Brazil Country Program Evaluation
FY2004–11

EVALUATION OF THE WORLD BANK GROUP PROGRAM

Contents

ii Abbreviations

iii Acknowledgments

1 Overview

16 Management Action Record

23 Statement of the External Advisory Panel

27 Contents of the Complete Evaluation

The full evaluation is available on IEG’s website:
http://ieg.worldbankgroup.org/publications/brazil-cpe

2014 | The World Bank Group | Washington, DC
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>BNDES</td>
<td>National Bank of Economic and Social Development</td>
</tr>
<tr>
<td>CAS</td>
<td>Country Assistance Strategy</td>
</tr>
<tr>
<td>CPS</td>
<td>Country Partnership Strategy</td>
</tr>
<tr>
<td>DPL</td>
<td>development policy loan</td>
</tr>
<tr>
<td>GDP</td>
<td>gross domestic product</td>
</tr>
<tr>
<td>IBRD</td>
<td>International Bank for Reconstruction and Development</td>
</tr>
<tr>
<td>IEG</td>
<td>Independent Evaluation Group</td>
</tr>
<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
</tr>
<tr>
<td>MIGA</td>
<td>Multilateral Investment Guarantee Agency</td>
</tr>
<tr>
<td>PPP</td>
<td>public-private partnership</td>
</tr>
<tr>
<td>SMEs</td>
<td>small and medium-size enterprises</td>
</tr>
<tr>
<td>SWAp</td>
<td>sectorwide approach</td>
</tr>
</tbody>
</table>
This evaluation was prepared by an Independent Evaluation Group (IEG) team led by Jiro Tominaga. The evaluation was conducted under the guidance and supervision of Ali Khadr (Senior Manager) and Nick York (Director) and the overall direction of Caroline Heider (Director-General, Evaluation).

Members of the team included Jaime Biderman, Susan Caceres, Ken Chomitz, Corky de Asis, Kutlay Ebiri, Takatoshi Kamezawa, João Oliveira, Marcelo Selowsky (Senior Consultant), Tony Tyrrell, Carlos Eduardo Valez, Silvina Vatnick, and Cameron Wilson. William Hurlbut edited the report and Yasmin Angeles and Corky de Asis provided administrative support. Peer reviewers were Ariel Fiszbein (Chief Economist, Human Development Network), Thomas O’Brien (Country Program Coordinator: Kenya, Rwanda, Eritrea), and Sergei Soares (Chief of Staff, Instituto de Pesquisa Econômica Aplicada). The report also benefitted from the advice and review of an external panel composed of Armando Castelar (Coordinator of Applied Economic Research at IBRE/Fundação Gertúlio Vargas and Professor of Economics at the Federal University of Rio de Janeiro), Teresa Ter-Minassian (Former Director, Fiscal Affairs Department, International Monetary Fund), and Carlos Young (Associate Professor, Instituto de Economia, Universidade Federal do Rio de Janeiro and Senior Researcher at the Instituto Nacional de Ciência e Tecnologia – Políticas Públicas, Estratégias e Desenvolvimento).

The team is grateful to the numerous representatives of the government, private sector entities, and nongovernmental organizations who provided valuable insights into the World Bank Group’s Brazil program. The team is also thankful to World Bank Group management and country team members, including both previous and current staff working on Brazil, who provided valuable time, information, and feedback to the evaluation team.
Over 2004–11, the World Bank Group program in Brazil aimed to support the government’s effort to achieve greater equity, sustainability, and competitiveness, underpinned by strong economic management and governance.

The major feature of the World Bank program was its adaptability as the government reallocated its lending capacity to achieve a combination of countercyclical and structural reform objectives. During the first years of fiscal consolidation, the program emphasized federal policy-based operations that would allow a smoother fiscal adjustment. As the federal fiscal situation improved, attention turned to subnational governments; during the period evaluated, the share of subnational lending increased from 19 percent to 78 percent of total commitments.

The International Finance Corporation’s (IFC’s) net commitment volume tripled during the period evaluated. The distinctive feature of IFC’s Brazil portfolio compared to other Latin American countries was the relatively low level of equity investment and a very high share of short-term trade finance, which accounted for more than half of total net commitments during the period. The Multilateral Investment Guarantee Agency (MIGA) concentrated its activities on the electricity transmission subsector; the demand for MIGA’s political risk guarantees declined as foreign investor confidence improved during the period.

The outcome of the Bank Group program is judged moderately satisfactory, although with some important variability across themes. The Bank Group made significant contributions when it served as a trusted advisor, providing analytical inputs and exchanging views on immediately relevant policy issues. Examples are support for Bolsa Familia, improved student learning outcomes, pension reforms, and subnational results-based management systems. In addition, advisory support for structuring public-private partnership projects leveraged IFC’s global expertise in project financing. The Bank Group’s convening power provided diverse stakeholders with a platform to examine issues and trade-offs that cut across organizational boundaries in water resource management and in multisectoral operations at the subnational level. In the area of the environment, the Bank helped reduce deforestation in the Amazon through support for a major expansion of protected areas and indigenous territories, as well as for building the capacity of national and state environmental agencies.

Results were less satisfactory in addressing infrastructure bottlenecks, particularly in logistics and the cost of doing business, where the Bank Group was not able to make significant impact. These areas remained critical constraints to Brazil’s growth and a key government concern. Given the already high tax burden and competing demand for public
spending, particularly in the social area, it is important to improve public investment planning and execution and to enhance the regulatory framework and its predictability to attract private investment into infrastructure. In addition, the Bank Group was not able to advance the dialogue to enhance competition in the financial sector.

Given that the demand for Bank Group support remains strong, particularly in states, it is important that the Bank Group maximize its contribution per dollar loaned. Hence, in this evaluation, the Independent Evaluation Group recommends that the Bank Group make expected catalytic impact a major criterion in the design of its future strategy in Brazil. This means that in the selection of the programs and projects to support, the emphasis should be on those with benefits beyond the individual intervention. Support for reforms that create enabling environments and incentives for other actors, activities to enhance demonstration effects and replication of positive results, and engagements that leverage the Bank Group’s knowledge base and its convening role to facilitate cross-sectoral dialogue are examples of activities that would fit this criterion. Collaboration among the World Bank, IFC, and MIGA to attract the private sector into infrastructure investment and to reduce the cost of doing business has a potential for high gain. It is also important for the Bank Group to continue promoting sustainable rural development.

This evaluation also recommends that the Bank Group further enhance dialogue with the Brazilian authorities and think tanks to identify the policy areas where it could provide the most effective knowledge support and undertake analytical work on selected issues with important long-term implications. Finally, IFC could expand its public-private partnership operations and sharpen its focus on supporting small and medium-size enterprises’ increased access to long-term financing.
Country Context

Brazil made substantial achievements in fiscal adjustment and price stabilization in the late 1990s and early 2000s. But the resilience and continuity of that stabilization effort was tested in the early 2000s as a number of adverse events unfolded: a global economic slowdown, a domestic energy crisis, spillovers from the Argentine crisis, and uncertainties related to the 2002 presidential election. The subsequent macroeconomic stability and a favorable external environment allowed Brazil to resume moderate growth from 2004. The global financial crisis in 2008–09 led to a small and temporary contraction in gross domestic product (GDP), but the country’s sound fundamentals and prompt response helped mitigate the decline.

Brazil has made substantial progress in reducing poverty and income inequality. Non-income indicators of standards of living have also improved; for example, there have been reductions in child malnutrition and increases in primary school enrollment. Gender differences in enrollment have been eliminated. Progress has also been made in a major environmental objective to reduce the rate of deforestation.

