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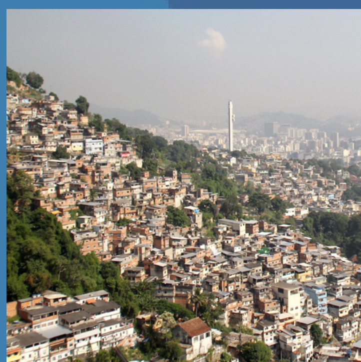

Country Program Evaluation

# Brazil

## 2011-2014

IDB
Inter-American Development Bank
October 2015

This document presents an evaluation by the Office of Evaluation and Oversight (OVE) of the Country Program of the Inter-American Development Bank (IDB, or the Bank) with Brazil over the period 2011-2014. This Country Program Evaluation (CPE) is the fourth independent evaluation of the Bank's program with Brazil. Past evaluations covered the periods 1993-2003 (RE-298), characterized by the Bank's focus on lending across a wide range of sectors without clear program-level goals; 2000-2008 (RE-355), marked by the exploration of niche sectors for the Bank and the use of non-sovereign-guaranteed (NSG) operations; and 2007-2010 (RE-398), when the Bank shifted its support from federal institutions to subnational governments with program-wide interventions.

As the Bank's Protocol for CPEs (RE-348-3) states, the main function of a CPE is "to provide information on Bank performance at the country level that is credible and useful, and that enables the incorporation of lessons and recommendations that can be used to improve the development effectiveness of the Bank's overall strategy and program of country assistance." Like other CPEs, this evaluation will seek to examine the Bank's relationship with Brazil from an independent and comprehensive perspective, and will serve the dual purpose of strengthening accountability and sharing lessons learned for future Bank support and, in particular, for the definition of the next Country Strategy (CS).

The CPE reviews the Bank's program during 2011-2014 in light of the country context and the applicable strategic documents, and it looks in-depth at the results of a sample of all operations approved between January 2011 and December 2014 and approved previously but disbursed (at least 70%) in this period. The details of the portfolio are provided in the annexes to this document. The first year under evaluation (2011) was a transition year between the last extension of the 2004-2007 Country Strategy (GN-2477) and the approval of the 2012-2014 Country Strategy (CS) in May 2012 (GN-2662-1).

In preparing this document, OVE interviewed approximately 400 people, including the Bank's main counterparts among the Brazilian authorities, project execution units, members of civil society and the private sector, representatives of multilateral agencies with presence in Brazil, Bank managers overseeing the Brazil program, and IDB staff at the Bank's Country Office and at Headquarters. OVE also conducted a survey of 56 staff and consultants who work with Brazil to better understand the organizational and personnel challenges the Bank faces in a country as heterogeneous as Brazil. The mission also visited the sites of IDB-supported projects to assess implementation progress and challenges.

Original: English

# Country Program Evaluation:

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Office of Evaluation and Oversight, OVE

**Inter-American Development Bank**
October 2015

Office of Evaluation and Oversight
1350 New York Avenue, N.W.
Washington, D.C. 20577
www.iadb.org/evaluation

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# Abbreviations and Acronyms

| | |
|---|---|
| BNDES | *Banco Nacional de Desenvolvimento Econômico e Social* – Brazilian Development Bank |
| CCLIP | Conditional credit line for investment projects |
| CPE | Country Program Evaluation |
| CRAS | Social Welfare Referral Centers |
| CS | Country Strategy |
| CUCA | Urban Cultural, Arts, Science, and Sports Centers |
| GDP | Gross domestic product |
| GOB | Government of Brazil |
| IBGE | *Instituto Brasileiro de Geografia e Estatística* – National Geographic and Statistics Institute |
| IDB | Inter-American Development Bank |
| IDB-9 | Ninth General Capital Increase of the IDB |
| IFC | International Finance Corporation |
| IMF | International Monetary Fund |
| IPEA | *Instituto de Pesquisa Econômica Aplicada* – Brazil's Institute of Applied Economic Research |
| IT | Information Technology |
| LAC | Latin America and the Caribbean |
| LRF | *Lei de Responsabilidade Fiscal* - Fiscal Responsibility Law |
| MDB | Multilateral development bank |
| MIF | Multilateral Investment Fund |
| M&E | Monitoring and Evaluation |
| NSG | Non-sovereign-guaranteed |
| OECD | Organisation for Economic Co-operation and Development |
| OMJ | Opportunities for the Majority |
| PAC | *Programa de Aceleração do Crescimento* – Growth Acceleration Program |
| PBL | Policy-based loan |
| PNAFE | National Fiscal Administration Program for Brazilian States |
| PPP | *Parcerias Publico Privadas* –Public Private Partnerships |
| SG | Sovereign-guaranteed |
| SIAFI | Integrated financial administration system |
| SUAS | *Sistema Único de Assistência Social* (Single System of Social Assistance) |
| TC | Technical cooperation |
| UNDP | United Nations Development Programme |
| WB | World Bank |

# Acknowledgements

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The team would like to thank all who contributed to this CPE. First, we would like to acknowledge the help we received from the Brazilian authorities and other counterparts in Brazil. They were generous with their time and provided data and documentation, as well as candid views on the Bank's work. Second, we extend our gratitude to Bank Management and staff –particularly to the staff at the Country Office in Brazil. Finally, we would like to thank our colleagues at OVE who provided valuable inputs: César Bouillon, Héctor V. Conroy, Leslie F. Stone, Carlos Morales, and Maria Elena Corrales.

With a population of nearly 202.8 million people and a GDP of US$2,353 billion, Brazil is a large and diversified country with a high level of human development.
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# Executive Summary

**Brazil is the world's fifth most populous country and seventh largest economy, and one of the most advanced nations in Latin America and the Caribbean (LAC). With a population of nearly 202.8 million people and a GDP of US$2,353 billion, Brazil is a large and diversified country with a high level of human development. Per capita GDP in purchasing power parity was US$16,096 in 2014, almost twice as high as in 2000 and above the Region's average. The Brazilian economy is particularly sophisticated, with broad industrial and service sectors.**

Brazil has experienced solid economic growth in recent years, but growth has slowed, and the country continues to face significant deficits in infrastructure and public services that limit its productivity and competitiveness. Following decades of high inflation, the Government of Brazil (GOB) adopted economic reforms that were crucial in stabilizing the macroeconomic situation. These reforms together with a favorable external environment fueled Brazilian growth and contributed to improving the fiscal position at all levels of government and to reducing nominal interest rates. In this context, Brazil was very successful in reducing poverty, enlarging the middle class and decreasing regional differences. However, Brazil continues to face significant challenges: income and regional inequality and productivity, low level of investments, urbanization, quality of and access to social services (especially in education), and high crime levels. Brazil also faces difficult environmental challenges such as deforestation, pollution, biodiversity loss, and greenhouse gas emissions. Other challenges, particularly at the subnational level, include weak public management, rigidity and low transparency of public expenditures, and weak capacity to increase tax collections.

In the medium-term, Brazil will face challenges in achieving rates of growth and reductions in poverty similar to those achieved during the last decade. The rate of growth will be affected by such factors as productivity gains, the pace of infrastructure investment, the rate of adoption of growth-enhancing structural reforms, improvements in the efficiency and quality of public expenditure, and labor market dynamics.

The extremely heterogeneous needs across the country and the unequal capacity of subnational governments affect the management and implementation of social policies. Municipal and state governments have autonomy in the provision of many social services and face different challenges and their capacity to deal with these challenges varies greatly. Thus the quality of and access to social services is different from state to state, and tend to be worse in the poorer states of the north and the northeast.

## The program

The 2012-2014 CS of the Inter-American Development Bank (IDB, or the Bank) was relevant in that it reflected the priorities shared between the GOB and the Bank and Brazil's long-term development needs, but it was divided into 16 priority sectors with limited strategic complementarity. The CS identified six strategic objectives: (i) promoting social and productive inclusion, (ii) improving the country's infrastructure conditions, (iii) supporting the development of sustainable cities, (iv) strengthening the institutional capacity of public entities, (v) promoting better management of natural resources and climate change, and (vi) stimulating development through the private sector. It also proposed to work at all three levels of government (but with a stronger focus on the subnational level), with a geographical bias toward the north and northeast regions, and with a greater effort to take gender and racial issues into account. Though the CS identified two or more Bank sectors for work under each of the six CS objectives, it did not encourage sectors to complement each other to achieve common goals. In fact, the CS did not identify common goals but rather provided separate objectives/indicators for each of the 16 priority sectors.

To remain relevant, the Bank continued to adapt its lending patterns during the period. While the proportion of federal and municipal lending remained approximately the same in 2011-2014 as in the previous period, lending to the states increased, and lending to the Brazilian Development Bank (BNDES) stopped. At the same time, lending to the private sector fell and shifted from real sector operations to the financial sector: the Bank found a market niche in trade finance, where there was high demand for its hard currency/long tenor loans.

The Bank continued to be an important source of international financing to Brazil. The IDB has become Brazil's largest multilateral lender (in terms of debt stock). During 2011-2014, the Bank approved 175 operations (loans, guarantees and grants) totaling US$10.45 billion (a level comparable to that of the preceding four years, when the Bank approved 206 operations for US$10.16 billion). Lending was channeled through sovereign-guaranteed (SG) investment loans (74% in value), policy-based loans to states (20%), and non-sovereign guaranteed (NSG) investments (6%). US$90.8 million in grants was approved during the period, an increase over the US$78.5 million approved during 2007-2010.

In terms of sectors, the Bank's program focused on relevant development challenges such as infrastructure and fiscal/institutional issues. Because of substantial investment in technical cooperation and dialogue, it was able to engage states and municipalities in the health and education sectors. Infrastructure projects at the state level remained a core area of work. The bulk of the infrastructure lending went for transport projects that could eventually help improve productivity and competitiveness. Almost a third of infrastructure lending went to water and sanitation, in line with the country's urbanization challenges. While energy lending took only 8% of infrastructure approvals, it was directed to highly strategic projects. Most of the infrastructure lending went to the states in the south and southeast regions, though a fifth went to the poorest states of the north and northeast, in line with the CS intent and country needs. Fiscal concerns and the need to improve fiscal management at the state level justified Bank support to public finances, predominantly through policy-based operations to states (PROCONFIS) and support to subnational fiscal reform (PROFISCO). The Bank's provision of substantial technical cooperation (TC) in the health and education sectors opened the possibility of lending to states and municipalities in these sectors; during the period, the Bank approved five health and five education projects for a total of over US$1 billion.

As envisioned in the CS and in line with country needs, the program increased its focus on the poorest regions of the country and made some efforts to include gender and diversity as a cross-cutting issue. Though half of the lending during the period went to higher-income states in the south and southeast, lending in the north and northeast almost doubled. The portfolio has been increasing its focus on less developed states since the 1999 crisis, and this trend intensified in the latest strategy period. Lending in the social sectors also focused on poorer states, in consonance with country needs. About one-fifth of SG loans included gender- and race-specific indicators in their results matrices (as a first step to address diversity issues), an improvement over previous periods but still far from the original CS goal of 100%.

## Implementation and results

Bank performance shows the implications of shifting lending from the federal to subnational governments. The overall preparation times of Bank investment projects in Brazil remained constant and above the Bank's average, and preparation and execution costs increased over those of the previous strategy period, though these averages hide important differences across borrowers and instruments. The combined time between start and eligibility remained around 40 months in Brazil, while the Bank's average decreased slightly to just above 30 months. This lengthier preparation time is in part explained by the meticulous federal review process to which Bank borrowers (subnational governments) are subjected before approval. Average preparation and execution costs per US$1 million approved increased from US$2,002 and US$3,566, respectively, to US$2,477 and US$6,160, still above Bank averages, which also increased since 2010.

The use of umbrella-type operations did not counterbalance the expected higher costs of dealing with institutionally weaker and less experienced subnational governments. To compensate for the expected higher costs of dealing with subnational governments, the Bank developed new instruments –the use of the conditional credit line for investment projects (CCLIP) was expected to streamline project preparation and approval–and decentralized execution to the country office. However, preparation times/costs and execution costs worsened for the three programs that used CCLIPs, while they generally improved for non-umbrella-type state and municipal borrowers.

Bank experience shows that longer-term partnerships with a selected number of sub national governments may increase portfolio efficiency and effectiveness. Some of the drivers of project preparation and execution costs were the new clients' lack of previous working experience with the Bank and their relatively weaker institutional capacity. As new subnational borrowers gained experience they became more proficient in dealing with the Bank, and preparation costs declined by half for repeat customers. Many new borrowers were institutionally weaker and tended to have more difficulty dealing with Bank processes, which also affected implementation costs, as loans with lower-capacity municipalities had average execution costs up to seven times higher than those with the most capable municipalities. Repeated engagement with the Bank has facilitated policy dialogue and coordination between the Bank and subnational governments, which may lead to better planning and outcomes.

Results of the program appear to have been mixed, with some significant successes. Social protection projects are providing popular social infrastructure, but it is not clear if they will yield the results expected. Except for the successful Fortaleza and São Bernardo health projects, the projects OVE reviewed in education and health are in relatively early stages. The GOB and subnational governments alike appreciate the Bank's re-engagement with these sectors. Transport and water and sanitation projects, primarily at the state and municipal levels, appear to have had substantial positive impacts. Urban development projects (PROCIDADES or stand-alone loans) are highly relevant, and the Bank has the necessary expertise to provide support. However, some projects have serious efficiency and implementation problems, and, because of delays and weak monitoring and evaluation (M&E), little can be said about their effectiveness. Public sector management projects at the federal level are disbursing too slowly to gauge their effectiveness. The portfolio in environment and natural resources has been relatively modest in size but appears to have been diverse, and TCs in particular have supported a variety of institutional strengthening and knowledge initiatives. Bank SG lending to the tourism sector through PRODETUR is facing major implementation problems; despite high demand, lending using this modality has stopped. Support to fiscal reform at the state level through PROFISCO and PNAFM has had mixed results. The PROFISCO program has been successful at disseminating experiences and best practices across states, but few projects have progressed far enough to have clear evidence on results. Policy-based lending through PROCONFIS has helped states set a reform agenda and improve fiscal management, but only two of the five operations were found to be clearly financially relevant, and all had only modest policy depth.

