in the increased recurrence of flooding and droughts that have caused significant social and economic impacts in Brazil.<sup>17</sup> Dealing with increasingly frequent extreme weather events will require a systematic and coordinated approach to disaster risk management (DRM).

35. **Global demand for foodstuffs, particularly grains, presents Brazil with historical opportunities and challenges.** Meeting rising demand from markets in East and South Asia offers the country a unique opportunity to increase agricultural output and productivity. Output is already at record levels. The 2011 grain harvest will reach 158.8 million tons, 6.2% more than in 2010. This has been achieved mostly by rising yields, but in part by an expansion of 25,000 ha of cultivated area in the Amazon region, which creates new challenges in terms of mitigating growth-related environmental threats.<sup>18</sup>

### III. BANK GROUP PARTNERSHIP STRATEGY FOR BRAZIL

#### A. Lessons learned from the previous CPS and stakeholder feedback

##### *Lessons from the FY08-11 CPS Completion Report*

36. **The Completion Report (CR) finds a strong delivery of outcomes under the FY08-FY11 CPS.** The CPS delivery of results built on previous support to policy reforms in the 1990s and early 2000s. Some of the areas in which the CPS helped Brazil achieve superior outcomes include improved fiscal and results-based management practices at the sub-national level, as well as enhanced health, education and social protection systems. Moreover, the WBG helped increase access to finance and housing by low income households, as well as shift the

---

<sup>15</sup> Ministry of Environment, 2011, Fourth National Report to the Convention on Biological Diversity.

<sup>16</sup> Deforestation in the Amazon, according to INPE-PRODES, covered 6,451 km<sup>2</sup> in 2010, compared to 19,014 km<sup>2</sup> in 2005. While there have been annual oscillations driven by weather and economic conditions (e.g. deforestation tends to increase in years with low precipitation and high levels of economic activity), a clear negative trend can be observed since 2004: on average, 24,940 km<sup>2</sup> were deforested per year in 2002-04, 14,980 km<sup>2</sup> in 2005-2007 and 8,940 in 2008-2010.

<sup>17</sup> For example, in 2009, 1081 Brazilian municipalities experienced emergencies, mostly due to water shortages, particularly in the already water-scarce Northeast, but also several municipalities suffered extreme floods and landslides. This number increased to 1916 municipalities in 2010, and to 880 municipalities in the first half of 2011.

<sup>18</sup> Rising yields have been the dominant factor. Between 1978 and 2011, the cultivated area has increased 35% and the grain production raised 245.4%. Additionally, the Government has created incentives to recover degraded areas instead of expanding the agricultural frontier. Examples include the ABC program (Agricultura de Baixo Carbono - Low Carbon Agriculture program), Proflora, FCO Pronatureza, among other programs.

competitiveness agenda to the regions, mainstream climate change concerns and obtain tangible positive environmental outcomes while promoting sustainable development in the Amazon.

37. **The CR also finds the performance of the World Bank Group to be satisfactory.** The CR considers the CPS design well aligned with the program of the second Lula administration and finds that the Government and the WBG succeeded in increasingly emphasizing knowledge intensive activities, sub-national lending and improved program performance. Despite having increased, Bank lending remained limited relative to the size of Brazil: in 2011 it was equivalent to 0.3% of total public expenditures. This size constraint limited the potential for the Bank to have a large direct development impact through its projects in Brazil. A conscious decision was thus made to maximize the Bank's catalytic and tactical role, by strongly emphasizing support to innovative interventions that, scaled-up, would provide benefits that could far exceed the direct impact of the original projects.

38. **Bank interventions focused on knowledge creation, not just knowledge transfer.** In practice, this meant, on one hand, that the Bank's AAA program focused on partnering with leading local researchers to produce high quality country studies aimed at making substantive contributions to national policy debates. On the other hand, the Bank aggressively incorporated knowledge in its lending activities, focusing on "how" rather than "what" and often exploring new instruments to deliver improved results, including multi-sector result-focused operations (Box 1). These innovations in lending are having an impact in program design throughout the Bank (e.g. through the new policy for Municipal DPLs and the proposal for new Result-Based Lending instruments).

#### **Box 1: Sub-national Multi-Sector Operations for Complex Development Solutions**

Most recent operations supporting sub-national governments in Brazil have been multi-sector, aimed at addressing complex and multidimensional development challenges. Supporting these endeavors calls for concerted and well-articulated efforts in multiple areas and at all levels of government (Federal, State and Municipal). Multi-sector operations have also developed in response to Brazil's – and the Bank's – increased focus on results and outcomes. This calls for improved transparency and accountability across sectors as well as more robust overall governance frameworks. Working with several ministries, departments and agencies in the same operation allows the Bank to help strengthen the country's own fiduciary systems and public sector management frameworks more efficiently as well as building synergy across policies and programs.

A few examples illustrate the advantages of multi-sector operations. In the State of Acre, the Social and Economic Inclusion project is using a territorial (spatial) approach to support the Government's efforts to promote social and economic inclusion of the most disadvantaged populations in both urban and isolated rural areas, covering interventions in health, education, natural resource management and agriculture. In Rio de Janeiro, the Fiscal Sustainability, Human Development and Competitiveness Development Policy Loan supported the Government in strengthening its policies and programs to improve fiscal management, competitiveness and delivery of health and education services. In Bahia, the Integrated Water and Health Management Project uses an innovative approach to reduce child mortality by increasing access to clean water, sanitation and basic health care in a coordinated manner.

39. **Total IBRD lending under the CPS reached US\$11.5 billion (in FY08-11), or about US\$2.9 billion per year on average.** This represents a sharp increase with respect to the previous CPS period (FY04-07), in which annual lending averaged US\$1.2 billion. IFC also sharply expanded its activities in Brazil during the past CPS period. Commitments rose to US\$4.0 billion in FY08-FY11, from US\$1.48 billion in the previous four years. The Corporation's investment portfolio in Brazil now stands at US\$2.18 billion, making it IFC's second largest global partner. Coordination between the IFC and the Bank around common strategic goals was strengthened, with the IFC program focused around strategic objectives and complementing financing with strategic advice.

40. **Three fourths of total commitments went to States and Municipalities.** Still, the Bank retained a strong partnership with the Federal Government both directly and through its work at the sub-national level, often acting as an agent of the Federal Government in its efforts to improve sub-national fiscal sustainability and improve implementation of national policies. Special attention was given to strengthening project monitoring and impact evaluation (Box 2), to support the GoB's increasing focus on results and inform fine-tuning of policy frameworks.

41. **Program performance improved considerably.** Halving the period between Concept Note discussion and project effectiveness enabled the Bank team to respond promptly to client requests. Further increases in the Bank's efficiency and responsiveness were achieved through the gradual adoption of country systems in selected States. Most Bank projects were evaluated by IEG as having satisfactory or better outcomes.

42. **Despite past successes, the CR finds room for improving the approach for working with all levels of government to achieve national outcomes.** While Bank-supported projects in Brazil are having demonstration effects within and outside the country, the CR finds it advisable to strengthen the partnerships through (a) more systematic transmission of lessons, experience and learning within Brazil, either horizontally or working through the Federal level, (b) refocusing attention to supporting the fine tuning of national policy platforms building on the lessons learned at the State level, and (c) further supporting Brazil's role as leader in the South-South dialogue by sharing the country's innovative development approaches with the rest of the world. The CR also identifies areas where major gaps remain to further increase the impact of the WGB engagement. These include the work on improving public sector efficiency and effectiveness at the Federal level, advancing the use of public-private partnerships (PPPs) at all levels of government, further supporting efforts to enhance private sector productivity and competitiveness, and increasing support for Gender development.

### *Findings from Recent IEG Evaluations*

43. **IEG found the Bank's strategy for State-level engagement in Brazil to be successful and identified areas for further improvement.** In a January 2010 evaluation that also included three other large federated countries (Russia, India and Nigeria), IEG found that the Bank's engagement with high-performing states in Brazil has clearly helped strengthen in-State capacity and encouraged State-to-State knowledge transfers. IEG concurred with the Bank's strong focus on improving public sector management at the State level, as an entry point for broader multi-sector engagements. Finally, IEG considers the Brazil Team's innovative approach embedded in

multi-sector SWAp to be a successful case with potential for generating knowledge spillovers to other member countries. Still, IEG recommended that going forward the Bank should, first, give more weight to the needs of the poorest states. Second, the evaluation suggests widening the scope and increasing the amount of analytical work at the State level.

### **Box 2: Impact Evaluation - An Integral Part of the Knowledge and Innovation Agenda**

Impact evaluations (IEs) are a key component of Bank activities in Brazil, helping assess the effectiveness of innovative policies and programs and fine-tune them to increase their development impact. There are 20 ongoing Bank-supported IEs in Brazil, the largest number Bank-wide. To systematize and mainstream these efforts, the country team has created a multi-sector Monitoring and Evaluation Group which leads the various IE programs.

*Management Capital, Financial Literacy and Formalization of Firms.* The Bank is testing the impact of a large scale pilot *financial literacy* program on knowledge and intertemporal decision making of high school students and their parents. In Minas Gerais, the Bank is working with the Secretary of Planning to understand how an unprecedented simplification of registration procedures and the establishment of 29 one-stop shops are relaxing the constraints to *formalization of small firms*. Finally the Bank and the Ministry of Trade and Industry are starting to assess a policy to increase *managerial knowledge* in Brazilian firms.

*Agricultural Productivity, Smallholder Access to Markets and Natural Resources Management.* A cluster of Bank projects are being evaluated to understand how the provision of technical assistance, extension services and financial resources help rural producer organizations and farmers be more *productive* and have *better access to markets*. On the natural resource management side, pilot payments for environmental services (PES) programs aimed at improving water quality by providing pecuniary payments to farmers in upstream basins are being evaluated in the states of São Paulo and Espírito Santo. These evaluations will inform the design of new PES programs.

*Teacher Performance and Early Childhood Development (ECD).* The Bank is helping evaluate innovative "pay for performance" programs that link teacher bonuses to student learning outcomes in Pernambuco and in the municipality of Rio de Janeiro, as well as the public delivery of *creche* care in the municipality of Rio de Janeiro. The IE in Pernambuco has demonstrated that schools with more ambitious targets achieved more progress and that teachers who spent more time on instruction were much more likely to achieve the bonus. The ECD program shows significant impacts on mothers' labor force participation; the evaluation will also measure the effects of the program on children's cognitive development.

*Social Protection and Poverty Eradication.* As part of its support to the *Bolsa Família conditional cash transfer* program, the Bank has renewed its commitment to enhancing and consolidating the Government's capacity to monitor and evaluate social programs. At the GoB's request, the Bank will support the evaluation of the new *Brasil sem Miséria* program, which aims at reaching the 16 million people who remain in extreme poverty in the country.

### **Stakeholder Consultations**

44. **The IBRD and IFC country teams undertook consultations for the preparation of the CPS with numerous Federal, State and Municipal clients, the private sector and civil society, comprising approximately 100 direct interlocutors, including seven State**

**Governors.** As the Bank program is increasingly at the sub-national level, consultations had a particular focus on State and Municipal clients and stakeholders. In all, the sub-national consultations represented all five regions of the country, accounting for over 70% of Brazilian GDP and 65% of the country's population.

45. **The consultations suggest that the WBG development support is very valued by most interlocutors.** As detailed in Annex 1, counterparts see the WBG as a leading development institution and a key partner for Federal and sub-national governments. The Federal Government acknowledged the Bank's partnership and flexibility in shifting its focus to the sub-national governments during the previous CPS period, in response to Brazil's changing development outlook and in coordination with Government priorities – especially support to the Fiscal Responsibility Law framework. The government also highlighted the value of both knowledge and financial contributions to priority programs and requested that this joint focus be maintained for the new CPS. The WBG was requested to maintain a flexible approach in the new CPS, increase its use of country systems and reduce internal bureaucratic obstacles, especially when working with sub-national entities and in multi-sector operations.

46. **Many sub-national governments noted that the CPS is in close alignment and complements their own multi-annual programs, and will thus be an important help to achieve planned long-term results.** They described the World Bank Group's involvement as essential for increasing fiscal space for investment, raising public management standards, developing multi-sector development strategies and building capacity in the poorest States. The WBG's support for innovation and path-setting development solutions was highly appreciated, but sub-national Governments highlight that the Bank's financial support remains a central part of the partnership. Civil society organizations and the private sector called on the Group to expand its policy to include more partners and voices in its operations from the beginning, providing inputs on program development and priority setting. Organizations also asked the WBG to help foster greater general transparency and inclusion from its government counterparts. CSOs acknowledged the Group's importance as a partner for social and environmental sustainability especially as Brazil steps up infrastructure investments in sensitive biomes, and called on the Group to support sustainable development capacity building and social control initiatives by local governments. Private sector representatives asked that the Bank address looming bottlenecks for Brazilian growth in education quality, job training and infrastructure, especially in lagging regions.

## **B. Proposed World Bank Group Partnership Strategy**

### ***World Bank Partnership Strategy Overview***

47. **The Government Program of President Dilma Rousseff provides the framework for the WBG's CPS for Brazil.** Building on the achievements of the past decade, President Rousseff intends to eradicate extreme poverty during her term, significantly increase Brazil's investment rate while maintaining macroeconomic stability, and further enhance Brazil's role in global policy debates. These are complex, second-generation challenges that require innovative and knowledge-intensive approaches. Likewise, building capacity for monitoring and evaluation and assessing development impacts will remain central to Brazil's goals and the Bank's support.



During the CPS period, the WBG will work in close coordination with the Federal and sub-national governments and the private sector to contribute to the GoB's goal of achieving higher rates of inclusive and sustainable growth through *four strategic objectives*:

- a. **Increase the efficiency of public and private investments, thus boosting growth capacity with job and income generation**, especially in Brazil's poorer regions, with a special emphasis in the Northeast. Brazil has a huge potential, held back by intricate institutional challenges, not the least its highly decentralized structure.
- b. **Improve the quality of public services for low income households, and expand their provision through public and private channels**. Strengthening social protection and improving access to quality education, health and housing have proven to be major instruments for promoting Brazil's social and economic development by means of enhancing equity and expanding opportunities. Given President Rousseff's goal of eradicating extreme poverty, they are key aspects of the proposed CPS, together with an increased Gender focus.
- c. **Promote regional economic development through improved policies, strategic infrastructure investments, and support for private sector actors in frontier regions**. As the country prepares to reach a new growth and development level, special effort must be made to reduce regional inequalities, avoiding a drag down effect and closing the social and economic gap with the rest of the country. The WBG will place a renewed emphasis in supporting the Northeastern region.
- d. **Further improve the sustainable management of natural resources and enhance resilience to climatic shocks while maximizing contributions to local economic development, and helping to meet rising global food demand**. Brazil has made advances in managing the environmental effects of growth, but now needs to focus on long-term solutions to further capitalize on its natural resource assets in a sustainable way. Brazil also realizes the need to reduce the vulnerability of its territory (including coastal zones) to climate change (e.g. the growing risk of extreme climate events such as droughts and floods).

48. **The World Bank Group Program.** The CPS identifies an IBRD lending program in the order of US\$5.8 billion over FY12-13 (Table 2).<sup>19</sup> Annual lending in FY12-13 would be in line with that observed under the FY08-11 CPS. It is worth noting that the proposed lending plan is indicative as IBRD's capacity to lend can change over time and, moreover, the approval of any project depends on the borrower's financial capacity, as assessed by Brazil's National Secretary of the Treasury, as well as on its compliance with other Federal Government requirements (as assessed by COFIEEX). Moreover, the implementation of this plan depends on IBRD's Brazil exposure remaining under the current limit of US\$16.5 billion as set out in the Single Borrower Limit (SBL) framework (see Annex 2). In FY11, Brazil had the largest single country new business program in the world for IFC. While IFC does not expect to increase investment volumes significantly, the nature of its involvement is changing toward (i) greater focus on smaller, more complex investments in poorer, frontier regions such as the Northeast and Amazon; (ii) helping innovative companies access new markets and develop new products, and to promote competition and South-South knowledge transfers, and (iii) increasing IFC's advisory support to sub-national Governments for developing PPPs in infrastructure, social sectors, and the environment.

---

<sup>19</sup> The projects listed in Table 2 are presented for indicative purposes only. Project size and contents are subject to review and approval by the WBG and the Federal Government.

**Table 2: IBRD Indicative Lending Program for FY12-13 by CPS Strategic Objective**

| FY12: Proposed IBRD Lending Program                   |         | Strategic Objectives   |                                     |  |   |  |   |   |                         |                          |
|---|---------|--|-------------------------------------|--|---|--|---|---|-------------------------|--------------------------|
|   |         | Increase Volume and Productivity of Public and Private Investments |                                     | Improve access to Public Services by Low Income Households |   | Promote Regional Economic Development  |   | Improve Natural Resources Management and Climate Resilience |                         |                          |
|   |         | Result Areas   |                                     |  |   |  |   |   |                         |                          |
| Proj ID   | US\$(M) | Fiscal and Public Sector Management                                | Private Sector Development Policies | Access to Social Protection, Health and Education          | Access to Housing for Low Income Households | Regional Economic Development Policies | Sanitation, Transport and Energy Infrastructure | Water and Environmental Management                          | Sustainable Agriculture | Disaster Risk Management |
| Federal   |         |  |                                     |  |   |  |   |   |                         |                          |
| Energy and Mineral Sector Strengthening               | 50.0    |  |                                     |  |   |  | √   | √   | √                       |                          |
| Federal Integrated Water Sector                       | 110.0   |  |                                     |  |   |  | √   | √   |                         | √                        |
| Subnational   |         |  |                                     |  |   |  |   |   |                         |                          |
| AF Greening Rio de Janeiro Urban Rail System (SIL)    | 600.0   |  |                                     |  |   |  | √   |   |                         |                          |
| AF Rio de Janeiro State (SIL)                         | 40.0    | √  |                                     | √  | √   |  | √   |   |                         | √                        |
| AF Rio de Janeiro Sustainable Rural Development (SIL) | 100.0   |  | √                                   |  |   | √                                      |   | √   | √                       | √                        |
| APL 2 São Bernardo Int. Water Mgmt (SIL)              | 27.0    |  |                                     |  | √   |  | √   | √   |                         |                          |
| Ceará Rural Sustainable & Compettiveness (SIL)        | 100.0   |  | √                                   |  |   | √                                      | √   | √   | √                       |                          |
| Pernambuco Rural Economic Inclusion (SIL)             | 100.0   |  | √                                   |  |   | √                                      | √   | √   | √                       |                          |
| Rio Municipal (SIL)                                   | 16.0    | √  | √                                   | √  | √   |  |   |   |                         |                          |
| Sergipe Water (SIL)                                   | 70.0    |  |                                     |  |   |  | √   | √   |                         |                          |
| Bahia DPL   | 700.0   | √  | √                                   | √  |   | √                                      | √   | √   |                         | √                        |
| Piauí Green Growth and Inclusion DPL                  | 350.0   | √  |                                     | √  |   | √                                      |   | √   | √                       | √                        |
| Pernambuco Expand. Opportunities, Enh. Equity DPL     | 500.0   | √  | √                                   | √  |   | √                                      | √   | √   |                         |                          |
| Recife Education and Public Management SWAp           | 130.0   | √  |                                     | √  |   |  |   |   |                         |                          |
| Rio Grande do Sul SWAp                                | 480.0   | √  | √                                   | √  |   |  | √   | √   |                         | √                        |
| Result  | 3,373.0 |  |                                     |  |   |  |   |   |                         |                          |

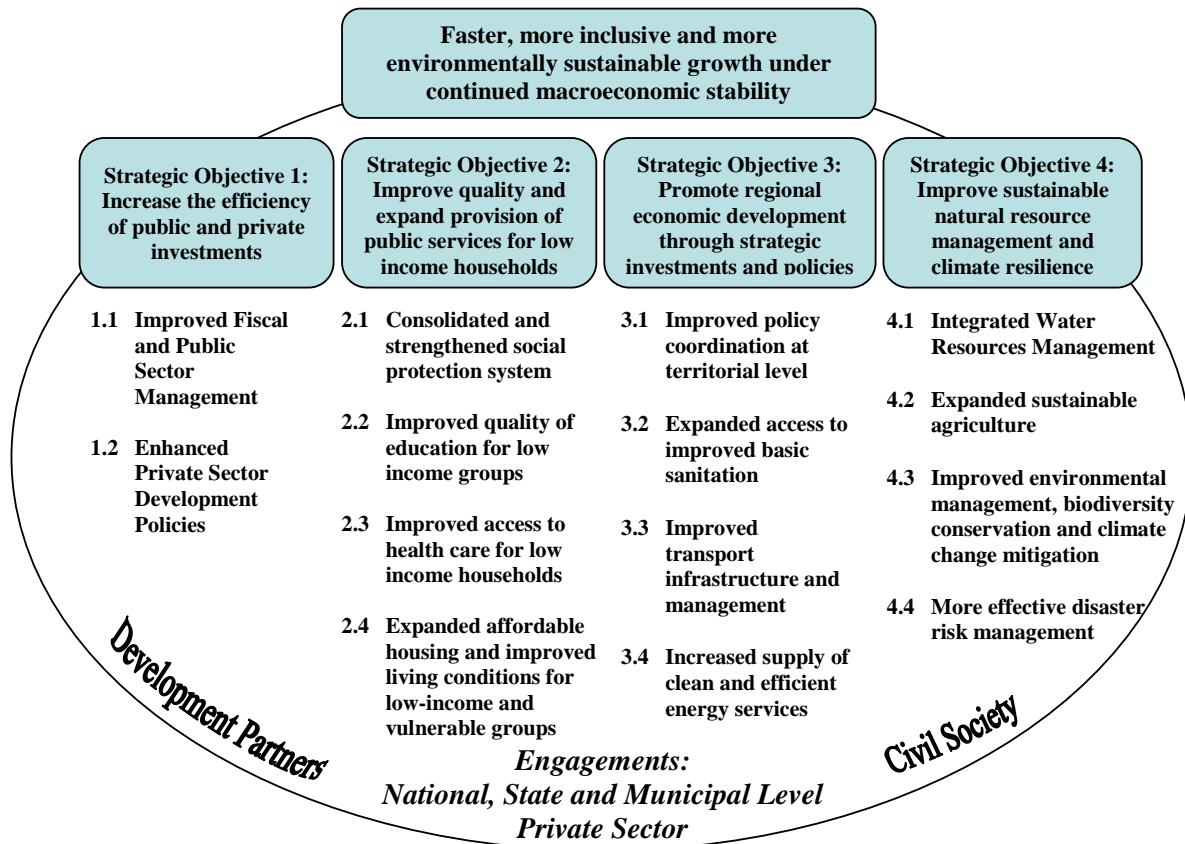
**Table 2: IBRD Indicative Lending Program for FY12-13 by CPS Strategic Objective (continued)**

| FY13: Proposed IBRD Lending Program                        |         | Strategic Objectives   |                                     |  |   |  |   |   |                         |                          |
|--|---------|--|-------------------------------------|--|---|--|---|---|-------------------------|--------------------------|
|  |         | Increase Volume and Productivity of Public and Private Investments |                                     | Improve access to Public Services by Low Income Households |   | Promote Regional Economic Development  |   | Improve Natural Resources Management and Climate Resilience |                         |                          |
|  |         | Result Areas   |                                     |  |   |  |   |   |                         |                          |
| Proj ID  | US\$(M) | Fiscal and Public Sector Management                                | Private Sector Development Policies | Access to Social Protection, Health and Education          | Access to Housing for Low Income Households | Regional Economic Development Policies | Sanitation, Transport and Energy Infrastructure | Water and Environmental Management                          | Sustainable Agriculture | Disaster Risk Management |
| Federal  |         |  |                                     |  |   |  |   |   |                         |                          |
| Federal Transport (SIL)                                    | 100.0   | √  | √                                   |  |   |  | √   |   |                         |                          |
| South-South Cooperation for Economic Development           | 30.0    | √  |                                     | √  |   |  | √   |   | √                       |                          |
| Subnational  |         |  |                                     |  |   |  |   |   |                         |                          |
| Paraná PSM for Development SWAp                            | 350.0   | √  | √                                   | √  |   | √                                      | √   | √   | √                       | √                        |
| Alagoas Extreme Poverty Eradication (SIL)                  | 300.0   | √  | √                                   | √  |   | √                                      |   |   |                         | √                        |
| Rio Grande do Norte Regional Development (SIL)             | 360.0   | √  | √                                   | √  |   | √                                      |   |   | √                       | √                        |
| Tocantins Integrated Sustainable Reginal Development (SIL) | 300.0   | √  |                                     | √  |   | √                                      | √   |   |                         | √                        |
| 3rd Minas Gerais Partnership DPL                           | 450.0   | √  | √                                   | √  |   |  |   | √   |                         | √                        |
| Belo Horizonte Urban DPL                                   | 200.0   | √  | √                                   | √  | √   |  |   |   |                         | √                        |
| Rio State DPL III  | 300.0   | √  | √                                   | √  |   |  |   |   |                         |                          |
| Result   | 2,390.0 |  |                                     |  |   |  |   |   |                         |                          |

## Strategic Objectives and Result Areas

49. The WBG program will comprise 14 core results areas across four strategic objectives within a framework of flexibility and adaptability. The goal is for the Bank to contribute to Brazil's aim of faster, more inclusive and more environmentally sustainable growth, with macroeconomic stability (Figure 2). The anticipated outcomes of this program presented below are the result of both ongoing activities and the new ones proposed in this CPS at the national, state, municipal, and private sector levels. The WBG group understands that the achievement of those outcomes depends to a large extent on the consolidation of a solid basis of managerial capabilities within the government. To foster this consolidation and to support the development of new management tools, mostly those related to risk management and the establishment of sound internal controls, the WBG aims to execute the 2012-2015 CPS in each one of the areas and strategic objectives with a special attention to the inclusion of components, products and activities aimed at addressing the Government's institutional development needs.

Figure 2: Brazil FY12-15 CPS Strategic Objectives and Results Areas



### Objective 1: Increasing the Efficiency of Public and Private Investments

50. **Raising aggregate investment is a key GoB priority.** During the last decade, Brazil has been able to consolidate fiscal discipline at the Federal and sub-national levels while accommodating increasing legally mandated social expenditures – e.g. in health, education and social security – and achieving significant social gains. Even though the GoB does not intend to

abandon this approach, one of its key priorities is to accelerate growth by significantly increasing both the quantity and the quality of public and private investments. To that end, one important challenge is that of expanding the volume and predictability of budgetary resources available for financing public investment without compromising fiscal sustainability or crowding out private investments. The Bank Group will support Brazil's efforts in this regard, by working mainly with selected sub-national Governments that are implementing innovative approaches for improving fiscal and public sector management with a view to increasing the "fiscal space" for public investment and enhancing the effectiveness and cost-efficiency of Government programs. The approach will consist of supporting policy and institutional innovations at the State and Municipal levels that can be scaled up and which can generate demonstration effects at all levels of Government.

### ***Improving fiscal and public sector management***

**51. Sub-national Governments have made important contributions to the improvement of Brazil's fiscal position.** The Bank has supported these efforts by helping selected states comply with the country's fiscal responsibility framework, expand fiscal space for increasing public investment and improve the delivery of basic social services. Going forward, further support will be provided to help the GoB consolidate, disseminate and deepen this first generation of fiscal and public sector management reforms. The Bank will use investment and development policy loans to support institutional changes and policy reforms (e.g. in Alagoas, Bahia, Pernambuco, Piauí and Rio Grande do Norte in the Northeast, Tocantins in the Central region, Minas Gerais and Rio de Janeiro in the Southeast, and Paraná and Rio Grande do Sul in the South).

**52. Improved financial and broader public sector management is fundamental for efficient and transparent management of public resources in Brazil.** As fiscal sustainability is being achieved, the focus of partners is increasingly on efficient administrative systems which allow resources to be allocated in a transparent and rule based framework, where managerial discretion is supported by accountability mechanisms. Greater transparency and accountability reduce the opportunities for corruption; well-managed public financial management systems with credible budgets reduce the need for *ad hoc* decisions and the opportunities for fraudulent practices. Finally, the ability to allocate resources according to priorities increases the legitimacy of government, and helps to increase tax compliance. Thus the Bank will focus on contributing to the following objectives:

- **Further improving public investment management by helping develop capacity to screen, select and appraise projects**, as well as by enhancing the processes used to review project adjustments during implementation and perform final ex-post evaluations.
- **Improving tax administration by reducing the cost of tax compliance and enhancing tax enforcement**, including by means of strengthening management and controls, redoubling overdue tax collection efforts, and updating taxpayer cadastres and property values.
- **Increasing the quality of personnel expenditures, by enhancing payroll management controls and by attracting and retaining staff with the right skills**, including through support for the modernization of career structures and the increased use of strategic workforce planning.

- **Promoting a more analytical and strategic approach to procurement and a more efficient government supply chain management**, including through standardized specifications and increased data analysis for procurement planning and policy-making, with a view to increasing value for money and transparency in government purchases, as well as by improving the management of inventories and integration of warehouses.<sup>20</sup>
- **Strengthening internal control functions so as to increase efficiency and accountability for resources**, by helping develop modern and efficient internal controls which increasingly shift the focus from traditional compliance auditing to improving the quality of internal controls systems, with a view to promoting administrative efficiency and a culture of effective, transparent and accountable administration.
- **Enhancing fiscal consolidation by increasing the performance orientation of fiscal management**, including through spending reviews, encompassing tax and other expenditures, and measures to rationalize tax rates and fiscal incentives. The ultimate objective would be that most policy decisions have ex-ante and ex-post reviews, to ensure both efficiency and efficacy in achieving their objectives.
- **Gradually shifting the focus of fiscal management from short to medium term issues by helping develop institutions and processes which allow policy makers to better take into account the future implications of current policy decisions**. This will involve developing frameworks for the costing of new policy initiatives and major investment projects, to increase the transparency and coherence of expenditure decisions, and the efficiency of investments.
- **Integrating the management of debt and fiscal risks with fiscal policy, to minimize obligations and ensure that contingent liabilities are transparent and adequately provided for within the budgetary process**. This would include the development of formal debt sustainability analyses and debt management strategies, which would be key inputs into the determination of medium budgetary expenditure envelopes.
- **Enhancing participatory mechanisms to incorporate citizen and regional perspectives in the policy making process**, including through informed public debates aimed at identifying local problems and feasible solutions, helping determine priorities, building consensus, and strengthening accountability mechanisms between government and citizens.
- **Improving access to justice, judicial transparency and accountability**, and enhancing geographic equality and equity in the offering of justice services, including through cooperation agreements signed with the Brazilian Superior Court of Justice (*Superior Tribunal de Justiça*) and the National Justice Council (*Conselho Nacional de Justiça*).
- **Promoting the systematic use of performance information throughout the planning, budgeting and policy cycle, and the adoption of modern performance management techniques**. The Bank will support efforts to better align strategic policy priorities with budgetary allocations, increase the focus on the results delivered with the resources provided, and emphasize individual and organizational responsibility and accountability for results.

### *Enhancing Private Sector Development*

53. **Although Brazil's growth has been strong, the country still faces many challenges in increasing private sector investment, as well as enhancing productivity and**

---

<sup>20</sup> See Blancas et al. (2011), *Do Procurement Rules Impact Infrastructure Investment Efficiency?*

**competitiveness, which will be key for accelerating growth.** The Bank Group can assist Brazil in the enhancement of private sector development through:

- **Expanding IFC financing for companies developing new products and processes**, so as to enhance private sector innovation, competitiveness, and productivity growth, including by extending market linkages, financing acquisitions, and supporting cross-border investments.
- **Increasing IFC's role in diffusing global best practices among its client companies in Brazil**, by deploying industry specialists, supporting advisory work, and fostering greater knowledge-sharing between local companies and research universities.
- **Generating analytical work on the drivers of productivity growth and the impact of selected Government programs**, mainly at sub-national level, as well as disseminating international experience on innovation policy.
- **Identifying sector-specific strategies for increasing real sector productivity**, with a focus on SMEs, including by strengthening value-chain linkages in selected sectors.
- **Helping strengthen institutional and regulatory frameworks for public-private partnerships**, using IFC's advisory services facility as well as the Bank's lending operations and fee-based services, and with a view to improve Government capacity to structure feasible, bankable transactions, better design and monitor PPP and concession contracts and reduce regulatory risks.
- **Identifying options for expanding long-term corporate and SME financing**, by using the Bank's AAA agenda, including FSAP to be produced in FY12, and through IFC support for second-tier banks that focus on SMEs.
- **Assisting the GoB's efforts to further promote financial inclusion**, by providing technical assistance to regulatory agencies conducting policy evaluation work, helping incorporate financial inclusion in social protection programs, and providing IFC financing to specialist banks, non-banks, and insurance carriers that focus on MSMEs, low-income communities, and underserved peri-urban and frontier regions.
- **Providing technical assistance and advisory services to support policies that remove microeconomic barriers to firms' entry, competition and exit**, including at the sub-national level.

## **Objective 2: Improving the provision of public services for low income households**

54. **The GoB's goal of eradicating extreme poverty calls for coordinated interventions across multiple sectors and at all levels of Government.** The ambitious "*Brasil sem Miséria*" program (BSM) focuses, on one hand, on expanding the coverage of social programs to reach the country's most vulnerable populations. To that end, the GoB will devote renewed efforts, at the three levels of Government, to identify, map and actively engage with those currently excluded, by linking them to the supply of various social services, depending on their specific needs. The GoB will also further strengthen the *Bolsa Família* conditional cash transfer program, the world's largest and one of the best regarded in terms of coverage and targeting.

55. **On the other hand, the GoB is placing a strong emphasis on providing opportunities for all Brazilian to have dignified and productive lives.** This requires going beyond ensuring access to minimum levels of income and basic services. It implies focusing on further improving the human capital, income generation capacity and living conditions of low income populations.

Thus, while the BSM program will be coordinated by the Ministry of Social Development (MDS), it will be implemented by a much wider set of entities at all levels of Government. At the Federal level, BSM will involve the Ministries of Agriculture, Cities, Education, Health and Labor, among others. The Bank Group will support Brazil in its efforts to meet its various very ambitious social goals by focusing on helping strengthen the country's social protection system, improve the coverage and quality of education and health services, and expand access to affordable housing by the poor. The WBG will also devote increasing attention to supporting efforts to promote gender inclusion.

56. **As in other areas of engagement, given the limited size of Bank resources in comparison with the GoB's own budget, its role in this strategic area will be mainly catalytic.** The focus will be, on one hand, on providing selective knowledge intensive contributions for the design of national policies. On the other hand, the Bank will support implementation of those policies by selected sub-national partners, often in the context of multi-sector projects. In this regard, the Bank will seek to improve policy coordination within and across levels of Government and generate best practices whose replication can produce spillover effects beyond the original Bank-supported projects.

#### ***Consolidating and strengthening social protection***

57. ***Bolsa Família* is at the core of the GoB's social protection strategy.** Created by fusing together several pre-existing income support programs, it now reaches about 12 million beneficiary families (48 million people, about 25% of the population) with a budget that amounts to about 0.4% of Brazil's GDP. A series of studies have confirmed its strong targeting outcomes and significant impact on poverty, including contributing to 20% of the overall reduction of poverty and inequality since 2001. Going forward, however, the GoB aims at reaching an additional 800,000 eligible families by 2013. Moreover, thanks to an increase in the cap for variable benefits – from 3 to 5 children up to 15 years – the GoB plans to incorporate 1.3 million new children in the program.

58. **Sub-national governments play an important role in the implementation of social protection programs.** Municipalities are tasked with identifying eligible households, processing beneficiary applications and monitoring beneficiaries' compliance with co-responsibilities in health and education. Especially in poor regions, State Governments also play a key role by providing complementary social services and helping build the capacity of Municipalities to perform their respective functions. The Bank Group can help Brazil in its efforts to strengthen national social protection policies and improve the coordination with sub-national levels of Government through:

- **Generating analytical work on poverty dynamics**, including Gender-related issues, in partnership with MDS with a view to produce relevant inputs for fine-tuning the design of poverty reduction programs.
- **Partnering with national and sub-national governments in the monitoring and evaluation of selected components of *Brasil sem Miséria***, including *Bolsa Família* but also programs aimed at improving labor income opportunities for extremely poor families in rural



and urban areas – e.g. by enhancing worker skills and small farmer productivity – as well as programs geared towards increasing women’s economic empowerment.

- **Helping MDS further strengthen *Bolsa Família***, including by improving its beneficiary identification system (*Cadastro Único*) and the program’s governance (e.g. with actions on payments systems and Municipal co-responsibilities).
- **Supporting selected sub-national governments in the implementation of BSM**, especially in poor regions of the country (e.g. in the states of Alagoas and Bahia).

### *Improving the quality of education, especially for the poor*

59. **Having achieved large improvements in access to basic education, the GoB is focusing on raising student learning, enhancing the vocational and technical education system, and increasing participation of the poor in tertiary education.** Despite sustained progress in raising learning performance in basic education during the last decade, attainment is still far from the average learning levels, secondary education completion rates, and student flow efficiency of OECD and other middle-income countries. To address the challenge of raising student learning outcomes among low income households, the GoB is combining preventive and remedial interventions. Among the former, one important priority has been expanding early childhood education (ECD) services for low-income families (*creche* and pre-school), to avoid the development of potentially chronic cognitive deficits. Remedial interventions include tutoring and accelerated learning programs. To help meet the growing private sector demand for workers with strong analytical skills and improve the labor market insertion of the poor, the GoB is also significantly expanding the availability of vocational and technical education. It is also expanding financial support to enable high-performing students from low-income families to attend private and public universities, through grants and quotas. The Bank Group can support Brazil in this area by:

- **Continuing to expand IFC financing for private sector post-secondary institutions focused on low- and middle-income students, either through direct financing of colleges, or by backing providers of student loans.** IFC’s investments are also aimed at accelerating consolidation in a fragmented system, to raise standards, lower costs, and extend these colleges’ networks to smaller cities in the interior.
- **Partnering with the Ministry of Education (MEC) in strengthening Brazil’s ECD policies**, by focusing on critical normative and oversight functions (e.g. curriculum guidelines, teacher and facility standards).
- **Supporting selected large municipalities in the design, implementation and impact evaluation of pilot ECD programs targeted to low income households**, focusing on innovative approaches with major potential demonstration effects (e.g. in Recife and Rio de Janeiro).
- **Partnering with MEC and selected sub-national Governments, respectively through AAA and implementation support, in tackling key issues of education quality**, that are not fully addressed by current policies. These include approaches to improve teacher quality, repetition rates, age-grade distortions, and secondary education quality.
- **Producing analytical work focused on generating options for improving the quality and efficiency of the vocational and technical education system.**

### *Improving access to health care for low income households*

60. **Despite significant progress during the past 20 years, insufficient coverage of health promotion, prevention and treatment among the poorest groups remains a challenge.** While Brazil has a good track record of reaching the poor with primary health care services through the Family Health Program (PSF) established in 1994, 35% of individuals with per capita income less than one fourth of the minimum wage still lack coverage. Moreover, coordination of care across clinical and organizational settings is still limited, which has a particularly deleterious effect on the prevention and treatment of chronic diseases. To address these challenges, the Ministry of Health, in coordination with sub-national governments, is undertaking significant efforts to increase PSF coverage and health promotion and prevention for the most vulnerable groups. Together with States and Municipalities, the Ministry is also working to develop regional integrated health care networks that encompass public health, primary health care and medium and high complexity care facilities (hospitals). Finally, the GoB is working to promote improvements in hospital management with a view to improving the efficiency of the Unified Health System (SUS).

61. **The GoB is also seeking to sustain efforts to tackle HIV/AIDS.** In the past decade, while the incidence of AIDS has declined in the Southeast region of Brazil (from about 25 to 20 per 100,000), it has increased substantially in all other regions, particularly in the North (from about 7 to 20 per 100,000) and in the Northeast (from about 6 to 14 per 100,000). The government is currently developing and implementing prevention programs that are appropriate given the changing epidemic, while also seeking to ensure care and treatment for infected individuals. The Bank Group is well placed to support the GoB's efforts in the area of access to health care through:

- **Helping improve quality assurance mechanisms for the PSF and conduct evaluations of the impact of basic health programs on health status**, in partnership with the Federal and selected sub-national Governments, and including women's health issues.
- **Developing mechanisms and incentives to improve access to the PSF among vulnerable groups** – e.g. indigenous populations and *quilombolas*.
- **Identifying options to strengthen linkages between public health, primary health care and more complex levels of care**, especially by developing processes of referral between the PSF and medium and high complexity health facilities.
- **Supporting improvements in emergency care by selected sub-national Governments** and helping improve its integration with the PSF.
- **Supporting increased access and utilization of HIV/AIDS and STD prevention, care and treatment by Groups Most at Risk**, and to strengthened decentralized implementation, governance, and results-based management of the national HIV/AIDS and STD program.
- **Expanding health-oriented PPPs and IFC investments in providers of diagnostic and health services** designed to serve poor and middle-income groups.
- **Generating strategic analytic work on broader health financing and health system reform issues**, building on the Bank's operational engagement at the Federal and local levels.

*Expanding affordable housing and improving living conditions for low-income and vulnerable groups*

62. **In 2000, over 12 million people or 3.2 million households lived in precarious housing within slums (*favelas*) in Brazil.** The country's housing deficit is estimated to be 7 million units today and new demand is forecast to reach 23 million units by 2023. About 80% of households living in precarious conditions and one third of the housing deficit are concentrated in Brazil's 11 largest metropolitan areas. Addressing these challenges is a top GoB priority. During 2011-2014 the Federal Government plans to invest US\$19 billion in *PAC Favelas*, the world's largest slum upgrading program, and almost US\$45 billion in the *Minha Casa Minha Vida* (MCMV) program of housing subsidies for low and middle income households. Through MCMV's Phase II, the GoB aims at delivering 2 million new housing units for low income households by 2014, through a combination of upfront household subsidies, loan repayment guarantees, tax incentives for developers and reduction in insurance costs. In addition, the GoB is deploying multiple initiatives to increase its outreach to vulnerable populations and improve their living conditions. The Government is scaling up successful initiatives to prevent crime and violence and enhance service delivery and socio-economic inclusion with a focus on *favela* dwellers. It is also further emphasizing protection and promotion of indigenous peoples and lands, increasingly targeting other vulnerable populations (e.g. the rural landless, Afro-Brazilians and *quilombola* communities) in rural development and other social programs, and strengthening social development and safeguards within PAC. The Bank Group can support Brazil in this area by:

- **Identifying options for expanding access to capital markets as a funding source for housing loans and improve the effectiveness of housing subsidies**, through technical assistance to the Federal Government.
- **Building up IFC's portfolio of low-income housing projects**, by providing longer-term financing for developers and construction companies.
- **Helping selected sub-national Governments use urban development regulatory instruments in a more effective way**, so as to improve the functioning of housing and land markets, for instance through special zoning procedures for social housing ("ZEIS") and the provision of land, infrastructure and/or other incentives to enable PPPs in the provision of low-income housing.
- **Supporting greater integration and coordination between complementary urban development policies in the areas of land use, housing, transport and disaster risk management**, in partnership with selected State and Municipal Governments.
- **Helping increase the sustainability of slum upgrading investments and consolidate the achievements of crime and violence prevention initiatives, including gender-based-violence**, by strengthening policies and implementation capacity for integrated social development work within the corresponding national and sub-national programs.
- **Helping revitalize economic activity in the *favelas* through IFC engagements with a network of social entrepreneurs to make impact investments in a sustainable manner in these neighborhoods.** IFC will support commercially viable projects as they emerge, both to demonstrate and replicate their success.
- **Strengthening involuntary resettlement policies and directives in federally funded housing and urban projects**, to ensure that infrastructure and urban development programs do not leave some community members worse off.

- **Testing new approaches for removing barriers for the socio-economic inclusion of extremely poor and vulnerable communities**, including through JSDF grants to support *quilombolas* and waste picker communities, and non-lending technical assistance for the entity in charge of indigenous policies.

### **Objective 3: Promoting regional economic development**

63. **There are very large differences in levels of economic development across the regions of Brazil.** Per capita household income in the North and Northeast are respectively 70% and 64% of the national average. There are also significant regional inequalities within the richer states of Brazil's South and Southeast. This can be exemplified by the much lower levels of income and opportunities found in some rural areas of northern Minas Gerais or central Paraná, and in the periphery of Brazil's large metropolitan regions, including São Paulo and Rio de Janeiro.

64. **To address the challenge of promoting regional economic development (RED), the GoB is adopting a two-pronged strategy.** On one hand, Federal and State Governments are using a territorial approach to improve coordination in the planning and implementation of social programs targeted at the poorest rural areas of the country. On the other hand, the GoB is deploying public infrastructure investment programs to increase access to basic services in lagging regions. The goal is to improve living conditions in lagging and remote areas but also to use public infrastructure investments to generate additional economic opportunities (e.g. through the attraction of private investments as well as increased productivity and access to markets). The Bank Group will seek to contribute to the GoB's efforts to promote regional economic development by supporting improvements in policy coordination at the territorial level, as well as the deployment of targeted infrastructure investment in the areas of basic sanitation, transport and energy. In this regard, the Bank will prioritize development projects aimed at supporting the Northeastern region of Brazil (Box 3). IFC efforts in private infrastructure will focus on mitigating transportation and logistics bottlenecks, improving the efficiency and usage of water, and support for smaller, renewable energy projects such as wind farms in the Northeast.

#### ***Improving policy coordination at the territorial level***

65. **Brazil's territorial approach has proven effective in channeling the coordinated planning and implementation of Federal and State programs, with perceived efficiency and effectiveness gains obtained through their joint interaction.** In particular, the *Territórios da Cidadania* program, launched in 2008, delineated 120 territorial units across Brazil covering 1,851 municipalities (out of 5,565 in all of Brazil) with populations of less than 50,000 inhabitants, and allocated R\$65 billion to promote regional economic development through coordinated interventions in those areas. Similar approaches are being used to promote the development of economic clusters in urban areas (*Arranjos Produtivos Locais*) as well as to improve employment opportunities and the coordination of service delivery in a demand-driven approach in high poverty areas of large metropolitan regions (e.g. in Rio de Janeiro's *favelas* through the *UPP Social* program). The Bank Group can support these efforts through:

- **Help selected State Governments design and implement innovative sustainable rural development programs with a territorially integrated approach**, including in the North (Acre), Northeast (Ceará, Pernambuco, Rio Grande do Norte) and South (Paraná, Santa Catarina). These programs will emphasize rural productive inclusion through increased family farm productivity and market access. They will also attempt to integrate rural poverty reduction and improved natural resource management objectives.
- **Support improved incentives and capacity building activities at the State level to promote cluster development in urban areas.**

### **Box 3: A renewed partnership with the Northeast, Brazil's poorest region**

The Brazilian Northeast (NE) comprises nine states covering 1.6 million sq. km (size of Germany, France and Italy combined). With approximately 55 million people, it represents 29% of Brazil's population but only about 14% of its GDP. More than two thirds of Brazil's rural poor live in the Northeast, mostly in semi-arid zones with poor soils. Education performance is poor, with an average of only 5 years of formal schooling and 22% illiteracy rates. The region's seaboard is prone to flooding, while the interior suffers from droughts.

In line with the Government's national program to eradicate extreme poverty, approximately US\$ 2.5 billion in Bank loans are envisaged in the Northeast for FY 12 and FY13. IFC also plans to double its Northeast program in FY12, in line with its strategic focus on frontier regions. IFC has a portfolio of US\$280 million and 28 projects in the Northeast. This represents 13% of the Corporation's non-trade finance portfolio.

The new WBG engagement will capitalize on the region's recent growth - which is above national averages - and a shared political drive across the states for economic inclusion and job creation, especially in the semi-arid interior. Among the top concerns are water infrastructure and management, rural economic inclusion, improving the quality of public services, especially education and health, and Gender development.

Given the NE's historical development gaps, the Bank has long been a partner to the region, and the new CPS will redouble this focus. Starting in 1993, the Bank built an extensive program of Community Driven Rural Development, resulting in over 50,000 community investments for 11 million beneficiaries. The new CPS will leverage these earlier operations and the social capital they forged toward a new generation of projects that will help raise agricultural productivity, increase the efficient use of scarce water, and promote climate change resilience. Bank support will also encompass the areas of public sector management, private sector development, infrastructure and environmental management.

With IFC, the Bank will continue encouraging investment in anchor enterprises and pre-export finance and facilitating contacts between buyers and producers. IFC will also make increasing use of its advisory services and public-private project (PPP) facility with BNDES, including for supporting public-private partnerships. In addition, the WBG will pay enhanced attention to improving gender and youth inclusion.

### ***Expanding access to improved basic sanitation***

66. **Although water supply coverage in Brazil has been steadily increasing, more than 15% of the population still lacks access to clean water (67% in rural areas) and almost**

**28% does not have access to wastewater collection (74% in rural areas).** Access to solid waste collection is higher, reaching 88% of the population. However, 43% of collected solid waste is improperly disposed in dumpsites and only about 35% of wastewater is treated. To address these challenges, the GoB has launched an ambitious program, *Água para Todos*, aimed at ultimately universalizing access to clean water and sewage services. Similarly, in the wake of 2010 legislation, the Government has significantly strengthened the legal and regulatory framework for the solid waste sector, setting clear responsibilities and ambitious targets for governments, consumers and companies. Budgeted investments by the Federal Government in the area of basic sanitation reach almost US\$22 billion for 2011-2014. This includes US\$8.1 billion for improving access to clean water and US\$13.8 for expanding sewage collection and treatment, and improving solid waste disposal. The Bank Group can support Brazil in this area through:

- **Supporting the strengthening of Government capacity to perform regulatory and policymaking functions**, including investment planning and monitoring. To this end, the Bank will engage with the Federal Government by means of the *InterÁguas* Project, which involves the Ministries of Environment, Cities and National Integration and seeks to promote inter-institutional synergies and coordination. Through this project, the Bank will also support improved coordination with sub-national Governments, to be complemented with direct engagements with selected states (e.g. Bahia, Ceará, Espírito Santo, Pernambuco, Rio Grande do Norte, Sergipe and São Paulo).
- **Helping develop an integrated approach to water resources management and water supply and sanitation (IWRM-WSS)**, involving actions in the areas of basin management, urban development and upgrading, housing, disaster risk management (as most disaster risks in Brazil are flood-related), and poverty alleviation.
- **Helping develop targeted results-based water subsidies aimed at improving sustainable access to safe water among the poor**, especially in underserved areas.
- **Supporting efficiency improvements and promoting the use of innovative technologies and service delivery models**, through Bank support and IFC financing for sub-national utilities and private sector companies, mobilizing funds from participating investors, and technical assistance for PPP projects.
- **Helping the Federal Government deploy an innovative and integrated approach to support municipalities in implementing and enforcing the Solid Waste Law**, including through public consortia and the use of Carbon Finance and a financial intermediation program with Caixa Econômica Federal.
- **Supporting private investments in the sanitary disposal of solid waste through IFC financing and PPP mandates**, e.g. for companies engaged in operating public landfills and generating power with landfill gas emissions.