Two challenges to further accelerating and sustaining growth remain: infrastructure bottlenecks and the cost of doing business (Custo Brasil). Combining agricultural growth and poverty reduction with environmental and forest protection also remains a challenge. The quality of government expenditures and services remains low despite the high level of such expenditures—the tax burden in Brazil has reached 35 percent of GDP.

Evolution of the World Bank Group Strategy and Program: Continuity with Adaptability

This Brazil Country Program Evaluation (FY04–11) examines the relevance and effectiveness of the Bank Group program during the period covered by the FY04–07 Country Assistance Strategy (CAS) and FY08–11 Country Partnership Strategy (CPS). Both were jointly produced by the World Bank and the International Finance Corporation (IFC); the Multilateral Investment Guarantee Agency (MIGA) was expected to complement them. Because of the modest scale of Bank Group financial support in relation to Brazil’s economy, the evaluation focuses on identifying the catalytic role of the Bank Group strategy and operations. The evaluation follows the standard methodology for the Independent Evaluation Group’s (IEG) Country Program Evaluations.

Recognizing that broad-based poverty reduction requires continued improvement in economic growth, human capital development, and sustainable use of natural resources, the major goals of the CAS and CPS were to assist Brazil in achieving greater equity, sustainability, and competitiveness underpinned by strong economic management and governance. The engagement effort during the 2002 transition in administrations likely helped establish a durable framework for the Brazil program over the period evaluated. The Policy Note prepared by the World Bank’s Brazil team (World Bank 2004) suggested priorities for the incoming administration and helped create an environment for dialogue.

The continuity of the country strategy objectives was complemented by flexibility. A major feature during the period was a significant shift from federal to subnational lending in FY08–11 to respond to emerging demand from subnational entities.

Trends and Patterns in IBRD, IFC, and MIGA Operations

WORLD BANK

The total IBRD (International Bank for Reconstruction and Development) lending commitment during the evaluation
period was $16.8 billion. It grew constantly after FY04, except in FY07, when a significant dip resulted from the reconfiguration necessary to increase subnational lending.

A major feature of the program was its adaptability. It responded to the interest of the authorities in reallocating IBRD lending capacity over time to achieve a combination of countercyclical and structural reform objectives. During the first years of fiscal consolidation, the program emphasized adjustment operations at the federal level that would allow a smoother fiscal adjustment. As the federal fiscal situation improved, attention turned to subnational governments. During the global economic crisis in 2008–09, the Bank helped selected subnational entities cope with the adverse impact of the crisis while maintaining the discipline of the Fiscal Responsibility Law. As Brazil approached the IBRD exposure limits toward the end of the evaluation period, the authorities prepaid about $4 billion, about one-fourth of the exposure limit. This significant prepayment allowed the Bank to continue a high level of subnational support. It was also a signal from the authorities to keep a high level of overall engagement.

The Bank actively used the sectorwide approach (SWAp) in its subnational lending—it encouraged cross-sector dialogue and helped strengthen results-based management systems in the counterpart governments. Analytical and advisory work and nonlending technical
assistance supporting dialogue and sharing lessons from experience complemented the lending. Many Brazilian counterparts noted that this was the most important contribution of the Bank. During the period evaluated, about $24 million (Bank budget and trust fund) was allocated to analytical activities.

IFC

IFC’s Brazil operations were mainly related to the competitiveness pillar of the FY04–07 CAS and FY08–11 CPS. Specifically, IFC supported private sector activities that were expected to enhance Brazil’s growth and competitiveness, such as agribusiness and infrastructure, and helped improve access to credit for Brazilian enterprises, particularly SMEs. Its strategic approach also recognized the importance of support for environmental sustainability and public-private partnerships (PPPs). During the FY08–11 CPS period, IFC sought a more direct role in reducing poverty and inequality by focusing on low-income groups and frontier regions. Its attention to second-tier companies and mid-size banks also increased over time.

During FY04–11, IFC’s net commitment amounted to $5.01 billion. The distinctive features of the Brazil portfolio compared to that in other Latin American countries are the relatively low level of equity investment and the very high share of trade finance.

During the period, IFC’s contributions through its advisory services on PPP were widely recognized. Most of these projects were supported by the Brazil Private Sector Partnership Program established by IFC, the National Bank of Economic and Social Development (BNDES), and the Inter-American Development Bank. This program provides advisory services to structure private concession projects with emphasis on establishing new standards and introducing innovative models for private sector participation in Brazil. During the period evaluated, the program successfully structured projects in transport, health, and education.

MIGA

Most of the 16 guarantees issued during the period evaluated were in the electricity transmission subsector. In the context of improving foreign investor confidence in Brazil, the demand for MIGA’s political risk guarantees has declined. However, an expanded mandate, a new product, and changes in its Convention offer an opportunity for MIGA to rebuild its operations in Brazil.

Toward a More Equitable and Sustainable Brazil

The equity objective focused on reducing extreme poverty, enhancing skills formation, and improving health care for all communities. In some areas the Bank Group combined know-how, dialogue, and financial support to create synergies that were acknowledged by Brazilian counterparts. The best examples are the support to Bolsa Familia—the main national program providing targeted income support to poor families contingent on actions by the family to improve the education and health status of their children—and the analytical work to improve the understanding of classroom dynamics to enhance students’ learning outcomes.

Bolsa Familia reached a high percentage of poor families in Brazil and helped alleviate poverty at a sustainable fiscal cost while promoting human capital investment in children and youth. The Bank was strongly associated with the program from its inception through continuous technical and analytical support in monitoring progress, impact, and the quality of targeting. The Bank’s sustained support has led to an exceptionally strong partnership with the government counterpart—a practice that should be examined further for replication elsewhere in the Bank.

In education, several analyses on the interaction between students and teachers in the classroom conducted during the FY08–11 CPS period became the basis for a
significant amount of analytical work and dialogue. The studies provided policy makers with a benchmark on how teachers in Brazil use instructional time in comparison with other countries and offered insights about the incentive schemes relevant to a range of communities.

The Bank’s advisory work to improve education funding for poorer municipalities and their capacity to finance early childhood development programs was also a notable contribution. In health, the Bank supported progress in eliminating communicable diseases, reducing transmission of HIV/AIDS, and expansion of the Family Health Program. In addition, IFC was instrumental in structuring an innovative hospital project in Bahia. Based on this evidence, the outcome of this pillar of Bank Group assistance is rated satisfactory.

The Bank Group strategy had three major objectives for sustainability: better water quality and water resource management; more sustainable land management, forestry, and biodiversity; and more equitable and integrated access to local services, particularly in poor urban and rural communities. These objectives are closely linked, and many of the Bank Group interventions address more than one of them. They are also closely related to efforts to reduce poverty.

The Bank made an important contribution to the dramatic reduction in deforestation in the Amazon by supporting a major expansion of protected areas and indigenous territories. The environment development policy loan (DPL) supported increased capacity at the Environment Ministry and the Brazilian Institute of Environment and Renewable Natural Resources, which undertook expanded and more effective enforcement of forest laws. The Bank has been most successful where it brought the long-term engagement of experts who understand local conditions and bring global knowledge. Goals of balancing development and poverty reduction with forest conservation proved more elusive.

A $1.3 billion DPL sought to support a wide range of policy actions to strengthen Brazil’s environmental management system, including the effort for BNDES to adopt and apply a new environmental and social policy to project screening, approval, and monitoring. However, there is no documented impact on BNDES project selection, project design, or project supervision. The loan size was significant in relation to the total IBRD exposure in Brazil and a question emerges whether other avenues to mainstream effective implementation of environmental and social safeguards practice might have been more cost effective.