The Bank had little private sector engagement in the productive sectors, focusing most of its NSG lending on financial intermediaries. This was in part because of the ready availability of private sector project finance in Brazil through public development banks (notably BNDES) during the period. Financial sector clients appear to value the terms and reputational effects of IDB support. The Bank provided tenors not available in the domestic market (or available internationally but at a higher cost). Its due diligence process provided a stamp of quality for most banks, helping them to negotiate better deals with foreign banks and/or to reach new sources of funding. To a lesser extent, the Bank has been effective at bridging information asymmetries between banks in trade finance deals. However, the weakness of M&E arrangements in private sector operations makes it difficult to fully assess their effectiveness.

## Conclusions and recommendations

Brazil has experienced solid economic growth in recent years, but growth has slowed and the country continues to face significant deficits in infrastructure and public services that limit its productivity and competitiveness. Given tight fiscal constraints and expenditure rigidities, addressing the infrastructure and social services gaps will require both public and private sector engagement. The country's regulatory framework has not been fully conducive to private sector investments, but the Bank has been working with Brazil to address some aspects of the problem, and new opportunities may arise. Given the complexity and cross-sector nature of these challenges, collaboration across sectors and coordination between the public and private sides of the Bank Group will be critical.

The focus on subnational governments and on the infrastructure, fiscal management and social sectors (with an increased emphasis on the poorer regions) was generally relevant to country needs and government priorities, but, in OVE's view, a more strategically integrated portfolio could have produced a stronger impact for the country.

Bank portfolio performance shows the implications of shifting from working with the federal government to working with subnational ones. Bank experience shows that longer term partnerships with a selected number of sub national governments may increase portfolio efficiency and effectiveness.

For future engagement in Brazil, OVE has the following recommendations for the Bank:

1. Work with the client to define a limited set of strategic thematic priorities to structure and integrate the Bank's program, taking into account country demands and the Bank's comparative advantage. While it is understandable, given Brazil's size and heterogeneity of borrowers, that the Bank should support a number of themes and activities, strategic prioritization is still important for Bank effectiveness. Increasing the program's focus on poverty, including on poorer areas of the country, could be one strategic priority to consider.

2. Seek long-term partnerships with subnational governments (both states and municipalities) where possible, and devote substantial resources to cross-learning. Because the lack of previous experience in working with the Bank and weaker institutional capacity appear to be factors behind higher costs, longer-term relationships (such as CCLIPs with specific subnational governments) can reduce preparation and implementation costs and enhance institutional capacity. Heightened attention to sharing experiences across programs, states, and municipalities (for example, replicating mechanisms similar to PROFISCO's Finance Secretaries Commission) can enhance effectiveness while also controlling costs.

3. To the extent demanded by clients, continue to work with states and municipalities on deepening public finance reform. A better fiscal position, more efficient public spending policies, and stronger public expenditure management will be critical to subnational governments if they are to extend the coverage and improve the quality of public services and infrastructure. The Bank has strong multi-sector expertise that can contribute to those reforms. Policy-based lending to states –particularly those with immediate financial need– appears to be an efficient and effective instrument for support, supplemented where appropriate with technical cooperation and/or investment lending. Given the breadth of important fiscal issues, programs of fiscal support should engage multiple Bank divisions to help clients identify some of the most pressing expenditure rigidities and inefficiencies and design appropriate solutions.

4. Seek ways to work with the Brazilian authorities to help strengthen regulatory frameworks for public-private partnerships at various levels of government. Facilitating private investment in the delivery of public services will be essential to meeting the country's growing infrastructure needs, and can also be instrumental in increasing investments in the social, environment, and other areas.

5. Develop a concrete plan to promote more effective cross-sector and public-private collaboration in the country program. Such collaboration will be essential to the achievement of the goals of strategic prioritization and support for integrated fiscal reform at the subnational level, as envisioned in the prior recommendations.

6. Continue to strengthen the monitoring and evaluation of the Bank's portfolio. The evaluability of the Bank's approved portfolio has improved significantly, as evidenced by higher Development Effectiveness Matrix scores in recent years. Carrying these improvements through to project completion and ex-post evaluation can help the Bank learn more from experience and fine-tune future interventions.


The 1994 *Plan Real* introduced a new currency (the Brazilian real) and increased interest rates, curbing hyperinflation (which averaged 2,076% in that year).
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# 1 Country Context

**Brazil is the world's fifth most populous country and seventh largest economy, and one of the most advanced nations in Latin America and the Caribbean (LAC). With a population of nearly 202.8 million people and a GDP of US$2,353 billion (Table A.1), Brazil is a large, diversified and federal country with a high level of human development.[1] Per capita GDP in purchasing power parity was US$16,096 in 2014, almost twice as high as in 2000 and above the Region's average. The Brazilian economy is particularly sophisticated, with broad industrial and service sectors (25% and 69% of the economy, respectively).**

Following decades of high inflation, the Government of Brazil (GOB) adopted a number of economic reforms that were crucial in stabilizing the macroeconomic situation. The 1994 *Plan Real* introduced a new currency (the Brazilian real) and increased interest rates, curbing hyperinflation (which averaged 2,076% in that year). It also included fiscal adjustment measures. In the late 1990s and early 2000s, the GOB introduced a flexible exchange rate and inflation-targeting regimes and enacted the Fiscal Responsibility Law (*Lei de Responsabilidade Fiscal* –LRF), after the Fiscal Adjustment Program through which the federal government assumed the debt held by states and municipalities (equivalent to 20% of GDP) in exchange for rules establishing fiscal discipline (The Economist 2013).[2]

These reforms together with a favorable external environment fueled Brazil's growth and contributed to improving the fiscal position at all levels of government and to reducing nominal interest rates. While GDP growth averaged 1.9% in 1990-2000, it grew at 3.7% between 2000 and 2010 and at 2.1% over the evaluation period. The primary fiscal surplus of 3% of GDP between 2001 and 2013 (Figure A.1) allowed the GOB to reduce its high gross public sector debt (from 78.9% of GDP in 2002 to

65.2% in 2014). The Central Bank of Brazil reduced its benchmark interest (SELIC) rate from above 25% in early 2003 to around 10% in 2014, reducing the public sector net interest bill from 8.5% of GDP in 2003 to 6.1% in 2014.

In this context, Brazil was very successful in reducing poverty, enlarging the middle class and decreasing regional differences. Among other factors, the introduction of a new social safety net (in particular *Bolsa Família*) in 1998 and increases in the minimum wage and in unemployment insurance and pension coverage have been instrumental to these changes (Carneiro et al. 2011).[3] Poverty fell from 35.1% of the population in 2001 to 15.9% in 2012 and indigence levels reached a historic low of 5.3% the same year. Formal employment levels increased, and the unemployment rate fell from 11.3% in 2001 to 6.7% in 2015. Poverty in the north and northeast (traditionally the poorest regions of the country) also fell from 45.4% and 59.8% of the population in 2001 to 27.5% and 30.8% in 2012 (Table A.2) (IPEA 2012).

Yet Brazil continues to face significant challenges of income and regional inequality. Brazil's Gini index, though it declined from .60 in 2001 to .53 in 2012 (IPEA 2013), remains one of the highest among LAC countries. The north and northeast regions have per capita GDPs below US$8,600 and US$6,300, respectively (Table A.2) and low average Human Development Indices (HDI) (UNDP 2014). The south, southeast, and central-west regions have much higher GDPs per capita (between US$14,000 and US$17,000), lower poverty (below 8%), lower unemployment (between 4% and 7%, Table A.2), and more diversified economies and higher institutional capacity (Figure A.2).

Social challenges and the capacity of subnational governments to manage and implement social policies also vary widely across the country. Since the adoption of the 1988 constitution, municipal and state governments have had greater autonomy in the provision of many social services. The quality of and access to social services vary from state to state, in part because of differences in management capacity at the state level. While states in the south and southeast have health levels and challenges comparable to those of developed economies, the health indicators of states in the north and northeast fall behind the national average, and their health systems must deal with easily preventable causes of death and infectious disease (Figures A.3 and A.4). Similarly, the main challenges in education arise from regional disparities, the low quality and coverage of basic and secondary education in some states (as evidenced by the results of the middle school achievement test, *Exame Nacional do Ensino Médio*, Figure A.5), and the weak management capacity of some subnational governments to articulate and implement policies (IPEA 2014 and Oliveira, Sakowski and Gusso, 2013).[4] There are similar challenges in social protection, including low coverage and quality of services and weak institutional coordination and capacity, especially in the poorest parts of the north and northeast (Barrientos 2013; Robles and Mirosevic 2013). Hence, while social inequality remains a national problem, it must be tackled mostly locally (Velez, Barros and Ferreira 2004).

Productivity and competitiveness are major issues. Between 2003 and 2013 Brazil's total factor productivity grew only 4.2%, in contrast to rates of 31.1% in India and 22.3% in China. Several factors affect productivity and competiveness: weak regulatory frameworks, high tariffs and taxes, inadequate workforce skills,[5] informality, difficulties in accessing credit, and bureaucratic red tape (World Bank 2009). Rising wages have not been accompanied by labor productivity gains, so that unit labor costs have increased (Frischtak and Moreira 2014; IPEA 2013; De Negri and Cavalcanti 2013). Finally, the country's relatively closed economy weakens its chances of benefiting from global value chains (OECD et al 2014).

Low investment in infrastructure also affects productivity. Investment rates (which have averaged 19.5% of GDP between 2000 and 2014) are low compared even to LAC levels (IPEA 2013). Experts estimate the total value of Brazil's infrastructure at 16% of GDP, whereas other big economies average 71% (McKinsey & Company 2014). The transportation sector is affected by the bad state of roads, low capacity of mass transportation systems, and high traffic accident rates.[6] Though Brazil has the largest capacity for water storage in the world, its reliance on hydropower makes it especially vulnerable to supply shortages in years of low rainfall (Flórez-Orrego, Silva and Oliveira 2014; BEN 2014). This, together with decaying power plants and lines, results in interruptions of frequency and duration close to the region's average (Byer, Crousillant and Dussan 2009; EPE 2014). Finally, Brazil is expected to face annual electricity demand growth of 4.5% for 2014-2018, with the largest growth in the north and north-east regions.

The rapid pace of urbanization in the past has created major challenges for metropolitan areas. A sizeable proportion of the urban population lives in shantytowns *(favelas)* around city centers without basic infrastructure and services and with high crime rates. The proportion of people living in favelas in Rio de Janeiro and São Paulo is 22% and 20%, respectively (IBGE 2014). Urbanization has also been accompanied by increases in motorization, especially in the major southern and southeastern metropolitan areas (Observatorio das Metropoles, 2013). This has clogged transport and led to an increase in $C0_2$ emissions from motor vehicles from 125 million tons in 2000 to 180 million tons in 2010 nationwide (IPEA 2011).

There has been progress in improving access to water and sanitation, but continued investment is needed to reduce coverage gaps. Between 2004 and 2011 the share of people with access to adequate garbage collection increased from 76% to 82%. The share of households with access to adequate sanitation increased from 45% in 1991 to 62% in 2010 (MMA 2014). While over four-fifths of households in the southeast have adequate water treatment, only 22% of households in the north do. Lack of access tends to be concentrated in rural areas (MMA 2014). As in other sectors, regulation and management are major challenges: in 2011 only 28% of Brazilian municipalities (20% in the north) had the mandatory municipal policy for basic sanitation, and only half had an entity in charge of water quality control (IBGE 2014).

Violence tends to be concentrated in marginalized and low income groups, in youth and black populations that are subject to high school dropout rates, unemployment, drug trafficking, domestic violence, and arms use (IPEA 2014).

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Citizen security remains a critical issue. Brazil has one of the highest homicide rates in the world, especially in the north and northeast. Violence tends to be concentrated in marginalized and low income groups, in youth and black populations that are subject to high school dropout rates, unemployment, drug trafficking, domestic violence, and arms use (IPEA 2014). Municipal authorities and police often lack means, systems, and technical capacity to address the problem effectively (IPEA 2014).

Brazil has shown a strong commitment to addressing climate change. It has substantially reduced deforestation in the Amazon, from 28,000 $km^2$ in 2004 to about 5,000 km2 in mid-2014: almost four-fifths of the Amazon rain forest remains intact. Nevertheless, Brazil continues to face difficult environmental challenges, not only of deforestation (FAO 2015) but also of air pollution resulting from increasing automobile and industrialization. Between 1998 and 2005, 5% of deaths in children (age 0-5) and the elderly (age 65 and older) in major cities were attributed to air pollution.

The evaluation period was marked by a weakening external environment and worsening macroeconomic indicators. GDP growth, which averaged 4.5% between 2004 and 2010, fell to 2.1% during 2011-2014 because of falling commodity prices and investment and rising labor costs (Figure A.6; The Economist Intelligence Unit 2015). The current account deficit worsened from 1.2% of GDP in 2006 to 3.9% in 2014. The central government primary balance went into deficit for the first time since the late 1990s. Gross public sector debt rose above 60% of GDP in 2014, with some subnational governments in the south and south-east reaching particularly high debt levels (Table A.2 and Figures A.1 and A.7). Brazil maintains an investment grade rating.[7]

Private sector financing has shifted toward bonds and away from bank lending. In a context of low global real interest rates, particularly after 2009, investor appetite for the higher yields of LAC bonds increased. Private sector firms took advantage of the situation to shift away from bank loans toward bond financing, using the funding to improve debt structure rather than increase investments (Shin 2013; Caballero and Powell 2014; Bastos Kamil and Sutton 2015; Canuto 2014) (Figures A.8 and A.9).

