To: The Board of Executive Directors
From: The Secretary
Subject: IDB country strategy with Brazil. Revised version. Report of the Chairman of the Programming Committee of the Board of Executive Directors

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Remarks: A Spanish translation of this document will be distributed shortly.

Reference: GN-2327-1(11/04)
The Programming Committee of the Board met on October 4, 2004 to discuss the IDB Country Strategy with Brazil. During the opening discussion, many Directors noted the difficulty of producing measurable impact through Bank operations in a large economy like Brazil’s. Several Directors also noted that regional disparities and differences between operations at the federal, sub-national and municipal levels could have been better emphasized in the document. All Directors requested better sequence of country program evaluations (CPEs) and country strategies so as to permit lessons learned in the evaluation to be reflected in future programming.

During the discussion, comments centered on the following points:

(1) **Macroeconomic context.** In response to a request from Directors for recent information on Brazil’s economic situation, Management described the country’s recent progress in increasing its primary surplus, generating a positive trade balance and reducing its debt-to-GDP ratio. Management emphasized that as part of an IMF-led review, the IDB was working with Brazil to raise, and improve returns on public investment levels;

(2) **Strategic focus and value-added.** Many Directors noted the numerous and varied lending operations making up the program and suggested that the strategy be more selectively focused, to achieve a measurable impact in a few areas. Management described the Bank’s work to help translate broad strategic goals, identified by the Brazilian authorities in their multi-year indicative planning exercise, into concrete interventions and in helping to expand the scope of national programs to address emerging development issues. The Bank was said to add particular value at the sub-national level (not covered by the federal planning process), and in the private sector, where some 60% and 20%, respectively, of the Bank’s 2004-2006 pipeline was concentrated.

(3) **Sector-wide approach (SWAp).** Management emphasized the importance of SWAps to increase lending levels in Brazil. Stressing the importance of moving towards SWAps, many Directors urged Management to take advance steps (including, in particular, country analytical work) to pave the way for a sector-wide approach once approved by the Board. During the exchange of views on the Bolsa Familiar program, to which the Bank may contribute, Management confirmed that the program was not only led but also its objectives are set by the Brazilian government, and it would be evaluated in terms of total impact. Its general objectives are to mitigate poverty and social exclusion in the short run and reduce the intergenerational transmission of poverty in the long run,
achieved through incentives to promote education and health in lower income segments.

(4) **Private Sector activities.** Some Directors asked about the potential impact in Brazil if PRI’s mandate would be expanded. PRI responded that continuous requests for loans in Brazil outside of PRI’s designated sectors (infrastructure, energy and trade) suggested significant potential demand. With the advent of public-private partnerships, an issue that was raised by several Directors, PRI Management stated that they expected increased overall demand in the Bank’s current stock-in-trade, particularly in the energy, transportation, water, and sanitation sectors. The Bank’s Business Climate Initiative was said to promote interest.

(5) **Sub-national financing.** Asked about the legal and budgetary framework for sub-national financing, Management described Bank efforts to improve the quality and transparency of tax administration at the state and federal levels, including two current operations to support implementation of Brazil’s Fiscal Responsibility Act of 2000.

(6) **BNDES project.** Asked about a USD 1 billion loan to Brazil’s National Bank for Economic and Social Development (BNDES) for business development on-lending, Management indicated that support had been provided to carefully monitored programs since 1999, citing extremely favorable indicators in terms of sales figures, participating financial intermediaries, and client satisfaction. The USD 1 billion loan cited would be used to promote small and medium enterprise, and would be complimentary to the PRI operation recently approved. Possibilities for local currency financing are also being explored with BNDES.

(7) **Results framework.** Some of the Directors recommended improvements in the Strategy’s results framework, including the use of more precise output, outcome, and impact indicators. The MDGs would also be addressed in a more detail.

In concluding the discussions and taking into account comments made by many Directors, I requested that Management revise the country strategy matrix for Brazil, and adapt the text clarifying the term “areas of intervention” as distinguished from “objectives,” and better linking proposed operations with strategic objectives and the MDGs. I also asked Management to: strengthen the debt sustainability assessment; include more information on how, and with what degree of probability, the high lending scenario would be triggered; and describe the concrete results of consultations with civil society.

I have reviewed the changes, which Management has made to the document in response to the Committee’s request and find them satisfactory. In my capacity as Chairman of the Programming Committee, I, therefore, recommend that the IDB Country Strategy with Brazil (GN-2327-1) be approved.