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IMPLEMENTATION COMPLETION REPORT
(Ln 72180)

ON A

LOAN

IN THE AMOUNT OF EUROS 427.2 MILLION (US$ 505,050,000 EQUIVALENT)

TO THE

FEDERATIVE REPUBLIC OF BRAZIL

FOR THE

FIRST PROGRAMMATIC LOAN FOR
SUSTAINABLE AND EQUITABLE GROWTH

June 28, 2005

Finance, Private Sector and Infrastructure Department
Brazil Management Unit
Latin America and the Caribbean Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective March 28, 2005)

Currency Unit	=	Brazilian Real
R$ 1.00	=	US$ 0.37
US$ 1.00	=	R$ 2.73

WEIGHTS AND MEASURES

Metric System

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ABDI	Agência Brasileira de Desenvolvimento Industrial	Brazilian Agency for Industrial Development
ANTAQ	Agência Nacional de Trasportes Aquaviários	National Water Transport Agency
ANTT	Agência Nacional de Transportes Terrestres	National Land Transport Agency
BNDES	Banco Nacional de Desenvolvimento Econômico e Social	National Bank for Economic and Social Development
CADE	Conselho Administrativo de Defesa Econômica	Economic Defense Council
CAP	Conselho de Autoridade Portuária	Port Authority Council
CCT	Conselho Nacional de Ciência e Tecnologia	Science and Technology Council
CDM	Mecanismo de Desenvolvimento Limpo	Clean Development Mechanism
CMN	Conselho Monetário Nacional	National Monetary Council
CNAE	Classificação Nacional de Atividades Econômicas	National Classification of Economic Activities
CNDI	Conselho Nacional de Desenvolvimento Industrial	National Council of Industrial Development
CNPQ	Conselho Nacional de Pesquisas	National Research Council
COFINS	Contribuição para Financiamento da Seguridade Social	Social Security Contribution
CPMF	Contribuição Provisória sobre Movimentação Financeira	Provisional Contribution on Financial Transactions
CREMA	Contrato de Restauração e Manutenção da Malha Rodoviária Federal	Federal Road Network Maintenance Contract
CSLL	Contribuição Social sobre Lucro Líquido	Social Contribution on Net Income
CTN	Código Tributário Nacional	National Tax Code
DNER	Departamento Nacional de Estradas de Rodagem	National Highway Agency
DNIT	Departamento Nacional de Infra-estrutura de Transporte	Department of Transport Infrastructure
FAMPE	Fundo de Aval à Microempresas e Empresas de Pequeno Porte	Endorsement Fund for Micro and Small Enterprises
FAT	Fundo de Amparo ao Trabalhador	Workers Support Fund
FDI	Investimento Direto Estrangeiro	Foreign Direct Investment
FINEP	Financiadora de Estudos e Projetos	Fund for Research and Projects
FUNPROGER	Fundo de Aval para a Geração de Emprego e Renda	Guarantee Fund for Income and Employment Generation

Vice President:	Pamela Cox
Country Director:	Vinod Thomas
Sector Director:	Makhtar Diop
Sector Manager:	Susan Goldmark
Sector Leader:	Jennifer Sara
Task Team Leader:	Paulo Correa

GDP	Produto Interno Bruto	Gross Domestic Product
ICMS	Imposto sobre Circulação de Mercadorias e Serviços	State Sales Tax
ICT	Tecnologia de Comunicações e Informação	Information and Communications Technology
INPI	Instituto Nacional de Propriedade Industrial	National Intellectual Property Institute
IPI	Imposto Sobre Produtos Industrializados	Federal Sales Tax
IPR	Direitos Autorais	Intellectual Property Rights
IRB	Instituto de Resseguros do Brasil	Brazilian Reinsurance Institute
ISS	Imposto Sobre Serviço	Services Tax
MCT	Ministério da Ciência e Tecnologia	Ministry of Science and Technology
MDIC	Ministério do Desenvolvimento, Indústria e Comércio Exterior	Ministry of Development, Industry and International Trade
MERCOSUR	Mercado Comum do Sul	Common Market of the Southern Cone
MT	Ministério dos Transportes	Ministry of Transport
OGMO	Órgão Gestor de Mão-de-Obra	Labor Management Organization
OSCIP	Organização da Sociedade Civil de Interesse Público	Public-Interest Civil-Society Organization
PACE	Programa de Apoio à Agenda de Crescimento Econômico Equitativo e Sustentável	Support Program to the Agenda of Equitable and Sustainable Economic Growth
PASEP	Programa de Formação do Patrimônio do Servidor Público	Public Employee Asset Formation Program
PIS	Programa de Integração Social do Trabalhador	Workers Social Integration Program
PNMPO	Programa Nacional de Microcrédito Produtivo Orientado	National Program of Oriented Productive Micro Credit
PPP	Parceria Público Privada	Public-Private Partnership
R&D	Pesquisa e Desenvolvimento	Research and Development
S&T	Ciência e Tecnologia	Science and Technology
SCM	Sociedades de Crédito ao Micro-Empreendedor	Small-Business Credit Companies
SDE	Secretaria de Direito Econômico	Economic Law Secretariat
SEAE	Secretaria de Acompanhamento Econômico	Economic Monitoring Secretariat
SEBRAE	Serviço Brasileiro de Apoio às Micro e Pequenas Empresas	Brazilian Micro and Small Business Support Service
SELIC	Sistema Especial de Liquidação e de Custódia	Clearance and Trustee System
SME	Pequenas e Médias Empresas	Small and Medium Enterprises
SPC	Sistema de Proteção ao Crédito	Credit Protection System
TFP	Produtividade Total dos Fatores	Total Factor Productivity

BRAZIL
FIRST PROGRAMMATIC LOAN FOR
SUSTAINABLE AND EQUITABLE GROWTH

CONTENTS

Operation ID: P080827	Operation Name: First Programmatic Loan for Sustainable and Equitable growth
Team leader: Paulo Guilherme Correa	TL Unit: LCSFR
ICR Type: Simplified Implementation Completion Report	Report Date: June 29, 2005

1. Project Data

Name:	First Programmatic Loan for Sustainable and Equitable growth	L/C Number:	72180
Country/ Department:	Brazil	Region	LCR
Sector/ Subsector:	General Industry and trade sector (35%), Banking (25%), General Transport Sector (25%), Central government administration (10%), Law and Justice (5%)		
Theme:	Trade Facilitation and Market Access (P), Infrastructure Service for Private Sector Development (P), Regulation and Competition Policy (P), Tax Policy and administration (S), Legal Institutions for a Market Economy (S)		

KEY DATES:

			Original:	Revised / Actual
PCD/PR:	06/19/2003	Effective:	06/21/2004	06/21/2004
Appraisal:	12/18/2003	MTR:	N/A	N/A
Approval:	02/19/2004	Closing:	12/31/2004	12/31/2004