In water resource management, the Brazilian authorities recognized the value of the Bank’s convening power to facilitate broad cross-sectoral dialogue on critical trade-offs. Its focus on water quality, coverage, effective management, and financial sustainability of water investments was also appreciated.

The Bank continued its support for the community-driven model that started in the 1980s with some positive effects in reaching the poor and other disadvantaged groups with key social services, such as access to water supply, sanitation, and electricity. Less clear effects were achieved in supporting farmer productivity and access to markets. In urban development, the Bank made important contributions in slum upgrading, but support for broader municipal development produced mixed results. There were substantial activities in the housing sector during the early phase of the evaluation period, but the scope of dialogue has diminished. Based on this evidence, the outcome of this pillar of Bank Group assistance is rated moderately satisfactory.

**Growth, Competitiveness, and Economic Management**

Accelerating and sustaining a high growth rate is a necessary condition for long-term poverty reduction. The Bank Group identified two areas to contribute to
this objective. The first was the competitiveness and productivity of the Brazilian economy. The second was specific areas of fiscal management that could contribute to improving the quality of public expenditures and the sustainability of public finances.

COMPETITIVENESS

The main areas of support under the competitiveness pillar were addressing infrastructure bottlenecks and the regulatory framework, including for PPPs; the cost of doing business and the environment for competition; and the problem of high interest rates and the segmentation of the credit markets. Among these areas, relieving infrastructure bottlenecks remained a major priority in discussions with the Brazilian authorities throughout the period evaluated.

During the first CAS, the emphasis was on supporting federal-level reforms in many of these areas. Sustainable and Equitable Growth Programmatic Loans were the main operations supporting these reforms. These loans covered a wide range of areas, such as regulatory reforms and a framework for PPPs, reduction in logistics costs by improvements in customs and the operation of ports and roads, simplification of the process for starting a business and tax procedures for small and medium-size enterprises (SMEs), strengthening the corporate insolvency
framework, and supporting measures to deepen financial intermediation.

These efforts were complemented by reviews of the cost of doing business and constraints to private participation in infrastructure. A pilot Doing Business in Brazil report (IFC 2006) examined various aspects of the cost of doing business in 13 states and detected large differences among them—an important benchmark study that could help identify factors behind the variability across states. The study “How to Revitalize Infrastructure Investments in Brazil: Public Policies for Better Private Participation” (World Bank 2007) examined constraints to private participation in infrastructure across several sectors and suggested several policy directions to address the problem—again, a useful benchmark for further work in this area. However, there were no major efforts to follow up these works during the period evaluated. Very recent initiatives to undertake a Doing Business report covering all 26 states and to assess the current status of PPP practices in Brazil are timely developments.

The FY08–11 CPS program focused on institutional improvements and regulatory reforms at the state and municipality levels by taking advantage of the new cohort of subnational SWAps and DPLs. Some of these operations included actions to streamline business registration; an operation in Minas Gerais supported steps to implement PPPs and achieved important progress.

The bulk of infrastructure lending took place during this period with an emphasis on roads and mass transit. In roads, the Bank Group’s contributions through investments, analytical work, and technical assistance include support for output-based management and improved sector planning, as well as outsourcing of routine maintenance and rehabilitation.

A large share of loans to the transport sector was directed to metro and suburban rail system projects in Rio de Janeiro and São Paulo. Given the magnitude of urbanization challenges in Brazil, there was strong rationale for the Bank to engage in sustained dialogue on urban transport in these cities. These projects also succeeded in reducing commuting time, particularly for poorer households, as well as congestion and pollution. However, given the two cities’ high levels of income, creditworthiness, and financial sophistication, as well as the cost recovery possibilities in these projects, these projects raise important issues of selectivity in the allocation of IBRD lending capacity: Could a larger part of these projects have been financed by other sources—including the private sector—while the Bank maintained its role in providing knowledge support?

In energy, the Bank supported key sector reforms, including development of a more competitive electricity market and regulation, access, and affordability for the poor, environmental licensing, and long-term expansion planning and coordination. IFC played an important role in improving trade logistics by developing rules for road concessions and helping mobilize resources for Port Santos. An issue that continues to affect Brazil’s competitiveness is the need to strengthen the capacity of the public sector to plan and execute infrastructure investments. An Institutional Development Fund grant appeared to have had some positive impact, but challenges remain.

Reducing the cost of borrowing and improving SMEs’ access to financing is a persistent concern in improving the competitiveness of the Brazilian economy. The Bank undertook several studies to understand the factors behind high interest rates and the extent to which they are influenced by macroeconomic factors or by a market structure in which directed credit crowds out private credit in the rest of the system, particularly for SMEs.

The predominant instrument for IFC in the financial markets has been short-term trade finance, which was valuable
during the height of the global financial crisis, when trade finance lines from international corresponding banks dried up. However, trade finance has continued to be a dominant share of IFC’s net commitments, even after much of the impact of the financial crisis had subsided and IFC’s additionality had become less clear. IFC tried to reach SMEs through financial intermediation of medium-term lending via second-tier banks. However, because SMEs were defined very broadly in these projects, it is not clear whether more SMEs have been reached in these programs.

In summary, the Bank Group tried during the first CAS period to improve Brazil’s countrywide competitiveness by supporting regulatory reforms at the federal level and undertaking relevant analytical work. During the FY08–11 CPS period, some progress on competitiveness was made through multisector operations to subnational entities and infrastructure operations. However, as the country program focus shifted to subnational entities, the direct channel for a countrywide catalytic effect in the competitive area was weakened. A considerable amount of financing was provided for building infrastructure in the southeastern states, which had positive project-level outcomes, but less obvious effects on helping relieve key infrastructure bottlenecks more broadly.

Taken as a whole, the Bank Group was not particularly effective in advancing the dialogue on regulatory reforms
to enhance private participation in infrastructure investment, improve the quality of public investment spending, or reduce the Custo Brasil. This was also the case in other areas influencing competitiveness, such as investigating the role of the openness of the trade regime on the competitive environment and productivity and the impact of directed credit on the segmentation of credit markets and access to credit, particularly for SMEs. These are also the areas where the interest on the side of the counterparts to involve the Bank Group in a collaborative effort is limited.

Based on these results, the outcome of this pillar of the assistance strategy is rated moderately unsatisfactory.

SOUND MACROECONOMIC AND PUBLIC SECTOR MANAGEMENT

Bank assistance focused on areas where it has a comparative advantage because of its knowledge base, particularly through international experience. An example is the support for pension reform, consisting of a closely coordinated set of analytical work, technical assistance, and a policy-based operation. The background analytical work provided information on lessons from experiences in other countries and simulations of different scenarios that could be useful for the Brazilian authorities. The technical assistance helped in implementing the reforms at the state level beyond the lifetime of the DPL operation.
The second area of support was the budget and expenditure management system. Support was provided both at the federal and subnational level. Several analytic and advisory activities were undertaken on fiscal federalism and the challenges it presents in transfers, taxation, and indebtedness.

At the subnational level, DPLs and SWAps complemented the directions established by the Federal Responsibility Law regarding the rationalization and reallocation of expenditures. Because of their multisectoral nature, the loans proved ideal for addressing institutional reforms on state public finances that cut across sectors, particularly those involving difficult trade-offs and, hence, consensus across different agencies and stakeholders. These operations typically supported difficult areas of reform such as tax administration to reduce tax evasion, registry of pensioners (extension of the reform at the federal level), civil service census and certification, audit of payrolls, and improvements in procurement procedures. The convening role of the Bank in these operations was highly valued by Brazilian counterparts.

