THE WORLD BANK AND BRAZIL: A NEW COUNTRY ASSISTANCE STRATEGY

Angela Furtado

Brazil enjoys human and natural resources unavailable to most countries. Its assets include a diverse, energetic population and a vast territory that encompasses the world’s largest rain forest and up to one-fifth of the world’s fresh water. Brazil is the world’s 9th largest economy with a GDP of around $500 billion. But it is among the most unequal countries in the world: the wealthiest 1 percent of Brazil’s population receives 10 percent of the country’s income.

Brazil now has a chance to close the gap between the country’s promise and its reality. Advances began in the 1990s, when macroeconomic reforms tamed runaway inflation, and policymakers targeted education, health and other key services for improvement. Indicators began rising: primary school enrollment rose to 97 percent, infant mortality fell by more than 33 percent to fewer than 30 per 1,000 live births and life expectancy increased to 71 years.

Early progress fueled rising expectations. In this climate, Brazilians elected a new president, Luiz Inácio Lula da Silva. A former factory worker and labor unionist, the President champions a new approach to development: one that treats social progress and market-oriented economic reform as equally important, and interdependent.

The Bank’s Country Assistance Strategy and Public Concerns

How can the World Bank Group make a difference in Brazil, when World Bank lending represents only 0.4 percent of GDP and 4 percent of external financing? And how can it best contribute to the development debate in this vibrant democracy of 172 million people?

These were the key issues for the team that worked on the joint World Bank-IFC Country Assistance Strategy for Brazil covering 2004-2007, approved in December 2003 by the Board. And they are the questions that were posed to a diverse set of groups consulted by bank staff. Ideas and proposals were sought from hundreds of people in Brazil’s 27 states, including local government officials, representatives of social and environmental movements, unions, youth, indigenous and religious groups, academics, members of parliament, the private sector, other interested citizens and international development
partners. (The government held its own separate consultations on the multi-year plan, hearing from more than 4,700 people). Among their recommendations, citizens pushed for greater attention to education, entrepreneurship, culture, natural resources, and anti-crime programs, as well as for support in reducing the country’s notoriously high logistics costs in its ports, roads and rail systems.

“These consultations shape the direction of the Bank’s work in Brazil by bringing to sharper focus the countries’ opportunities as well as risks, and by presenting a range of ideas for addressing them”, according to the Bank’s Country Director, Vinod Thomas.

This ongoing process, on the one hand, highlights the opportunities offered by Brazil’s vast wealth of human capital and natural resources and their development through education, entrepreneurship, efficiency, and sustainable use. It also raises issues of culture, crime and violence and youth. And it brings to light a variety of risks such as the country’s debt burden and need for fiscal discipline, the limits on investments, the vast inequalities in income and wealth across the population, and the vulnerabilities affecting the country’s social and environmental sustainability.

What is unique today, says Thomas, is that the country is pursuing a bold social agenda while at the same time addressing the risks and adhering to fiscal adjustment and market principles. The World Bank fully supports Brazil’s program. The effectiveness of Bank support at this crucial time can be disproportionately large, even though that support is small relative to Brazil’s economy. But to have impact result, the program must have sound macroeconomic foundations and straddle issues of equity, sustainability and competitiveness. Economic growth would come primarily from productivity improvements and needs to be increasingly equitable and sustainable.

Presently, the Bank’s Brazil operations include 53 active projects and US$4.7 billion in commitments. The new country assistance strategy (CAS) aims to complement the Government’s four-year Multiyear Plan (Plano Plurianual) with funding of between $4 billion and $7.5 billion over the 2003-2007 period, depending on results of reform initiatives and programs.

**Development Objectives**

Three major goals guide the Bank’s strategy. It aims to help Brazil become more equitable, environmentally sustainable, and economically competitive. To maximize the Bank’s impact, the approach is also highly focused, which is achieved through three dimensions:

First, the approach is more integrated across sectors, moving away from single-sector or one-off projects and policy support. So, for example, the recently approved investment loan for the state of Tocantins links infrastructure and the environment. A programmatic loan for productivity, currently under preparation, links infrastructure regulation and financial sector reforms.

Second, it seeks greater leverage with other resources (including government), moving away from self-standing projects that do not mobilize other actors. A new line of projects will work with priority government programs and institutions, moving away from the use of Bank-driven agencies, procedures, and reporting requirements.

Third, it makes a direct link to results, focusing on projects that can demonstrate a measurable contribution to defined human welfare outcomes, trends in environmental and social sustainability, indicators of competitiveness, and fundamental macroeconomic performance. These outcomes are linked to specific activities that the Bank can support—for example, secondary school reform or water and sanitation investments—to help achieve them.
Specific goals

How will this approach impact Brazil’s people in cities, towns and the countryside? Overall, the Bank strategy aims to help accomplish specific measurable goals:

- Expand income transfers from 10 percent to all poor households; increase primary school enrollment from the present 97 percent to 100 percent of the child population; reduce new HIV/AIDS cases from the present 15.9 per 100,000 to 10 per 100,000.