Demand for Bank NSG lending seems to have been also affected by the increased availability of public financing to the private sector. Treasury funds were allocated to the *Banco Nacional de Desenvolvimento Econômico e Social* (BNDES) and other public banks as countercyclical tools in the wake of the financial crisis (Figure A.10). BNDES became the main financier in the country,[8] with a focus on infrastructure lending (36% of total lending in 2014), mainly for energy and logistics. Of Brazil's 1,000 largest firms, 783 received financing from BNDES during 2007-2014.

In the medium-term Brazil will face challenges in achieving rates of growth and reductions in poverty similar to those of the last decade. The Central Bank forecasts that GDP will contract by 1.80% in 2015 and grow by .20% in 2016.[9] The rate of growth will be affected by such factors as productivity gains, the pace of infrastructure investment, the rate of adoption of growth-enhancing structural reforms, improvements in the efficiency and quality of public expenditure, and labor market dynamics (IPEA 2014).

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The Country Strategy proposed to work at all three levels of government (but with a higher focus on the subnational level), with a geographical bias toward the north and northeast regions, and with a greater effort to take gender and racial issues into account.

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# 2 The Bank's Program

## A. Relevance of strategic documents

**The Bank's program with Brazil was guided by the 2012-2014 Country Strategy (CS) approved in May 2012 (GN-2662-1),[10] corresponding Country Program Documents (2012-2014), and the February 2013 CS Update.[11] The CS identified six strategic objectives: (i) promoting social and productive inclusion; (ii) improving the country's infrastructure conditions; (iii) supporting the development of sustainable cities; (iv) strengthening the institutional capacity of public entities; (v) promoting better management of natural resources and climate change; and (vi) stimulating development through the private sector. It also proposed to work at all three levels of government (but with a higher focus on the subnational level), with a geographical bias toward the north and northeast regions, and with a greater effort to take gender and racial issues into account. These six strategic priorities and regional and thematic focus were broadly relevant, as they took into account the 11 macro-challenges of the government's *Plano Plurianual de Governo, Plano Mais Brasil* 2012-2015 (Multiyear Government Plan), the *Brasil sem Miseria Plan* (Table A.3), the Ninth General Capital Increase objectives and the dialogue between the Bank and the federal and subnational governments and civil society.**

The six CS strategic objectives were divided into 16 priority sectors, with limited strategic complementarity. The large number of subnational borrowers with diverse needs and the complex nature of development challenges called for flexibility and a coherent multi-sector approach. The CS did not provide such an approach. Though it identified two or more Bank sectors for work under each of the six CS objectives, it did not encourage sectors to complement each other to achieve common goals. In fact, the CS did not identify common goals but rather provided separate objectives/indicators for each of the 16 priority sectors. A review of the 17 sector notes prepared for the CS (or 18 if the Fiduciary note is included) revealed little coordination in their preparation - as confirmed through interviews with Bank staff. Indeed, the priority sectors in the CS mirrored the Bank's sector divisions (Table A.4), which tend to work in silos.[12]

## B. Relevance of the implemented program

To remain relevant in a changing context, in the mid-2000s the Bank began to adapt its program to engage new clients with new instruments. Positive economic developments and regulatory changes in the early 2000s led the federal government to reduce its borrowing from multilateral financial institutions.[13] The GOB asked the Bank to support the process of decentralization, which had started with the 1988 Federal Constitution and was strengthened with the LRF in 2000. In other countries in which the Bank works with sub-national governments, lending is often facilitated through fiscal transfers from the central government.[14] The Brazilian Constitution allows sub-national governments to borrow directly from the Bank, and the Bank thus began to lend to state and municipal governments. The Bank also increased its lending to BNDES and the private sector: during 2007-2010, lending to subnational governments, BNDES and the private sector reached 53%, 32% and 13% of total lending to Brazil, respectively (Table A.5).

The Bank also created new instruments, in particular three "umbrella" programs (Box 2.1), to help respond to some of the needs of the new subnational clients.[15] Three investment lending programs –PROCIDADES, PROFISCO and PRODETUR– were unique to Brazil and were intended to streamline project preparation and promote decentralization of program management to local entities and the country office. PROCONFIS was developed later and was a series of policy-based loans (PBLs) to address fiscal issues at the state level.[16] During 2007-2010 about a third of the lending to subnational governments was done through umbrella operations and PROCONFIS.

The Bank continued to be an important source of international financing to Brazil in the most recent strategy period, and the approved program was comparable in size to that of 2007-2010. Between January 2011 and December 2014, the Bank approved 175 operations (loans, guarantees and grants) totaling US$10.45 billion (a level comparable to that of the preceding four years, when the Bank approved 206 operations for US$10.16 billion).[17] Lending was channeled through sovereign-guaranteed (SG) investment loans (74% in value), PBLs to states (20%), and NSG investments (6%). US$90.8 million in grants was approved during the period, an increase over the US$78.5 million approved during 2007-2010 (Tables A.5 and A.6).

### Box. 2.1 Umbrella programs

PROCIDADES is a conditional credit line for investment projects (CCLIP)[a] for US$800 million approved by the Bank in 2006 (BR-L1043) to lend up to US$50 million each to intermediate-sized municipalities to finance urban development and/or municipal strengthening activities that are part of a municipal development plan. It required counterpart resources equal to 50% of the total amount of the project.

PROFISCO is a CCLIP for US$500 million approved by the Bank in 2008 (BR-X1005) to lend up to US$50 million to individual states to help them achieve and maintain their fiscal targets established in the Program to Support State-level Fiscal Restructuring and Adjustment by improving their tax and expenditure systems. It lends continuity to the National Fiscal Administration Program for the Brazilian States (PNAFE) financed by the Bank in 1999, aimed at enhancing municipal public management and transparency. In May 2013, the Bank approved an additional US$200 million for the CCLIP.

PRODETUR is a CCLIP for US$1 billion approved by the Bank in 2008 (BR-X1008) to support the achievement of the objectives set up in the National Tourism Plan for 2007-2070, in a context of important tourism growth. It envisioned lending of up to US$150 million to the federal and individual state governments to finance tourism operations in municipalities with more than 1 million inhabitants.

[a] The CCLIP (GN-2246-1), provides a credit line to finance similar projects through individual investment loans where: (i) there is a good track record of similar previous Bank-financed operations in a given country and sector, or (ii) the borrower/executing agency can demonstrate a solid institutional and financial track record and has successfully executed projects of a similar scope and nature. The processing and authorization of the line of credit is similar to that of investment operations, but the individual projects follow a streamlined process of approval. In 2006, the CLIPP lending instrument was modified to allow its use for subnational governments (GN-2246-4).

Since Brazil repaid part of its World Bank debt in 2006, the IDB has become its largest multilateral lender (in terms of debt stock). Bank disbursements to Brazil during 2010-2013 represented 4.3% of federal public investment and 9.3% of federal investments under the *Programa de Aceleração do Crescimento* (Growth Acceleration Program).[18] Brazil's outstanding debt to the Bank as of December 2014 equals 0.7% of its GDP. Brazil has the highest volume of annual loan and grant approvals, disbursements, and loan balances of any Bank client and consistently ranks as the major source of income (interest and fees) for the Bank (Figure A.11).

The Bank continued to adapt its lending patterns during the period. While the proportion of federal and municipal lending remained approximately the same in 2011-14 as in the previous period, lending to the states increased and lending to BNDES and the private sector declined (Table 2.1, Figure 2.1, and Tables A.5 and A.6). Lending to the federal government supported the rehabilitation and modernization of power plants that carry more than 40% of the total power consumed in the country. Lending to municipal governments addressed challenges posed by social concerns and the rapid pace of urbanization. Lending to states reached 79% of total lending (compared to 44.4% in the previous period), mainly because of an increase in PBLs (through PROCONFIS) and investments in the transport, health and education sectors. Lending to BNDES stopped and lending to other development banks (CAIXA and Banco do Nordeste) fell, in part to make space for lending to subnational governments. Lending to the private sector shifted away from project finance, in part because BNDES expanded to become a major player in project finance for the private sector as a result of GOB countercyclical policies. The Bank found a market niche in trade finance, where there was high demand for its hard currency/long tenor loans.

Table 2.1 Distribution of the 2001-2014 program by CS strategic objective, sector and type of recipient

| *CS Objetive* | *IDB priority sector* | | | | | | | | | | *Total* | *%* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Federal* | | *States* | | *Munipal* | | *Development Banks* | | *Federal* | | | |
| **1- Social and productive inclusión** | **10** | **0.10%** | **1,092** | **10.40%** | **212.5** | **2.00%** | **0** | **0.00%** | **3** | **0.00%** | **1,318** | **12.50%** |
| 1.1. Social Protection | 10 | 0.10% | 170 | 1.60% | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% | 180 | 1.70% |
| 1.2. Health | | | 570 | 5.50% | 101.7 | 1.00% | 0 | 0.00% | 0 | 0.00% | 672 | 6.50% |
| 1.3. Education | | | 352 | 3.40% | 110.9 | 1.10% | 0 | 0.00% | 3 | 0.00% | 463 | 4.50% |
| 1.4. Labor Market | | | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% |
| **2- Infraestructure** | **178.7** | **1.70%** | **4,305.4** | **41.20%** | **491.9** | **4.70%** | **0** | **0.00%** | **35** | **0,30%** | **5,011** | **47.90%** |
| 2.1. Transport | 50 | 0.50% | 2,958.9 | 28.30% | 241.9 | 2.30% | 0 | 0.00% | 0 | 0.00% | 3,251 | 31.10% |
| 2.2. Water and sanitation | | 0.00% | 1,127.3 | 10.80% | 250 | 2.40% | 0 | 0.00% | 0 | 0.00% | 1,377 | 13.20% |
| 2.3. Energy | 128.7 | 1.20% | 219.2 | 2.10% | 0 | 0.00% | 0 | 0.00% | 35 | 0.30% | 383 | 3.60% |
| **3- Sustainable cities** | **0** | **0.00%** | **459.7** | **4.40%** | **191.8** | **1.80%** | **0** | **0.00%** | **0** | **0.00%** | **652** | **6.20%** |
| 3.1. Urban development | | | 216.5 | 2.10% | 191.8 | 1.80% | 0 | 0.00% | 0 | 0.00% | 408 | 3.90% |
| 3.1.1. PROCIDADES | | | 0 | 0.00% | 191.8 | 1.80% | 0 | 0.00% | 0 | 0.00% | 192 | 1.80% |
| 3.1.2. Other | | | 216.5 | 2.10% | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% | 217 | 2.10% |
| 3.2. Citizen security | | | 243.2 | 2.30% | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% | 243 | 2.30% |
| **4- Institucional capacity of public entities** | **183** | **1.80%** | **2,126.6** | **20.30%** | **0** | **0.00%** | **0** | **0.00%** | **0** | **0.00%** | **2,310** | **22.10%** |
| 4.1. Public management | 33 | 0.30% | 50 | 0.50% | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% | 83 | 0.80% |
| 4.2. Fiscal management | 150 | 1.40% | 2,076.6 | 19.90% | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% | 2,227 | 21.30% |
| 4.2.1. PROFISCO | | | 242.6 | 2.30% | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% | 243 | 2.30% |
| 4.2.2. PROCONFIS | | | 1,834 | 17.50% | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% | 1,834 | 17.50% |
| 4.2.3. Other | 150 | 1.40% | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% | 150 | 1.40% |
| **5- Natural resources and climate change** | **0** | **0.00%** | **72** | **0.70%** | **0** | **0.00%** | **0** | **0.00%** | **150** | **1.40%** | **222** | **2.10%** |
| **6- Development through private sector** | **0** | **0.00%** | **208.2** | **2.00%** | **0** | **0.00%** | **150** | **1.40%** | **581.7** | **5.60%** | **940** | **9.00%** |
| 6.1. Productive and Capital Market Development | | | 0 | 0.00% | 0 | 0.00% | 150 | 1.40% | 581.7 | 5.60% | 732 | 7.00% |
| 6.2. Science, Technology and Innovation | | | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% |
| 6.3. Tourism | | | 208.2 | 2.00% | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% | 208 | 2.00% |
| 6.3.1. PRODETUR | | | 208.2 | 2.00% | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% | 208 | 2.00% |
| **SUBTOTAL** | **371.7** | **3.60%** | **8,263.90** | **79.10%** | **896.2** | **8,60%** | **150** | **1.40%** | **769.7** | **7.40%** | **10,452** | **100.00%** |

The Bank's private sector lending has been inhibited also by slow progress in the development of public-private partnerships (PPPs). Potentially, the bulk of Bank lending to the private sector should have materialized through PPP projects at the subnational level in support of health, education, transportation, an d urban development (Filho et al. 2015). Although the country had updated its legal framework for PPPs, there are still obstacles to their use, including regulatory uncertainties, the absence of suitable guarantee mechanisms, inadequate risk assessment and allocation capacity, limited instruments in local currency, weak conflict resolution mechanisms, and the low capacity of state PPP units to generate projects and deal with the complex financial assessment of projects (Senko and Queiroz 2013, Queiroz, Astesiano and Serebrisky 2014).