### *Improving transport infrastructure and management*

67. **Currently, logistics costs represent about 15 to 18% of GDP, nearly twice the 9% average cost in OECD countries.** Improving transport and logistics supply chains is therefore critical both to increase export competitiveness and to promote economic development in lagging regions. At the same time, transport is the fastest growing source of GHG emissions, and an important source of local pollutants and other negative externalities. In urban areas, in particular,

increased motorization and insufficient high-quality public transport are contributing to ever-increasing congestion and accidents, as well as reducing city competitiveness. Similarly, intercity passenger transport suffers from congested infrastructures and scarce and unreliable accessibility to remote areas of the country. To address these various challenges, the GoB has recently updated its National Plan for Logistics and Transport (PNLT), which has among its main objectives contributing to improving the efficiency of productive sectors, helping reduce regional inequality and progressively rebalancing Brazil's transport matrix. Within this framework, several States are developing State transport and logistics plans, and undertaking initiatives to improve urban mobility and tackle intercity transport issues. Sub-national investments have been backed by large Federal programs under PAC, which has budgeted US\$80.3 billion for the transport sector in 2011-2014, including US\$15 billion for urban areas. The Bank Group can support Brazil in this area by:

- **Helping improve management in the transport sector, by supporting mainstreamed and integrated transport and logistics initiatives at the Federal and State levels**, with a focus on expanding governance, overall efficiency and greener transport.
- **Providing technical assistance for the development of priority multi-modal transport corridors**, such as the São Francisco corridor encompassing several Northeast States and including highway, railway and waterway transportation.
- **Further expanding IFC investments and technical assistance in transport infrastructure projects**, including in rail, airport and port projects and through support for PPPs in highways and airports.
- **Supporting enhancements in urban transport governance**, focusing on integrating transport in the broader context of city planning for equitable and sustainable development.
- **Supporting the development of affordable and sustainable rural transport solutions.**

### *Increasing the supply of clean and efficient energy services*

68. Thanks to the large share of hydro power and biomass in electricity generation, and to the use of ethanol in passenger vehicles, 47% of Brazil's energy comes from renewable sources. As per the Government's Ten Year Energy Plan (*PDE-2019*), Brazil will continue exploring options for further increasing the participation of renewable sources in its energy matrix – both in the power and the transportation sectors – as well as for enhancing demand side energy efficiency in industrial and residential sectors. The Bank Group can support the country's efforts by:

- **Helping strengthen Brazil's policy and regulatory framework for the energy sector, with a view to promote the supply of cost-effective and sustainable energy to meet the evolution of demand in the medium and long-term**, by supporting the development and implementation of various sector and sub-sector plans and improving regulators' capacity to monitor and control the power sector.
- **Financing investments in research and development (R&D) of cutting edge technologies to transport efficiently and reliably large blocks of energy across continent-wide distances.**
- **Supporting energy diversification by providing IFC financing for gas-fired plants, wind projects, selected ethanol producers, and the development of new second generation biofuel feedstock such as wood fiber.**

- **Helping increase energy efficiency by improving the operational, commercial, and financial performance of six distribution companies in the North and Northeast, and through IFC advisory work and investments in financial institutions, industry and housing projects.**

#### **Objective 4: Improving sustainable natural resource management and climate resilience**

69. **Brazil is among the countries with the world's largest endowments of water, arable land and mineral resources.** The country is also the repository of an immense quantity of biodiversity content and it has among the world's biggest stocks of forest carbon. Managing these resources in a sustainable way, combining conservation with the promotion of local and regional economic development implies significant policy and institutional challenges. Through its Amazon Initiative, the Bank Group has been taking important steps in this direction (Box 4), generating results that now merit the mainstreaming of the approach in other regions of Brazil – e.g. in the sensitive *Cerrado* savannah region of Central Brazil.

##### **Box 4: The Amazon: Conservation *with* development and opportunities**

The Amazon, the world's biggest rainforest and home to an estimated 25% of the globe's biodiversity is also where twenty-four million Brazilians live. This population needs opportunities and services, but in an environmentally sensitive context. Responding to demands from Federal and local governments, the FY08-11 CPS developed an Amazon Framework, widely discussed with government, academia, private sector and civil society. Under the Framework, the WBG program has adopted a multipronged approach, emphasizing conservation, sustainable natural resource management, land tenure regulation and low impact agriculture, as well as a strong focus on public policies for improved environmental management and licensing, and improved access to basic services and employment opportunities for the local population.

Some examples of the results achieved include the establishment by main national retailers of landmark sustainable production chains requirements for beef and soy from the region and, in the State of Acre, the creation of more than 120,000 school openings, expanded family health services to 75% of rural families, and a 30% increase in sustainable production from cooperatives and farmer associations. The Amazon Framework also informed the Sustainable Environmental Management DPL, which helped improve the effectiveness and efficiency of Brazil's environmental management system, including controlling deforestation in the Amazon, and further integrate principles of environmentally sustainable development in natural resource management and conservation in Brazil's National Development Bank (BNDES). Several GEF projects have also been implemented under the Framework, including the second phase of the Amazon Region Protected Areas Project, which will consolidate a system of protected areas totaling over 50 million hectares, an area the size of France.

70. **The increasing evidence on the potential impacts of climate change further complicates the challenges associated with natural resource management.** On one hand, Brazil's strong leadership in the global efforts to mitigate climate change call for an additional focus of public policies on facilitating carbon sequestration and the adoption of agricultural technologies with a lower intensity in GHG emissions. On the other hand, effectively adapting to



the various impacts of climate change calls for putting an additional focus on enhancing the resilience of economic activities and infrastructure investments to increasingly frequent extreme weather events. The Bank Group can contribute to Brazil's efforts to tackle these various challenges by supporting further improvements in water resource management, helping increase the sustainability of agriculture, supporting the strengthening of environmental management and helping the GoB deploy more effective tools to manage natural disaster risks.

### ***Strengthening Integrated Water Resources Management***

71. **Ensuring a sustainable use of water resources in the long run is a top priority of the Brazilian Government.** The country is endowed with 19% of the freshwater resources of the world. Improving the management of these resources, with an emphasis on their multipurpose and sustainable use is an increasingly important policy objective for the GoB, particularly in the arid Northeast states where water is scarce. Thus, over the past 15 years, Brazil has made considerable efforts to strengthen the water sector's legal and institutional framework to promote the integrated management of water resources. The GoB has a two-pronged strategy to deepen this policy agenda by combining further institutional strengthening actions at all levels of government with large investments in water infrastructure and the provision of basic services. To this end, the GoB plans to use both public resources (\$7.5 billion at the Federal level alone, for 2011-2014) and partnerships with the private sector, especially in the area of irrigation. Brazil has large untapped irrigation potential, since it has the land and water resources to irrigate about 30 million ha of arable land (outside the protected areas); currently only 13% of this capacity is being used. The Bank Group is well placed to support Brazil in these endeavors by means of:

- **Helping strengthen institutional capacity for improving water resource planning at the Federal and sub-national levels, especially in the Northeast** (e.g. Bahia, Ceará, Pernambuco and Sergipe), to improve Government capacity to make a sound selection of investment alternatives, optimize the use of scarce resources and further support the GoB's multipurpose strategy.
- **Supporting the implementation of modern water resources management tools**, such as basin plans, water charges, output-based subsidies and performance-based incentives, and including through IFC investments and PPP projects.
- **Helping the GoB in its efforts to better coordinate its various programs in the water sector, including at the Federal and State levels**, and involving the Ministries of Integration, Cities and Environment, the National Water Agency (ANA), and State Water Secretariats.
- **Supporting the development of innovative long-term irrigation approaches on a sustainable basis in partnership with the private sector**, using Bank and IFC investment and advisory services and focusing on the semi-arid areas of Brazil.

### ***Expanding sustainable agriculture***

72. **The GoB has announced the *Low Carbon Agriculture* program,<sup>21</sup> aimed at improving environmental sustainability in the agriculture and livestock sectors.** These

---

<sup>21</sup> "Agricultura de Baixo Carbono" (ABC).

sectors play a very important role in the Brazilian economy: agriculture and associated processing industries account for over 25% of GDP, about 40% of exports and more than 17 million jobs. Brazil is also responding to increasingly stringent sustainability requirements in developed country markets. Furthermore, Brazil is already a major exporter of staple foodstuffs but needs to increase output to help meet growing world food demand. The government also understands that enhancing sustainable agriculture can protect Brazil's rich biodiversity and help achieve its ambitious GHG emissions targets. The Bank Group can support the GoB's efforts in this area through:

- **Supporting the adjustment of extension services and the leveraging of financing mechanisms to accelerate the shift to a low-carbon agriculture and livestock production**, including scaling-up zero tillage agriculture and further combining increased livestock productivity with enhanced forest protection.
- **Supporting the mapping of degraded areas across all Brazilian biomes and helping develop financial incentives to promote their rehabilitation**, including for use in agricultural, forestry, ranching conservation, and environmental services.
- **Using IFC's agribusiness investments and advisory services to expand farm output on a sustainable basis**. Additional IFC initiatives include dissemination of sustainable beef and soy production standards, improved traceability of Amazon cattle herds, and improved environmental permitting procedures. IFC is also working through banks and suppliers to broaden access to finance, inputs, and insurance for small and medium-sized farms.
- **Supporting increased sustainability of agricultural production and forestry in the Cerrado**, including through IFC investments as well as GEF and Carbon financing projects that are enabling local communities, civil society and the private sector to participate actively in policy formulation and implementation.
- **Helping develop options for increasing agricultural resilience to climate change**, by generating analytical work to inform policy making and working with selected states and organized rural producers to support the adoption of climate-smart practices and technologies.
- **Helping develop sustainable forest management through IFC advisory services, and Bank support for enhancing the corresponding policy and regulatory framework.**

*Improving environmental management, biodiversity conservation and climate change mitigation*

73. **Improving the effectiveness and efficiency of Brazil's environmental management system is a key GoB priority.** Indeed, progress in this front is paramount if Brazil is to face, in an environmentally sustainable way, the challenges that economic growth imposes in terms of greater natural resource use and growing infrastructure investments. In addition, further improving environmental policies and institutions is a necessary step for helping mitigate climate change and to enhancing the resilience of Brazil's natural and physical capital to its various impacts. The complexity of these challenges is particularly high in the case of Brazil, due to the country's continental dimensions, the decentralized nature of its environmental management framework, and the fact that a number of states and most small municipalities still lack the capacity to take over some of their respective regulatory functions. The Bank Group and the GoB

have long partnered to strengthen environmental management at the three levels of Government. Going forward, the Bank Group can support Brazil in this area through:

- **Helping identify options for institutional reform aimed at further clarifying the roles and responsibilities of the three tiers of government in environmental management.**
- **Supporting efforts by the Federal and selected sub-national Governments to further strengthen and integrate their environmental management systems, including at the metropolitan level, and ensure environmental compliance in rural areas,** including through the implementation of Rural Environmental Registries, and other mechanisms which monitor compliance in the forest, agricultural and livestock productive chains.
- **Helping improve the efficiency and effectiveness of environmental licensing and monitoring systems,** including by means of more transparent and user-friendly tools to speed up the licensing approval process and social participation and control, as well as the adoption of new environmental assessment instruments.
- **Assisting GoB efforts to further develop Brazil's national system of protected areas,** with an increased focus on reducing emissions from deforestation and land degradation (REDD) and environmental compensation mechanisms.
- **Supporting the use of the Ecological Economic Zoning (EEZ) land use planning tool,** including in – but not restricted to – the context of rural development programs, using the approach employed in the nine Amazon States under the PPG-7 Program, but also promoting the integration between territorial and coastal zoning.
- **Helping the Federal government and the private sector to implement Brazil's National Climate Change Plan,** including through developing programs and financial mechanisms to promote sustainable land use, decrease deforestation, and increase energy efficiency and renewable energy.
- **Supporting efforts to develop and implement strategies for promoting low carbon growth and climate change mitigation action plans at the city level,** via policy advice, technical assistance, and selected investments in innovative interventions to pursue greater integration of urban transport, land use planning and housing, promote green urban transport, and improve planning and investment coordination at the metropolitan region level.

#### *Increasing the effectiveness of disaster risk management*

74. **The GoB has recently initiated the development of a comprehensive national Disaster Risk Management (DRM) program.** While Brazil has traditionally focused on post-disaster response, namely through the civil defense system, recent events have prompted Federal and State Governments to take a more proactive role in addressing the problem. In particular, the floods and landslides in Rio and the Northeast in 2010 and 2011, as well as the evidence on the potential future increase in their frequency and severity as a result of climate change, have led to an increased focus on reducing the country's vulnerability to adverse natural events. Responding to this challenge will require implementing a comprehensive and effective disaster prevention and mitigation system. While there are isolated Disaster Risk Management (DRM) initiatives – e.g. at the Ministry of Cities, focusing on reducing landslide risks – an effective disaster prevention and mitigation system will require the scaling up of such interventions, their extension to other hazards and achieving additional coordination across agencies and levels of government. The Bank Group can support the GoB's efforts in this area through:

- **Supporting the Federal government in its efforts to build capacity at the State and Municipal level for outlining local strategies for reducing natural disaster risks,** including landslides, floods and strong wind hazards.
- **Helping strengthen the preparedness of civil defense systems to cope with natural disasters and the coordination of post disaster response,** including through the preparation of comprehensive contingency plans.
- **Providing financial and technical support to the Federal and selected sub-national Governments to revamp Brazil's forecasting and early warning system,** under the leadership of the Ministry of Science and Technology, and including through the improved networking of existing systems.
- **Supporting efforts to better map and identify risk areas incorporating vulnerability and susceptibility aspects,** and focusing on building local probabilistic risk modeling capacity.
- **Deploying IFC's insurance and risk management products in Brazil, with an emphasis on medium-sized agribusiness,** to strengthen their ability to manage and recover from events such as droughts or flooding.

### **C. Implementing the FY12-15 Partnership Strategy**

#### ***Managing the Program***

75. **The WBG will organize its program in Brazil along the lines of its four strategic objectives, engaging with all government levels, private sector and civil society.** For each strategic objective, the Bank Group will implement an integrated program of AAA, lending, trust funds and partnership activities. The deployment of Bank resources will be based on the principles of flexibility, selectivity, innovation, and leveraging. *Flexibility.* The Bank Group will adjust its resources across instruments and areas of engagement in order to better respond to the country's evolving needs. *Selectivity.* The WBG will progressively disengage from areas where partners in Brazil have sufficient knowledge and capacity, and where the potential benefits derived from the Bank's global experience are of less significance, while concentrating on those areas where partners can benefit most from the Group's global knowledge and experience. *Innovation.* The WBG will focus on supporting innovative investments and policy reforms whose impact can be enhanced through replication across regions within Brazil and abroad. The WBG will make an increasing use of innovative financial services, including new result-based and multi-sector lending instruments, as well as partial credit risk and other guarantees. *Leveraging.* The Bank Group will increasingly rely on leveraging resources from government, the private sector and other development partners, to maximize development impact. In addition, the WBG and the GoB will develop activities geared to improve efficiency in the planning and execution of projects, including an enhanced dialogue on possibilities for furthering the use of country systems. Also, to the extent that synergies warrant the development of multi-sector projects, attention will be given to ensure that project administrative efficiency is not affected by the participation of multiple implementation agencies.

#### ***Loan Portfolio and Pipeline Management***

76. **Total Bank current exposure to Brazil amounts to the equivalent of US\$10.4 billion,** with disbursements amounting to US\$3.1 billion in FY11. During the current CPS period the

Government of Brazil made two prepayments on its Bank debt. The first prepayment of about US\$866 million was done in December 2009 and the second of about 3.1 billion in June 2011. More recently, President Rousseff approved an additional prepayment in an approximate amount of \$2.7 billion and the corresponding formal request was received by the Bank on September 30, 2011. With this third prepayment, the indicative lending program presented in the CPS for FY12-13 is fully consistent with the SBL framework. Additionally, in the context of the national CPS consultation process, the GoB has expressed its intention to request the expansion of the SBL for Brazil.

77. **Portfolio performance has been highly satisfactory.** The active portfolio consists of 49 IBRD loans and 9 GEF projects (\$76.7 million), for a total commitment of US\$9.5 billion, of which US\$5.2 billion is undisbursed. The Bank Group also manages a portfolio of about 55 trust fund grants for a total of US\$132 million, with FY11 disbursements of US\$13 million. The disbursement ratio of the portfolio – a key indicator of overall portfolio performance – was 32.0% by end-FY11, above the LCR average of 31.0% and of the Bank of 21.7%, for the same period. About 90% of projects in the portfolio are rated in the satisfactory range both for Implementation Progress and achievement of Development Objectives. Commitments at risk (including GEF) represent 9.7% of the portfolio and amount to US\$919.7 million. IFC's committed balance stood at US\$2.67 billion at the end of FY11, of which US\$2.24 billion had been disbursed, making Brazil the Corporation's second largest partner country. The portfolio consisted of 72 active client companies and was performing soundly.

78. The last **Country Financial Accountability Assessment (CFAA)** report (June 2002) concluded that the Brazilian system of public financial management provides reliable information, that adequate systems exist to manage and track the receipt and use of funds at national level, and that there is a high level of fiscal transparency, both of which would support any program of adjustment lending. The risk to both Bank and country funds was considered as low. Annual working updates of these indicators since have consistently confirmed this rating. The last **Public Expenditure and Financial Accountability Assessment (PEFA)** report (December 2009) identified the following areas related to strengthening the credibility and predictability of the annual budget process for additional focus: (i) improving the credibility of budget revenue forecasts and tax policy, both from a technical perspective and in terms of generating a policy/political consensus; (ii) managing the growing overhang of expenditure commitments (*Restos a Pagar*) and the high level of in-year budget amendments is a considerable problem for planning and budget management; and, (iii) the predictability and impact of cash management for expenditure management. Annual working updates have confirmed these areas for further improvement, but have also noted continued progress.

79. **Reviews of the sub-national PFM environment, including through PEFA assessments in selected states, reveal a number of strengths but also areas for additional improvement.** The former include a robust legal framework that helps to promote uniformity in PFM practices. There is a good degree of orderliness and participation in the annual budget process, and internal controls are generally strong as a result of inbuilt controls in the information systems. However, some states lag behind in implementing PFM reforms, and remaining challenges include a lack of capacity, weak controls in some areas such as payroll, irregular performance of debt sustainability analyses and outdated information systems. External

audit agencies regularly highlight instances of weak accounting practices. In addition, there are weaknesses in the multiyear perspective in fiscal planning, expenditure policy and budgeting, and there is a need to strengthen linkages between medium to long-term sector strategies and the annual budgeting process. Many states have only recently established an internal audit unit with a higher level of autonomy that existed before, and are still in the process of reinforcing it with the requisite capacity and instruments.

80. **The country financial management inherent risk is low and so is the control risk at the entities implementing Bank projects.** Financial management arrangements and internal controls maintained by project implementing agencies for Bank financed projects have been adequate to ensure that funds have been used for their intended purposes. All the projects run by the Federal government have been audited by the Office of the Comptroller General (CGU), and those at the State and Municipal levels have been audited either by State Courts of Accounts (TCEs) or private sector auditors considered acceptable to the Bank. The Bank has been undertaking efforts to support the strengthening of the capacity of these TCEs to fulfill their mandate. There are no overdue audits regarding the projects (credits and grants) or continuing entities. The FM staff involved in Bank projects is sufficiently experienced and skilled. Out of 58 active projects, 56 have moderately satisfactory or higher FM rating. Overall, there are no major fiduciary risks likely to affect the implementation of the proposed CPS program.

81. **Innovations and strengthening of procurement practices are expected to further improve portfolio implementation.** The expected increased use of country systems in new operations and the continued evolution of client procurement capacity and practices are expected to underpin further portfolio implementation improvements. Examples of procurement systems “best practices”, like the case of the State of Minas Gerais, have become a reference not only for the Bank’s work across Brazil, but also in other parts of the world, and have provided significant inputs and lessons for the further development of Bank operational instruments.

### ***Knowledge Agenda***

82. During the last CPS period, it became clear that the Bank's comparative advantage lies in the quality of the services and technical advice it provides, more than in the volume of lending it can offer, or the interest rates it charges. The reputation for technical excellence and unbiased advice is what makes the Bank a trusted partner of the Federal government in dealing with sub-national entities or in helping address path-setting challenges. Such a reputation is the result of a long standing commitment in investing to “global” knowledge, partnering with local scholars and experts and bringing the best of Brazil to the Bank and the best of the Bank to Brazil.

### ***Fostering Partnerships***

83. ***South-South Cooperation (S-SC).*** Brazil has several public, CSO, private and academic centers of excellence in a large number of fields, capable of making significant S-SC contributions. The Government of Brazil has gradually expanded and broadened its S-SC efforts, with a special focus on Latin America and Africa, based on a viewpoint of solidarity and partnership. Given Brazil’s growing international role, the country also seeks more participation and responsibility in international cooperation. The WBG can support Brazil in its efforts to

expand S-SC collaboration in the areas of sustainable agriculture, social protection, public financial management, health, renewable energy, and governance among others. Under the new CPS, the WBG will: (i) support the further development of S-SC from Brazil, jointly developing with the Brazilian Government triangular partnerships that articulate Brazilian South-South cooperation initiatives with WBG-led multinational, regional and bi-national initiatives; (ii) provide technical cooperation to the Brazilian Cooperation Agency (ABC/MRE) in its process of institutional strengthening; (iii) support sector-specific S-SC knowledge exchanges and operational initiatives; (iv) pilot an innovative “cross-regional” technical S-SC project with African countries; and (v) provide IFC financing for investments by Brazilian companies in other developing countries. All S-SC initiatives which are based on or include technical cooperation components shall be conceived, negotiated and approved through the Brazilian Cooperation Agency (ABC/MRE).

### *Mainstreaming Gender*

84. While the condition of women in Brazil is considerably more advanced than in other developing nations, important issues such as economic empowerment, women’s health and domestic violence still need to be improved, especially in some parts of the country (Annex 3).<sup>22</sup> The WBG will build upon the lessons of the WDR and focus on supporting evidence-based Government policies aimed at reducing gender gaps in access to quality health and education services, closing differences in economic opportunities between women and men, enhancing women's voice in society and helping limit the reproduction of gender differences across generations. The Bank will support these initiatives through analytical work in partnership with local think tanks, efforts to build the capacity of Government agencies responsible for Gender policies in both the Executive and the Legislative branches, and by means of including gender activities and components in investment and policy based loans – e.g. in the areas of health, education and social protection, in the proposed operations for Alagoas, Bahia, Belo Horizonte, Paraná and Pernambuco. The newly established *Procuradoria Especial da Mulher* at the Federal Congress, in particular, is receiving institutional development support to enhance its legislative capacity, and, together with the Women’s Affairs Secretariat constitutes a key partner for the Bank’s support on gender issues under the CPS.<sup>23</sup> The Bank is also working on strengthening the capacity of similar agencies at the State and Municipal levels. In addition, in collaboration with DIME and the Gender Network, a program has been put in place to introduce the economics of gender in the design of agriculture projects in Brazil. Impact evaluation of those interventions will be an essential tool to mainstream gender activities in our agriculture portfolio.

## **IV. MANAGING RISKS**

85. **The proposed Country Strategy is subject to external macroeconomic risks.** First, in the event of a significant worsening of the global economic outlook, Brazil could be affected through a reduction in demand for Brazilian exports, reduced access to external financing, and

---

<sup>22</sup> For example, a WHO multi-country study on violence against women shows that 29% of women with partners experience physical or sexual violence in Sao Paulo; the comparable figure for Pernambuco is 37%.

<sup>23</sup> The *Procuradoria Especial da Mulher* was created in 2009 with the objective of promoting gender equality through its legislative work, including the innovative *Lei Maria da Penha* (against domestic violence). The Women’s Affairs Secretariat in the Executive branch was created by President Lula in 2003 with Ministerial status.

deterioration in consumer and business confidence. While this scenario could be associated with a deceleration in economic growth, the risk of further negative impacts on the Brazilian economy are mitigated by the country's large external reserves, the solidity of its financial system and the strength of its domestic demand. In particular, there are risks associated with the level of total broadly defined gross external indebtedness – \$538.8 billion in July 2011, including intercompany loans (US\$108.6 billion) and nonresident holdings of domestic fixed income instruments (US\$133.1 billion) – which could raise concerns about potential debt rollover risks if portfolio debt and other investment inflows were to moderate going forward. Nonetheless, this risk is mitigated by the fact that only a minority of the corresponding debts have short term maturities, by the large amount of international reserves held by Brazil (US\$346.1 billion) and by its flexible exchange rate regime, which would automatically counter any significant outflows. A related macro risk is the possible emergence of currency mismatches associated with rapid growth in private sector gross external indebtedness (63% between December 2009 and July 2011). The Central Bank is aware of this risk and is addressing it through stepped up monitoring of private foreign borrowing and the tightening of regulations on Banks' capital requirements and net open positions.

**86. The authorities also face the challenge of dealing with internal inflationary pressures while at the same time attempting to minimize the negative impact of external shocks.** The risk that this situation may lead to deterioration in both growth and inflation prospects is mitigated by the fact that Brazil's fiscal policy stance has already become less expansionary, which should help achieve a better balance in the control of domestic demand between fiscal and monetary policy instruments. Although there is a risk of the Government not meeting its fiscal targets, this is mitigated by the fact that the Federal Government has over-delivered relative to its 2011 primary surplus target, as well as by its decision to further increase this target, and its announced intention of further restraining non-investment expenditures in 2012. The WBG will assist the Government in the management of fiscal and other macro vulnerabilities through its policy dialogue and AAA program.

**87. Ensuring a significant impact in a country of continental dimensions.** The CPS is also subject to Bank-related risks. First, the proposed CPS is subject to the risk of the WBG not being able to achieve a significant impact in Brazil, due to the small size of its lending, investment and AAA program relative to the overall size of Brazil's economy. This risk will be mitigated, first, by explicitly recognizing that the WBG's role in Brazil is necessarily limited, catalytic and tactical. If the WBG is to have a significant impact in Brazil, this cannot be derived exclusively from the size of its financial contributions. Rather, the WBG will seek to have a development impact in Brazil through the knowledge contributions that it will embed in its various activities. In particular, the WBG will leverage its limited resources by focusing on knowledge-intensive activities aimed at supporting innovative interventions that, scaled-up, can provide benefits that could far exceed the direct impact of the original WBG projects. Second, there is a risk of the Bank not being able to implement the proposed program due to a constraint in its capacity to lend to Brazil. The SBL framework currently limits the Bank's exposure to Brazil at US\$16.5 billion. This risk is mitigated by the strength of the partnership between Brazil and the WBG. In particular, the recognition of the mutual benefits that this partnership entails, including indirect benefits for other member countries through knowledge transfers and S-SC, creates strong motivations for the multiples parties involved to seek options to address this



constraint. Third, there are operational risks associated with the inherent complexity of the Bank projects that involve multiple implementing agencies, often across different sectors, Ministries and/or Secretariats. These risks, which could affect the timely delivery of projects' expected outputs and outcomes, will be jointly and proactively assessed by the WBG and the GoB during project preparation. They will be mitigated through the design of appropriate implementation frameworks, the provision of training and other capacity building activities and the increased use of country systems.

# CPS Annex Table 1: A1 - Brazil: Key Economic & Program Indicators:

## Change from Last CPS

As Of Date 09/21/2011

|                                 | <i>Forecast in Last CAS</i> |                         |                         | <i>Actual</i>           |                         |                         | <i>Current CAS Forecast</i> |                         |                         |
|---------------------------------|-----------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-----------------------------|-------------------------|-------------------------|
| <i>Economy (CY)</i>             | <i>2008<sup>a</sup></i>     | <i>2009<sup>b</sup></i> | <i>2010<sup>b</sup></i> | <i>2008<sup>c</sup></i> | <i>2009<sup>c</sup></i> | <i>2010<sup>c</sup></i> | <i>2011<sup>a</sup></i>     | <i>2012<sup>b</sup></i> | <i>2013<sup>b</sup></i> |
| Growth rates (%)                |                             |                         |                         |                         |                         |                         |                             |                         |                         |
| GDP                             | 3.2                         | 3.2                     | 3.2                     | 5.2                     | -0.6                    | 7.5                     | 3.8                         | 3.6                     | 4.2                     |
| Exports                         | 2.2                         | -0.1                    | 2.1                     | 23.2                    | -22.7                   | 32.0                    | 24.8                        | 6.2                     | 4.9                     |
| Imports                         | 4.9                         | 3.4                     | 1.4                     | 43.5                    | -26.2                   | 42.2                    | 29.6                        | 8.6                     | 7.2                     |
| Inflation (%)                   | 4.3                         | 4.2                     | 4.0                     | 5.9                     | 4.3                     | 5.9                     | 6.3                         | 4.5                     | 4.5                     |
| National accounts (% GDP)       |                             |                         |                         |                         |                         |                         |                             |                         |                         |
| Current account balance         | 0.1                         | -0.2                    | -0.2                    | -1.7                    | -1.5                    | -2.3                    | -2.2                        | -2.4                    | -3.0                    |
| Gross investment                | 22.0                        | 22.0                    | 20.0                    | 19.1                    | 16.9                    | 18.4                    | 19.6                        | 20.6                    | 21.4                    |
| Public finance (% GDP)          |                             |                         |                         |                         |                         |                         |                             |                         |                         |
| Fiscal balance                  | -1.8                        | -1.0                    | -0.4                    | -1.3                    | -3.2                    | -2.9                    | -2.7                        | -2.9                    | -2.6                    |
| <i>Program (Bank's FY)</i>      | <i>FY08<sup>a</sup></i>     | <i>FY09<sup>b</sup></i> | <i>FY10<sup>b</sup></i> | <i>FY08<sup>b</sup></i> | <i>FY09<sup>c</sup></i> | <i>FY10<sup>c</sup></i> | <i>FY11<sup>c</sup></i>     | <i>FY12<sup>b</sup></i> | <i>FY13<sup>b</sup></i> |
| Lending (\$ million)            | 3,248.7                     | 2,425.5                 | 1,600.0                 | 1,913.9                 | 3,604.2                 | 3,744.6                 | 2,538.4                     | 3,373.0                 | 2,390.0                 |
| Gross Disbursements(\$ million) | -                           | -                       | -                       | 742.0                   | 1,781.0                 | 2,637.0                 | 3,066.0                     | 3,176.0                 | 2,798.0                 |

a. Estimated year

b. Projected year

c. Actual outcome

### CPS Annex Table 2: A2 - Brazil at a glance

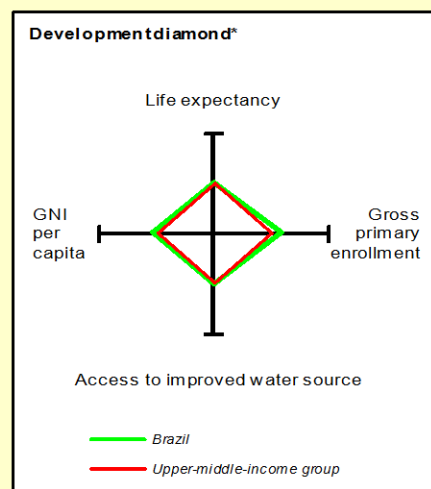
| POVERTY and SOCIAL                           | Brazil | Latin<br>America<br>& Carib. | Upper-<br>middle-<br>income |
|--|--------|------------------------------|-----------------------------|
| <b>2009</b>                                  |        |                              |                             |
| Population, mid-year ( <i>millions</i> )     | 193.7  | 573                          | 1002                        |
| GNI per capita ( <i>Atlas method, US\$</i> ) | 8,070  | 6,993                        | 7,495                       |
| GNI ( <i>Atlas method, US\$ billions</i> )   | 1564.2 | 4,003                        | 7,508                       |

**Average annual growth, 2003-09**

|                 |     |     |     |
|-----------------|-----|-----|-----|
| Population (%)  | 11  | 12  | 0.9 |
| Labor force (%) | 2.2 | 2.2 | 17  |

**Most recent estimate (latest year available, 2003-09)**

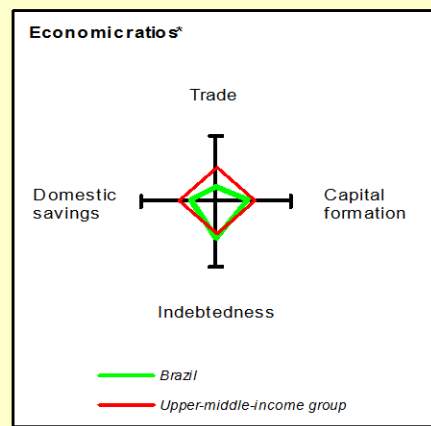
|   |     |     |     |
|---|-----|-----|-----|
| Poverty (% of population below national poverty line) | 22  | ..  | ..  |
| Urban population (% of total population)              | 86  | 79  | 75  |
| Life expectancy at birth (years)                      | 72  | 73  | 71  |
| Infant mortality (per 1,000 live births)              | 17  | 19  | 19  |
| Child malnutrition (% of children under 5)            | 2   | 5   | ..  |
| Access to an improved water source (% of population)  | 97  | 93  | 95  |
| Literacy (% of population age 15+)                    | 90  | 91  | 93  |
| Gross primary enrollment (% of school-age population) | 127 | 116 | 111 |
| Male  | 132 | 118 | 111 |
| Female  | 123 | 114 | 110 |



### KEY ECONOMIC RATIOS and LONG-TERM TRENDS


|                                   | 1989  | 1999  | 2008   | 2009   |
|-----------------------------------|-------|-------|--------|--------|
| GDP ( <i>US\$ billions</i> )      | 425.6 | 586.9 | 1652.6 | 1594.5 |
| Gross capital formation/GDP       | 26.9  | 16.4  | 20.7   | 16.5   |
| Exports of goods and services/GDP | 8.9   | 9.4   | 13.7   | 11.1   |
| Gross domestic savings/GDP        | 30.4  | 15.0  | 20.9   | 16.5   |
| Gross national savings/GDP        | 35.8  | 12.1  | 18.7   | 14.7   |
| Current account balance/GDP       | 0.2   | -4.3  | -17    | -15    |
| Interest payments/GDP             | 12    | 3.0   | 10     | 0.9    |
| Total debt/GDP                    | 26.9  | 416   | 15.9   | 17.4   |
| Total debt service/exports        | 36.3  | 103.3 | 25.5   | 17.6   |
| Present value of debt/GDP         | ..    | ..    | ..     | 16.3   |
| Present value of debt/exports     | ..    | ..    | ..     | 103.7  |

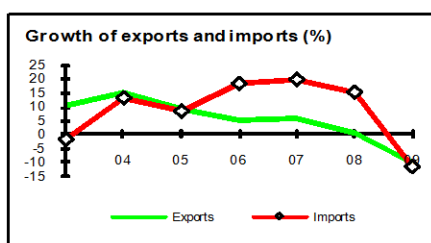
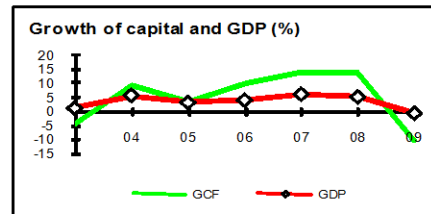
|                                | 1989-99 | 1999-09 | 2008  | 2009  | 2009-13 |
|--------------------------------|---------|---------|--|-------|---------|
| <i>(average annual growth)</i> |         |         |  |       |         |
| GDP                            | 2.4     | 3.5     | 5.2  | -0.6  | 5.9     |
| GDP per capita                 | 0.9     | 2.2     | 4.1  | -15   | ..      |
| Exports of goods and services  | 5.5     | 7.6     | 0.5  | -10.2 | 11.7    |



## STRUCTURE of the ECONOMY

|   | 1989 | 1999 | 2008 | 2009 |
|---|------|------|------|------|
| (% of GDP)                                  |      |      |      |      |
| Agriculture                                 | 8.5  | 5.5  | 5.9  | 6.1  |
| Industry                                    | 42.7 | 25.9 | 27.9 | 25.4 |
| Manufacturing                               | 29.5 | 16.1 | 16.6 | 15.8 |
| Services                                    | 48.8 | 68.6 | 66.2 | 68.5 |
| Household final consumption expenditure     | 54.1 | 64.7 | 58.9 | 61.7 |
| General gov't final consumption expenditure | 15.5 | 20.3 | 20.2 | 21.8 |
| Imports of goods and services               | 5.5  | 10.8 | 13.5 | 11.2 |

|   | 1989-99 | 1999-09 | 2008  | 2009  |
|---|---------|---------|--|-------|
| <i>(average annual growth)</i>              |         |         |  |       |
| Agriculture                                 | 3.0     | 3.8     | 6.1  | -4.6  |
| Industry                                    | 18      | 2.8     | 4.1  | -6.7  |
| Manufacturing                               | 2.1     | 2.7     | 3.0  | -8.2  |
| Services                                    | 3.4     | 3.9     | 4.9  | 2.1   |
| Household final consumption expenditure     | 4.0     | 3.5     | 6.8  | 0.2   |
| General gov't final consumption expenditure | 0.4     | 3.1     | 3.2  | 3.9   |
| Gross capital formation                     | 2.8     | 3.7     | 13.6   | -10.3 |
| Imports of goods and services               | 13.1    | 6.8     | 15.4   | -11.5 |



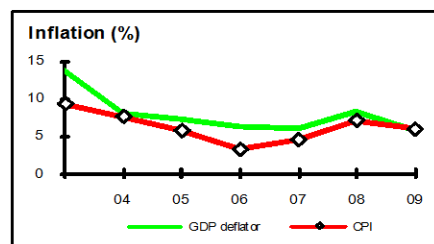
Note: 2009 data are preliminary estimates.

This table was produced from the Development Economics LDB database.

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

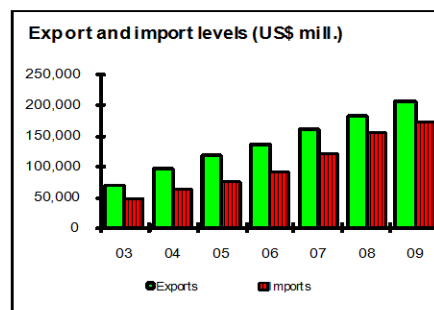
## PRICES and GOVERNMENT FINANCE

|                                     | 1989      | 1999 | 2008 | 2009 |
|-------------------------------------|-----------|------|------|------|
| <b>Domestic prices</b>              |           |      |      |      |
| (% change)                          |           |      |      |      |
| Consumer prices                     | 1,972.9   | 8.9  | 7.1  | 5.9  |
| Implicit GDP deflator               | 1,209.1   | 8.5  | 8.3  | 5.7  |
| <b>Government finance</b>           |           |      |      |      |
| (% of GDP, includes current grants) |           |      |      |      |
| Current revenue                     | ..        | 19.8 | 23.6 | 23.2 |
| Current budget balance              | ..        | 2.7  | 3.9  | 2.9  |
| Overall surplus/deficit             | 208,202.5 | -0.7 | -0.4 | -3.4 |



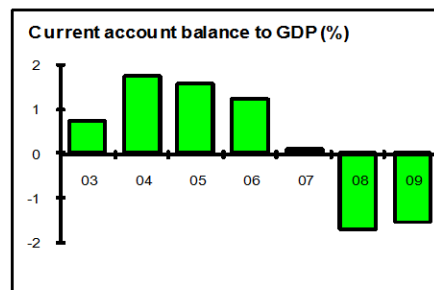
## TRADE

|                               | 1989   | 1999   | 2008    | 2009    |
|-------------------------------|--------|--------|---------|---------|
| (US\$ millions)               |        |        |         |         |
| Total exports (fob)           | 32,975 | 47,551 | 184,216 | 208,178 |
| Coffee                        | 2,447  | 2,746  | 20,183  | 20,615  |
| Soybeans                      | 3,647  | 1,593  | 13,462  | 13,902  |
| Manufactures                  | 17,575 | 27,330 | 88,483  | 108,534 |
| Total imports (cif)           | 18,263 | 49,210 | 155,475 | 172,782 |
| Food                          | 1,249  | 1,655  | 2,582   | 2,761   |
| Fuel and energy               | 3,753  | 4,258  | 24,978  | 26,002  |
| Capital goods                 | 4,873  | 13,577 | 32,190  | 37,543  |
| Export price index (2000=100) | 86     | 93     | 128     | 124     |
| Import price index (2000=100) | 55     | 96     | 100     | 99      |
| Terms of trade (2000=100)     | 157    | 97     | 127     | 125     |



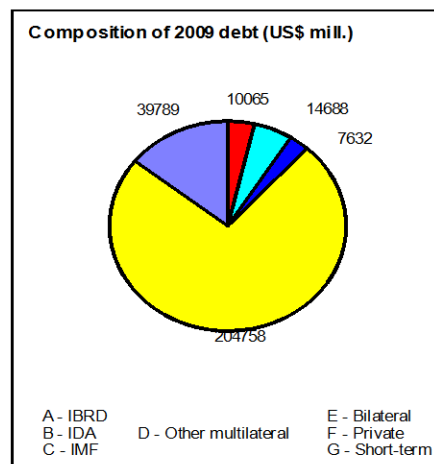
## BALANCE of PAYMENTS

|   | 1989    | 1999    | 2008    | 2009    |
|---|---------|---------|---------|---------|
| (US\$ millions)                         |         |         |         |         |
| Exports of goods and services           | 36,394  | 55,205  | 228,393 | 180,723 |
| Imports of goods and services           | 21,486  | 63,382  | 220,247 | 174,679 |
| Resource balance                        | 14,908  | -8,177  | 8,146   | 6,044   |
| Net income                              | -13,265 | -18,848 | -40,562 | -33,684 |
| Net current transfers                   | 249     | 1,689   | 4,224   | 3,338   |
| Current account balance                 | 1,032   | -25,335 | -28,192 | -24,302 |
| Financing items (net)                   | -146    | 17,513  | 31,161  | 70,953  |
| Changes in net reserves                 | -886    | 7,822   | -2,969  | -46,651 |
| <b>Memo:</b>                            |         |         |         |         |
| Reserves including gold (US\$ millions) | 9,679   | 36,342  | 216,881 | 273,123 |
| Conversion rate (DEC, local/US\$)       | 100E-6  | 18      | 18      | 2.0     |



## EXTERNAL DEBT and RESOURCE FLOWS

|   | 1989    | 1999    | 2008    | 2009    |
|---|---------|---------|---------|---------|
| (US\$ millions)                         |         |         |         |         |
| Total debt outstanding and disbursed    | 114,356 | 244,108 | 262,139 | 276,932 |
| IBRD                                    | 8,311   | 6,822   | 10,671  | 10,065  |
| IDA                                     | 0       | 0       | 0       | 0       |
| Total debt service                      | 14,117  | 71,073  | 56,460  | 44,317  |
| IBRD                                    | 1,475   | 1,380   | 1,310   | 2,231   |
| IDA                                     | 0       | 0       | 0       | 0       |
| Composition of net resource flows       |         |         |         |         |
| Official grants                         | 44      | 65      | 211     | 196     |
| Official creditors                      | 235     | 380     | 1,962   | 3,438   |
| Private creditors                       | -3,710  | -11,130 | 27,250  | 23,842  |
| Foreign direct investment (net inflows) | 1,131   | 28,576  | 45,058  | 25,949  |
| Portfolio equity (net inflows)          | -57     | 2,572   | -7,565  | 37,071  |
| World Bank program                      |         |         |         |         |
| Commitments                             | 933     | 1,863   | 3,082   | 1,861   |
| Disbursements                           | 819     | 1,533   | 1,726   | 1,274   |
| Principal repayments                    | 871     | 952     | 812     | 1,872   |
| Net flows                               | -52     | 580     | 914     | -598    |
| Interest payments                       | 604     | 428     | 498     | 359     |
| Net transfers                           | -656    | 152     | 416     | -957    |



Note: This table was produced from the Development Economics LDB database.

