Statement by Jannes Hutagalung
Date of Meeting: March 30, 2000

Brazil Country Assistance Strategy

Let me first thank management and staff for the preparation of this comprehensive CAS, an effort that is remarkable for a country the size and scope of Brazil. We find this CAS progressive and altogether reflect current developments and future directions expected of the Brazilian economy in the short to medium term. The report is also based on some good diagnostic tools, particularly the analysis on poverty (Annex 4) and private sector (Annex 5), which we find very useful and enlightening. Such analytical insights provide a very strong rationale for the Bank's focus and priorities, especially in the context of the Government’s development framework and the Bank’s comparative advantages. We, therefore, would like to lend our support to this CAS and the two SECALs: (i) Fiscal Adjustment Reform Special Loan Sector Adjustment Loan; (ii) Second Social Security Special Adjustment Loan.

We also support the Bank’s proposed assistance objective of poverty reduction and the prioritization of the five thematic areas as listed in paragraph B of the executive summary. Our comments would be along the lines of the areas identified for discussion by the Board in paragraph D of the executive summary.

First, with regard to the poverty-focus of the proposed assistance strategy, we support the primary emphasis on poverty reduction and fiscal adjustment, and the clearly focused selectivity criteria that will guide the Bank’s intervention. Brazil exhibits a high income-inequality and trend as shown by the low growth elasticity of poverty reduction illustrated in paragraph 18. For a more equitable growth pattern to appear, it will be imperative that the prerequisites of poverty reducing growth are in place before, or at least earnestly pursued simultaneously with, more targeted poverty interventions. In this regard, we are encouraged by the Government emphasis on labor and financial market reforms, as well as initiatives that create a more enabling environment for micro, small and medium-enterprises that are employment-intensive. We were also interested in references to further empirical analysis mentioned in para. 18, and wonder if this is the same as the comprehensive report on growth policies noted in para. 124. This could
be an integral element of the CAS process and substance, so we would welcome staff elaboration on when and how it would take shape and feed into the process.

Second, support for basic education, health services, and water and sanitation for the poor must be foremost since they have direct impacts on poverty. We wonder if these issues would be better served if there were a stronger regional dimension (particularly the Northeast region) to the Bank’s assistance in these crucial areas, or perhaps with some performance benchmarks in the CAS matrix. The analysis provided in Annex 4 give some compelling insights on the major attributes of poverty and shows location (or regions) as the strongest explanatory variable for poverty. We also believe that more attention must be paid to land reform, labor market policy and social protection, through technical assistance and innovative instruments such as LILs or even APLs with clear performance benchmarks.

Third, fiscal adjustment remains a very important priority on which the stability of Brazil’s macroeconomy hinges, whilst on the other hand imposes huge restraints on the level and scope of resources the Government could leverage to further its poverty reduction agenda. Government’s commitment to the fiscal benchmark (net public sector debt/GDP) of 46.5% by 2001 is certainly crucial, as long as expected short term fiscal measures are realistic and sustainable enough in the medium to longer term. In this regard, we are pleased to note that performances (paragraph 36) by the federal and sub-national governments have been quite encouraging enough. These measures must be effectively and earnestly complemented by longer-term structural reforms in the areas of: social security, administrative, tax, legal and debt management; thereby, locking-in the fiscal gains and providing the platform for sustainable fiscal management in the future.

Fourth, with regard to the proposed change in the composition of Bank lending, we support the strategy to increase non-lending services and gradually shift towards programmatic sector adjustment lending. In this regard, clear government commitment would indeed be essential to ensure that its reform strategy would be effectively implemented and in order to sustain its track record of policy improvements. We also agree that the four areas identified in paragraph 116 for possible adjustment loans should be pursued, especially the fourth, which relates to strengthening the policy framework for financial sector reform and the regulatory environment for growth, labor, trade, and private sector development. We also support the indication of a short term rebalancing of new lending toward federal loans and the intended intensification of implementation assistance and non-lending services for states. These must be geared towards sustaining the momentum of fiscal adjustment reforms and better fiscal management at state level.

Fifth, on the issue of IBRD, IFC, MIGA collaboration, we were very impressed with the articulation of the high degree of collaboration and complementarity between the three institutions. Annex 5 provides a very comprehensive account of Brazil’s private sector background and the Bank Group’s strategy, which we found very informative and to which we give our support. IBRD’s involvement in strengthening the financial sector and growth-inducing regulatory environment will certainly reinforce IFC’s strategy for more support towards growth-creation companies and reducing large investment-type operations in petrochemical and natural resources. This would contribute to reducing pressures on IFC’s country exposure limits and provide leeway for directing more resources towards frontier areas, financial and infrastructure sectors, and systemic support.
Finally, on the risk side we would have welcomed more discussion of the internal risks, particularly the legal challenges, possibilities of approval delays in Congress, slow progress of social security reforms, and reform implementation complacency. We wonder if it would have been practical to hold consultations with stakeholders on these issues, which we noted missing from the CAS Consultations Summary provided in Annex 6. Perhaps a more political economy perspective on these issues would have put these internal risks in better light. Nevertheless, we support the proposed risk mitigating measures by Government and the Bank and would insist on close monitoring of these risks through the implementation process.