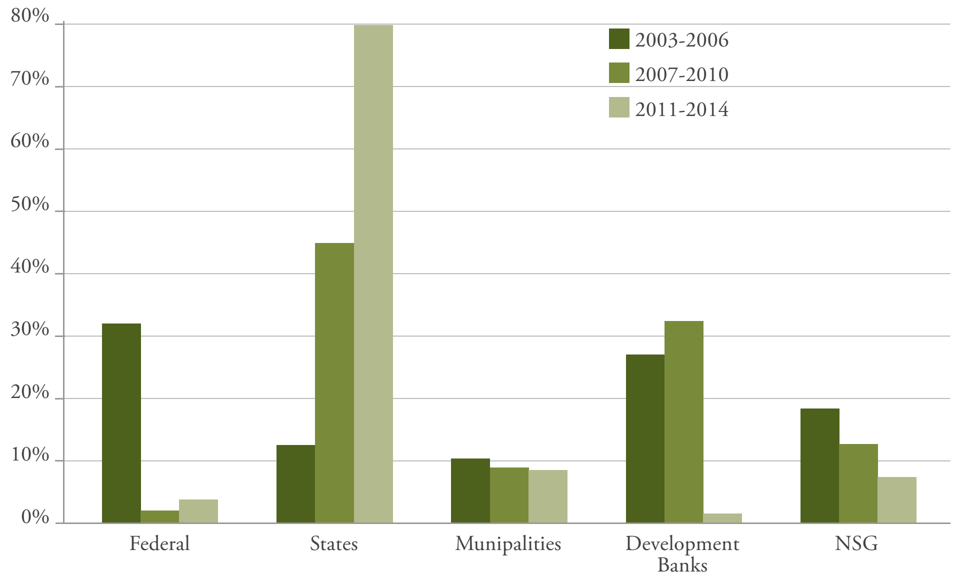



**Figure 2.1**

**Evolution of Bank lending in Brazil since 2003, by type of borrower (% of total lending)**

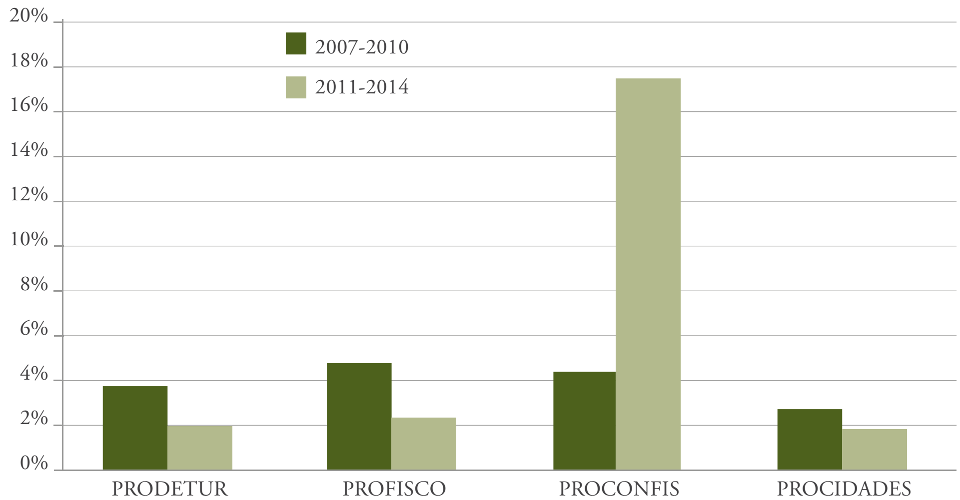
*Source:* OVEDA

The use of umbrella-type operations also declined during 2011-14, while it increased for PROCONFIS (Figure 2.2 and Table A.5). Although demand for PRODETUR projects continues to be high (the Bank has received 11 requests for new PRODETUR projects), lending under this modality has stopped because of serious implementation challenges. Among other things, cost, counterpart requirements and project size considerations (Box 2.1) led to the eventual cessation of lending under PROCIDADES. Bank support for fiscal management at the state level (PROFISCO) decreased because most states had already entered into PROFISCO-type operations before the current strategy, but the program remained highly relevant. Many states believe that more work is needed in this area to improve the quality and transparency of public spending. PBL lending to the states through PROCONFIS increased, in response to the worsening fiscal scenario and the need to improve the fiscal management of states.

**Figure 2.2**

**Evolution of Bank lending in Brazil since 2007, by type of umbrella operation and PROCONFIS (% of total lending)**

*Source:* OVEDA

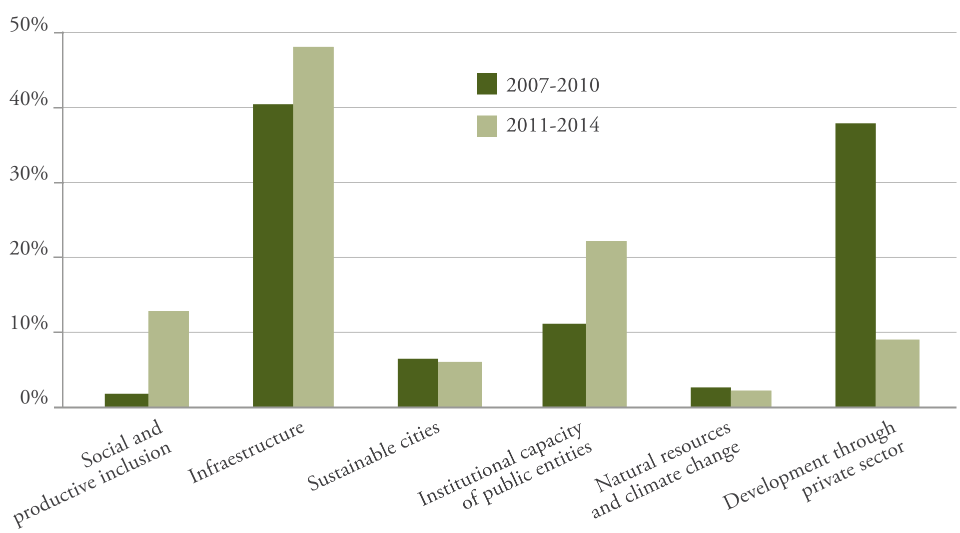



In terms of sectors, the Bank's program during 2011-14 focused on infrastructure and fiscal/institutional issues. Relying on a substantial investment in technical cooperation (TC) and dialogue, the Bank was also able to engage states and municipalities in the health and education sectors (Table 2.1 and Figure 2.3). Infrastructure projects at the state level remained a core area of work. The bulk of the Bank's infrastructure lending went for transport projects (65%) and almost a third (27%) went to water and sanitation. While energy lending accounted for only 8% of infrastructure approvals, it was directed to highly strategic projects. Most infrastructure lending (78%) went to states in the south and southeast regions, though 22% went to the poorest states of the north and northeast in line with the CS intent and country needs. After years in which the Bank was practically absent from the health and education areas, five health projects (for US$676 million) and five education projects (for US$462 million) were approved.

**Figure 2.3**

**Evolution of Bank lending in Brazil by CS strategic objective**

*Source:* OVEDA



Though policy lending to states was relevant, it was not of equal financial importance in all states. Between November 2012 and December 2013, the Bank approved six multi-tranche fiscal PBLs (PROCONFIS) totaling US$1.83 billion –one each to the states of Algaoas, Bahía and Pernambuco in the northeast and Amazonas in the north, and two to the southern state of Rio Grande do Sul. PBL lending supported improvements in fiscal management and reforms in transport, water and sanitation, and citizen security. The PBLs were also financially relevant in Rio Grande do Sul and Alagoas, which are among the most indebted states in the country. However, it was not clear that the states of Amazonas, Bahía and Pernambuco were facing any pressing fiscal situation (Box A.1).

Although demand for lending to address climate change was not as strong as initially expected, the Bank substantially increased its support, particularly through TC. The Bank approved two loans for US$222 million to support forest resources management in the states of Acre and Pará and 17 grants for US$60.2 million to support a broad array of relevant topics, including climate change mitigation strategies. In fact, the natural resources and climate change pillar received two-thirds of total grants during the period (Figure 2.4 and Table A. 6). In part because of the Bank's high safeguard standards, Brazilian financial institutions shied away from renewable energy and energy efficiency projects.[19]

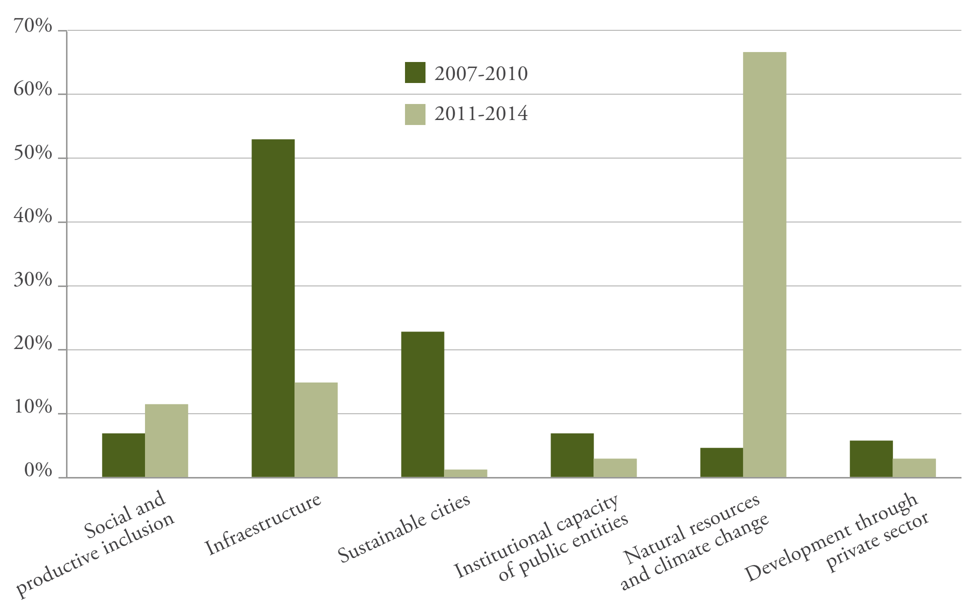



**Figure 2.4**

**Evolution of grant approvals in Brazil, by CS strategic objective**

*Source:* OVEDA

As the CS envisioned and in line with country needs, the program increased its focus on the poorest regions of the country. Though more than half of the lending during the period went to higher income states in the south and southeast, lending in the north and northeast almost doubled, accounting for 12% and 26% of Bank lending to Brazil, respectively, in the last four years compared with 6% and 14% during

The *Brasil sem Miseria Plan* called for the respect of gender, racial, and ethnic diversity, and about one-fifth of SG loans included gender- and race-specific indicators in their results matrices, an improvement over previous periods but still far from the original CS goal of 100%.

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2007-2010 (Table A.7) –continuing the trend that began in 1999 crisis, and this trend intensified in the latest strategy period (Figure A.12). Lending in the social sectors, in particular, also focused on poorer states.

The program made some efforts to include gender and diversity as a cross-cutting issue. The *Brasil sem Miseria Plan* called for the respect of gender, racial, and ethnic diversity, and about one-fifth of SG loans included gender- and race-specific indicators in their results matrices, an improvement over previous periods but still far from the original CS goal of 100%.[20]

## C. Performance of the investment loan portfolio

Bank performance highlights the challenges of shifting lending from federal to subnational governments. The overall preparation times (from start date to Bank approval) for Bank investment projects in Brazil remained constant and above the Bank's average, and preparation (from start date to Bank approval) and execution costs (costs after approval) increased when compared with the previous strategy period, though these averages hide important nuances across borrowers and instruments. The combined time between start to eligibility remained around 40 months in Brazil, while the Bank's average decreased slightly to just above 30 months (Table A.8). The lengthier preparation time is in part explained by the meticulous federal review process to which Bank borrowers (subnational governments) are subjected before approval.[21] Average preparation and execution costs per US$ million approved increased from US$2,002 and US$3,566, respectively, to US$2,477 and US$6,160, still above Bank averages, which also increased since 2010 (Table A.8). These longer periods and higher costs are not surprising given the greater complexities of dealing at the subnational level. To put things in perspective, it should be noted that some of the states borrowing from the Bank in Brazil have characteristics more similar to C and D countries (using the HDI) than to A countries (Figure A.13), and the cost of Brazil's portfolio compares favorably with costs in B, C and D countries (Table A.7).

One major driver of project preparation and execution costs was new clients' lack of previous experience with the Bank. As borrowers gain experience working with the Bank or any multinational development bank (MDB), they become more proficient in dealing with the Bank's procurement and financial requirements and the GOB's internal preparation processes. Indeed, preparation costs declined by half for repeat customers (Figure A.14).

Another important driver of project preparation and execution costs was the relatively weaker institutional capacity of the Bank's newer borrowers. Many new subnational borrowers were institutionally weaker (Figures A.13 and A.15) and tended to have more difficulty dealing with Bank processes (as GOB and Bank staff corroborated). OVE found a statistically significant negative relationship between execution costs and institutional capacity in municipal projects (Figure A.16).[22] Loans to lower capacity municipalities had average execution costs of about US$41,000 per US$ million disbursed, more than seven times the costs of loans to the highest capacity municipalities. This factor seems to have particularly affected PRODETUR projects, whose executing agencies (*Secretarias de Turismo* of the states) tended to have difficulty promoting the necessary interagency coordination (Table A.9).

The use of umbrella-type operations did not counterbalance the expected higher costs of dealing with institutionally weaker and less experienced subnational governments. To compensate for the expected higher costs of dealing with subnational governments, the Bank used CCLIPs in an effort to streamline project preparation and approval, and decentralized execution to the country office (Box 2.1). However, preparation times and costs and execution costs were worse for the three programs that used CCLIPs as compared to non-umbrella-type state and municipal borrowers (Table A.9). In fact, overall preparation times increased from the previous period's 26 months for PROFISCO, 39 months for PRODETUR and 47 months for PROCIDAES to 47, 62 and 63 months respectively (Table A.9). Average preparation times for other state and municipal borrowers declined from

44 months to 31 months and from 50 months to 35 months, respectively, over the period. PRODETUR and PROFISCO preparation and execution costs doubled during the period and were, at least, twice as large as the average of those of other non-umbrella-type operation for states. PROCIDADES preparation and execution costs increased by 24% and 485% respectively, and were, respectively, more than 2 and 7.5 times higher than those of other municipal loans. The mitigating measures the Bank adopted appear to have been insufficient to overcome the challenges arising from lower experience in working with the Bank and from the weaker institutional capacity of umbrella-type clients.[23]

Another major driver of higher lending and execution costs has been the end of credit lines with BNDES. These lines, which are very low cost for the Bank, represented almost one-third of the amounts approved and disbursed during the previous period, but they ended thereafter (Table A.9).