2/25/11

## CPS Annex Table 3: B2 - Selected Indicators of Bank Portfolio Performance and Management

As Of Date 9/9/2011

| Indicator   | 2009  | 2010  | 2011  | 2012 |
|---|-------|-------|-------|------|
| <b>Portfolio Assessment</b>                           |       |       |       |      |
| Number of Projects Under Implementation <sup>a</sup>  | 54    | 61    | 56    | 57   |
| Average Implementation Period (years) <sup>b</sup>    | 3.5   | 3.0   | 2.9   | 3.0  |
| Percent of Problem Projects by Number <sup>a, c</sup> | 9.3   | 13.1  | 17.9  | 12.3 |
| Percent of Problem Projects by Amount <sup>a, c</sup> | 2.0   | 17.8  | 9.7   | 3.3  |
| Percent of Projects at Risk by Number <sup>a, d</sup> | 13.0  | 14.8  | 17.9  | 12.3 |
| Percent of Projects at Risk by Amount <sup>a, d</sup> | 2.5   | 18.2  | 9.7   | 3.3  |
| Disbursement Ratio (%) <sup>e</sup>                   | 36.9  | 37.8  | 31.8  | 4.0  |
| <b>Portfolio Management</b>                           |       |       |       |      |
| CPFR during the year (yes/no)                         | Yes   | No    | Yes   | No   |
| Supervision Resources (total US\$)                    | 6,037 | 6,499 | 6,605 | 500  |
| Average Supervision (US\$/project)                    | 93    | 86    | 90    | 8    |

| Memorandum Item                           | Since FY 80 | Last Five FYs |
|---|-------------|---------------|
| Proj Eval by OED by Number                | 255         | 24            |
| Proj Eval by OED by Amt (US\$ millions)   | 29,849.1    | 1,570.6       |
| % of OED Projects Rated U or HU by Number | 23.7        | 16.7          |
| % of OED Projects Rated U or HU by Amt    | 24.3        | 21.9          |

- a. As shown in the Annual Report on Portfolio Performance (except for current FY).
  - b. Average age of projects in the Bank's country portfolio.
  - c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
  - d. As defined under the Portfolio Improvement Program.
  - e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
- \* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

**CPS Annex Table 4: B3 - IBRD Indicative Lending Program for FY12-13 by CPS Strategic Objective**

| FY12: Proposed IBRD Lending Program |         | Strategic Objectives   |                                     |  |   |  |   |   |                         |                          |
|-------------------------------------|---------|--|-------------------------------------|--|---|--|---|---|-------------------------|--------------------------|
|                                     |         | Increase Volume and Productivity of Public and Private Investments |                                     | Improve access to Public Services by Low Income Households |   | Promote Regional Economic Development  |   | Improve Natural Resources Management and Climate Resilience |                         |                          |
|                                     |         | Result Areas   |                                     |  |   |  |   |   |                         |                          |
| Proj ID                             | US\$(M) | Fiscal and Public Sector Management                                | Private Sector Development Policies | Access to Social Protection, Health and Education          | Access to Housing for Low Income Households | Regional Economic Development Policies | Sanitation, Transport and Energy Infrastructure | Water and Environmental Management                          | Sustainable Agriculture | Disaster Risk Management |

**Federal**

|   |       |  |  |  |  |  |   |   |   |   |
|---|-------|--|--|--|--|--|---|---|---|---|
| Energy and Mineral Sector Strengthening | 50.0  |  |  |  |  |  | √ | √ | √ |   |
| Federal Integrated Water Sector         | 110.0 |  |  |  |  |  | √ | √ |   | √ |

**Subnational**

|   |                |   |   |   |   |   |   |   |   |   |
|---|----------------|---|---|---|---|---|---|---|---|---|
| AF Greening Rio de Janeiro Urban Rail System (SIL)    | 600.0          |   |   |   |   |   | √ |   |   |   |
| AF Rio de Janeiro State (SIL)                         | 40.0           | √ |   | √ | √ |   | √ |   |   | √ |
| AF Rio de Janeiro Sustainable Rural Development (SIL) | 100.0          |   | √ |   |   | √ |   | √ | √ | √ |
| APL 2 São Bernardo Int. Water Mgmt (SIL)              | 27.0           |   |   |   | √ |   | √ | √ |   |   |
| Ceará Rural Sustainable & Competitiveness (SIL)       | 100.0          |   | √ |   |   | √ | √ | √ | √ |   |
| Pernambuco Rural Economic Inclusion (SIL)             | 100.0          |   | √ |   |   | √ | √ | √ | √ |   |
| Rio Municipal (SIL)                                   | 16.0           | √ | √ | √ | √ |   |   |   |   |   |
| Sergipe Water (SIL)                                   | 70.0           |   |   |   |   |   | √ | √ |   |   |
| Bahia DPL   | 700.0          | √ | √ | √ |   | √ | √ | √ |   | √ |
| Piauí Green Growth and Inclusion DPL                  | 350.0          | √ |   | √ |   | √ |   | √ | √ | √ |
| Pernambuco Expand. Opportunities, Enh. Equity DPL     | 500.0          | √ | √ | √ |   | √ | √ | √ |   |   |
| Recife Education and Public Management SWAp           | 130.0          | √ |   | √ |   |   |   |   |   |   |
| Rio Grande do Sul SWAp                                | 480.0          | √ | √ | √ |   |   | √ | √ |   | √ |
| <b>Result</b>   | <b>3,373.0</b> |   |   |   |   |   |   |   |   |   |

**CPS Annex Table 4: B3 - IBRD Indicative Lending Program for FY12-13 by CPS Strategic Objective (continued)**

| FY13: Proposed IBRD Lending Program                        |         | Strategic Objectives   |                                     |  |   |  |   |   |                         |                          |
|--|---------|--|-------------------------------------|--|---|--|---|---|-------------------------|--------------------------|
|  |         | Increase Volume and Productivity of Public and Private Investments |                                     | Improve access to Public Services by Low Income Households |   | Promote Regional Economic Development  |   | Improve Natural Resources Management and Climate Resilience |                         |                          |
|  |         | Result Areas   |                                     |  |   |  |   |   |                         |                          |
| Proj ID  | US\$(M) | Fiscal and Public Sector Management                                | Private Sector Development Policies | Access to Social Protection, Health and Education          | Access to Housing for Low Income Households | Regional Economic Development Policies | Sanitation, Transport and Energy Infrastructure | Water and Environmental Management                          | Sustainable Agriculture | Disaster Risk Management |
| Federal  |         |  |                                     |  |   |  |   |   |                         |                          |
| Federal Transport (SIL)                                    | 100.0   | √  | √                                   |  |   |  | √   |   |                         |                          |
| South-South Cooperation for Economic Development           | 30.0    | √  |                                     | √  |   |  | √   |   | √                       |                          |
| Subnational  |         |  |                                     |  |   |  |   |   |                         |                          |
| Paraná PSM for Development SWAp                            | 350.0   | √  | √                                   | √  |   | √                                      | √   | √   | √                       | √                        |
| Alagoas Extreme Poverty Eradication (SIL)                  | 300.0   | √  | √                                   | √  |   | √                                      |   |   |                         | √                        |
| Rio Grande do Norte Regional Development (SIL)             | 360.0   | √  | √                                   | √  |   | √                                      |   |   | √                       | √                        |
| Tocantins Integrated Sustainable Reginal Development (SIL) | 300.0   | √  |                                     | √  |   | √                                      | √   |   |                         | √                        |
| 3rd Minas Gerais Partnership DPL                           | 450.0   | √  | √                                   | √  |   |  |   | √   |                         | √                        |
| Belo Horizonte Urban DPL                                   | 200.0   | √  | √                                   | √  | √   |  |   |   |                         | √                        |
| Rio State DPL III  | 300.0   | √  | √                                   | √  |   |  |   |   |                         |                          |
| Result   | 2,390.0 |  |                                     |  |   |  |   |   |                         |                          |

## CPS Annex Table 5: B3 - Brazil IFC Investment Operations Program

|   | 2009         | 2010       | 2011         | 2012*      |
|---|--------------|------------|--------------|------------|
| <b><u>Original Commitments (US\$m)</u></b>  |              |            |              |            |
| IFC and Participants  | 864.26       | 1293.22    | 2084.88      | 97.45      |
| IFC's Own Accounts only   | 641.93       | 1154.06    | 1114.49      | 97.45      |
| <b><u>Original Commitments by Sector (%) - IFC Accounts only</u></b>                |              |            |              |            |
| COLLECTIVE INVESTMENT VEHICLES  |              | 8.93       |              |            |
| CONSTRUCTION AND REAL ESTATE  |              | 4.07       |              |            |
| EDUCATION SERVICES  |              | 6.1        | 2.69         |            |
| FINANCE & INSURANCE   | 88.4         | 76.57      | 80.58        | 100        |
| FOOD & BEVERAGES  | 3.89         |            |              |            |
| HEALTH CARE   |              |            | 2.72         |            |
| INDUSTRIAL & CONSUMER PRODUCTS  | 3.89         |            | 1.79         |            |
| PROFESSIONAL, SCIENTIFIC AND TECHNICAL SERVICES                                     |              |            | 0.43         |            |
| TRANSPORTATION AND WAREHOUSING  |              |            | 8.7          |            |
| UTILITIES   | 3.81         | 4.33       | 3.07         |            |
| <b>Total</b>  | <b>99.99</b> | <b>100</b> | <b>99.98</b> | <b>100</b> |
| <b><u>Original Commitments by Investment Instrument (%) - IFC Accounts only</u></b> |              |            |              |            |
| Equity  | 1.66         | 10.98      | 8.32         |            |
| Guarantee   | 74.57        | 70.8       | 67.76        | 100        |
| Loan  | 12.45        | 13.89      | 23.92        |            |
| Quasi loan  | 11.32        | 4.33       |              |            |
| <b>Total</b>  | <b>100</b>   | <b>100</b> | <b>100</b>   | <b>100</b> |

\* Data as of September 01,2011



## CPS Annex Table 6: B4 - Summary of Non lending Services

As Of Date 09/09/2011

| <i>Product</i>                                   | <i>Completion FY</i> | <i>Cost (US\$000)</i> | <i>Audience<sup>a</sup></i> | <i>Objective<sup>b</sup></i> |
|--|----------------------|-----------------------|-----------------------------|------------------------------|
| <b>Recent completions</b>                        |                      |                       |                             |                              |
| Amazon Regional                                  | 2010                 | 299.4                 | G, B, PD                    | KG, PD                       |
| Education Quality PAR                            | 2010                 | 206.0                 | G, B, PD                    | KG, PD                       |
| BRAVA Program                                    | 2010                 | 99.7                  | Government                  | KG                           |
| Amazon Dieback Analysis                          | 2010                 | 748.3                 | G, B, PD                    | KG, PD                       |
| PEFA- Plus                                       | 2010                 | 191.3                 | Government                  | KG                           |
| Improve Quality of Road Investments              | 2010                 | 179.6                 | Government                  | PS                           |
| Proposed High-Speed Train Project                | 2010                 | 176.4                 | Government                  | PS                           |
| Evaluating and Improving Health                  | 2010                 | 143.1                 | Government                  | PS                           |
| SNTA Nova Eletrobras                             | 2010                 | 349.0                 | Government                  | PS                           |
| Housing Sector TA                                | 2010                 | 93.1                  | Government                  | PS                           |
| Public Sector NLTA                               | 2011                 | 98.4                  | Government                  | PS                           |
| Achieving World Class Education                  | 2011                 | 349.0                 | G, B, PD                    | KG, PD                       |
| Aging Country Study                              | 2011                 | 351.0                 | G, B, PD                    | KG, PD                       |
| MST Job Quality                                  | 2011                 | 254.0                 | G, B, PD                    | KG, PD                       |
| Brazil Procurement                               | 2011                 | 43.4                  | G, B, PD                    | KG, PD                       |
| Inequality Recent Trends & Perspectives          | 2011                 | 68.0                  | G, B, PD                    | KG, PD                       |
| Climate Change                                   | 2011                 | 105.0                 | G, B, PD                    | KG, PD                       |
| Early Childhood                                  | 2011                 | 245.0                 | G, B, PD                    | KG, PD                       |
| Green City Development                           | 2011                 | 184.0                 | G, B, PD                    | KG, PD                       |
| Building Evidence Crime and Violence Reduction   | 2011                 | 325.0                 | G, B, PD                    | KG, PD                       |
| Involuntary Resettlement                         | 2011                 | 295.0                 | Government                  | KG                           |
| Equality of Opportunity                          | 2011                 | 305.0                 | G, B, PD                    | KG, PD                       |
| Land Management and Governance                   | 2011                 | 157.0                 | Government                  | KG                           |
| Housing Sector NLTA 2nd phase                    | 2011                 | 48.0                  | Government                  | PS                           |
| Public Investment Efficiency                     | 2011                 | 54.0                  | Government                  | PS                           |
| Financial Literacy                               | 2011                 | 61.0                  | G, B, PD                    | KG, PD                       |
|  |                      | <b>5,428.7</b>        |                             |                              |
| <b>Underway</b>                                  |                      |                       |                             |                              |
| Money, Credit and growth                         | 2012                 | 180.0                 | G, B, PD                    | KG, PD                       |
| Social Protection during 2008 Twin Crisis        | 2012                 | 180.0                 | G, B, PD                    | KG, PD                       |
| National Health Finance System                   | 2012                 | 150.0                 | G, B, PD                    | KG, PD                       |
| Amazon Deforestation and Protection              | 2012                 | 200.0                 | G, B, PD                    | KG, PD                       |
| Productivity and upgrading                       | 2012                 | 100.0                 | G, B, PD                    | KG, PD                       |
| Locking in Performance Gains                     | 2012                 | 150.0                 | G, B, PD                    | KG, PD                       |
| Implications of Oil and Gas Discoveries          | 2012                 | 200.0                 | G, B, PD                    | KG, PD                       |
| Bringing the State to the Rio de Janeiro Favelas | 2012                 | 100.0                 | G, B, PD                    | KG, PD                       |
| Adapting Water Resources in Northeast Brazil     | 2012                 | 200.0                 | G, B, PD                    | KG, PD                       |
| Agriculture Productivity and Competitiveness     | 2012                 | 150.0                 | G, B, PD                    | KG, PD                       |
| São Paulo City Study                             | 2012                 | 250.0                 | G, B                        | KG                           |
| Monitoring and Evaluation                        | 2012                 | 150.0                 | G, B, PD                    | KG, PD                       |
| Governance for State Economic Development        | 2012                 | 100.0                 | Government                  | KG                           |
| Improving Social Housing in São Paulo            | 2012                 | 150.0                 | Government                  | PS                           |
| Education Evidence-Based Policy                  | 2012                 | 150.0                 | G, B, PD                    | KG, PD                       |
| Financial Sector NLTA                            | 2012                 | 180.0                 | Government                  | PS                           |
| Mainstreaming Green Trucks NLTA                  | 2012                 | 100.0                 | G, B, PD                    | KG, PD                       |
|  |                      | <b>2,690.0</b>        |                             |                              |

**CPS Annex Table 6: B4 - Summary of Non lending Services (continued)**

| <i>Product</i>   | <i>Completion FY</i> | <i>Cost (US\$000)</i> | <i>Audience<sup>a</sup></i> | <i>Objective<sup>b</sup></i> |
|--|----------------------|-----------------------|-----------------------------|------------------------------|
| <b>Planned</b>   |                      |                       |                             |                              |
| South-South Investments Flows  | 2013                 | 150.0                 | G, B, PD                    | KG, PD                       |
| Macro-Micro Productivity Puzzle and International Trade                    | 2013                 | 175.0                 | G, B, PD                    | KG, PD                       |
| Trade in Commodities & 1st and 2nd Moments of Economic Growth              | 2013                 | 180.0                 | G, B, PD                    | KG, PD                       |
| Managing Health Care Financing in Brazil                                   | 2013                 | 150.0                 | Government                  | PS                           |
| Access to Social Services for the Extreme Poor in Favelas                  | 2013                 | 150.0                 | G, B, PD                    | KG, PD                       |
| Addressing the Financial Challenge in Wastewater in Brazil                 | 2013                 | 150.0                 | G, B, PD                    | KG, PD                       |
| The Status of Urban Pollution Management in Brazil                         | 2013                 | 200.0                 | G, B, PD                    | KG, PD                       |
| Measuring Brazil's Land Governance Capacity and Performance                | 2013                 | 150.0                 | G, B, PD                    | KG, PD                       |
| From Farm to Table: Losses of Perishable Agricultural Production           | 2013                 | 150.0                 | G, B, PD                    | KG, PD                       |
| Impacts of Climate Change on Brazilian Agriculture                         | 2013                 | 150.0                 | G, B, PD                    | KG, PD                       |
| Disaster Risk Management in Brazil   | 2013                 | 100.0                 | G, B, PD                    | KG, PD                       |
| Evidence-Based Policy Dialogue in Education                                | 2013                 | 150.0                 | G, B, PD                    | KG, PD                       |
| NLTA in support of the Extreme Poverty Eradication Strategy of Brazil MST  | 2013                 | 250.0                 | Government                  | PS                           |
| TA Risk-based supervision of Brazilian closed pension funds                | 2013                 | 100.0                 | Government                  | PS                           |
| Enhancement of Public Expenditure Quality                                  | 2013                 | 180.0                 | Government                  | PS                           |
| Financial Sector Policy Dialogue   | 2013                 | 150.0                 | G, B, PD                    | KG, PD                       |
| Impact Evaluation  | 2013                 | 125.0                 | G, B, PD                    | KG, PD                       |
| Green Transport in Brazil  | 2013                 | 150.0                 | G, B, PD                    | KG, PD                       |
| Improving the Sust. Protection and Promotion of Vulnerable Ethnic Minority | 2013                 | 200.0                 | G, B, PD                    | KG, PD                       |
| Involuntary Resettlement and Social Sust. In Infrastructure Inv. Programs  | 2013                 | 200.0                 | Government                  | PS                           |
| Low Carbon Emission Economy in Agriculture                                 | 2013                 | 200.0                 | G, B, PD                    | KG, PD                       |
| Greening Brazil's Largest Metropolitan Regions                             | 2013                 | 180.0                 | G, B, PD                    | KG, PD                       |
| Gender Study   | 2013                 | 100.0                 | G, B, PD                    | KG, PD                       |
|  |                      | <b>3,690.0</b>        |                             |                              |

a. Government (G), donor (D), Bank (B), public dissemination (PD.).

b. Knowledge generation (KG), public debate (PD), problem-solving (PS).

**CPS Annex Table 7: B6 - Brazil: Key Economic Indicators**

| Indicator   | Actual   |           |           |           |           |           | Estimate  | Projected |           |
|---|----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|   | 2005     | 2006      | 2007      | 2008      | 2009      | 2010      | 2011      | 2012      | 2013      |
| <b>National accounts (as % of GDP)</b>                            |          |           |           |           |           |           |           |           |           |
| Gross domestic product <sup>a</sup>                               | 100.0    | 100.0     | 100.0     | 100.0     | 100.0     | 100.0     | 100.0     | 100.0     | 100.0     |
| Agriculture   | 5.7      | 5.5       | 5.6       | 5.9       | 6.1       | 5.8       | 5.9       | 6.0       | 6.0       |
| Industry  | 29.3     | 28.8      | 27.8      | 27.9      | 25.4      | 26.8      | 27.4      | 27.5      | 27.6      |
| Services  | 65.0     | 65.8      | 66.6      | 66.2      | 68.5      | 67.4      | 66.7      | 66.5      | 66.4      |
| Total Consumption   | 80.2     | 80.3      | 80.2      | 79.1      | 83.5      | 81.7      | 81.0      | 80.5      | 79.7      |
| Gross domestic fixed investment                                   | 15.9     | 16.4      | 17.4      | 19.1      | 16.9      | 18.4      | 19.6      | 20.4      | 21.3      |
| Government investment   | 2.1      | 2.1       | 1.9       | 2.4       | 2.6       | 2.8       | 3.2       | 3.1       | 3.2       |
| Private investment  | 13.9     | 14.4      | 15.5      | 16.7      | 14.4      | 15.7      | 16.4      | 17.3      | 18.1      |
| Exports (GNFS) <sup>b</sup>                                       | 15.1     | 14.4      | 13.4      | 13.7      | 11.1      | 11.2      | 11.3      | 11.6      | 12.0      |
| Imports (GNFS)  | 11.5     | 11.5      | 11.8      | 13.5      | 11.2      | 12.1      | 11.9      | 12.7      | 13.1      |
| Gross domestic savings  | 19.8     | 19.7      | 19.8      | 20.9      | 16.5      | 18.3      | 19.0      | 19.5      | 20.3      |
| Gross national savings <sup>c</sup>                               | 17.3     | 17.6      | 18.1      | 18.8      | 14.7      | 16.5      | 17.4      | 18.2      | 18.4      |
| <i>Memorandum items</i>   |          |           |           |           |           |           |           |           |           |
| Gross domestic product<br>(US\$ million at current prices)        | 881,754  | 1,088,854 | 1,366,292 | 1,652,632 | 1,594,490 | 2,087,890 | 2,500,501 | 2,668,046 | 2,786,974 |
| GNI per capita (US\$, Atlas method)                               | 3,960.00 | 4,800.00  | 6,100.00  | 7,470.00  | 8,040.00  | 9,450.00  | 10,750.00 | 12,620.00 | 13,770.00 |
| Real annual growth rates (% calculated from 00 prices)            |          |           |           |           |           |           |           |           |           |
| Gross domestic product at market prices                           | 3.2      | 4.0       | 6.1       | 5.2       | -0.6      | 7.5       | 3.8       | 3.6       | 4.2       |
| Gross Domestic Income   | 3.1      | 5.1       | 6.4       | 5.6       | -1.3      | 9.5       | 5.4       | 3.5       | 3.8       |
| Real annual per capita growth rates (% calculated from 00 prices) |          |           |           |           |           |           |           |           |           |
| Gross domestic product at market prices                           | 1.9      | 2.8       | 5.0       | 4.1       | -1.5      | 6.8       | 3.0       | 2.8       | 3.4       |
| Total consumption   | 2.7      | 3.4       | 4.8       | 4.1       | 3.2       | 5.5       | 3.1       | 1.5       | 1.7       |
| Private consumption   | 3.2      | 4.0       | 5.0       | 4.7       | 3.2       | 6.4       | -7.9      | 1.4       | 1.6       |
| <b>Balance of Payments (US\$ millions)</b>                        |          |           |           |           |           |           |           |           |           |
| Exports (GNFS) <sup>b</sup>                                       | 134,356  | 157,283   | 184,603   | 228,393   | 180,723   | 233,736   | 281,386   | 308,676   | 333,166   |
| Merchandise FOB   | 118,308  | 137,807   | 160,649   | 197,942   | 152,995   | 201,915   | 244,000   | 269,600   | 289,886   |
| Imports (GNFS) <sup>b</sup>                                       | 97,962   | 120,467   | 157,790   | 220,247   | 174,679   | 244,322   | 296,802   | 339,561   | 365,788   |
| Merchandise FOB   | 73,606   | 91,351    | 120,617   | 173,107   | 127,705   | 181,694   | 221,000   | 257,300   | 277,794   |
| Resource balance  | 36,394   | 36,816    | 26,813    | 8,146     | 6,044     | -10,586   | -15,415   | -30,885   | -32,622   |
| Net current transfers   | 3,558    | 4,306     | 4,029     | 4,224     | 3,338     | 2,788     | 3,212     | 3,522     | 3,856     |
| Current account balance   | 13,985   | 13,643    | 1,551     | -28,192   | -24,302   | -47,365   | -55,423   | -63,302   | -83,152   |
| Net private foreign direct investment                             | 12,550   | -9,380    | 27,518    | 24,601    | 36,033    | 36,919    | 57,856    | 65,315    | 69,720    |
| Long-term loans (net)   | -26,987  | -8,532    | -7,881    | 7,333     | 11,610    | 3,717     | 11,240    | 8,681     | 6,396     |
| Official  | 27       | -285      | -200      | 1,962     | 3,438     | 162       | 3,879     | 2,258     | 1,661     |
| Private   | -27,014  | -8,248    | -7,682    | 5,372     | 8,172     | 3,555     | 7,361     | 6,423     | 4,735     |
| Other capital (net, incl. errors & omissions)                     | 4,772    | 34,839    | 66,296    | -773      | 23,310    | 55,829    | 45,810    | 42,551    | 43,761    |
| <i>Memorandum items</i>   |          |           |           |           |           |           |           |           |           |
| Resource balance (% of GDP)                                       | 4.1      | 3.4       | 2.0       | 0.5       | 0.4       | -0.5      | -0.6      | -1.2      | -1.2      |
| Real annual growth rates (YR00 prices)                            |          |           |           |           |           |           |           |           |           |
| Merchandise exports (FOB)   | 21.3     | 16.0      | 18.7      | 7.8       | 12.8      | -5.2      | 5.9       | 23.6      | 13.9      |
| Primary   | 20.4     | 15.5      | 30.4      | 23.8      | 23.8      | 4.4       | 1.1       | 20.7      | 13.9      |
| Manufactures  | 21.7     | 14.4      | 13.9      | -3.4      | 6.0       | -28.1     | 3.6       | 41.4      | 18.9      |
| Merchandise imports (CIF)   | 15.8     | 29.1      | 30.4      | 27.3      | 0.6       | 23.6      | 11.7      | 24.4      | 10.0      |

*(Continued)*

**Brazil - Key Economic Indicators**  
(Continued)

| Indicator  | Actual |       |       |       |       |       | Estimate | Projected |       |
|--|--------|-------|-------|-------|-------|-------|----------|-----------|-------|
|  | 2005   | 2006  | 2007  | 2008  | 2009  | 2010  | 2011     | 2012      | 2013  |
| <b>Public finance (as % of GDP at market prices)<sup>e</sup></b> |        |       |       |       |       |       |          |           |       |
| Current revenues   | 35.8   | 35.9  | 35.7  | 36.6  | 36.1  | 36.3  | 36.6     | 36.5      | 36.6  |
| Current expenditures   | 37.0   | 37.4  | 36.3  | 35.5  | 36.8  | 35.2  | 36.9     | 35.9      | 35.9  |
| Current account surplus (+) or deficit (-)                       | -1.3   | -1.4  | -0.7  | 1.2   | -0.7  | 1.1   | -0.2     | 0.6       | 0.7   |
| Capital expenditure  | 5.5    | 5.6   | 4.6   | 3.8   | 5.8   | 4.1   | 3.2      | 3.1       | 3.2   |
| Foreign financing  | 3.4    | 3.1   | 2.2   | 0.4   | 3.4   | 2.1   | 0.4      | 0.3       | 0.2   |
| <b>Monetary indicators</b>                                       |        |       |       |       |       |       |          |           |       |
| M2/GDP   | 26.2   | 27.1  | 28.7  | 34.5  | 35.5  | 35.0  | 34.8     | 34.6      | 34.4  |
| Growth of M2 (%)   | 18.9   | 14.2  | 18.9  | 37.0  | 8.1   | 13.5  | 9.7      | 8.1       | 8.3   |
| Private sector credit growth / total credit growth (%)           | 125.5  | 75.8  | 92.7  | 65.8  | 94.4  | 72.7  | 85.2     | 53.9      | 53.1  |
| <b>Price indices (YR00 =100)</b>                                 |        |       |       |       |       |       |          |           |       |
| Merchandise export price index                                   | 112.1  | 112.5 | 110.5 | 126.3 | 86.6  | 120.5 | 137.6    | 123.0     | 116.0 |
| Merchandise import price index                                   | 111.2  | 106.9 | 108.2 | 122.0 | 89.5  | 103.0 | 112.1    | 104.9     | 102.9 |
| Merchandise terms of trade index                                 | 100.8  | 105.3 | 102.1 | 103.5 | 96.8  | 117.0 | 122.7    | 117.3     | 112.8 |
| Real effective exchange rate (US\$/LCU) <sup>f</sup>             | 100.0  | 112.2 | 121.6 | 128.2 | 128.5 | 147.0 | ..       | ..        | ..    |
| Consumer price index (% change)                                  | 5.7    | 3.1   | 4.5   | 5.9   | 4.3   | 5.9   | 6.3      | 4.5       | 4.5   |
| GDP deflator (% change)  | 7.2    | 6.1   | 5.9   | 8.3   | 5.7   | 7.3   | 6.2      | 4.9       | 4.5   |

- a. GDP at factor cost  
b. "GNFS" denotes "goods and nonfactor services."  
c. Includes net unrequited transfers excluding official capital grants.  
d. Includes use of IMF resources.  
e. Consolidated Non-Financial Public Sector.  
f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

**CPS Annex Table 8: B7 - Brazil: Key Exposure Indicators**

| Indicator  | Actual |        |        | Estimated |        |        | Projected |        |        |
|--|--------|--------|--------|-----------|--------|--------|-----------|--------|--------|
|  | 2005   | 2006   | 2007   | 2008      | 2009   | 2010   | 2011      | 2012   | 2013   |
| Total debt outstanding and disbursed (TDO) (US\$m) <sup>a</sup>  | 187526 | 193458 | 237605 | 262139    | 276932 | 254060 | 266398    | 266627 | 266616 |
| Net disbursements (US\$m) <sup>a</sup>   | -16814 | -10846 | ..     | ..        | -12697 | 5660   | -848      | 229    | -11    |
| Total debt service (TDS) (US\$m) <sup>a</sup>  | 46509  | 43661  | 14514  | 16175     | 49208  | 32816  | 40088     | 42383  | 39347  |
| Debt and debt service indicators (%)   |        |        |        |           |        |        |           |        |        |
| TDO/XGS <sup>b</sup>   | 133.9  | 116.1  | 119.5  | 107.5     | 144.4  | 104.5  | 87.1      | 82.0   | 77.4   |
| TDO/GDP  | 21.3   | 17.8   | 17.4   | 15.9      | 17.4   | 12.2   | ..        | ..     | ..     |
| TDS/XGS  | 33.2   | 26.2   | 7.3    | 6.6       | 25.7   | 13.5   | 13.1      | 13.0   | 11.4   |
| Concessional/TDO   | 1.8    | 1.4    | 1.1    | 1.4       | 2.4    | 3.0    | 3.6       | 4.5    | 5.1    |
| IBRD exposure indicators (%)   |        |        |        |           |        |        |           |        |        |
| IBRD DS/public DS  | 3.3    | 3.7    | ..     | ..        | ..     | ..     | 11.4      | 11.2   | 11.4   |
| Preferred creditor DS/public DS (%) <sup>c</sup>   | 67.0   | 8.2    | ..     | ..        | ..     | ..     | 25.0      | 21.5   | 22.5   |
| IBRD DS/XGS  | 1.0    | 0.7    | 0.7    | 0.5       | 1.2    | 0.6    | 0.5       | 0.5    | 0.5    |
| IBRD TDO (US\$m) <sup>d</sup>  | 8083   | 9694   | 9676   | 10671     | 10065  | 10120  | 11694     | 13919  | 14993  |
| Of which present value of guarantees (US\$m)   |        |        |        |           |        |        |           |        |        |
| Share of IBRD portfolio (%)  | 7      | 8      | 8      | 10        | 10     | 10     | 12        | 14     | 14     |
| IDA TDO (US\$m) <sup>d</sup>   | ..     | ..     | ..     | ..        | ..     | ..     | ..        | ..     | ..     |
| IFC (US\$m)  |        |        |        |           |        |        |           |        |        |
| Loans  | ..     | ..     | ..     | ..        | ..     | ..     | ..        | ..     | ..     |
| Equity and quasi-equity /c   | 187526 | 193458 | 237605 | 262139    | 276932 | 254060 | ..        | ..     | ..     |
| MIGA   |        |        |        |           |        |        |           |        |        |
| MIGA guarantees (US\$m)  | ..     | ..     | ..     | ..        | ..     | ..     | ..        | ..     | ..     |
| <p>a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.</p> <p>b. "XGS" denotes exports of goods and services, including workers' remittances.</p> <p>c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.</p> <p>d. Includes present value of guarantees.</p> <p>e. Includes equity and quasi-equity types of both loan and equity instruments.</p> |        |        |        |           |        |        |           |        |        |

## CPS Annex Table 9: B8 - IFC for Brazil

As of 8/31/2011  
(In USD Millions)

| FY Approval             | Company          | Committed      |               |                |              |                | Disbursed Outstanding |               |                |              |                |
|-------------------------|------------------|----------------|---------------|----------------|--------------|----------------|-----------------------|---------------|----------------|--------------|----------------|
|                         |                  | Loan           | Equity        | **Quasi Equity | *GT/RM       | Participant    | Loan                  | Equity        | **Quasi Equity | *GT/RM       | Participant    |
| 7/8/2001                | Ag concession    | 0              | 50.66         | 0              | 0            | 0              | 0                     | 48.11         | 0              | 0            | 0              |
| 2002                    | Andrade g. sa    | 11             | 0             | 0              | 0            | 4.55           | 11                    | 0             | 0              | 0            | 4.55           |
| 2010                    | Anhanguera       | 31.34          | 0             | 0              | 0            | 0              | 31.34                 | 0             | 0              | 0            | 0              |
| 2008                    | Armco            | 23.33          | 0             | 0              | 0            | 0              | 23.33                 | 0             | 0              | 0            | 0              |
| 1998                    | Arteb            | 7.54           | 0             | 0              | 0            | 18.33          | 7.54                  | 0             | 0              | 0            | 18.33          |
| 2007                    | Banco brascan    | 25.37          | 0             | 0              | 0            | 0              | 25.37                 | 0             | 0              | 0            | 0              |
| 9/10/2008               | Banco daycoval   | 50.02          | 0             | 62.67          | 0            | 143.93         | 50.02                 | 0             | 62.67          | 0            | 143.93         |
| 2007/09                 | Bauducco         | 22.5           | 0             | 25             | 0            | 0              | 22.5                  | 0             | 25             | 0            | 0              |
| 2006/07                 | Bbm              | 135.28         | 0             | 0              | 0            | 0              | 135.28                | 0             | 0              | 0            | 0              |
| 2011                    | Bi brasil        | 15             | 0             | 0              | 0            | 30.12          | 15                    | 0             | 0              | 0            | 30.12          |
| 10/11/2007              | Bic banco        | 74.33          | 0             | 0              | 31.34        | 181.53         | 74.33                 | 0             | 0              | 31.34        | 181.53         |
| 2008                    | Black gold       | 49.06          | 0             | 0              | 0            | 0              | 49.06                 | 0             | 0              | 0            | 0              |
| 2010                    | Brookfield inc.  | 30             | 17            | 0              | 0            | 0              | 0                     | 0             | 0              | 0            | 0              |
| 2011                    | Btp santos       | 97             | 0             | 0              | 0            | 582            | 57.14                 | 0             | 0              | 0            | 342.86         |
| 2011                    | Casan            | 25.07          | 0             | 0              | 0            | 0              | 25.07                 | 0             | 0              | 0            | 0              |
| 2009                    | Ceape-ma         | 0.63           | 0             | 0              | 0            | 0              | 0.63                  | 0             | 0              | 0            | 0              |
| 2008                    | Cemar equatorial | 58.6           | 0             | 0              | 0            | 0              | 58.6                  | 0             | 0              | 0            | 0              |
| 2004                    | Cgtf             | 35.82          | 0             | 7              | 0            | 36.15          | 35.82                 | 0             | 7              | 0            | 36.15          |
| 1996                    | Chapeco          | 0              | 0             | 0              | 0            | 0              | 0                     | 0             | 0              | 0            | 0              |
| 1999                    | Cibrasec         | 0              | 2.03          | 0              | 0            | 0              | 0                     | 2.03          | 0              | 0            | 0              |
| 2010                    | Constellation    | 0              | 103           | 0              | 0            | 0              | 0                     | 102.08        | 0              | 0            | 0              |
| 1996/97                 | Ctbc telecom     | 0              | 5.76          | 0              | 0            | 0              | 0                     | 5.76          | 0              | 0            | 0              |
| 2011                    | Deso             | 11.85          | 0             | 0              | 0            | 0              | 0                     | 0             | 0              | 0            | 0              |
| 2007                    | Eiffel ridge     | 43.23          | 0             | 0              | 0            | 0              | 43.23                 | 0             | 0              | 0            | 0              |
| 1999                    | Eliane           | 2.99           | 0             | 10.2           | 0            | 0              | 2.99                  | 0             | 10.2           | 0            | 0              |
| 2011                    | Estacio          | 30.4           | 0             | 0              | 0            | 0              | 30.4                  | 0             | 0              | 0            | 0              |
| 2009                    | Estre ambiental  | 20.51          | 0             | 3.32           | 0            | 0              | 20.51                 | 0             | 3.32           | 0            | 0              |
| 2006                    | Febr             | 7.71           | 0             | 0              | 0            | 0              | 7.71                  | 0             | 0              | 0            | 0              |
| 8/9/2007/11             | Fibra            | 61.6           | 86.22         | 0              | 0            | 124.87         | 61.6                  | 86.22         | 0              | 0            | 124.87         |
| 2010                    | Foz (odebrecht)  | 0              | 0             | 50             | 0            | 0              | 0                     | 0             | 0              | 0            | 0              |
| 0                       | Fras-le          | 8.67           | 0             | 0              | 0            | 0              | 8.67                  | 0             | 0              | 0            | 0              |
| 2006                    | Gol              | 16.67          | 0             | 0              | 0            | 0              | 16.67                 | 0             | 0              | 0            | 0              |
| 0                       | Gp cptl rstrctd  | 0              | 0.05          | 0              | 0            | 0              | 0                     | 0             | 0              | 0            | 0              |
| 2001                    | Gpc chemical     | 1.29           | 0             | 0              | 0            | 0              | 1.29                  | 0             | 0              | 0            | 0              |
| 2001                    | Gpc part.        | 0              | 0             | 9              | 0            | 0              | 0                     | 0             | 9              | 0            | 0              |
| 2007                    | Hosp sao luiz    | 14.45          | 0             | 0              | 0            | 13.36          | 14.45                 | 0             | 0              | 0            | 13.36          |
| 1998                    | Icatu equity     | 0              | 3.87          | 0              | 0            | 0              | 0                     | 2.67          | 0              | 0            | 0              |
| 2010                    | Idealinvest      | 0              | 7.01          | 0              | 0            | 0              | 0                     | 7.01          | 0              | 0            | 0              |
| 2009                    | Indusval s.a.    | 11.25          | 0             | 0              | 0            | 0              | 11.25                 | 0             | 0              | 0            | 0              |
| 2008                    | Itau unibanco    | 75             | 0             | 0              | 0            | 0              | 40                    | 0             | 0              | 0            | 0              |
| 2002                    | Itau-bba         | 1.97           | 0             | 0              | 0            | 0.72           | 1.97                  | 0             | 0              | 0            | 0.72           |
| 1999                    | Josapar          | 6.43           | 0             | 3.91           | 0            | 0              | 1.43                  | 0             | 3.91           | 0            | 0              |
| 2009/11                 | Latapack         | 45             | 0             | 0              | 0            | 170            | 36.95                 | 0             | 0              | 0            | 145.85         |
| 2010                    | Mauricio         | 35             | 0             | 0              | 0            | 0              | 0                     | 0             | 0              | 0            | 0              |
| 2002                    | Microinvest      | 0              | 0.14          | 0              | 0            | 0              | 0                     | 0.14          | 0              | 0            | 0              |
| 2006                    | Mrs              | 34.38          | 0             | 0              | 0            | 23.75          | 34.38                 | 0             | 0              | 0            | 23.75          |
| 2009                    | Pecunia          | 19.68          | 0             | 0              | 0            | 0              | 19.68                 | 0             | 0              | 0            | 0              |
| 2004                    | Qgog             | 0              | 0             | 0              | 0.53         | 0              | 0                     | 0             | 0              | 0            | 0              |
| 0/07                    | Randon impl part | 0              | 2.87          | 25             | 0            | 0              | 0                     | 2.87          | 25             | 0            | 0              |
| 2011                    | Rede d'or        | 34.47          | 0             | 0              | 0            | 0              | 0                     | 0             | 0              | 0            | 0              |
| 2008                    | Ruralfone        | 0              | 0             | 3              | 0            | 0              | 0                     | 0             | 1.5            | 0            | 0              |
| 2008                    | Sabo             | 28             | 0             | 0              | 0            | 0              | 28                    | 0             | 0              | 0            | 0              |
| 2005/08                 | Santander brasil | 251.49         | 0             | 0              | 0            | 0              | 251.49                | 0             | 0              | 0            | 0              |
| 2008                    | Sofisa           | 26.25          | 0             | 0              | 0            | 16.67          | 26.25                 | 0             | 0              | 0            | 16.67          |
| 2010                    | Softwell         | 0              | 4.8           | 0              | 0            | 0              | 0                     | 2.8           | 0              | 0            | 0              |
| 2006                    | Tam              | 2.84           | 0             | 0              | 0            | 0              | 2.84                  | 0             | 0              | 0            | 0              |
| 2004                    | Tecon rio grande | 3.15           | 0             | 0              | 0            | 0.68           | 3.15                  | 0             | 0              | 0            | 0.68           |
| 2008                    | Tecon salvador   | 4.49           | 0             | 0              | 0            | 4.32           | 4.49                  | 0             | 0              | 0            | 4.32           |
| 6/10/2004/11            | Tribanco         | 18.61          | 21.29         | 0              | 0.67         | 0              | 18.61                 | 21.29         | 0              | 0.67         | 0              |
| 2010                    | Ubf seguros      | 0              | 11.56         | 0              | 0            | 0              | 0                     | 11.56         | 0              | 0            | 0              |
| 2008                    | Usj              | 0              | 0             | 37.78          | 0            | 0              | 0                     | 0             | 17.78          | 0            | 0              |
| 2007                    | Vale do parana   | 21.5           | 0             | 7              | 0            | 0              | 21.5                  | 0             | 7              | 0            | 0              |
| <b>Total Portfolio:</b> |                  | <b>1530.77</b> | <b>316.26</b> | <b>243.88</b>  | <b>32.54</b> | <b>1350.98</b> | <b>1331.54</b>        | <b>292.54</b> | <b>172.38</b>  | <b>32.01</b> | <b>1087.69</b> |

\* Denotes Guarantee and Risk Management Products.

\*\* Quasi Equity includes both loan and equity types.

## CPS Annex Table 10: B8 - Brazil Operations Portfolio (IBRD/IDA and Grants)

### Operations Portfolio (IBRD/IDA and Grants)

As Of Date 9/9/2011

| Closed Projects                        |  | 322                    |                         |             |           |     |        |             |          |                 |
|--|--|------------------------|-------------------------|-------------|-----------|-----|--------|-------------|----------|-----------------|
|  |  |                        |                         |             |           |     |        |             |          |                 |
| IBRD/IDA *                             |  |                        |                         |             |           |     |        |             |          |                 |
| Total Disbursed (Active)               |  | 4,334.77               |                         |             |           |     |        |             |          |                 |
| of which has been repaid               |  | 125.43                 |                         |             |           |     |        |             |          |                 |
| Total Disbursed (Closed)               |  | 11,132.35              |                         |             |           |     |        |             |          |                 |
| of which has been repaid               |  | 13,677.55              |                         |             |           |     |        |             |          |                 |
| Total Disbursed (Active + Closed)      |  | 15,467.12              |                         |             |           |     |        |             |          |                 |
| of which has been repaid               |  | 13,802.98              |                         |             |           |     |        |             |          |                 |
| Total Undisbursed (Active)             |  | 5,164.46               |                         |             |           |     |        |             |          |                 |
| Total Undisbursed (Closed)             |  | 0.00                   |                         |             |           |     |        |             |          |                 |
| Total Undisbursed (Active + Closed)    |  | 5,164.46               |                         |             |           |     |        |             |          |                 |
|  |  |                        |                         |             |           |     |        |             |          |                 |
| Active Projects                        |  |                        |                         |             |           |     |        |             |          |                 |
|  |  |                        |                         |             |           |     |        |             |          |                 |
| Last PSR                               |  |                        |                         |             |           |     |        |             |          |                 |
| Supervision Rating                     |  |                        |                         |             |           |     |        |             |          |                 |
| Original Amount in US\$ Millions       |  |                        |                         |             |           |     |        |             |          |                 |
| Disbursements <sup>af</sup>            |  |                        |                         |             |           |     |        |             |          |                 |
| Difference Between Expected and Actual |  |                        |                         |             |           |     |        |             |          |                 |
| Project ID                             | Project Name                             | Development Objectives | Implementation Progress | Fiscal Year | IBRD      | IDA | GRANT  | Cancel.     | Undisb.  | Orig. Frm Rev'd |
| P093787                                | BR Bahia State Integ Proj Rur Pov        | S                      | S                       | 2006        | 84.35     |     |        |             | 23.925   | -6.075          |
| P092990                                | BR - Road Transport Project              | S                      | MS                      | 2006        | 501.25    |     |        | 59.95282666 | 64.32514 | 124.27796       |
| P099469                                | BR (APL2) 2nd National Environmental     | MU                     | MU                      | 2010        | 24.3      |     |        |             | 23.28759 | -1.012399       |
| P095626                                | BR (APL2)Family Health Extension 2nd APL | S                      | S                       | 2008        | 83.45     |     |        |             | 56.32701 | 49.127006       |
| P121671                                | BR (APL2)GEF Cerrado Init.:Goias& ICMBio | #                      | S                       | 2010        |           |     | 6      |             | 5.4      |                 |
| P083997                                | BR (MST) AltoSolimoes Bsc Svcs and Sust  | S                      | S                       | 2008        | 24.25     |     |        |             | 11.33783 | 6.9478317       |
| P095171                                | BR (MST) Bahia Health and Wtr Mgt (SWAP) | S                      | S                       | 2011        | 60        |     |        |             | 60       | 13.75           |
| P107146                                | BR Acre Social Economic Inclusion Sust D | HS                     | S                       | 2009        | 120       |     |        |             | 68.55169 | -5.198314       |
| P113540                                | BR AIDS-SUS                              | S                      | S                       | 2010        | 67        |     |        |             | 66.8325  | 6.882           |
| P082651                                | BR APL 1 Para Integrated Rural Dev       | MS                     | MS                      | 2007        | 60        |     |        |             | 40.07674 | 40.076742       |
| P101504                                | BR Bolsa Familia 2nd APL                 | S                      | S                       | 2011        | 200       |     |        |             | 200      | 26.9275         |
| P106765                                | BR Ceara Inclusive Growth (SWAp II)      | S                      | MS                      | 2009        | 240       |     |        |             | 62.37593 | 35.315934       |
| P099369                                | BR Ceara Regional Development            | MS                     | MS                      | 2009        | 46        |     |        |             | 45.12856 | 2.1785555       |
| P006449                                | BR CEARA WTR MGT PROGERIRH SIM           | MS                     | MS                      | 2000        | 239       |     |        |             | 66.69552 | -36.30448       |
| P107843                                | BR Fed District Multisector Manag. Proj. | MS                     | MS                      | 2009        | 130       |     |        |             | 114.4415 | 71.831487       |
| P112073                                | BR Federal Integrated Water Sector       | #                      | #                       | 2012        | 107.3325  |     |        |             | 107.3325 |                 |
| P066535                                | BR GEF Amazon Aquatic Res - AquaBio      | U                      | U                       | 2006        |           |     | 7.18   |             | 6.163325 | 5.683325        |
| P070867                                | BR GEF Caatinga Conserv. and Sust. Mngmt | S                      | S                       | 2007        |           |     | 10     |             | 5.428083 | 3.2280834       |
| P094233                                | BR GEF Espirito Santo Biodiversity       | #                      | #                       | 2009        |           |     | 4.2    |             | 3.452591 |                 |
| P094715                                | BR GEF National Biod Mainstreaming       | S                      | S                       | 2008        |           |     | 22     |             | 13.37331 | 12.373313       |
| P086341                                | BR GEF Rio Grande do Sul Biodiversity    | MS                     | MS                      | 2010        |           |     | 5      |             | 4.475    |                 |
| P114010                                | BR GEF Sust Transp & Air Quality         | S                      | MS                      | 2010        |           |     | 8.532  |             | 7.488582 | 5.3970822       |
| P091827                                | BR GEF Sust. Cerrado Initiative          | S                      | MS                      | 2010        |           |     | 7      |             | 5.6      |                 |
| P075379                                | BR GEF-RJ Sust IEM in Prod Landscapes    | S                      | S                       | 2005        |           |     | 6.75   |             | 0.766086 | 0.7660855       |
| P088716                                | BR Health Network Formation & Quality Im | MS                     | MS                      | 2009        | 235       |     |        |             | 227.4125 | 69.5125         |
| P106702                                | BR Integr. Solid Waste & Carbon finance  | S                      | MU                      | 2011        | 50        |     |        |             | 50       |                 |
| P118410                                | BR Mato Grosso do Sul Road               | S                      | S                       | 2010        | 300       |     |        |             | 124.8306 | -175.1693       |
| P089013                                | BR Municipal APL: Recife                 | MS                     | MU                      | 2008        | 32.76     |     |        |             | 28.73137 | 23.331374       |
| P089011                                | BR Municipal APL1: Uberaba               | S                      | S                       | 2007        | 17.27     |     |        |             | 3.541621 | 3.5416209       |
| P088966                                | BR Municipal APL3: Teresina              | S                      | MS                      | 2008        | 31.13     |     |        |             | 24.6716  | 14.041597       |
| P094315                                | BR Municipal APL4: Sao Luis              | S                      | MS                      | 2009        | 35.64     |     |        |             | 31.5814  | -2.569501       |
| P104995                                | BR Municipal APL5: Santos                | S                      | S                       | 2010        | 44        |     |        |             | 41.4837  | 18.483695       |
| P104752                                | BR Paraiba 2nd Rural Pov Reduction       | MS                     | MS                      | 2009        | 20.9      |     |        |             | 18.87413 | 12.224129       |
| P106208                                | BR Pernambuco Educ Results& Account.     | S                      | MS                      | 2009        | 154       |     |        |             | 67.3757  | 14.765696       |
| P108654                                | BR Pernambuco Sustainable Water          | S                      | MS                      | 2010        | 190       |     |        |             | 184.3799 | 15.959871       |
| P089929                                | BR RGN State Integrated Water Res Mgmt   | MS                     | MS                      | 2008        | 35.9      |     |        |             | 20.55462 | 19.654617       |
| P106768                                | BR Rio de Janeiro PSM/Fiscal MST         | MS                     | MS                      | 2011        | 18.673    |     |        |             | 18.62632 | 0.5163175       |
| P111996                                | BR RJ Mass Transit II                    | S                      | S                       | 2010        | 211.7     |     |        |             | 166.3759 | 122.14588       |
| P118540                                | BR Santa Catarina Rural Competitiveness  | S                      | S                       | 2011        | 90        |     |        |             | 88.64103 |                 |
| P106663                                | BR Sao Paulo Feeder Roads Project        | S                      | S                       | 2010        | 493.425   |     |        |             | 79.60516 | -259.1698       |
| P116170                                | BR Sao Paulo Metro Line 5                | MS                     | MS                      | 2010        | 650.4     |     |        |             | 584.774  | -65.62581       |
| P106038                                | BR Sao Paulo Trains and Signalling       | S                      | MS                      | 2008        | 662.91    |     |        |             | 157.7547 | 43.934664       |
| P006553                                | BR SP APL Integrated Wtr Mgmt            | S                      | MS                      | 2010        | 104       |     |        |             | 99.24839 | 51.858391       |
| P106390                                | BR SP METRO LINE 4 (PHASE 2)             | MS                     | MU                      | 2010        | 130       |     |        |             | 129.675  | -0.324987       |
| P108443                                | BR SP Sust Rural Dev & Access to Markets | S                      | S                       | 2010        | 78        |     |        |             | 77.805   | 15.555          |
| P106703                                | BR SP Water Reagua                       | S                      | MS                      | 2010        | 64.496    |     |        |             | 64.33476 | 3.71376         |
| P089793                                | BR State Pension Reform TAL II           | MS                     | MS                      | 2007        | 5         |     |        |             | 1.252976 | 1.2529755       |
| P060573                                | BR Tocantins Sustainable Regional Dev    | S                      | MS                      | 2004        | 60        |     |        |             | 0.468624 | 0.4686237       |
| P111665                                | BR- RJ Munic Fiscal Consolid DPL         | S                      | S                       | 2011        | 1045      |     |        |             | 500      |                 |
| P094199                                | BR-(APL) RS (Pelotas) Integr. Mun. Dev.  | MS                     | MS                      | 2008        | 54.38     |     |        |             | 32.21066 | 18.088158       |
| P095460                                | BR-Bahia Integr.Hway Mngmt.              | S                      | S                       | 2007        | 100       |     |        |             | 6.759149 | -8.690851       |
| P081436                                | BR-Bahia Poor Urban Areas Integrated Dev | MS                     | MS                      | 2006        | 49.296    |     |        |             | 26.49052 | 26.49052        |
| P089440                                | BR-Brasilia Environmentally Sustainable  | U                      | MU                      | 2006        | 57.643    |     |        |             | 18.89125 | 18.891251       |
| P120391                                | BR-Federal Univ. Hospitals Modernization | S                      | S                       | 2011        | 150       |     |        |             | 150      |                 |
| P122391                                | BR-Rio de Janeiro Urban and Housing DPL  | S                      | S                       | 2011        | 485       |     |        |             | 485      |                 |
| P101508                                | BR-RJ Sustainable Rural Development      | MS                     | MS                      | 2010        | 39.5      |     |        |             | 32.57482 | 8.1748176       |
| P101324                                | BR-Second Minas Gerais Devt PArtnership  | S                      | S                       | 2008        | 1437      |     |        |             | 102.605  | -358.395        |
| P110614                                | BR: Sergipe State Int. Proj.: Rural Pov  | MS                     | MU                      | 2009        | 20.8      |     |        |             | 13.53106 | 12.131062       |
| P114204                                | ELETROBRAS Distribution Rehabilitation   | MS                     | MS                      | 2010        | 495       |     |        |             | 493.7625 |                 |
| Overall Result                         |  |                        |                         |             | 9635.7555 |     | 76.662 | 59.95282666 | 5216.608 | -549.9049       |
|  |  |                        |                         |             |           |     |        |             | 146.3394 |                 |



# BRAZIL

- ◉ STATE CAPITALS
- ★ NATIONAL CAPITAL
- RIVERS
- MAIN ROADS
- RAILROADS
- STATE BOUNDARIES
- - - INTERNATIONAL BOUNDARIES

This map was produced by the Map Design Unit of The World Bank. The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of The World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries.



## CPS Annex 1: CPS Consultation

The Brazil IBRD and IFC country teams undertook consultations for the preparation of this CPS with numerous Federal, State and Municipal clients, the private sector and civil society, comprising approximately 100 direct interlocutors, including seven State Governors. As the Bank program is increasingly at the sub-national level, consultations had a particular focus on State and Municipal clients and stakeholders. In all, the sub-national consultations represented all five regions of the country, accounting for over 70% of Brazilian GDP and 65% of the country's population. The meetings took place from March to August 2011, and especially between August 15 and 25, in the cities of Belo Horizonte/MG, Brasília/DF, Porto Alegre/RS, Recife/PE, Rio Branco/AC, Rio de Janeiro/RJ, Salvador/BA and São Paulo/SP. The CPS also benefited from comments from Internet users and a survey of more than 70 policy makers and opinion setters, including civil society, media, academia, private sector and government.

The consultations suggest that the WBG development support is very valued by most interlocutors. Counterparts see the WBG as a leading development institution and a key partner for Federal and sub-national governments. The Federal Government acknowledged the Bank's partnership and flexibility in shifting its focus to the sub-national governments during the previous CPS period, in response to Brazil's changing development outlook and in coordination with Government priorities – especially support to the Fiscal Responsibility Law framework. The government also highlighted the value of both knowledge and financial contributions to priority programs and requested that this joint focus be maintained for the new CPS. Examples include technical and financial support for the *Bolsa Família* conditional cash transfer program, support for the design of selected components of the *PAC* public investment program (e.g. in the areas of low-income housing finance and renewable energy), and contributions for the development of Brazil's strategy for mitigating climate change and improving disaster risk management. The WBG was requested to maintain a flexible approach in the new CPS, increase its use of country systems and reduce internal bureaucratic obstacles, especially when working with sub-national entities and in multi-sector operations.

Many sub-national governments noted that the CPS is in close accord and complements their own multi annual programs, and will thus be an important help to achieve planned long-term results. They described the World Bank Group's involvement as essential for increasing fiscal space for investment, raising public management standards, developing multi-sector development strategies and building capacity in the poorest States. The Group's support for innovation and path-setting development solutions was highly appreciated, but sub-nationals highlight that the Bank's financial support remains a central part of the partnership, and that since challenges vary greatly from State to State the Group must adapt its support accordingly – from highly sophisticated to more basic investments. The Group's assistance in helping to create solid public private partnership frameworks as well as promoting socially and environmentally sustainable development strategies in the Amazon and other regions was valued, as was its role in helping ensure continuity of projects across administrations.

Civil society organizations and the private sector called on the Group to expand its policy to include more partners and voices in its operations from the beginning, providing inputs on program development and priority setting. Organizations also asked the WBG to help foster greater general transparency and inclusion from its government counterparts. CSOs

acknowledged the Group's importance as a partner for social and environmental sustainability especially as Brazil steps up infrastructure investments in sensitive biomes, and called on the Group to support sustainable development capacity building and social control initiatives by local governments. Civil society also asked the Group to seek to balance the drive to increase private sector participation in public investments with stronger support for increasing the State's capacity to finance and execute its mandated services. Private sector representatives asked that the Bank address looming bottlenecks for Brazilian growth in education quality, job training and infrastructure, especially in lagging regions.