Borrower / Implementation agency:	Federative Republic of Brazil / Ministry of Finance

STAFF	Current	At Appraisal
Vice President:	Pamela Cox	David de Ferranti
Country Director:	Vinod Thomas	Vinod Thomas
Sector Manager:	Susan Goldmark	Susan Goldmark
Team leader at ICR:	Paulo Guilherme Correa	Paulo Guilherme Correa
ICR Primary Author:	Manuela Francisco, Paulo Correa	

2. Principal Performance Ratings

(HS= Highly Satisfactory, S= Satisfactory, U=Unsatisfactory, HL=Highly Likely, L=Likely, UN=Unlikely, HUN=Highly Unlikely, HU=Highly Unsatisfactory, H=High, SU=Substantial, M=Modest, N=Negligible)

Outcome:	HS
Sustainability:	HL
Institutional Development Impact:	S
Bank Performance:	HS
Borrower Performance:	HS

	QAG (if available)	ICR
Quality at entry:		S
Project at risk at any time:	No	

3. Program Description

The program supported by the "First Programmatic Loan for Sustainable and Equitable Growth (FPLSEG)" consists of a sub-set (the *Growth Program*) of a larger set of microeconomic and institutional reforms under implementation by the Government of Brazil to foster long-term growth and reduce poverty (the *Growth Agenda*). The *Growth Program* defines a set of reforms around four main objectives—(i) reducing logistics costs; (ii) improving the business environment; (iii) enhancing financial efficiency and depth; and (iv) transforming knowledge into productivity gains—to be implemented in stages, according to the evolution of political and economic environments. This program included clear scenarios and triggers for future operations within the term of the current administration (2003-2006), with the second loan focusing on the consolidation of legal reforms to improve the business environment and reduce logistics costs and, a third loan on innovation and the financial sector. Yet, the program allows the required flexibility to respond to unpredictable economic realities and political possibilities across a broad set of reforms.

For each program area, specific targets were identified and key measures were defined, setting up a roadmap of objectives to be achieved by the end of the program. In order to reduce **logistics cost**, for example, the government identified the need to: (i) decrease clearance time in customs by up to 60 percent; (ii) reduce container handling costs by 10 percent; and (iii) raise to 50 percent the share of federal roads under good conditions. Among the measures required to reach these goals, cuts in selectivity levels for cargo inspections, reductions in port labor redundancy, further concession to the private sector and transfers to states of specific trenches of the federal road network were selected as the main priorities. The agenda of reforms in the **business environment**, by its turn, focused in three major topics: (i) improving market entry and exit, essentially by replacing the existing antitrust and bankruptcy regimes; (ii) facilitating business registration and operation, cutting down the time to register a new firm to 76 days; and (iii) strengthening infrastructure regulations for private sector participation, through completion of the legal framework for private sector participation in selected sectors as well as the provision of the appropriate legal basis for efficient public-private partnerships (PPPs).[1]

In the **financial sector**, reform goals focused on increasing competition, which could lower spreads by as much as 100 basis points by end 2006; strengthening systemic stability; mobilizing long-term resources in the insurance sector and improving access for the poor and SMEs. That would require, among others, the extension of the antitrust legislation to the banking industry and, for that purpose, related legal reforms; the approval of a new factoring law and better use of credit registries. In order to transform

[1]In particular, a new bankruptcy and insolvency law would expedite the recovery process of potentially viable enterprises, avoiding unnecessary waste of capital. A new framework for PPPs was also needed due to limitations imposed by the Concession Law (Law 8,987/1995), on the one hand; and the Procurement Law (Law 8,666/1994) and Public Service Law (Law 9,074/1995) on the other. For further explanation, see section 4c of World Bank Report No. 27507-BR.

knowledge into productivity gains, the main objective of the reforms was to facilitate the commercial use of knowledge and resources available at public universities and research centers by the private sector. This essentially required (i) a change in the legal regime that created several obstacles to PPPs and (ii) a more efficient use of public incentives to R&D activities that only in tax-breaks added up to US$ 1.8 billion in 2003.

Through their impacts on private sector investments and productivity, the measures included in the *Growth Program* seemed to be sufficient to deliver significant effects in terms of economic growth and poverty reduction.[2] Furthermore, to construct a sound growth strategy, Brazil needed to pursue reforms in a sequence that makes both political and economic sense, as international experience has shown that theoretically good reform programs may fail due to poor sequencing.[3] In particular, unpopular measures were taken at the macroeconomic front to keep inflation under control, reducing the political capital available for more ambitious structural reforms. Overall, measures included in the Growth Program consisted of a coherent set of politically feasible short run measures to foster long-term growth and reduce poverty that are consistent with good macroeconomic management and a broader development strategy.

4. The Current Operation

Therefore, there is a close relationship between the development strategy, the broader microeconomic growth agenda and the growth program defined in this operation (see Figure 1). Development strategy includes growth determinants such as macroeconomic stability and education, which are not supported by the present program. The *Growth Agenda* contains elements that are excluded from the program for now, but could be brought within its framework depending on changes in the economic and political conditions. Thus, the current operation supported the definition of the *Growth Program* as well as key preliminary actions (triggers for the first operation) in each of its four areas.

The government's *Growth Program* is presented in two official documents: "Roadmap for the New Economic Development Agenda" (*Roteiro para a Nova Agenda de Desenvolvimento Econômico*)—launched jointly by the Ministries of Finance, Planning and Development as well as the Chief of Staff—and the multiyear plan (PPA 2004-07)

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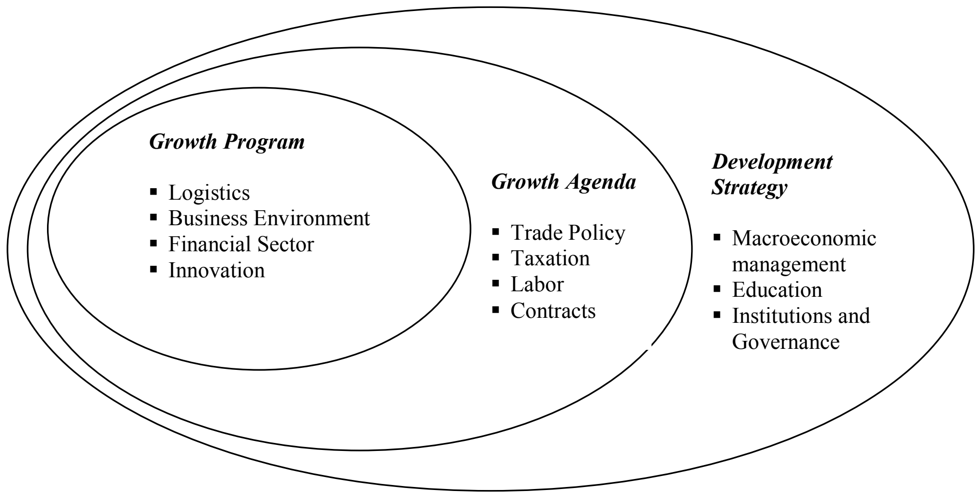
[2] A World Bank study estimates that preventing banking crises, deepening financial intermediation, reducing government burden on business and improving infrastructure could raise Brazil's growth rates by two to three percentage points (Loayza, P., P. Fajnzylber and C. Calderon. "*Economic Growth in Latin America and the Caribbean*." The World Bank, 2003). These reform categories account for about half of the authors' estimate of the impact of all possible growth reforms for Brazil: in other words, the *Growth Program* proposed here, consisting of transport, business environment, financial and innovation policies, represents a critical mass of Brazil's reform agenda for economic growth. Assuming reforms with only half this impact, it is estimated that the present reform program could have growth effects of the order of one percent per year if pursued to completion.