- Ensure safe water supply to 3.7 million people in the poverty-stricken and semi-arid Northeast; increase the percentage of poor families with permanent dwellings from 93 percent of the population to 95.5 percent; expand government land protection from 8 percent of the national territory to 12 percent (100 million hectares).

- Make macroeconomic changes that result in 5 percent GDP growth, up from the 2002 level of 1.5 percent; step up trade volume to 35 percent of GDP from the present 24 percent; increase the number of patents issued to Brazilians from the 2002 level of 150.

Traditionally, economic and social development has worked sector by sector. A project to increase school enrollment might involve building more schools, buying more textbooks or training teachers. The new Brazil strategy seeks to integrate different sectors. Recognizing that the lines between sectors are seldom as clear in real life as they are on paper, the Brazilian government and the Bank are pioneering a new approach – funding programs in a way that reflects human realities. Hence, funding to reduce infant mortality will not only expand access to clinics, but also increase the number of water and sewage treatment plants, and increase school enrollment and improve the quality of instruction, because educated mothers have healthier babies.

Instruments

Three instruments of Bank assistance are expected to dominate the financial assistance outlined in the CAS. To help meet Brazil’s need for balance of payments financing and support for reforms, the Bank expects to continue policy-based programmatic adjustment lending at the federal level, complemented by technical assistance. Sector-wide approaches (SWAs) could become a key investment lending modality for Brazil, especially at the national level. SWAs rely on ministries and other government institutions that are already in place rather than on special-purpose project implementation units, and use existing country fiduciary rules assessed as sound. An integrated approach to subnational investment lending, in support of multisectoral rural and urban strategies will require a deepener relationship between the Bank and states and municipalities.

Lending is only one form of support from the Bank Group. Its International Finance Corporation is (along with other multilateral lenders and publicly owned banks) one of the few sources of long-term business financing in the country. IFC’s Brazil portfolio – the institution’s largest – comprises investments of $1.5 billion in 80 industrial, service and agribusiness companies (plus $1.2 billion in investments in the same firms by other participants). The IFC’s continued strong support to the Brazilian private sector will help enhance the prospects for improving competitiveness, growth and social equity. The growth objective will entail supporting growth-generating firms, export-enhancing activities including infrastructure and logistics, and activities improving access to long-term financing for private sector firms, including small and medium-size enterprises. Under the social equity objective, IFC will support firms committed to environmental and social sustainability, improved corporate governance, microfinance, socially oriented entrepreneurship, and assistance to the government’s Zero Hunger program.

The Bank is exploring the use of its private sector investment guarantee instrument to foster public-private partnerships in sectors including water, energy and roads,
where investors have cited regulatory and legal deficiencies as reasons to avoid involvement.

Technical assistance, and “analytic and advisory” work by Bank experts support policy reforms in social protection programs, budget management, pension administration and other complex activities. Priority will continue to be given to these “AAA” services, including reports on key economic and sector issues such as the newly published reports on Income Distribution and Deforestation in the Amazon, and to discussions with partner institutions and civil society.

**Lessons Learned and New Approaches**

In response to the growing importance of state and regional governments, the Bank has refashioned its own strategy. One example: in the country’s single biggest center of poverty, the Northeast region, the Bank worked with the state of Pernambuco to devise an urban development project for the city of Recife aimed at ending the social exclusion of young people at risk of drifting into aimlessness or crime; stimulating small- and medium-scale business; improving living conditions in poor neighborhoods; and strengthening the quality of government services.

Close partnership with the Brazilian government allowed the Bank to avoid a classic pitfall of development lending. Instead of conditioning loans on future government action, the Bank will be lending on the basis of reforms that have already been enacted. And, on the strength of Brazil’s recent track record of careful management of public finances, the Bank will pool its loans with official funds. That way, the funding flow for projects will not be interrupted by sudden spending limits or other financial emergencies.

The ongoing consultative process of the CAS itself, in coordination with the Council for Economic and Social Development—an advisory group established by the government to give greater voice to all groups in society in discussions of key reform priorities—is an example of structured knowledge exchange. Civil society networks and other interested international and domestic partners, including youth movements, will continue to be involved in the consultation process, taking advantage of the Global Development Learning Network multimedia interactive activities and web-based networks.

**Taking Risks, Working Together for a Better Future**

No strategy is risk-free. Brazil cannot control the global financial environment. Shocks to the system, or weak growth in the world economy, disturb Brazil’s economy through lowered demand for the country’s exports and a reduced flow of investment capital. Within the country, reform programs may be poorly managed or carried out. But the risk of avoiding ambitious reforms is greater than that of attempting them – because Brazil’s citizens do not wish the current inequalities to continue to detract from the natural and cultural resources that characterize the country.

To deliver the necessary support for a more equitable, sustainable and competitive Brazil, the Bank has assembled a strong team of highly-qualified and experienced specialists from all sectors. These specialists, a large number of whom are based in Brazil, are working in an increasingly integrated fashion and in constant dialogue with country, state and municipal governments, as well as with national and international partners, including the IMF, the Inter-American Development Bank (IDB), and the United Nations Development Programme (UNDP).

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