In addition to meetings, a survey of 70 Brazilian clients and decision makers from government (Federal, State and Municipal), private sector, civil society and academia, revealed that 91% of respondents considered the partnership between the World Bank and Brazil to be "very good" or "good". The largest percentage (21%) among the negative aspects was related to the perception that "the Bank only supports projects of its own interest." According to respondents, the Bank's three main contributions in Brazil were that it "brings new procedures and knowledge" (26%); "supports development" (17%) and "stimulates economic growth" (11%). When asked about the areas in which the Bank should have a more active role in Brazil, the top response was "education and health", followed by "fighting poverty" and "support to infrastructure".

A summary of the comments received during the CPS consultation meetings follows, divided by strategic area. The comments are not in any particular order of importance and should not be interpreted as a comprehensive or official representation of any groups or views.

### **Objective 1: Increase efficiency of public and private investments**

- Despite the value of innovation, several states pointed out that **support for basic investments** such as transport and education infrastructure was often just as important in terms of development impact, especially when access to other resources is too expensive or not practical (RS, SP). The Bank should help states ensure that basic needs are met before innovation becomes a criterion. In the Northeast, support for infrastructure that promotes production and inclusion is needed as an area where that Bank could expand its work, especially in the context of the World Cup, that requires numerous complementary investments that should have long-term development impacts. Sub-national governments in the region also call for continued support for rural development with stronger market integration and disaster risk prevention investments.
- Although some of the consulted states have higher than average development indicators for Brazil, a few of these have been experiencing declining trends for lack of investment capacity and fiscal constraints, or contain significant pockets of poverty and inequality within the State. Rio Grande do Sul, for example, suffers from a long period of lack of investment and harbors extreme regional disparities within it, with very poor areas that lag behind in terms of human development indicators. Likewise, São Paulo, Minas Gerais and Rio de Janeiro have the absolute majority of urban poor in the country. These governments suggest that the **Group maintain support for their anti poverty efforts** that will add significantly to the country's progress. More developed states suffer from lack of resources for this because they are seen as homogeneously developed, while great

inequalities remain. The WBG's support in dealing with these inequalities will add to the country's broader efforts against poverty.

- The Bank's support in **public sector management** is key to improve effectiveness of investments now that fiscal situation is improving in many states, which face the challenge to invest.
- The **strengthening of public sector management capacity** is unanimously mentioned by states as an important area of contribution that the new CPS should continue and strengthen. In particular, the areas of projects planning and development, policy quality, expenditure control and monitoring and evaluation of investments and implementation are cited as key. Specifically, several states requested that the Bank help them professionalize permanent public sector management through well-defined careers, protected from political interference. This would need to go much beyond mere capacity building, creating a management culture. Management for result is seen by many states and municipalities as the way to go, but some feel that they still lack the technical and institutional capacity to step into such a program, and that the CPS should be clearer in its intended assistance to governments that wish to adopt this methodology, including in capacity building and culture shifts among high-level staff.
- Sub-national governments asked the Bank to contribute to **fine-tune Brazil's control and oversight framework**, which is seen by some states as sometimes representing a bottleneck to investment, with excessive regulation that are often redundant and inefficient. The Bank could help achieve systems that preserve the procedural and governance safeguards with less cost and more transparency, for greater development impact. In particular, some states believe that control structures have developed the institutional framework in terms of staffing and capacity, but not the strategic outlook for more effective oversight.
- While the focus on fostering increased investment capacity in Brazil is endorsed by all government and private sector counterparts, several different priorities to achieve this are mentioned. Some states believe that **reducing the risk associated with public investment should be the focus of the Bank's support**, mirroring efforts to reduce barriers to private sector investment. These include more intelligent control structures, support for improved procurement and contracting legislation and better personnel management by governments. Expanded efforts to help Brazil build a private sector long-term capital market as an alternative to the highly centralized system currently in place were also mentioned by both the public and private sector as important areas of focus for the Bank and IFC in the next few years. The private sector suggested that Bank financing could be used to do the high social impact and low financial return investments that the Government is not doing. Finally, the Group should acknowledge that investment rates cannot be a simple target, but that in some states and municipalities current expenditures are also a good reflection of the effectiveness and quality of services. Examples include education and health – some governments do not need major investments, but rather quality improvements and upkeep.

- On the other hand, private sector pointed out that public and private investments are not coordinated, especially at the sub-national level, and that **Group support to better planning capacity of these investments** could be a major contribution to investment effectiveness. This is especially true in a context of strong foreign direct investment influx. The “fiscal war” among states competing for investments is a clear example of the deleterious effects of this lack of coordination, especially in the Northeast, according to private sector interlocutors. The Bank’s convening power and seal of approval could help achieve a turning point in the area. Additionally, the investment climate in the country remains difficult and improvements could release many intentions to invest that are currently held back.
- The CPS could increase its focus on **public-private partnerships (PPPs)** as an efficient alternative to direct public investments. The Bank could help develop the technical framework for these instruments in the Federal Government. The IFC and Bank should engage more closely to promote this. Specifically, government requested more Group attention to strengthening experience such as public interest civil society organizations (OSCIPs) and social health organizations (OSs).
- Some **civil society organizations are skeptical about the need to push for more investments**, especially using private sector instruments such as PPPs. According to them, the push should be on reducing interest payments on the debt stock and freeing more public resources for social services.
- CSO organizations also called the Group to help improve **governance in the private sector**, to help increase investments in a socially and environmentally sustainable manner. A particular focus on helping guarantee labor quality in major investments in Brazil’s frontier states was mentioned.
- After years of underinvestment in several states, increasing public sector management and especially project development capacity is seen as key to rekindle investment capacity and reduce public sector investment risk. This includes **monitoring and evaluation and computerized expenditure control systems**. Several states are implementing pilot projects and seek Bank support to expand/improve. Bank Group support in such areas is also seen as likely to bolster State attractiveness to private sector investment and even provide seal of approval for increased Federal resources, including in the areas where the Bank is not directly involved.
- Some states in which the Bank has played an important role to help achieve fiscal sustainability now ask that the **World Bank to support investment, jointly generating knowledge and practical experiences from implementation and strengthening the State’s capacity to manage its own investment plans**. States believe that the Bank can act as a catalyst to unleash and coordinate much pent up knowledge.

## Objective 2: Improve quality and expand provision of public services for low income households

- According to some government interlocutors, the Bank should help Brazil shift from its focus on services and assistance for its **older population** to a more balanced scenario in which youth receive more opportunities.
- Regional inequalities and other development gaps need to be addressed from an **equal opportunities** perspective as opposed to equal results.
- Instead of additional support for social protection-type projects such as the *Brasil sem Miséria*, some interlocutors in the sub-national level asked the Bank to **re engage more strongly in education quality** as a way to make the country's growth more Economically and socially sustainable. The Bank's efforts to support financial education in Brazil were mentioned as an area for possible expansion.
- The private sector also called for **increased Bank support to education, perceived to be one of Brazil's major development bottlenecks, together with infrastructure**. According to some private sector analysts, Brazil's unique asset of a strong domestic market, which has driven growth and crisis resilience up to now, could be jeopardized if education investments are lacking and the needed human capital is not developed. There is a general perception in the consulted private sector that the quality of Brazilian education expenditures is low and inadequate to address this concern.
- Governments in the Northeast and Southeast asked the Group consider stepping into **security investments**, which represents one of the top development bottlenecks in several states. While acknowledging the Group's provisions against some types of investment in the area, governments argue that a decisive posture from the Group could be seminal for a new push in reducing crime and violence and its toll on social and economic development, especially in the Northeast. The Bank's engagement in education and disaster risk management is mentioned as examples of how a push by the institution helped take the national debate to a new level and achieve results.
- **Gender was mentioned by several sub-national governments as an area where investments are being done but that could benefit from the Group's partnership**. In particular, the link to security investments was seen as a possible major entry door for more integrated work in the area.

## Objective 3: Promote regional economic development through strategic investment and policies

- The private sector suggested the **development by the Bank of a "better life" index for Brazil**, which could be used for setting public development targets and the Bank's own investment priorities. This could include indicators on crime, pollution, traffic, etc. and be done together with the Brazilian Bureau of Statistics (IBGE). This could include national and sub-national indexes.

- The CPS's focus on promoting **South-South cooperation** is endorsed by most interlocutors, from government to civil society, but most mention that although knowledge is available the support structures and financing to ensure the optimal effectiveness of these exchanges are not yet in place. The Federal Government asked that the Bank's support in the area be done in close cooperation with Brazil's International Development Agency (ABC), and that the work also include increasing the agency's management capacity. Some states pointed out that the Bank could also help promote more "domestic" South-South exchanges, in which states that have developed solutions could share them with others and learn from other areas. Some areas mentioned were security issues, public sector management and results management and community driven development technologies.

#### **Objective 4: Improve sustainable natural resource management and climate resilience**

- Government and CSOs from the Amazon asked that the **Group's strategy for the region should consider the longer maturation period for investment** in this context and also focus on endogenous solutions and production chains, seeking to improve the quality of private sector engagement in sustainability.
- Civil Society called for a clearer definition of the **Group's work in the Amazon** and other sensitive biomes in the CPS, especially regarding major infrastructure investments planned by the Government in the regions.
- CSOs suggested that the CPS should help promote **sustainable production chains** sensitive biomes, especially the Amazon, and in the country's poorest regions, through heavy emphasis on innovation and the reduction of their macro risks. The focus could be on "short circuit" production and consumption chains, involving microfinancing, for their increased social and environmental sustainability.
- The CPS should place a stronger emphasis on improving and coordinating national and sub-national **climate change policies**, as well as how the private sector interacts with them. The Group's support to structuring a national carbon trading market would be important, as would support to help redefine the relation between Brazil's private sector and biodiversity concerns. CSOs believe that businesses do not fully understand the sustainable use of these resources and that IFC and the Bank can develop pilot cases to guide the market.
- Environmental NGOs were concerned that the Bank was perceived as **backtracking on advances in safeguard promotion**, and doing DPL loans intentionally to skirt them. The consultation process of the CPS and of the DPLs in question needs to be improved to bring CSO contributions onboard and improve the operations. CSOs count on the Group as partners but need access, participation and transparency. In addition, they call on the Bank to help the dialogue with the government.

## World Bank Group Country Engagement

- The Federal Government and most developed states pointed out that **financing continues to be an important part of the Bank's support**, in addition to knowledge, and that the Bank should not stress one to the detriment of the other. This is because these states often have great internal development inequality and face management and financial difficulties to do the needed investments. The less developed states also stress that there are basic necessities such as schools, health infrastructure and transport that come before any need to be innovative. In particular, the Amazon region still suffers from huge coverage gaps in services such as education, health, electricity and sanitation, first generation problems that take precedence over quality of services.
- The Group is called to recognize that Brazil and even the states and regions are not homogeneous and that the **CPS should be flexible enough to be able to support these very different realities through customized interventions** – for example helping develop a sustainable forest low carbon economy in the North of the country, integrating some of Brazil's most isolated municipalities. Governments in environmentally sensitive biomes are challenged to seek development in more sustainable manners, in a way creating a handicap for their efforts and making the result horizon longer. The region's development model is very different from the rest of the country's and thus needs special treatment from the Group, which should acknowledge this and support their efforts though facilitated access to resources and increased technical support to existing good programs.
- The World Bank Group should use its opinion setting capacity to **confront Federal policy makers and the country's elite** with many of the contradictions and unsustainability of the current policies, opening the debate on issues such as budget earmarking, higher education subsidies, social security and governance. In particular, the Bank could have a key role in helping the country rebalance its system of constitutionally mandated budget earmarking, that result in much waste and inefficiency in areas such as health and education.
- For the Federal government, the **Bank should work on reducing the bureaucracy and overhead associated with its financing**, as this is a major consideration for the decision to contract it or not, especially at the sub-national levels. This is especially true for multisector projects, which are more complex in terms of coordination both from the Bank and national agency sides. More developed states and municipalities feel that the cost of doing business with the Bank is increasing *vis à vis* its benefits, given the additional layers of bureaucracy. Some suggest that the Bank should consider longer investment horizons, committing open resources to a broader program and thus helping the client plan and achieve better-integrated programs. The Federal Government suggests that the CPS use national policies and programs as the baseline for alignment of sub-national interventions, thus boosting system efficiency and effectiveness.
- The Federal Government, States and Municipalities were unanimous in the call for **increased use of country systems** by the Bank, especially in procurement, financial

management (SIAFI) and in social and environmental safeguards, deemed as thorough as the Bank's. Clients argue that the imposition of Bank rules saps implementation capacity, most importantly in the states that have the lowest preexisting capacity, and brings little development impact per se. The Group should recognize the good work and achievements of some of its clients and offer them more streamlined instruments such as DPLs and the proposed P4Rs, which do not duplicate overhead structures. In the case of states and municipalities with weaker institutional capacity, these instruments are just as effective to promote improvements via the conditionality clauses. Some states asked the Bank to consider developing new guarantee structures to multiply its leveraging of resources while addressing capital constraints.

- At the Municipal level, civil society organizations suggest the Bank should consider **promoting consortia of cities**, especially to help develop water and sanitation and solid waste management programs. The Bank's could help devise, in partnership with civil society, the social engineering needed to support these consortia and thus promote third party investments.
- Bank support in finding ways to **coordinate and harmonize sub-national government program implementation** across different secretariats and implementing agencies is also a request of several State governments. According to clients, this is especially important in cases where improved fiscal conditions point to the prospect of increased investment capacity and Federal. Bank presence would ensure a strong technical base, quality and greater knowledge generation from partnership operations.
- Many states believe that the Bank should explicitly use its partnership as a conduit to help enable **third party investments** from the Federal government, BNDES and the private sector. The Group could improve its support to Brazil is in investment benchmarking and bringing in the international experience needed to put programs, both public and private, in perspective.
- Civil society suggests that, given the Bank's relative size in Brazil, the **Group should consider a new type of contract, with more partners**. The *Protocolo Verde* experience could serve as a model for this. The new mode would ensure more impact and legitimacy for the Group. Some CSOs mentioned that the CPS still differentiates development actors artificially, and that the Group's vision should change to reflect that the productive sector is not restricted to the private sector. Civil society and social movements are also major economic forces for development, creating social capital especially in the Amazon, where these groups develop programs and technical background for sustainable productive activities. The Group could offer additional instruments to integrate CSOs in projects from the onset, including process and policy discussions, and more broadly to support independent work by civil society. According to several CSOs, this direct interaction and partnership with the civil society could also insure states and programs against the undoing of achievements after political shifts, creating a latent capacity to protect the gains through stronger social controls. To achieve some of these goals, it was suggested that Group programs include a set percentage of resources for CSO strengthening, similar to what the Brazilian Growth Acceleration Program (PAC) does;



that the Group seek a more direct line of dialogue with CSOs and the beneficiaries/stakeholders of projects and that it include ex-ante stakeholder consultation requirements for many of its financings. On this issue, a representative of indigenous peoples in Acre said, “agencies which finance projects are thinking for us and not with us.” A second traditional population’s representative acknowledges the need to improve living standards in their Amazon areas, but if this is to be done respecting their life styles, the Government and the Group must hear them first.

- States across Brazil, from Rio Grande do Sul to Acre, requested that the Bank support their efforts to increase **transparency and social participation** and control over the budgeting and planning process. In particular, the Bank is asked to help implement or improve participatory budget processes, and increasing transparency in public expenditures. This request was also made by civil society and the private sector, which see it as a promising avenue to increase effectiveness of public investments and contribute to poverty reduction.
- Some civil society interlocutors believe that the CPS reflects an **out-of-date focus on reduction of current expenditures** as a means to increase investment capacity. This is especially visible in the push for more PPPs. CSOs called on the Bank to reflect in the CPS that the State remains the key provider of public services and that many of these services cannot and should not be outsourced to private concerns. In the same vein, CSOs called for greater social participation and control at the sub-national level, and called on the Bank to help evaluate impacts of the existing and proposed mechanisms.

Mirroring the public sector’s call for less bureaucracy in Bank operations, the private sector also reported difficulties working directly with the Group, and **called for simplified procedures.**

## CPS Annex 2: Leveraging IBRD Lending Capacity in Brazil<sup>24</sup>

The main purpose of this Annex is to present financing options that could potentially offer additional means of leveraging IBRD funds available to the Brazil Country program. The prudential Single Borrower Limit framework is likely to be a constraint on IBRD's ability to respond in full to the government's request for IBRD lending and the Annex discusses potential measures that could be taken to keep net exposure to Brazil within the current US\$16.5 billion limit approved by the Board. IBRD continues to explore new ways to meet clients' financing needs, while ensuring that its exposure remains within stipulated limits, by leveraging World Bank Group synergies and partnerships with bilateral donors, multilateral agencies, and the private sector. The Annex will highlight a number of these options:

**1. Prepayments.** A borrowing country can prepay existing IBRD loans to free up additional room under the exposure limit. It also enables the government to redeploy guarantees (if prepaid loans have a government guarantee) to other projects without increasing contingent liabilities.

Total financial cost/benefit to the borrower depends on the sum of the following:

- Prepayment premium (not likely to be any for Variable Spread Loans which were contracted approx. five or more years ago, as the contractual spread was lower at that time than it is today for new IBRD Variable Spread Loans; this is provided there have not been any swaps in conjunction with these loans)
- Difference between the spread of the prepaid loan and the new loan
- Difference in the maturity premium of the prepaid loan and the new loan

*Since 2009, Brazil has exercised the prepayment option twice. In December 2009, after reviewing and analyzing the Federal Government's portfolio with the IBRD, the STN opted to make a prepayment of around 866 million dollars where 9 loans were prepaid (2 currency pool loans, 4 variable spread loans, one fixed single currency loan, and 2 fixed spread loans). In June 2011 Brazil made a second prepayment of 3.1 billion dollars to further reduce their exposure and allow for additional lending to sub-nationals. Of the amount prepaid, 2.05 billion dollars were meant to fully prepay 10 converted currency pool loans, 5 variable spread loans and 6 fixed spread loans. The remaining 1.05 billion dollars were destined to partially prepay other 6 fixed spread loans. In total 28 loans were prepaid.*

*As of June 30<sup>th</sup> 2011, the disbursed outstanding balance of Brazil's portfolio with the IBRD is of 10.4 billion dollars<sup>25</sup>. Out of which 3.6 billion dollars are loans to the Federal Government and, therefore, the STN could choose to make additional prepayments to further reduce their exposure with the IBRD and create scope for new lending under the CPS.*

---

<sup>24</sup> The GoB has not yet analyzed in detail the options included in this Annex. The GoB has thus no obligation or commitment as to their implementation.

<sup>25</sup> The Undisbursed balance of Brazil's Portfolio as of June 30<sup>th</sup> 2011 is 5.2 billion dollars. The undisbursed balance of loans with the Federal Government is 1.2 billion dollars.

**2. IBRD Special Private Placement Bonds.** Highly creditworthy borrowers with large reserves have the potential option (depending on Board approval) of purchasing IBRD Special Private Placement Bonds (SPPB) to maintain their net exposure within the Single Borrower Limit (SBL)<sup>26</sup>. This enables governments that are at, or approaching, their limit to borrow on IBRD terms above it. The exact amount and timing of the bond purchase would depend on an annual exposure projection made by the Bank's Credit Department which would take into consideration the country's demand for IBRD financing during the fiscal year; the pace of project delivery; exchange rate fluctuations; disbursements; regular amortization; and possible prepayments. The combined volume of lending under the SPPB framework and the country's regular access would have to remain below the Equitable Access Limit<sup>27</sup>.

*Discussions on this option were started in April of 2011 with the Brazilian National Treasury and the Central Bank and are expected to continue during FY12.*

**3. Guarantees.** IBRD provides for 3 types of guarantees outlined below<sup>28</sup>.

Guarantee operations catalyze private financing in infrastructure, provide access to capital markets, facilitate privatizations and public private partnerships (PPPs), reduce government risk exposure by passing commercial risk to the private sector, improve the impact of private sector participation on tariffs, and encourage co financing. Partial Risk Guarantees (PRGs), Partial Credit Guarantees (PCGs) and Policy Based Guarantees (PBGs) catalyze private sector financing. While PRGs cover political risks, PCGs and PBGs mitigate the credit risk of a government or sub-sovereign entity, thereby boosting market confidence and facilitating a government's or sub-sovereign's access to the debt and capital markets. IBRD's participation as guarantor also helps countries secure more favorable terms such as lower interest costs and longer maturities.

IBRD Partial Risk Guarantees (PRGs) cover private lenders or debt investors against the risk of a government (or government-owned entity) failing to perform its contractual obligations with respect to a private-sector project. Payment is only made, therefore, if the debt service default is caused by the government's failure to honor the terms of the contract to which it is a party. Such sovereign contractual obligations vary depending on project, sector, and country circumstances. They could include, but are not limited to, contractual payment obligations (periodic and/or termination payments), contractual performance of public counterparties (e.g., electricity off-take by a public utility or fuel supply by a SOE for a private power generation project), change of law, regulatory actions (such as the setting of electricity tariffs) and 'traditional' political risks (currency inconvertibility/non-transferability, expropriation, civil war and civil disturbance). However, the Bank seeks to limit coverage to what is necessary to mobilize private financing for the project and to ensure a fair allocation of risks between government, lenders, and project sponsors. PRGs typically cover outstanding principal and accrued interest of a debt tranche in full. PRGs benefit project lenders, or can be structured to benefit the project company. PRGs may be offered in local currency on a case-by-case basis.

---

<sup>26</sup> The Single Borrower Limit (SBL) is a World Bank Board-approved limit applicable to highly creditworthy countries.

<sup>27</sup> The Equitable Access Limit is set at 10% of the Bank's Statutory Lending Limit (i.e., the Bank's total subscribed capital, reserves and surplus).

<sup>28</sup> The value of the guarantees themselves counts as exposure and hence is counted against the SBL.

IBRD Partial Credit Guarantees (PCGs) cover private lenders against default on a specific portion of debt (loans or bonds), normally for a public investment project, regardless of the cause of default. Guarantee structure and coverage can be determined flexibly on a case-by-case basis at the level required by a specific debt instrument and the market, as long as the commercial lenders share the credit risk of the borrower in a meaningful manner, and allow the extension of debt maturity and/or lower interest rate costs. PCGs have typically covered later date payments, but other structures are possible. PCGs allow the government and public sector borrowers to achieve extended maturities, lower interest rate costs, higher amounts of commercial debt, and/or access to different markets. PCGs may be offered along with an IBRD loan to the same borrower for the same project, or on a stand-alone basis. PCGs may be offered in local currency on a case-by-case basis.

IBRD Policy-Based Guarantees (PBGs) extend the World Bank's partial credit guarantee instrument beyond financing of investment projects to countries' access to private foreign financing. Like the Bank's development policy loans (DPLs), PBGs help a borrower address actual or anticipated development financing requirements and support the government's program of policy and institutional actions. They can also help governments gain access to credit from other financial institutions: in the case of Brazil, the PBGs could help clients at the sub-national level obtain loans from local private banks or foreign financial institutions at lower rates and/or with longer maturities. PBGs share requirements of DPLs.

**4. Credit enhancement with Non-Honoring of Sovereign Financial Obligations guarantee coverage.** The Non-Honoring of Sovereign Financial Obligations (NHSFO) guarantee can provide credit enhancements to facilitate primary (up-front) syndication from private sector lenders/investors for new loans (net of IBRD financing for a project), or facilitate the replacement of the undisbursed balance of IBRD loans with private sector funding. The NHSFO coverage is offered by another World Bank group entity, the Multilateral Investment Guarantee Agency (MIGA), and protects a lender or investor against losses resulting from a government's failure to make a payment under an unconditional financial payment obligation or guarantee.

Guarantee coverage provided by MIGA is not carried in IBRD's books, and therefore, does not count towards IBRD exposure t, offering countries the opportunity to raise additional financing beyond that which the IBRD balance sheet can support.

The guarantee provides an additional degree of comfort to private lenders and investors, encouraging them to offer lower pricing and improved terms to borrowers with a better risk profile. The borrowing country benefits by maximizing the use of its headroom with IBRD, raising incremental financing, and drawing on the complementary strengths of the World Bank Group

**5. Sale of IBRD Loans.** IBRD can act as a syndicate and/or sell part of the borrower's existing IBRD loans to potential investors, without transferring its preferred creditor status. This reduces IBRD's exposure to the country and creates space in the portfolio equivalent to the amount sold, allowing the country to access an equivalent amount of additional financing from IBRD. If Brazil chooses to use this option, the payments on the portion sold would be made directly to the investor.

**6. “Back-ended” repayment of IBRD principal.** IBRD loans can be structured to reduce the financial risk to the private sector on projects co-financed with IBRD. For example, IBRD loans can feature “back-ended” principal repayments, due after commercial loans have been mostly paid back. This allows the borrower to raise additional financing from the private sector. The improved risk profile (through the increase in the debt service coverage) allows the borrower to receive better terms from the commercial lender. Rising additional financing externally frees up IBRD funding for other projects. As an example, the charts below show the debt service for IBRD, commercial banks, and IBRD + commercial banks combined with project cash flow.

Chart 1– IBRD debt service

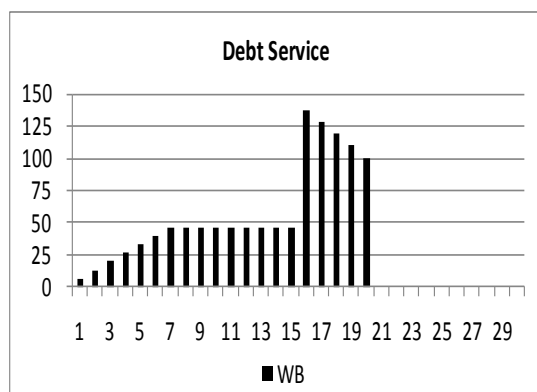


Chart 2 – Commercial Banks

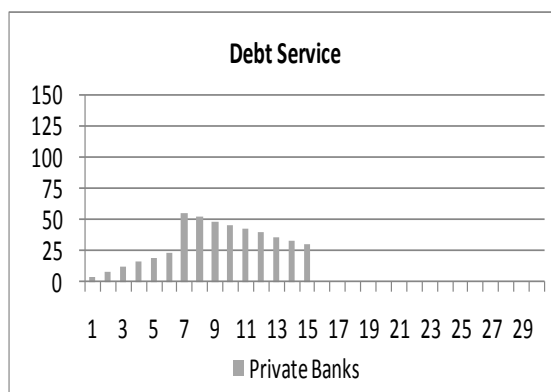
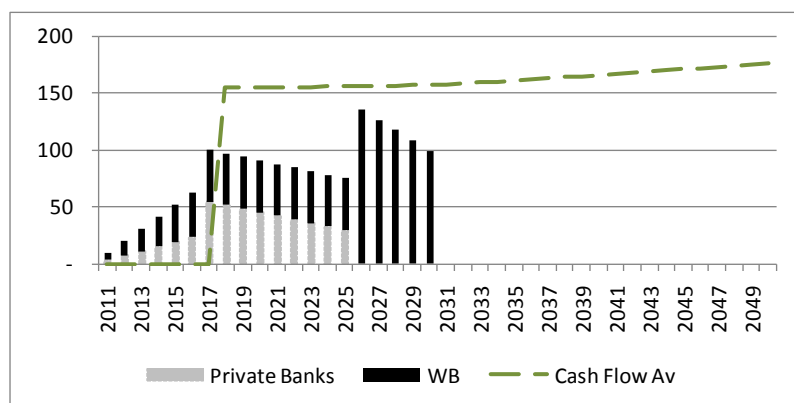


Chart 3 – Project debt service and cash flow generation



**7. Using the flexibility available with IBRD loan terms.** The IBRD Flexible Loan allows borrowers to customize the repayment terms (i.e. grace period, repayment period and amortization profile) to meet debt management or project needs – e.g. relatively short maturities can be used to encourage loan turnover. Final maturity can be up to 30 years including grace period, as long as the weighted average maturity does not exceed 18 years. Brazil should continue utilizing this flexibility and choose repayment terms that are more appropriate to smooth out debt service profiles. This flexibility could also be used in investment operations by tailoring the repayment schedule to match the project’s expected cash flow or the expected life of the investment. This rationalization of the use of the IBRD repayment flexibility as described here could have an effect on IBRD’s exposure and ability to lend to Brazil, but this effect is likely to materialize over the longer term.

One of the flexibilities offered by the Bank is the choice between two types of repayment schedules, commitment-linked, and disbursement linked. By choosing a disbursement-linked repayment schedule each disbursement may be compared with a sub-loan (tranche), with its own grace period and final maturity. One can structure the disbursements so that at any given point in time during the life of the loan IBRD's net credit exposure due to this loan is less than the committed loan amount (because as a new tranche disburses prior one(s) are already being repaid (amortized)). Other flexibilities offered are the amortization profiles, the Borrowers can choose among a bullet, level, annuity and customized repayments. The bank also offers different currencies and embedded hedging products for risk management.

### CPS Annex 3: Status of Gender Issues in Brazil

#### Summary:

Over the last decades, Brazil has experienced significant improvements along several dimensions of gender equality. For instance, education levels for women have increased to the point that, on average, women now have more schooling than men do. An inverse gender gap in education can be observed in secondary (1.11) and tertiary education (1.29) in 2008. The increase in female tertiary education is particularly notable: In 1970 the female to male ratio in tertiary education was only 0.6. And although men still predominate in the labor market, women's participation has steadily increased over the last two decades to the point that Brazil's female labor force participation rate is higher than for almost all other countries in the region. Besides that, women's access to and use of contraceptives has increased which, in addition to the fact that there has been an increase in the level of women participation in public life, has resulted in a sharp drop in the fertility rate from 5 births per women in 1970 to 1.94 in 2009. Women's health indicators have improved likewise and are now far better than the average for the region. For instance, the maternal mortality ratio (per 100.000 live births) has been reduced from 79 (2000) to 58 (2009) and is considerably lower than the regional average of 86 (2009). Skilled birth attendance (97% in 2006) and prenatal care (96.7 % in 2007) have improved likewise and show better levels than the regional average.

However, while Brazil has witnessed many advances related to gender equality, a number of issues affecting men's and women's welfare remain, especially in particular parts of the country. Quantitative and qualitative information indicates that violence among young adult males and gender based violence continue to be a serious problem. Data from a WHO multi-country study on violence against women show that in Brazil 27% have experienced physical violence by their intimate partner at least once in their lives, 10% have experienced sexual violence, and 29% have experienced physical or sexual violence or both<sup>29</sup>. Men are the primary victims of homicides, whereas both men's and women's homicide rates have increased<sup>30</sup>. In terms of women's economic opportunities, Brazil continues to register one of the widest gender wage gaps in Latin America and the Caribbean - women earn 29% less than men. Black women are the most disadvantaged of all groups<sup>31</sup>. Given the higher educational levels, women's lower salaries mean lower returns to education for them if compared to men. Finally, women's political participation and representation is still very weak in Brazil and has changed little over the last decades. In 2009, women only held 9% of the seats in the national parliament.

It has to be mentioned that inequality continues to be a serious problem in Brazil. Thus, when analyzing gender issues in Brazil, other factors such as class, race and location have to be considered as well. In a country with high Afro-descendant populations (and indigenous populations) as in Brazil, gender equality is linked to strategies to reduce social barriers and promote racial equality.

---

<sup>29</sup> WHO 2005: Multi-country study on Women's Health and Domestic Violence against Women, 2005.

<sup>30</sup> Datasus.

<sup>31</sup> Atal, Juan Pablo, Hugo Nopo and Natalia Winder. 2009. New Century, Old Disparities: Gender and Ethnic Wage Gaps in Latin America. IDB Working Paper Series No. 109. Washington, DC: Inter-American Development Bank.

Gender equality is at the center of the development agenda in Brazil. The new administration of President Rousseff is putting strong emphasis on reducing women's vulnerability and on promoting gender equality as an engine for sustained economic growth.

### ***Proposed Engagement Approach***

The CPS will expand the World Bank's ongoing analytical and operational activities in the area. Key efforts will be focused on assisting Federal, State and Municipal agencies responsible for gender issues to increase research and analytical work and inform well targeted gender policies and investments.

The *Secretaria de Políticas para as Mulheres* (Women's Affairs Secretariat) is a key entry partner for the World Bank's efforts in the area of gender work. Specific technical support to the Secretaria would be provided on their gender policy information and monitoring system. In addition to that, knowledge exchange and sharing best practices would be another field of cooperation between the Bank and that institution. As regards analytical work an ESW has been planned on women's economic empowerment in Brazil. Moreover, State and Municipal level agencies would be engaged through DPLs or SWAP operations at the state level.

A recent step in terms of improvement of gender equality in Brazil was the creation at the National Congress of the *Procuradoria Especial da Mulher* (Public Defender on Women's Rights Affairs) in 2009. It is an institution that represents and fights for women's rights in Brazil. It receives and forwards to the appropriate bodies and institutions claims and demands from the Brazilian people on gender issues. It also develops legislation and promotes the discussion of public policies aimed at guaranteeing the rights of women in Brazil. The Bank plans to implement an Institutional Development Fund (IDF) with this institution. The IDF will help strengthening the Procuradoria's institutional capacity on three fronts: basic operational capacity, analytical capacity, and their capacity to monitor implementation of Brazil's advanced legislation promoting gender equality.

The proposed gender work program under the CPS is currently under active preparation and discussion within the Country Management and Sector Units as well as with clients and other stakeholders, and as such it has not yet been possible to define gender specific parameters for the CPS Results Matrix. The definition of operation- and/or activity-specific gender targets and monitoring indicators will be completed as integral part of their respective preparation processes.

### ***Portfolio Review***

A consistent incorporation of gender issues into the World Bank's work has proved to increase developmental benefits. Thus, besides high impact gender specific initiatives at the State and Municipal level through existing or new operations, the World Bank will further explore and support ways to mainstream gender issues within its operational work.

Certain World Bank operations should be treated as priority when it comes to improving gender mainstreaming in the Bank's portfolio in Brazil. Here, the increased number of gender focused interventions, concrete activities aiming to enhance gender equality or the inclusion of gender-specific indicators will continue to strengthen the Bank's role in helping Brazil address gender disparities and inequalities that are barriers to women's development and inclusion.



### *Gender mainstreaming in existing operations:*

Presented below is a list of existing projects where gender specific interventions can be incorporated and are being discussed within the Country Management and Sector Units:

- P088966: BR Municipal APL: Teresina Enhancing Municipal Governance and Quality of Life Project –Interventions under the social and economic development component.
- P094315: BR Municipal APL: Sao Luis Enhancing Municipal Governance and Quality of Life Project - Activities under the component of income generating activities and gender specific indicators.
- P099369: Ceará Regional Economic Development: Cidades do Ceará – Interventions to promote women's SMEs and complementing activities under SWAp III.
- P101508: Rio de Janeiro Sustainable Rural Development Project – Inclusion of specific gender indicators as for instance in the BR Paraíba 2nd Rural Poverty Reduction Project.
- P104995: Santos Municipality - Interventions to train women on sectors identified in PAD, or female owned SMEs to promote local economic development.
- P106208: Pernambuco Education Results and accountability – Include gender specific components or gender specific indicators given that recent data on school attendance show that, on average, boys are 20% more likely to drop out of school than girls (Instituto Unibanco, 2010).
- P108443: São Paulo Sustainable Rural Development and Access to Markets – Include gender specific indicators in results framework and monitoring.
- P122391: Rio de Janeiro Metropolitan Urban and Housing Development – Consider gender specific indicators, especially on GBV.
- P106765: Ceará Inclusive Growth already committed to incorporate a gender component. Preliminary work for gender component will be conducted during FY12.

### *Gender mainstreaming in new operations:*

With regards to new operations the Bank has already committed to including gender specific activities and monitoring indicators into the following projects:

- P126351: Bahia Inclusion and Economic Development DPL
- P106753: Expanding Opportunities, Enhancing Equity in the State of Pernambuco Development Policy Loan

In addition to that, priority would be given to the incorporation of a gender approach in the following projects:

- P126372 Recife Swap Education and Public Management
- P126452 Rio Grande do Norte: Regional Development and Governance

### *Background*

The Secretaria de Políticas para as Mulheres was created in 2003 to directly and immediately advise the President in the formulation, coordination and articulation of policies for women, absorbing the Secretariat for Women's Rights under the Ministry of Justice, which was created in 2002. The Secretaria de Políticas para as Mulheres (National Secretariat for Women's Policies) is in charge of developing and implementing cross-cutting initiatives with different levels of government in order to mainstream women's issues in the public policy realm, which represents

a milestone in the fight for gender equality issues. The creation of executive agencies in charge of women affairs policies has been a significant development, although they are still in small number when compared to the country's 5565 municipalities and 27 states (including Distrito Federal). Thus, sub-national levels have begun to act more explicitly in the implementation of gender policies. Moreover, it is important to highlight that there has been an important change in the Brazilian legislation regarding violence against women. Law 11340, known as the Maria da Penha Law, was passed in 2006. This legal instrument aims at protecting women and combating impunity for violence against women. It has expanded the demand for changes in the national judiciary system, security agencies and those responsible for implementing the law. In 2009, the House of Representatives created a special Office in charge of Women Affairs (the *Procuradoria da Mulher*), to receive claims and demands from the Brazilian people and forward them to the appropriate bodies and institutions, as well as to develop and approve relevant legislation and promote the discussion of public policies to guarantee the rights of women in Brazil.

Over the last decades, Brazil has experienced significant improvements along several dimensions of gender equality: Women's access to and use of contraceptives has increased, resulting in a sharp drop in the fertility rate from 5 births per women in 1970 to 1.83 in 2009. Women's health indicators have improved likewise and are now far better than the average for the region. Besides that education levels for women have increased to the point that, on average, women now have more schooling than men do and an inverse gender gap in education can be observed. Policies and institutions have experienced deep changes concurrently. And although men still predominate in the labor market, women's participation has steadily increased over the last two decades to the point that Brazil's female labor force participation rate is higher than for almost all other countries in the region.

However, while Brazil has witnessed many advances related to gender, a number of issues affecting men's and women's welfare remain: Quantitative and qualitative information indicates that violence among young adult males, male violence against women and sexual violence against boys and girls continues to be high. Men are the primary victims of homicides, whereas both men's and women's homicide rates have increased. In terms of women's economic opportunities, Brazil continues to register one of the widest gender wage gaps in Latin America and the Caribbean - women earn 29% less than men. Black women are the most disadvantaged of all groups. Given the higher educational levels, women's lower salaries mean lower returns to education for them if compared to men. With regards to gender and youths, males are more likely to drop out of school, enter the workforce early, engage in violent behavior, and use substances. Dropping out of school and early employment may be connected, as young males are much more likely to hold a paying job than females<sup>32</sup>. And finally, Brazilian women continue to be highly underrepresented in the political decision-making process.

---

### Demography/ Poverty/ Social Inequality

---

- As in other Latin-American countries, in Brazil the *fertility rate* decreased remarkably during recent decades to 1.94 in 2009.

---

<sup>32</sup> Cunningham, Wendy; McGinnis, Linda; García Verdú, Rodrigo; Tesliuc, Cornelia; Verner, Dorte: Youth at Risk in Latin America and the Caribbean - Understanding the Causes, Realizing the Potential. World Bank 2008.

- Brazil is one of the most *unequal countries in the world*, with the top quintile holding an income share 33 times larger than the share of the bottom quintile. Thus, when analyzing gender issues in Brazil, other factors such as *class, race and location* have to be considered as well. In a country with high Afro-descendant populations (and indigenous populations) as in Brazil, gender equality is linked to strategies to reduce social barriers and promote racial equality.
- *Inequality* remains a major challenge, encompassing issues of race, location, gender, education and labor. For example, white Brazilian men have 2.5 years more of schooling on average than black Brazilian men, and this gap is constant throughout different age cohorts.
- Inequalities between men and women in the poorest groups can be represented by the higher concentration of women-headed households, in food insecurity situation: 39,2% of those families are in the North portion of the country and 9% in the Northeast. Besides that, the high rate of women employed in informal jobs, which are not protected by the social security system and in activities for self-subsistence and unpaid activities reinforce the vulnerability of women.
- *Ethnicity* does seem to have a stronger correlation with the *poverty status* of an individual than gender<sup>33</sup>. The incidence of poverty is the highest among individuals residing in households where the head is an indigenous person (with a headcount of 38.3%), followed by those who reside in households where the head is *Parda* (30.8%) and then black (26.5%). More than half of the poor (58.3%) are *Pardos* even though individuals from *Pardo*-headed households are only 40.7% of the Brazilian population<sup>34</sup>.
- In the realm of the Ministry of Social Development the Program *Bolsa Família*, whose benefit is granted preferentially to women, has had significant impact on the conditions of life of the beneficiaries and their families, especially in the sphere of survival. A gender audit of that CCT found that women's domestic status increased because the income received was regular, compared with other household members whose jobs and wages are uncertain<sup>35</sup>. According to that audit, urban women emphasized greater ability to make choices and decisions, whereas rural women reported improved status due to their ability to make household financial contributions and enhanced awareness of Brazilian citizenship<sup>36</sup>.

### Legal and institutional framework

A substantive approach to gender equality requires legislative frameworks to be restructured in order to ensure that constitutional commitments are reflected in national legislation.

<sup>33</sup> Analysis of data from the Northeast shows that male- and female-headed households differ only marginally in the extent to which they are likely to be poor.

<sup>34</sup> Brazil Poverty Assessment 2006, WB.

<sup>35</sup> Suarez *et al.*, 2006.

<sup>36</sup> "On the other hand, some argue that conditional cash transfers reinforce gender stereotypes. Many programs assume that women are available to carry out the care-related obligations associated with conditional transfers without consideration of their breadwinning responsibilities or need for paid work, and to the neglect of any recognition of fathering responsibilities. Some Brazilian experts have commented that *Bolsa Família* utilises the "culture of mothering" without necessarily supporting the personal progress of women as active citizens" (SRC, 2008).

- Brazil has ratified CEDAW<sup>37</sup> and also has signed the Optional Protocol (2001) and ratified (2002).
- In Brazil, the legal framework concerning CEDAW, in particular the recommendation of the CEDAW Committee to consecrate and guarantee in law the principle of equality between men and women, forms part of the *Federal Constitution of 1988*. The Constitution, especially in its article 5, emphasizes that women and men have the same rights and obligations, that is, they are equal before the supreme law of the country.

The Brazilian legal system has sought to harmonize legislation to assure the compliance with this constitutional principle:

- The new Brazilian *Civil Code* (2003) embraces the constitutional principle of equality between women and men, and incorporates equality in *marital rights and duties* (article 226 § 5). The new Code revokes articles that, despite being obsolete and not applicable since a long time, continued to be part of the legislation. This is the case of the article that allowed man to require the woman to prove her virginity for the event of marriage, in order to not be rejected and returned to her family with an annulment of the marriage. All the articles where the ages of women and men were different have been repaired and made equal, establishing, thus, a balance between the sexes.
- The new *Penal Code* (2005) revokes articles of moralistic and discriminatory tenor, such as that which contemplated the crime of adultery (Art. 240) or that which encouraged impunity, such as paragraphs VII and VIII of Art. 107, which extinguished the punishability of crimes against custom (rape and other sexual crimes) in the case of marriage by the agent with the victim or by the victim with third parties<sup>38</sup>.
- The Brazilian *Family Code* provides a moderate degree of protection for women in regard to family matters. The minimum legal age for marriage is 16 years for both women and men, on the condition of obtaining authorization from the parents or a legal representative. However, the incidence of early marriage remains quite high in Brazil: A 2004 United Nations report estimated that 17 per cent of girls between 15 and 19 years of age were married, divorced or widowed.

While many governments voice a commitment to gender equality, Brazil has made significant progress in integrating gender equality into the broader policymaking agenda.

- In 2003, the *Secretariat for Policies for Women* was created, under the Presidency of the Republic. It functions like a Ministry, advising the Presidency and coordinating with governmental bodies at the Federal, State and Municipal levels on issues of gender equality. The Secretariat for Policies for Women is charged with mainstreaming gender and, along with several partners, outlining the nation's course for improving gender equality within National Plans for Policies for Women. Since the establishment of the Secretariat, two National Plans for Policies for Women have been implemented.
- The *Second National Plan for Women* outlines nearly 400 policies over eleven programmatic axes to be executed during 2008-2011 with the support of twenty-two Federal agencies.

Goals for the current Plan include:

- Increase the number of children aged 0-6 in publicly-funded or -supported day-care or pre-school institutions by 12%

<sup>37</sup> With reservations against Art. 29.

<sup>38</sup> OECD: <http://genderindex.org/country/brazil>

- Build 1,714 day-care and pre-school facilities
- Maintain the national average for women's participation in training and workforce development programs developed by the Ministry of Labor and Economy at a minimum of 50%
- Increase the social security coverage of domestic workers by 30%
- Provide credit to 58,000 women rural workers through the National Program for Strengthening Family-Based Agriculture (PRONAF) between 2008-2011
- Increase women's participation in PRONAF to 35%

## Education

- Brazil has made significant progress in terms of education: Not only do boys and girls have more years of education, but also have girls caught up with boys – a *gap in favor of girls* in secondary (1.11) and tertiary education (1.29) can be observed in 2008. The increase in female tertiary education is particularly notable: In 1970 the female to male ratio in tertiary education was only 0.6.
- However, it is important to highlight that there is still a gender-based segmentation when it comes to analyzing undergraduate enrollment, which highly impacts the most valued careers in terms of wage. According to the Ministry of Education, in 2007, undergraduate courses that showed a higher female enrollment rate were: social services (91%) and pedagogy (90%). And the ones that showed the lowest female enrollment rate were: computer science (16%) and engineering in general (17%).
- There are *ethnic differences in terms of education* outcomes. The establishment of curriculum guidelines on the history of Africa and Afro-Brazilian culture, provided in Law 10639/2003, and the implementation of PROUNI (the “University for All” Program), which provides for affirmative action programs for students from public schools, blacks and indigenous peoples, has been a considerable step taken by the Brazilian government to deal with that problem. Federal and State universities have adopted quotas for black and indigenous women and men. Not to mention the quality of public schooling which continues to be an issue of concern in Brazil. At the same time, teaching of gender issues is still not in place in schools.

## Labor

- The *female labor force participation* rate rose from 41.2% in 1990 to 64.3% in 2009. Interestingly, studies have shown that the increase was driven mainly by married women<sup>39</sup> and women with children, including small children<sup>40</sup>. As a result of these impressive gains, women in Brazil participate in the labor market at higher rates than most Latin American countries at comparable levels of income.
- However *the quality of Brazilian women's participation* in the labor force remains an issue. *Gender wage gaps* remain high in Brazil when compared to regional standards<sup>41</sup>. Although the gap has been closing over the last decade, female earnings are still 29% lower than male earnings. When controlling for education, age, and hours worked, female

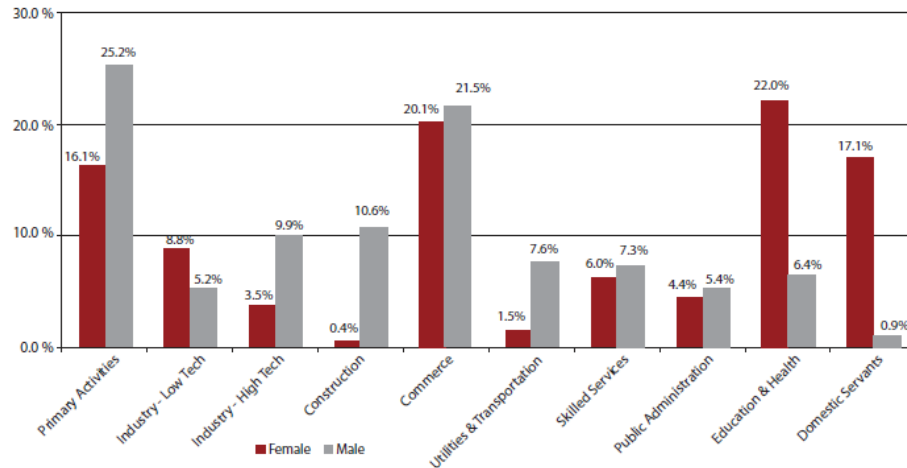
39 Soares 2002.

40 Bruschini and Lombardi 2003.

41 Salas and Leite 2007; Atal, Ñopo and Winder 2009.

earnings are about 34% less than male earnings<sup>42</sup>. The gap prevails even when education and hours worked are taken into account, and indeed increases with more years of education. Factors outside the labor market, such as marriage, children or work interruptions, but also the fact that women are concentrated in specific segments of the labor market may explain part of this gap.

- Furthermore, *informal employment* is significantly more common among women compared to men. 53.1% of women are engaged in informal work as opposed to 46.2% for men<sup>43</sup>.
- *Unemployment rates* are higher for women (adults: female 9.6 % vs. male 5.1% in 2008), in particular young women: 20.5% in comparison to 11.9% for males (ages 15-24) in 2008<sup>44</sup>.
- Almost three fourths of the Brazilian female labor force are concentrated in five sectors: domestic work (17%), trade and repair (16.8%), education, health and social service (16.7%), manufacturing (12.4%) and agriculture (12.2%). The following graph shows occupational segregation:



Source: CEDLAS and the World Bank (2009), SEDLAC database, data circa 2005.

- *Domestic work* is an important source of female employment. According to the latest data released by the IBGE Survey Pesquisa Nacional por Amostra de Domicílios (PNAD), the domestic work accounted 17% of total female occupation in 2009, which corresponds to 6.7 million women, with two-thirds of them earning less than the minimum wage. One in every four domestic workers is between 10 and 17 years old<sup>45</sup>. However, under the Second National Plan for Women, Brazil's government aims to increase the social security coverage of domestic workers by 30%.
- It seems that *gender stereotypes* have a strong impact on women's economic opportunities<sup>46</sup>: Business training offered to women is often gender-biased, particularly in rural areas: Women are given courses on traditional roles such as cooking and sewing.

42 Atal, Ñopo and Winder 2009.

43 Genderstats, World Bank.

44 SEDLAC Databank.

45 World Bank (2002). Brazil Gender Review: Issues and Recommendations.

46 World Bank 2009.

This shuts out many Brazilian women from the opportunity to work in higher growth sectors or to use cutting-edge technology.