[3] Some reforms require institutional changes that may have been underemphasized. Others take time to deliver their ultimate results. Speed and sequencing, therefore, matter. In Brazil, certain reforms – for example, further social security reform or drastically reducing directed credit – would face sufficient resistance as to be unlikely in the short run, and could easily undermine support for other advisable and less sensitive reforms.

sent to the Congress in September 2003.[4] A third document, "Industrial, Technology, and Trade Policy" (*Diretrizes de Política Industrial, Tecnológica e de Comércio Exterior*) complements the strategy, establishing technology diffusion as one of the priorities in the innovation field.

Figure 1
Government's Development Strategy, the Broad Growth Agenda and the *Growth Program*



Key initial steps for the implementation of the logistics sector program supported by the operation included (i) the approval of a reform strategy for customs; and (ii) the approval and implementation of a new legal and institutional framework for federal transport administration, including the establishment of sector regulators for water and land-based transportation (ANTT and ANTAQ, respectively). In the business environment area, (i) an improved bankruptcy law was approved by the Lower House; (ii) two key draft laws—on PPPs and on the role and attributions of regulatory agencies—were sent to the Congress; and (iii) a reform proposal for the antitrust system was prepared. A key step in the financial sector was the passage of the Amendment to Article 192 of the Constitution, which opened the way for modifications in the legislation governing financial system regulation and soundness, hitherto blocked by this Article.[5] Also, a draft complementary law was sent to Congress to extend the antitrust regime to the banking industry. Finally, in the innovation field, a new "Innovation Law" was sent to Congress providing better incentives for technology transfer between public and private entities as well as for public sector researchers to benefit from their own scientific work. The implementation of

[4] The former stresses the role of microeconomic and institutional reforms: "The creation of a new development agenda must have as a primary objective the promotion of sustainable development with improving social welfare and income distribution […] To attain this objective, microeconomic and institutional reforms are important, to improve economic efficiency and stimulate investment and savings."
[5] The Amendment to Article 192 is important because its original text prevented the passage of separate laws governing the financial system.

Fundo-Verde Amarelo, a competitive grant fund, also encourages better links between public entities and the private sector.[6]

The *Growth Program* itself is a sufficient set of measures to establish the microeconomic foundations of sustainable and equitable growth**.** Achievements clearly signaled the Government's commitment to the program. Therefore, and although clear objective outcomes are expected only by the end of the Program, we consider the outcome of the *operation* to be highly satisfactory.

5. Major Factors Affecting Implementation and Outcome

With deep macroeconomic reforms but low and erratic growth, Brazil had proved that stabilization was not enough to guarantee economic growth by itself. In the past decade, Brazil has economically transformed itself and laid the institutional foundations for solid macroeconomic management but average growth remained close to half the world and Latin American countries (LAC) averages. While continued fiscal balance is the key to reducing real interest rates in the long run, in the presence of many spending rigidities this had cut into public investment, which had fallen to about 2.6 percent of GDP. Private investment had also remained weak, partly due to a poor investment climate.

Also, success of structural reforms to foster economic growth had been considered modest. Trade reform reduced average tariff levels from over 50 percent in 1990 to 14 in 1994. Brazil's privatization program was among the largest in the world with approximately US$36 billion in public assets in the aeronautics, infrastructure and steel sectors transferred to the private sector. Finally, financial liberalization was boosted by a set of initiatives favoring FDI and portfolio investments. Although some analysts had argued that the disappointing growth dividend from the 1990's reforms had its roots in the incompleteness of some of the "first-generation" reforms, a consensus around the ideas that further "first-generation" reforms may be neither politically feasible nor recommendable in the absence of other microeconomic and institutional reforms had emerged.

Indeed, trade liberalization occurred almost two times faster than in the Korean Republic but against a background of labor market rigidities, capital market imperfections, poor infrastructure services, and low external financing. Privatization in electricity and transportation failed to generate sufficient competition or service expansion because it preceded the establishment of appropriate legal and institutional framework for regulation. It has been this regulatory incompleteness and instability—not the incompleteness of privatization—that has curtailed private infrastructure investment. Poor enforcement hampers competition law and policy, burdensome licensing procedures lead to firm informality and the bankruptcy law until recently provided few incentives for financial turnaround. High financial spreads are essentially caused by taxation, mandatory credit lines at administered interest rates and lack of creditor's rights.

[6] For further details please see second column of table in Annex 2.

Further unilateral trade reforms and privatizations would have been politically difficult in Brazil in the face of opposition from diverse political groups. Protecting fiscal discipline should certainly take precedence and has already cost the government some political capital with its traditional base. Public servants have strongly opposed social security reform. Social tensions have been raised by high unemployment rate and rising violent crime in urban areas and rural land conflicts. Reforms that impose high costs in the short run on the affected groups—or that appear ideologically confrontational—may have not represented an adequate reform path. At the same time, other key microeconomic impediments to investment, innovation and productivity provided an opportunity to galvanize growth at a lower political cost.

In sum, political and fiscal constraints and a clear perception that sound macroeconomic management and structural reforms may not be enough to create the institutional conditions for long-term growth were key factors favoring the design and implementation of the *Growth Program*. The microeconomic agenda, then, provided the chance to reinforce the macroeconomic and social reforms that Brazil had started to build in recent years. In fact, it seems that the growth performance of the Brazilian economy in 2004—a 5.2 percent GDP growth, the best rate of the last 10 years—is closely related to an increase in private sector's confidence motivated, at least in part, by a combination of sound macroeconomic management and key initiatives to establish the institutional and long-term conditions for sustainable growth or, simply, to improve the investment climate.