The objective of this pillar was very broad. In a country as large as Brazil, the outcomes are influenced by many factors that can predominate over the instruments that the Bank can deploy. The Bank’s major contribution comes either from engaging in sustained dialogue, as in the pension reform, or fostering dissemination and replication, as in the work with selecting subnational governments. Replication and demonstration across states and municipalities will likely take time, although progress so far has been positive and the possibilities of replication may be significant. Based on these assessments, the contribution of the Bank Group in this area is judged satisfactory.

Emerging Messages and Recommendations
IEG rates the outcome of the Bank Group program in Brazil in FY04–11 as moderately satisfactory, although with some important synergies and variability across pillars. The Bank Group had significant impact when it served as a trusted partner in helping Brazilian counterparts think through real and evolving policy issues that they were trying to resolve. The Bank Group also made an important contribution by creating a platform where diverse stakeholders could examine issues and trade-offs that cut across organizational and sectoral boundaries. The SWAp model implemented in Brazil during the period evaluated made significant contributions to the development of the new Bank lending instrument, the Program for Results. However, one question that emerges regarding the overall strategy was whether the use of a few very large operations (metro and urban rail projects and a sustainable environmental management DPL totaling $3 billion), with opportunity cost relative to the IBRD exposure limit, was appropriate.

The focus on subnational clients will continue, given the strong demand for Bank financial and knowledge support among states and municipalities, limited needs for financing at the federal level, and the federal authorities’ strong support for subnational lending by the Bank. During the period evaluated, the Bank supported the priorities defined in the dialogue involving the highest level of the subnational authorities—in some cases over many years, as in Ceará. The Bank coordinated with the federal authorities to ensure its support was consistent with the framework governing the relationship between the federal and subnational governments, most importantly the Fiscal Responsibility Law. Based on these considerations as well as the assessments of the commitment for and capacity to implement the agreed activity, the Bank developed its subnational portfolio.

The shift to subnational support has been a success for the Bank. It enabled the Bank to provide customized support for a wide variety of challenges across the country and helped it remain relevant in Brazil by
establishing a mechanism to respond to strong demand for Bank financing and knowledge among subnational governments. The Bank and IFC, with support from the federal authorities, have also been working to direct their operational focus on the north and northeast regions during this period. Progress has been made, although the largest share of Bank commitments went to the richer southeast region because of the size of their economies and sustained dialogue with the Bank. The constraint in institutional capacity is particularly relevant in these regions. For IFC, identifying the right investment opportunities was challenging during the period evaluated.

The Bank Group could expand the focus on subnational entities by exploring ways to further facilitate and encourage the replication of positive results achieved in one subnational entity in others. In several areas, the Bank Group has been less effective in addressing the challenges, including infrastructure bottlenecks (particularly in logistics), the cost of doing business, and the environment for competition. Both the Bank and IFC have accumulated experience in different aspects of private participation in infrastructure investment, but apart from a few cases in the water sector, very little was done to explore potential synergies. Demonstrating the value of Bank Group collaboration remains a challenge for the future in Brazil.

Some of the findings of this evaluation may be relevant to Bank Group work in middle-income countries more generally. Many such countries have good access to the international financial markets and well-established fiscal or quasi-fiscal tools to finance their development activities. They also have advanced institutions and a high level of human capital.

In these countries, Bank Group financial contributions are marginal, and knowledge services add value only when they bring perspectives that are not available in the country. Based on the Brazil experience, the IBRD and IFC have a comparative advantage in sharing lessons from cross-country experiences in areas of interest to the authorities. Focusing on geographical areas that are less developed would also be relevant. A critical challenge is to combine the flexibility that allows responding to demands as they emerge and the medium-term strategy that encompasses issues with limited traction from the client in the short term. A difficult balance needs to be struck through strong, candid dialogue with the relevant authorities as well as candor in self-evaluation.

The nature of the engagement will also depend on the administrative links between the local and central government. Hence, the lessons in Brazil need to be interpreted in a particular context of countries with a federal system. For Bank Group engagement in federal states, the experience with multisectoral operations at the subnational level can be particularly relevant. Involvement by the highest authorities at the regional level, subnational government ownership, and strong institutional capacity for coordination and results monitoring are key. In Brazil, the Fiscal Responsibility Law provided an effective incentive framework for reform. Finally, given the large exposure to international capital flows, it is prudent for the Bank Group to maintain some lending space to respond to unanticipated shocks in the global capital flow.

As the demand for Bank Group operations remains strong, particularly with regard to subnational entities, and the IBRD’s lending capacity is not without a limit, leveraging results from lending is more important than ever. The challenge is equally acute, if not more, for IFC and MIGA, given the volume of their operations relative to the size of private sector activities in Brazil. Priorities should be based on their externalities, knowledge sharing, and prospects for demonstration effects and replicability—proliferation of activities should be avoided. The Bank Group should focus on areas where it has comparative
advantage—areas where a strong element of public good and collective action is particularly suitable.

As Brazil faces the possibility of lower growth and less favorable global economic conditions, the importance of ensuring the effectiveness of Bank Group operations is growing. Moreover, increased quality of public services and expenditures will remain priorities in coming years. For the Bank Group to remain a valuable partner in addressing these challenges, this evaluation makes the following recommendations.

- Use the potential for wider catalytic effects as one of the main criteria for selecting the sectors and subnational entities with which to engage.

Programs and projects should be selected on the basis of their expected ability to generate benefits beyond the individual intervention and where the Bank Group has a comparative advantage. The FY12–15 CPS already includes several such areas: continued focus on the northeast, support for social programs, and focus on the efficiency of public investment and incentives for private investments. Given the promising results from the multisectoral approach at the subnational level—most successfully demonstrated in Ceará and Minas Gerais—the Bank should continue pursuing opportunities for similar engagement, building on the lessons learned, such as the need for strong coordination capacity and a high degree of ownership within the counterpart agencies. To further enhance the leverage and the catalytic effect of subnational operations, the Bank Group should identify ways to encourage and facilitate the replication and demonstration of positive results achieved in one subnational entity or region in others.
Enhance lending and nonlending support for improvement in the quality of public investment and the enabling environment for private sector investment. This could be done through a combination of financial support as well as knowledge and advisory services. Because room for expansion in public spending is limited, it is important to intensify its analytical work to identify the constraints to private participation in infrastructure investments, reduce the cost of doing business, and explore ways to support improvement of public investment planning and execution. Given that both the IBRD and IFC have accumulated knowledge on relevant areas, synergies from Bank Group collaboration can be explored. The IBRD has been providing support for improving regulatory frameworks and IFC has extensive experience in advisory services for structuring specific projects. MIGA could also offer guarantees that would facilitate private sector participation in infrastructure investments.

Continue to promote sustainable rural development, taking advantage of the opportunities presented by the new Forest Code.

Brazil’s recently adopted Forest Code provides a new framework for strengthening the harmonization of conservation, development, and poverty reduction objectives. Brazil will face economic and institutional challenges in implementing the Code’s provisions. These include completing a universal rural environmental cadaster in the near term and finding productive, cost-effective, and environmentally beneficial ways for private landholders to comply with forest reserve obligations under the Code. Building on past and ongoing work, the Bank and IFC should be prepared to offer technical and financial assistance to help meet the challenges of implementing the new Forest Code in a way that is cost-effective, poverty-reducing, and environmentally sound.