- The *Women's Economic Opportunity Index* is a dynamic quantitative and qualitative scoring model, constructed from 26 indicators, that measures specific attributes of the environment for women employees and entrepreneurs in 113 economies. Five category scores are calculated from the unweighted mean of underlying indicators and scaled from 0-100, where 100=most favorable. These categories are: Labor policy and practice (which comprises two sub-categories: Labor policy and Labor practice); Access to finance; Education and training; Women's legal and social status; and the General business environment. Each category or sub-category features either four or five underlying indicators. Excluding Canada and the US, Brazil edges Chile and Mexico for the best score in the Americas.
- Spiderweb for Brazil:



From: Women's Economic Opportunities Index, 2010



Ranking in detail<sup>47</sup>:

| Criteria and respective indicators               | Brazil's score | Brazil's rank in the Americas   |
|--|----------------|---|
| <b>LABOUR POLICY AND PRACTICE</b>                | <b>61.3</b>    | <b>4<sup>th</sup></b><br>After Canada, US, Mexico                                       |
| <b>LABOUR POLICY</b> <sup>48</sup>               | <b>74.3</b>    | <b>3<sup>rd</sup></b><br>After Canada, Mexico   |
| Maternity and paternity leave and provision      | 100.0          |   |
| Equal pay; ILO Convention 100, Policy            | 85.7           |   |
| Non-discrimination, ILO Convention 111, Policy   | 85.7           |   |
| Legal restrictions on job types                  | 50.0           |   |
| Differential retirement age                      | 50.0           |   |
| <b>LABOUR PRACTICE</b>                           | <b>48.3</b>    | <b>5<sup>th</sup></b><br>After US, Canada, Argentina, Honduras                          |
| Equal pay; ILO Convention 100, Practice          | 66.7           |   |
| Non-discrimination, ILO Convention 111, Practice | 50.0           |   |
| De facto discrimination at work                  | 43.3           |   |
| Access to childcare                              | 33.3           |   |
| <b>ACCESS TO FINANCE</b>                         | <b>52.3</b>    | <b>5<sup>th</sup></b><br>After Canada, US, Chile, Colombia                              |
| Private sector credit                            | 75.0           |   |
| Building credit histories                        | 59.2           |   |
| Delivering financial services                    | 50.0           |   |
| Women's access to finance programs               | 25.0           |   |
| <b>EDUCATION AND TRAINING</b>                    | <b>62.6</b>    | <b>8<sup>th</sup></b><br>After US, Uruguay, Canada, Argentina, Chile, Venezuela, Panama |
| Literacy rate, women                             | 87.9           |   |
| Primary and secondary education, women           | 67.7           |   |
| SME support/development training                 | 60.0           |   |
| Tertiary education, women                        | 34.7           |   |
| <b>WOMEN'S LEGAL AND SOCIAL</b>                  | <b>89.4</b>    | <b>6<sup>th</sup></b>   |

<sup>47</sup> It has to be mentioned, however, that the report doesn't explain why certain countries achieve the score they do. Thus one cannot follow the logic of the ranking completely.

<sup>48</sup> See also Annex II.



|                                     |             |   |
|-------------------------------------|-------------|---|
| <b>STATUS</b>                       | 100.0       | After Canada, Costa Rica, Uruguay, Paraguay, Panama |
| Addressing violence against women   | 100.0       |   |
| Freedom of movement, women          | 100.0       |   |
| Property ownership rights           | 75.0        |   |
| CEDAW ratification                  | 71.7        |   |
| Adolescent fertility rate           |             |   |
| <b>GENERAL BUSINESS ENVIRONMENT</b> | <b>40.3</b> | <b>Not specified</b>                                |
|                                     | 50.1        |   |
| Regulatory quality                  | 38.9        |   |
| Starting a business                 | 36.9        |   |
| Mobile telephone subscribers        | 35.2        |   |
| Infrastructure risk                 |             |   |

### Women and agriculture/ rural women

- Officially, Brazilian women have the same *ownership rights* as men, but inequalities persist. Access to land is legally guaranteed to women and land can therefore be granted to a man or a woman, irrespective of marital status.
- However, *almost all the beneficiaries of the 1996 land reform were men*; women were considered to be their husbands' dependents. As a reaction to that, the Ministry of Agrarian Reform introduced a *quota system* that attributes one-third of the funds for financing agrarian reform to women<sup>49</sup>. Nonetheless In 2007, women beneficiaries of agrarian reform accounted for 55.8% of total beneficiaries (SIPRI - INCRA).
- By law, Brazilian women have *access to bank loans*, but those in rural areas have more difficulty exercising this right. In response, the government recently introduced a *quota system in rural development financing programs*. Many official documents in the banking and credit sector are still gender-biased, with masculine pronouns throughout. Loans are often granted to the head of the household, which effectively limits married women's access to bank loans.

### Health

- General health indicators in Brazil have *remarkably improved* over the last decades – this is also true for gender-specific health indicators. For instance, the maternal mortality ratio (per 100.000 live births) has been reduced from 79 (2000) to 58 (2009) and is considerably lower than the regional average of 86 (2009). Other gender-specific health indicators, such as skilled birth attendance and prenatal care have improved likewise and show better levels than the regional average (Annex I).

<sup>49</sup> <http://genderindex.org/country/brazil>

- The increase of AIDS cases among women must be observed. In June 2006, 67.2% of the total happened among men and 32.8% among women. In 2003, the incidence of AIDS was 25.4 and 16.1 by 100.000 people for men and women, respectively. Such numbers show that the ratio between the rates of contamination of both sexes has been decreasing.
- About one third of all people living with *HIV* in Central and South America live in populous Brazil, where early and ongoing *HIV prevention and treatment efforts have contained the epidemic*. The adult HIV prevalence in Brazil has remained well under 1% for at least the past decade.
- According to data from the Ministry of Health, the number of *teenage pregnancy* has fallen about 22% during the second half of the last decade. Between 2000 and 2009, it fell about 34.6%.<sup>50</sup> During the last 2 years 871.2 Million condoms were distributed among the whole population. People can access them freely at the public health stations. The most remarkable reduction in teenage pregnancy has been achieved in the poor Northeast Region (26%).

### Violence

- *Violence against women* is common and represents a widespread social problem. Data from a WHO multi-country study on violence against women show that in Brazil 27% have experienced physical violence by their intimate partner at least once in their lives, 10% have experienced sexual violence, and 29% have experienced physical or sexual violence or both<sup>51</sup>. Furthermore, 43.1% of cases of physical aggression against women were committed in their own residence.
- Levels of deadly violence against women have steadily increased since 1980. However, in the Northeast Brazil the female homicide rate increased markedly since 2003, far more than the average for the rest of the country.
- To combat specifically domestic violence in Brazil, the *Maria da Penha Law* was passed in 2006 and represents one of the *most advanced examples of domestic violence legislation*. It is mentioned as exceptional “significant legal advance at the national level” in UN’s Progress of the World’s Women 2010. It creates multiple mechanisms, including specialized tribunals and psychosocial assistance for victims. In August 2007, the President of Brazil announced US\$590 million to implement the *Maria da Penha Law* on violence against women. The budgetary pledge is a leading example of a substantial allocation for implementation of legislation<sup>52</sup>.
- Besides that, the Ministry of Justice of Brazil has introduced *compulsory educational curricula* on violence against women for *police trainees* in actions promoted by the Ministry.
- *Homicide* rates are particularly high *amongst male youths*. In 2002, youth homicides represented 38.7% of all homicides in Brazil<sup>53</sup>, with some states having rates as high as

<sup>50</sup>[http://portal.saude.gov.br/portal/aplicacoes/noticias/default.cfm?pg=dspDetalheNoticia&id\\_area=124&CO\\_NOTICIA=11137](http://portal.saude.gov.br/portal/aplicacoes/noticias/default.cfm?pg=dspDetalheNoticia&id_area=124&CO_NOTICIA=11137)

<sup>51</sup> WHO 2005.

<sup>52</sup> UN Progress of the World’s Women 2010.

<sup>53</sup> Cunningham, Wendy; McGinnis, Linda; García Verdú, Rodrigo; Tesliuc, Cornelia; Verner, Dorte: Youth at Risk in Latin America and the Caribbean Understanding the Causes, Realizing *the Potential*. World Bank 2008.

40%, even though young people constituted only 19% of the total population. Young women's homicide rates are one-tenth those of young men, but they still have higher homicide rates than females of all ages. Death by homicide is much more common among Afro-Brazilians, who have a higher incidence of poverty, than white victims in Brazil. Approximately 102 deaths per 100,000 young Afro-Brazilians are due to homicide, compared with 39.2 deaths per 100,000 among young white Brazilians. The difference by race is much larger among young people than among adults<sup>54</sup>.

### Political representation

- Women's *political participation and representation is still very weak* in Brazil and has changed little over the last decades. The table below shows different levels of decision-making and compares Brazil's rates with Costa Rica<sup>55</sup>:

|   | 2001                                | 2004              | 2009 | Costa Rica 2009  |
|---|-------------------------------------|-------------------|------|------------------|
| <b>Local decision-making</b>  |                                     |                   |      |                  |
| Percentage of women elected to mayoral positions in relation to the total number of elected mayoral positions           | 5.7                                 | 5.7               | 9.2  | 11.1             |
| Percentage of council women elected by popular election to Municipal n to the total number of elected mayoral positions | 11.6                                | 11.6              | 12.5 | 43.4             |
| <b>Legislative power</b>  |                                     |                   |      |                  |
| Proportion of women holding seats in national parliaments   | 5.7                                 | 8.6               | 9.0  | 36.8             |
| <b>Executive power</b>  |                                     |                   |      |                  |
| Percentage of women in ministerial cabinet positions  | 1999-2002<br>2003-2007<br>2007-2010 | 0<br>10.7<br>14.8 |      | 2010-2014:<br>45 |
| <b>Judicial power</b>   |                                     |                   |      |                  |
| Percentage of women judges in the highest court or supreme court  | 9.0                                 | 9.0               | 18.0 | 30.0             |

<sup>54</sup> "Youth at Risk in Brazil." Report 32310-BR, Office of the Chief Economist, Human Development Management Unit, Latin America and the Caribbean Region, World Bank.

<sup>55</sup> Source. Gender Equality Observatory, CEPAL.

- In the last decade, affirmative action policies have been expanded, especially in education, but also with initiatives in the labor world. The legislation provides, since 1990, disabled people hiring incentives mechanisms; the use of such mechanisms has expanded in the last years. President Cardoso instituted a National Program for *Affirmative Action* in 2002. Its primary method of action used quotas. The quota policy has been extended under the government of Luiz Inácio Lula da Silva. The GoB is seeking to increase the number of women, Afro-Brazilians and disabled people in different areas of society. Quotas have been approved in many public universities specifically for the placement of Afro-Brazilians.

## References:

Atal, Juan Pablo, Hugo Nopo and Natalia Winder. 2009. *New Century, Old Disparities: Gender and Ethnic Wage Gaps in Latin America*. IDB Working Paper Series No. 109. Washington, DC: Inter-American Development Bank.

Bruhn, Miriam. 2009. "Female-Owned Firms in Latin America: Characteristics, Performance, and Obstacles to Growth." World Bank Policy Research Working Paper No. 5122.

Bruschini, C. and M. Lombardi, 2003. "Mulheres e homens no mercado de trabalho brasileiro: um retrato dos anos 1990". In Maruani and Hirata (eds.): *As novas fronteiras da desigualdade*, São Paulo, Brazil: Editora Senac

CEDLAS and The World Bank, Socio-Economic Database for Latin America and the Caribbean (SEDLAC) (2009).

CEPAL. 2011. *Observatory: Gender Equality in Latin America and the Caribbean*. Statistics. Santiago de Chile, Chile. Access online at: <http://www.eclac.cl/cgi-bin/getProd.asp?xml=/mujer/noticias/paginas/1/29781/P29781.xml&xsl=/mujer/tpl/p18fst.xsl&base=/mujer/tpl/top-bottom-estadistica.xsl>

Cunningham, Wendy; McGinnis, Linda; García Verdú, Rodrigo; Tesliuc, Cornelia; Verner, Dorte: *Youth at Risk in Latin America and the Caribbean Understanding the Causes, Realizing the Potential*. World Bank 2008

ECLAC: Gender Equality Observatory for Latin America and the Caribbean Access online at: <http://www.eclac.org/oig/aEconômica/default.asp?idioma=IN>

EIU: Women's Economic Opportunities Index 2010, funded by the World Bank

Fundação Carlos Chagas (2009), "Mulheres, Trabalho e Família." [http://www.fcc.org.br/mulher/series\\_historicas/mtf.html](http://www.fcc.org.br/mulher/series_historicas/mtf.html).

Global Database of Quotas for Women

Access online at: <http://www.quotaproject.org/aboutQuotas.cfm>

IBGE 2009: *Características da Vitimização e do Acesso à Justiça no Brasil*.

Access online at:

[www.ibge.gov.br/home/estatistica/populacao/vitimizacao\\_acesso\\_justica\\_2009/pnadvitimizacao.pdf](http://www.ibge.gov.br/home/estatistica/populacao/vitimizacao_acesso_justica_2009/pnadvitimizacao.pdf)

ICRW (IMAGES) Initial Results from the International Men and Gender Equality Survey, 2011

Maloney, William F. and Mariano Bosch (2010), “Women on the Move: Female Labor Market Dynamics in Latin America,” background paper prepared for the Regional Study on Gender in LAC, World Bank, April 2010.

Ministerio Brasileiro da Saúde: A gravidez na adolescência está em queda

Access online at:  
[http://portal.saude.gov.br/portal/saude/visualizar\\_texto.cfm?idtxt=33728&janela=1](http://portal.saude.gov.br/portal/saude/visualizar_texto.cfm?idtxt=33728&janela=1)

OECD: Social Institutions and Gender Index  
<http://genderindex.org/sites/default/files/pdfs/BRA.pdf>

OECD: Social, employment and migration working papers N°. 116. Veerle Miranda: Cooking, caring and volunteering: unpaid work around the world, March 2011. Access online at: [http://www.oecd.org/officialdocuments/displaydocumentpdf/?cote=DELSA/ELSA/WD/SEM\(2011\)1&doclanguage=en](http://www.oecd.org/officialdocuments/displaydocumentpdf/?cote=DELSA/ELSA/WD/SEM(2011)1&doclanguage=en)

Salas C., and M. Leite . 2007. “Segregación Sectorial por Género: Una Comparación Brasil-México.” *Cadernos PROLAM/USP* 7(2): 241-259.

Soares, S., 2002. “Female Labor Force Participation in Brazil, 1977-2001,” IPEA Working Paper No. 923, Institute of Applied Economic Research (IPEA)

Shadow Report of Civil Society to the Sixth National Report of Brazil on the Convention for the Elimination of all Forms of Discrimination against Women: Brazil and Compliance with CEDAW – – 2001 – 2005 PERIOD

SRC (Social Research Centre) (2008), —Introducing Empowering Conditional Cash Transfers to Egypt: The Ain el-Sira Experiment, 30–31 January, SRC, American University in Cairo.

Suarez, M. et al. (2006), —The Bolsa Família Programme and the Tackling of Gender Inequalities, Report to Brazilian Ministry of Social Development and Fight Against Hunger (MDS) and DFID, Brasilia.

UN 2006: In-depth Study on all Forms of Violence Against Women, Report of the Secretary-General, UN General Assembly 61st Session A/61/122/Add.1, UN, New York, NY.

UN 2010: Human Development Report 2010.

UN: The World's Women 2010 - Trends and Statistics, New York, 2010. Access online at: <http://www.gaportal.org/publication-world39s-women-2010-trends-and-statistics-8-dec-2010>

UNAIDS 2010: Report on the Global Aids Epidemic

UNIFEM 2006: Violence Against Women – Facts and Figures, UNIFEM, New York, NY.

UNIFEM: Who Answers to Women? Progress of the World’s Women 2008/2009 – Gender and Accountability.

UNAIDS Data on HIV prevalence. Access online at: [http://data.unaids.org/pub/GlobalReport/2008/20080813\\_gr08\\_prev1549\\_1990\\_2007\\_en.xls](http://data.unaids.org/pub/GlobalReport/2008/20080813_gr08_prev1549_1990_2007_en.xls)

US Department of State (2007), Country Reports on Human Rights Practices: Brazil, US Department of State, Bureau of Democracy, Human Rights and Labor, Washington, DC. <http://www.State.gov/g/drl/rls/hrrpt/2008/wha/119150.htm>

UN-Secretary General’s Database on Violence against Women

Access online at: <http://webapps01.un.org/vawdatabase/goodpractices.action>

WHO 2005: Multi-country study on Women's Health and Domestic Violence against Women, 2005

Access online at: [http://www.who.int/gender/violence/who\\_multicountry\\_study/en/](http://www.who.int/gender/violence/who_multicountry_study/en/)

WHO 2008: Health Profile Brazil 2008

WHO: Suicide rates Brazil, [http://www.who.int/mental\\_health/media/braz.pdf](http://www.who.int/mental_health/media/braz.pdf)

World Bank Website: Genderstats.

World Bank 2002: Brazil Gender Review: Issues and Recommendations, Latin America and the Caribbean Region, Poverty Reduction and Economic Management Unit, Brazil Country Management Unit, Report No. 2344-BR

World Bank 2007: Brazil - Measuring Poverty Using Household Consumption Poverty Assessment 2007

World Bank 2009: Women's Economic Opportunities in the Formal Private Sector in Latin America and the Caribbean - A Focus on Entrepreneurship

World Bank: Regional Study on Gender in LAC: Linking Labor Market Outcomes and Intra-Household Dynamics, Laura Chioda and Rodrigo Garcia-Verdu; 2011 (**unpublished**)

World Bank website: Women, business and the law - Brazil

Access online at: <http://wbi.worldbank.org/ExploreEconomies/Brazil>

World Economic Forum 2010: The Global Gender Gap Report.

### **Appendix 1.1: Facts and Figures – Gender indicators for Brazil (June 2011)**

| <b>Demography</b>                                      |                              | <b>LAC-Region</b> |
|--|------------------------------|-------------------|
| Fertility Rate, (births per woman)*                    | 1.83 (2009)<br>2.4 (2000)    | 2.2 (2009)        |
| <b>Health and Family Planning</b>                      |                              |                   |
| Adolescent Fertility Rate (births p/1000 women 15-19)* | 73.69 (2009)<br>88.59 (1999) | 71 (2009)         |
| Life expectancy at birth in years (2009)*              | Female 76.38                 | 76.8              |
|  | Male 69.08                   | 70.5              |
| Maternal Mortality Rate (100.000 live births), 2008*   | 58                           | 86                |
| Pregnant women receiving prenatal care*                | 96.70 (2007)                 | 95% (2009)        |
| Skilled birth attendance 2006*                         | 97 %                         | 89% (2009)        |

|  |   |   |
|--|---|---|
| Suicide rates, 2005 <sup>56</sup> (per 100.000)                  | Female 1.9<br>Male 7.3                            | Comparison <sup>57</sup> : Mexico (2005)<br>Female 1.4<br>Male 7.0<br>Colombia (2005)<br>Female 2.1<br>Male 7.8 |
| <b>Education</b>   |   |   |
| Survival rate to final grade of primary, 2000–2007 <sup>58</sup> | Female 89%<br>Male 76%                            | Chile:<br>Female 98%<br>Male 98%<br><br>Mexico:<br>Female 94%<br>Male 91%                                       |
| Education enrollment ratio female to male, 2008*                 | Primary 0.93<br>Secondary 1.11<br>Tertiary 1.29   | 0.97 (2009)<br>1.08<br>1.25   |
| <b>Labor</b>   |   |   |
| Labor force Participation Rate (% of population 15-64)* 2009     | Female 64.3<br>Male 85.2                          | 56<br>83  |
| Unemployment rate* 2008  | Female 9.6 %<br>Male 5.1 %                        | 8.8%<br>5.3%  |
| Unemployment by population between ages 15-24*, 2008             | Female 20.5%<br>Male 11.9%                        | 18%<br>11.8%  |
| Gender-specific labor market segregation, 2006*                  | Employees agriculture<br>Female 15%<br>Male 22.5% | 9 %<br>20 %   |

<sup>56</sup> WHO.

<sup>57</sup> [http://www.who.int/mental\\_health/media/mexi.pdf](http://www.who.int/mental_health/media/mexi.pdf).

<sup>58</sup> UNESCO Institute for Statistics, correspondence in June 2009, cited from The World's Women 2010.

|   |                    |        |       |      |
|---|--------------------|--------|-------|------|
|   | Employees industry | Female | 13%   | 16 % |
|   |                    | Male   | 27.5% | 29 % |
|   | Employees services | Female | 71.9% | 75 % |
|   |                    | Male   | 49.6% | 51 % |
| Political Participation                                     |                    |        |       |      |
| Prop. of seats held by women in national parliaments, 2009* | 9%                 |        |       | 23%  |

\*Genderstats, World Bank.

## **Appendix 1.2: Gender-specific labor legislation in Brazil<sup>59</sup>**

Brazil has made significant progress in terms of labor law/regulations in favor of gender equality. Also, the country has introduced several mechanisms in order to conceal women's reproductive role with employment. The regulations can be grouped as follows:

### **Regulations regarding the period of pregnancy, birth-giving and lactation:**

- Government mandates paid maternity leave for women employees. The minimum length of paid maternity leave is 120 calendar-days. 100% wages is paid by the government during maternity leave. (Decreto-Lei No. 5.452 (Art. 172) Temporary Constitutional Provisions Act (Art. 10))
- The mandatory minimum length of paternity leave is 5 calendar days. (Temporary Constitutional Provisions Act (Art. 10). Paternity leave is paid (source of cash benefits unavailable in Gender and Law Library))
- Lactancy is allowed 2 times per day for 30 min. each until the baby completes 6 months.

### **Equality before the law:**

- Women and men have equal capacity by law. (Constitution (Art. 5) and Civil Code (Arts. 1511 and 1567))
- Married men and married women have equal capacity by law. (Statute of Married Women)
- Women and men have equal ownership rights over moveable and immoveable property. (Constitution (Arts. 5 and 189) and (Civil Code))
- Women and men have equal inheritance rights over moveable and immovable property. (Civil Code (Book V))

### **Anti-discrimination:**

- The exam of pregnancy is forbidden to ask for by the employer when hiring a female employee. (Lei N° 9.799, 26 de maio de 1999.)
- Women can work the same night hours as men, they can work in all industries. (Labor Code).
- Pregnant and nursing mothers can work the same hours and in the same industries as men and other women. (Labor Code)

<sup>59</sup> Gender and Law Library, World Bank.



- Arbitrary dismissal or dismissal without just cause is prohibited for a pregnant employee, from the date the pregnancy is confirmed to five months after delivery. (Brazil Temporary Constitutional Provisions Act (Art. 10))

**Others:**

- Even though part-time work was permitted, its legal status was only established in December of 1998, with a legal instrument called “Medida Provisória”. With this mechanism, the executive modified the labor legislation and considered to be a part-time job those activities whose total duration does not exceed 25 hours per week. In addition, the new law states that the salary to be paid to workers under the part-time agreement will be proportional to the time worked relative to full-time workers who have the same functions. In August 2001, this “Medida Provisória” has reedited but with no changes in the definitions of part-time contracts<sup>60</sup>.

---

<sup>60</sup> Maloney, William F. and Mariano Bosch (2010), “Women on the Move: Female Labor Market Dynamics in Latin America,” background paper prepared for the Regional Study on Gender in LAC, World Bank, April 2010.

**CPS Annex 4: Brazil 2012-2015 CPS Results Matrix<sup>6162</sup>**

| Issues and Obstacles  | CAS Outcomes   | Milestones   | Bank Program   |
|---|--|--|--|
| Strategic Objective 1: <i>Increase Efficiency of Public and Private Investments</i>   |  |  |  |
| Results Area 1.1: Fiscal and public sector management   |  |  |  |
| <ul style="list-style-type: none"> <li>Fiscal management with focus on short term at both national and sub-national levels</li> <li>Underutilized systems for performance management (program outcome target setting, monitoring and evaluation)</li> <li>Large budget rigidities (e.g. revenue earmarking and mandatory expenditures) do not encourage performance orientation in programs and projects</li> <li>Significant budget changes at approval and during the fiscal year weaken link with policy, reduce predictability and compromises</li> </ul> | <ul style="list-style-type: none"> <li>Outcome 1: Enhanced medium term fiscal frameworks (Ceará, Minas Gerais, Rio Grande do Sul, Distrito Federal, Alagoas, Estado do Rio, Rio de Janeiro, São Paulo, Bahia, Tocantins, Paraná, Recife, Pernambuco, Belo Horizonte, Piauí.)</li> </ul> <p>Targets (2015):</p> <ol style="list-style-type: none"> <li>Full implementation of multi-year expenditure management system within sustainable fiscal frameworks and tight alignment of budgetary</li> </ol> | <p>Capacity building delivered on :</p> <ul style="list-style-type: none"> <li>Analysis and management of fiscal risks</li> <li>Multi-year projections and setting of fiscal targets</li> <li>Alignment of policy priorities with budgetary allocations</li> </ul> | <p>Ongoing Financing:</p> <ul style="list-style-type: none"> <li>Second Minas Gerais Dev't Partnership</li> <li>Ceará Inclusive Growth (SWAp II)</li> <li>Fed. District Multisector Manag. Proj.</li> <li>Alagoas Fiscal &amp; Public Mgmt Reform</li> <li>Rio State DPL</li> <li>Rio de Janeiro PSM/Fiscal MST</li> <li>RJ Munic Fiscal Consolid</li> </ul> |

<sup>61</sup> The targets mentioned in this Annex do not necessarily coincide with Government defined targets and do not constitute commitments by the Brazilian Government.

<sup>62</sup> Gender specific targets and indicators were not included in the matrix at this stage given that the projects and activities are still under preparation.

| Issues and Obstacles  | CAS Outcomes   | Milestones   | Bank Program   |
|---|--|--|--|
| <p>efficiency</p> <ul style="list-style-type: none"> <li>Limited development of cost-accounting and accrual accounting</li> <li>Limited use of modern public investment management tools (to screen, appraise, select, and evaluate projects)</li> <li>Brazil's government human resource management systems have successfully incorporated into its recruitment and promotion practices the principles of meritocracy, ethics, integrity and legality, but focus on efficiency and performance has been more limited</li> <li>Incremental procurement innovations introduced – e.g. reverse auctions (<i>pregão</i>) and framework contracts (<i>registro de preço</i>) – but their dissemination has been limited, especially at the sub-national level</li> <li>Significant delays and lack of standardization in pre-procurement</li> </ul> | <p>allocations with strategic policy priorities in Minas Gerais, Rio State and being initiated in other States and large municipalities. Improved fiscal control systems (tax administration) implemented in Pernambuco and being initiated in other States and large municipalities</p> <p>ii. Improved methodology for analysis of fiscal risks implemented in Rio Grande do Sul and being initiated in other States and large municipalities</p> <p>Baseline: no full-fledged MTEFs, relatively basic multi-year expenditure management system, fiscal risk analysis methodology and fiscal control systems</p> | <ul style="list-style-type: none"> <li>Debt sustainability analysis</li> <li>Debt Management strategies</li> </ul> <p>Development of new tax administration fiscal control systems to enhance tax compliance</p> | <p>DPL</p> <ul style="list-style-type: none"> <li>SP IDF</li> <li>Alagoas procurement IDF</li> </ul> <p>Indicative Financing:</p> <ul style="list-style-type: none"> <li>Rio de Janeiro DPL III</li> <li>Rio Grande do Sul SWAp</li> <li>Bahia DPL</li> <li>Minas Gerais DPL</li> <li>BR Tocantins Integrated Development</li> <li>BR Paraná PSM for Development Swap</li> <li>BR Recife Swap Education and Public Management</li> <li>BR Pernambuco Expand, Opportunities, Enh. Equity DPL</li> </ul> |

| Issues and Obstacles | CAS Outcomes  | Milestones   | Bank Program  |
|----------------------|---|--|---|
| activities           | <ul style="list-style-type: none"> <li>Outcome 2: Increased result orientation in planning, budgeting and expenditures in states supported by the Bank (Bahia, Pernambuco, Rio Grande do Norte, Piauí, Alagoas, Ceará, Tocantins, Minas Gerais, Rio de Janeiro, Rio Grande do Sul, Paraná, and São Paulo)</li> </ul> <p>Targets (2015):</p> <ol style="list-style-type: none"> <li>Improved systems to monitor outputs and outcomes of strategic programs being used to determine budget allocations.</li> <li>Improved incentives for government agencies and managers to increase focus on performance and results (e.g. through “results agreements” )</li> <li>Improved procedures for screening and selecting</li> </ol> | <p>Improved frameworks for monitoring of strategic projects are being adopted in states and municipalities where the Bank is engaged.</p> <p>A revised system for monitoring outcomes used to feed back into budgetary allocations is being adopted in the states and municipalities where the Bank is engaged</p> <p>Revised incentives for government agencies and managers to increase their focus on performance and results are being adopted in the states and municipalities where the Bank is engaged.</p> | <ul style="list-style-type: none"> <li>BR AF Rio de Janeiro State SIL</li> <li>BR Rio Municipal TAL</li> <li>BR 3<sup>rd</sup> Minas Gerais Partnership DPL/PBG</li> <li>BR Rio Grande do Norte Regional Development SIL</li> <li>BR Alagoas Extreme Poverty eradication SIL</li> <li>BR Belo Horizonte Urban DPL</li> <li>Piauí Green Growth and Inclusion DPL</li> <li>BR South-South Cooperation for Economic Development</li> </ul> <p>Ongoing/Indicative AAA/Others:</p> <ul style="list-style-type: none"> <li>SP City Study</li> <li>BR Monitoring and evaluation</li> <li>Conference on public</li> </ul> |



| Issues and Obstacles   | CAS Outcomes  | Milestones  | Bank Program  |
|--|---|---|---|
|  | <p>structures and performance management systems provide enhanced incentives for performance</p> <p>iii. Pre-procurement activities (<i>pre-compra</i>), further standardized.</p> <p>Baseline: limited focus on efficiency in human resources and procurement management</p> | framework contracts for procurement.  |   |
| Results Area 1.2: Private Sector Development Policies  |   |   |   |
| <p>Very large hard and social infrastructure needs and also binding budget constraints for public investments</p> <p>Capacity and institutional frameworks are also binding constraints to the roll-out of the PPP approach</p> <p>Few states have already made progress in PPPs</p> | <p>Outcome 1: Strengthened institutional framework for public-private partnerships (PPPs) in Bank-supported states</p> <p>Target (2015): Improved PPP frameworks in Paraná and Rio de Janeiro.</p> <p>Baseline: PPP framework still under-developed in Paraná and</p>         | Capacity building delivered in all states in which Bank and the IFC is active in PPPs | <p>Ongoing Financing:</p> <ul style="list-style-type: none"> <li>• Rio Municipality DPL</li> <li>• Alagoas DPL</li> <li>• Minas Gerais SWAp</li> <li>• FBS Rio Municipality</li> </ul> <p>Indicative Financing:</p> <ul style="list-style-type: none"> <li>• BR Pernambuco Rural</li> </ul> |

| Issues and Obstacles   | CAS Outcomes   | Milestones   | Bank Program   |
|--|--|--|--|
| <p>Large and sophisticated financial systems but tenor of funding – other than that supplied by the National Bank for Economic and Social Development (BNDES) – is still fairly short-term (in general at most two years in the case of private Banks)</p> <p>Access to financial services by low income households has increased targeted mainly at financing consumption</p> | <p>Rio de Janeiro</p> <p>Outcome 2: Expanded market for private long-term and SME financing.</p> <p>Indicator for work on development of long-term markets to be set at the time of the Progress Report and after the FSAP has been completed.</p> <p>Indicator for SME finance: (i) IFC financing for SME and mid-cap focused second tier banks increases, and (ii) specialized credit lines to banks that focus on MSMEs and low-income communities increase;</p> <p>Outcome 3: Increased access to credit by low income households.</p> <p>Regulatory frameworks governing the provision of financial services for low income</p> | <p>Policy options for expanding long-term and SME financing identified through FSAP and Financial Sector ESW</p> <p>Pilot approaches for expanding financial inclusion in the context of innovative anti-poverty programs underway</p> | <p>Economic Inclusion (SIL)</p> <ul style="list-style-type: none"> <li>• BR Ceará Rural Sustainable &amp; Competitiveness (SIL)</li> <li>• Bahia DPL</li> <li>• BR AF Rio de Janeiro Sustainable Rural Development (SIL)</li> <li>• Rio Grande do Sul SWAp</li> <li>• BR 3<sup>rd</sup> Minas Gerais Partnership DPL</li> <li>• BR Belo Horizonte Urban DPL</li> <li>• BR Paraná PSM for Development Swap</li> <li>• Rio de Janeiro DPL III</li> <li>• Rio Municipal (SIL)</li> <li>• BR Pernambuco Expand, Opportunities, Enh. Equity DPL</li> <li>• Federal Transport (SIL)</li> </ul> |

| Issues and Obstacles  | CAS Outcomes  | Milestones   | Bank Program   |
|---|---|--|--|
| <p>Renewed Government focus on support to SMEs, particularly to address market failures in knowledge generation and accumulation, but lack of evidence on which programs are effective or measures of return on public investment in them</p> | <p>households improved (including the area of microfinance but also savings and insurance products).</p> <p>Outcome 4: Improved policies to promote productivity-enhancing investments (Ceará, Rio Grande do Sul)</p> <p>Target (2015): Policy instruments fine-tuned to support private sector productivity and competitiveness (starting with Rio Grande do Sul and continuing in other states with engagements in this area)</p> <p>Baseline 0</p> | <p>Impact assessments carried out for interventions aimed at enhancing private sector productivity</p> | <ul style="list-style-type: none"> <li>• Alagoas Extreme Poverty Eradication (SIL)</li> <li>• BR Rio Grande do Norte Regional Development (SIL)</li> </ul> <p>Other activities:</p> <p>IFC advisory services in support of PPP capacity building at Federal, State and Municipal levels covering core and social infrastructure</p> <p>IFC financial sector program covering: SME-and midcap-focused second-tier banks financing; equity investments in financial institutions and second-tier companies; and development of secondary market for corporate paper, dedicated credit lines to specialist banks that focus on MSMEs and low-income communities, and work with regulators to develop microfinance industry, including</p> |



| Issues and Obstacles | CAS Outcomes | Milestones | Bank Program   |
|----------------------|--------------|------------|--|
|                      |              |            | <p>savings and insurance products.</p> <p>IFC investments in companies developing new products and processes; extend market linkages; provide acquisition financing; support cross-border investments.</p> |

| Issues and Obstacles   | CAS Outcomes   | Milestones   | Bank Program  |
|--|--|--|---|
| <i>Strategic Objective 2: Improve the quality and expand the provision of public services for low income households</i>  |  |  |   |
| Results area 2.1: Consolidated and strengthened social protection system   |  |  |   |
| <p>Brazil sem Miséria Program announced and Bank support requested for developing monitoring and evaluation (M&amp;E) system</p> <p>Such system will be key for making the necessary evidence-based adjustments in program design.</p> | <p>Outcome 1: Enhanced extreme poverty eradication program</p> <p><i>Indicator: % of families in Quintile 1 that receive transfers from Bolsa Família (PNAD)</i></p> <p>Baseline (2006): 64.5%</p> <p>Target (2015): 70%</p> <p>Note: BSM has broader objectives of improving access to services and enhancing employment opportunities.</p> | <ul style="list-style-type: none"> <li>• At least 90% of <i>Cadastro Único</i> registries have been updated within the last 2 years (by the end of 2011).</li> <li>• Average score of municipalities on the Decentralized Management Index<sup>63</sup> surpasses 0.85 (by end of 2012). At least 13 State governments use the <i>Cadastro Único</i> to</li> </ul> | <p>Ongoing Financing:</p> <ul style="list-style-type: none"> <li>• Bolsa Família 2nd APL</li> </ul> <p>Indicative Financing:</p> <ul style="list-style-type: none"> <li>• Bahia DPL</li> <li>• BR Pernambuco Expand, Opportunities, Enh. Equity DPL</li> <li>• BR Alagoas Poverty Reduction and Economic Inclusion project</li> </ul> <p>Ongoing AAA:</p> |

<sup>63</sup> The Decentralized Management Index (Índice de Gestão Descentralizada -IGD) was established in 2006 to monitor and evaluate the quality of implementation of Bolsa Família in the municipalities and provide incentives to the municipalities who are performing satisfactorily. The index combines four measures of institutional and program management performance. On the basis of this index, MDS transfers funds to municipalities for the management of the program. Through these incentives, MDS intends to support the improvement in the quality of the Bolsa Família management at the local level and to help municipalities perform the actions that are under their responsibilities.

| Issues and Obstacles   | CAS Outcomes   | Milestones   | Bank Program   |
|--|--|--|--|
|  | Specific indicators will be added based on the government's M&E approach, which is currently under development.  | target employment-related programs (by end of 2015).   | <ul style="list-style-type: none"> <li>• SP and the Crisis in Brazil</li> <li>• São Paulo City study: SP system component</li> <li>• Bolsa Família governance (background paper for the SP strategy)</li> </ul>  |
| Results area 2.2 Improved quality of education for the poor  |  |  |  |
| <p>Pre-school participation for the poorest quintile of the population lags behind that of the richest quintile by almost 20%, and <i>creche</i> participation for the poorest is barely one third of that for the richest. In this context, one of the next critical social challenges in Brazil is protecting the human potential of the young children born into disadvantaged families.</p> <p>PISA results show that Brazil has achieved significant, sustained</p> | <p><i>Outcome 1:</i> Improve quality and increase coverage of ECD services (<i>creche</i> and pre-school), targeted to the lowest income quintiles</p> <p><i>Indicator 1:</i> Pre-school participation for the poorest two quintiles of the population</p> <p>Target (2015): 85%</p> <p>Baseline (2010): 69% (2009)</p> <p><i>Indicator 2:</i> <i>Creche</i> participation for the poorest two quintiles of the population</p> | <ul style="list-style-type: none"> <li>• National Plan for education (2011-2020) including coverage targets of Pre-school and <i>creches</i> approved by the end of 2010</li> <li>• Build national Brazilian network of ECD practitioners and link these with regional and global networks (2011)</li> </ul> | <p>Ongoing Financing:</p> <ul style="list-style-type: none"> <li>• Alto Solimões Basic Services and Sust.</li> <li>• BR-Second Minas Gerais Dev't Partnership</li> <li>• Pernambuco Educ Results&amp; Account.</li> <li>• Ceará Inclusive Growth (SWAp II)</li> <li>• Acre Social Economic Inclusion Sust D</li> <li>• Fed District Multisector</li> </ul> |

| Issues and Obstacles   | CAS Outcomes   | Milestones  | Bank Program   |
|--|--|---|--|
| <p>progress since 2000 in raising learning performance. Despite the progress, Brazil is still quite far from the average learning levels, secondary education completion rates, and student flow efficiency of OECD and other middle-income countries, and there is no room for complacency.</p> <p>Brazil's 20% higher education participation rate is one of the lowest in LAC and is grossly inadequate to support the country's ambitions as a fast-growing, globally competitive economy.</p> <p>The "S" system of publicly funded but industry-managed vocational training for primary school graduates serves a relatively small population (overwhelmingly from the top income quintiles), has high unit costs and is not always able to place graduates in good jobs. There is also inadequate coordination between the "S" system and the formal education system.</p> | <p>Target (2015): 25%</p> <p>Baseline (2010): 13% (2009)</p> <p><i>Outcome 2:</i> Improve learning outcomes and completion rates in primary and secondary education as measured by national education quality index, IDEB</p> <p><i>Indicator 1:</i> Improve IDEB scores for end of primary cycle</p> <p>Target (2015): 4.7</p> <p>Baseline (2009): 4.0</p> <p><i>Indicator 2:</i> Improve IDEB scores for end of secondary school</p> <p>Target (2015): 4.3</p> <p>Baseline (2009): 3.6</p> <p><i>Outcome 3:</i> Improve relevance, efficiency and equity of vocational training and technical education in the "S System" (SENAI, SENAC, SENAR), and</p> | <ul style="list-style-type: none"> <li>• Complete ongoing impact evaluations of Rio <i>creche</i> provision and publicize results (2012)</li> <li>• Develop quality assurance and accreditation instruments for <i>creche</i> and pre-school center quality (2013)</li> <li>• National test of teacher quality at entry (Exame Nacional de Ingresso na Carreira Docente) established and implemented (2012)</li> <li>• Competitive, peer-reviewed research fund established in</li> </ul> | <p>Manag. Proj.</p> <ul style="list-style-type: none"> <li>• BR-RJ Sustainable Rural Development</li> <li>• Rio State DPL</li> <li>• (AF) 2nd MG Dev't Partnership SWAp</li> <li>• Rio de Janeiro PSM/Fiscal MST</li> <li>• BR- RJ Munic Fiscal Consolid DPL</li> </ul> <p>Other: IFC to continue building out portfolio of education projects which address needs of middle/lower-middle income students with an expected 1-2 projects per year for the next three years, resulting in incremental students reached targets to be determined at the start of each financial year</p> <p>Indicative Financing:</p> |

| Issues and Obstacles | CAS Outcomes  | Milestones  | Bank Program  |
|----------------------|---|---|---|
|                      | <p>in secondary and tertiary education (subject to implementation of AAA in this area in FY13 or later).</p> <p>Indicator for work on improving internal and external efficiency of “S” system to be set at the time of the Progress Report and after the corresponding AAA on this topic has been completed.</p> | <p>Ministry of Education to support impact and cost-effectiveness evaluation of innovative education reforms by 2013</p> <ul style="list-style-type: none"> <li>• Comparative research on teacher quality and classroom dynamics in at least three different State and Municipal school systems completed in collaboration with WB by end-2012</li> <li>• Milestones for government policies and programs designed to improve the internal and</li> </ul> | <ul style="list-style-type: none"> <li>• Rio de Janeiro DPL III</li> <li>• Rio Grande do Sul SWAp</li> <li>• Bahia DPL</li> <li>• Minas Gerais DPL</li> <li>• BR Paraná PSM for Development Swap</li> <li>• BR Recife education and Public Management Swap</li> <li>• BR Rio de Janeiro State TAL</li> <li>• BR Piauí Green Growth and Inclusion DPL</li> <li>• BR Rio Municipal TAL</li> <li>• BR Rio Grande do Norte Regional Development (SIL)</li> <li>• BR Alagoas Poverty Reduction and Economic Inclusion project (SIL)</li> <li>• BR Tocantins Integrated Sustainable Regional</li> </ul> |

| Issues and Obstacles  | CAS Outcomes  | Milestones   | Bank Program   |
|---|---|--|--|
|   |   | external efficiency of “S” system and/or tertiary education reforms to be set at the time of the Progress Report and after completion of proposed FY13 AAA on the topic.   | Development (SIL)<br><br>Other: AAA on teacher quality in Brazil (impact evaluations of Pernambuco, Rio municipality and Minas Gerais teacher bonus programs) and comparative study of classroom dynamics. Study of “S System” with Min. of Education planned for FY13   |
| Results area 2.3: Improved access to health care, especially for the poor   |   |  |  |
| <p>In 2009, almost 50% of the Brazilian population was enrolled in the Family Health Program (PSF). However, a large proportion of the poor are not yet covered by the PSF, especially those located in rural areas or in the periphery of the big cities and metropolitan regions.</p> <p>PSF also faces the challenge of improving service quality.</p> <p>Coordination of care across clinical and organizational settings is in its</p> | <p>Outcome 1: Improved access to quality primary health care;</p> <p><i>Indicator:</i> Population covered by the family health program (PSF) as a share of the total population has increased in the states where the Bank is engaged. Targets to be set under the corresponding projects.</p> <p>Outcome 2: Development of</p> | <ul style="list-style-type: none"> <li>• Implementation of the AMQ Strategy (Self-Evaluation for Health Quality Improvement of the PSF teams) is underway;</li> <li>• External evaluation mechanisms of the quality of services delivered by PSF is in place;</li> <li>• Impact and process evaluations</li> </ul> | <p>Ongoing Financing:</p> <p>IFC PPP Advisory to expand support for private contractors building, renovating or managing clinics and hospitals</p> <p>IFC investments in diagnostics</p> <ul style="list-style-type: none"> <li>• Health Network Formation &amp; Quality Imp.</li> <li>• (APL2) Family Health Extension 2nd APL</li> </ul> |

| Issues and Obstacles   | CAS Outcomes   | Milestones  | Bank Program   |
|--|--|---|--|
| <p>infancy in Brazil.</p> <p>Despite the high and increasing incidence of chronic diseases, which are best prevented and treated through integrated and continuous treatment arrangements across different levels of care and different types of providers, the health system is organized mostly to provide acute care through stand-alone, specialized facilities. Network arrangements, in which different providers work together to manage and provide health care, are rare.</p> <p>The HIV/AIDS epidemic is concentrated in group most at risk, including men who have sex with men, sex workers, injecting drug users, and prisoners. Given the evolving epidemic, effective implementation of responses tailored for different risk groups and regions of the country are needed.</p> | <p>integrated health care networks</p> <p><i>Indicator:</i> Number of health networks fully functional in Brazil<sup>64</sup></p> <p>Baseline (2010): none</p> <p>Target (2015): 10</p> <p>Source: MOH</p> <p>Baseline (2010): 6.1%</p> <p>Outcome 3: Increased access and utilization of HIV/AIDS and STD prevention, care and treatment by Groups Most at Risk, and strengthened decentralized implementation, governance, and results-based management of the national HIV/AIDS and STD program</p> <p>Indicator 1: MSM reporting use of condoms the last time they</p> | <p>regarding access of the poorest population to basic primary health care programs have been undertaken;</p> <ul style="list-style-type: none"> <li>Improved methodologies to define health priorities and assure the use of cost-effective health services to the poor and the indigenous populations;</li> <li>Strengthen social participation mechanisms to improve and monitor access and voice for the neediest population in the area of health services</li> <li>Improved methodologies to link primary health care and more complex levels of care have been developed, building on ongoing</li> </ul> | <ul style="list-style-type: none"> <li>AIDS-SUS</li> <li>Bahia Health and Water SWAp</li> <li>Ceará Inclusive Growth (SWAp II)</li> <li>Acre Social Economic Inclusion Sust D</li> <li>Rio State DPL</li> <li>Alto Solimões Basic Services and Sust</li> <li>BR-Second Minas Gerais Dev't Partnership</li> <li>Fed District Multisector Manag. Proj.</li> <li>(AF) 2nd MG Dev't Partnership SWAp</li> <li>Rio de Janeiro PSM/Fiscal MST</li> </ul> |

<sup>64</sup> As defined in Diario Oficial da Uniao on March 9, 2011 (MoH Portaria 396, March 4, 2011).