The *Growth Program* is further supported by an accompanying Technical Assistance Loan (TAL). Although signature by the Brazilian government is still pending—which reflects mostly the incidence of higher bureaucratic requirements as compared to fast-disbursing operations—several activities are already under implementation based on retroactive financing, strengthening the country's commitment with the microeconomic reform agenda. Among the activities financed under the TAL, studies on the impact of judiciary bottlenecks on private sector performance are of major relevance and have contributed to the design of the legal reforms submitted by the government in this field. Overall, the support to Ministries involved in the four pillars of the FPLSEG is essential in generating the reform progress for subsequent loans in the program.

6. Findings and Implications for Subsequent Operations

Nowadays, the Brazilian economy fulfills the general conditions needed to begin a new phase of sustainable growth. Significant progress was achieved since the loan was disbursed in early 2004, particularly in the fields of business environment and innovation. Progress was achieved in the other two areas (logistics and the financial sector) even though in a slower pace. Overall, the government has been giving clear signs of its commitment to broaden its microeconomic agenda (and not only with the narrower set of reforms supported by the FPLSEG): the most notable evidence is the recently approved operation to support microeconomic and institutional reforms in housing financing as well as significant improvements in housing policies. As discussed in the FPLSEG

Program Document, the decline in investments in the housing sector since the late 1980's caused a major decrease in investment ratios for the overall economy and, therefore, on long-term growth prospects.[7] Yet, concrete steps were taken in terms of implementation of the core areas selected by the Program.

On the logistics side, 3,432 km and 3,446 km were transferred from the federal government to the states in 2004 and 2005, respectively, increasing the potential for road maintenance activities. Also, the second phase of the federal road concession program, of about 3,059km, is to be launched, after several years of intense questioning from *Tribunal de Contas da União*. In addition, new contracts for efficient highway maintenance and rehabilitation were signed in 2004.[8]

On the business environment area, a major step was the approval by Congress of the **PPP Law (Law 11,079/2004)**. On a lower scale, but also important, a law that provides for a Career Development Plan of Regulatory Agencies' Staff (Law 10,871/2004) was also approved, allowing for the establishment of a stable corps of qualified professionals. In order to simplify firm registry, the government is supporting **Congress Bill of Law number 210/2004** that facilitates the formalization of micro-enterprises particularly through the full-exemption of federal taxes and changes in the Social Security requirements. The final approval of the **Bankruptcy and Insolvency Law (Law 11,101/2005)** is of pivotal relevance: not only because the reform process was delayed for more than ten years in Congress but also because its impact on improving firms' turnaround and preserving intangible assets is expected to be high.[9] Significant initiatives for the reform of the judiciary, an area in which the government originally had lower expectations, were also undertaken with government sponsoring several bills of Law to improve procedural issues and support alternative dispute resolutions mechanisms.[10]

With the objective of mobilizing long-term resources in the insurance sector, a law providing for the opening of the reinsurance market was sent to Congress. In November 2004, the Federal Government launched the National Program of Oriented Productive Micro Credit (PNMPO), aimed at expanding access to productive credit for formal and informal micro-entrepreneurs (Provisional Measure 226/2004). Most notably, Law number 10,931/2004 developed and improved financing and securitization instruments

[7] See Annex 6 (p. 148) of World Bank Report No. 27507-BR.

[8] Auctions were initiated for more than 7,000km. On the customs side, subject to further verification, data provided by the Federal Revenue Secretariat, show some progress: the net average time for export clearance was reduced in approximately 40% between January of 2004 and April of 2005, decreasing from 17h34min to 10h12min; while the average net time for customs clearance procedures for imports was reduced in approximately 28%, decreasing from 21h32min in the same period. Progress in selectivity levels was less significant.

[9] The new Bankruptcy and Insolvency Law (Law 1,101/2005) was complemented by important changes in the **National Tax Code** that were also approved in 2005.

[10] These include: (i) procedural reform in court ruling (Bill of Law 52/2004); (ii) procedural reform for out-of court securities settlements (Bill of Law 4,497/2004); and (iii) other projects of reform of the Civil-Law Code of Procedures [(a) Bill of Law 4,724/2004, (b) Bill of Law 4,728/2004, (c) Bill of Law 4,726/2004, (d) Bill of Law 4,727/2004, (e) Bill of Law 4,729/2004, (f) Bill of Law 4,725/2004 and (g) Bill of Law 4,723/2004)].

for the real estate segment.[11] Furthermore, two new instruments—the Real Estate Credit Bill (CCI) and the Real Estate Letter of Credit (LCI)—were created to complete the existing framework.[12]

Finally, on the innovation side, the Brazilian government approved an **Innovation Law** (Law on Incentives to Research and Innovation, Law 10,973/2004). This is a very important step towards a more efficient use of scientific knowledge in the Brazilian economy. The envisaged instruments include the possibility of agreements between public entities and private companies, the transfer of technology and sharing the public infrastructure of laboratories, equipment and instruments with private companies. Additionally, the Ministry of Science and Technology (MCT) took several initial steps to rationalize the use of public resources available to finance R&D activities through the "Sector Funds."

These achievements illustrate, therefore, an impressive development in the core reform areas. Two essential legal pieces for the business environment—the PPP and the Bankruptcy Laws in December 2004—were approved according to the time-frame established by the *Growth Program.* In addition a third one the Innovation Law, a relatively more controversial law was also approved. Moreover, areas originally conceived as part of the broader *Growth Agenda* due to their relatively higher levels of complexity—as the judiciary reform and the housing finance—had seen significant improvement. These results are fully consistent with the triggers established for a second operation of the Growth Program in the calendar year of 2005.

As a caveat, it is important to note that progress, although extremely relevant, was mainly at the level of legal changes (as opposed to policy changes): on logistics, for example, where policy change was at stake, progress is happening at a much slower pace. This has two implications for a possible third operation in calendar year 2006. First, as additional policy changes become the triggers for further Bank support (once most pending reform are achieved), implementation of the *Growth Program* may become more difficult and slow down. Second, even if legal actions remain relevant for the program, the Congress' agenda for the next months seems tremendously occupied by different priorities while the presidential elections will tend to slow down the speed of legislative activity in 2006.

[11] The purpose of the adopted measures is to encourage the development of private financing in civil construction by introducing and enhancing credit and securitization instruments, improving the legal certainty for borrowers and financers (through instruments such as the Property Liens on Real-Estate Developments, the Real-Estate Letter of Credit and the Real-Estate Credit Bill) and creating a more efficient tax regime.