Enhance dialogue with authorities and think tanks to identify policy issues where the Bank Group could provide timely knowledge and advisory support.

Knowledge activities are areas where the Bank Group can have important positive externalities and catalytic effects per dollar loaned and per dollar of its budget resources. The Bank’s managerial focus, incentives, and internal resource allocation need to reflect this potential and ensure that sufficient resources are allocated to these activities. This, however, should not mean undermining the role of lending, as experience shows that value often comes from a combination of lending and knowledge support.

The Bank Group was effective when it sustained close interactions during implementation as trusted partner and provided “how to” advice, as in Bolsa Familia and in multisectoral programs in Ceará and Minas Gerais, as well as in IFC’s advisory support for PPP project structuring. The effort is rather in searching for an optimal mix of lending and knowledge support, acknowledging that the emphasis on knowledge may have to intensify over the medium term, given the strong demand for Bank Group support and the Bank’s exposure limit.

Experience shows that the Bank Group can provide unique perspectives on issues that the authorities need to tackle in the short run. To provide useful and timely inputs on such issues, the Bank Group needs to identify the major policy areas where it can provide most useful inputs and contribute most effectively. This requires active, ongoing dialogue with the federal and subnational entities as well as think tanks.

Continue analytical work on selected topics with important long-term implications, even though traction with the authorities may be limited in the short term.

A challenge for the Bank Group in designing and implementing the Brazil country strategy is to maintain...
flexibility in responding to evolving client demand while ensuring a level of specificity that makes it a meaningful guide for operations. Achieving flexibility by defining very wide objectives over many areas works well in a rapidly changing environment; however, an excessively flexible strategy could result in pursuing only those outcomes that receive strong traction from the main counterparts, leaving out areas recognized to be important for overall long-term development. To avoid this risk, it is important to continue deepening the knowledge on critical medium- and long-term constraints to development in Brazil—even if some of these areas are not part of the immediate policy agenda. There may also be difficult political trade-offs involved in these areas. Given the medium- to long-term nature of this effort, resources that can realistically be allocated may be limited, and the choice of topics needs to be selective. Undertaking some minimum analytical work in these areas would help the Bank Group balance the flexibility in operational response with the stability in the strategic directions of the program.

This evaluation has identified several possible areas for consideration in the future country program. They include a review of Brazil’s experiences with concessions in different sectors; an assessment of institutional and regulatory constraints affecting public agencies in the planning, selection, and execution of public sector investment; an analysis of the experience with direct credit; and the implications of different degrees of openness of the Brazilian trade regime for enhancing productivity.

> **IFC Operations:** With regard to IFC operations, this evaluation recommends that the following two areas be pursued.

a. Expand IFC’s work on PPPs.

IFC has added significant value in its support for PPP project structuring, and demand remains high for innovative projects that can be replicated and scaled up elsewhere in Brazil. Further expansion of the PPP collaboration with BNDES should be pursued. As the expansion of PPP projects in Brazil depends critically on the enabling regulatory environment and its predictability, this is an area for close collaboration between the IFC and the Bank, as noted earlier. IFC should also increase direct investments in infrastructure projects and project sponsors that have the potential to transfer IFC’s knowledge on project financing as well as social and environmental standards.

b. Enhance the design and targeting of IFC activities to expand SMEs’ access to long-term financing.

To make its SME support more effective, IFC’s emphasis should be shifted from short-term trade finance guarantees toward expansion in the share of long-term loan and equity financing. IFC should also enhance its monitoring systems to examine whether SMEs that have relatively less access to long-term credit are reached. For that, IFC should sharpen the sub-borrower eligibility criteria in project and associated legal documents of IFC financial market investments aimed primarily to reach SMEs.

**References**


### Catalytic Effect

| IEG Findings and Conclusions | Enhancing Catalytic Effect: World Bank Group financial contributions are highly valued by the government, but they are small compared to the size of Brazil’s economy. Consequently, leveraging and having a catalytic effect from lending and nonlending support is particularly important. The challenge is equally acute, if not more, for IFC and MIGA, given the volume of their operations relative to the size of private sector activities in Brazil.

A major comparative advantage of the Bank Group is in examining policy options and trade-offs across several sectors and themes. The Bank Group can also be effective in facilitating the dialogue among stakeholders to discuss such trade-offs and identify solutions—the convening role of the Bank Group. Areas where there is an important element of public goods are particularly suitable. Given the size of Brazil, these activities are more manageable in the context of assisting subnational governments. In this context, multisectoral operations at a subnational level can effectively leverage the Bank Group’s convening role to facilitate cross-sectoral dialogue. |
| IEG Recommendation | Use the potential for wider catalytic effects as one of the main criteria for selecting the sectors and subnational entities with which to engage. The Bank Group would focus in areas where it has comparative advantage and can expect to generate benefits beyond the individual intervention. In addition, the Bank Group should identify ways to encourage and facilitate the replication and demonstration of positive results achieved in one subnational entity or region in others. Given the promising results so far, the Bank should continue identifying opportunities for multisectoral approaches at the subnational level, while incorporating the lessons learned. |
| Acceptance by Management | Agree |
| Management Response | While agreeing with the recommendation, the World Bank Group notes that transformational and catalytic engagements consist of a combination of advice, analysis, and lending over a period of many years and without knowing in advance whether an intervention or engagement will be truly catalytic. The Bank Group program in Brazil continues to seek catalytic interventions in a variety of ways: by pursing cutting-edge operations that bring sectors together to solve difficult development problems and in sharing lessons throughout the country and internationally, for example, through the World Without Poverty Knowledge Hub that shares lessons of experience in reduction of poverty and inequality within Brazil and internationally.

World Bank Group management is also seeking to draw on new instruments such as the MIGA Non-Honoring of Sovereign Foreign Obligation Guarantee to draw in private resources as in the São Paulo Sustainable Transport Project. Management will continue to work with states and large municipalities on multisector projects, while incorporating lessons and seeking partnerships with other multilateral, bilateral and private partners (as in the case of the Third Minas Gerais Development Partnership DPL) so as to leverage resources from outside the Bank Group. |
Private Participation

| IEG Findings and Conclusions | **Private Participation:** To enhance Brazil’s competitiveness, infrastructure bottlenecks and the high cost of doing business need to be addressed. There is a growing urgency to enhance private participation in infrastructure investments and to improve the quality of public investments.

Enhancing private participation is an area with potential for close collaboration and complementarities within the Bank Group, given the IBRD’s experience in advising systemic regulatory issues and IFC’s expertise in individual PPP project structuring in Brazil. |
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>IEG Recommendation</td>
<td><strong>Enhance lending and nonlending support for improvement in the quality of public investment and the enabling environment for private sector investment.</strong> This could be done through a combination of financial support and knowledge and advisory services. The Bank Group should intensify its analytical work to identify the constraints to private sector participation in infrastructure investment, reduce the cost of doing business, and explore ways to help improve the efficiency of public investment planning and execution. Synergies from Bank Group collaboration should be sought, building on IBRD’s experience in supporting improvement in regulatory frameworks, IFC’s expertise in PPP project financing and structuring, and MIGA’s ability to offer guarantees that would facilitate private sector participation in infrastructure investments.</td>
</tr>
<tr>
<td>Acceptance by Management</td>
<td>Agree</td>
</tr>
<tr>
<td>Management Response</td>
<td>The Group is already drawing on its lending, analytical, and advisory tools to advance the private sector agenda and the quality of public sector investment. Drawing on existing analytical work (Brumby, Mendes, and Velloso 2011), many of our state projects work to strengthen investment planning over the medium term. Management of IBRD/IFC has recently concluded a joint piece that looks at the experiences with concessions to date and the particular regulatory issues that need to be addressed. The IFC has augmented its support to the BNDES/IFC/IDB facility on PPPs, helping to structure innovative PPP arrangements, and we are working with BNDES to see how we may expend this work. IBRD has several Reimbursable Advisory Services under way providing up-front technical advice and guidance on PPPs in various sector in Brazil, but particularly in infrastructure. There is approval at the federal level for a MIGA Non-Honoring of Sovereign Foreign Obligation Guarantee that is expected to be drawn upon by other states in the future in order to further leverage private sector resources. The entities of the Group are working together to strengthen the synergies across the work program.</td>
</tr>
</tbody>
</table>
### Conservation, Development, and Poverty Reduction