## D. Use of country systems

The number of Bank–financed operations that use country systems increased markedly over the period, but not all the intended objectives have been met. At the beginning of the period, only 1% of Bank-financed operations used the country's accounting and reporting system (SIAFI), 29% used external audit offices *(Tribunais de Contas)*, 70% used ComprasNet or other electronic auction systems for procurement of good and services and 100% for information, and none used national legislation to contract works and consulting services. By the end of the period, 100% of the Bank's operations used the budgeting, treasury and accounting and reports modules of SIAFI, and 40% used Brazilian external auditors. The Bank has validated 13 of Brazil's 34 *Tribunais de Contas* of Brazil (the 13 are part of the 17 that serve the Bank's main portfolio) to perform project audits. Of Bank-financed operations, 78% use ComprasNet, and 35% use national legislation to contract work and consulting services (a substantial increase since the beginning of the period but short of the 50% goal). GOB and Bank staff are confident that 75% of operations could be using the *Tribunais de Contas* at the end of the next CS.

## E. Coordination with other development partners

The Bank has collaborated closely with some development partners, particularly with the World Bank in PBL lending to the states. External financing for Brazil's public sector is coordinated by the Ministry of Planning, Budget and Management. While the Bank's portfolio covers virtually all sectors in the country, the World Bank (WB) focuses on fewer sectors (transport, agriculture, environment) and the Corporación Andina de Fomento on municipal urban development, commerce and services. IDB and the World Bank have approved PBLs in the same states, though not at the same time.[24] The Bank has focused its PBLs mainly on fiscal issues, while the WB has also supported social sectors, and both have made efforts to complement each other. In Rio Grande do Sul, the WB came in to support similar actions in water resource management. In Amazonas the WB complemented Bank support with policy measures in the area of citizen security. The Bank also worked closely with *L'Agence Française de Développement* for the promotion of renewable energy,[25] to which the Bank contributed with two TCs.

3

IDB's SG lending to the tourism sector through PRODETUR is facing major implementation problems; despite high demand, lending has virtually stopped.

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# 3 Program Effectiveness

**OVE analyzed program effectiveness against the Bank's strategic objectives (Table 2.1). For the six CS strategic objectives, the Bank identified 16 priority sectors and 43 specific goals. Objectives for each of the 16 priority sectors were generally clearly stated in the strategy and had measurable indicators with baselines and aspirational targets. However, there was limited monitoring of these indicators during the strategy period.**

Given the very large portfolio in Brazil, OVE decided to focus on a sample of sectors and operations to analyze program effectiveness. The sample (Table A.10) was drawn from a universe of all operations approved between 2011 and 2014 plus all operations approved after 2007 that disbursed 70% during the strategy period. This amounted to US$16 billion in total loan value distributed across 147 projects. OVE's sample includes two-thirds (62%) of the loans (91) representing 72% of the amounts approved (US$11.6 billion). The proportion of lending amounts and numbers of projects are similar for each of the CS objectives, priority sectors, and type of borrower and umbrella-type modality (Table A.11). The sample was selected also to reflect Brazil's regional diversity and to include operations of particular significance to the sector or program. It includes 60 investment loans (US$8.5 billion; 15 approved during the evaluation period), 7 PBLs (US$2.2 billion; 6 approved between 2011 and 2014), 22 private sector investments (US$753 million; 20 approved during the evaluation period), 1 private sector guarantee, and one investment grant. In addition, OVE analyzed 23 TCs totaling US$32.7 million and focusing on social protection, education, and climate change (Table A. 12). The conclusions of this chapter relate to this sample of projects.

The average ex ante evaluability of the portfolio increased markedly over the period; however, because of the inclusion of older projects the average quality of result matrices and monitoring and evaluation (M&E) of the reviewed portfolio was still quite low, and this made measuring effectiveness difficult. The average Development Effectiveness Matrix score for the portfolio went from 5.9 for the operations approved during 2008-2010 to 8.45 for those approved during 2011-2014, though only about one-half of the projects in the sample had good results matrices and M&E arrangements.

## A. Social and productive inclusion[26]

### 1. Social protection

a) **Raise revenue levels and modernize tax administration**
b) **Improve the management and efficiency of public expenditure**

**Strategic objectives of the CS.** To address social protection challenges, the CS proposed to (i) strengthen the Social Welfare Referral Centers (CRAS) responsible for organizing and offering basic social services in vulnerable municipal areas and expand their coverage, (ii) reduce disparities in the quality of services supplied in the Single System of Social Assistance (*Sistema Único de Assistência Social* or SUAS),[27] and (iii) support the implementation of social inclusion programs for young people and adolescents.

Bank support was consistent with the CS and development needs, focusing on strengthening the infrastructure and institutions for managing youth and social policies and programs. The Bank approved three new projects[28] and continued to implement two social inclusion operations in Ceará approved in 2009.[29] The Bank's emphasis on the social inclusion of youth in the northeast is very consistent with the region's crime issues. The project for the municipality of Fortaleza (2207/OC-BR) led to the construction of three of the four planned Urban Cultural, Arts, Science and Sports Centers (CUCAs) that provide youth with extra-curricular activities and training and provided capacity building for the executing agency.[30] The project for the state of Ceará (2030/OC-BR), supports the development of a strategic plan for socio-educational services, helps consolidate participatory plans for early childhood and youth development in more than 60 municipalities, and provides support to the executing agency and for the development of a new supervision process for social work in the state municipalities. Finally, a TC (ATN/OC-11850-BR, approved in 2009 and disbursed during the period) aimed to strengthen Brazil's SUAS by developing a protocol and standards for coordinating and managing the country's CRAS, and by supporting homogeneous access to social services in the country.

**Main results.** There has not been evidence of progress toward the intended objectives. The three projects approved during the period have a very low level of disbursement, in part because of delays in the eligibility process and/or changes in the executing agencies. The two projects approved in 2009 have progressed adequately. CUCA's are widely used by the youth, and PROARES has high name recognition and reputation.

However, because the relationship between the projects' activities and expected outcomes (reduction of malnutrition, school dropout rates, drug abuse, delinquency, recidivism, teenage pregnancy, etc.) is not clear and the executing agencies lack the capacity to properly monitor and evaluate, the achievement of the expected results is uncertain. The Bank is aware of this situation and is exploring with the executing agencies the possibility of undertaking impact evaluations.[31] The TC approved to strengthen the SUAS (ATN/OC-11850-BR) did not contribute to the improvement of the CRAS service.[32]

## 2. Health

**Strategic objectives of the CS.** To address health challenges, the CS proposed to focus Bank lending on (i) expanding the supply of skilled prevention and care services for chronic-degenerative diseases; (ii) improving the coverage and quality of mother-child services, and reducing child mortality, while also reducing regional differences; and (iii) adapting the regulatory framework governing PPPs to the reality of the sector, to make it possible to finance an expansion of the health care suppliers.

Bank support has focused on the subnational level and has been geared toward improving access to and quality of service and the institutional capacity of health systems. During the period, the Bank substantially increased its presence in the sector by approving five projects at the state and municipal levels.[33] Also, the Bank implemented a health project for the northeast state of Ceará (2137/OC-BR, approved in 2009 for US$77 million, 99% disbursed). Only one of the projects approved during the period (2586/OC-BR for São Bernardo) had substantial level of disbursements.

**Main results.** The Bank succeeded in positioning itself as a valuable partner in the sector after being practically absent during the previous period. Progress has been achieved in the state of Ceará and the municipality of São Bernardo dos Campos. Disbursements for the São Paulo, Bahía and Sergipe projects are too low to judge effectiveness. Building on TCs, the Bank went from approving one project during the previous period to approving five and was able to obtain some tangible results. The Ceará project (2137/OC-BR) extended access to health services to about 100 municipalities, mainly in rural and less developed regions. It financed the construction of 2 hospitals, 20 ambulatory medical centers, and 16 regional centers specialized in dental services, and refurbished 20 intensive care units. It also improved the quality of health services by training staff, certifying health centers and aiding the integration of the different levels of care (e.g., creating health consortia in each region to organize patient transportation and manage health units), and reducing wait time in accessing specialized health care (from 90 to 30 days). It helped decrease the neonatal mortality rate in one of the state's macro-regions, though the goal related to reducing the maternal mortality rate will not be achieved.[34] The São Bernardo dos Campos project (2586/OC-BR) supported the institutional capacity of the municipality, established

Bank standards in the execution of its projects, and advanced the coverage of basic health care, and training of community health care workers. It has already achieved its objectives as measured by the project indicators.

The Bank's value added in the municipal loans seemed to have been mostly financial so far. The municipality of São Bernardo is an example of good practice in health care in the country. Since 1997, with the adoption of family health program in the municipality, the focus on basic health care has increased, and during the last decade the municipality has developed a clear plan for the health sector and has the necessary institutional capacity to develop projects in the sector (Dos Santos and Fracolli 2012). Bank support was well integrated with the municipality's plan, providing São Bernardo the necessary resources to expand the infrastructure for basic health care. Similarly, the state of Ceará has given great emphasis to basic health care. In the 1990, it was among the first states to embrace the family health program that was used as reference for the development of the national program. The state has improved several health indicators, such as maternal and infant mortality. The IDB loan aimed at expanding the infrastructure for secondary and tertiary health care, as well as supporting the state in enhancing the capacity of the *secretaria de saúde,* which was a relevant part of the loan. These two experiences may help the Bank add more value in current and future health interventions.

### 3. Education

**Strategic objectives of the CS.** Having been basically absent from the education sector during previous years, the CS main objective was to reposition the Bank as a valuable partner in the sector. Before this period, the Bank had approved its last loan for the education sector in the late 1990s. In the context of the Brazil National Education Plan 2012-2022, the Ministry of Education encouraged the Bank to work with subnational governments. In this context, the CS proposed to work on raising the quality of basic education, expanding the coverage of early childhood and secondary school education, and developing young people's job-related skills, which was in line with the development challenges of the sector.

**Main results.** As in the health sector, the Bank succeeded in positioning itself as a valuable partner in the education sector, with a focus on the north and on opening technical dialogue with the states, civil society, and the private sector to promote the use of PPPs in education. The Bank has also emphasized the evaluability of its interventions in this sector. Over the evaluation period, the Bank approved two state-level investment loans[35] and two municipal-level investment projects,[36] mostly aiming to expand the coverage and improve the quality of early childhood and basic education.[37] Grant resources were also used to improve São Paulo's high school math tutoring programs and the quality of early childhood education in Rio de Janeiro favelas, and to help develop new national educational practices and policies for greater quality and equity in primary and secondary education. In addition, the Bank is supporting the dialogue to promote PPP investments for the construction and non-pedagogical operation (building maintenance, security, cleaning, environmental and real estate sustainability, etc.) of municipal elementary and infant schools. Because of the low level of disbursements in the projects, OVE could not assess results. Nevertheless, OVE was able to corroborate IDB's important efforts to evaluate its interventions: all approved projects have collected (or are in the process of collecting) baselines to perform experimental impact evaluations.

The Bank's TC has been instrumental in opening dialogue with national and subnational governments; though of good quality it has not been fully used. In 2008, the Bank approved two TCs that disbursed and closed during the evaluation period. While they generated methodologies to identify best practices in secondary education and collect data on infant and secondary education, the beneficiary agencies barely used them. The ATN/OC-11248-BR (closed in 2013) evaluated the factors associated with good educational results in secondary schools in four states. As planned, the typology and mapping of education results were published but the designed methodology was not used to support the preparation of the *Plano de Metas de Melhoria da Qualidade da Educação Básica* or federal policies and programs for secondary education.[38] Likewise, the ATN/OC-11259 (closed in 2011) developed a new design to evaluate childhood education in Brazil and to monitor the implementation of the *Plan Nacional da Educação.* Although the study was supposed to be an important input for education policy in Brazil, it has not been used at federal or state level. However, the Loan 3079/OC-BR was approved in 2013 for Florianopolis (state capital of Santa Catarina) with the main objective of developing a similar monitoring system for early childhood education.

## B. Infrastructure

**Strategic objectives of the CS.** To respond to the sector's challenges, the CS focused on the expansion and maintenance of highways, logistic infrastructure, road safety, urban transportation, coverage of sanitary sewage services and drainage in urban areas, and construction and maintenance of power plants and upgrading of energy distribution systems. During the period, the Bank approved 22 loans and 16 grants totaling US$5 billion. The 10 approved transport projects accounted for approximately 65% of the total (US$3.2 billion), the 8 water and sanitation operations for 27% (US$1.4 billion), and the 4 energy operations for 8% (US$0.4 billion). The bulk of the lending (85%) was for operations in states,[39] followed by the national level (9%), municipalities (5%), and the private sector (5%, 1 loan).

Bank assistance for transport has been consistent with the CS and Brazil's development needs by supporting improved access to services, road safety, modernization of the road network, logistics and mass transit (though little in rail or water transport). Three projects supported the improvement of freight and logistics infrastructure and the reduction of network disruption in the states of Ceará and Santa Catarina.[40] In the state of São Paulo one road project supported the construction of the last section of the beltway of the city of São Paulo[41] (to reduce congestion and pollution in the downtown area), and two others financed the rehabilitation and expansion of 1,300 km of highways to reduce logistics costs and travel times and improve road safety.[42] The Bank also approved three urban transportation loans for the cities of Blumenau (Santa Catarina), Fortaleza (Ceará), and São Bernardo do Campo (São Paulo).[43] These projects included a number of activities such as the expansion and improvements of integrated urban transport systems, introduction of bus rapid transit systems, highway improvement, traffic safety management measures, and facilities for non-motorized transport. Bank' support to the diversification of the transport modal matrix was restricted to only one operation to strengthen rail transport management through the analysis of the needs of the sector, the development of a new strategy, and training activities.[44] Finally, a loan approved in 2014 transferred US$150 million[45] to the Development Bank of Minas Gerais to respond to the state municipalities demand for infrastructure projects,[46] mostly for road paving.