[12] These securities, previously created by a Provisional Measure in 2001, were included in Complementary Law number 10,931/2004, in order to consolidate their effectiveness and to provide more legal certainty in contracts. Another important credit instrument was the Bank Credit Bill (CCB), backed by bank loan portfolios to provide financial agents with an expeditious tool and enough legal certainty to ensure effective reduction in defaults and in the time it takes to resolve conflicts. In addition, the creation of this new credit instrument, backed by securities based on existing loans, allows creditors to dilute the risks associated with these operations. This Banking Credit Bill (CCB) is an exclusively extra-judiciary title, which ensures greater certainty and more expeditious resolution of legal conflicts. The CCB was initially introduced by Provisional Measure number 2,160/2001, and it was later on refined and finally regulated by Law number 10,931/2004. Part of these results is supported by the Brazil-Programmatic Loan for Sustainable and Equitable Growth-Housing Sector Reform. World Bank Report No. 31756-BR

Overall there seems to be no doubts about the existence of significant and sustained progress in the main areas covered by the proposed loan and program, in particular with the approval of three key draft legislation, namely the Bankruptcy, PPP and Innovation Laws. Progress in microeconomic reform has emerged in other areas too, as in the case of the housing sector. As a further sign of commitment with the *Growth Program*, the government included most of additional public expenditures related to the institutional and microeconomic reforms, such as investments in road maintenance, modernization of custom equipment and science and technology, in the list of priorities for the IMF Pilot Project on Public Investment and Fiscal Policy. [13] In this context, we rate the sustainability of the program as highly likely.

7. Bank and Borrower Performance

The FPLSEG is built on recent lending and analytical work done by the Bank. In particular, it is built on earlier adjustment and technical assistance (TA) lending for the financial and the energy sectors reforms as well as investment and TA lending for transport infrastructure and science and technology. The proposal is based on extensive recent analytical work, including a growth report, a report on financial access, assessment of the regulatory framework, a trade policy report and a labor market report. It is also complemented by the *Fiscal Reform Program* of policy based loans, which will continue to reinforce economic stability and the *Human Development Program*, which *inter alia* supports growth-enhancing educational reforms. Overall, the loan is a centerpiece of the Bank's planned support to a high performing government in a key strategic policy area.[14]

The programmatic framework initiated by the proposed loan aims to strengthen the cohesion of a complex set of reforms touching a number of sectors, ministries, and agencies. A companion technical assistance loan was prepared to provide support in the implementation of the program. The Bank provided technical advice in the selection of the priority areas, the identification of key measures within each area (triggers), and the definition of clear and measurable goals (output indicators) for the program during the identification phase of loan preparation. The Bank was instrumental in supporting consensus-building among different sectors of the government, actively helping in the assessment of short-term impacts of reforms as well as potential winners and losers. In general, the program and the corresponding first operation were well designed and consistent with the Bank's country strategy and with its objective of creating the microeconomic foundation of long-term growth in Brazil

[13] As in *Tesouro Nacional*: Pilot Project Portfolio (confidential document). Undated, mimeo.

[14] Part of this analytical work is reflected in the official document: "Roadmap for the New Economic Development Agenda" (*Roteiro para a Nova Agenda de Desenvolvimento Econômico*)—launched jointly by the Ministries of Finance, Planning and Development as well as the Chief of Staff.

In addition, the Bank provided timely support to an important transition in Brazil. The operation was prepared during the first year of President da Silva's administration, who was elected with strong support by social movements but had to adopt very unpopular measures – cutting expenditures and increasing interest rates – during the first months. On the other hand, the contrasting profiles of the new and the outgoing administrations reduced investors' confidence and the short-term prospects for international financing. In this context, the Bank's financial assistance helped Brazil meet its external obligations at the same time that allowed the new administration to build a reputation of good macroeconomic management. In fact, as a result of sound macroeconomic management, sovereign spreads of Brazilian debt reduced 2.2 percentage points during 2004.

Finally, the operation provided significant synergies with IFC activities and was strongly complementary to Brazil's program with the IMF. In FY2003 the IFC focused one-third of its lending in utilities; in 2002 the IFC largest concentration was in finance and insurance. IFC port operations (e.g., in Salvador) also support program goals in logistics. Furthermore, the program focus on infrastructure regulation will support potential IFC lending into energy, road, rail, and water.[15] Moreover, the measures supported by the proposed program both reinforce economic stability, and therefore the objectives of the IMF program with Brazil, and receive support form macroeconomic stability, which is fundamental for private-sector investment and innovation.

Overall, the FPLSEG seems to have been a timely instrument for knowledge and financing transferring during a complex transition. In fact, Bank's Operations, Policy and Country Services department has selected this operation as an example of well-conceived Development Policy Loan and used it as material for training courses within the Bank. In this context, Bank's performance may be considered <u>highly satisfactory.</u>

Brazil has used the programmatic framework successfully in the recent past, with two loans each made under the Fiscal Reform Programmatic Structural Adjustment Loan series and the Financial Sector Programmatic Structural Adjustment Loan series, respectively. Most recently, in June 2003, Brazil launched a further programmatic loan series in the area of human development policies. This reputation has been significantly enhanced since the FSEGL, with several other fast-disbursing operations being developed to support environmental, fiscal and housing sector reforms.

The government's program was ambitious, technically sound, internally consistent, and politically feasible. Its sequencing and timing was propitious. The Program was designed in a particularly complex moment for a new administration: in 2003, highly unpopular macroeconomic measures were undertaken and pressure for interventionist industrial policies were rising at the microeconomic front in part as a compensation for decline in economic activity and increase in unemployment. The government, however, managed to

[15]IFC lending also aims to increase SME access to credit and to support well designed micro-finance initiatives, both also objectives of the present program. The loan also builds on work for the Brazilian Government completed by the Foreign Investment Advisory Service (FIAS) run jointly by the Bank and IFC and could create synergies with further technical assistance by FIAS, particularly at the state level.

find the right balance between political feasibility, on the one hand; and technical coherence and impact, on the other.

After the operation, the implementation of the program continued, as discussed in section 6 of this report. These include important legislative initiatives, the strengthening of inter-ministerial institutions such as the Economic Policy and Infrastructure Committees; and the issuing of White Papers defining the Growth Program and infrastructure regulatory policy. Even in areas outside the program defined within this document, but within a broader growth agenda, such as the labor code and contract enforcement, the Government has launched initiatives toward achieving meaningful reforms within its mandate. By the end of 2004, the government edited a new document, summarizing its main achievements and the challenge ahead.[16] The document was well received by the private sector and helped to further consolidate the Program. In light of the complexity of the program, the political circumstance and the results so far, we consider the Borrower's performance to be highly satisfactory.

To implement its strategy, the government has put particular emphasis on consensus building mechanisms. Within the government, the coordination of the program will be done by the *Câmara de Política Econômica*. Other inter-ministerial committees have been created or will be revitalized, namely the *Câmara de Infra-Estrutura*, the *Conselho Nacional de Ciência e Tecnologia (CCT)*, and the *Grupo de Trabalho do Mercado de Capitais*. The *Conselho de Desenvolvimento Econômico* is another important mechanism, which aims to improve the dialogue with stakeholders including civil society and the private sector. All these institutions are still in place and operating. In this context, we considered the institutional development impact of the operation to be satisfactory.

