Brazil and the World Bank
Into the Fifth Decade
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Into the fifth decade

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FOREWORD

Into the fifth decade

For 40 years the World Bank has been assisting Brazil in its development efforts. In the 1950s and 1960s most of the Bank’s loans were for energy, transport, and heavy industry, helping to undergird a period of remarkable growth. In the 1970s a broad array of programs for social infrastructure was added to the development agenda, and in the 1980s the Bank has done what it could to help Brazil adjust its economy to new global realities, including assisting Brazil in its negotiations with foreign creditors.

The beginning of the 1990s is an opportune time to take stock of the Bank’s partnership with Brazil over the last four decades — to describe the main areas of the Bank’s operations, to identify successes and failures, and to distill lessons to guide the Bank’s collaborative effort with Brazil. Making no attempt at being comprehensive, this booklet merely highlights the record and spotlights promising areas for future collaborative action. The hope is to spur a strengthening of the Bank’s collaboration with Brazil in addressing the continuing challenges of economic and social development.

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As Brazil enters the 1990s, it confronts anew the challenges of reducing and stabilizing inflation, returning to a path of sustainable growth through efficient investment, and raising the living standards of all Brazilians, particularly the poor. Brazil is poised to undertake these challenges — with a new administration leading a broad consensus to modernize the economy, spur the private sector, address the needs of the poorest, and integrate Brazil with the global economy. The World Bank, in turn, stands ready to continue and indeed strengthen its collaboration with Brazil — and to assist with Brazil’s economic initiatives in areas where the Bank can best contribute. In assisting Brazil, the Bank’s comparative advantage lies in providing financial assistance, offering technical expertise and cross-country policy advice, and acting as a catalyst for mobilizing additional external resources.

More than half the Bank’s operations in Brazil, upwards of $7.5 billion, have been for energy, transport, and heavy industry.
Since its founding in 1945 the World Bank's main objective has been to help raise standards of living in developing countries by channeling financial resources from developed countries to the developing world.\(^1\) Owned by the world's countries and lending at lower-than-market rates, the Bank has been an important facilitator of development in this century.

The Bank's lending to Brazil began in 1949. Over the following three decades it emphasized project lending in support of investments in physical and social infrastructure and services in a variety of sectors. In response to the debt crisis of the 1980s, project loans have been supplemented by support for adjustment and policy reforms, including quick-disbursing loans for power, agricultural credit, agriculture, and export development.

Brazil is one of the World Bank's main clients, having received more than $16 billion in loans over the years. And the Bank is one of Brazil's major supporters in its development effort. Far more than financing alone, this lending has brought with it a continuing dialogue on policy and technical issues. These efforts have contributed, in their own modest way, to Brazil's advances in industry, agriculture, infrastructure, the social sectors, and institutions and living conditions generally — advances embodied in the growth of gnp per capita averaging 4% a year in the 1950s, 3% in the 1960s, and 6% in the 1970s, and in the rise in life expectancy from 52 years to 65 years over the same period.

Three forms of assistance

The Bank assists Brazil in three main ways — by providing external finance for investments, by engaging in an ongoing policy dialogue, and by acting as a catalyst for cofinancing.\(^2\)

- **Providing external finance for investments.** Through June 1989 the Bank made 186 loans to Brazil for a total of more than $16 billion (see the chart). Of these loans, 74 are ongoing projects.\(^3\) The Bank and the federal and state governments continue to develop a pipeline of investment projects — in agriculture and in-
dustry and in physical and social infrastructure — that will come on stream in the 1990s.

• Engaging in an ongoing dialogue on development and sectoral strategies. The Bank has long been working with Brazil in formulating development and sectoral strategies through its lending operations, technical assistance, and economic and sector work. Until the 1980s most collaboration concerned technical issues associated with projects for physical infrastructure, agriculture, and then social infrastructure. Over the last decade the policy dialogue has broadened to embrace the reforms called for in Brazil’s adjustment programs. And at various times, at the government’s request, the Bank has assisted Brazil in its negotiations with its foreign creditors.