| Issues and Obstacles | CAS Outcomes  | Milestones   | Bank Program   |
|----------------------|---|--|--|
|                      | <p>had sex in the last year</p> <p>Baseline (2010): TBC</p> <p>Target (2015): TBC</p> <p>Source: MOH</p> <p>Indicator 2: Sex workers reporting the use of a condom with their most recent client</p> <p>Baseline (2010): 90.1%</p> <p>Target (2015): TBC</p> <p>Source: MOH</p> | <p>Federal reforms as well as innovation at State and Municipal level.</p> <ul style="list-style-type: none"> <li>• Policies, guidelines and technical regulations for the health care network to better reach groups most at risk are developed</li> <li>• Results-based financing of STD and HIV/AIDS programs in states, municipalities and CSOs are established.</li> <li>• Impact evaluations of interventions targeted at groups most at risk and results-based financing are undertaken.</li> </ul> | <p>Indicative Financing:</p> <ul style="list-style-type: none"> <li>• Rio de Janeiro DPL III</li> <li>• 3rd Minas Gerais Partnership DPL</li> <li>• Bahia DPL</li> <li>• BR AF Rio de Janeiro State (SIL)</li> <li>• BR Rio Grande do Norte Regional Development</li> <li>• BR South-South Cooperation for Economic Development</li> </ul> <p>Indicative AAA/Others :</p> <ul style="list-style-type: none"> <li>• Health Financing Sector Work</li> <li>• CPLP Technical Cooperation Agreement</li> <li>• São Paulo Municipal AAA</li> <li>• Evaluations as part of ongoing projects</li> </ul> |



| Issues and Obstacles   | CAS Outcomes  | Milestones  | Bank Program  |
|--|---|---|---|
| Results area 2.4: Expanded access to affordable housing for low-income groups  |   |   |   |
| <p>Brazil has a significant housing deficit of 7 million units, and the new demand is forecast to reach 23 million units by 2023. This is estimated to require investments of R\$3 trillion (about US\$1.9 trillion)</p> <p>Goals of MCMV 2 entail promoting improvements in housing supply. One challenge is to provide a range of housing solutions that encompass new construction (through MCMV), but also purchase of existing units on the market, slum upgrading, rental units, and incremental construction through sites-and-services solutions. Another challenge is to expand access to housing finance especially for low-income groups (mortgage debt outstanding was less than 5% of GDP in 2010).</p> | <p>Outcome 1: Expanded availability of affordable housing and mortgage finance for low-income groups</p> <p>Indicator: Increased reliance on capital markets to support down-market expansion of housing finance system</p> <p>Outcome 2: More effective housing subsidies and improved housing and land markets</p> <p>Indicator: TBD once the monitoring system is in place.</p> <p>Outcome 3: Improved integration of slum upgrading and housing programs, including</p> | <p>Development of draft regulatory framework for covered mortgage bonds</p> <p>Monitoring system to track the effectiveness of the MCMV is in place.</p> <p>Improved land market assessment system is in place in São Paulo</p> <p>Revised directives of social work in slum upgrading programs issued by the Federal Government.</p> <p>Integrated territorial development plans and service delivery coordination in Rio's favelas implemented in</p> | <p>Ongoing Financing:</p> <ul style="list-style-type: none"> <li>• Rio metropolitan urban and housing DPL</li> <li>• Bahia poor urban areas</li> <li>• APL1: Recife</li> </ul> <p>Indicative Financing:</p> <ul style="list-style-type: none"> <li>• BR Rio de Janeiro State TAL AF</li> <li>• BR Belo Horizonte Urban DPL</li> <li>• IFC to continue financing homebuilders working on the MCMV program. IFC expects to commit two projects during the next three years.</li> </ul> <p>AAA/others:</p> <ul style="list-style-type: none"> <li>• TA to the Ministry of</li> </ul> |

| Issues and Obstacles   | CAS Outcomes  | Milestones | Bank Program  |
|--|---|------------|---|
| In 2000, over 12 million people or 3.2 million households lived in precarious settlements or slums in Brazil.                              | <p>via MCMV and PAC Urbanização, with territorial development and socio economic policies (Rio de Janeiro, São Paulo, Bahia, Pernambuco, Salvador, Recife) in WBG intervention areas.</p> <p>Indicator: Increased investment on socio-economic development within Federally-funded slum upgrading and housing programs.</p> | Rio        | <p>Finance on developing a covered mortgage bond regulatory framework</p> <ul style="list-style-type: none"> <li>• TA to the Ministry of Cities National Housing Secretariat on the implementation of MCMV and strengthening social work</li> <li>• TA to the Municipality of São Paulo on improving social housing design</li> </ul> <p>IFC investment and advisory to support low-income housing and infrastructure projects, either through direct financing or PPP structures</p> |
| <i>Strategic Objective 3: Promote regional economic development through improved policies and strategic public and private investments</i> |   |            |   |
| Results area 3.1 Improved regional economic development policies   |   |            |   |
| <p>Rural poverty is a challenging issue.</p> <p>Special attention will be need to integrating poverty reduction</p>                        | <p>Outcome 1: Enhanced rural productive inclusion programs (Acre, Ceará, Pernambuco, Rio Grande do Norte, Paraná, Santa</p>   |            | <p>Ongoing financing:</p> <ul style="list-style-type: none"> <li>• Acre Social &amp; Economic Inclusion - PROACRE</li> </ul>  |

| Issues and Obstacles  | CAS Outcomes   | Milestones | Bank Program   |
|---|--|------------|--|
| objectives with those associated to improving management of natural resources | <p>Catarina)</p> <p>Participating Rural Producer-based Organizations in areas of WB operations successfully inserted into Local Productive Alliances in states with Rural development projects</p> |            | <ul style="list-style-type: none"> <li>• Bahia State Integrated Proj.: Rural Development – PRODUZIR II</li> <li>• Bahia State Int. Proj.: Rural Development – ADDITIONAL FINANCING - PRODUZIR III</li> <li>• Ceará Regional Economic Development – Cidades do Ceará</li> <li>• Ceará Rural Sustainable Development and Competitiveness</li> <li>• Rio Grande do Norte Regional Development and Governance</li> <li>• Pará Integrated Development - Pará Rural</li> <li>• Paraná Central Regional Development Project - Proterritórios</li> <li>• Pernambuco Rural and Economic Inclusion</li> <li>• Piauí Sustainable Development Project</li> <li>• Rio de Janeiro Sustainable Rural Development Proj. – RIO RURAL</li> <li>• Rio Grande do Sul Integrated Municipal</li> </ul> |

| Issues and Obstacles | CAS Outcomes | Milestones | Bank Program   |
|----------------------|--------------|------------|--|
|                      |              |            | <p>Development</p> <ul style="list-style-type: none"> <li>• Rural Poverty Reduction Project II Paraíba</li> <li>• Santa Catarina Rural Competitiveness – MICROBACIAS III</li> <li>• São Paulo Sustainable Rural Development and Access to Markets</li> <li>• Sergipe Rural Poverty Reduction Project II</li> <li>• Tocantins Sustainable Regional Development</li> </ul> <p>Indicative Financing:</p> <p>IFC to increase investments and advisory work in frontier regions, to support more efficient farming and integrate small farms into supply chains</p> <ul style="list-style-type: none"> <li>• BR Pernambuco Rural Economic Inclusion (SIL)</li> <li>• BR Ceará Rural Sustainable &amp; Competitiveness (SIL)</li> <li>• Bahia DPL</li> <li>• BR AF Rio de Janeiro Sustainable Rural Development (SIL)</li> </ul> |

| Issues and Obstacles   | CAS Outcomes  | Milestones  | Bank Program  |
|--|---|---|---|
|  |   |   | <ul style="list-style-type: none"> <li>• BR Pernambuco Expand, Opportunities, Enh. Equity DPL</li> <li>• BR Piauí Green Growth and Inclusion DPL</li> <li>• BR Alagoas Poverty Reduction and Economic Inclusion project (SIL)</li> <li>• BR Tocantins Integrated Sustainable Regional Development (SIL)</li> <li>• Rio Grande do Norte Regional Development (SIL)</li> <li>Paraná PSM for Development Swap</li> </ul> |
| Results area 3.2 Expanded access to improved basic sanitation  |   |   |   |
| <p>There are still around 9.1 million of households that lack access to safe drinking water, all of whom are in the lowest income segments.</p> <p>Large disparities still remain, between rural and urban areas, and between regions within the country.</p> <p>Obstacles to achieving universal provision include relatively large water losses in most utilities – 37% at</p> | <p>Outcome 1: Increased access to and improved efficiency of water supply</p> <p>Percentage of households with access to clean water</p> <ul style="list-style-type: none"> <li>➤ 93 % (2015)</li> <li>➤ 91% (2010)</li> </ul> <p>Average non-revenue water losses drop from 37.4% to 35%</p> | <p>Federal institution responsible for the WSS policy strengthened and working in coordination with other Federal institutions in the water sector.</p> <p>Improved programs to promote efficiency in</p> | <p>Ongoing financing:</p> <ul style="list-style-type: none"> <li>• Federal Integrated Water Sector</li> <li>• BR Integrated Solid Waste</li> <li>• Pernambuco Sustainable Water</li> <li>• SP APL Integrated Water Management</li> <li>• SP Water ReÁgua</li> </ul>   |

| Issues and Obstacles  | CAS Outcomes  | Milestones  | Bank Program   |
|---|---|---|--|
| <p>the national level, but ranging from a staggering 53% in the North to 27% in the South – and a particularly weak institutional framework in the case of the rural water sector.</p> <p>Sanitation is the most staggering infrastructure challenge in Brazil with only 72.3% of households having access to wastewater collection (26% in rural areas) and barely 34.6% of the total wastewater produced being treated.</p> <p>Wastewater re-use and sludge treatment represent additional worrisome issues.</p> <p>An effective response to this challenge must involve multiple Government entities at all levels and should also incorporate an integrated approach to water resources management and water supply and sanitation, ideally involving also actions in the areas of basin management, urban development, housing, disaster risk and poverty alleviation.</p> | <p>during 2010-2015</p> <p>Percentage of municipalities with services providers regulated by independent regulators</p> <ul style="list-style-type: none"> <li>➤ 2010 - 30%</li> <li>➤ 2015 - 60%</li> </ul> <p>Outcome 2: Increased access to sewage services and treatment of waste water</p> <p>% of Households with access to sewerage</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> 75% ---2015</li> <li><input type="checkbox"/> 70% ---2010</li> </ul> <p>Outcome 3: Improved access to collection and sanitary disposal of solid waste</p> <p>% of municipalities with open dumps</p> <p>51% --- 2010</p> <p>25% - 2015</p> | <p>the WSS sector</p> <p>IFC advisory PPP services in WSS are in place.</p> | <ul style="list-style-type: none"> <li>• Ceará Inclusive Growth II SWAp</li> <li>• Ceará Regional Development Project</li> <li>• Rio Grande do Norte Integrated Water</li> <li>• Bahia Integrated Health and Water Management SWAp</li> <li>• Amazonas Alto Solimões Basic Services Project</li> <li>• Espírito Santo Water Costal Pollution Project Management AF</li> <li>• Brasilia Environmentally Sustainable Project</li> <li>• APL: Recife</li> <li>• APL São Luis</li> <li>• APL Teresina</li> <li>• APL Santos</li> </ul> |

| Issues and Obstacles  | CAS Outcomes | Milestones | Bank Program  |
|---|--------------|------------|---|
| <p>Of the total volume of solid waste produced, about 12% was not collected, and 43% was improperly disposed in dumpsites.</p> <p>Large variations in collection and disposal rates are observed amongst the various regions of the country and only 56% of the 5,565 municipalities in Brazil have in place recycling initiatives.</p> |              |            | <ul style="list-style-type: none"> <li>• APL Uberaba</li> <li>• RS APL Integrated Municipal Development</li> </ul> <p>IFC has two signed operations under the Sub-national Development Facility:</p> <ul style="list-style-type: none"> <li>• DESO (Sergipe WSS company)</li> <li>• CASAN (Santa Catarina WSS company) project.</li> </ul> <p>Indicative Financing:</p> <p>Increased IFC financing for private companies operating public concessions; increased IFC technical assistance for PPP projects</p> <p>IFC financing and PPP advisory support for private sector provision of sewage and waste water services</p> <ul style="list-style-type: none"> <li>• BR Sergipe Water</li> </ul> |

| Issues and Obstacles  | CAS Outcomes  | Milestones  | Bank Program   |
|---|---|---|--|
|   |   |   | <ul style="list-style-type: none"> <li>• BR APL Int. Water Mgmt (São Bernardo de Campo)</li> <li>• BR Pernambuco Rural Economic Inclusion</li> <li>• BR Ceará Rural Sustainable &amp; Competitiveness</li> <li>• Paraná SWAp</li> </ul>  |
| Results area 3.3 Improved transport and logistics   |   |   |  |
| <p>High logistics costs</p> <p>Improving transport and logistics supply chains is critical to increase the efficiency of Brazil's internal markets and export competitiveness.</p> <p>Regarding transport projects, much remain to be done to improve accessibility to basic services, jobs and markets with a view to foster new opportunities to populations settled in rural areas</p> | <p>Outcome 1: Improved integrated transport infrastructure and management</p> <p>States (Minas Gerais, Paraná, Rio Grande do Sul and Tocantins) will have in place improved integrated transport management and overall efficiency with emphasis on green transport, as measured within the supporting Bank projects.</p> <p>Outcome 2: Improved sustainable urban mobility and</p> | <p>States will have prepared within the framework of Brazil's National Plan for Logistics and Transport (PNLT), transport and logistics plans and will have made progress in securing their financing.</p> <p>Capacity building</p> | <p>Ongoing Financing:</p> <p>IFC investments for private sector urban transport projects; IFC PPP Advisory to support concessioning processes</p> <p>IFC investments in private rail, port, and airport projects</p> <ul style="list-style-type: none"> <li>• BR Road Transport Project</li> <li>• BR Bahia Integrated Highway Management</li> <li>• BR-Second Minas Gerais</li> </ul> |



| Issues and Obstacles | CAS Outcomes   | Milestones   | Bank Program  |
|----------------------|--|--|---|
|                      | <p>regional access</p> <p>States and cities (Belo Horizonte and Rio de Janeiro) will have integrated transport within a broader urban management framework as measured with the support Bank operations.</p> | <p>activities on the integration of transport and urban planning provided to states and municipalities of large metro areas in which the Bank is engaged</p> | <p>Dev't Partnership</p> <ul style="list-style-type: none"> <li>• (AF-C)S.P. Metro Line 4 (Add'l Fin)</li> <li>• São Paulo Trains and Signaling</li> <li>• (AF-C)RJ Mass Transit</li> <li>• Ceará Regional Development</li> <li>• Acre Social Economic Inclusion Sust. D</li> <li>• SP METRO LINE 4 (PHASE 2)</li> <li>• São Paulo Feeder Roads Project</li> <li>• RJ Mass Transit II</li> <li>• São Paulo Metro Line 5</li> <li>• Mato Grosso do Sul Road</li> <li>• (AF) 2nd MG Dev't Partnership SWAp</li> </ul> |

| Issues and Obstacles | CAS Outcomes | Milestones | Bank Program   |
|----------------------|--------------|------------|--|
|                      |              |            | <ul style="list-style-type: none"> <li>• (AF) SP Trains and Signaling</li> <li>• (AF) SP Feeder Roads</li> <li>• Santa Catarina Rural Competitiveness</li> <li>• BR (AF) SP Trains and Signaling</li> <li>• BR (AF) SP Feeder Roads</li> </ul> <p>Indicative Financing:</p> <ul style="list-style-type: none"> <li>• Rio Grande do Sul SWAp</li> <li>• Bahia DPL I</li> <li>• 3<sup>rd</sup> Minas Gerais Partnership DPL</li> <li>• Tocantins Integrated Sustainable Regional Development (SIL)</li> <li>• Pernambuco Rural Economic Inclusion</li> <li>• BR Paraná PSM for Development Swap</li> </ul> |

| Issues and Obstacles   | CAS Outcomes  | Milestones   | Bank Program  |
|--|---|--|---|
|  |   |  | <ul style="list-style-type: none"> <li>• Federal Transport</li> <li>• BR AF Greening Rio de Janeiro Urban Rail System</li> </ul>  |
| Result area 3.4 Increased supply of clean and efficient energy services  |   |  |   |
| In 2003, the Government launched an ambitious program for universal access, called <i>Luz para Todos</i> , which, at that time, aimed to bring electricity to more than 10 million rural inhabitants across the country. | <p>Outcome 1: Increased access in remote areas</p> <p>New households connected to electricity will have increased by 500,000 families by 201, mainly in the North and the Northeast</p> <p>Outcome 2: Improved efficiency in energy supply and demand</p> <p>Efficiency in production - by 2015, technical losses in distribution reduced by 50% and technologies developed (CEPEL) to reduce long distance transmission losses by 50%</p> <p>Outcome 3: Diversification of</p> | <p>Strategy to strengthen the ability of six distribution companies located in the North and Northeast regions to deliver energy in a sustainable manner underway.</p> <p>Increased capacity of key government institutions in charge of supporting the development of the energy sector</p> | <p>Ongoing financing:</p> <ul style="list-style-type: none"> <li>• Eletrobras SIL</li> </ul> <p>Indicative Financing:</p> <p>IFC investment and advisory support for rural electrification</p> <ul style="list-style-type: none"> <li>• BR Energy and Mineral Sector Strengthening</li> <li>• IFC energy efficiency investments and advisory services engagements through Energy Efficiency Finance Program; intensify energy and water efficiency programs, in industry, housing projects, and public buildings</li> <li>• IFC investments in gas-fired</li> </ul> |

| Issues and Obstacles   | CAS Outcomes  | Milestones   | Bank Program  |
|--|---|--|---|
|  | <p>clean energy sources and improved energy efficiency.</p> <p>Indicator: TBD in the context of the BR Energy and Mineral Sector Strengthening project.</p>   |  | <p>power stations and other renewable energy projects; expansion of ethanol production, development of new biofuel feedstock</p> <ul style="list-style-type: none"> <li>• BR South-South Cooperation for Economic Development</li> </ul>  |
| <i>Strategic Objective 4: Improve sustainable natural resource management and climate resilience</i>   |   |  |   |
| Results area 4.1 : Integrated Water Resources Management   |   |  |   |
| <p>Brazil is endowed with 19% of the freshwater resources of the world, and the country's success has not surprisingly been closely linked with the management of its water resources.</p> <p>Brazil is presently irrigating 4.0 but has the land and water resources to irrigate 30 million ha.</p> | <p>Outcome 1: Improved water resources management</p> <p>13 State water agencies and 4 river basin water agencies that are properly functioning, applying the management instruments established by law, and are reasonably well staffed.</p> <p>Volume (20 million m<sup>3</sup> per year) of bulk water being charged (and 50% percentage collected of that</p> | <p>Increased capacity of key government institutions in charge of supporting the development of the water management sector</p> <p>Through the <i>InterÁguas</i> Project, strategies have been agreed to improve the</p> | <p>Ongoing Financing:</p> <p>IFC to continue supporting water efficiency improvements through direct financing; increase financing for water concession operators; increase technical assistance for PPP projects</p> <p>Increased work by IFC's PPP Advisory on irrigation</p> |

| Issues and Obstacles | CAS Outcomes  | Milestones   | Bank Program   |
|----------------------|---|--|--|
|                      | <p>volume) in the country, excluding power generation.</p> <p>Outcome 2: Development of innovative long-term irrigation approaches</p> <p>PPP arrangements signed for irrigation projects covering an expanded area:</p> <p>2015: 200,000 ha</p> <p>2010: &lt; 3,000 ha</p> | <p>coordination of the water programs of the Ministries of Integration, Cities and Environment, and the National Water Agency (ANA)</p> <p>Integrated activities with stakeholder participation in the San Francisco and the Araguaia-Tocantins basins are being implemented</p> <p>Most adequate PPP model for irrigation selected and bidding under way.</p> <p>Implementation of the National Water Resources Management System created by Law 9433 is advanced and strengthened at</p> | <p>concessions</p> <ul style="list-style-type: none"> <li>• RGN State Integrated Water Res Mgmt</li> <li>• Ceará Inclusive Growth (SWAp II)</li> <li>• (AF) Ceará Integ Wtr Res Mgmt</li> <li>• SP APL Integrated Wtr Mgmt</li> <li>• (APL2) 2nd National Environmental</li> <li>• Pernambuco Sustainable Water</li> <li>• Bahia Health and Water SWAp</li> <li>• FBS Baixo Irecé III</li> </ul> <p>Indicative Financing:</p> <ul style="list-style-type: none"> <li>• Sergipe Water SIL</li> <li>• BR Pernambuco Rural</li> </ul> |

| Issues and Obstacles | CAS Outcomes | Milestones   | Bank Program  |
|----------------------|--------------|--|---|
|                      |              | <p>Federal, State, and river basin levels.</p> <p>Improved application of water resources management instruments by Federal, State, and river basin institutions.</p> <p>New planning and information integrated management; safety, <b>efficiency</b>, and productivity of water infrastructure instruments are established</p> <p>Information in the water sector is more integrated across subsectors and readily available for decision making and public consultation.</p> <p>Sustainability achieved in the Poção da Ribeira</p> | <p>Economic Inclusion</p> <ul style="list-style-type: none"> <li>• BR AF Rio de Janeiro</li> </ul> <p>Sustainable Rural Development</p> <ul style="list-style-type: none"> <li>• BR Rio Grande do Norte</li> </ul> <p>Regional Development</p> <ul style="list-style-type: none"> <li>• BR Pernambuco Expand, Opportunities, Enh. Equity DPL</li> </ul> |

| Issues and Obstacles   | CAS Outcomes  | Milestones  | Bank Program  |
|--|---|---|---|
|  |   | <p>and Jacarecica I systems, and improved environmental soil and water practices promoted within targeted municipalities of the Jacarecica river basin.</p> <p>DESO's financial and investment capacity improved. Agency responsible for water resources management is created or designated.</p> <p>PPP mechanism developed for irrigation programmed in the Northeast</p> |   |
| Results area 4.2: Expanded sustainable agriculture   |   |   |   |
| Brazil has significantly increased production of food stuffs by rising yields and bringing new areas under | Outcome 1: Increased low carbon and clean agriculture and | Brazil's National Action Plan for Climate Change has  | Indicative Financing:<br>IFC expects to concentrate its |

| Issues and Obstacles  | CAS Outcomes   | Milestones  | Bank Program  |
|---|--|---|---|
| <p>cultivation, including the sensitive <i>Cerrado</i> savannah region of Central Brazil. Managing extensive farming and expanding infrastructure needed to service these properties in the <i>Cerrado</i> presents significant environmental challenges.</p> | <p>livestock production</p> <ul style="list-style-type: none"> <li>• IFC's portfolio of biofuel and biomass-generated energy investments expands by supporting, among others, sugarcane-based producers and biomass producers; support for sustainable forestry projects with strong demonstration effects; infrastructure projects to improve agribusiness supply chains.</li> <li>• IFC portfolio of projects increases in support of government target of recuperation of degraded areas (Amazon and Cerrado)</li> <li>• Reduced carbon footprint of the agricultural sector by 100 mmt per annum by 2015</li> </ul> <p>Outcome 2: Increased sustainability of agricultural production in the Cerrado</p> | <p>set out detailed targets for the reduction of agricultural sector emissions and climate adaptation approaches.</p> <p>MAPA subsequently has adopted a Low Carbon Agriculture Program.</p> <p>Matching grant schemes supporting climate-smart responses in place in the context of State level projects (e.g. in Rio de Janeiro, Santa Catarina, São Paulo, Ceará, Pernambuco and Piauí).</p> | <p>agribusiness investments in the following areas:</p> <ul style="list-style-type: none"> <li>• IFC food processing industry program; increase access to finance and agricultural inputs;</li> <li>• BR Pernambuco Rural Economic Inclusion</li> <li>• BR Ceará Rural Sustainable &amp; Competitiveness</li> <li>• BR AF Rio de Janeiro Sustainable Rural Development</li> <li>• BR Rio Grande do Norte Regional Development</li> <li>• Piauí Green Growth and Inclusion DPL</li> <li>• South-South Cooperation for Economic Development (SIL)</li> <li>• Paraná PSM for Development SWAp</li> </ul> |



| Issues and Obstacles | CAS Outcomes   | Milestones   | Bank Program |
|----------------------|--|--|--------------|
|                      | <ul style="list-style-type: none"> <li>• Low till and/or no-till area on which sustainable practices are adopted expands by 4 million ha by 2015</li> <li>• Increase of planted forests for sustainable carbon production by 0.5 million ha by 2015</li> <li>• Number of small farmers making use of water saving technologies (primarily in the NE), such as drip irrigation, rainwater harvesting, and reuse of treated wastewater.</li> </ul> <p>Outcome 3: Improved sustainability of productive chains of natural products</p> <p>IFC's portfolio of biofuel and biomass-generated energy investments expands by supporting, among others, sugarcane-based producers and biomass producers; support for sustainable forestry projects with strong demonstration effects; infrastructure projects to</p> | <p>IFC engages with clients willing to commit to raising standards to meet IFC's Performance Standards.</p> <p>Rural producers organized to finance sustainable farmer participation in value chains ranging from cattle to NTFPs (e.g.,</p> |              |

| Issues and Obstacles | CAS Outcomes   | Milestones   | Bank Program |
|----------------------|--|--|--------------|
|                      | <p>improve agribusiness supply chains.</p> <p>Matching grant schemes supporting climate-smart responses context of State level projects (e.g. in Rio de Janeiro, Santa Catarina, São Paulo, Ceará, Pernambuco and Piauí) in place included impact monitoring system.</p> | <p>açaí) in the context of projects in the Amazon (Acre, Amapá, and Pará</p> |              |

| Issues and Obstacles  | CAS Outcomes   | Milestones   | Bank Program  |
|---|--|--|---|
| Results area 4.3 Improved environmental management, biodiversity conservation and climate change mitigation   |  |  |   |
| <p>Major progress made to reduce deforestation but more remains to be done in order to meet objectives to further control CO2 emissions. Recent studies indicate that 37% of the reductions in deforestation achieved in the period 2004-2007 can be explained by the creation of protected areas.</p> <p>Climate change will further intensify moisture deficits throughout Brazil, requiring significant adjustments in water use, particularly for food production in dry land areas where rain-fed agriculture dominates.</p> | <p>Outcome 1: Expansion of areas under effective protection</p> <p>Protected areas to increase:</p> <p>2015: 135 million ha.</p> <p>2010: 120 million ha.</p> <p>Outcome 2: Sustainable Natural Forest Management of private and public areas:</p> <p>2015: 4.4 million ha.</p> <p>2010—3.3 million ha.</p> <p>Outcome 3: Improved institutional capacity for environmental management</p> <p>Environmental management capacity will have improved through (a) decentralization process in three main urban areas, (b) development of more transparent and user-friendly</p> | <p>Plan to prevent and combat deforestation in the Amazon is under implementation</p> <p>Plan to Prevent and Combat Deforestation in the Cerrado is under implementation.</p> <p>National Climate Change Action Plan is under implementation.</p> <p>Improvement of Environmental license procedures improved in projects in the Amazon (Acre,</p> | <p>Ongoing Financing:</p> <ul style="list-style-type: none"> <li>• BR Second National Environmental Project</li> <li>• BR GEF Espírito Santo</li> <li>• BR GEF Caatinga</li> <li>• BR Cerrado</li> <li>• BR GEF Rio Grande do Sul</li> <li>• BR GEF Environment Mainstreaming II (ProBio 2)</li> <li>• CF AES Tiete</li> <li>• BR Federal Integrated Water Sector</li> </ul> <p>Indicative Financing</p> <ul style="list-style-type: none"> <li>• Amazon Protected Areas Project 2</li> <li>• BR Energy and Mineral Sector</li> </ul> |

| Issues and Obstacles | CAS Outcomes   | Milestones        | Bank Program  |
|----------------------|--|-------------------|---|
|                      | tools to speed up licensing processes and improve social participation and control mechanisms, (c) the creation of ecological-economic zoning (EEZ) land use planning tools in three states. | Amazonas, Paraná) | <p>Strengthening</p> <ul style="list-style-type: none"> <li>• BR Pernambuco Rural Economic Inclusion</li> <li>• BR Ceará Rural Sustainable &amp; Competitiveness</li> <li>• BR AF Rio de Janeiro Sustainable Rural Development</li> <li>• Paraná SWAp</li> <li>• Rio Grande do Sul SWAp</li> <li>• BR Piauí Sustainable Development</li> <li>• BR 3<sup>rd</sup> Minas Gerais Partnership DPL/PBG</li> <li>• BR Rio Grande do Norte Regional Development</li> <li>• IFC Advisory work on environmental licensing</li> <li>• Brazil Forest Investment Program</li> </ul> |

| Issues and Obstacles   | CAS Outcomes   | Milestones   | Bank Program  |
|--|--|--|---|
| Results area 4.4 More effective disaster risk management   |  |  |   |
| <p>Disaster Risk Management (DRM) has not been a top priority because for several decades Brazil had not witnessed major catastrophic events, but this changed after the floods and landslides in Rio in 2010 and 2011, prompting the Government to take a more proactive role in addressing the problem.</p> <p>There are large discrepancies in the preparedness of different States and municipalities. Few institutions are involved in the preparation of contingency planning as has been attested in recent disasters.</p> <p>Despite the efforts of some States to develop forecasting and early warning systems, their level of resolution has not been sufficiently precise.</p> | <p>Outcome 1: Improved disaster risk prevention and reduction</p> <p>Indicator: Basic DRM institutions in place in areas of Bank involvement (Bahia, Minas Gerais, Paraná, Pernambuco, Rio de Janeiro, Rio Grande do Sul)</p> <p>Outcome 2: Improved disaster preparedness and coordination of post disaster response in states/cities of Bank engagement</p> <p>State/City early Warning Systems Revamped</p> <p>2015: TBD</p> <p>2010: 0</p> <p>Outcome 3: Improved infrastructure resilience to natural disasters</p> | <p>Nationally coordinated DRM policy and plan for the country.</p> <p>New National System for Risk and Disaster Management conceived, institutionalized and implementation commenced.</p> <p>Local probabilistic risk modeling capacity improved.</p> <p>Government starts mainstreaming and institutionalizing DRM by including such components into future PAC2 investments.</p> | <p>Ongoing Financing:</p> <ul style="list-style-type: none"> <li>• Rio Metropolitan Urban and Housing DPL</li> <li>• BR Federal Integrated Water Sector <ul style="list-style-type: none"> <li>• Santos APL</li> <li>• BR Rio State TAL Pro-Gestão</li> </ul> </li> </ul> <p>Indicative Financing:</p> <ul style="list-style-type: none"> <li>• BR Federal Disaster Risk Management Project</li> <li>• BR Rio State TAL AF</li> <li>• Bahia DPL</li> <li>• Pernambuco DPL</li> <li>• BR Belo Horizonte Urban DPL</li> </ul> |

| Issues and Obstacles | CAS Outcomes  | Milestones   | Bank Program  |
|----------------------|---|--|---|
|                      | <p>% of PAC meeting disaster-proof standards increases at</p> <p>PAC</p> <p>2015--TBD</p> <p>2010--0</p> <p>BNDES &amp; Caixa</p> <p>2015—TBD</p> <p>2010-0</p> | <p>The Bank has explored the possibility of helping create awareness of DRM financing within the national financial sector through risk transfer and risk insurance mechanisms with public (BNDES, Caixa and Banco do Brasil) and private banks.</p> | <ul style="list-style-type: none"> <li>• BR APL 2 São Bernardo Int. Water Mgment</li> <li>• BR AF Rio de Janeiro Sustainable Rural Development</li> <li>• Rio Grande do Sul SWAp</li> <li>• BR Paraná PSM for Development Swap</li> </ul> |

## **CPS Annex 5: Brazil Country Partnership Strategy FY08-F11**

### **COMPLETION REPORT**

#### **I. Executive Summary**

The FY08-FY11 CPS supported the implementation of key priorities of the second Lula Administration in (a) competitiveness (b) equity, (c) environment and (d) public sector management. Lending increased to reach around US\$11.5 billion (in FY08-11), more than doubling the initial forecasts. Eighty% of total commitments during the CPS period went to sub-national governments in multi-sectors operations that sought to foster improved fiscal outcomes, better public sector practices and service delivery. During this CPS, Brazil became IFC's largest new business global partner. Loans and investments, even if large, pale in comparison with the government program. Therefore the WBG moved to emphasize a strong demand driven approach with emphasis on the delivery of knowledge intensive products and innovation. The CPS built on the strong program that it received from the previous strategy, emphasis on policy operations and AAA to deliver results. At the same time, the IFC has been moving to increasing playing a role of strategic advisor. Coordination between the IFC and the Bank around common strategic goals has strengthened.

The CPS has supported the authorities in scaling up efforts to take a global leader role in environment to reduce carbon emissions and fight climate change The Bank has supported the government in successful efforts to address the fiscal challenges of the weaker states and in introducing modern public administration practices. The WBG have been engaging increasingly more with states to develop the competitive agenda. The contribution of results towards an equitable Brazil remained strong as in the previous CPS. The CPS AAA program focused on “how” rather than “what” and did so by incorporating knowledge in lending. Innovations in lending are having an impact in program design throughout the Bank (e.g. through the new policies for Municipal DPLs and new design proposals such as P4Rs). **The Completion Report rates both the Program and Bank performance as satisfactory.**

#### **II. Progress towards Long-term Development Outcomes**

**During this CPS period, Brazil continued to consolidate its position as a major regional and global player while reducing social and environmental risks.** Increased macroeconomic stability reflected in lower inflation, deepening of credit markets, and sustainable public debt management provided a platform for economic expansion and gained the country investment grade in April 2008. Brazil's economy grew an average 4% during the CPS period (2008-2010) despite the global crisis hitting the country hard in the last quarter of 2008 and first quarter of 2009, with a cumulative contraction of 6.0% during this period. The authorities' timely policy response contained the negative effects of the global crisis and laid the groundwork for the recovery, which limited the contraction in 2009 to 0.6% of GDP and led to a rate of economic growth of 7.5% in 2010. Macroeconomic resilience was due both to the strength of the financial

system and the combination of fiscal responsibility, exchange rate flexibility, and a credible commitment to inflation targeting—the pillars of the successful macroeconomic strategy that Brazil has pursued over the last decade. During the crisis, as the supply of new credit from private banks to the economy fell significantly, the expansion of credit by public banks played a critical role in preventing a potentially large output loss.

**Brazil has grown rapidly, but the gap with the advanced economies remains.** During the second half of the twentieth century, Brazil's output per worker grew at an annual rate of 2.1%. Traditional aggregate growth accounting exercises suggest that total factor productivity growth averaged 0.6% during this 50-year period.<sup>1</sup> The evidence for the more recent period suggests that aggregate TFP growth has accelerated, reaching 1.1% per year during 2002-2008, or about the rate of growth of output per worker in the U.S. economy during the previous three decades. Thus, while Brazil appears to be accompanying the rate of global technological change, the aggregate efficiency of the Brazilian economy would have to grow at an even faster rate in order to contribute to reducing the country's relative income gap with respect to the more advanced economies.

**A fairly high and rigid level of public expenditure continues to limit Brazil's efforts to sustain a higher economic growth path.** With public expenditure close to 40% of GDP and a system of rigid entitlements and expenditures, the margin for public investment— 2.6% of GDP in 2010— is insufficient, under the current institutional arrangements, to close the major infrastructure gaps, which to some observers remain a major constrain to a higher rate of economic growth. Brazil also needs increasing the rate of private investment and overall factor productivity growth to sustain faster increases in income.

### **Brazil is on the way to meet all its MDGs.**

- First, over the last decade, poverty reduction has been substantial with incidence dropping from 36% in 2003 to 21.4% in 2009, extreme poverty dropping from 15 % to 7% during the same period (using official national methodologies). While economic growth has been a driver of poverty reduction (around 50%), other factors include (a) the income of the poorest has grown faster than that of the average population, and (b) social protection programs have contributed around 25% to the reduction. With inequality decreasing during the same period (6 point drop in the Gini Coefficient), Brazil posts a clear achievement of pro-poor growth.
- Second, Brazil has experienced rapid improvements in education outcomes over the last decade: (a) the average years of schooling has gone up from 5.6 to 7.2; (b) the primary completion rate went from 40% to 72%; (c) the growth in the secondary enrollment is the fastest in Latin America, as have been the improvements in PISA learning outcomes; and (d) early childhood education is expanding fast. A culture of assessment of educational outcomes has taken root in the country.
- Third, life expectancy has gradually increased and infant mortality has decreased sharply: mortality rates from vaccination-preventable diseases in children are negligible and diarrheal deceases cause less than 7% of all deaths among children five years of age. The number of new HIV/AIDS cases has leveled off, but is still high for the Latin America region. The prevalence of malnutrition among children younger than five years has been more than halved since the 1990s; 98% of children under five have an adequate weight. However,



maternal mortality rates have shown slower progress and remain high for a high middle income country at 58 per 100,000 live births (it was 120 in 1990).

- Fourth, Brazil has expanded water services rapidly during this period as a result of the government's Accelerated Growth Program (PAC) initiative to finance infrastructure investments, including water and sanitation. The population with access to potable water increased by 8 million people since 2007 to reach 169.9 million in 2009. Similarly, 108.8 million people had access to sanitation services in 2009 compared to 101 million in 2007.

**The commitment to a Green Brazil has increasingly emerged as a top national priority and is an area where the country seeks global leadership.** During this period, Brazil began reversing the trends of environmental deterioration and consolidated a strategy to prepare for the impact of climate change and to reduce carbon emissions. In December 2008, the Federal Government launched the National Climate Change Action Plan (NCCAP, 2009-Law.) The plan calls for a 70% decrease in the rate of deforestation by 2017. In addition, Brazil announced a "voluntary commitment" to reduce CO2 emissions by between 36.1 and 38.9% in the next ten years. Brazil is one of the most pro-active countries in the region in pursuing Clean Development Mechanism (CDM) projects and third only to China and India in the world. There are at least 255 ongoing CDM projects that account for about 7% of total certified CDM emission reductions.

### **III. Program Performance**

The Program Performance Evaluation reports on CPS program as revised by the Progress Report. In the demand driven framework characteristic of large upper-middle income countries, the World Bank Group in Brazil has accompanied the authorities in the implementation of national policies in those areas where its advice and financial contribution were sought. Therefore, in the true sense of a partnership, the attribution of results is shared, with the understanding that the authorities lead in design and implementation, while the Bank seeks to provide value added through knowledge products, often in the lending operations. Because the Bank's financial support pales in comparison to Brazil's level of public expenditure and investment across all areas of engagement, the CPS program relied for impact on the development of innovative approaches to policy design and implementation, and focused on improving (a) institutional design, (b) the efficiency in the use of public funds and (c) the leveraging of development actions.

#### **Equitable Brazil**

**The CPS made important contribution towards a more equitable Brazil building on the satisfactory performance under the previous strategy.** A strong on-going program and the policy continuity between the first and second Lula administrations helped delivery of results as did the innovations in instruments and approaches that were imbedded in the various operations. AAA complemented the lending program and helped the government in evaluating policy options. The CPS contributed as well to a broader and a more transparent discussion of social outcomes nationwide.<sup>2</sup>

## Education

**The CPS contributed to the delivery of positive education outcomes in line with the priorities of government for the sector, which** focused on (a) releasing the financing constrain for the poor (access), (b) improving quality and (c) monitoring performance. The Bolsa Família Program (BFP) has been an important instrument in expanding access to education for the poor; 86% of the children covered by the program, most of them from poor households, were attending school in 2011. BFP impact on secondary education has been even higher with 80% of beneficiaries attending school compared with 72% for non-beneficiaries. In addition, regarding access, the Bank has supported the design and implementation of early childhood development policies with a focus on: i) developing critical normative and oversight functions (definition of ECD curriculum guidelines, teacher standards, facility standards) and ii) working with selected municipalities in implementing innovative programs with potential demonstration effects.<sup>3</sup> The IFC, in turn, has supported adult education as a way to increase incomes (graduates with technical and professional qualifications can double or triple incomes) and improve productivity at firm level. The number of adult students enrolled by IFC clients increased from 85,000 at the end of CY 2007 to 763,764 in December 2009. In CY 2009, half of these students were women.<sup>4</sup>

**The quality of education in Brazil is improving and greater attention is paid to monitoring results.** The quality of education index, IDEB, for early primary improved from 3.8 in 2005 to 4.2 in 2007 to 4.6 in 2009. The secondary IDEB has also improved from 3.4 in 2005 to 3.6 in 2009. The IDEB is measured every two years and hence no more recent information is available; however, complementary information confirms the progress. PISA results show that Brazil has achieved significant, sustained progress since 2000 in raising learning performance, particularly in math, posting the fastest improvement in the Latin America. Brazil's 52 score point increase in math from 2000-2009 was one of the largest on record and Brazil's average score across the three disciplines tested (reading, math and science) rose 33 points over the decade, from 368 to 401. This represents the third largest improvement of any country over the period, after Luxembourg (38 point increase) and Chile (37 point increase). The Bank has contributed to quality enhancement in education through its AAA program by engaging on key issues of education quality that are not fully addressed by current policies – especially a) teacher quality, b) repetition rates and age-grade distortion, which remains the highest in Latin America, by far; and c) secondary education quality. The AAA has enhanced the Ministry's capacity to support rigorous evaluation of promising reforms and programs at the State and Municipal levels, so as to support the spread of evidence-based policies.<sup>5</sup>

## Health

**The Bank supported efforts at expanding universal health insurance (SUS) created in 1998 and improving health services and outcomes overall.** SUS coverage has increased from 46.3% in 2007 to 52.7% in 2010. Private insurance covers an additional 25 % of the population and 26%% accesses SUS on a discretionary basis. Bank operations with the Federal and regional governments have supported achievement of this and other health objectives. The focus of the Family Extension APL series, with the Federal government, has been the nationwide implementation of the primary health care system, which includes increasing SUS coverage. The highly satisfactory rating of the first operation of the series (Family Extension Project—APL I) highlighted the achievement of results and the quality of the design.<sup>6</sup> The Bank also contributed to reducing mortality and morbidity from communicable diseases nationwide through VIGISUS

II's, rated as satisfactory on results.<sup>7</sup> The BFP has contributed to lower chronic malnutrition by providing health and nutrition benefits to 10 million pre-school children and their mothers. As a global leader and innovator in the fight against HIV/AIDS, Brazil posts major gains both in incidence and treatment; the contribution to these achievements of the recently completed HIV/AIDS project was rated as satisfactory.<sup>8</sup> The Bank is supporting the implementation of the 2006 Health Covenants initiative which grants states greater flexibility in managing health care by creating regional centers that encourage the formation of networks of health delivery institutions and set the stage for results-based management. The Bank contribution to this effort is coming through the Health Network Formation and Quality Improvement Project (QUALISUS-REDE) APL/SWAP that is focused on regions with a minimal level of Family Health Care coverage and functional surveillance systems indicators to support the transition to integrated regional health care networks with medium complexity.

**Complementary support for achieving health objectives is being provided to states either through direct lending or inclusion of health components in multi-sector SWAP/APL operations.** These activities have included improvements in emergency care and health regulation as well as integration of the flow of patients among different levels of health care through several State operations (Bahia, Rio de Janeiro, Minas Gerais, Acre). The experience in Bahia<sup>9</sup> illustrates how the State-focused approach complements the Federal efforts and provides lessons of national benefit. In the first phase of an APL, the project contributed towards the statewide extension of the family-care primary health system, paralleling national efforts. The persistent high neonatal and maternal mortality levels in the State motivated a deep stock-taking that has zeroed in on the link between the availability of potable water as a key driver of health improvements. Thus, follow-up operation Bahia Integrated Health and Water Management Project (which was approved on November 2, 2010) focuses attention to health and water to improve health outcomes at the State level. IFC has contributed to Brazil's health goals through a number of investments and advisory engagements. For instance, it made a US\$30.4 million investment in Rede d'Or, a healthcare company that targets middle- and low-income patients; it signed a PPP mandate with the State of Bahia to manage concession of a hospital serving poor communities in Salvador.

## **Water and Sanitation**

**Access to clean water and sanitation increased.** According to official statistics the percentage of households with access to clean water increased to 84.4% in 2009 from 83.2% in 2007. The increase in sanitation was from 51.1% to 52.5% during the same period. The contribution of the Bank in water built on a long-standing engagement at both the Federal and State levels<sup>10</sup> that has been focusing on bulk water supply and access in both rural and urban areas, as well as programs for better efficiency and corporate governance. The efforts on the later point have gone into the expansion of the WSS Information System (SNIS)<sup>11</sup> that provides open and detailed local-level information on the status of water and sanitation services. This information is helping formulate and implement national policies and programs, including innovative subsidy schemes focusing on the poor using an output-based approach. The number of municipalities reporting to SNIS increased from 270 at the beginning of the CPS period to 2,500 now. The Bank's contribution to better sanitation results focused on: (i) increasing access to wastewater collection and treatment services at the State and Municipal levels; (ii) promoting an integrated approach to water

resources management and water supply and sanitation (IWRM-WSS); and (iii) integrating IWRM-WSS and urban upgrading activities as an effective way to control water resources pollution. In addition, the recently completed Low Income Sanitation Technical Assistance Project (PROSANEAR) focused on the urban poor, providing technical assistance and financing a stock of sub-projects in over 30 municipalities while incorporating participatory methods in the preparation of WSS and urban upgrading projects.<sup>12</sup> IFC has also begun investing in water companies, making US\$84.3 million in loans to three companies in 2010. For example, the State water company of Santa Catarina used a US\$23 million-equivalent IFC local currency loan to buy and install water meters, update customer databases, and automate its production and distribution systems. The company is using the investment to increase revenues, cut water losses, and improve energy efficiency.

## **Regional disparities**

**The ratio of per capita household income in the Northeast to the national average has been increasing, going from 59.6%% in 2007 to 64% in 2009 driven by the overall expansion of the regional and systematic and consistent government targeted policies the WBG has supported.** The Bank has been supporting two interrelated government initiatives that have been operating in the Northeast to help improve income opportunities. These are the Poverty Reduction Program (PCPR) and the complementary Land Reform Program, *Crédito Fundiário*. A recent review estimates that multiple World Bank operations in support of the PCPR have directly benefited approximately 11 million people by assisting communities meet priority infrastructure needs, and by helping develop governance structures that build social capital.<sup>13</sup> Impact surveys have found that these interventions are well targeted (75% of beneficiaries are extremely poor), that efforts to include women, minorities and indigenous populations have yielded positive results, and that sustainability and satisfaction ratings are high. As coverage of basic water and electricity services increases in the rural populations of the Northeast and other regions, the demand of the communities has shifted to expand their economic opportunities, and therefore the design of the new rural development operations under the CPS has prioritized designs that help the communities of small farmers develop sustainable links to the market, domestic and abroad.<sup>14</sup> In support for the Crédito Fundiário reform initiative where self-selected groups of landless people identify un-or-under-used farms that they wish to acquire the Bank's Land-based Poverty Alleviation Project helped 48,000 families, mostly in the Northeast, obtain land and settle. Its ICR reports significant increases in the incomes and assets of the beneficiaries compared with control groups, but also a high rate of turnover among beneficiaries.<sup>15</sup> The IFC in turn financed ten operations in the North and Northeast regions of Brazil during the CPS period for a total of US\$389 million in infrastructure, financial services, and manufacturing.<sup>16</sup>

## **Social Protection and Housing for the Poor**

**The Bank has contributed to Brazil's successful efforts to put in place an exemplary social protection system as well to provide opportunities of affordable housing for the poor.** Bank technical support for BFP has covered design, implementation and monitoring and evaluation, as well as financial resources, small by comparison to the overall program. BFP is now reaching over 12 million families (25% of the population) in all municipalities. It is well targeted and has

contributed to reduce poverty<sup>17</sup> as well as increase female labor force participation. BFP is now the core of Brazil's social protection institutional framework as several other social protection programs have been merged into it.<sup>18</sup> The Bank participated as well in the implementation of an ambitious government program that provides housing for the poor and that expanded between 2003 and 2010 by about 400% to reach 1.2 million units. The *Minha Casa Minha Vida* (MCMV) program, launched in 2009 as part of measures adopted to address the impact of the global financial crisis, has been a key driver of this expansion, helping reach the low and middle income households.<sup>19</sup> Bank support for housing came through the Housing sector Technical Assistance Loan (TAL) to the Ministry of Cities, which closed in December 2010, as well as its Non Lending TA (NLTA) to the Secretariat of Economic Policy under the Ministry of Finance focused on the sustainability of the MCMV initiative through private sector involvement in low-income housing market with attention to the identification of opportunities to expand access to capital markets and land.<sup>20</sup> The Bank has also been supporting Brazil's slum upgrading program, the largest in the world. The MCMV program is naturally dependent on private sector home builders to deliver units needed to fill the housing gap. The IFC has developed a program in Brazil to target homebuilders and developers. So far, it has signed one transaction with Brookfield Incorporações for US\$47 million to finance construction of low income housing developments in major cities.

### **Sustainable Brazil**

**The CPS contributed to the delivery of environmental outcomes and to the consolidation of the environment agenda in Brazil to face the challenge of climate change.** Reduced levels of deforestation, larger areas under protection and expansion of areas under sustainable development that combined attention to economic activity, preservation and biodiversity have been achieved. In addition, the CPS period also saw a consolidation of the environment program with the government committed to lead in the climate change agenda and the WBG supporting with lending and AAA and active IFC engagement. A strong AAA agenda and the 2009 SEM DPL have been supporting the mitigation side of developing and implementing Brazil's National Climate Change Action Plan. Moreover, the Bank has used GEF projects to support development of projects under the Clean Development Mechanism. On the adaptation side, the strategy supported increased resilience of potable water supply systems, enhanced monitoring and alert systems for extreme climate events, investments in preventive infrastructure.<sup>21</sup> Both the Bank and the IFC have been active supporters of the Amazon and Cerrado initiatives, with the IFC shifted its approach from an emphasis on investments to an advisory-led strategy. CPS has also contributed to the mainstreaming of environment practices throughout government and with special attention to financial institutions and investments.

**Active and timely AAA has elucidated policy options that situate Brazil at the forefront of the environment agenda without sacrificing its growth prospects.** The "*Low Carbon Emissions Scenarios in Brazil*", launched in 2010, produced a *reference scenario* by anticipating the future evolution of Brazil's GHG emissions. This study identifies and quantifies actions that could be taken to mitigate emissions and increase carbon uptake, assesses the costs of implementing low carbon actions, identifies potential implementation barriers, and explores measures to overcome them. Based on all these inputs, the study builds a *low carbon scenario* that meets development expectations and estimates the macroeconomic effects and additional financing needs of shifting from the reference scenario to a lower carbon pathway. The findings

confirm the adequacy of the current strategy that early-on focuses on halting deforestation and then, as emissions from deforestation stabilize, addresses the growing challenge of emissions from energy, transport, and waste management sectors. More than 30 recognized Brazilian experts participated directly in the elaboration of this study and dozens more were consulted, including government representatives, so as to integrate the best available knowledge and avoid duplication of efforts<sup>22</sup>

**The annual rate of deforestation in Brazil is decreasing anchored on an aggressive program of increasing protected areas.** The CPS program contributed to reduce deforestation, improve land management practices, and preserve biodiversity through operations at the Federal and sub-national levels. Concrete achievements on the ground include, in 2009, a reduction in the rate of deforestation to 740,000 hectares, equivalent to a fall of 53% from the 1.48 million hectare average annual level of the base period of 2005-2007. Given the large share of emissions accounted for by deforestation (over 40% of Brazil's total in 2008), this reduction is an early, important step towards meeting the NCCAP's overall target for national emissions reduction---Brazil's voluntary commitment to reduce CO2 emissions by between 36.1 and 38.9% in the next ten years. This positive result has been achieved through tighter enforcement and a rapid expansion in the protected areas under the leadership of ARPA (Amazon Region Protected Areas Program), supported by a domestically managed Environmental Endowment Fund<sup>23</sup>, GEF/IBRD TA and financing from several other multilateral sources. Protected areas, including those of strict preservation and those of sustainable use, stand at 120 million ha (2010), while they stood at 79 million in 2007.

**The areas under sustainable forest management have expanded to reach 3.3 million ha of public/private lands, an increase over 2.7 million in 2007.** BNDES has played a key role in this and other aspects of the environment agenda, with IBRD support under the SEM DPL series. In particular, BNDES has led efforts to introduce sustainable Natural Forest Management of private and public areas through improved and expanded programs that include concessional loans for small farmers to establish forest plantations and for the restoration of deforested areas in private lands. In this context, BNDES recently launched agro-ecological zoning regulations banning from eligibility any new plantations in the Amazon and Pantanal regions and enforcing compliance with environment regulations along the productive chains in areas such as sugar-alcohol, livestock and soy. Complementary efforts under the program have been strengthening the linkage between sustainable agricultural practices, land improvement (reducing land deterioration), and poverty reduction.<sup>24</sup> The IFC has been an active player in the implementation of this agenda by engaging the private sector in addressing the environmental and social difficulties associated with cattle ranching and beef processing in the Amazon.<sup>25</sup>

**In addition, the CPS expanded its attention to biodiversity.** The growing biodiversity agenda built on previous efforts such as the Brazil National Biodiversity (PROBIO), rated as satisfactory, and serving as a model for numerous other biodiversity projects in Brazil. The Integrated Management of Aquatic Resources in the Amazon (AquaBio) is supporting the mainstreaming of a multi-stakeholder, integrated management approach to the conservation and sustainable use of freshwater biodiversity in public policies and programs in the Brazilian Amazon River Basin.<sup>26</sup>

**A drive to produce more energy from renewable resources and/or save energy from efficiency projects has been launched with success.** BNDES favorable financing for renewable energy over fossil fuel based projects, through a credit line for renewable energy projects, has increased the number of renewable energy operations from 16 in 2006 to 75 in 2009. Currently, BNDES has a pipeline of 20 wind projects distributed in over 90 wind farms with total installed capacity of 2,400 MW. The small hydro (<30 MW) pipeline includes 23 projects, totaling an additional 2,450 MW of new installed capacity. Overall, this expansion of the portfolio represents incremental renewable energy generation capacity of 165,000 TJ/year (almost three times the level of the outcome indicator target for this area under the SEM DPL Program). In addition, BNDES is promoting energy efficiency by requiring high standards of energy efficiency for new equipment financed from funds provided by BNDES. IFC also signed loans with five Brazilian companies to finance renewable energy, energy-efficiency, and cleaner-production projects for a total US\$143 million.<sup>27</sup>

**Improved effectiveness of environmental/social management system in financial institutions:** Effectiveness of environmental/ social management systems in financial institutions has improved: BNDES has committed to mainstreaming social, regional, and environmental sustainability criteria in all its operations. In November 2010, BNDES adopted Resolution 2023/10 “Social and Environmental Responsibility and Governance” (the SERG) that strengthens the links among BNDES social, environmental, and corporate responsibility policies. The Environmental and Social Policy (ESP) governing BNDES presents an updated screening process regarding the social and environmental requirements, binding for all operations.