8. Partner Comments

EVALUATION REPORT[17]

First Operation: Programmatic Loan for Structural Adjustment of Equitable and Sustainable Economic Growth

With the objective of moving ahead on an agenda of socially fair microeconomic reforms capable of promoting sustainable economic growth, the Brazilian government requested a World Bank adjustment loan to structure and monitor a program of equitable and sustainable economic growth.

[16] Ministry of Finance (2004): *Microeconomic Reforms and Long-term Growth*, Brasilia, December.
[17] This is a non-official translation of the official document "*Avaliação do Governo Brasileiro relativa à Primeira Fase do Empréstimo Programático*", sent by Marcelo Leandro Ferreira, chief of Staff of *Secretaria de Política Econômica do Ministério da Fazenda* by e-mail in may 27 2005. This translation was prepared by Iara Cristina da Silva Alves.

The cornerstone for the microeconomic reform agenda rests on a commitment to fiscal responsibility, and inflation and floating exchange rate objectives. The Brazilian economy is currently experiencing favorable macroeconomic conditions that include fiscal solvency, low inflation and solidity of external accounts.

The outstanding performance of the economy over the past two years mirrors the success of previous macroeconomic policies. In 2004, the gross domestic product grew by 5.2% - the best performance of the past 10 years. The country's industrial production grew by 8.3 percent. Between April 2004 and April 2005 the unemployment rate fell by 2.3 percent, and 1.5 million new formal jobs were created. Brazilian exports have been surpassing their own records on a monthly basis and have already gone beyond the benchmark of US$100 billion per year – resulting in a projected commercial balance of over US$ 30 billion in 2005. The primary results of the public sector reached 4.4% of the GDP during 2003-2004, and led to a reduction of the debt/GDP ratio by over five percentage points.

The good macroeconomic results have fostered a positive environment in which the country can dedicate itself to implementing the microeconomic reform agenda. In this sense, and to ensure equitable and sustainable economic growth, the Brazilian government focused on the following main objectives: (i) the reduction of logistics costs; (ii) the improvement of the business environment; (iii) the increase of efficiency and scope of the National Financial System; and (iv) the increase of the capacity to innovate.

Main Advances in the Reform Agenda

As part of an agreement to transfer federal roads to the states, in 2004 and 2005, 3,432.3 km and 3,446.3 km of roadways were placed under state management, respectively. New criteria for roadway concessions were also established and new contracts for the maintenance and rehabilitation of 8,000 km of the road network were signed in 2004. An auction for the concession of 3,059 km of highways is scheduled to take place in 2005.

As regards the ports sector, the government created an inter-ministerial group to review the sector's regulatory structure, to coordinate the formulation of policies and to establish norms for port administration.

According to data from the Federal Revenue Secretariat, the average net time for customs clearance procedures for exports fell from 17 hours 34 minutes to 10 hours 12 minutes between January 2004 and April 2005, a 40 percent reduction. The average net time for customs clearance procedures for imports was reduced by approximately 28 percent, from 21 hour 32 minutes in January 2004 to 15 hours 28 minutes in April 2005.

There were also important advances in the level of selectivity in exports and imports. The level of selectivity in exports fell from 23.29 percent in January 2004 to 22.11 percent in April 2005. Although this reduction of the selectivity level may seem small, it is important to note that during the same period, export declarations increased by 35 percent (from 87,365 in January 2004 to 117,837 in April 2005). This reduction resulted in a significant increase of exports and thus required greater effort on behalf of customs to continue reducing the levels of selectivity. It is also worth mentioning that the 22.11 percent level of selectivity for exports, as of April 2005 was close to the mid-term goal of 20 percent established in the guidelines for actions and in the program indicators. In imports, the level of selectivity was reduced from 28.96 percent in January 2004 to 24.81 percent in April 2005. It is important to highlight that this reduction was attained during a period in which the declarations of imports increased in 22.8 percent, from 68,424 declarations in January 2004 to 84,164 in April 2005.

An important advance was made in the business environment by approval of the Law for Public-Private Partnerships (*Lei das Parcerias Público-Privadas – N.º 11.079/2004*). This Law will allow the country to invest in infrastructure projects that yield positive results. In those cases in which the social benefit of a project is greater than the private benefits, the private legislation makes partnerships between the public and private sectors viable so that the private sector takes over of the costs of the project that cannot be recovered by means of the private economic exploitation of the undertaking.

The reform of the bankruptcy laws in Brazil was concluded with Law 11,101/2005 and Complementary Law 118/2005. The latter legal instrument made changes to the dispositions of the National Tax Code and is considered one of the most important measures for the improvement of the business environment. These two laws align the legislation concerning bankruptcy in Brazil with international practices. It is important to highlight that among the positive aspects of this new set of laws, which counts on great participation on behalf of creditors, are the conditions for the recovery of economically viable businesses facing financial distress. In the case of bankruptcy, the new legislation allows for prompt liquidation of the bankrupt estate thus maximizing the amount paid to creditors and, at the same time, avoiding the loss of tangible and intangible assets and the firing of employees. The changes made to the National Tax Code put an end to the series of taxes on the sale of assets of the bankrupt estate. In other words, the person or company who is acquiring the assets of the bankrupt estate is no longer responsible for taxes that existed at the moment of sale. It is worth mentioning that the taxes discouraged the acquisition of assets of bankrupt businesses, as acquisition of such assets also meant taking over contingent liabilities of unknown size that might not have been identified by the revenue services until the date of sale.

The new bankruptcy legislation also introduces dispositions that tend to facilitate the proper working of the credit market and that bring positive impacts on the reduction of banking spreads. The new law changes the order of priorities for receiving credits in case of bankruptcy, and places priority on credit to employees up to the limit of 150 minimum wages, followed by secured credits. It is worth highlighting that the priority of secured credits was greatly increased through the new law, when compared to the previous law. This change increases the probability that creditors with secured credits will receive their receivables and thus collaborates to the development and proper working of the credit market.

To disseminate the new bankruptcy law within the legal profession, among other initiatives to be undertaken within the Growth Program, a technical assistance loan associated with the loan was contracted within the scope of a Support Program to the Agenda of Equitable and Sustainable Economic Growth (PACE). A series of training and professional improvement courses were offered to judges and attorneys general with the objective of the effective implementation of the bankruptcy law. The Getúlio Vargas Foundation – an institution that provides graduate, post-graduate courses and continuing education, will offer these courses. Also under the scope of PACE, the Secretariat of Economic Laws of the Ministry of Justice is undertaking the implementation of a scholarship program for academic research (graduate and post-graduate) in Bankruptcy Law, a national contest of papers on the new bankruptcy law, and the establishment of a reference library on Bankruptcy Law.