• Acting as a catalyst for cofinancing. Bank projects have attracted significant cofinancing, especially for steel, power, and fertilizer investments in the 1970s. More than $4 billion was arranged in cofinancing between 1974 and 1984, with Japan, the Federal Republic of Germany, and the United States as the main sources. Such cofinancing has declined in recent years, with the reduction in direct commercial lending. But it still plays an important role in the context of the recent agreement between Brazil and the commercial banks, and there is considerable potential for resuming cofinancing as Brazil stabilizes its economy and returns to a sustainable growth path.

Lending flows and costs

The Bank’s work in Brazil, as the following pages show, has been evolving to meet changing needs. The arithmetic of the lending relationship has also been evolving.

The Bank committed about $14 billion to Brazil during 1974-88 and disbursed more than $9 billion. Net disbursements (of principal) came to more than $6 billion, but net transfers (of principal and interest), after almost four decades of being positive, turned negative in 1987.
One reason for this is that it is only natural for a country that has borrowed on such a large scale over a sustained period — as Brazil has over 40 years — for interest and principal repayments to eventually exceed disbursements. Another is that the quick-disbursing loans of the early 1980s pushed up the stock of World Bank debt. Net disbursements should again be positive once the current pipeline of projects is negotiated and begins to disburse.

Overall, the cost of Bank lending to Brazil has been low to reasonable, and the term structure much longer, than that from commercial sources. The effective cost of Bank lending varies for each project and involves many factors, including the disbursement period, the repayment profile, the maturity date, the rates of exchange, the type of interest, the front-end fees, and the availability of counterpart funds. Recent increases in the cost of Bank lending, owing to the volatility of exchange rates (especially to movements in the US dollar), are being addressed through a new currency pooling system that became effective in July 1989.
Almost half the Bank’s lending to Brazil, upwards of $7.5 billion, has been for energy, transport, and heavy industry. A sixth, roughly $2.6 billion, has been for agriculture and rural development, another sixth for banking and credit, and about a fifth for social programs, including education, health, water supply, and urban services. The returns from these investments have generally come close to their targets. Where projects have fallen short of their targeted rate of return, the lessons for future project development — by the Bank and by Brazil — have been considerable, resulting in improved future operations.

Energy

The Bank’s support for power projects in Brazil has evolved through several stages. Until the first oil shock (1974), emphasis was on constructing hydro generation and transmission facilities in the South and Southeast. From the mid-1970s to the mid-1980s, it shifted to expanding transmission and distribution systems nationwide, to reaching low-income groups and rural areas, and to building institutions. Since 1986, financial rehabilitation, conservation, and environmental management have been supported, in addition to continuing efforts to expand the transmission and distribution networks to match the generation capacity.

Bank projects assisted with the expansion of power generation transmission, and distribution capacity. They also led to a greater degree of environmental awareness, and helped strengthen key institutions. However, since the late 1970s, financial problems,
caused by a decline in real power tariffs, and a heavy and rising
debt-service burden, have hindered progress in the sector. As a
result, the sector's financial position has deteriorated, affecting its
ability to finance internally or borrow for necessary investment
expenditures, and making the sector a net receiver of funds from
the government's budget.

Recent Bank operations have supported tariff increases, as well
as efficiency improvements. Progress on tariffs has been uneven,
because the government's stabilization program periodically in­
cluded freezing of tariffs during the last three years. In 1988, the
average level of tariffs reached a 10­year high, but declined by almost 30%
due to a price freeze during the first
six months of 1989. Since then, real
tariff levels have been gradually in­
creased in an attempt to restore the
sector's profitability and thus to pro­vide the resources needed for expan­
sion to meet future needs.

The Bank has begun to expand
its energy lending into the hydrocar­
bon field, with particular emphasis
on expanding and improving the utili­
zation of natural gas. Bank support
in the energy sector will continue to assist Brazilian efforts at (1) fi­
nancial rehabilitation, (2) selecting investments based on least­
cost principles, (3) strengthening and rationalizing institutions, (4)
promoting programs for loss reduction, demand management,
and end-use conservation, and (5) safeguarding the environment.

Transport

Brazil's transport network has expanded impressively in an at­
tempt to keep pace with the country's dramatic industrial and
urban growth — and with the development of widely spread agricultural and mineral resources. The Bank has contributed to this expansion with 28 loans for $2.6 billion, about a sixth of its lending to Brazil. These projects have covered a broad spectrum of infrastructure, services, and institutions for highways, rural roads, railways, ports, and urban transport.