<table>
<thead>
<tr>
<th>IEG Findings and Conclusions</th>
<th>Conservation, Development, and Poverty Reduction: Brazil’s recently adopted Forest Code provides a new framework for strengthening the harmonization of conservation, development, and poverty reduction objectives. Brazil will face economic and institutional challenges in implementing the Code’s provisions. These include completing a universal rural environmental cadaster in the near term and finding productive, cost-effective, and environmentally beneficial ways for private landholders to comply with forest reserve obligations under the Code.</th>
</tr>
</thead>
<tbody>
<tr>
<td>IEG Recommendation</td>
<td>Continue to promote sustainable rural development, taking advantage of the opportunities presented by the new Forest Code. Building on past and ongoing work, the Bank and IFC should be prepared to offer technical and financial assistance, as required, to help meet the challenges of implementing the new Forest Code in a way that is cost-effective, poverty reducing, and environmentally sound.</td>
</tr>
<tr>
<td>Acceptance by Management</td>
<td>Agree</td>
</tr>
</tbody>
</table>
| Management Response            | We agree with the need to continue to support sustainable rural development by supporting implementation of the Forest Code. However, the Group notes and does not agree with the finding of the IEG review that group efforts to balance “development and poverty reduction with forest conservation proved more ‘elusive.’”

The Bank Group continues to engage strongly with both the Ministry of Environment and state governments on the implementation of the land cadaster, drawing on a variety of analytical tools, loans, trust funds, and partnerships with others to support implementation of the Forest Code.

Our program in the state of Acre is an example of how we are helping to support service delivery in remote areas, implementation of cadasters, protection of the environment, and development of sustainable economic activities in environmentally sensitive zones. |
### Knowledge Services

#### IEG Findings and Conclusions

**Knowledge Services:** Knowledge activities can have important externalities and catalytic effects per dollar loaned and per dollar of the Bank Group's budget resources. Experience in Brazil shows that value often comes from a combination of lending and knowledge, so the two need to go together.

The Bank Group is highly valued when it serves as a trusted partner in examining policy options, including sharing lessons from other experiences.

#### IEG Recommendation

Enhance dialogue with authorities and think tanks to identify policy issues where the Bank Group could provide timely knowledge and advisory support. The Bank Group should conduct active, ongoing dialogue with the federal and subnational entities as well as think tanks to identify the major policy areas where timely Bank Group inputs would be most useful.

#### Acceptance by Management

Agree

#### Management Response

Conducting active, ongoing dialogue with the federal and subnational entities as well as think tanks to identify the major policy areas where timely Bank Group inputs would be most useful activities is among the guiding principles of World Bank Group engagement in the country, and will continue to be so in the future. The Bank Group team engages with government authorities and a wide number of think tanks in Brazil to assess where our involvement could have the most impact. In addition to a partnership with the Ministry of Social Development, IPEA (Brazil’s main think tank), and the UN International Poverty Center on lessons from Brazil in reducing poverty and inequality (the World Without Poverty Initiative), the Bank team has begun an intensive dialogue with the Secretariat of Strategic Subjects and IPEA, as well as others, on productivity and competitiveness in Brazil, including work on skills and jobs and a subnational Doing Business survey with SEBRAE in all 25 states as a Reimbursable Advisory Service.

Management is also working with the federal government and several think tanks on issues related to water management—climate change, irrigation, water usage plans, and so forth—to assist governments in understanding better how to deal with drought and how to prepare for the effects of climate change especially in the Northeast.
## Flexible Country Strategy

<table>
<thead>
<tr>
<th>IEG Findings and Conclusions</th>
<th><strong>Flexibility and Stability in the Country Program</strong>: A challenge for the Bank Group designing and implementing the Brazil country strategy is to maintain flexibility in responding to evolving client demands while ensuring a level of specificity that makes it a meaningful guide for operations. Achieving flexibility by defining very wide objectives over many areas serves well in a rapidly changing environment; however, an excessively flexible strategy could result in pursuing only those outcomes that receive strong traction from the main counterparts, leaving out areas well recognized to be important for overall long-term development. To avoid this risk, it is important to continue deepening the knowledge on critical medium- and long-term constraints to development in Brazil—even if some of these areas are not part of the immediate policy agenda. Given the medium- to long-term nature of this effort, the resources that can realistically be allocated may be limited, and the choice of topics needs to be selective. Undertaking some minimum analytical work in these areas would help the Bank Group balance the flexibility in operational response with the stability in the strategic directions of the program.</th>
</tr>
</thead>
<tbody>
<tr>
<td>IEG Recommendation</td>
<td><strong>Continue analytical work on selected topics with important long-term implications, even though traction with the authorities may be limited in the short term.</strong> Possible areas for consideration include a review of Brazil’s experiences with concessions in different sectors; an assessment of institutional and regulatory constraints affecting public agencies in the planning, selection, and execution of public sector investment; an analysis of the experience with direct credit; and the implications of different degrees of openness of the Brazilian trade regime for enhancing productivity.</td>
</tr>
<tr>
<td>Acceptance by Management</td>
<td>Agree</td>
</tr>
<tr>
<td>Management Response</td>
<td>Finding avenues to support improved productivity and competitiveness is probably the single most important long-term issue for Brazil, which incorporates many of the issues mentioned here. The PPP study mentioned above looks at the experience with concessions, as well as institutional and regulatory issues with PPPs. The recent Financial Sector Assessment Program (2012) addressed issues related to direct credit. There are, however, a number of areas related to issues that affect firm productivity from the outside (logistics, trade, rent-seeking, tax structure); issues related to firm management; and issues related to how to improve the productivity of individual workers, which will be brought together to advance the agenda. Although a difficult and complex area productivity and competitiveness has become and will continue to be central to our engagement.</td>
</tr>
</tbody>
</table>
### IEG Findings and Conclusions

**IFC Operations**: IFC has provided valuable support for PPP project structuring. Demand remains high, especially in subnational entities, for innovative projects that can be replicated and scaled up elsewhere in Brazil.

IFC has pursued its strategic objective of supporting SMEs through financial intermediation via second-tier banks. The impact of such operations is difficult to identify, given how the eligibility criteria for sub-borrowers are defined. Also, the trade finance program relative to long-term financing increased dramatically during the 2008–09 crisis period and has remained high, even though one would expect the additionality of trade credit programs to have diminished as the immediate impact of the crisis has waned.

### IEG Recommendation

a. *Expand IFC’s work on PPPs.* Pursue further expansion of the PPP collaboration with BNDES, increasing direct investments in infrastructure projects and project sponsors that have the potential to transfer IFC’s knowledge on infrastructure and project financing as well as social and environmental standards. Also, seek collaboration with IBRD and MIGA, as noted.