**The per-capita income of the northern region is closing the gap with the national average driven by rapid economic expansion of the economic base, especially in agriculture.**<sup>28</sup> The focus of the Bank support in the northern region has been regional development and poverty reduction as well as the aggressive implementation of the environment agenda, whose positive results are reported below.<sup>29</sup> Through the development of new multi-sector investment loans at the State level, the Bank is supporting improvements in access to basic services in remote areas, helping increase agricultural returns, improving the management of protected areas and the environmental and social impacts of infrastructure investments, and helping develop payments for environmental services and incentives for sustainable forestry.<sup>30</sup> The Bank has also collaborated with the IFC on the IFC Brazilian Amazon Initiative, specifically on Forestry projects and in the Pará Rural and PROACRE projects.

### **Competitive Brazil**

The WBG support for competitiveness grew in strength, became more strategic and shifted towards a greater engagement with the regions and municipalities through components of multi-sector operations covering a wide range of competitiveness issues. IFC strategy has been to play a critical role in improving the country’s competitiveness by strengthening SMEs, improving their access to finance, integrating them into corporate supply chains, upgrading infrastructure, and improving Brazil’s investment climate.

**The IBRD and IFC coordinated their work on the business climate at the regional level with positive results.** The IFC technical assistance facility is working with several cities to reduce the time needed to open new businesses with positive results as shown by the corresponding *Doing Business* indicator (measured in the city of São Paulo), which has been

reduced from 152 to 120 days. Business climate results are also part of a growing regional development agenda that has built on a path-breaking operation--- “Partnership for Development” DPL with the State of Minas Gerais-- rated as highly satisfactory on outcomes that included improvements in the investment climate. The follow-up SWAP with Minas Gerais continues the PSD agenda with a focus on PPPs (jointly with IFC), further advancing regulatory streamlining, scaled-up support for MSM enterprises and a focus on innovation. A like-wise path-breaking operation in content and design has been the Ceará Inclusive Growth Project SWAP I, rated as satisfactory. A follow-up SWAP in Ceará is developing the original agenda and a Regional Development project is piloting innovative approaches in PSD development in targeted regions within Ceará State. Other operations, such as the Rio de Janeiro State, are also working PSD issues. The regional/Municipal focus is beginning to deliver concrete improvements in the business environments. Thus, for instance, the number of days needed to open a business has been halved from 63 in 2008 to 31 in 2011 under the Rio de Janeiro Fiscal Sustainability, Human Development and Competitiveness DPL. The PSD AAA is shifting towards developing a better understanding of the innovation opportunities in the country. In Minas and Ceará the Bank has supported respectively the modernization of State science and technology policies, and efforts to expand “digital inclusion” through the deployment of broadband internet networks.<sup>31</sup> At the Federal level, a study on Knowledge, Innovation and Competitiveness was disseminated in partnership with the national federation of industry associations (CNI).

**The CPS program continued its support for significant improvements in logistics and transportation services.** The Logistics Performance Survey (LPS) reports that Brazil’s ranking has improved by going from 61 in 2007 to 41 in 2010--a ranking higher than that of the average for Upper Middle Countries and of the Latin America region. The ICR for the DPL (Programmatic Sustainable and Equitable Growth Loan) series notes substantial contributions to improving custom effectiveness, reducing port costs and delays as well as transport costs on Federal roads networks, with a more modest contribution was made to fostering multimodal transport.<sup>32</sup> In addition, IFC provided a US\$679 million financing package to enable port operator Brasil Terminal Portuário to develop a new container terminal in the port of Santos, expanding capacity at Brazil’s busiest port. Additional support on logistics came through the transportation agenda and, more recently, the work on urban development.<sup>33</sup> The contribution of the WBG’s work on transport at the Federal level has been the widespread use of result based approaches and private sector participation in infrastructure maintenance and development.<sup>34</sup> At the sub-national level, Bank has been working with cities (São Paulo and Rio de Janeiro) and regions, building on previous work that supported the institutional decentralization of the transportation sector. While the impact of these interventions has remained fairly localized, a new breed of interventions is being developed – exemplified by the Rio de Janeiro Housing DPL – which seek to integrate transport with land use planning and housing and environmental policies, with a view to fostering, first, sustainable and equitable urban mobility and green city development and, second, improved accessibility to facilities and services, especially for low income populations.

**Bank support has contributed to strengthening the financial sector.** Credit to the private sector has grown rapidly reflecting a process of financial deepening, with the credit-to-GDP ratio rising from 24% of GDP in 2004 to 46% of GDP in 2010. This deepening has taken place in the context of a strong regulatory framework to which the Bank has contributed through several



technical assistance operations, such as the Finance Technical Assistance Loan, completed at the beginning of this CPS, whose ICR notes Bank contributions to sound regulation and systemic risk control, mobilization of long-term resources in the insurance sector and improvement in access to financial services by the MSM sector and the poor.<sup>35</sup> A well-regulated and provisioned sector fared well during the crisis. Additionally during this CPS, the Bank is implementing NLTA activities aimed at supporting efforts by the GoB to promote the development of private long-term financing and increase access to finance by SMEs. The Financial Sector Assessment Program (FSAP) to be produced in FY12 would also help with stocktaking and charting the route ahead, as there is consensus that further development of capital markets and the non-banking financial sector is fundamental to mobilizing the resources needed to ratchet-up the pace of investment.<sup>36</sup>

**The CPS program is contributing to a better access to credit by the poor and lending to SMEs.** The 2011 Doing Business reports improvements in access to finance as measured by increases in the coverage of public and private credit registries (See results Table 1 Appendix.) The Bank AAA program (e.g. on the impact evaluation of financial literacy programs) and the *Consultative Group to Assist the Poor* (CGAP) support for regulatory reforms has fostered increased access to credit among low-income households. Salaries and government transfers can now be used as collateral for consumer loans and public and private banks have developed products targeted at low-income clients.<sup>37</sup> IFC has begun funding microfinance lenders in Brazil, and the number of microfinance loans made by investees has risen from 870,800 in CY 2007 to 1.32 million in CY 2010. The dollar volume of these loans increased from US\$395 million to \$3.46 billion. IFC activity in this area is especially important given that microfinance lending, and the availability of other financial products for the poor, remains relatively underdeveloped in Brazil.

**The IFC delivered on its commitment to work with second-tier companies.** IFC took the strategic decision, set out in the 2008 CPS, to increase support for smaller players. IFC has used a blend of equity investments, senior and subordinated debt, and trade finance facilities to channel resources through second-tier banks to small and medium businesses. IFC was also able to reduce the weight of financial institutions in its commitment volumes, cutting them to 57% of own-account and mobilizations, from over 70% in FY 2008. Nonetheless, IFC commitments and mobilization to banks remained substantially unchanged between FY 2008-FY 2011 at US\$1.2 billion. A large part of financing for banks consisted of trade finance guarantees, self-liquidating and short-term transactions, that are inherently low-risk. This enabled banks to increase lending to small and medium enterprises that make up the bulk of Brazil's private sector. For example, the number of SME loans made by IFC client banks rose from 43,223 in CY 2007 to over 265,752 in CY 2010. In dollar terms, their lending went from \$7.63 billion in CY2007 to \$27.8 billion in CY 2010. In comparison, State-owned Banco do Brasil, lent about US\$10 billion to SMEs in 2007, and US\$32 billion in 2010.

**A broad agenda to improve the fiscal capacity and competitiveness of cities has included addressing the challenge of environmentally sustainable waste management.** The original CPS document pointed as an objective to helping increase the management capacity of states and municipalities through selected operations. The Progress report focused on the capacity to redress the waste management gap that threatens the quality of life especially in urban environments.<sup>38</sup> In this regard, the Bank provided background material for the drafting of

National Solid Waste Law (2010) that improved the legal and regulatory framework. The 2009 environment DPL is supporting BNDES in requiring all waste management projects to comply with the Brazilian environmental licensing system that is one of the most developed in the world.<sup>39</sup> A recently approved project (2010) is intended to support private/public investments in solid waste management through Caixa Econômica Federal and links such investments to additional resources from carbon financing. This project is not yet effective and the bulk of its contribution will come in the next CPSW. Additional attention is being placed on solid waste management through Municipal projects (Brasília, Ceará, Rio Grande do Sul.) The Bank has also supported the integration of social inclusion programs into Municipal waste management strategies through a JSDF grant for social inclusion of waste pickers. Finally, through the wholesale Carbon Finance project the Bank has supported the private and public sector participation in the carbon market, primarily focusing on the destruction of landfill gas.

**The World Bank Group has been supporting the involvement of the private sector through PPP in the building in infrastructure.** IFC has increased its financial commitments and advisory engagements in infrastructure, becoming IFC's second most important area of activity in Brazil, after financial services. IFC has concentrated on the transport infrastructure sector, a critical bottleneck. Infrastructure commitments (including mobilization) jumped 177% to \$718 million during the CPS period, while the value of advisory service's PPP business line projects doubled to \$6.8 million. These included the first PPP concession for a Federal highway and work on the complex Pontal irrigation system in Northeastern Brazil. IFC financed two private port terminals in Salvador and Santos. Another area of growing PPP activity is the construction of irrigation infrastructure.<sup>40</sup>

### **Macro Fundamentals**

**The Bank has been an active supporter of the implementation of the Fiscal Responsibility Framework, a fundamental priority of the authorities.** The Fiscal and Financial Management Technical Assistance Loan<sup>41</sup>, completed early in this CPS, contributed to improving primary balances at the sub-national levels of government as well as achievements on debt management and debt profile, with Brazil gaining investment grade status in 2008. Despite these gains, some states continued to lag with weak fiscal positions and poor service delivery indicators. During this CPS, the Bank moved to work with the laggard states, playing the role of a third-party broker in an attempt to help diffuse principal-agent difficulties between the Federal government and the states. The CPS, moreover, has helped advance administrative and parametric reforms of pensions systems at the State level. Quite importantly, the CPS confirmed an emerging shift from the narrow focus on Public Financial Management to the broader view of Public Sector Management. Analytical work on the fiscal challenges<sup>42</sup> remains relevant and can serve to ground policy dialogue in the next strategy.

**The CPS program is contributing to the improvement of the fiscal stance at the sub-national level of government.** Bank's work with states facing fiscal difficulties tailored the operations to fit the local challenges. In Rio Grande do Sul the focus has been on helping the State reduce its high level of debt.<sup>43</sup> The operation with Alagoas is seeking to redress the traditional poor fiscal management and weak policy and implementation capacity that had been at the core of the low relative performance in social and competitiveness indicators. Both of these operations are contributing to a turnaround in the states' fiscal situation, thus allowing them to comply with fiscal targets set by the Federal government.<sup>44</sup> A similar turnaround was

achieved by the State of Minas Gerais, which at the time of the first operation with the Bank –a DPL in support of the State government’s “management shock” – was entering into compliance agreements with the fiscal targets agreed with the Federal government. Measuring progress as set by the Progress Report, it is found that the average ratio of non-financial investments to net current revenues in the states where the Bank has been involved increased from 7.16% in 12/31/07 to 16.1 % in 12/31/10 and that the average ratio of consolidated debt to net current revenues (executive branch) dropped from 145.33% in 12/31/07 to 126.67% in 12/31/10. These improvements compared favorably with improvements in other states. Quite the contrary was the case before 2007 when the decline in the average of consolidated debt to net current revenue on all other states was larger than in the states the Bank is supporting fiscal programs (roughly 50% against 10% between 2000 and 2007.)

**Progress in advancing pension administrative reform is making headway, especially at the State level.** The pension reforms of 1999 and 2003 more than halved projected increases in pension costs, still the latter are expected to more than double to 22.4% of GDP by 2050. As a result, even under more optimistic scenarios, increases in pension expenditures are likely to dominate the fiscal outlook for Brazil. With comprehensive reform at the Federal level remaining a challenge, recent efforts have gone into institutional improvements and transparency at all levels of government. The Municipal Pension TAL, completed in late 2009, contributed to strengthening the Ministry of Social Security and Social Assistance (MPS) and the Secretariat for Social Security (SPS) and generally, Municipal pension management was strengthened.<sup>45</sup> Now, Bank pension support is focusing on helping the Government upgrade the State pension management (RPPS system for civil servants) seeking to reduce unwarranted pension claims, improving financial sustainability, etc. In this context, the cadastre upgrade program, now under-implementation, seeks to eliminate unwarranted beneficiary payments in all State government branches. Over 340,000 public servants are being checked (*recadastrados*), which exceeds the target set by the Progress Report. However, only 17 rather than 24 states are being covered as increasing costs (from revaluation and inflation) has meant that some states which requested the service could not be covered for financial reasons. In addition, the Bank is supporting audits to eliminate unwarranted beneficiary payments in AL and Rio de Janeiro, as well as administrative, actuarial and structural reforms on these State’s pension system. This corresponds to 19 states advancing on those issues with Bank support.

**The Bank has been supporting the states in moving towards a broader Public Sector Management focus based on results.** During the previous CPS, operations in Minas Gerais and Ceará introduced a PSM approach where public decisions incorporated assessments of impact and results thus creating a reinforcing feed-back loop. The positive evaluation of the PSM agenda as per the ICR of the first Minas DPL and the ICR for the first Ceará Inclusive and Growth SWAP---achievement of development outcomes rated as highly satisfactory for the first operation and satisfactory for the second---led to a nationwide expansion of the approach. First, the CPS maintained the agenda in these two states with the 2nd Minas Gerais Development Partnership SWAp (2008) and the Ceará Inclusive Growth (SWAp II) (2009) to perfect the approach. Other states and municipalities are following suit. In Rio de Janeiro, the Fiscal Consolidation for Efficiency and Growth Development Policy Loan Program supports public sector management improvements to deliver innovative programs in health, education, and private sector development in poor areas. The Rio State DPL (2010) supported measures aimed at improving the management of oil revenues and at enhancing the quality of the health and

education provided by the State government. Both the DPL to the city and that to the State of Rio de Janeiro are being complemented by follow-up technical assistance (TA) projects that share the same goals but operate through capacity building activities to improve policy implementation.<sup>46</sup> Thus, performance interventions such as results-based management, performance agreements and monitoring and evaluation systems, gained importance in Brazil. Currently, 8 states (MG, CE, RS, DF, PE, AC, AL, BA) and the municipalities of Belo Horizonte, Curitiba, São Paulo, Recife, Rio de Janeiro, amongst others are implementing the approach. The Bank is responding to these demands either through new operations currently under preparation or targeted visits. The achievements in Minas Gerais have informed the South-South dialogue, with the interest in the approach extending to the Bank itself, which has used some of the elements of the Minas PSM model and the related SWAP operation as a key precedent for the design of the new P4R instrument.

### **Program Delivery is rated satisfactory.**

The contribution of the CPS to results in the area of equitable Brazil remained strong as it has been under the previous CPS. Highlights include the work done for the BOLSA program that included assistance in design and evaluation. BOLSA has had an impact not only on poverty reduction but on health, education and access to finance. The analytical work in education has contributed to the design of programs that increase quality and improve access. The contribution in health includes not only expanding coverage of the public insurance system but working on efficiency with the Federal and regional government. The WBG has also made contributions to the environment. Analytical work has informed the government's strategic choices and commitments as, projects, have helped deliver strong results in reducing deforestation, introducing sustainable economic practices, and mainstreaming environmental concerns. The program has also played a role in improving the fiscal stance of states that were lagging in performance. The emphasis on Public Sector Management, with emphasis on improving the link between decision and results, is expanding in Brazil and finding an echo abroad. The competitiveness agenda has shifted to regions, launching a positive trend that is gaining force throughout the country. The IFC and the Bank have supported increased access to finance and housing by the poor. The IFC substantially increased its financing for second tier banks and companies, and in frontier regions of the country.

## **IV. Bank Performance**

### **Design and Relevance**

The CPS design benefited from taking a hard look at the status of the program in Brazil, which was dispersed and in some cases lacked strategic focus. The design committed (a) shorter preparation times; (b) larger share of lending going to sub-national levels around clearly defined and owned programmatic agendas, and (c) moving from plain vanilla to “knowledge intensive” cutting edge products. In launching this shift, the CPS built on emerging trends during the previous CPS (i.e. results-based SWAP, State lending.) The IFC in turn committed to a more strategic engagement with a tighter alignment with the IBRD and aiming for a program, with global spillovers. Under a flexible approach, the CPS committed to the operations in the pipeline for the following two years and set rules of engagement, labeled “principled opportunism”, that signaled the broad areas of potential engagement based on the Bank's competitive advantage and

demand from the clients but left open the specific areas of work to be determined on subsequent dialogue and results.

The shift in strategy was aligned and driven by country level priorities as well. First, the program maintained the broad objectives set by the government's strategy, which exhibited significant continuity with that of the first Lula Administration. Second, the CPS was aligned with the Federal and sub-national governments' efforts at addressing challenges in the implementation of the fiscal responsibility act. Third, the CPS sought to contribute towards the implementation of national policies by working with the sub-national levels of government, which have the constitutional responsibility for implementation. This degree of strategic alignment was tighter than the customary focus on broad development objectives because the strong emphasis on implementation. The CPS sharply simplified the results framework in response to the experience under the previous CPS. The progress report further sharpened it, by increasing the quantification of targets. This said, however, the highly selective nature of the results framework did not properly account for the breath of the program and often relied on higher development outcomes where the contribution of the program is more difficult to ascertain.

### **Program Implementation**

**The partners delivered the strategic turnaround that the CPS had promised.** The CPS did shift lending to the sub-national levels of government, moved the program towards more knowledge intensive operations and improved project delivery. IFC's role in Brazil was also transformed both in the volume of its investments and in the nature of its involvement in the country, as Brazil became a critical partner, by virtue of its size, the sophistication of its private sector, and the unique challenges faced by a fast-growing upper middle income country.

**Project Preparation lags have been reduced.** The average time elapsing between the Concept Note and the signing of an operation was reduced from 30 (previous to the CPS) to 11 months now. Changes also took place in the size of the projects. The size of the smallest project increased, as compared to the previous CAS, from 4 to 20.8 million, while the average and median size of projects went from (131, 45) million to (266.9, 54.4) million respectively. Shortening the time lag by half between Concept Note discussion and project effectiveness has enabled the Bank team to respond promptly to client's requests.

**Implementation indicators have remained stable.** The number of projects under implementation increased from 53 in 2008 to 57 in 2011. The average age of the project dropped though from 4 years to 2.8 and even so the disbursement rate remains above 30%. The number of problem projects decreased marginally from 17% to 15.8%. However, project extension practices remain an issue. Of the projects completed during the CPS period the majority were extended to support program implementation. Over the last five years IEG has evaluated 28 projects of which 4 have been found unsatisfactory in reaching development outcomes. Efforts to further increase implementation have focused on the gradual adoption of country systems in selected States.

**Commitments and disbursements increased while shifting towards the lower levels of government.** During this CPS period, Bank commitments reached over 11 billion US dollars, which is well above the amount under the previous CPS. The increase in commitments was driven by (a) the growing demand for technical know-how and financial resources by the sub-national governments at the State level and (b) additional resources that were borrowed during

the crisis. Commitments to sub-national levels of government increased in line with expectations from 35% in the previous strategy to 78% on average in this strategy and (87%) in 2011. Despite this, the dialogue with the Federal Government remained strong. The main recipients of operations and resources at the sub-national level have been the states in the South-East, a result in part of the demand driven approach. These states, because of their higher income and size as well as their interest and commitment to institutional transformation strategies have increasingly turned to the Bank for finance and knowledge using their available borrowing capacity. In the second half of the CPS period, however, the Bank has increasingly shifted its operations to the North and Northeast regions. Lastly, Fee for Services has been increasing its importance as a modality of engagement. They include support to the Federal government on the development of PPPs for irrigation (Ministry of National Integration) and support for capacity building in the Municipality of Rio de Janeiro, also on PPPs.

**The composition of the new operations shifted to multi-sector operations using both investment and policy based loans.** Innovations in instruments continued under this CPS building on the lessons learned from the use of result-oriented investment loans using the sector-wide approach (SWAPs). *The results-based SWAP is suitable to induce institutional change that impacts the effectiveness of public expenditure and the overall quality of public sector management.* The focus on public sector management has provided a central vertebra around which to organize tailored multi-pillar operations that address specific local challenges, while addressing sustainability issues that had emerged during the review of previous regionally-focused operations. In addition, these approaches are being used to exploit complementarities, such as in the recently approved Water-Health Bahia SWAP. While during the previous CPS only two such SWAP operations had been approved, eleven have been put into place during this CPS.

**Innovation has also taken place in the context of working together with a large Federal State.** Delivery at the sub-national level developed a way to address the challenges that emerge when implementing strategies in a large Federal State and that include: (a) coordination between the Federal and the State level, (b) the selection of states where to operate, and (c) the scaling up of impact nationwide.<sup>47</sup> In Brazil, the articulation is taking place in the context of (a) the implementation of the Fiscal Responsibility Law and (b) the implementation of sector policies, in some cases introducing results-based elements into the mechanisms used by the Federal Government to transfer resources to the local levels. Whenever possible, the Bank sought to capitalize and promote vertical alignment of policies and operations across the various spheres of government. A good example of this is the work with the State and the Municipality of Rio de Janeiro on a number of mutually complementary programs aimed at sub-national fiscal consolidation and the improvement of social service delivery, especially for low income households, and in consonance with Federal policies. During this CPS, the strategy relied on principles of “demand-driven” and “principled opportunism” thus emphasizing self-selection. Broader impact relies on example and emulation, which is happening as new states seek Bank engagement for institutional transformation, thus contributing to the dissemination of good practices.<sup>48</sup> The latter has also been spurred through regular national forums where State authorities share experiences. In addition, there is learning upwards as has been the case in the area of Public Sector Management, where the practices developed at the State level are filtering up to the national government.

**The CPS was not only aligned with the broad strategy of government which maintained continuity with the first period of the Lula administration, but also with emerging priorities of the Federal and the sub-national levels of government.** First, the Bank has been playing the role of a (arbiter) third-party to diffuse the principal-agent problems that had plagued previous efforts at improving the fiscal sustainability of some states. Second, the Bank has been assisting in the implementation of national policies through a design/learning approach where lessons are shared across as well as feed into the fine-tuning of the Federal design. The flexible stance adopted by the CPS is particularly suited to a learning approach. The emphasis on management by results has the potential to help improve the overall effectiveness of public expenditure and reduce the fiscal pressure of delivering the social agenda thus opening fiscal space for infrastructure.

**IFC has changed its role in Brazil as the strength and sophistication of its private sector, and the unique challenges faced by a fast-growing upper middle income country.** Volumes of financial commitment rose from US\$1.09 billion in FY 2008 to \$1.11 billion in FY 2011, with annual commitments to clients in Brazil now larger than in any other country. IFC's activities became more focused, by concentrating on a few strategic aims to further reinforce the World Bank Group's engagement with the country.<sup>49</sup> IFC has also narrowed the focus of its advisory services work in Brazil. While the number of ongoing engagements has remained roughly steady, at about 7-10 per year, the total value of projects has risen by 76% to \$11.06 million per year. Furthermore, the advisory portfolio of PPP, Sustainable Business, and Investment Climate projects has shifted to greater emphasis on PPP work. The value of PPP projects has doubled to [\$6.8] million in FY 2011 or almost two-thirds of IFC's advisory spend in Brazil, and accounted for three out of seven ongoing projects in FY 2011.

**The Bank supported Brazil during the crisis in various ways.** The preventive support to help shield the country during the 2008-2009 global crisis did not focus on macroeconomic management, as the country maneuvered the impact of the crisis successfully, while maintaining its investment credit rating. Instead, the CPS partners used the opportunity to highlight the renewed commitment and acknowledge the institutional advances in addressing the primacy of the environmental challenge, showing mastery of the situation by advancing a priority concern even during a crisis. As has been noted, fiscal support was provided to selected states that were affected by the crisis. Regarding the potential social impact of the crisis, the government maintained in place its social programs—Bolsa Família, as well as carried an anti-cyclical fiscal policy that favored income generation.

**The IFC likewise adapted its program to respond to the impact of the global crisis.** The IFC adapted, first by playing a counter-cyclical role through an increase in its volume of trade finance lines to support small but fundamentally strong financial institutions and their SME client bases. Then, as the economy recovered, the Corporation boosted its lending and equity operations, and sharply increased mobilization from participating investors. As a result, IFC has been able to achieve substantial development impacts while carefully husbanding its resources. Of the nearly US\$2 billion committed to Brazil in FY 2011, about half consisted of financing for IFC's account. This compares with a 66% own-account share (of a lower commitment volume) in FY 2008.

**South-South Cooperation:** The innovational environment that has emerged in Brazil has set the basis for Brazil to emerge as a leader of South-South, and some cases, South-North Cooperation.

The Bank has assisted this process in various ways: as a facilitator and convener for Brazil's efforts in areas such as tropical agriculture, judicial reform, health and rural development; but also as a conduit for knowledge generated in Brazil through operations that can be adapted and implemented with Bank support – this included disseminating Brazil's experience in CCTs (Bolsa Família), the Aids program and fiscal management in a Federal context, among others. The first role, of facilitator was done mainly in Brazil's work with Africa, in line with Brazil's strategic priorities, while the second has a global dimension.

**A flexible approach represents a challenge for the design of an adequate Results Framework.** The CPS simplified the results framework, following on the recommendations of the Completion report, while leaving open the areas the potential engagement in an operational appendix to the CPS document. This open stance was compatible with a flexible approach, as was the goal of the CPS, but arguably lacked concreteness. The CPS Progress Report brought more concreteness into the results framework but retained the simplified version, which arguably focused primarily on the Federal Program. Hence, result framework did not fully capture the breath of the program, especially at the sub-national level. That said, the Progress Report did present aggregate results at the sub-national level on fiscal and pension issues.

**Rating Bank Performance: Satisfactory.** Delivery on the main commitments taken was good. As noted the lending shifted to the states and operation design has made considerable progress in moving from “plain vanilla” to knowledge intensive products. Work at the regional level is becoming increasingly multi-sector with a core focus on better public sector management and better fiscal outcomes. The AAA products have informed key government initiatives in environment, health, education, social protection, access to finance and competitiveness. The CPS emphasized demand and engaged with states that called for support. This meant working at first with more developed states, but the lessons from these interventions are flowing to the poorer states. The IFC focused its program around three strategic objectives: reducing poverty and inequality, improving competitiveness, and climate change mitigation and adaptation. This approach, combined with positive market conditions, enabled IFC to increase its investments in Brazil by 70% over the previous CPS period, making it one of the Corporation's largest partner countries. The IFC has increasingly complemented financing with mobilization and strategic advice. In addition, the Bank has supported the successful efforts of the Brazilian authorities to lead South-South collaboration efforts, including by helping organize visits to Brazil by a large number of foreign delegations.

## **V. Lessons Learned/Recommendations**

**The Completion Report highlights the following findings which are relevant for the design of the new strategy.**

- **Preserve and perfect the approach of working both with the Federal government and the states to achieve national outcomes.** Demand-driven and “principled opportunism” in Brazil have delivered a solid and well-structured portfolio at the sub-national level, with interventions that are having demonstration effects as (a) other states (and countries) seek to engage in similar programs with the Bank or (b) learning is taking place through cross-support networks that have emerged. Moving forward, it seems



advisable to strengthen the partnerships through (a) more systematic transmission of lessons, experience and learning either horizontally or working through the Federal level (for instance, structure of incentives in fiscal relations, incentives to coordinate implementation of sector policy—see water, health, education, etc.), and (b) refocusing attention to supporting the fine tuning of national policy platforms building on the lessons learned at the State level.

- **Maintain as preferred option of engagement innovation through product design and complementary AAA focused on “how” rather than “what”.** A lesson that emerges is that the approach in Brazil worked well because the interventions and the operations focused on **knowledge creation**, not just knowledge transfer. With hindsight, it seems clear that partnering with a sophisticated upper middle-income country provides a fertile ground for innovation—knowledge creation. Hence, the relevance of innovative AAA as it has taken place in education and environment and the increasing attention given to evaluation as in the Bolsa Program. The task for the Bank is put into place the rules/environment that foster innovation, while lifting constraints that suffocates it.
- **Maintain continuity and persistence across strategies to assure attainment of long-term goals.** The implementation of this CPS shows (as several ICR documents point out) that delivering results is a sequential and cumulative process that has to be framed within a long-term learning perspective. Delivering results during this CPS built on previous efforts at implementing policy initiatives of the late 1990s or early 2000. The process combined analytical work to aid design, and increasingly monitoring and evaluation to inform fine-tuning of policy frameworks. Quite importantly in Brazil, a Federal country where large share of responsibilities have been devolved, these processes include learning and experimentation at all levels of government. In this context, the role of the Bank as an accompanying partner that provides knowledge and helps design the learning process can be quite productive.
- **Support further Brazil’s role as leader in the South-South dialogue.** Brazil focus on innovation has led to the development of approaches across a broad range of areas that that is relevant in the rest of the world. The WBG should strengthen its support to Brazil’s efforts to share that knowledge with the rest of the world.
- **Going forward focus the partnership in areas where major gaps remains to further strengthen the relevance of WGB engagement.** The work that has began at the State level on improving the effectiveness of the public sector must be rolled out and strengthened to contribute results at the national level. Filling in infrastructure gaps requires building fiscal space and also advancing PPP practices. Conditions must be put in place for the private sector to generate and adapt innovative practices that increase productivity as the basis of sustained increases in income. Further cross-cutting interventions to support Gender development would also be desirable.
- **Develop a result framework that captures the best the contribution of the program.** This CPS, especially the progress Report made an effort to capture quantitative indicators and to be selective. The result, in some cases, was results that were too high in the results chain where the impact of the program depends on many other factors. The next CPS should make an effort to develop indicators that capture more directly the impact of the program.

| <b>Brazil CPS Completion Report Table 1: Summary of CAS Program Self-Evaluation</b>  |  |  |  |
|--|--|--|--|
| CPS Outcome/Cluster of Outcomes and Outcome Indicators (baselines and targets)   | Status And Evaluation Summary  | Lending and non-lending Activities that contributed to the outcome   | Lessons and suggestions for the new CPS  |
| <b>Macroeconomic foundations and public sector management</b>  |  |  |  |
| <p>Reduction in ratio of consolidated debt to net current revenues (executive branch) in states where Bank is supporting fiscal programs under the CPS (MG, CE, RJ, RS, AL, DF)</p> <p>➤ Average of 145.4% (median of 180.6%)--2007</p> <p>➤ Average reduction of 22% (median of 15%)—2011</p> | <p><b>Partially Achieved.</b></p> <p><b>12/31/10 consolidated debt to net current revenues (executive branch) in states where Bank is supporting fiscal programs under the CPS (MG, CE, RJ, RS, AL, DF) 126.67% (159%)</b></p> | <p>Lending Program:</p> <p>Fiscal Financial Management TAL (2001) ; 2nd MG Dev't Partnership SWAp (2008); RGS Fiscal Sustainability DPL (2009); ALAGOAS Fiscal &amp; Public Mgmt Reform (2009); Rio State DPL(2010); Rio de Janeiro PSM/Fiscal MST (2011); RJ Municipality Fiscal Consolidation DPL (2011) ; Ceará Inclusive Growth (SWAp II) (2009).</p> <p>AAA: Fiscal Federalism 2009; (SCL) Countercyclical Fiscal Policy 2009; PEFA-plus (Federal) (2010)</p> | <p>Support for enhancing macro-sustainability through work with states that faced fiscal difficulties has been welcomed at the Federal and the Sub-national levels. It also has been effective. It seems therefore appropriate to align Bank fiscal and macro work with the preferences, guidelines and needs of the Federal government, as stated in the existing legislation, is appropriate. Likewise it seems appropriate to work with states on a demand basis, as there seems to be a spillover effect across states. This strategy is appropriate for the future.</p> |

| <b>Brazil CPS Completion Report Table 1: Summary of CAS Program Self-Evaluation</b>   |  |   |  |
|---|--|---|--|
| CPS Outcome/Cluster of Outcomes and Outcome Indicators (baselines and targets)  | Status And Evaluation Summary  | Lending and non-lending Activities that contributed to the outcome  | Lessons and suggestions for the new CPS  |
| <p>Number of states participating in cadastre upgrade program to eliminate unwarranted beneficiary payments in all State government branches</p> <ul style="list-style-type: none"> <li>➤ The executive branches of some states have initiated cadastre upgrade but other states and other government branches (judiciary, legislative) have not</li> <li>➤ Legislative and judicial branches and independent bodies from 24 states have confirmed their intended participation in the cadastre upgrade program, covering approximately 200,000 civil servant files.</li> </ul> | <p><b>Achieved, over 340,000 public servants included in the program. US\$150M of potential benefits expected.</b></p> <p><b>Partially achieved. 17 states have ongoing cadastre upgrade programs under the SPR TAL, due to increasing costs the 24 State-target could not be met. Two additional states covered under alternative programs.</b></p> | <p>Lending: State Pension Reform TAL II (2007); Municipal Pension reform TAL (2003).</p> <p>AAA: Aging Country Study (2011)</p> | <p>Given the political economy limitations to the policy overhaul of the pension system, the focus on administrative reform to identify and remedy leakages has been proven appropriate as buy-in from the local governments is on the increase. The scope for gains through the administrative route is bounded and it is advisable to keep a focus on the reform of the broader pension policy framework to avert serious fiscal difficulties over the medium to the long-run.</p> |
| Ratio of non-financial investments to net   | <b>Achieved as already</b>   | Lending: Fiscal Financial   | Support for enhancing macro-   |

| Brazil CPS Completion Report Table 1: Summary of CAS Program Self-Evaluation  |   |  |   |
|---|---|--|---|
| CPS Outcome/Cluster of Outcomes and Outcome Indicators (baselines and targets)  | Status And Evaluation Summary   | Lending and non-lending Activities that contributed to the outcome   | Lessons and suggestions for the new CPS   |
| <p>current revenues (executive branch) in states where Bank is supporting fiscal programs under the CPS (MG, CE, RJ, RS, AL, DF)</p> <p>➤ Average of 7.2% (median of 7.1%)--2007</p> <p>➤ Average increase of 84% (median of 50%)--2011</p> | <p><b>by 2010 the ratio of non-financial investments to net current revenues had reached 16.1 (median of 13.5%) exceeding the target.</b></p> | <p>Management TAL (2001); 2nd MG Dev't Partnership SWAp (2008); RGS Fiscal Sustainability DPL (2009); ALAGOAS Fiscal &amp; Public Mgmt Reform (2009); Rio State DPL (2010); Rio de Janeiro PSM/Fiscal MST (2011); RJ Municipality Fiscal Consolidation DPL (2011) ; Ceará Inclusive Growth (SWAp II) (2009);</p> <p>AAA; AAA: Fiscal Federalism 2009; (SCL) Countercyclical Fiscal Policy 2009; PEFA-plus (Federal) (2010)</p> | <p>sustainability through work with states that faced fiscal difficulties has been welcomed at the Federal and the Sub-national levels. It also has been effective. This shows that the strategy to align Bank work on fiscal matters with the preferences, guidelines and needs of the Federal government, as stated in the existing legislation, is appropriate. Likewise appropriate seems to work with states on a demand basis, as there seems to have been a spillover effect across states. This strategy is appropriate for the future.</p> |
| <p>Ratio of total personnel expenditures to net current revenues (executive branch) in states where Bank is supporting fiscal programs under the CPS (MG, CE, RJ,</p>   | <p><b>Not likely to be achieved as by 2010 ratio of personnel expenditures to net current revenues</b></p>                                    | <p>Lending: Fiscal Financial Management TAL (2001); 2nd MG Dev't Partnership SWAp (2008); RGS Fiscal Sustainability DPL (2009);</p>  |   |

| <b>Brazil CPS Completion Report Table 1: Summary of CAS Program Self-Evaluation</b>  |  |   |  |
|--|--|---|--|
| CPS Outcome/Cluster of Outcomes and Outcome Indicators (baselines and targets)   | Status And Evaluation Summary  | Lending and non-lending Activities that contributed to the outcome  | Lessons and suggestions for the new CPS  |
| RS, AL, DF)<br><br>➤ Average of 39.7% (median of 41.1%)—2007<br><br>➤ Average reduction of 7% (median of 6%)---2011  | <b>had increased to 40.60% (42.17%)</b>  | ALAGOAS Fiscal & Public Mgmt Reform(2009); Rio State DPL (2010); Rio de Janeiro PSM/Fiscal MST (2011); RJ Municipality Fiscal Consolidation DPL (2011) ; Ceará Inclusive Growth (SWAp II) (2009);<br><br>AAA: AAA: Fiscal Federalism 2009; (SCL) Countercyclical Fiscal Policy 2009; PEFA-plus (Federal) (2010) |  |
| Number of states that make systematic use of performance information for management purposes<br><br>➤ 2 states (MG, CE)<br><br>➤ 8 states (MG, CE, RS, DF, PE, AC, AL, BA) | <b>Achieved as currently the 8 states (MG, CE, RS, DF, PE, Acre, AL, BA) are making systematic use of performance information for management</b> | Lending: 2nd MG Dev't Partnership SWAp (2008); RGS Fiscal Sustainability DPL (2009); ALAGOAS Fiscal & Public Mgmt Reform (2009); Rio State DPL (2010); Rio de Janeiro PSM/Fiscal MST (2011); RJ Municipality Fiscal Consolidation DPL (2011) ; Ceará Inclusive  | Experience in Brazil shows that innovative and successful practices nurtured at the State level, can spill over across states generating a virtuous circle of change. The spill-over of ideas and approached has taken place through formal and informal mechanisms of information sharing and |

| <b>Brazil CPS Completion Report Table 1: Summary of CAS Program Self-Evaluation</b>   |  |  |   |
|---|--|--|---|
| CPS Outcome/Cluster of Outcomes and Outcome Indicators (baselines and targets)  | Status And Evaluation Summary  | Lending and non-lending Activities that contributed to the outcome   | Lessons and suggestions for the new CPS   |
|   | <p><b>purposes.</b></p> <p>In addition, municipalities of Belo Horizonte, Curitiba, São Paulo, Recife, Rio de Janeiro amongst other are taking the approach.</p> | <p>Growth (SWAp II) (2009);</p> <p>AAA: Fiscal Federalism 2009;</p> <p>(EFO) Good Governance Program (2009); Good Governance Program 2009;</p> <p>GAP Report 2010; PEFA-plus (Federal) (2010) Public Sector NLT (2011); Brazil Procurement (201)</p> | <p>horizontal technical assistance. It seems advisable to build of the emerging practices to develop a more structured process of information sharing and emulation as well as feeding back into improvements at the Federal level. These practices have had impact outside Brazil as well.</p>   |
| <b>Competitive Brazil</b>   |  |  |   |
| <p>Time and steps required to open a new business reduced by 15%</p> <p>➤ 152 days (São Paulo) in 2007;</p> <p>➤ 100 days (São Paulo) in 2011</p> | <p><b>Achieved as in 2010 (2011 Doing Business) it took 120 days (São Paulo) to open a business, which amounts to more than a 15% reduction.</b></p>             | <p>Lending: 2<sup>nd</sup> Programmatic Sustainability and Equity Loan (2006)</p> <p>IFC Advisory Services (active in São Paulo.)</p> <p>Rio de Janeiro Fiscal Sustainability, Human Development and Competitiveness DPL</p>                         | <p>Reliance on Doing Business Indicators to track progress at the national level proved (a) controversial in Brazil, as the Federal authorities did not found it a fair and accurate way of tracking progress, and (b) off-target as the program moved to work with regional and city government. A lesson for results design is the need</p> |

| <b>Brazil CPS Completion Report Table 1: Summary of CAS Program Self-Evaluation</b>  |   |   |  |
|--|---|---|--|
| CPS Outcome/Cluster of Outcomes and Outcome Indicators (baselines and targets)   | Status And Evaluation Summary   | Lending and non-lending Activities that contributed to the outcome  | Lessons and suggestions for the new CPS  |
|  | <b>In addition, under the Rio de Janeiro Fiscal Sustainability, Human Development and Competitiveness DPL the days to open a business went from 63 in 2008 to 31 in 2011.</b>               | AAA: City Economic Growth and competitiveness (2008);   | for agreement between the CPS partners (Bank and government) about the adequacy of the results framework to measure progress under the CPS.<br><br>In addition, as the PSD agenda in Brazil moves from exclusive focus on doing business indicators to include broader aspects of competitiveness such as innovation policy, |
| WB's Doing Business index of time to export and import<br><br>➤ Respectively 18 and 22 days in 2007<br><br>➤ Respectively 10 and 14 days in 2011 | <b>Partially Achieved: Respectively 13 and 17 days in 2010</b><br><br>Other indicators point to substantial improvements in logistics over the CPS period. (The Logistics Performance Index | Lending Program: 2 <sup>nd</sup> Programmatic Sustainability and Equity Loan (2006)<br><br>Bank Transport: Road Transport Project (2006); Fortaleza Metropolitan Transport (2002); RJ Mass Transit (2008); São Paulo Metro Line 4 (2002); Bahia Integrated Highway Management (2007); São | emphasize the link between the logistics and infrastructure and more importantly a regional competitiveness approach, it is advisable to move to measure the quality of the business environment at the regional and city level.   |

| Brazil CPS Completion Report Table 1: Summary of CAS Program Self-Evaluation  |   |  |   |
|---|---|--|---|
| CPS Outcome/Cluster of Outcomes and Outcome Indicators (baselines and targets)  | Status And Evaluation Summary   | Lending and non-lending Activities that contributed to the outcome   | Lessons and suggestions for the new CPS |
|   | where Brazil went from rank 61 in 2007 to rank 41 in 2010)  | <p>Paulo Trains and Signaling (2008); SP Metro Line 4 (PHASE 2); São Paulo Metro Line 5 ; Mato Grosso do Sul Road (2010); São Paulo Feeder Roads Project (2010)</p> <p>IFC PPP in transportation</p> <p>AAA: Freight Logistics (2009); Proposed High-Speed Train Project (2010); Improve quality of road investments (2010 )</p> |   |
| <p>Improved effectiveness of government agencies in implementing mandated Brazilian environmental and social management procedures</p> <p>➤ 30 % of environmental licenses issued at the Federal level during</p> | Indicator dropped by supporting project as it was found out that there was no link between the judicial challenges and the quality of the |  |   |



| Brazil CPS Completion Report Table 1: Summary of CAS Program Self-Evaluation   |   |  |   |
|--|---|--|---|
| CPS Outcome/Cluster of Outcomes and Outcome Indicators (baselines and targets)   | Status And Evaluation Summary   | Lending and non-lending Activities that contributed to the outcome   | Lessons and suggestions for the new CPS   |
| <p>2002-2007 were judicially challenged by Public Prosecutor's Office</p> <p>➤ Decrease to 24% in the number of judicially challenged licenses by Public Prosecutor's Office compared with the number of environmental licenses issued at the Federal level during 2002-2007</p> | <p>licensing.</p> <p>The project adopted as new indicator the number of environmental licenses issued per year at Federal level increased from 375 (12/31/2007) to 475 (12/31/2010)</p> |  |   |
| <p>WB's Doing Business index of coverage of private credit bureau and public credit registry</p> <p>➤ Not Available</p> <p>➤ Respectively 72% and 30% of adults in 2011</p>  | <p><b>Partially Achieved as 53.5% and 23.7% of adults were covered by private credit bureau and public credit registry respectively in 2010</b> (2011 Doing Business)</p>               | <p>Lending Program: 2<sup>nd</sup> Programmatic Sustainability and Equity Loan (2006); TA financial Sector (2002); TA Sustainable and Equitable Growth (2005); Housing Sector TAL (2006);</p> <p>IFC program to focus on second tier companies</p> | <p>The Doing Business partially captured the objective of expanding credit. It did not capture the efforts made to extend credit to the lower income population or the small and medium enterprises. Same comment on the use of Doing Business indicators. Thus the indicator did not fully reflect the efforts intended by the CPS</p> |

| Brazil CPS Completion Report Table 1: Summary of CAS Program Self-Evaluation   |   |  |  |
|--|---|--|--|
| CPS Outcome/Cluster of Outcomes and Outcome Indicators (baselines and targets)   | Status And Evaluation Summary   | Lending and non-lending Activities that contributed to the outcome   | Lessons and suggestions for the new CPS  |
|  | Note: As noted in the main text of the ICR substantive and effective efforts, with Bank support, have gone into extending credit to the poor and bringing them in into the formal financial sector. | AAA: Directed Credit aka 2 <sup>nd</sup> Programmatic ESW (2008); Financial Sector (2008); Financial Literacy (2011); Money, Credit and Growth (2011).   | program.   |
| <p>Increase in volume of waste disposed in environmentally sustainable sanitary landfills with Bank support through the BRAZIL Integrated Solid Waste Management Project</p> <ul style="list-style-type: none"> <li>➤ Not Available</li> <li>➤ 1200t/day in 2011 (4000t/day expected in 2014)</li> </ul> | <p><b>Not likely to be achieved. The Integrated Solid Waste Management Project has been approved but not yet effective. 400t/day expected in 2011. Full impact in the next CPS.</b></p>             | <p>Lending Program: Integrated Solid Waste Management Project (2011); APL1-RS Integrated Municipal development; Municipal APL1: Uberaba (2007); Municipal APL: Recife (2008); Municipal APL3: Teresina (2008); Municipal APL4: São Luís (2009); Municipal APL5: Santos; RGN State Integrated Water Res Mgmt (2008); Espírito Santo Water and</p> | <p>A number of Bank operations have been supporting regional and urban development with attention to increasing the capacity of the public administrations and addressing local service delivery challenges. The indicator selected by the CPS Progress Report to track progress focused on integrated solid waste management, an outcome supported by a</p> |

| Brazil CPS Completion Report Table 1: Summary of CAS Program Self-Evaluation   |                               |  |  |
|--|-------------------------------|--|--|
| CPS Outcome/Cluster of Outcomes and Outcome Indicators (baselines and targets) | Status And Evaluation Summary | Lending and non-lending Activities that contributed to the outcome   | Lessons and suggestions for the new CPS  |
|  |                               | Coastal Pollution (2009); (APL2) RS Bage Integr. Munic. Dev. (2009); (APL2) RS Santa Maria Integ. Mun. Dev (2009); (APL2) RS Uruguaiana Int. Mun. Dev. (2009). | project just approved. The event points to the difficulty of finding a single or few summary indicators when the interventions are multi-sector and the M&E system is not in place to measure progress at the urban or regional level. Development of such M&E should be a priority. |

| <b>Brazil CPS Completion Report Table 1: Summary of CAS Program Self-Evaluation</b>  |  |   |   |
|--|--|---|---|
| CPS Outcome/Cluster of Outcomes and Outcome Indicators (baselines and targets)   | Status And Evaluation Summary  | Lending and non-lending Activities that contributed to the outcome  | Lessons and suggestions for the new CPS   |
| <b>Equitable Brazil</b>  |  |   |   |
| <p>Percentage of primary school-age children in BF beneficiary families attending school</p> <ul style="list-style-type: none"> <li>➤ n.a. (data was requested to Ministry of Social Development)</li> <li>➤ 87% (2011)</li> </ul> | <p><b>Achieved on April and May of 2011, 86% of primary school-age children in BF beneficiary families are attending schools.</b></p>                            | <p>Lending Program: Bolsa Família 1st APL (2002); Bolsa Família 2nd APL (2011)</p> <p>AAA: Equality of Opportunity (2010) Inequality Recent trends and perspectives(2011)</p> | <p>The positive impact on development outcomes through the BF program illustrates how Bank efforts, even if limited in size financially, can be highly effective when complementary cutting-edge knowledge-creating activities support a high priority programs. (ON margin contribution to a superior product)</p> |
| <p>Landless and small farmers obtaining access to land through Crédito Fundiário</p> <ul style="list-style-type: none"> <li>➤ 33,000 families fully settled—2007</li> <li>➤ 46,000 families fully</li> </ul>                       | <p><b>Achieved as more than 46,000 families of landless and small farmers have obtained access to land through <i>Crédito Fundiário</i>. (December 2009)</b></p> | <p>Lending Program: Land Based Poverty Alleviation (2001); APL1-Pará Integrated Rural development (2006)</p>  |   |

| <b>Brazil CPS Completion Report Table 1: Summary of CAS Program Self-Evaluation</b>   |  |  |  |
|---|--|--|--|
| CPS Outcome/Cluster of Outcomes and Outcome Indicators (baselines and targets)  | Status And Evaluation Summary  | Lending and non-lending Activities that contributed to the outcome   | Lessons and suggestions for the new CPS  |
| settled--2011   |  |  |  |
| <p>Index of Development of Basic Education (IDEB) for primary (4<sup>th</sup> and 8<sup>th</sup> grade) and secondary education</p> <p>➤ Average IDEB scores in 2007: 4.2 for 4<sup>th</sup> grade; 3.8 for 8<sup>th</sup> grade; 3.5 for secondary education.</p> <p>➤ Average IDEB scores in 2011: 4.7 for 4<sup>th</sup> grade; 4.3 for 8<sup>th</sup> grade; 4.0 for secondary education.</p> | <p><b>On track to be achieved as the IDEB as of 2010 was moving the right direction:</b></p> <p>4.6 for 4<sup>th</sup> grade;</p> <p>4.0 for 8<sup>th</sup> grade;</p> <p>3.6 for secondary education</p> <p>Note PISA indicators confirm major progress on quality.</p> | <p>Lending Program: Bolsa Família 1st APL (2002); Bolsa Família 2nd APL(2011); HD Technical Assistance Loan (2006); Ceará Basic Education (2001); FUNDESCOLA IIIA (2002); Pernambuco Education results and Accountability (2009);</p> <p>IFC program of adult education</p> <p>AAA: Quality of Education (2008); Early Childhood Development (2009); Education Quality (2010);</p> <p>Early Childhood (2010)</p> | <p>In achieving results in improving the quality of education, the Bank contributed through a high quality well targeted AAA program. The AAA program focused on filling in existing gaps and empowering the authorities [See text] The work on education points to the positive role analytical work can have as part of a dialogue and technical assistance.</p> |
| Proportion of people covered with the Family Health   | <b>On track to be achieved as the SUS is moving in the</b>   | Lending Program: Bahia Development (Health) (2003);  | Support achievement of health outcomes through long-term   |

| Brazil CPS Completion Report Table 1: Summary of CAS Program Self-Evaluation   |   |  |  |
|--|---|--|--|
| CPS Outcome/Cluster of Outcomes and Outcome Indicators (baselines and targets) | Status And Evaluation Summary   | Lending and non-lending Activities that contributed to the outcome   | Lessons and suggestions for the new CPS  |
| <p>Program</p> <p>➤ 46.3%--2007</p> <p>➤ 55.0%--2011</p>                       | <p><b>right direction:</b></p> <p><b>49.5% (2008)</b></p> <p><b>50.7% (2009)</b></p> <p><b>52.7% (September 2010)</b></p> <p>Note: it is important to have in mind that the private health system covers 25% of the population and some people access the public health care system on a partial basis.</p> | <p>HD Technical Assistance Loan (2006) ; Decease Surveillance and Control (APL2) (2004) ; Family Health Extension 2nd APL (2008); Health Network Formation &amp; Quality Improvements (2009)</p> <p>AAA: Governance Capacity in the Health Sector (2009); Evaluating and Improving efficiency (2010)</p> | <p>engagement that keep the focus on critical national objectives and worked at the Federal and the State level and the relationship between the levels of government through results based system implementation interventions at the State level are tailored to the specific problems and the level of local institutions in addition the bank program overtime has been moving to cover newer issues. An important lesson is that increasing the coverage of the Family Health Program has required sustained efforts at the Federal and State level over a long-period of time. In Brazil, such efforts have meant a continuous feedback between the Federal and State to</p> |

