

**Initial Project Information Document (PID)**

<b>Project Name</b>	BRAZIL-Programmatic Competitiveness Reform Loan
<b>Region</b>	Latin America and Caribbean Region
<b>Sector</b>	General industry and trade sector (70%); General transportation sector (30%)
<b>Theme</b>	Regulation and competition policy (P); Infrastructure services for private sector development (S)
<b>Project</b>	P080827
<b>Borrower(s)</b>	FEDERATIVE REPUBLIC OF BRAZIL
<b>Implementing Agency(ies)</b>	<b>Ministry of Finance</b> Address: Esplanada dos Ministérios – Bloco P 70048-900 Brasília – DF Brasil Contact Person: Tel: Fax: Email: <b>26445</b>
<b>Environment Category</b>	Not Required (PSAL)
<b>Date PID Prepared</b>	July 22, 2003
<b>Auth Appr/Negs Date</b>	September 8, 2003
<b>Bank Approval Date</b>	November 20, 2003

**1. Country and Sector Background**

Brazil's total factor productivity (TFP), the key to competitiveness, grew considerably faster than the world technological frontier during the economic reform era of 1967-77, slipped badly from then until around 1992, when inflation and government controls were rampant, and has been growing at about the same rate as the world technological frontier for the last decade. One major indicator of this lackluster performance is that Brazil's share of total world exports fell from over 2% in 1948 to less than 1% by 2000. Despite a variety of market-friendly reforms since the early 1990s, there remains a wide variety of microeconomic measures that Brazil could take to improve the performance of its economy.

**2. Objectives**

The overall objective of the project would be to improve Brazil's competitiveness by providing support to the Government in the definition and implementation of a Competitiveness Agenda. The key components of this would be to (a) reduce logistics costs, so as to facilitate export growth, (b) improve the innovation system, (c) increase competition, (d) improve the investment climate, (e) enhance labor productivity, (f) strengthen regulation and policy-making in infrastructure, and (g) deepen financial intermediation.

**3. Rationale for Bank's Involvement**

The Bank has been involved in a wide range of related economic reform operations in Brazil, and in the process has acquired substantial knowledge about the country's requirements. In particular, the proposed program would build upon and benefit from the following: (a) the Human Development Programmatic Loan, (b) the Fiscal Reform Programmatic Loan, (c) the Investment Climate Assessment, (d) ESW on Regulation in Infrastructure, and (e) ESW on local economic development.

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The Bank's financial assistance will help meet Brazil's external financing requirements and public sector borrowing requirements.

#### **4. Description**

The first programmatic loan will include a set of institutional strengthening measures and policy reforms aiming at:

- (a) *Reducing logistics costs* by (i) increasing the efficiency of Customs clearances, (ii) decreasing the cost of port services, (iii) fostering multi-modal transport and (iv) decreasing road transport costs.
- (b) *Improving the innovation system* by (i) strengthening metrology and standards services, (ii) improving the industrial property rights system and (iii) stimulating R&D.
- (c) *Increasing competition* by (i) enhancing anti-trust enforcement, (ii) facilitating firm entry and exit and (iii) reducing start-up costs for SMEs.
- (d) *Improving the investment climate* by (i) simplifying tax administration, (ii) amending the bankruptcy law and the procedures for enforcement of collateral, and (iii) improving environmental regulation (see Para. 9 below).
- (e) *Strengthening regulation and policy-making in infrastructure* by (i) improving regulatory agencies' operational capacity, (ii) increasing competition for provision of infrastructure services, (iii) enhancing the regulatory framework for concessions, (iv) restoring the capacity for infrastructure planning and (v) expanding access of the poor to infrastructure services.

#### **5. Financing**

##### **Source (Total ( US\$m))**

IBRD (TBD)

**Total Project Cost:** TBD

#### **6. Implementation**

While implementation of the measures would be the responsibility of a wide array of agencies, coordination would be under the Ministry of Finance, which has established a unit to serve as operational contact with the Bank. Implementation progress would be measured against the objectives and indicators in the Letter of Development Policy and the Competitiveness Agenda. Loan disbursement would follow the Bank's provisions for fast-disbursing operations, which require no procurement of goods and services.

#### **7. Sustainability**

The sustainability of the reforms would depend primarily on their success in improving Brazil's competitiveness, as well as on the country's overall economic performance. The Government and the Bank will monitor closely the performance indicators. Provided performance is satisfactory, this first programmatic loan would be followed by up to two additional programmatic loans, some 12-18 months apart, which would pursue the implementation of the Competitiveness Agenda. This programmatic loan would be complemented by a technical assistance loan to strengthen the institutions involved in the reform program, and to support the preparation and implementation of measures targeted for the subsequent programmatic loans.

#### **8. Lessons learned from past operations in the country/sector**

Programmatic competitiveness loans are a relatively new instrument in the Bank. The main lesson to date is the competitiveness needs to be tackled in a comprehensive, integrated manner; otherwise, the unreformed areas can become serious bottlenecks to progress.

A key learning in Brazil is the need to have broad support, in the Congress, administration and public, for reform programs.

## **9. Environment Aspects (including any public consultation)**

**Issues:** The main direct environmental aspect will be the operationalizing of the Inter-ministerial Commission for Climate Change (ICCC), which is to be in charge of all issues related to the Kyoto Protocol and the Clean Development Mechanism (CDM). Brazil has excellent prospects for attracting external financing under the CDM for the provision of global environmental services, especially biodiversity protection and carbon sequestration. Unlike in most other developing countries, the Brazilian private sector has been aggressively seeking out CDM projects, but cannot move ahead until the ICCC is functional, has defined the criteria for sustainable development, and is then able to certify whether each proposed project contributes to sustainable development.

## **10. List of factual technical documents:**

- Brazil - Judicial Reform and Private Sector Impacts: Findings from World Bank Sponsored Research. May, 19 2003. World Bank;
- Brazil – Trade policies to improve efficiency: increase growth and reduce poverty, World Bank (2003);
- J. Luis Guasch, ongoing work on logistics in Latin America;
- Os Problemas da Empresa Exportadora Brasileira, CNI, 2002;
- NGA- Brazil: the new growth agenda --Volume II. Analytical Report. Draft for QER;
- Instituto de Estudos da Operação do Comércio Exterior (ICEX), 1999;
- World Bank, “Brazil: Multimodal Freight Transport: Selected Issues”, 1997;
- The Study of National Integration and Development Axes (the Eixos Study) carried out in 1999 under the coordination of MPOG and BNDES;
- Part II, Tables 1 and 12. Brazil – Trade policies to improve efficiency: increase growth and reduce poverty, World Bank (2003)

## **11. Contact Point:**

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**Note: This is information on an evolving project. Certain components may not be necessarily included in the final project.**