Before the first oil shock, most investments went to the construction of the network of primary highways, which the Bank supported with five successive loans. Then, the joint efforts of Brazil and the Bank gradually shifted toward rehabilitating deteriorated highways, strengthening highway maintenance capabilities, building secondary and feeder roads in all states to support agricultural expansion, modernizing the railways and their urban operations, and improving traffic management to relieve congestion in the major cities. Also during this period, the Bank helped finance some of Brazil’s major new investments in the sector, including the container terminal in Santos, the Carajás railway, the Cuiabá-Porto Velho highway, and the Porto Alegre urban train.

Brazil has been successful in achieving its physical investment targets and in building up an extensive transport infrastructure. But it appears, in retrospect, that the operation and maintenance of the transport system has received less attention than would have been desirable. Although some progress was made in contracting highway maintenance to private contractors, the federal and state highway institutions, after developing capabilities to manage large construction programs, are now attempting to adjust their structures and skills to their now more important responsibilities in operation and maintenance.
The nationalized transport sector, like the energy sector, has faced major problems. Central control over tariffs, investments, and financing strategies and overextended public service obligations have affected the commercial viability of many of the sector's parastatals. This, combined with institutional weaknesses, led to their recurrent deficits, excessive borrowing and unmanageable debt obligations. In addition, the organization of the sector into large, subsectoral, national enterprises, and the extensive regulation of many transport activities have hindered the progress towards efficient, market-driven, inter-model coordination of transport services.

The Bank stands ready to assist Brazil, through ongoing projects and through appropriate new operations, in developing and carrying out the policy and institutional reforms needed at the national and subnational levels — reforms for the efficient operation and maintenance of the transport system.

Industry

Brazil engineered its transformation from a primarily agricultural economy to an industrial economy over a few decades. Brazil now has one of the largest steel industries in the world, with some very efficient plants in both the public and the private sector. It also produces a variety of manufactured and semimanufactured products, including aluminum, iron ore, petrochemicals, and consumer durables. The Bank selectively assisted in this with 15 loans, for $1.3 billion, mostly in heavy industry.

The Bank supported three public sector steel projects in the 1970s. The projects successfully met their technical targets. However, they also suffered from managerial difficulties, implementa-
tion delays, price controls, and cost overruns.

Bank-supported aluminum projects, launched in the 1960s, have also performed well. But they are now facing financial difficulties, primarily because of low aluminum prices in domestic and world markets. The Carajás Iron Ore Project (1982) has been successfully implemented. But it has had an unfavorable indirect outcome — the threat of serious environmental degradation of the Greater Carajás Region outside the immediate project area.

Fertilizer production expanded during the 1970s to meet national self-sufficiency objectives for the mid-1980s. Faced with rising deficits, however, the government reduced rural credit subsidies in 1981, which in turn caused fertilizer demand to fall sharply. This pattern, combined with poor financial performance and managerial difficulties, hurt the operation of fertilizer plants, as state fertilizer enterprises took over an increasing share of the fragmented private fertilizer capacity. The recent recovery of international prices for agricultural commodities is raising demand again.

With industrialization has come a greater awareness of the need to control industrial pollution. The Bank has supported two industrial pollution projects and is developing others. As well as strengthening the institutions that regulate and monitor pollution, the projects contribute to improving the environment.

Manufactured exports have grown in recent years, but they still make up only about 20% of manufactured output. The government recognizes the need for a more favorable economic environment for exporting, including a well-defined strategy for trade reform. The Bank is currently assisting the government in formulating and implementing such a program.
Faced with the inefficiencies of import substitution and the challenges of global competition, the government's emerging strategy is to increase internal and external competition by removing protective tariffs and mobility constraints, to make industry more responsive to the rapid shifts in the international economy, to accelerate technical innovation, and to improve the performance and financial policies of public enterprises. The Bank is ready to support this effort through financial and technical assistance.

Urban development

The Bank started supporting Brazil's efforts at coping with rapid urbanization only in 1978, and since then has made 15 loans totaling about $1.4 billion. In the days of rapid industrial growth and the accompanying prosperity Brazil's management of urban growth was held as an example to the rest of Latin America and the developing world. Brazil also set the pace for innovations in this sector, including the trend toward decentralization.