### Acceptance by Management

Agree

### Management Response

The Bank Group agrees that IFC’s work on PPPs has had a strong impact in Brazil, and management agrees on the recommendation to continue expanding work in this area. Going forward, the focus on the expansion of the partnership with BNDES should be at the subnational level, where IFC could add more value to the process. As the PPP program with BNDES involves direct engagement with a government agency, the Bank Group also agrees that increased collaboration between IBRD, IFC, and MIGA would improve synergies and program effectiveness. The Brazil model can be one that could be replicated in other large middle-income countries.

(continues on the following page)
### IFC Work (continued)

<table>
<thead>
<tr>
<th>IEG Recommendation</th>
<th>b. Enhance the design and targeting of IFC activities to expand SMEs’ access to long-term financing.</th>
</tr>
</thead>
<tbody>
<tr>
<td>IEG Recommendation</td>
<td>• Shift emphasis from short-term trade finance guarantees toward expansion of long-term loan and equity financing.</td>
</tr>
<tr>
<td>Acceptance by Management</td>
<td>Disagree</td>
</tr>
<tr>
<td>Management Response</td>
<td>While the Bank Group team understands the report’s conclusions and agrees that long-term financing to SMEs is key for Brazil’s development, it believes that short-term trade finance had and continues to have an important impact on Brazilian SMEs and thus should not have decreased as the immediate impacts of the crisis waned.</td>
</tr>
<tr>
<td>IEG Recommendation</td>
<td>• Sharpen the sub-borrower eligibility criteria in the project and associated legal documents of IFC financial market investments aimed primarily to reach SMEs that have relatively less access to long-term credit.</td>
</tr>
<tr>
<td>Acceptance by Management</td>
<td>Agree</td>
</tr>
<tr>
<td>Management Response</td>
<td>The Bank Group welcomes IEG’s comments on sharpening the sub-borrower eligibility criteria for future projects, but as this recommendation has corporate-wide implications beyond Brazil, it will be addressed in more detail in the context of the upcoming IEG SME report.</td>
</tr>
</tbody>
</table>

### Reference

Statement of the External Advisory Panel

The Independent Evaluation Group (IEG) has prepared a thoughtful and comprehensive report that draws useful lessons for the World Bank Group’s continued engagement with Brazil. The panel generally agrees with the findings, lessons, and recommendations presented.

IEG finds that the World Bank Group—when it served as a trusted advisor, providing analytical inputs and exchanging views on relevant policy issues—made significant contributions to Brazil’s development agenda. For example, the Bank was effective in its support of the Bolsa Família program, improved student learning outcomes, and subnational results-based management systems. The Bank Group also had some impact with its advisory support for structuring public-private partnership projects by taking advantage of the International Finance Corporation’s (IFC) global expertise in project financing, although not many such partnerships have been implemented yet, especially at the federal level.

The Bank’s convening power provided diverse stakeholders with a platform to examine issues and trade-offs that cut across organizational boundaries in water resource management and in multisector operations at the subnational level. The Bank also helped Brazil reduce the pace of deforestation in the Amazon by supporting a major expansion of protected areas and indigenous territories and by building the capacity of national and state environmental agencies. Results were less satisfactory in addressing infrastructure bottlenecks, particularly in logistics and the cost of doing business, where the Bank did not have significant impact. These areas remain critical constraints to Brazil’s growth.

The evaluation recommends that the major criterion in the design of the future strategy in Brazil be the catalytic impact of Bank Group interventions. The emphasis then should be on projects and programs with the largest potential benefits beyond individual interventions. The evaluation also recommends that the Bank Group further increase its knowledge support in Brazil.

Although the panel generally agrees with the findings, we also note that some of the ratings in the evaluation appear to be more related to the quality of the Bank advice and support than to the results achieved. In pension reform, for example, the technically very sound advice has yet to have much impact.

The panel notes four issues relevant for the Bank Group’s future strategy in Brazil:

• How can Bank Group interventions add more value than they currently do?
• What are the lessons from involvement in areas where Bank Group advice was not followed in the past?
• What is the appropriate time horizon for assessing effectiveness, especially of analytical and advisory work?
• In what areas can the Bank Group have the most impact in the future?

Adding More Value through Bank Group Interventions

The evaluation is appropriately critical of some operations for not using resources efficiently in improving the business environment and increasing lending to small and medium enterprises. The panel also agrees with the evaluation’s assessment of loans to the metro and suburban rail system projects in Rio de Janeiro and São Paulo, and the Sustainable Economic Management Development Policy Loan. The panel shares the caveat the report raises regarding whether the large commitment size of these loans was justified in light of the tight constraint on the Bank’s lending headroom and the existence of other financing sources. Greater project selectivity would have allowed the Bank to target those areas where it has knowledge to contribute and to provide financing...
that would benefit sectors that otherwise would be hard pressed to carry out the activities supported, or would have to do so at very high cost. The panel also agrees on the catalytic principle underscored in the evaluation, requiring emphasis on projects and programs that have the largest benefits beyond the effects of the individual interventions.

The panel agrees with the evaluation’s message that the country strategy needs to be specific enough to make it a meaningful guide for operations. As highlighted in the report, the policy objectives of the country strategies evaluated are so broad that it is difficult to attribute their achievement or failure to Bank Group operations. The continuing focus on support to subnational clients offers an opportunity to prepare a results framework with objectives that are more specific and measurable compared to those at the national level. A framework of this sort would also focus the authorities on specific goals, rather than on diffuse policy outcomes.

**Lessons from Involvement in Areas Where Bank Group Advice Was Not Followed in the Past**

The effectiveness of the Bank’s involvement appears to have been largely determined by the degree of its alignment with the authorities’ current priorities. For example, support for reforms of the regulatory framework and of various determinants of the high cost of doing business in Brazil does not seem to have had much impact, owing to the authorities’ limited interest in such reforms during the period evaluated. Similarly, progress remains slow in public-private partnerships, and the size of directed credit has increased sharply in recent years, while the Bank’s analytical work recommended that it be scaled back.

**Appropriate Time Horizon to Assess Development Effectiveness**

The Bank will need to decide whether to continue spending resources on analytical and advisory work that is likely to have little traction with the government in the near term but that may benefit society over the longer term. For example, there are areas in the regulatory framework where the Bank can certainly contribute, but reforms may have moved in an undesirable direction. The trade-off is clear because the Bank could use those resources to have an impact in areas where the government has a keen interest, such as health sector reform. The panel is not empowered to recommend where the Bank should position itself in this trade-off. However, if the Bank decides to give advice on reforms that the government does not embrace or pursue, then it might consider investing more effort in discussing the disagreements with the government and creating a constituency for such reforms by disseminating its work more widely.

**Areas Where the Bank Group Could Have the Most Impact in the Future**

The World Bank Group can bring international expertise to bear on the regulatory side, on the energy agenda, and on the management of infrastructure development, including public-private partnerships. In many regions—and at the federal level—where infrastructure development is needed, Brazil may benefit from advice on how to manage the implementation of both public works and public-private partnerships. In a number of areas (for example, environmental licensing or public-private partnership implementation) Brazil can profit from the international experience and know-how that the Bank can provide. There may also be a larger role for the IFC in supporting innovative initiatives in renewable energy.
Another area where the Bank has significant expertise and comparative advantage is health care. This is likely to figure prominently in the authorities’ policy agenda in the years ahead, and it would be worth discussing with the authorities how the Bank can assist them in improving the quality and accessibility of public health services in a fiscally sustainable way.