Still as regards the Bankruptcy Law, it is important to highlight the creation of a court specialized in bankruptcy in the state of São Paulo. The court is comprised of two judges and will start its work when the new law is enacted, on June 9, 2005.

As regards the increase of efficiency of the National Financial System, the Central Bank of Brazil is still analyzing the second phase of the Brazilian Payment Systems. This analysis should be disclosed shortly. As regards insurance, the Executive Power forwarded a bill to the National Congress about the opening of a reinsurance market, which is currently monopolized by the State. The opening of the market should foster increased competitiveness in the securities sector, enlarge the diversity of products and reduce their costs.

The Executive Power has already completed another bill that legislates the activities of the credit protection data bank. This new legislation will soon be sent to the National Congress. With this, a gap in the Brazilian legislation is closed, as activities pertaining to credit protection data banks were ruled by a single article of the Code of Consumer's Protection (*Código de Defesa do Consumidor*). This article greatly limited the development of such activity, as the existing data banks acted basically on the distribution of negative information about borrowers (for example, the Credit Protection System). The new regulations permit the dissemination of positive information and thus reduce the asymmetry of information by allowing creditors to make a better distinction between good and bad payers. It is important to mention that the disclosure of positive information is also important as a tool to make credit cheaper for the low-income population, since they generally don't have guarantees to offer when requesting a loan. Therefore, this segment of the population would benefit from positive information such as a good credit record to obtain lower interest rates and better payment conditions.

The introduction of the loan modality that allows loan installments to be directly deducted from employees' pay checks (Law N.º 10.820/2003 and Law N.º 10.953/2004) will increase access to credit and reduce costs. This new credit modality has a smaller risk. As a result, it has become one of the credit operations that offer the market's lowest rates. When compared to rates charged by other personal credit operations, the average monthly rate of this credit modality was of 2.8 percent in November 2004 – much lower than the average monthly rate of personal credit operations (4.7 percent), and approximately one third of the average monthly rate charged for overdraft limits on checking accounts (7.6 percent). The amount loaned in these operations practically doubled during 2004--from around R$ 6 billion in January 2004 to approximately R$ 12 billion at the end of the year. The development of this modality helped demonstrate the important role played by low risks of loan delinquency, and of the legal security of operations toward making credit cheaper and increasing access to it – a fact that especially benefits low-income populations.

The Brazilian government has also been making a permanent evaluation of the existing mechanisms for micro-credit. Some measures taken in 2003, in the area of micro-finances, had a positive impact especially upon what concerns the population's use of the banking system. By September 2004, 3.4 million simplified bank accounts had been opened. The impact of the measure that handled the concession of credit of up to R$ 1,000.00 to micro-businessmen and the low-income population was lower than expected in terms of the credit amount. The measure was based on the forwarding of two percent of up-front deposits and with interest rates limited to two percent per month. In addition to this, 95% of the operations made were directly mainly at consumption credit. In this sense, Resolution N.º 3,229/2004 of the National Monetary Council minimized the restrictions for the application to resources resulting from the two percent of up-front deposit requirement and authorized financial institutions to charge rates higher than two percent per month, but limited to four percent per month, provided the credit was aimed at production. To facilitate collecting delinquent receivables, Bill 1,355 was forwarded to the National Congress in 2003. The bill allows Civil Society Organizations of Public Interest (OSCIP) and Societies of Credit to Micro-businessmen (SCM) to go to special courts for the collection of their receivables.

To increase the Brazilian economy's capacity to innovate, Law 10,973/2004 aims to overcome the historical obstacles that exist for the cooperation between public research institutes and the private sector. The new legislation provides for the creation of such legal regime. The Law refers to these institutions as Scientific and Technological Institutions (ICT) and allows for the knowledge generated within them to be absorbed and applied by private companies for commercial purposes. Among the instruments established by the Law are: covenant agreements between the ICTs and private companies, the transfer of technology developed by the ICT to the private sector upon payment of royalties and participation in the company's earnings, the participation of public researchers in projects of other ICTs and the sharing of infrastructure of laboratories and equipment with private companies that are involved with innovation projects.

Conclusion

The measures taken during the past 18 months are jointly responsible for great advancements in the improvement of the country's institutions, and aim at the building-up of an institutional environment that is adequate to the good performance of a market economy. The positive impacts of the reforms that have been implemented up to now, as regards the increase in the potential economic growth rate of the country, reduction of the market's interest rates, among others, should become evident during the next few years – as the Brazilian government continues to move ahead on the agenda of micro-economic institutional reform.

In order for the reforms to proceed, the following deserve special mention:

- Continuity in the implementation of the new bankruptcy law;

- Continuous improvement of existing credit instruments and the development of new instruments that are legally safer and that favor the development of the credit market and the increase of credit to the private sector as a proportion of the GDP;

- Continuity of monitoring and evaluation of existing micro-credit mechanisms so as to allow for the continuous improvement of these programs;

- Reduction of transaction costs by disseminating experiences in simplifying the registration and legalization of companies, with emphasis placed on the unification of data input and the synchronization of several rosters;

- Introduction of mechanisms to evaluate the effectiveness and efficiency of public expenditures on innovation.

The country's current economic situation is quite favorable for advances in this reform agenda to continue being made. In this sense, the Brazilian government would like to continue counting on the support of the World Bank during a second stage of the Programmed Adjustment Loan.

ANNEX 1: Key Performance Indicators

Table 1: Brazil - Selected Economic Indicators

Table 1: Principal Economic Indicators					
	2000	**2001**	**2002**	**2003**	**2004e**
Real GDP Growth (percent)	4.4	1.3	1.9	(0.2)	3.5
IPCA Inflation (percent)	6.0	7.7	12.5	9.3	5.5
SELIC Target Interest Rate (average)	15.8	17.5	19.20	23.5	16.4
Nominal Balance (PSBR, percent of GDP)	(4.5)	(5.2)	(10.3)	(3.7)	(2.6)
Primary Balance (percent of GDP)	3.5	3.6	3.9	4.3	4.6
Net Public Sector Dept (percent of GDP)	48.8	52.6	55.5	58.2	57.3
Trade Balance (US$ billion)	(0.8)	2.7	13.2	24.8	33.7
Current Account (US$ billion)	(24.3)	(23.2)	(7.7)	4.1	(2.4)
FDI (US$ billion)	32.8	22.5	16.6	10.1	13.0