Four Bank loans primarily in the Northeast and three in the South — for a total of $526 million — have focused on municipal development. The evolving design of such projects reflected a declining dependence on federal participation, a gradual reduction in grants and an increase in the municipalities' willingness to borrow. Three experiments with integrated metropolitan projects experienced early problems in coordinating components of housing, squatter upgrading, low-cost infrastructure, drainage and solid waste, but they led rapidly to significant institutional strides. All projects have suffered some setbacks as a result of the dismantling and restructuring in sector agencies between the years 1986-1989 and the consequent disruption in counterpart funds. Four urban transport loans focused on improving overall management and coordination of the sector and metropolitan transit systems.

Audits of selected urban projects have reinforced the need to address fundamental problems facing such projects. The audits recommend (1) greater flexibility to allow changes during project
implementation, (2) local coordination and institutional strengthening, (3) stronger financial mechanisms and policies for project implementation, (4) performance incentives to municipalities responsible for project execution, (5) reliable sources of financing for urban investments, and (6) more thorough monitoring of the financial and institutional impacts of projects. These lessons have been incorporated in the design of a new generation of municipal development projects, such as those in the states of Paraná and Rio Grande do Sul.

The Bank stands ready to continue to support Brazil's efforts to strengthen the country's institutional and financial capacity to manage rapid urban growth. In the short and medium term, this means improving the capacity of municipalities and states to assume their increased responsibilities under Brazil's new Constitution, enabling them to use the significant increase in their fiscal resources, and to efficiently improve their administrative capability.

Addressing issues of greater public sector efficiency, increased resource mobility, and stronger private sector involvement will help, but it will also be important to assist with fundamental reforms in urban development and urban environmental policy — and with the coordination of coherent and complementary investment decisions for regions, sub-regions, and metropolitan areas.

Water and sanitation services

The Bank has supported Brazil's investment in basic water supply and sewerage collection since 1970 with 12 projects for $1.4 billion, or nearly 10% of the Bank's lending to Brazil. Early on, the
Bank supported Brazil’s establishment of the National Plan for Water and Sanitation (PLANASA) and its goals of increasing investments in water supply and sewerage collection services throughout the country. Over the past 20 years, PLANASA made more than 55 million water connections and 24 million sewerage connections nationally, largely in urban areas. This achievement brought the country’s performance in the sector to near the top in South America, with 87% of total urban population supplied with piped water.

Progress has also been significant on the institutional side, with the Bank supporting PLANASA’s efforts to strengthen and in some cases to establish the water companies in each state. To ensure the companies’ financial viability, a National Tariff Law established minimum remuneration, and PLANASA set guidelines for efficient investments, loss-reduction programs, and accounting and financial standards.

Despite the progress, water and sewerage services have not kept up with demand, and large investments are still required, particularly to correct interregional disparities. Future sectoral support could include sewerage services, which currently meet only 39% of demand (short of PLANASA’s initial goals). The World Bank would also support water and sanitation services in rural areas (the federal government is developing a national plan for rural water supply), the control of water pollution, reforms in pricing, investment planning, and cost control to foster public sector efficiency.
Agriculture and rural development

Brazilian agriculture, successfully modernized over the last 20 years, plays a key role in employment, domestic food supply, and export earnings. The Bank has supported more than 50 agricultural projects in Brazil, with a total loan commitment of more than $4.5 billion and disbursements of $2.6 billion. These investments have covered a wide range of activities, including livestock, forestry, irrigation, settlement, rural credit, natural resource management, research and extension, area development and poverty alleviation, and marketing and credit policy reform.

Since 1974 the World Bank has supported Brazil’s efforts to address rural poverty, especially in the Northeast. More than half the Bank-financed agricultural projects have been in the Northeast, and many nationwide projects complement agricultural development programs in the Northeast. Rural development projects, targeted specifically at the rural poor (small farm families and the landless), have been a major part of this effort.

Polonordeste, a Northeast regional rural development program from the mid-1970s through the mid-1980s, included 10 Bank-supported projects in eight states with a total loan commitment of about $500 million. Polonordeste was only modestly successful. The program helped raise incomes and reduce poverty in limited geographical areas, but it failed to address fundamental development constraints facing many small farmers — such as improved access to water and land.