The Bank supported improving and extending water and sanitation systems in urban areas, but support for institutional strengthening was limited. The Bank approved a total of eight water and sanitation projects: five projects for the municipalities of Belem (Pará), Joinville (Santa Catarina), Manaus (Amazonas, two projects), and Belo Horizonte (Minas Gerais), 2 for the states of Rio de Janeiro and Pernambuco and one for the Federal District. These projects financed a variety of activities: rehabilitation and/or expansion of drainage, water supply, and wastewater collection systems; protection of the environment; upgrade of sewage systems; support to municipal sanitation plans and the relocation of the populations at risk, regularization of property ownership; and some limited institutional strengthening activities.[47]

Bank assistance in energy was mostly focused on power plant facilities in the south. The Bank approved three energy projects for the south and southeast regions. Two supported the expansion and improvement of power plant facilities and transmission systems in Rio Grande do Sul,[48] and a third financed the restoration of electric power generation in Minas Gerais through the modernization of power plants.[49] All the projects aimed to promote energy efficiency and reduction in the generation of greenhouse gas emissions. Finally, a NSG loan to the Delba Drilling International Co. financed the construction and operation of an off-shore mobile oil-drilling vessel.[50]

**Main results.** Progress has been achieved in the transportation and the water and sanitation sectors, but disbursements for two of the three energy projects in the sample reviewed by OVE are too low to judge effectiveness. On the basis of the 11 projects assessed (Table A.10), OVE observed that the transportation projects have helped small municipalities with low HDI to strengthen the management of their logistics infrastructure, improve pavement conditions, and deal with transit issues and road network disruptions. This, in turn, increased access to health centers, especially in rural areas, and helped to reduce emissions and improve road safety.[51] The Bank was instrumental in providing needed technical expertise in various transport projects.

In many the executing agencies praised the institutional strengthening components of the Bank's loans, which provided management units, tools, methodologies and processes that were eventually used in other non-Bank-financed projects. The urban transport projects, which assisted with the purchase of trains and the modernization of traffic lights and other installations, led to greater use of mass transit, energy efficiency gains and emission reduction.[52] The six municipal water and sanitation projects reviewed are achieving most of their intended results. The 4 projects for the recovery of the Igarapés River (PROSAMIM) in Manaus (Amazonas) benefited around 14,000 families and prevented about 1.2 billion tons of waste from being emptied into the Igarapés River, which led to improved health conditions. The neighborhoods affected by the intervention are now being served with a sewerage network, something that was virtually unknown in Manaus.[53] Although the Porto Alegre water and sanitation project (1979/OC-BR) faced some problems in resettling the population and creating the environmental agency, it managed to relocate part of the intended population and finished the sewage treatment station. The Belo Horizonte (2962/OC-BR) water and sanitation project managed to resettle all the families from flood-prone areas into new housing, and helped install drainage systems and convert polluted spaces into public recreational areas. At the time of the evaluation, only one of the energy projects in the sample (FURNAS)[54] had progressed enough to assess results. All targets in this project have been met, and the power plant has been rehabilitated. The other two projects (2700/OC-BR, 42% disbursed and 2813/OC-BR, 6.3% disbursed) had delivered only some of their products. Project 2813/OC-BR abandoned the upgrade of the power generation system because of legal controversies over the tender; the activity was replaced by the construction of a new windfarm.

## C. Sustainable cities

### 1. Urban development

**Strategic objectives of the CS.** To address the challenges associated with the process of urbanization, the CS proposed to focus on: (i) the development of metropolitan areas, by implementing institutional and financial arrangements that encourage intergovernmental collaboration; (ii) medium-sized cities, through integrated urban development actions and the consolidation and dissemination of an improved methodology for the design and implementation of projects with environmental, urban, fiscal, and governance dimensions; and (iii) public and private programs to improve low-income neighborhoods, stressing the supply of services and generation of opportunities for local inhabitants, land regularization, and solution of the qualitative housing deficit.

Bank assistance was consistent with the CS objectives and country needs: it supported medium-sized cities through integrated urban development actions to improve low-income neighborhoods, stressing the supply of services and housing and institutional strengthening activities. The Bank helped the country address these issues with 22

Bank assistance was consistent with the CS objectives and country needs: it supported medium-sized cities through integrated urban development actions to improve low-income neighborhoods, stressing the supply of services and housing and institutional strengthening activities.

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PROCIDADES projects approved between 2007 and 2013[55] and 3 individual operations with municipalities (Fortaleza, Rio de Janeiro and São José dos Campos)[56] approved in 2009-2010 and implemented during the period under evaluation. The PROCIDADES projects aimed to finance activities under a preexisting urban development master plan contemplating various types of municipal infrastructure and institutional strengthening activities. Two of the three stand-alone urban development projects were also integrated urban development projects but had fewer activities and focused on a smaller geographic area. The São José dos Campos project was a PROCIDADES project in essence, but because of its size it was processed outside the PROCIDADES CCLIP (see Box. 2.1).

**Implementation challenges.** Urban development projects tended to disburse slowly for several reasons, including low institutional capacity and municipalities' lack of previous experience. As the financed activities were meant to be an integral part of the master plan rather than individual isolated investments, their success depended greatly on the quality of the plan and the capacity of the municipality to coordinate different intervening departments. The lack of previous experience in working with the Bank, the uneven quality of municipal plans, and the diverging levels of institutional capacity to deal with the complexity of the projects affected the pace of implementation. Of the 22 PROCIDADES projects, 5 have been completed, 2 had no disbursements during the period, and the rest are active.[57] Among the projects with some disbursements, more than half have disbursed less than 50%.[58] The remaining projects are at a mature stage, with an average of 81% disbursed on their approved amounts. The three stand-alone projects have had very low levels of disbursements (21%, 19% and 15%, respectively).

**Main results.** It is too soon to gauge results, but there have been some positive externalities and some important lessons learnt. All the PROCIDADES projects concluded and/or in a mature stage except Belford Roxo (the last part of which was canceled) have delivered or are expected to deliver the outputs. The effectiveness of these projects cannot be gauged, however, in part because the indicators selected to measure success (quality of life) are not easily measurable, and because many other components lack adequate indicators.[59] Two ongoing impact evaluations (Toledo and Campo Grande) are attempting to measure the effectiveness of PROCIDADES through increases in housing values. The authors claim positive results, but have not yet made their findings public. Furthermore, the analysis should be considered with caution, given the complexity of the treatment and the problems with the number of observations. The three stand-alone municipal projects have had low level of disbursements, and little can be said about their effectiveness.[60] Nevertheless, the Bank's presence helped municipalities promote good project implementation practices and adopt social and environmental safeguards. However, representatives of the executing agencies expressed the view that there had been little learning from other similar projects.

### 2. Citizen security

**Strategic objectives of the CS:** To address the challenges associated with citizen security, the CS proposed to (i) reduce violence and juvenile criminality through the design and implementation of a citizen security policy with crime and violence prevention programs; (ii) foster integration and coordination of the entities of the public security system and (iii) improve the efficiency of public security expenditure through the development of result-based, monitored and modernized decision-making systems.

The Bank responded to the citizen security challenges by approving, for the first time in Brazil, four loans for states in the south and southeast regions. During the period, four loans (US$ 243.2 million) and two TC (totaling US$0.5 million) were approved (during the previous period the Bank approved only a TC). The operations aimed to support the prevention of crime and recidivism by a number of plausible initiatives[61] in the States of Parana (3137/OC-BR, approved in December 2013 for US$67.2 million, 0% disbursed), Espirito Santo (3279/OC-BR, approved in September 2014 for US$56 million, 0% disbursed), Rio Grande do Sul (3241/OC-BR, approved in July 2014 for US$50 million, 20% disbursed) and Minas Gerais (3399/OC-BR, approved in December 2014 for US$70 million, 0% disbursed).

**Main results.** Since all projects were recently approved and are yet to be signed, it is too early to assess their effectiveness.

## D. Institutional capacity

### 1. Public management

**Strategic objectives of the CS.** To address the public management challenges Brazil faces, especially in subnational governments, the CS proposed to focus on (i) the development of human resource, career, talent, and performance appraisal management systems; (ii) strategic planning initiatives, results-driven management and budgeting, monitoring and evaluation of public policies, development of internal and external audit systems, management of investment projects and expansion of social oversight; and (iii) the implementation of management models and tools that generate incentives to enhance public service delivery and make government actions more transparent.

Although no support was provided to the subnational level, Bank assistance was relevant by focusing on advancing results driven management and transparency at the federal level. No specific actions supported strengthening the civil service. Bank support has been only at the federal level and geared towards strengthening processes and systems to plan, budget and implement public investments, improve transparency in public management, and manage public assets. At the federal level, the Bank approved one project to support the prevention of corruption in public management (2919/OC-BR, for US$18 million, 12% disbursed) in 2013, and a project to support the management of public assets (2580/OC-BR for US$15 million, 11% disbursed) in 2011. During the period, the Bank also continued to implement a project approved in 2009 to help the federal government to improve its management systems and instruments (2192/OC-BR for US$28.6 million; 15.8% disbursed) and to support the legislative branch into developing an e-government approach (1864/OC-BR, INTERLEGIS approved in 2007 for US$6.3 million, 83% disbursed).

**Implementation challenges.** All the analyzed projects are experiencing long implementation delays. The lengthy preparation process rendered the initial design of the projects partially obsolete as the needs of the beneficiaries changed. Because the same internal processes made it difficult to update the projects, ownership was weakened and implementation suffered. In addition, for a project to support the management of public assets (2580/OC-BR), the initial weakness of the executing agency and the fragile political backing also delayed implementation. Once the institutional capacity of the *Secretaria do Patrimônio da União* was strengthened, however, the pace of disbursements picked up. Delays in the implementation of the federal management systems and instruments (2192/OC-BR) were also the results of the implementation agency's weak capacity to coordinate other participating secretaries. The INTERLEGIS project, although delayed, has disbursed 83% of its funding.

**Main results.** It is too soon to assess results, but some progress can be noted. The management of public assets project (2580/OC-BR) helped to develop methodologies and policies and visualization techniques, and has contributed to professionalizing the staff of the *Secretaria do Patrimônio da União* (SPU). The outputs delivered (policies, methodologies, and visualization aids) have increased the number, meaning and quality of interactions between different levels of governments on these issues. The INTERLEGIS project has improved the transparency of the legislative work of national, state, and municipal assemblies and the collaboration among them and with the citizenry. However, the original indicators were unrealistic and will not be met.

## 2. Fiscal management

**Strategic objectives of the CS.** The Bank sought to address subnational government fiscal management challenges by promoting (i) the reduction of institutional disparities between the country's tax administrations; (ii) cooperation and integration among tax administrations at the three government levels; (iii) sustainability of the fiscal balance; and (iv) improvement of tax education and citizenship programs.

Bank support was consistent with the CS and the country's development challenges by lending to states and municipalities to improve fiscal management and coordination and to stimulate sustainable fiscal balances. Through PROFISCO and PNAFM the Bank continued the work initiated by PNAFE[62] on fiscal management that also helped address issues of tax administration and coordination. PROCONFIS sought to help some states with fiscal management challenges. Since 2008, the Bank has approved 28 fiscal management investment loans (PROFISCOs) for US$678.2 million, of which 12 were approved in the period under evaluation (US$242.5 million).[63] The Bank has approved one project for each state (26), one for the Federal District, and one for the federal government. The PROFISCO projects were relatively homogeneous and included products related to revenue increase (merchandise transport surveillance, tax credit collections, register of taxpayers), cost reduction (national account modernization, audit and internal control), and services to taxpayers (training, taxpayer service provision model). During the period, the Bank also approved six PBLs for fiscal management (PROCONFIS) in the states of Alagoas, Amazonas, Bahía, Pernambuco, and Rio Grande do Sul (for US$1.8 billion) with different levels of fiscal need that supported other sectors (transport, water and sanitation and citizen security).

**Implementation challenges.** As is customary in institutional development projects with large information technology (IT) components, PROFISCO operations tended to disburse slowly. The 28 PROFISCO projects approved (US$678.2 million) have disbursed less than 50% (US$322.2 million, 90% of which was disbursed during the period under evaluation). Therefore, few projects made significant progress during the strategy period. Only one project (Minas Gerais, 2232/OC-BR, the only PROFISCO that was approved as a Performance-driven loan) closed, and two others (Mato Grosso do Sul, 2327/OC-BR and Pará, 2078/OC-BR) had disbursed at least 75% of the resources. The PROFISCOs' strong focus on IT, combined with long delays in project initiation, caused high rates of obsolescence in their technology components. Since the IT sector is subject to high rates of innovation, when there were delays the IT solution originally planned became obsolete and the project required modifications.

**Main results.** It is too early to assess results for the PROFISCO projects, but there have been some positive externalities, including the dissemination of experiences and best practices across states. Management's self-evaluation (BID and COGEF 2014) suggested that PROFISCO improved state finances, though the evidence should be treated carefully.[64] Probably because of the relatively standardized format of PROFISCO loans and the well-organized coordination and cooperation through the Finance Secretaries Commission and its working groups at the technical level, there have been many instances of cross-fertilization between the PROFISCO initiatives of different states.[65]

PROCONFIS has been most useful in setting the reform agenda in states with an intermediate level of fiscal need, though better results have been achieved in states with less need. PROCONFIS projects in states with an intermediate level of fiscal need (Amazonas, Bahia and Pernambuco) have exhibited the greatest policy depth in the reforms. In contrast, states with the most pressing fiscal needs (Rio Grande do Sul and Alagoas) have implemented projects with low policy depth and in sectors (irrigation, tourism) that are unlikely to contribute to the solution of fiscal problems. They have focused primarily on process-related outcomes, particularly in public sector management (appointment or training of personnel, creation of committees). Policy depth also tended to be higher in the areas of revenue policy and administration and current expenditure management (Box. A.2). Bank support has been instrumental in improving the regulatory conditions for public investment and PPPs.

