Statement by Godfrey Gaoseb
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**Brazil: Country Assistance Strategy**

We welcome this discussion on the Country Assistance Strategy for Brazil and the accompanying Special Sector Adjustment Loans. We commend the Management and Staff for the comprehensiveness and excellent quality of these documents. We are particularly happy with the information provided in the Annexes as they provide a good insight to the three documents. The CAS is particularly anchored on poverty reduction through social development, fiscal stability, economic growth and development, effectiveness of public institutions and environmental management. It is consistent with the Government’s strategy and policy objectives articulated in the four-year program - PPA 2000/3.

We are impressed by the strong commitment of the Brazilian authorities to reforms, as evidenced by the impressive performance in both the economic and social realms during the last few years. The effective manner by which the Brazilian authorities have been able to manage the contagion effect of the Asian financial crisis of 1998-99 is applaudable. Through a combination of adjustments, including prudent fiscal and monetary policies, a full-fledged inflation targeting framework, floating exchange rate and protecting expenditure on social services, the Government was successful in comforting investors, creditors and consumers. The impressive inflow of FDI, in excess of US$20 billion annually reaching nearly US$30 billion in 1999 and expected to rise 24 percent this year, is a clear testimony to that. This notwithstanding, the Government is still confronted with a daunting task especially in the areas of fiscal reform, remaining structural reforms, employment and income generation, equitable distribution of opportunities and rights among the different segments of the population and the regions, and extending needed services to the poor. We are pleased with the articulation of the framework of reforms the Government is currently engaged in.

We applaud the Government’s strategy to improve policies targeting the poor. The incidence of poverty in Brazil is evenly divided between the urban and rural sectors and hence
different methods of intervention may be needed for addressing the problem. We also note that 63 percent of the country’s poor live in the nine northeastern states where the education level is low. In order to meet the Government’s target of reducing extreme poverty by 50 percent by the year 2015, it is imperative that more resources be generated through higher savings and better fiscal discipline and effective targeting. The low elasticity of poverty reduction to per-capita growth needs to be corrected if equitable development is to be achieved.

Fiscal stability clearly stands out as the linchpin for Brazil’s overall development efforts. We support the emphasis put by the CAS on assisting the country in this regard through a series of regular as well as additional adjustment operations. These should be targeted at improving the country’s capacity in the areas of mobilizing budget revenue, particularly through strengthening tax administration and collection and effectively managing expenditure, with special attention to protecting the share of resources allocated to poverty reduction. Reducing the debt/GDP ratio is also another critical area for success of the Government reforms.

Brazil’s economy is largely dominated by large international conglomerates whose operations are normally technology intensive and hence do not generate much employment opportunities. To pursue pro-poor growth policies, more analytical studies need to be undertaken on promoting small and medium scale enterprises (SMEs), which are normally labor-intensive. Growth in these segments of the market is vital for helping address the problem of unemployment and poverty. The Government’s plans to improve corporate governance, provide infrastructure and raise the quality of the labor force should also be buttressed by the Bank and other partners. We are also glad with the attention given by the Brazilian authorities to science and technology, especially involving the private sector in research and development in this area.

We are impressed with the strong exposure of IFC and MIGA in Brazil. IFC is one of the important sources of external finance for the private sector in Brazil, while MIGA’s exposure is one of the Agency’s highest in member countries. The country is a showcase for the catalytic role these two institutions can play in attracting Foreign Direct Investment. We, however, urge IFC to start investing in SMEs, especially in micro-finance in the northeastern region of the country. We also encourage both IFC and MIGA to step up their efforts in assisting the Government in its remaining privatization exercise, development of capital markets and as well as in their technical and advisory services.

We are glad to note the leading role played by the World Bank Institute (WBI) in stimulating participation and building consensus for reform, especially at the sub-national level. The great importance attached to analytic and advisory support and the focus on strengthening and enhancing dialogue with the Government and civil society is appropriate.

With only 6 out of 54 projects rated unsatisfactory, the portfolio performance in Brazil looks sound. The collaborative efforts of the Bank and the authorities to restructure the four problematic projects in the portfolio are welcome. The Country Management Unit’s role in this area cannot be more emphasized. Many useful lessons can be drawn from the exercise and fed into future operations at the entry level. The reasons behind the decline in disbursement, particularly fiscal constraint, and the increase in the value of foreign currency denominated loans due to the recent devaluation are understandable.
We endorse the proposed lending scenarios, instruments and triggers. We also support the proposal for expanding non-lending services to states, especially to the poorest ones, provided that the criteria for governing the fiscal relations between the Federal and State Governments are strictly adhered to.

The Bank’s collaboration and cooperation with other development partners in Brazil is impressive. We expect to see that the division of labor among them is based on their respective comparative advantage.

Finally, we lend our support to the accompanying two operations and wish the Government of Brazil all success in managing its development and reform challenges.