| Brazil CPS Completion Report Table 1: Summary of CAS Program Self-Evaluation  |  |   |  |
|---|--|---|--|
| CPS Outcome/Cluster of Outcomes and Outcome Indicators (baselines and targets)  | Status And Evaluation Summary  | Lending and non-lending Activities that contributed to the outcome  | Lessons and suggestions for the new CPS  |
|   |  |   | introduce the needed institutional change to improve health delivery. This has meant in turn special attention to those areas that are lagging like neo-natal mortality.   |
| <p>Population with access to clean water</p> <ul style="list-style-type: none"> <li>➤ 83.2% of households (2007)</li> <li>➤ 84.8% of households (2011)</li> </ul> | <p><b>On track to be achieved, as in 2009 population with access to clean water was 84.4% of households</b></p> <p>Note that the Progress Report introduced this indicator as population covered. The choice of households is due to the fact that the government surveys present the information as percentage of</p> | <p>Lending Program: Water Sector Mod 2 (1998); Bahia Health and Water SWAp (2011); SP APL Integrated Wtr Mgmt (2010); SP Water ReÁgua (2010); Ceará Water Management; PROGRIRH SIM (2000); Espírito Santo Water and Coastal Pollution (2005);</p> | <p>The goal national high the contribution indirect through programs at the Federal and State level the contribution combined investments with institutional design and has taken a long-term view The positive results in increasing access to water have been the result of the commitment of the Federal and State level, and of the development of an institutional infrastructure that includes a legal framework and</p> |

| Brazil CPS Completion Report Table 1: Summary of CAS Program Self-Evaluation   |  |   |   |
|--|--|---|---|
| CPS Outcome/Cluster of Outcomes and Outcome Indicators (baselines and targets)   | Status And Evaluation Summary  | Lending and non-lending Activities that contributed to the outcome  | Lessons and suggestions for the new CPS   |
|  | households.  |   | an innovative structure of incentives and agreements to align Federal and State actions. The Bank established an effective partnership with Federal and State levels.   |
| Population with access to sewage <ul style="list-style-type: none"> <li>➤ 51.1% of households--2007</li> <li>➤ 53.4% of households---2011</li> </ul>             | <b>On track to be achieved, as in 2009 population with access to sewage was 52.5% of households</b><br><br>Note that the Progress Report introduced this indicator as population covered. The choice of households is due to the fact that the government surveys present the information as percentage of households. | Lending Program Integrated Solid Waste (2011)   |   |
| Per capita monthly household income: ratio of Northeast to national average <ul style="list-style-type: none"> <li>➤ 60.1%--2007</li> <li>➤ 64%--2011</li> </ul> | <b>Achieved as in 2009 the ratio of Northeast real per-capita household income to the national average had already reached 64.0%.</b>  | Lending program: RGN Rural Poverty Reduction (2002); Maranhão Integrated Rural Development (2004); APL1-Pará Integrated Rural development (2006); Ceará Inclusive Growth (SWAp II) (2009); Ceará Regional | The closing of the income gap between the Northeast and the national average reflects a sustained and long-term effort of the Federal government and the states around flagship programs of which two stand out (a) the Poverty Reduction |



| Brazil CPS Completion Report Table 1: Summary of CAS Program Self-Evaluation   |                               |  |   |
|--|-------------------------------|--|---|
| CPS Outcome/Cluster of Outcomes and Outcome Indicators (baselines and targets) | Status And Evaluation Summary | Lending and non-lending Activities that contributed to the outcome   | Lessons and suggestions for the new CPS   |
|  |                               | <p>Development (2009); Ceará Integrated Water Resource Management (2000); Ceará Rural Poverty Reduction Project (2001); Sergipe State Integrated Project: Rural Poverty (2009) ; Bahia State integrated poverty reduction (2006); Piauí Rural Poverty Reduction (2001); Maranhão Integrated: Rural Development (2004); Pernambuco Rural Poverty Development (2001); Bahia Poor areas Integrated Development (2006); MG Rural Poverty Reduction (2006); Santa Catarina Natural and Poverty Reduction (2002); Recife Urban Upgrading (2003); Alto Solimões Basic Services and Sustainability (2008); RJ Sustainable Rural Development (2010); SP Sust.</p> | <p>Program (PCPR) and (b) the Land reform program. The Bank has fielded an extensive work program with the states and the program has received positive reviews. Here, as in other initiatives, the lesson is the need to align the Bank interventions with national initiatives and accompany them with strategic interventions, be it investment, AAA, or technical assistance.</p> |

| <b>Brazil CPS Completion Report Table 1: Summary of CAS Program Self-Evaluation</b>                       |  |   |  |
|---|--|---|--|
| CPS Outcome/Cluster of Outcomes and Outcome Indicators (baselines and targets)                            | Status And Evaluation Summary  | Lending and non-lending Activities that contributed to the outcome  | Lessons and suggestions for the new CPS  |
|   |  | Rural Dev & Access to Markets (2010); Integrated Municipal Project Betim (2005)   |  |
| <b>Sustainable Brazil</b>   |  |   |  |
| Per capita monthly household income: ratio of North to national average<br>➤ 68.1%--2007<br>➤ 75.5%--2011 | <b>Not likely to be achieved as in 2009 the ratio of per capita household income in the North had reached 70% in 2009.</b> | Lending Program: Acre Social Economic Inclusion sustainable development (2009); Tocantins Sustainable Regional development (2004); Amapá Sustainable Communities (2005);<br><br>IFC Amazon Program<br><br>AAA: (CCH) Amazon dieback analysis (2010 ); Amazon Regional Programmatic (2010) | The North region is growing rapidly. The Bank program possibly had a limited impact on this achievement. But, the Bank responded appropriately in support of sustainable development—Amazon and Cerrado Initiatives as well as multi-sector operations in support of regional development. |
| Reduction in average annual rate of deforestation in the Amazon   | <b>Achieved as the rate in deforestation in 2009 had reached the 0.7 million</b>   | Lending Program: 1st Prog. DPL for Sust. Env Mgmt (2009); Environmental   | The WBG work on environment delivers several lessons regarding its   |

| Brazil CPS Completion Report Table 1: Summary of CAS Program Self-Evaluation   |   |   |  |
|--|---|---|--|
| CPS Outcome/Cluster of Outcomes and Outcome Indicators (baselines and targets)   | Status And Evaluation Summary   | Lending and non-lending Activities that contributed to the outcome  | Lessons and suggestions for the new CPS  |
| <ul style="list-style-type: none"> <li>➤ 2005-2007 average annual deforestation rate: 1.48 million ha</li> <li>➤ 2011 deforestation rate: 0.7 million ha</li> </ul>      | <b>target. The information for 2010 was 0.6 million.</b>  | <p>Sustainability TAL (2006) ; (APL2) 2nd National Environmental (2010); (APL2) 2<sup>nd</sup> National Environmental (2010)</p> <p>AAA: Amazon Regional Programmatic (2010); Environmental Licensing (2008);</p> <p>CCH Low Carbon Co (2010); Climate Change 2011; (CCH) Amazon dieback analysis (2010 ); Biodiesel Study (2008)</p> | <p>effectiveness:</p> <p>First, the timely response of the WBG to the scaling up of the commitment of the government to an environment (climate change) agenda bolstered the relevance and credibility of the institutions.</p> <p>Second, the supporting analytical work was relevant, high-quality delivered in a timely fashion; it was produced in cooperation with local experts and has been amply disseminated.</p> |
| <p>Energy produced from renewable sources or saved by energy efficiency projects supported by BNDES</p> <ul style="list-style-type: none"> <li>➤ Zero in 2007</li> </ul> | <b>Achieved as energy from renewable sources or saved by energy efficiency projects with BNDES had more than doubled the target reaching 165,000 TJ/year (2010)</b> | <p>Lending Program: 1st Prog. DPL for Sust. Env Mgmt (2009); Energy Sector TA Project (2003);</p> <p>AAA: Energy Development (2008) ; (Joint) Energy Study</p>  | <p>Third, the WBG has been supporting experimentation at the local level on sustainable environmental practices that are then replicated nationwide.</p>   |

| Brazil CPS Completion Report Table 1: Summary of CAS Program Self-Evaluation   |   |   |   |
|--|---|---|---|
| CPS Outcome/Cluster of Outcomes and Outcome Indicators (baselines and targets)   | Status And Evaluation Summary   | Lending and non-lending Activities that contributed to the outcome  | Lessons and suggestions for the new CPS   |
| ➤ 60,000 TJ/year in 2011   |   | (2008); BRAVA Program Phase (2008); BRAVA Program 2010 ; SNTA Nova Eletrobrás 2010  | Fourth, the strategy to partner with BNDES on the streamlining of the environmental agenda proved appropriate, showing that mainstreaming exercises should focus on key networks in the country which can then become “environment” handles through which to induce change in the broader system. |
| <p>Sustainable Natural Forest Management of private and public area</p> <p>➤ 2007: 2.7 million ha in private land (FSC-certified natural forests) and zero in public land</p> <p>➤ Sustainable Natural Forest Management of private and public areas expanded to 5 million ha—2011</p> | <b>Not achieved as 3.3 million ha in private and public areas were under sustainable natural forest management by 2011.</b> | <p>Lending Program: 1st Prog. DPL for Sust. Env Mgmt (2009)</p> <p>AAA: Amazon Regional Programmatic (2010); Environmental Licensing (2008);</p> <p>CCH Low Carbon Co (2010); Climate Change 2011; (CCH) Amazon dieback analysis (2010 ); Biodiesel Study</p> | Fifth, the WBG used strategically the opportunity to support Brazil during the global crisis to assist in the implementation of a broad platform to reach “green Brazil” objectives without compromising overall economic growth. The Bank  |

| Brazil CPS Completion Report Table 1: Summary of CAS Program Self-Evaluation   |  |   |   |
|--|--|---|---|
| CPS Outcome/Cluster of Outcomes and Outcome Indicators (baselines and targets)   | Status And Evaluation Summary  | Lending and non-lending Activities that contributed to the outcome  | Lessons and suggestions for the new CPS   |
|  |  | (2008)  | has accompanied the government commitment to mainstream environment concerns through targeted interventions that have piloted approaches later scaled up. |
| <p>Protected areas to increase from 79 million ha in 2007 to 110 million by 2011</p> <ul style="list-style-type: none"> <li>➤ 79 million ha in 2007</li> <li>➤ 120 million ha in 2011</li> </ul> | <p><b>Achieved as the target had been surpassed mid-2010 when the protected areas reached 120 million.</b></p> | <p>Program Lending: 1st Prog. DPL for Sust. Env Mgmt (2009); Bio-diversity: ARPA and AquaBio in the Amazon Region, GEF Espírito Santo and Rio Grande do Sul biodiversity and Cerrado Initiative.</p> <p>AAA: Amazon Regional Programmatic (2010); Environmental Licensing (2008);</p> <p>CCH Low Carbon Co (2010); Climate Change 2011; (CCH) Amazon dieback analysis (2010 ); Biodiesel Study (2008)</p> |   |

| <b>Brazil CPS Completion Report Table 1: Summary of CAS Program Self-Evaluation</b>  |   |  |   |
|--|---|--|---|
| CPS Outcome/Cluster of Outcomes and Outcome Indicators (baselines and targets)   | Status And Evaluation Summary   | Lending and non-lending Activities that contributed to the outcome   | Lessons and suggestions for the new CPS |
| <p>Mainstreaming of Climate Change in public and private sector investments</p> <ul style="list-style-type: none"> <li>➤ National Climate Change Action Plan (NCCAP) not yet approved; no BNDES-financed GHG emission reduction projects</li> <li>➤ Planned signed reductions of 20 million tons of CO<sub>2</sub> eq/year from actions monitored under NCCAP (including CDM and BNDES-financed projects)</li> </ul> | <p><b>Achieved: the Law on National Policy for Climate Change Issued in December 2009 and more than 20 million tons of CO<sub>2</sub> eq/year have been signed.</b></p> | <p>Program Lending: 1st Prog. DPL for Sust. Env Mgmt (2009); Brasilia Environmentally Sustainable (2006); (APL2) 2<sup>nd</sup> National Environmental (2010)</p> <p>AAA: Amazon Regional Programmatic (2010); Environmental Licensing (2008);</p> <p>CCH Low Carbon Co (2010); Climate Change 2011; (CCH) Amazon dieback analysis (2010 ); Biodiesel Study (2008)</p> |   |
| Improved effectiveness of  | <b>Partially Achieved, as of</b>  | Program Lending: 1st Prog.   |   |

| Brazil CPS Completion Report Table 1: Summary of CAS Program Self-Evaluation  |   |  |   |
|---|---|--|---|
| CPS Outcome/Cluster of Outcomes and Outcome Indicators (baselines and targets)  | Status And Evaluation Summary   | Lending and non-lending Activities that contributed to the outcome | Lessons and suggestions for the new CPS |
| <p>environmental/ social management systems in financial institutions</p> <ul style="list-style-type: none"> <li>➤ 35% of projects submitted directly to BNDES screened according to the current Institutional Policy--2007</li> <li>➤ 100% of projects screened and monitored according to the new Environmental and Social Institutional Policy—2010</li> </ul> | <p><b>2010</b> 80% of projects submitted directly to BNDES screened ( 2010)</p> | <p>DPL for Sust. Env Mgmt (2009)</p>                               |   |

## CPS Completion Report Annex 1: A2 - IBRD Program Summary

### CPS Completion Report Annex A2 - IBRD Program Summary

As Of Date 06/29/2011

#### IBRD Lending Program

| Fiscal year        | Proposed                                 | US\$(M)        | Project ID                                 | US\$ (M)       | Actual/Planned    |
|--------------------|--|----------------|--|----------------|-------------------|
| <b>2008</b>        |  |                |  |                |                   |
| <b>Federal</b>     | BR - Second Family Health Extension      | 83.5           | BR Family Health Extension 2nd APL         | 83.5           | FY08 (before CPS) |
| <b>Subtotal</b>    | <b>Planned</b>                           | <b>83.5</b>    | <b>Delivered</b>                           | <b>83.5</b>    |                   |
| <b>Subnational</b> | BR - Rio Grande do Norte Rural Pov. III  | 23.0           | BR Rio Grande do Norte Rural Poverty AF    | 22.5           | FY08 (before CPS) |
|                    | BR - Rio Grande do Norte Wat. Res.       | 36.0           | BR Rio Grande Norte Int. Water Resources   | 35.9           | FY08 (before CPS) |
|                    | BR (AF) Espirito Santo Wtr&Coastal Pollu | 65.0           |  |                | FY09              |
|                    | BR (AF-C)S.P. Metro Line 4 (Add'l Fin)   | 95.0           | BR (AF-C)S.P. Metro Line 4 (Add'l Fin)     | 95.0           | FY08              |
|                    | BR Alto Solimoes Basic Services and Sust | 24.3           | BR Alto Solimoes Basic Services and Sust   | 24.3           | FY08 (before CPS) |
|                    | BR Ceara SWAP 2                          | 240.0          |  |                | FY09              |
|                    | BR Municipal APL: Sao Luis               | 35.6           |  |                | FY09              |
|                    | BR Municipal APL: Teresina               | 31.1           | BR Municipal APL: Teresina                 | 31.1           | FY08 (before CPS) |
|                    | BR Municipal APL1: Recife                | 32.8           | BR Municipal APL1: Recife                  | 32.8           | FY08 (before CPS) |
|                    | BR Sao Paulo Trains and Signalling       | 550.0          | BR Sao Paulo Trains and Signalling         | 550.0          | FY08              |
|                    | BR-MG SWAP Partnership II                | 976.0          | BR Second Minas Gerais Dev. Partnership    | 976.0          | FY08              |
|                    | BR-RS Integrated Municipal Dev           | 20.0           | BR APL RS (Pelotas) Int. Mun. Development  | 18.9           | FY08              |
|                    | BR (AF-C)RJ Mass Transit                 | 36.5           | BR (AF-C)RJ Mass Transit                   | 44.0           | FY08 (before CPS) |
|                    | BR-Rio Grande do Sul DPL                 | 1,000.0        |  |                | FY09              |
| <b>Subtotal</b>    | <b>Planned</b>                           | <b>3,165.3</b> | <b>Delivered</b>                           | <b>1,830.4</b> |                   |
|                    | <b>Total Planned for Fiscal Year</b>     | <b>3,248.8</b> | <b>Total Delivered in Fiscal Year</b>      | <b>1,913.9</b> |                   |
| <b>2009</b>        |  |                |  |                |                   |
| <b>Federal</b>     | BR Bolsa Familia 2nd APL                 | 200.0          |  |                | FY11              |
|                    | BR- Health Quality Project (QUALISUS)    | 235.0          | BR Health Network Formation & Quality      | 235.0          | FY09              |
|                    | BR Caixa Solid Waste & carbon finance    | 50.0           |  |                | FY11              |
|                    | BR Education Umbrella SWAp               | 175.0          |  |                | FY11              |
|                    | BR Good GovernanceTAL                    | 24.0           |  |                | Not Pursued       |
|                    | BR National Environmental 2 - Phase II   | 19.0           |  |                | FY10              |
|                    |  |                | BR 1st Prog. DPL for Sust. Env Mgmt        | 1,300.0        | FY10              |
| <b>Subtotal</b>    | <b>Planned</b>                           | <b>703.0</b>   | <b>Delivered</b>                           | <b>1,535.0</b> |                   |
| <b>Subnational</b> | BR Ceará PROGERIH Ad. Financing          | 93.0           | BR Ceará Int. Water Res. Management AF     | 103.0          | FY09              |
|                    | BR São Paulo Rural - Microbacias II      | 78.0           |  |                | FY10              |
|                    | BR-Integrated Water Management São Paulo | 129.0          |  |                | FY10              |
|                    | BR Acre Social and Econ Inclusion        | 120.0          | BR Acre Social Econ. Inclusion Sust. Dev.  | 120.0          | FY09              |
|                    | BR Goias State Highway Management APL II | 65.0           |  |                | Dropped           |
|                    | BR Ceara Regional Development            | 42.0           | BR Ceará Regional Development              | 46.0           | FY09              |
|                    | BR Sao Paulo Feeder Roads Project        | 167.0          |  |                | FY10              |
|                    | BR SP METRO LINE 4 (PHASE 2)             | 130.0          |  |                | FY10              |
|                    | BR SP Water Reagua                       | 78.0           |  |                | FY10              |
|                    | BR GDF Multisector Public Mgmt. Phase I  | 130.0          | BR Federal District Multisector Management | 130.0          | FY09              |
|                    | BR Pernambuco Sw ap                      | 155.0          | BR Pernambuco Results & Account. Sw ap     | 154.0          | FY09              |
|                    | BR Municipal APL1: Cubatao - Guara       | 14.6           |  |                | Dropped           |
|                    | BR Paraiba 2nd Rural Pov Reduction       | 20.0           | BR Paraiba 2nd Rural Pov. Reduction        | 20.9           | FY09              |
|                    |  |                | BR Municipal APL4: Sao Luis                | 35.6           | FY09              |



**CPS Completion Report Annex A2 - IBRD Program Summary**

**As Of Date 06/29/2011**

**IBRD Lending Program**

| Fiscal year        | Proposed                             | US\$(M)        | Project ID                                   | US\$ (M)       | Actual/Planned      |
|--------------------|--------------------------------------|----------------|--|----------------|---------------------|
|                    |                                      |                | BR (AF-C) Espirito Santo Wtr & Coastal Poll. | 71.5           | FY09                |
|                    |                                      |                | BR Ceara Inclusive Growth (SWAp II)          | 240.0          | FY09                |
|                    |                                      |                | BR RGS Fiscal Sustainability DPL             | 1,100.0        | FY09                |
|                    |                                      |                | BR: Sergipe State Int. Proj.: Rural Pov      | 20.8           | FY09                |
|                    |                                      |                | BR (APL2) RS Bage Integr. Munic. Dev.        | 6.6            | FY08                |
|                    |                                      |                | BR (APL2) RS Santa Maria Integ. Mun. Dev.    | 14.0           | FY08                |
|                    |                                      |                | BR (APL2) RS Uruguaiana Int. Mun. Dev.       | 6.8            | FY08                |
| <b>Subtotal</b>    | <b>Planned</b>                       | <b>1,221.6</b> | <b>Delivered</b>                             | <b>2,069.2</b> |                     |
|                    | <b>Total Planned for Fiscal Year</b> | <b>1,924.6</b> | <b>Total delivered in Fiscal Year</b>        | <b>3,604.2</b> |                     |
| <b>2010</b>        |                                      |                |  |                |                     |
| <b>Federal</b>     | BR Animal Health                     | 40.0           |  |                | Dropped             |
|                    | BR BNDES DPL                         | 1,000.0        |  |                | FY09                |
|                    | BR Health Umbrella SWAp              | 175.0          |  |                | Not Pursued         |
|                    | BR PAC TAL                           | 51.3           |  |                | Not Pursued         |
|                    |                                      |                | BR AIDS-SUS                                  | 67.0           | FY10                |
|                    |                                      |                | ELETRONBRAS Distribution Rehabilitation      | 495.0          | FY10                |
| <b>Subtotal</b>    | <b>Planned</b>                       | <b>1,266.3</b> | <b>Delivered</b>                             | <b>562.0</b>   |                     |
| <b>Subnational</b> | BR Parana Rural Poverty II           | 31.5           |  |                | FY12                |
|                    | BR Pernambuco Water                  | 190.0          | BR Pernambuco Sustainable Water              | 190.0          | FY10                |
|                    | BR Bahia Water and Health SWAp       | 72.0           |  |                | FY11                |
|                    | BR Santos Municipality Project       | 40.2           | BR Municipal APL5: Santos                    | 44.0           | FY10                |
|                    |                                      |                | BR SP APL Integrated Wtr Mgmt                | 104.0          | FY09                |
|                    |                                      |                | BR (APL2) 2nd National Environmental         | 24.3           | FY09                |
|                    |                                      |                | BR-RJ Sustainable Rural Development          | 39.5           | FY11                |
|                    |                                      |                | BR ALAGOAS Fiscal & Public Mgmt Reform       | 195.5          | Other Possibilities |
|                    |                                      |                | BR SP METRO LINE 4 (PHASE 2)                 | 130.0          | FY09                |
|                    |                                      |                | BR Sao Paulo Feeder Roads Project            | 166.7          | FY09                |
|                    |                                      |                | BR SP Water Reagua                           | 64.5           | FY09                |
|                    |                                      |                | BR SP Sust Rural Dev & Access to Markets     | 78.0           | FY09                |
|                    |                                      |                | BR (AF) Bahia State Integ. Pr Rural          | 30.0           | FY10                |
|                    |                                      |                | BR (APL2) RS Rio Grande Integ. Mun. Dev.     | 8.1            | FY08                |
|                    |                                      |                | BR RJ Mass Transit II                        | 211.7          | FY10                |
|                    |                                      |                | BR Sao Paulo Metro Line 5                    | 650.4          | FY10                |
|                    |                                      |                | BR Rio State DPL                             | 485.0          | FY10                |
|                    |                                      |                | BR Mato Grosso do Sul Road                   | 300.0          | Other Possibilities |
|                    |                                      |                | BR (AF) 2nd MG Dev't Partnership SWAp        | 461.0          | FY10                |
| <b>Subtotal</b>    | <b>Planned</b>                       | <b>333.7</b>   | <b>Delivered</b>                             | <b>3,182.6</b> |                     |
|                    | <b>Total Planned for Fiscal Year</b> | <b>1,600.0</b> | <b>Total delivered in Fiscal Year</b>        | <b>3,744.6</b> |                     |

**CPS Completion Report Annex A2 - IBRD Program Summary**

As Of Date 06/29/2011

**IBRD Lending Program**

| Fiscal year                               | Proposed                             | US\$(M)      | Project ID                             | US\$ (M)       | Actual/Planned      |
|---|--------------------------------------|--------------|--|----------------|---------------------|
| <b>2011</b>                               |                                      |              |  |                |                     |
| <b>Federal</b>                            |                                      |              |  |                |                     |
|   |                                      |              | BR Bolsa Familia 2nd APL               | 200.0          | FY09                |
|   |                                      |              | BR Federal University Hospitals Reform | 150.0          | FY09                |
| <b>Subtotal</b>                           | <b>Planned</b>                       | <b>0.0</b>   | <b>Delivered</b>                       | <b>350.0</b>   |                     |
| <b>Subnational</b>                        |                                      |              |  |                |                     |
|   | BR RJ Sustainable Rural Developmet   | 36.5         |  |                | FY10                |
|   | BR RS Integ. Regional Development    | 180.0        |  |                | Not Pursued         |
|   |                                      |              | BR- Rio Janeiro Municipality DPL       | 1,045.0        | FY11                |
|   |                                      |              | BR AF São Paulo Feeder Roads           | 326.8          | FY11                |
|   |                                      |              | BR Santa Catarina Rural                | 90.0           | Other Possibilities |
|   |                                      |              | BR Rio de Janeiro PSM/Fiscal MST       | 18.7           | FY11                |
|   |                                      |              | BR (AF) SP Trains and Signalling       | 112.9          | FY11                |
|   |                                      |              | BR Integrated Solid Waste              | 50.0           | FY09                |
|   |                                      |              | BR Bahia Int. Water/Health Sw ap       | 60.0           | FY10                |
|   |                                      |              | BR Rio de Janeiro Housing DPL          | 485.0          | FY11                |
| <b>Subtotal</b>                           | <b>Planned</b>                       | <b>216.5</b> | <b>Delivered</b>                       | <b>2,188.4</b> |                     |
|   | <b>Total Planned for Fiscal Year</b> | <b>216.5</b> | <b>Total delivered in Fiscal Year</b>  | <b>2,538.4</b> |                     |
| <b>Other Possibilities:</b>               |                                      |              |  |                |                     |
|   | Mato Grosso Sustainable              |              |  |                | FY10                |
|   | Santa Catarina Multi Sector SWAp     |              |  |                | FY11                |
|   | Alagoas DPL                          |              |  |                | FY10                |
| <b>Total Lending by Year</b>              |                                      |              |  |                |                     |
| <b>2008</b>                               |                                      |              |  |                | <b>1,913.9</b>      |
| <b>2009</b>                               |                                      |              |  |                | <b>3,604.2</b>      |
| <b>2010</b>                               |                                      |              |  |                | <b>3,744.6</b>      |
| <b>2011</b>                               |                                      |              |  |                | <b>2,538.4</b>      |
| <b>Total</b>                              |                                      |              |  |                | <b>11,801.1</b>     |
| <b>2008 (after CPS Board Discussion)</b>  |                                      |              |  |                | <b>1,639.9</b>      |
| <b>Total (after CPS Board Discussion)</b> |                                      |              |  |                | <b>11,527.1</b>     |

| <b>CPS Completion Report Table 1: #3 - Planned and Delivered AAA</b> |  |                                 |                                |                      |
|--|--|---------------------------------|--------------------------------|----------------------|
| <b>Planned FY</b>  | <b>Definition</b>                      | <b>Planned US\$ (thousands)</b> | <b>Actual US\$ (thousands)</b> | <b>Completion FY</b> |
| 2008   | BR Energy Development                  | 160.80                          | 122.20                         | 2008                 |
| 2008   | BR Directed Credit a                   | 120.00                          | 341.80                         | 2008                 |
| 2008   | BR Environmental Licensing             | 175.00                          | 363.10                         | 2008                 |
| 2008   | BR (SCL) Aviation                      | 44.00                           | 82.20                          | 2008                 |
| 2008   | BR Quality of Education                | 305.00                          | 243.00                         | 2008                 |
| 2008   | BR (Joint) Energy Se                   | 135.00                          | 226.70                         | 2008                 |
| 2008   | BR Financial Sector                    | 82.00                           | 98.10                          | 2008                 |
| 2008   | BR-BRAVA Program Phase                 | 140.00                          | 234.50                         | 2008                 |
| 2008   | BR City Econ Growth                    | 160.00                          | 470.10                         | 2008                 |
| 2008   | BR Biodiesel Study                     | 135.00                          | TBC                            | 2007 (TBC)           |
| 2009   | BR(EFO)Good Governance                 | 100.00                          | 337.40                         | 2008                 |
| 2009   | BR Labor Programmatic                  | 140.00                          | 267.70                         | 2009                 |
| 2009   | BR (SCL) Countercyclical fiscal policy | 100.00                          | 106.90                         | 2009                 |
| 2009   | BR Fiscal Federalism                   | 164.00                          | 356.10                         | 2009                 |
| 2009   | BR Freight Logistics                   | 165.00                          | 221.10                         | 2009                 |
| 2009   | BR (FBS)Concession                     | 603.70                          | 783.60                         | 2009                 |
| 2009   | BR Public Debt Management              | 80.00                           | 69.40                          | 2009                 |
| 2009   | BR Early Childhood Development         | 100.00                          | 163.30                         | 2009                 |
| 2009   | BR Skills Innovation                   | 50.00                           | 69.70                          | 2009                 |
| 2009   | BR Good Governance                     | 100.00                          | 132.20                         | 2009                 |

|      |                          |          |          |      |
|------|--------------------------|----------|----------|------|
| 2009 | BR (FBS) Baixi           | 542.00   | 790.30   | 2009 |
| 2009 | BR National Housing Plan | 55.00    | TBC      | TBC  |
| 2009 | BR Govern. Cap. Health   | 20.00    | TBC      | TBC  |
| 2010 | BR GAP Report            | 80.00    | TBC      | TBC  |
| 2010 | BR CCH Low Carbon        | 587.50   | 1,862.30 | 2010 |
| 2010 | BR Education Quality     | 113.00   | 206.80   | 2010 |
| 2010 | BR BRAVA Program         | 140.00   | 99.70    | 2010 |
| 2010 | BR (CCH) Amazon dieback  | 1,150.00 | 748.30   | 2010 |
| 2010 | BR Amazon Regional       | 200.00   | 299.40   | 2010 |
| 2010 | BR-Improve quality       | 160.00   | 179.60   | 2010 |
| 2010 | BR Proposed High-Speed   | 50.00    | 176.40   | 2010 |
| 2010 | BR-Evaluating and Im     | 200.00   | 143.10   | 2010 |
| 2010 | BR Early Childhood       | 113.00   | 225.40   | 2011 |
| 2010 | BR EQUALITY OF OPPOR     | 140.00   | 287.80   | 2011 |
| 2010 | BR Labor Prog. Phase III | 114.00   | TBC      | TBC  |
| 2010 | BR Building Evidence     | 200.00   | 320.50   | 2011 |
| 2010 | BR Involuntary Reset     | 120.00   | 288.90   | 2011 |
|      | <i>added</i>             |          |          |      |
|      | BR SNTA Nova Eletrobrás  |          | 349.00   | 2010 |
|      | BR Housing Sector TA     |          | 93.10    | 2010 |
|      | BR PEFA-plus             |          | 191.30   | 2010 |
|      | <i>added</i>             |          |          |      |
| 2011 | BR Public Sector NLTA    |          | 98.40    | 2011 |
| 2011 | BR Achieving World       |          | 378.70   | 2011 |

|      |                             |  |        |      |
|------|-----------------------------|--|--------|------|
|      | Class in Education          |  |        |      |
| 2011 | BR Aging Country Stu        |  | 342.60 | 2011 |
| 2011 | BR MST Job Quality          |  | 253.50 | 2011 |
| 2011 | Brazil Procurement          |  | 43.40  | 2011 |
| 2011 | BR Climate Change           |  | 101.70 | 2011 |
| 2011 | Conservation/Tourism        |  | 134.30 | 2011 |
| 2011 | BR Money, Credit and Growth |  | 221.30 | 2011 |
| 2011 | BR Inequality               |  | 56.30  | 2011 |
| 2011 | BR Land Management          |  | 156.60 | 2011 |
| 2011 | BR-Green City Development   |  | 183.60 | 2011 |
| 2011 | BR Financial Literacy       |  | 6.00   | 2011 |
| 2011 | Brazil Housing Sector       |  | 38.40  | 2011 |

## Endnotes:

<sup>1</sup> See Gomes, Pessoa and Velloso (2003).

<sup>2</sup> HD Technical Assistance Project completed 12/31/2009 and rated as moderately satisfactory for development outcomes.

<sup>3</sup> Currently Bank is collaborating with 2 municipalities to rigorously evaluate promising programs: the Rio de Janeiro municipality's *Primeira Infância Completa* program, targeted to families eligible for the *Bolsa Família* and *Bolsa carioca*, and Recife municipality's new ECD program.

<sup>4</sup> IFC made two investments in the education sector during the CPS period, committing a US\$28.7 million A Loan to Anhanguera Educacional and taking US\$6.7 million in equity in Ideal Invest, a student loan company. This enabled IFC to support the expansion of adult education opportunities, mainly technical and vocational classes, for middle- and low-income students.

<sup>5</sup> Bank's AAA has contributed to (a) a transparent national dialogue on education results and performance and (b) to the design of instruments to create incentives to strengthen education institutions for better results at all levels. In addition, through sub-national operations the Bank has provided direct support to states and select municipalities for education reforms to improve teacher quality, reduce repetition, and raise secondary education quality. Moreover, in FY10, an analytical program was started in partnership with the Federal and selected State and Municipal Governments to help design and evaluate policies and programs related to different dimensions of the quality of education production process and early child development.

<sup>6</sup> The initial operation was the First Family Health Extension Program - PROESF I (approved on March 14, 2002); the follow up operation is the Second Family Health Extension Program - PROESF II (which was approved on April 25, 2008).

<sup>7</sup> VIGISUS ICR (completed 12/31/2009) and rated as satisfactory for development outcomes, with low to negligible risks.

<sup>8</sup> See ICR for HIV/AIDS (2010).

<sup>9</sup> ICR Bahia Health System Reform Project APL, completed 8/31/2009.

<sup>10</sup> At the Federal level, the Bank has worked with the Ministries of Environment, Cities and National Integration, and the national water regulatory agency, ANA. It has also worked with several States, especially in the Northeast, such as Pernambuco, Sergipe and Rio Grande do Norte, as well as Espírito Santo and São Paulo among others.

<sup>11</sup> At the Federal level, the recently closed PROÁGUA (Federal Resource Water Management Project) promoted participatory management, and provision of reliable and sustainable access to water in priority basins of the Northeast. The Water Sector Modernization Project (PMSS), the second of an APL series, focused on improving the regulatory environment for water and sanitation services and posted as major accomplishments the support for (a) the Consortia Law, which sets rules for horizontal cooperation in undertaking and managing water and sanitation projects across sub-national entities and (b) the National Law on Guidelines for Basic Sanitation. The Bank is also supporting complementary efforts to deploy integrated urban water management approaches (IUWM), based on coordination of urban water management with urban planning and basin management. IUWM is a flexible, participatory and iterative process which integrates different levels of government, and the elements of the urban water cycle (water supply, sanitation, storm water management, waste management) with both the city's urban development and the surrounding basin's management to maximize economic, social and environmental benefits in an equitable manner. Under the Sergipe Water Project, the Bank is developing a pilot IUWM case in the Metropolitan Region of Aracaju, which is also the subject of analytical work at the regional level.

<sup>12</sup> PROSANEAR was completed during the previous CPS (completion date 12/15/2007), but the impact extended into this CPS period. The achievement of development outcomes was rated as Moderately Satisfactory.

<sup>13</sup> These operations include: Rio Grande do Norte (RGN) Rural Poverty Reduction (2002); Maranhão Integrated Rural Development (2004); APL1-Para Integrated Rural development (2006); Ceará Rural Poverty Reduction Project (2001); Ceará Inclusive Growth (SWAp I) (2006); Ceará Inclusive Growth (SWAp II) (2009); Ceará Regional Development (2009); Ceará Integrated Water Resource Management (2000); Sergipe State Integrated Project: Rural Poverty (2009); Bahia State integrated poverty reduction (2006); Piauí Rural Poverty Reduction (2001); Pernambuco Rural Poverty Development (2001); Bahia Poor areas Integrated Development (2006); and Recife Urban Upgrading (2003). Projects focused on rural poverty in other regions include: MG Rural Poverty Reduction (2006); Santa Catarina Natural and Poverty Reduction (2002)

<sup>14</sup> Examples of these operations are: RJ Sustainable Rural Development (2010); SP Sust Rural Dev & Access to Markets (2010);

<sup>15</sup> Land-based Poverty Alleviation Project, closing 12/31/2008 2008, and rated moderately satisfactory, mainly due to delays in implementation.

<sup>16</sup> An example of this is IFC's US\$25 million A Loan to food processing company Bauducco SA, to support a new plant in the Northeast. In addition to creating 260 jobs in the State of Alagoas, the project integrated about 1,800 SMEs into its supply chain, and incorporated energy efficient processes and equipment.

<sup>17</sup> Paes de Barros, R., and M. Carvalho (2009).

<sup>18</sup> ICR BOLSA (2010) rated achievement of development outcomes as satisfactory, with low or negligible risk.

<sup>19</sup> By 2010 53% of the units receiving financing were for families with incomes below 10 minimum wages, as a result of measures introduced during the crisis. The MCMV program is mainly implemented by the Government-owned Caixa Econômica Federal, which encompasses about 100% of subsidy linked loans (through FGTS funds) and the largest market share of all mortgage operations in Brazil.

<sup>20</sup> The supporting role of the Bank in housing came through Housing sector Technical Assistance Loan (TAL) to the Ministry of Cities, which closed in December 2010, as well as its Non Lending TA (NLTA) to the Secretariat of Economic Policy under the Ministry of Finance. The focus of the assistance has been the sustainability of the MCMV initiative through private sector involvement in low-income housing market with attention to the identification of opportunities to expand access to capital markets and land. The current NLTA scope is to enable the Government to identify opportunities to expand access to capital markets as a funding source for housing loans. This work on expanding access to housing finance is closely linked with TA on supply side issues (including the functioning of housing and land markets), subsidies, and sector monitoring and evaluation. The Bank is also providing support to the State Government of Rio under the Metropolitan Urban and Housing DPL to strengthen the policy and regulatory framework for the State's low-income housing fund FEHIS. An important regulatory instrument is the "ZEIS", a Special Zoning procedure for social housing, which has been introduced in 60% of the new plans, and which represents an important tool to enable access to affordable land for the poor in the cities. Under the Rio Metropolitan Urban and Housing DPL and associated TAL, the Bank has also provided support to integrated housing, land use, transport and disaster risk management policies as well as TA to integrate and harmonize sectoral master plans for land use, housing and transport at the metropolitan region level.

<sup>21</sup> The Sustainable Environmental Management (SEM) DPL has played a major role in the consolidation of the sustainable development agenda. This operation that was approved and disbursed as part of the support the Bank provided to Brazil during the global crisis in 2009 consolidating on-going project work and building on previous experience such as Environment PRL series, during the previous CPS. Through this operation, the Bank is supporting the GoB's efforts to increase the transparency of the environmental licensing process, enhance the implementation of mandated Brazilian environmental and social management procedures, and increase the effectiveness of environmental and social management systems in BNDES and other financial institutions. The Bank is also using investment projects to support institutional capacity building for decentralized environmental management as well as for addressing safeguards issues more generally. In addition, the Bank has mobilized bilateral and multilateral grant funds (e.g. from the GEF) in support of conservation and natural resource management initiatives. Trust fund and IFC resources have leveraged the impact of Bank investment loans at the State and Federal level, and that of the SEM DPL with BNDES.

<sup>22</sup> The study establishes a *reference scenario* by anticipating the future evolution of Brazil's GHG emissions, it identifies and quantifies actions that could be taken to mitigate emissions and increase carbon uptake, it assesses the costs of implementing low carbon actions, identifies potential implementation barriers, and explores measures to overcome them. Based on all these inputs, the study builds a *low carbon scenario* that meets development expectations and it analyzes the macroeconomic effects and additional financing needs of shifting from the reference scenario to a lower carbon pathway. The study yielded a number of actionable policy recommendations. In addition, over the last five years the Bank in collaboration with the Global Environmental Facility (GEF) has supported Brazil's programs aimed at better understanding the causes and impacts of land degradation and developing alternatives that can be scaled up. The INPE digital map of the Amazon (whose production has been supported by a PPG7 grant), for example, indicates the location of the degraded areas in the Amazon and indicates its level of degradation. The AES –Tiete CDM, the *Microbasias*, and the *Mata Ciliar* projects provide a blueprint for restoration of Areas of Permanent Preservation (APPs), while the Plantar CDM project is a promising initiative for sustainable forestry in degraded areas.

<sup>23</sup> This Fund is financed partially from royalties from oil.

<sup>24</sup> An example is the recently completed Santa Catarina Natural and Poverty Reduction.

<sup>25</sup> The first major project, in 2007, was a US\$90 million loan package that helped beef producer Bertin expand and modernize its existing facilities, including one acquired in 2005 in the Amazon region. However, the project was terminated in May 2009 by mutual agreement in recognition of the project's management and operational complexities. Nonetheless, IFC and Bertin were able to advance the sustainability agenda in the beef sector in Brazil through a number of initiatives. They worked to develop and implement a Cattle Purchasing Procedure, the first of its kind, to address key social and environmental concerns associated with the industry. At its peak in 2008, the Bertin project reached over 15,000 farmers that provided livestock for Bertin slaughterhouses in and around the Amazon region. IFC also provided advisory support to pilot a project with Bertin's cattle suppliers on better production practices to promote more efficient use of pasture land and reduce the pressure on critical forest resources. IFC played a leadership role in setting up the Sustainable Beef Working Group – the industry's only multi stakeholder forum to develop and promote sustainable practices. The Group consists of Brazil's major beef processors, large purchasers of beef, financiers, and NGOs. Other projects initiated under the Amazon Initiative include a key role in the Round Table on Responsible Soy that brings together market participants and stakeholders. IFC also supports Aliança da Terra, an NGO, to expand sustainable land management by improving indicators, monitoring systems, and developing a transparent database for supply chain use and a carbon monitoring system. The project began in 2009 and its main objective is to increase the area of land in the Amazon enrolled under sustainable management by 2 million hectares.

<sup>26</sup> Other relevant projects of this agenda include (a) the recently completed Paraná bio-diversity completed January 2009 with substantial contribution to protected areas and bio-diversity; (b) the likewise recently completed Amazon Region Protected Areas; (c) Goiás—Regional Development; (d) the Environmental Sustainability Agenda Technical Assistance Project; etc. Efforts to mainstream environment concerns in other sectors include a GEF financed project on transport and air quality focused on reducing the rapid increase in carbon emissions from urban transport in Belo Horizonte, Curitiba and São Paulo, through less energy intensive transport modes and the implementation of policies and regulatory frameworks that foster the development of sustainable transport systems

<sup>27</sup> While relatively small, these projects represented major advances in their respective fields that have enabled further progress by investees. For instance, a US\$24.4 million A Loan to Estre Ambiental, a waste treatment and energy company, in 2009 enabled the client to develop new sanitary landfills and deployment of LFG collection and combustion systems. At the time, a mid-sized company such as Estre operating in an unconventional field faced greater difficulty than usual in accessing long-term finance. As well as improving its capital structure, IFC also strengthened Estre's corporate governance to improve its creditworthiness when markets stabilized, and demonstrated to the markets the viability and attractiveness of private sector engagement.

<sup>28</sup> The CPS proposed a more strategic involvement in the Amazon region, which has the largest share of rainforest in the planet, is the repository of probably the world's largest biodiversity content, and contains carbon stocks of around 70 billion tons. The Cerrado, covering 25% of the area of Brazil, is a unique type of tropical savanna which harbors over 12,000 species of plants and a couple of thousands of species of animals; its biome is under heavy stress from expanding commercial agriculture. The Sustainable Cerrado Initiative is bringing an innovative approach to the conservation and sustainable use of its biome, enabling local communities, civil society and the private sector to participate actively in policy formulation and implementation. Four GEF projects are committed to help increasing the mosaic of legally protected areas of unique biodiversity, bringing in medium, large and small farmers, and local communities around a more sustainable use of the biome's natural resources; and, monitoring the biome's status by creating a public database containing current geophysical, social and environmental information. As part of these efforts, the Rural Environment Cadastre technical Assistance Project is piloting self-registration of public and private lands in a cadastre; these experiences will then feed into a broader effort to register all lands in environment sensitive areas, helping track the conservation efforts.

<sup>29</sup> Amazon Region Protected Areas end of 2008 ICR rated as moderately satisfactory.

<sup>30</sup> Alto Solimões Basic Services and Sustainability (2008).

<sup>31</sup> A large urban portfolio and regional portfolio is emerging with various degrees of PSD emphasis. From an earlier vintage, one series includes five operations in Rio Grande do Sul Municipal Development Project and eight under the Brazil Municipal Lending Project (BMPL) APL. A newer vintage of PSD is being included as a critical pillar of all SWAP and DPL operations.

<sup>32</sup> See ICR to Second Programmatic Sustainable and Equitable Growth Loan completed 6/30/2008 and rated moderately satisfactory. The CPS outcome focused on reducing the times to import and export as per the Doing Business Database. These numbers indeed improved as seen in Appendix 1, but as the third DPL operation the series intended to support achievement of the objective was cancelled under this operation, but continued through the Sustainable and Equitable Growth Technical Assistance Project whose ICR has been completed in March, 2011.

<sup>33</sup> The TAL that accompanied the DPL series, however, continued supporting the implementation of a number of Bank supported policy reforms, including in the transport sector. See the draft ICR for the Brazil Sustainable and Equitable Growth Technical Assistance Project (P083533).

<sup>34</sup> The financial contribution in transportation is small given that Brazil is carrying one of the largest transportation programs in the world.

<sup>35</sup> Financial TA completed 5/31/08 and rated moderately satisfactory for Development Outcomes.

<sup>36</sup> In addition, ongoing AAA work to respond to a GoB's request for technical support in the development of policy measures to support the development of long-term and SME financing, in light of similar international experiences. While Brazil has one of the largest and most sophisticated financial systems among emerging market countries, the tenure of funding – other than that supplied by the National Bank for Economic and Social Development (BNDES) – is still fairly short-term (in general at most two years in the case of private Banks). A key challenge then is how to increase the supply of longer term products to more adequately match the funding needs of investors. A range of reasons have been advanced to explain the lack of development of a vibrant long-term market for private sector financing, including high short term real interest rates that do not create much incentives for maturity risk taking, the pricing of credit by BNDES substantially below the SELIC policy rate, high issuance costs for corporate debentures, and widespread use of the interest rate on overnight uncollateralized interbank market transactions as a benchmark for fund managers even when investing in longer-term instruments.

<sup>37</sup> These products include simplified checking and savings accounts (e.g. for recipients of CCTs), they have expanded their branch networks and deployed innovative efforts to develop branchless banking, microfinance, and links between access to *Bolsa-Família* and the provision of financial services.

<sup>38</sup> Some 57 million tons of Municipal solid waste were produced in Brazil in 2009, with average per capita generation rates in metropolitan areas reached 1.2 kg per day, equivalent to the rates found in OECD countries. Of the total volume produced, about 7 million tons (12%) were not collected, and 22 million tons (43%) were improperly disposed in dumpsites. Only around 39% of the country's 5,564 municipalities, the constitutionally responsible agents, adequately dispose of their waste (sanitary landfills). Wide variations in collection and disposal rates are observed amongst the various regions of the country.

<sup>39</sup> In addition, BNDES is extending special financing conditions for water management in the less developed North and Northeast regions of the country.

<sup>40</sup> Brazil is presently irrigating 4.0 million ha that produce 31% of the total value of crop production with less than 10% of the cropped area in the country. Brazil has the land and water resources to irrigate 30 million ha. To take advantage of this opportunity, however, it is paramount to attract the private sector as a partner in this endeavor. In this regard, the PPP Framework that the Bank has helped develop has already successfully allowed for the bidding of the *Pontal* irrigation project in September 2010. More recently, Bank support in this area has focused on the optimal utilization of irrigation projects that have been performing below their potential, and in



---

the development of new projects such as *Baxio de Irece*. The Bank is supporting the Ministry of Integration to decide on the most adequate PPP model, and is finalizing the necessary studies and negotiations with the relevant authorities to bid the projects and follow up on their implementation. This work has attracted the attention of other Latin American and African countries which are interested in implementing a new strategy based on the PPP model developed in Brazil.

<sup>41</sup> See ICR to Fiscal and Financial Management Technical Assistance Loan, completed 12/31/08 and rated as moderately satisfactory for development outcomes. During this CPS the Bank did not extend a new operation to the Federal Government, but it maintained the partnership through technical assistance aimed at filling gaps on the implementation of the SIAFI, pluri-annual budgets, and results based management. The Inter-American Development Bank is providing complementary support. A Programmatic Fiscal Reform Loan (PFRSAL1 and 2), social security reform issues included, was completed in June 2006.

<sup>42</sup> Brazil: Improving Fiscal Circumstances for Growth, March 2, 2007 World Bank Report No. 36595-BR

<sup>43</sup> Rio Grande do Sul Fiscal Sustainability for Growth Loan.

<sup>44</sup> See information presented for the disbursement of the second disbursements of the RGS Fiscal Sustainability DPL (2009) and the ALAGOAS Fiscal & Public Mgmt Reform (2009).

<sup>45</sup> ICR for Pension TAL moderately Satisfactory; project completed 11/30/2009.

<sup>46</sup> Rio de Janeiro Renovating and Strengthening Public Management (Pró-Gestão) is supporting introduction of performance-based management and information technologies to drive service delivery improvements in key public services, including secondary education and hospital care.

<sup>47</sup> World Bank Engagement at the State Level: The cases of Brazil, India, Nigeria and Russia, IEG Report.

<sup>48</sup> An example, during this CPS, has been the piloting of environment initiatives (forest management) that are having a broad impact. In addition, working with key leaders with extensive network helps mainstreaming initiatives as has the partnership between the Bank and BNDES on the environment.

<sup>49</sup> IFC has taken an increasingly strategic approach to its activities in Brazil, both for its investment and advisory operations. Its strategy during the CPS period was driven by Brazil's key development challenges and aims, and was closely aligned with IBRD's three overarching objectives. IFC focused first, on alleviating poverty and income inequality by providing greater access to basic services, expanding microfinance, supporting low income markets and focusing on frontier regions of the country (North and Northeast). Second, it focused on promoting sustainable development in the Brazilian Amazon and through support for renewable energy projects, clean technologies, and energy efficiency. And finally, it focused on improving the competitiveness of Brazil's private sector by strengthening small and medium enterprises, improving their access to finance, integrating small producers into supply chains, and improving the business environment and quality of infrastructure.