## E. Natural resources management and climate change

**Strategic objectives.** To address the challenges Brazil faces in relation to the environment, the CS focused on (i) strengthening institutions and sector governance and planning, (ii) promoting nonfarm rural employment, agro-industrial diversification, and water resource management, and (iii) increasing climate change knowledge, and the participation of financial institutions in the supply of credit for investments in low-carbon projects.

Because of the overall low number of loan approvals, Bank lending responded only partially to the development challenges; however, the TC portfolio covered an ample number of pertinent issues. During the period, the Bank approved 2 loans and 17 grants for US$283 million. The first project (2928/OC-BR for US$72 million, approved in 2013, 12% disbursed) was the third phase of a program supporting the development of a forest-based economy in the state of Acre. The second (3308A/OC-BR for US$150 million, approved in 2014; 0% disbursed) supports the development, construction and operation of a new state-of-the-art eucalyptus/pine pulp mill and a 255MW biomass electricity generation facility. Over half of the energy generated is expected to be sold to the national grid in the state of Para, and the project is intended to contribute to the sustainable management of natural resources, climate change mitigation, and biodiversity. In addition, the Bank continued to implement two projects approved in 2010 for the states of São Paulo (2376/OC-BR, for US$162 million; 44% disbursed) and Tocantins (2438/OC-BR for US$99 million; 7.2% disbursed). The São Paulo project supports the sustainable use of natural resources and, the conservation and recuperation of a protected area.[66] The Tocantins project supports the development of irrigation and drainage infrastructure to improve the sustainability of rural productive systems in the state.

**Main results.** Given the low level of loan disbursements, results have been limited so far, but they are promising. The Bank's TC has supported institutional strengthening in the management of natural resources and increased knowledge on climate change. The change in government in Tocantins in 2011 and the state's fiscal crisis have delayed the implementation of project 2376/OC-BR. The new government (formed in early 2015) has resumed disbursements and liquidated the backlog and the project now appears to be on track. The São Paulo project (2376/OC-BR) took longer than expected to acquire the land and build the housing necessary to relocate approximately 7,000 families; however, approximately 4,500 families have been relocated already, and improvements in the water quality of the Cubatão river and increases of areas recuperated in the Serra do Mar Atlantic forest have been reported. The considerable number of TCs approved during the period covered diverse topics and, according to clients, supported the development and strengthening of natural resources management.[67] They helped finance, for example, the preparation of the Rio+20 Conference (ATN/OC-13199-BR), studies on forest management in the Amazon region (ATN/OC-14219-BR), environmental management and governance (ATN/FI-13368-BR, ATN/FM-13342-BR, and ATN/FM-14550-BR), compliance with international commitments (BR-T1308), adoption of technologies that reduce carbon emissions (ATN/DE-13768-BR), and adaptation in relation to droughts (ATN/MA-14640-BR).

## F. Development through the private sector

### 1. Productive and capital market development

**Strategic objectives.** To address the challenges of the sector, the CS proposed to focus on (i) working directly with public and private financial intermediaries to support MSMEs; (ii) supporting the government and private sector in stimulating long-term credit; (iii) helping the federal government strengthen its role of analysis, monitoring and evaluation of the productive development policy; and (iv) supporting the agenda for improving the business climate through localized diagnostics and projects to improve access to public goods and promote investments.

The Bank's intention to increase lending for real sector projects in Brazil did not materialize during the review period. In part because of a weak regulatory framework for PPPs, the Bank was not active in the real sector and shifted its focus toward lending to financial intermediaries. The Bank's approval of treasury operations in local currency may make IDB financing more attractive in the future.[68] The Bank has begun to help Brazil address some of the regulatory bottlenecks that affect PPPs in the states. It has also mobilized staff from different sectors (including Multilateral Investment Fund) to identify and address other potential constraints to future PPP operations, and is working with the *Secretarias da Fazenda and the Tribunais de Contas* to address fiscal contingencies and financial management concerns in PPP operations.[69]

The Bank's NSG lending during the period was focused on financial intermediaries. Financial sector clients appear to value the terms and reputational effects of IDB support. Clients reported that the Bank provided tenors not available in the domestic market (or available internationally, but at a higher cost). The Bank's due diligence process provided a stamp of quality for most banks, helping them to negotiate better deals with foreign banks and/or to reach new sources of funding. To a lesser extent, the Bank has been effective at bridging information asymmetries between banks in trade finance deals. The Trade Finance Facilitation Program lines allowed the banks to provide loans and guarantees of up to US$2 billion to more than 330 enterprises in key sectors of the Brazilian economy. In general, the absence of adequate M&E arrangements in private sector operations make the assessment of effectiveness difficult, and OVE did not find documented evidence of Bank effectiveness in strengthening access to finance for micro, small and medium enterprises or improving overall access to longer-term financing.

### 2. Science and technology

Bank loans in this area focused on creating regional clusters aimed at increasing competitiveness. Except for the Minas Gerais project, these projects had complex designs and implementation problems, and they showed little progress in achieving results. The project in Minas Gerais had strong executing agencies, and its achievements in job creation and company satisfaction exceeded expectations. The project in Bahía was partially canceled, and others, such as the one in São Paulo, are still struggling to finish with several years' delay. The Pernambuco project experienced long delays and is taking advantage of the Minas Gerais experience to improve its execution. The project is expected to be completed with a one year delay. All four operations had very innovative aspects, but cross-fertilization is still low.

### 3. Tourism

The Bank's support for tourism during the period was solely through SG lending, which encountered high implementation costs and delays and made little progress. The Bank continued to implement the four previously approved PRODETUR operations (one at the federal level and three at the state level).[70] However, because of the lack of preparedness of executing agencies *(Secretarias de Turismo)*, and the complexity of the programs, there has been insufficient progress to assess results. The *Secretaria Nacional de Turismo* does value highly the national information system for the sector that was financed by the federal loan.

# 4


For over a decade Brazil has been experiencing solid economic growth, but it has slowed recently, and the country continues to face significant deficits in infrastructure and public services that limit its productivity and competitiveness.

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# 4 Conclusions and Recommendations

**For over a decade Brazil has been experiencing solid economic growth, but it has slowed recently, and the country continues to face significant deficits in infrastructure and public services that limit its productivity and competitiveness. Poverty has fallen, but social inclusion and the quality of public services –most notably education– remain critical challenges. Given tight fiscal constraints, addressing the infrastructure and public services deficits that limit productivity growth will require both public and private sector engagement. The country's regulatory framework has not been fully conducive to private sector investments, but the Bank has been working with Brazil to address some aspects of the problem, and new opportunities may arise. Given the complexity and cross-sector nature of these challenges, collaboration across sectors and coordination between the public and private sides of the Bank Group will be critical.**

The focus during 2011-14 on subnational governments and on infrastructure, fiscal management, and the social sectors (with an increased emphasis on the poorer regions) was generally relevant to country needs and government priorities. The Bank's program continued, as in the previous period, to focus heavily on subnational lending at both the state and municipal levels to support mainly infrastructure and fiscal management projects to address clearly identified challenges. The Bank also made a successful effort to work in health and education


Social protection projects are providing popular social infrastructure, but it is not clear if they will yield the results expected.
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with subnational governments. The SG portfolio combined continued support through "umbrella-type" and PBL programs for fiscal and municipal reform and for tourism with extensive support for health, education, and infrastructure (particularly roads and water and sanitation) and more modest support in environment and natural resources. The NSG portfolio focused primarily on lending through financial intermediaries, and the intended support to real sector investments did not materialize. Lending through BNDES, at high levels in earlier years, ceased during this period. The program was somewhat more focused on the poorer states in the north and northeast than in the past, though the bulk of lending is still in the richer states.

Bank portfolio performance shows the implications of shifting lending from the federal to subnational governments, particularly those without previous experience dealing with MDBs. Working with newer and (on average) less institutionally capable and experienced clients has led to somewhat higher lending costs in the most recent period. Overall portfolio performance was also affected as low-cost BNDES loans were phased out in favor of higher-cost (and most likely higher-benefit) lending. The use of umbrella-type operations did not counterbalance the expected higher costs of dealing with institutionally weaker and less experienced subnational governments. Repeated engagement with the Bank has facilitated policy dialogue and coordination within the Bank and subnational governments, and thus may lead to better planning and outcomes.

OVE looked in detail at a sample of projects, representing about three-quarters of lending during the period. The results of this portfolio appear to have been mixed, and in many cases disbursements have been slow. Social protection projects are providing popular social infrastructure, but it is not clear if they will yield the results expected. The projects OVE reviewed in education and health (except for the successful Fortaleza and São Bernardo health projects) are in relatively early stages, but the GOB and subnational governments alike appreciate the Banks return to these sectors. Transport and water and sanitation projects, primarily at the state and municipal levels, appear to have had substantial positive impacts. Urban development projects (PROCIDADES or stand-alone loans) are highly relevant and the Bank has the necessary expertise to aid in the process, though little can be said about their effectiveness. The Bank needs to learn from its recent experience to address efficiency and implementation problems and strengthen M&E. Public sector management projects at the federal level are disbursing too slowly to gauge their effectiveness. The portfolio in environment and natural resources has been relatively modest in size but appears to have been diverse, and TCs in particularly have supported a variety of institutional strengthening and knowledge initiatives. Bank SG lending to the tourism sector through PRODETUR is facing major implementation problems; despite high demand, lending has virtually stopped.

A major focus of the Bank's engagement has been on fiscal management at subnational levels. Support to fiscal reform at the state level through PROFISCO and PROCONFIS has had mixed results. The PROFISCO program has been successful at disseminating experiences and best practices across states, but few projects have progressed far enough to have clear evidence on results. Policy-based lending through PROCONFIS has helped states set their reform agenda and consolidate their fiscal positions, but only two of the five operations were found to be clearly financially relevant, and all had only modest policy depth.

Brazil is an important client for the Bank, and the continuing challenge for the Bank will be to remain relevant and provide efficient and effective support. Going forward, OVE has the following recommendations for Bank management:

1. Work with the client to define a limited set of strategic thematic priorities to structure and integrate the Bank's program, taking into account country demands and the Bank's comparative advantage. While it is understandable, given Brazil's size and heterogeneity of borrowers, that the Bank should support a number of themes and activities, strategic prioritization is still

important for Bank effectiveness. Increasing the program's focus on poverty, including on poorer areas of the country, could be one strategic priority to consider.

2. Seek long-term partnerships with subnational governments (both states and municipalities) where possible, and devote substantial resources to cross-learning. Because the lack of previous experience in working with the Bank and weaker institutional capacity appear to be factors behind higher costs, longer-term relationships (such as CCLIPs with specific subnational governments) can reduce preparation and implementation costs and enhance institutional capacity. Heightened attention to sharing experiences across programs, states, and municipalities (for example, replicating mechanisms similar to PROFISCO's Finance Secretaries Commission) can enhance effectiveness while also controlling costs.

3. To the extent demanded by clients, continue to work with states and municipalities on deepening public finance reform. A better fiscal position, more efficient public spending policies, and stronger public expenditure management will be critical to subnational governments if they are to extend the coverage and improve the quality of public services and infrastructure. The Bank has strong multi-sector expertise that can contribute to those reforms. Policy-based lending to states –particularly those with immediate financial need– appears to be an efficient and effective instrument for support, supplemented where appropriate with technical cooperation and/or investment lending. Given the breadth of important fiscal issues, programs of fiscal support should engage multiple Bank divisions to help clients identify some of the most pressing expenditure rigidities and inefficiencies and design appropriate solutions.

4. Seek ways to work with the Brazilian authorities to help strengthen regulatory frameworks for public-private partnerships at various levels of government. Facilitating private investment in the delivery of public services will be essential to meeting the country's growing infrastructure needs, and can also be instrumental in increasing investments in the social, environment, and other areas.

5. Develop a concrete plan to promote more effective cross-sector and public-private collaboration in the country program. Such collaboration will be essential to the achievement of the goals of strategic prioritization and support for integrated fiscal reform at the subnational level, as envisioned in the prior recommendations.

6. Continue to strengthen the monitoring and evaluation of the Bank's portfolio. The evaluability of the Bank's approved portfolio has improved significantly, as evidenced by higher Development Effectiveness Matrix scores in recent years. Carrying these improvements through to project completion and ex-post evaluation can help the Bank learn more from experience and fine-tune future interventions.

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1 Brazil ranks in the "high" category of UNDP's 2014 Human Development Index (HDI) (79th of 187 countries).

2 The LRF restricted borrowing at three levels of government and credit operations among them. This limited the possibility of lending to the federal government to on-lend to sub nationals.

3 *Bolsa Família* is a conditional cash transfer program established to reduce poverty.

4 In this context, some of the most pressing priorities in public management are to improve the civil service, the quality of public expenditure, and the transparency of public management (IPEA 2014).

5 In the latest 2012 OECD PISA (Programme for International Student Assessment) survey, Brazil scores below the average of 65 countries surveyed in mathematics (between 57 and 60), reading (between 54 and 56) and science (between 57 and 60). Nevertheless, since 2003 Brazil has had the largest improvement of any country in mathematics –from 356 to 391, and scores have also improved in reading and science (see http://www.oecd.org/education/PISA-2012-results-brazil.pdf).

6 Brazil's road traffic mortality rate of 20.7 per 100,000 is significantly higher than the rates of nearby Chile or Argentina (WHO).

7 BBB- (Standard & Poor's), BBB (Fitch), and Baa2 (Moody's).

8 BNDES launched the Investment Support Program, backed up in 2009-2010 by a replenishment of capital from the Treasury of R$180 billion. *Banco do Brasil and Caixa Econômica* also received funding support from the Treasury of R$6 billion each to expand their lending capacity while reducing the interest rates of their credit, housing and investment loans.

9 The weekly Central Bank survey, July 31.

10 The first year under evaluation (2011) was a transition year between the last extension of the 2004-2007 Country Strategy (GN-2477) and the approval of the 2012-2014 Country Strategy in May 2012 (GN-2662-1).

