Statement by Eugene Miagkov  
Date of Meeting: May 24, 2001

**Brazil: Country Assistance Strategy Progress Report, First**  
**Programmatic Financial Sector Adjustment Loan, Fiscal and**  
**Financial Management Technical Assistance Project**

We would like to commend staff on this CAS Progress Report for Brazil. The document submitted is clear, concise and provides useful insights into progress of Brazil’s reforms. We were pleased that Brazil maintains excellent prospects for sustainable poverty reduction and is advancing contribution to the International Development Goals. At the same time there is a need to continue vigorously with targeted poverty reduction to reverse impact of the 1998/99 crisis on the poor and resolve remaining poverty challenges. We found the data provided in the CAS Progress Report on recent poverty reduction trends very useful. While in 1999 national poverty rate rose 1.3 percent from 1998 level, a poverty measure based on labor income in six metropolitan areas (PME) in 1999-2000 shows a drop by more than one percentage point. This is very encouraging. We look forward to receiving more most recent poverty reduction trends in future CAS documents.

Overall, the current situation in Brazil is characterized by stability, high potential for successful implementation of the objectives set out in the 2000-2002 CAS, and strong government commitment and capacity for continuing reform. A decline in vulnerability to external shocks and a high capacity for tight fiscal management have earned Brazil’s access to international capital markets. However, risks remain and have to be managed appropriately to preserve the right balance between poverty reduction goals and fiscal discipline. We would like to underscore the need to sustain firm debt/GDP and primary fiscal targets. The unexpected drop in growth of GDP deflator and a revision of the primary fiscal surplus target for 2001 from 3.35 to 3.0 percent points to the fact that external risks can pose a certain threat to adjustment process. The external factors can also represent a risk for poverty reduction that’s why the Bank should be fully engaged in order to sustain positive achievements in the social area.

In this regard it is important to underscore the role of Projeto Alvorada for targeted social policies which was introduced after the last CAS. It is impressive in its scope and we welcome the strong medium-term focus on factors underlying poverty reduction. The project will improve coordination between different social programs and help substantially advance education policies. At the same time we find that funding of $1.1bn by World Bank and IDB (World Bank funding is not precisely indicated) is not quite adequate for the total program spending of
$13.8bn. Would staff please explain?

We were pleased to note that the Bank lending and non-lending operations are proceeding well and even slightly exceeding targets on targeted poverty reduction and fiscal reforms. With regard to portfolio quality we noticed that the portfolio performance and management indicators have somewhat deteriorated from 2000 to 2001 with the percent of problem projects by amount going up to 14.2. This is very close to the 15% trigger indicated in the CAS. The document does not offer direct explanation for the decline in quality. It might be useful to have an account of this from the staff’s perspective.

At the conclusion, we would like to support the extension of the current CAS to cover FY03 as outlined in the CAS schedule.

First Programmatic Financial Sector Adjustment Loan.

We believe the First Programmatic Financial Sector Adjustment Loan is in line with the objectives set out in the CAS. We urge the staff to closely monitor its implementation, and look forward to discussing the application of this programmatic approach in the context of other middle income countries.