The shift of the Bank to supporting state and local governments is appropriate, given the high degree of decentralization in Brazil and the growing importance of large municipalities in the delivery of essential goods and services. The Bank can provide knowledge and experience to strengthen subnational capacity for raising revenues and carrying out the additional spending responsibilities. However, it should also recognize that borrowing in foreign currencies exposes subnational governments to foreign exchange risk and that such risk would only be justified by projects with high rates of return, as well as by access to technical and managerial expertise that otherwise would not be available. Both the subnational governments and the Bank will need to apply the right selectivity, to fund projects that have high returns and add significantly to Brazil’s knowledge base.

More generally, subnational governments—and to some extent the federal government—would benefit from a better process of investment selection and project evaluation. The Bank could usefully work on pilots to improve the practices of project selection and evaluation in some government units, with a view to disseminating such practices across subnational and federal government units. This would be an opportunity for the Bank to assist Brazil on incorporating environmental criteria in project analysis and evaluation.

Synergies between interventions and with other providers of financial support, technical assistance, or analytical advice need to be considered carefully. The Bank Group needs to ensure that its agenda in Brazil is consistent with sustainable development, and thus assess the interaction between interventions. For example, the development of roads and infrastructure should be consistent with the sustainability of the Amazon environment. Moreover, the Bank Group should widen the scope for synergies with other development partners. It could explore more systematically the possibilities for joint analytical work with the International Monetary Fund, Inter-American Development Bank, Economic Commission of Latin America and the Caribbean, and Organisation for Economic Co-operation and Development, and potential opportunities for cofinancing with the Inter-American Development Bank to leverage Bank resources in support of subnational governments.

In closing, the panel thanks the IEG team for bringing this assessment to fruition and for reacting constructively to our detailed feedback. IEG provides a candid assessment that the Bank Group can usefully take into account in its continuing engagement with Brazil.

Armando Castelar
Teresa Ter-Minassian
Carlos Young

Members of the External Advisory Panel

Armando Castelar Pinheiro is currently the Coordinator of Applied Economic Research at IBRE/Fundação Gertúlio Vargas and Professor of Economics at the Federal University of Rio de Janeiro. Previously, he worked at Gávea Investimentos, the Institute of Applied Economic Research, and the National Development Bank. He is a member of the Superior Council of Economics of the São Paulo Federation of Industries and pens monthly columns for the Valor Econômico and Correio Braziliense newspapers. Dr. Castelar earned a PhD in Economics (U. C. Berkeley), master’s degrees in Statistics (Institute of Pure
Teresa Ter-Minassian’s areas of principal interest and expertise include macroeconomic analysis, fiscal policy, budget management and intergovernmental fiscal relations. She has published extensively in these areas, including the book entitled Fiscal Federalism in Theory and Practice. At the International Monetary Fund (IMF), where she spent most of her career, she led missions to Italy, Spain, Portugal, Greece, Brazil, and Argentina, headed the IMF Task Force for the G7-commissioned first official study of the Soviet Union economy (1990), and headed the IMF’s Fiscal Affairs Department from 2001 to 2008. She is currently an international economic consultant, working in particular with the Inter-American Development Bank on fiscal issues in Latin America. Ms. Ter-Minassian holds degrees in Law from the University of Rome (Italy) and in Economics from Harvard University.

Carlos Eduardo F. Young’s fields of expertise are the links of international trade and the environment, environmental accounting and the economics of deforestation, macroeconomic modeling incorporating environmental variables, and the economics of climate change. He is currently Associate Professor, Instituto de Economia, Universidade Federal do Rio de Janeiro, and Senior Researcher at the Instituto Nacional de Ciência e Tecnologia – Políticas Públicas, Estratégias e Desenvolvimento. Dr. Young—a former President of the Brazilian Society for Ecological Economics—earned his BA and MSc degrees from the Federal University of Rio de Janeiro, and received his PhD in Economics from the University College London.
Contents of the Complete Evaluation

Abbreviations
Acknowledgments
Overview
Management Action Record

1. Purpose and Country Context
   Country Context Prior to the Evaluation Period
   Brazil’s Development Challenges during the Evaluation Period
   Evaluation Issues

2. Continuity and Evolution of the World Bank Group Program
   World Bank Group Strategy: FY04–11
   Operational Trends and Patterns: Bank Group Products and Services
   Collaboration with Development Partners and within the World Bank Group

3. Toward a More Equitable and Sustainable Brazil
   Toward a More Equitable Brazil
   Toward a More Sustainable Brazil

4. Growth, Competitiveness, and Economic Management
   A More Competitive Brazil
   Sound Macroeconomic and Public Sector Management

5. Emerging Messages and Recommendations
   Emerging Messages
   Recommendations

Bibliography

Notes

Boxes
Box 3.1. Conditions for Bolsa Familia Assistance
Box 3.2. Impact and Evolution of the Fund for the Development of Primary Education and Appreciation of Teachers
Box 4.1. Fiscal Responsibility Law

Tables
Table 2.1. FY04–11 IBRD Lending and Disbursement
Table 2.2. IFC Net Commitment in FY04–11
Table 3.1. Outcome Achievement during the Bolsa Familia APL 1
Table 4.1. Infrastructure: Results of the Reforms Supported of the Programmatic Growth Series (FY04–07) as Seen in IEG’s ICR Review
Table 4.2. Establishing a Successful Climate and Environment for Competition: Progress of Reforms Supported by the Programmatic Growth Loan Series (FY04–07), ICR Review 2009
Table 4.3. Business Climate Reform Components in Subnational DPLs and SWAs
Table 4.4. Financial Sector: Results in the Reforms Supported by the Programmatic Growth Series (FY04–07), ICR Review 2009
Table 4.5. IFC Net Commitments in Brazil
Table 4.6. Fiscal and Budget Management Measures Supported by State DPLs and SWAs
Figures

Figure 1.1. Substantial Achievement in Fiscal Adjustment and Price Stabilization in the Late 1990s
Figure 1.2. Poverty and Inequality Declined Steadily
Figure 1.3. GDP Growth Rate: Brazil and Major Emerging Countries
Figure 2.1. CAS/CPS Pillars with FY04–07 Subpillars
Figure 2.2. Share of Subnational Lending Increased under the FY08–11 CPS
Figure 2.3. IBRD and IFC Commitments
Figure 2.4. Lending by Themes
Figure 2.5. ESW and NLTA Activities in FY04–11
Figure 2.6. FY04–11 IFC Net Commitments
Figure 2.7. Growth of Long-Term Investments and Trade Finance
Figure 2.8. IFC Advisory Services Total Cost by Business Line, FY05–11
Figure 2.9. MIGA Outstanding Gross Exposure
Figure 3.1. Impacts of Bolsa Familia
Figure 3.2. Amazonian Deforestation by Year and State, 2000–12
Figure 3.3. Licenses Issued by IBAMA, 2001–12
Figure 4.1. Number of Days Needed to Start a Business

Appendixes

Appendix B Guide to IEG’s Country Program Evaluation Methodology
Appendix C Reference Tables
Appendix D IFC Operations: FY04–11
Appendix E MIGA Operations in Brazil: FY04–11
Appendix F FY08–11 CPS Targets on Forests
Appendix G World Bank Support for Infrastructure in Brazil: FY04–11
Appendix H Subnational DPLs and SWApS: Views from Recipient States
Appendix I Brazil: Summary of World Bank Group Program Outcome Ratings
Appendix J Modifications of FY08–11 CPS Outcomes in Progress Report
Appendix K People Met
Appendix L Comments from Government