11 It increased procurement thresholds to promote the use of country systems (an increase of the procurement of works limits to US$25 million, goods and services toUS$5 million and consulting services to US$1 million, GN-2662-4).

12 See the evaluation of the Realignment (RE-451-2).

13 In the mid-2000s, Brazil prepaid its outstanding loans from the IMF and 10% of those from the IDB.

14 For example, in Mexico lending to subnational governments is traditionally carried out through the federal budget line-item (Branch 33), while BANOBRAS, a second-tier federal public bank, transfers as grants and/or on-lends to subnational governments. In Colombia the Bank uses similar arrangements through the *Financiera de Desarrollo Territorial* (FINDETER).

15 Based on its previous experience, the Bank correctly identified lack of institutional capacity and high transaction costs as the main challenges of working with subnational governments. For example, the GOB first proposed PROCIDADES to the World Bank, which decided to exit after a few projects because of their high operational costs.

16 PROCONFIS is a program of PBLs to individual states of a maximum of US$200 million per loan (up to US$400 per program with a given state) to help states maintain fiscal sustainability by promoting macroeconomic stability and improving their fiscal position. Some PBLs include actions in areas such as transport, water and sanitation and citizen security.

17 The number of loan approvals increased from 86 to 101 over the period.

18 Data from the Ministry of Finance and Ministry of Planning. The Growth Acceleration Program (PAC) outlines priority investments.

19 As reported to OVE by several GOB and Bank staff and representatives of financial institutions.

20 Information provided by SCL/GDI.

# Notes

21 This process is designed to ensure that subnational entities comply with the LRF. See http://www.planejamento.gov.br/assuntos/financiamento-externo/cofiex/etapas-de-tramitacao-para-financiamento-externo.

22 However, over all preparation costs seem to be unrelated to institutional capacity (Figure A.18).

23 Other factors that may have been at play are complexity of the operations, the size of the loans, and the difficulties of working in specific sector. PROCIDADES and PRODETUR projects are complex, integrated and multi-sectorial in nature. PROCIDADES supervision cost per amount disbursed also reflects the relatively small amounts of its loans (which had a US$50 million upper limit). PROFISCO projects are essentially institutional development projects with a heavy IT component, which tend to be slow disbursing. It should be noted that three PROFISCO projects (Roraima, Amapá and Acre) exceeded 500 days without signature after approval. The PROCIDADES Sao Luis project had 1200 days without signature.

24 In the states of Alagoas (IDB operation: 3061/OC-BR; WB operation: P103770), Amazonas (IDB operation: 3139/OC-BR; WB operation: P147979), Bahía (IDB operations: 2081/OC-BR and 2841/OC-BR; WB operations: P126351 and P147984), Pernambuco (IDB operation: 3039/OC-BR; WB operations: P106753 and P132768), and Rio Grande do Sul (IDB operation: 2850/OC-BR; WB operations: P106767 and P148083).

25 It opened a €165 million credit line with the BNDES.

26 This CS objective also contemplated work in the "labor market" sector. The sample under evaluation did not include any labor market operations. However, the Bank provided valuable technical cooperation support in this area (ATN/OC-13463-BR and ATN/OC-14523-BR) and contributed to the preparation (double booking) of two operations in social protection and education: 3408/OC-BR and 2933/OC-BR.

27 The SUAS, established by the 1998 Constitution as important regulatory body to deal with poverty, inequality and vulnerability, regulates competencies, organizes social services and defines modalities for social control and participation for the three levels of government.

28 2791/OC-BR (for US$10 million, approved in 2012; 0% disbursed) to modernize the management of the national pension system; 2762/OC-BR (for US$60 million, approved in 2012; 7.7% disbursed) to promote social inclusion of youth in Rio de Janeiro, and 3408/OC-BR (PROARES III for US$50 million, approved in 2014, 0% disbursements) to support social reforms in the state of Ceará.

29 2207/OC-BR for the municipality of Fortaleza (for US$33 million, 90% disbursed) and the second phase of the 1996 PROARES (2230/OC-BR) for the state for (US$45 million, 83% disbursed).

30 Initially 6 CUCAs were planned but this objective was revised, notably because of the devaluation of the dollar and the costs of the sample projects.

31 Two recent operations (3408/OC-BR approved in December 2014 and BR-L1414 -Proredes Fortaleza, in negotiation) include the evaluation of PROARES (2230/OC-BR) and CUCAs (2207/OC-BR).

32 The TC supported the preparation of project 2723/OC-BR and generated valuable technical inputs.

33 2586/OC-BR to the municipality of São Bernardo (São Paulo) (approved in 2011 for US$21.6 million; 78.2% disbursed); 3051/OC-BR to the state of São Paulo (approved in 2013 for US$270 million; 1.4% disbursed); 3262/OC-BR to the State of Bahía (approved in 2014 for US$80 million; 0% disbursed); 3246/OC-BR to the state of Sergipe (approved in 2014 for US$100 million, 0% disbursed), and a second operation to the municipality of São Bernardo (São Paulo) (3400/OC-BR approved in 2014 for US$80 million; 0% disbursed).

34 The executing agency argued that maternal mortality cannot be reduced at the state level because the Bank's intervention is not state-wide and there are other contributing factors (drug use, homelessness, etc.) beyond the control of the project. It also mentioned the difficulty of using PMR indicators, which sometimes differ from those used in the state system.

[35] Loan 2992/OC-BR (Amazonas for US$151.2 million, 6% disbursed); and 2933/OC-BR (Pará for US$200.8 million, 11% disbursed).

[36] Loan 3079/OC-BR (Florianopolis for US$58.9, 10% disbursed); and 3397/OC-BR (Manaus for US$52 million, 0% disbursed).

[37] Also, Opportunities for the Majority piloted (2670A/OC-BR), through a US$3 million investment operation (33% disbursed), a social venture with the Brazilian company PUPA to promote the quality of early childhood education in low-income areas.

[38] See Special Programs Evaluation (RE-476-5).

[39] Half of the lending went to the south and south-east regions while the north and north-east received 22%.

[40] Loan 2964/OC-BR (approved in 2013 for US$400 million; 19.3% disbursed) and 3595/OC-BR (approved in 2014 for US$200 million, 0% disbursed) for Ceará and (2900/OC-BR, approved in 2012 for US$250 million; 35% disbursed) for Santa Catarina.

[41] Loan 2618/OC-BR, Mario Covas Rodoanel Project - Northern Section, approved in 2011 for US$1,148 million; 47% disbursed). The Bank also participated in the construction of the Western Section through the NSG loan operation 2211A-B/OC-BR *Concessionaria del Rodoanel Oeste* approved in 2009 for US$300 million.

[42] Loan 3127/OC-BR São Paulo State Road Investment Road Program, approved in 2013 for US$480 million; 0% disbursed and 3276/OC-BR São Paulo State Road Investment Program II (approved in 2014 for US$480 million, 0% disbursed).

[43] Loan 2745/OC-BR (Blumenau's Sustainable Urban Mobility Program, approved in 2012 for US$60 million; 6.7% disbursed); 3289/OC-BR (Fortaleza Urban Transportation Program II, approved in 2014 for US$400 million, 0% disbursed); and 2888/OC-BR (São Bernardo do Campo Urban Transportation Program II, approved in 2012 for US$125 million, 2% disbursed).

[44] Loan 2681/OC-BR (Support for Institutional Strengthening of ANTT for Rail Transport Management, approved in 2011 for US$50 million, 0% disbursed).

[45] Loan 3184A/OC-BR-1 *(BDMG Municipal Infrastructure and Services Financing Partnership,* 100% disbursed). US$100 million was financed as a Private Sector investment for SCG with a co-financing of US$50 million from the China Co-financing Trust Fund.

[46] The project is expected to fund a total of US$191 million in loans to municipalities between 2014 and 2015 and to benefit more than 3 million people in about 250 municipalities.

[47] Project 2646/OC-BR for the state of Rio de Janeiro *(Environmental Sanitation Program for Municipios in the Guanabara Bay Area-PSAM,* approved in 2011 for US$452 million; 8.6% disbursed); 3303/OC-BR (Sanitation for Nova Estrada Watershed - PROMABEN II, approved in 2014 for US$125 million, 0% disbursed). 3410/OC-BR for Joinville, Santa Catarina (Viva Cidade 2 Environmental Revitalization and Urban Municipality Joinville, approved in 2014 for US$70 million, 0% disbursed); in the city of Manaus, Amazonas, the Bank financed 2676/OC-BR (Social and Environmental Program for the Igarapés in Manaus - PROSAMIM III, approved in 2011 for US$280 million, disbursed 47%); and 2846/OC-BR (Manaus Integrated Sanitation Program – PROSAIMAU, approved in 2012 for US$24.5 million, disbursed 2%). 2962/OC-BR (Environmental Rehabilitation Belo Horizonte –DRENURBS – Supplementary to First, approved in 2013 for US$55 million, disbursed 60%); 2901/OC-BR (State of Pernambuco Environmental Sanitation Program for Ipojuca Basin, approved in 2012 for US$200 million, disbursed 4%): and 3168/OC-BR (Federal District Program of Environmental Sanitation of CAESB, approved in 2014 for US$171 million).

[48] 2700/OC-BR (Pro-Energy RS Distribution, approved in 2012 for US$131 million; 28% disbursed) and 2813/OC-BR (CEEE Generation and Transmission Project, approved in 2012 for US$89 million; 6.3% disbursed).

[49] 2549/OC-BR (Rehabilitation for the Furnas and Luiz Carlos Barreto Hydroelectric Power Plant, approved in 2011 for US$129 million, 97% disbursed). Furnas is a federal enterprise.

# Notes

[50] 1904A/OC-BR-5 (Delba Vessel - Second Phase, approved in 2011 for US$35 million, 80% disbursed).

[51] For example, in Santa Catarina, Bank support helped to extend the network of paved roads from 1,000 km in 1980 to 4,700 km in 2012. Bank projects also focus on road safety, improvement of the environment and institutional strengthening for the management of logistics infrastructure.

[52] For example, the Bank's project in São Paulo helped reduce energy consumption by about 30% because of the new engines and traction system.

[53] Prior to PROSAMIN, only 20% of the population of Manaus had access to sanitation. Other interventions in the municipality of the same nature of PROSAMIN have successfully resettled families, but they are not complementing the sanitation network of the city.

[54] Loan 2549/OC-BR (Rehabilitation for the Furnas and Luiz Carlos Barreto Hydroelectric Power Plant; 97% disbursed).

[55] In addition, nine projects were prepared under PROCIDADES but were cancelled before approval, and one more is in the pipeline (Londrina, 3312/OC-BR).

[56] Fortaleza, 2221/OC-BR; Rio de Janeiro, 2482/OC-BR and São José dos Campos, 2323/OC-BR.

[57] Also, the requirement that 50% of funding be from counterpart resources (Box 2.1) has negatively affected disbursements.

[58] Distrito Federal Project (2957/OC-BR) 0.9%; Cascavel (2999/OC-BR) 2.2%; Novo Hamburgo (2752/OC-BR) 2.8%, Niterói (2941/OC-BR) 4.5 %, Colatina (2751/OC-BR) 18.1%, Maringá (2121/OC-BR) 19.1%, and, Paranagua (2520/OC-BR) 25%.

[59] For instance, the usual indicator for mobility is travel time and cost.

[60] Nevertheless, a previous evaluation of the Rio Favela Barrio project (in its third phase) concluded that it had a positive impact on the availability of most services, land titling, access to education, day care attendance, household incomes, and perceptions of quality of life and property value (GN-2607-1).

[61] The projects contained activities such as strengthening of the police and military bodies; rehabilitating youth at risk; improving crime data collection, quality, and analysis; providing socialization and education to populations at risk; implementing social and situational strategies, and addressing criminogenic risk factors. In principle, these activities have the potential to reduce crime and recidivism (See www.crimesolutions.org).

[62] PROFISCO continued the reforms set up with PNAFE (1996-2006), the main difference being that instead of a centralized executing agency, the project resorted to individual loans for each level of government.

[63] The Bank also approved the second phase of a federally-executed program for fiscal management at the municipal level (PNAFM II, US$150 million) and approved PNAFM-III in 2014 but these projects were not included in the sample.

[64] Management's self-evaluation attempted to compare the fiscal results of states with high-execution (above 48%) of PROFISCO and states with low execution. The evaluation found that most fiscal indicators are better for the high-disbursement PROFISCO states. This evidence should not be interpreted causally as there are many problems with the identification strategy. First, several of the variables that are examined in the evaluation (state investment trends) are consistently higher in the high-disbursement PROFISCO states both before and after the implementation of PROFISCO. Second, the major differences are sometimes in years before PROFISCO projects were approved.

[65] For example, the e-Fisco and e-invoices systems of Pernambuco served as a model for other states.

[66] The project also included a disaster risk management dimension by financing studies in risk-prone areas and the resettlement of families located in protected or high-risk areas.

[67] Of the 17 TCs approved for this sector during the period, the 6 financed by the Climate Change Initiative (SECCI) were reviewed by OVE as part of the Special Program Evaluation.

[68] According to FIN, the Bank is engaging with GOB to obtain permission to do treasury operations in Brazil.

[69] OVE's assessment of IDB-9's Private Sector Development Framework concluded that the Bank's knowledge and efforts on PPPs were fragmented (OVE 2013). These initiatives seem to be steps in the right direction to overcome this fragmentation.

[70] The federal operation (2229/OC-BR for US$8.5 million) was approved in 2009 and has disbursed 19%. The three operations (2411/OC-BR, for US$112 million for Rio de Janeiro; 2321/OC-BR for US$150 million for Ceará; and 2402/OC-BR for US$75 million for Pernambuco) were approved in 2010 and have disbursed 28%, 27% and 24%, respectively.

## IDB's Management Response to this Evaluation

You can also find it at www.iadb.org/evaluation