



OED REACH

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Based on the *Brazil Country Assistance Evaluation*.

Country Assistance Evaluation: Brazil

- During the 1990s Brazil was able to stabilize its economy and articulate a clear development agenda. Poverty rates declined, especially due to success with stabilization. Social indicators improved significantly, especially in the poor regions of the country. There was less success in restoring high growth rates, partly because the critical social security and financial reforms started late in the decade and have not gone far enough. Lingering regulatory deficiencies have also constrained growth.
- The Bank's assistance program is rated satisfactory overall, as it placed appropriately a great emphasis on poverty alleviation and made an important contribution to the improvement in social indicators in the 1990s, especially in the poor Northeast.
- The Bank can still play a relevant role in Brazil, helping the Government consolidate and deepen the gains in social indicators and remove the obstacles to a stronger growth performance.

Background

Brazil entered the 1990s suffering the consequences of the "lost decade" of high inflation and slow growth. Per capita income had declined in real terms in the 1980s. The share of the population in extreme poverty had risen from 16.5 to 19 percent and from 36 to 42 percent in the poor Northeast. There had been slow progress in improving key social indicators. Conditions only improved with the success of the 1994 Real Plan. Stabilization enabled the Government to articulate a clear development agenda with well defined goals for education and health and an ambitious program of structural reforms.

There was a marked improvement in social indicators during the 1990s. The share of the population in extreme poverty declined from 19 to 14.5 percent in the country as a whole and from 42 to 30 percent in the Northeast. This improvement was primarily due to the success in controlling inflation, which affected disproportionately the poor. The gains in education and health were also impressive. The net enrollment in primary education increased from 84 to 96 percent in the whole country and from 72 to 93 percent in the Northeast. Child mortality declined from 48 to 30 per 1,000 live births in

the whole country and from 73 to 44 per 1,000 live births in the Northeast. There was significant progress in expanding the access of the poor to basic services, such as electricity and water.

There was less success in restoring high growth. The average annual GDP growth rate in 1994-2002 was 2.7 percent, higher than the Latin American average of 2.1 percent (average annual per capita growth rates were 1.4 and 0.4 percent, respectively), but disappointing in comparison with Brazil's own historical record. The Government's structural reforms succeeded in generating efficiency gains but did not succeed in restoring investment closer to the levels of the high growth period of 1950-1980. The failure to increase investment was due to low public and national savings (resulting from disproportionately large pension payments), lingering regulatory uncertainties and deficiencies in financial intermediation. The new Government that took office in January 2003 is making an effort to address these problems, and has already submitted an ambitious pension reform to Congress.

The Bank's Role

The alleviation of poverty was the central objective of the Bank's assistance to Brazil in the last 10 years. The

Bank's strategy focused on the poor Northeast and on activities expected to address directly the roots of poverty—education, health, and the provision of basic services to the poor. Assistance to the environment also expanded in the 1990s, and was focused on green issues. The growth element of the strategy involved support to the Government's decentralization and privatization of infrastructure. At the end of the 1990s the Bank shifted to adjustment lending to support the Government in its stabilization efforts and in response to turbulence in world financial markets.

The Bank's assistance strategy in 1990-2002 was relevant overall. The shift to the social sectors and the focus on the Northeast were largely justified, given the poor social indicators, especially in the Northeast region. The shift to adjustment lending at the end of the decade was also justified, as a scenario of crisis could have implied a return to inflation and an increase in poverty.

The Bank's assistance program to Brazil produced a sufficient mass of positive outcomes to be rated as satisfactory. The program made only a moderate contribution to the decline in poverty rates in the 1990s—the gains were primarily due to stabilization, and the program contributed only indirectly by helping the Government consolidate stabilization at the end of the decade. However, the program made a more important contribution to the impressive improvement in social indicators and to expanded access of the poor to basic infrastructure. These are all key pre-conditions for further reductions in poverty and inequality, and to stronger growth in the longer-run. The program also helped build capacity in the environment and improve environmental indicators, especially in the green area.

The program provided some technical and financial assistance to infrastructure but these actions were not sufficient to remove regulatory deficiencies and increase private investment. The program also supported social security and financial reforms, but these reforms started late in the decade and have not gone far enough to promote investment and growth.

Whereas the overall outcome was rated satisfactory, sustainability was judged to be non-evaluable despite the recent improvements in market sentiment, because Brazil remains vulnerable to shifts in market perception due to a large public debt — a large share of which is linked to the exchange rate. The new Government has taken positive initial steps but needs to establish a longer track record of sound policies.

Recommendations

- **Continuing Assistance to the Social Sectors.** Primary education has been universalized but enrollment in secondary education is still low and

quality of education is still deficient. The Bank can help the Government address these problems. The Bank must also step up its assistance in the area of early childhood development. In health, it is necessary to deal with the structure of the public health system and reduce the barriers facing the poor. The Bank should also consider addressing child nutrition in the Northeast and maternal mortality.

- **Improved Framework for Programmatic Lending.** There is justification for further programmatic lending to help the country complete critical reforms, such as the social security and financial sector reforms. Further programmatic lending requires clear final objectives and intermediary benchmarks that would trigger further loans within a reasonable reform framework.
- **Building the Capacity of Sub-National Governments.** At the sub-national level, public finance management and administration appear weak. Bank assistance might reap high returns.
- **Further Support to Private Sector Development.** More assistance to regulatory agencies is needed, in order to reduce uncertainties and encourage private sector investment in infrastructure. The Bank should also consider assistance to judicial reform.
- **Design of More Integrated Strategies.** There is scope for producing more integrated strategies across networks and greater synergies across projects by changing the focus of assistance from sectors to regions.
- **Better Dissemination of ESW and Bank Activities.** Greater dissemination of its work may help the Bank enhance its credibility and provide more effective assistance to the Government. One key step is to ensure that the Bank's work is available in Portuguese.

Reaction of the Borrower and Regional Management

The Government endorsed the conclusions and recommendations of the evaluation, but disagreed with the conclusion that sustainability cannot be evaluated under the present circumstances.

The Region agreed with the main conclusions and recommendations of the evaluation, except for the conclusions that sustainability cannot be evaluated and that the earlier adjustment loans could have contained clearer goals and benchmarks.



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