A second-generation rural development program in the Northeast (PAPP) began full implementation in 1987, supported by 10
state-based projects and a regionwide project to improve land tenure. The projects involve a total loan commitment of almost $1 billion. Based on lessons from Polonordeste and other previous efforts, the PAPP program has a simpler design than Polonordeste and is meant to raise incomes and productivity of a much larger portion of the rural poor. Nevertheless, implementation has been constrained by funding delays, time-consuming administrative procedures, and institutional weaknesses of some state and federal institutions.

Programs such as Polonordeste and PAPP have contributed to the alleviation of rural poverty in the Northeast. But additional efforts, particularly in providing such basic social services as education and health, are necessary for a successful poverty alleviation strategy—as is continuing agricultural policy reform, specifically by improving land tenure systems and land accessibility.

Since the early 1980s the Bank has also been involved in Northwest regional development activities, through support for three agricultural projects in the Polonoroeste program. These early efforts have had mixed results. Many of Polonoroeste’s physical targets have been met, including some of the more difficult activities, such as protection and assistance to Amerindian communities. But severe problems—limited technical knowledge, funding delays, lack of agricultural credit, institutional weaknesses, inappropriate government incentives, and unexpectedly high spontaneous migration in the area—resulted in unchecked deforestation and the encroachment of farming and ranching into unsuitable areas.

In the last two years the implementation of Polonoroeste has improved markedly. The program’s institutional, environmental, and technical advances have paved the way for new natural re-

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source management projects. Through a combination of policy reforms and investments, these projects would increase emphasis on the protection and conservation of forest, biological, and Amer­
indian reserves, while steering agroforestry activities toward ar­
eas where sustainable development is possible.

Many other Bank-supported investments have contributed to the growth and efficiency of Brazilian agriculture. Noteworthy among them are three national research projects, which have sup­ported Brazil’s emergence as one of the developing country lead­ers in agricultural research. Important agricultural policy re­forms, including reductions in rural credit subsidies and some trade and marketing restrictions, have also been supported by World Bank adjustment loans and rural credit operations.

Presenting formidable challenges for the next decade are Brazil’s continuing needs to address rural poverty, to improve natural re­source management in the Amazon basin and elsewhere, and to continue to promote agriculture’s efficiency and growth. Recent World Bank work in agriculture points to the needs for comple­mentary social investments, and for improved management and stable financing mechanisms in support of rural development activities, and for increased local involvement in funding and management. That work also points to greater emphasis on land-intensive agricultural development as opposed to further area ex­pansion — and on soil conservation and land management in fragile ecosystems, more liberal marketing and trade policies for key agricultural commodities, and increased private participation in irrigation development, agricultural marketing, and extension.

Health, nutrition, and education

Social services have expanded tremendously in Brazil, but in­fant mortality is still high and school attendance low, compared with other countries at similar income levels. The problem is not that Brazil spends too little: the country spends more per capita for social services than most developing countries. The problem is
that much of the spending has been for pensions and urban housing — with little impact on the welfare of the poor — and that spending for health and education has been concentrated on high-cost hospital care and university education.

Bank assistance in the social sectors, modest until recently, has grown with Brazil’s attempts to increase spending on basic health and education programs, to improve efficiency and accountability by decentralizing to the states, and to reach the poor through better targeting.

In nutrition the Bank approved an experimental project in 1976, which resulted in higher nutritional standards. But the project’s goals for institutional strengthening — overly comprehensive and involving numerous agencies, like the rural development programs — were not met.

In health the Bank began freestanding lending in 1982. Recent projects focusing on basic care and endemic disease control include (1) a project for greater São Paulo emphasizing basic care and efficient administration at lower levels of the system, (2) two Northeast Basic Health Care Projects establishing basic rural services in 10 Northeast states, (3) the Northeast Endemic Disease Control, and (4) Amazon Basin Malaria projects.

In education Bank loans have supported basic education in the rural Northeast and in the rapidly growing North and Centerwest states. These loans have emphasized the development of capacity at the state level. The projects were successfully implemented, but they have had little impact on the quality and efficiency of the overall education system. Other ongoing projects include those to strengthen secondary technical education, vocational training, and scientific research.
The Bank stands ready to increase lending for social programs throughout the 1990s. Bank lending will continue to support government programs in nutrition, basic health, and basic education. It could also, as recent analyses of the social sectors in Brazil suggest, branch into such new directions as providing assistance for improved quality and greater efficiency in higher education, development of cost-effective child care programs, expansion of targeted nutrition programs, and more effective participation of the private sector in health.