ANNEX 2: Matrix of Key Actions and Indicators

Area/Policy	Prior Actions	Key Next Steps	Medium-Term Actions	Evaluation at the time of the ICR	Expected Outcome Indicators
	• Adequate macro-economic framework • Satisfactory Growth Program and Publication of White Paper				
Reduce Logistics Costs					
1. Improve Customs Effectiveness	• Customs Reform Strategy approved	• Selectivity level cut from 40 percent to 30 percent • Average net release time cut by 20 percent	• Clearance systems and procedures streamlined and adapted to expanded Customs' mission and selectivity cut to 20 percent		• Average gross release time decreased from 5 to 3 days (imports) and from 2.0 days to 1.0 day (exports)
2. Reduce Port Costs and Delays		• Productivity improvement plan approved	• Port authorities restructured and productivity plan implemented		• Average cargo transit time through port cut from 13.8 to 10 days for imports and 8.4 to 5 days for exports; average container handling cost cut by 10 percent
3. Reduce Transport Costs on Federal Road Network	• Law reorganizing Federal Transport Administration approved and implemented • 9percent of non-trunk roads on remaining federal network transferred to state management	• Output based maintenance/rehab contracts on 30 percent of federal road network • Further 12 percent of non-trunk roads on remaining federal network transferred to state management	• Road network classification Law approved (what Law is this – I have not seen any reference to this) • In addition to road concessions existing in 2003, further 5 percent of the remaining federal network under concession	• Approximately 6900 km were decentralized • New criteria for the concession of federal highways were established. • New contracts for highway maintenance and rehabilitation were signed	• 50 percent of road network in good condition (as evaluated by the International Roughness Index), • Average road transport costs decreased 5 percent • Total of 25 percent of non-trunk roads on remaining federal network transferred to state management
4. Foster Multi-modal Transport	• Geographical restructuring of railway concessions underway				• 50 percent of road network in good condition (as evaluated by the International Roughness Index), • Average road transport costs decreased 5 percent • Total of 25 percent of non-trunk roads on remaining federal network transferred to state management

Area/Policy	Prior Actions	Key Next Steps	Medium-Term Actions	Evaluation at the time of the ICR	Expected Outcome Indicators
Improve the Business Environment					
1. Strengthen Infrastructure Regulation	• Creation of land and water transport regulatory agencies (ANTT and ANTAQ) • PPP Law submitted to Congress	• PPP Law approved by Congress • Draft Law on Career Development Plan for Regulators submitted to Congress	• Law on Career Development Plan for Regulators approved by Congress	• PPP Law approved • Law on Career Development Plan of Regulatory Agencies approved.	• 5 Public-Private Partnerships projects approved
2. Enhance the Competitive Environment	• Amendments to Antitrust Law reviewed by inter-ministerial committee		• Amendments to Antitrust Law approved by Congress		• Increase in number of "hard-core" cartel cases with national impact successfully prosecuted • Pre-merger notification made mandatory
3. Simplify Entry and Business Operation	• Constitutional amendment approved to, inter alia, unify tax collection at federal, state and municipal levels for micro and small companies • Simplified procedures for companies' registration adopted in some cities • Export norms simplified by MDIC		• Law regulating the unification of tax collection approved by Congress	• Law that establishes a simplified taxation system for micro firms sent to congress	• Time needed to register a firm decreased to 76 days in pilot cities
4. Strengthen Corporate Insolvency Framework	• New Bankruptcy Law and Tax Code Amendment passed by Lower House	• Bankruptcy Law enacted • Amendment to Tax Code enacted • Preparation program initiated for judiciary and courts for new Law	• Bankruptcy Law becomes effective	• Bankruptcy Law was approved • Amendment to the Tax Code approved	• Increased speed of recuperation / resolution and higher recovery value of insolvent enterprises • Reduced spreads in financial intermediation

Area/Policy	Prior Actions	Key Next Steps	Medium-Term Actions	Evaluation at the time of the ICR	Expected Outcome Indicators
Enhance the Efficiency and Depth of the Financial System					
1. Increase Financial Competition	• Draft Complementary Law, extending application of Antitrust to Banking, submitted to Congress		• Effectiveness of Banking Competition Law	• Complementary Banking competition Law approved by the final special committee of congress and awaits deliberation by vote	• Examination of market conduct issues in banking sector by competition authority initiated • Reduced bank administrative costs components in bank spreads
2. Sound Fundamental Legislation and Systemic Risk Control	• Constitutional Amendment (Article 192) approved • New large value payments system installed and operating successfully	• Key legal initiatives for financial reform presented to Congress • Evaluation of residual risk in the payments system completed • Blueprint prepared for second phase payments reform (retail payments)	• Key legal reforms in financial system voted by Congress • Second phase (retail) payments system reform launched.	• Diagnostic study of the present retail payment system to investigate what innovations should be implemented	• Legal framework and physical infrastructure for financial system modernized; risks reduced and access to financial services expanded.
3. Mobilize Long-Term Resources in Insurance Sector	• Regulations strengthened on asset allocation, eligibility, registration, custody and audit requirements enhanced		• Extend permission for provision of reinsurance to new entrants	• Proposal to restructure the Re-insurance industry sent to Congress	• Accelerated expansion of insurance industry assets on sound basis • Enhanced service providers in reinsurance
4. Improve Efficient Financial Access for the Poor and for SMEs	• Provisional Law and Resolutions passed to expand financial access at banks	• Evaluate impact of new microfinance measures in terms of cost, outreach and impact. • Introduce small claims courts for small credits • Establish interlinkage of credit registries	• Passage through Congress of new factoring Law. • Enhanced use of positive information for credit reporting • Reduction of tax write offs for uncollected small claims		• Bank accounts (sight+savings) expanded from 95 (end 01') to 103 million by 2006. • Increased credit availability on sound footing to small borrowers

Area/Policy	Prior Actions	Key Next Steps	Medium-Term Actions	Evaluation at the time of the ICR	Expected Outcome Indicators
Increase Innovation Capacity to Transform Knowledge into Productivity Gains					
1. Increase Public R&D Effectiveness	• Innovation Law sent to Congress		• Innovation Law approved by Congress	• Innovation Law approved	• Number of technology transfer contracts between public universities/research centers and the private sector increased by 20 percent
2. Foster Private Innovation	• Regulation of *Fundo Verde-Amarelo* and other mechanisms to support private R&D introduced		• Evaluation completed of operations and management procedures of Sector Funds and FINEP	• Beginning of a re-structuration process of the the Sector Funds's management • Steps for sector fund's evaluation taken	• 10 percentage point increase in privately funded R&D share in total R&D expenditures
3. Create Innovation in Environmental Markets	• Kyoto protocol ratified, ICCC operational, and CDM project approval mechanism published		• ICCC approval and monitoring systems financially self-sustaining		• US$100 million in sales of carbon credits