Environment

Rapid development over the last three decades has — as in many developed and developing countries — had serious environmental consequences in Brazil, exacerbated by past policies. Today, Brazil is taking remedial measures. The Bank has been providing financial support and will continue to do so.

The Bank-supported Polonoroeste program and the 1982 Carajas Iron Ore Project included environmental protection measures at their inception. For both projects the environmental covenants were met. But the projects' unanticipated spillovers and the inability to control spontaneous unrelated activity have had a serious social and environmental impact.

The need for greater attention to a project's intersectoral links has resulted, in part, in a new Bankwide policy for systematic and comprehensive environmental analysis of projects, including the indirect and spillover effects in contiguous areas. Implementing this new policy will be a learning experience for the World Bank. Despite best efforts, some errors may be made, but the purpose of the policy, its risks notwithstanding, is to incorporate environ-
mental concerns into project design.

The Bank has financed two industrial pollution projects in São Paulo that show encouraging improvements in controlling toxic air and water emissions and in achieving institutional goals through personal training and studies. Similar projects are planned in other large cities, as the federal and state governments expand the enforcement of pollution controls. Other discrete Bank environmental projects under preparation include a national environmental project, a national forestry project, and a series of natural resource management and soil conservation projects.

The Bank is assisting the government in pursuing environmentally sound development activities, through such initiatives as:

- Careful land and water resource management.
- Control and management of urban and industrial pollution.
- Strengthening environmental protection institutions, particularly in financing training, equipment, and operational procedures.
- Fiscal reform to modify tax and credit incentives in favor of sound environmental management, and to assist with the general goal of environmental protection.

**Structural adjustment**

Having experienced high inflation and slower growth during the 1980s, Brazil needs to restore and improve living standards in the 1990s. With global competition intensifying and putting pressure on Brazilian industry, the government recognizes that a rigorous program of fiscal adjustment and medium-term structural adjustment must be implemented to restore and sustain growth.

Adjustment policies thus far have been very successful in reducing external imbalances through increased exports. But internal fiscal reforms have been less successful, and have been exacerbated by the fiscal difficulties of effecting an internal transfer from exporters to government, needed to service the nation's external debt. Faced with a large public deficit, the government confronts
difficult budgetary choices between continuing to fund social and economic programs, providing social security and employment, and undertaking fiscal tightening.

The Bank's assistance to Brazil's adjustment efforts has combined studies and lending. At the government's request, the Bank periodically undertakes macroeconomic analyses of an array of subjects: among them, taxes, public spending, money and financial markets, external debt issues, and balance of payments policy. These analyses are the basis of the macroeconomic policy dialogue with the government and the framework for adjustment lending. The Bank also conducts detailed sectoral studies to support sectoral adjustment loans.

In recent years the Bank has made four sectoral adjustment loans for $1.7 billion, two for agriculture, one for electric power, and one for export development.

The two agricultural reform loans focused on rural credit and trade and marketing policies and have supported the government's policy of reducing agricultural credit subsidies and rationalizing agricultural trade policies. The power sector loan has supported sectorwide pricing, institutional and environmental reforms, while the export development loan supported the institutionalization of an import duty-drawback scheme for exporters. The Bank has also supported a public sector management project to strengthen federal administration in the economic ministries.

The Bank sees adjustment lending as a selective instrument for supporting critical reforms embodied in the government's medium-term economic adjustment program that is developed by the country receiving such support from the Bank. For Brazil, the Bank stands ready to support a medium-term adjustment program that is fully responsive to the developmental goals and financial realities of the 1990s — a program that would support the objective of reformulating the role of government in the economy, and on the basis of a judicious recovery of investment, initiate a period of stable and equitable growth.
AGENDA FOR THE FIFTH DECADE

Brazil and the World Bank have learned much from four decades of collaboration. The Bank is incorporating these lessons into its programs and stands ready to offer Brazil its assistance. Future activities include assisting Brazil's efforts at stabilization and adjustment and at restoring growth. An important part of the Bank's work will involve support for programs aimed at increasing the productivity and improving the living conditions of the poor, protecting the people and environment affected by the implementation of investment projects, and conserving the natural resource base. The Bank will also continue to assist Brazil in strengthening relations with the international financial community.

The lessons of Brazil's development efforts in recent years suggest that, of the many areas of common concern, five primary areas deserve special attention:

First, Brazil urgently needs fiscal reforms to reduce the fiscal deficit and inflation — and to restore macroeconomic stability, public and private investment, and growth. The Bank is ready to assist Brazil's initiatives to promote improved fiscal and financial performance through fiscal reform, pricing, cost recovery, and the reduction of unwarranted subsidies.

Second, growth in the 1990s needs to be coupled with equity — through policies that reduce poverty and the disparities in income and resources. Inadequately targeted spending has much scope for redirection to the neediest without additional outlays. Physical and social infrastructure services and subsidies need to be targeted better to assist the poor and improve the productive base of resource-poor areas and income groups. The Bank has increased its efforts to address these issues and is willing to offer its cross-country experience and financial support to Brazil, when desired.

Third, efficiency needs to be increased, especially in the light of
increasing global competition. Spending also has to become more cost-effective, given the constraints on resources. Financial transfers, many of which undermine local incentives to reduce program costs, need to be based on more transparent criteria, such as per capita income. Privatization of inefficient public enterprises and the continuing opening of the economy will contribute to efficiency and strengthen the economic base. Removal of barriers that constrain mobility, competition, and innovation will help Brazil compete internationally. Bank support for Brazil’s efforts in this area can, if necessary, be intensified.

Fourth, to help make the economy more efficient, institutions should be strengthened through reform. The new Constitution promotes this strengthening by transferring many resources and responsibilities to the states and municipalities. Additional efforts to clarify the roles of each level of government in making policy, mobilizing resources, carrying out programs, streamlining bureaucracy, and involving communities in social and sectoral policies can be supported by the Bank.

Fifth, Brazilian sectoral strategies should consider incorporating the lessons of past projects with respect to the many indirect links across sectors. Sectoral policies and project design must do more to anticipate the possible intersectoral linkages and possible negative spillovers of projects. For example, the investment process should from the outset, incorporate such links as those between environmental protection and sustainable agricultural and industrial development. The World Bank is developing the expertise to conduct such analysis and is ready to assist Brazil.

The Bank’s long-term development relationship with Brazil enters its fifth decade with a large portfolio of projects under implementation, and many future projects already identified. In each of the foregoing areas, or other areas that may be identified as priority by the government, Brazil’s initiatives and efforts will, if the Brazilians so desire, receive the full financial support and assistance of the World Bank.
NOTES

1. The expression, "The World Bank," means both the International Bank for Reconstruction and Development (IBRD) and its affiliate, the International Development Association (IDA). IDA provides assistance to the poorest developing countries — those with an annual per capita GNP of $480 or less (in 1987 dollars) — at more concessionary terms. Also affiliated with the World Bank are the International Finance Corporation (IFC), which assists the private sector of developing countries, and the Multilateral Investment Guarantee Agency (MIGA), which encourages equity and other direct investment flows to developing countries through the mitigation of noncommercial investment barriers. In this report, the "Bank" refers to the IBRD.

2. The Brazil Department, in the Bank's Latin America and Caribbean (LAC) Regional Office, is the main agent of dialogue and collaboration with the Brazilian government. The Department has five divisions: Country Operations, Agriculture Operations, Industry and Energy Operations, Infrastructure Operations, and Population and Human Resources Operations. Two Bank field offices are located in Brazil, the Resident Mission in Brasilia and an agriculture office in Recife. The LAC Regional Office also has a Technical Department which provides technical support for Bank activities in all Latin American countries, including Brazil. Other supporting units in the Bank's Finance and Research complexes provide technical assistance in a variety of subject areas. All loans made by the Bank are approved by the Board of Executive Directors.

3. These numbers differ from those in the 1989 World Bank Annual Report. The total loan amount has been adjusted here for

4. Agriculture credit loans are included in banking and credit, not in the total of agriculture and rural development.
PHOTOGRAPHS

The Oxiteno ethylene and glycol plant in Camaçari (5)

Heavy equipment at the Aguas Claras mine near Belo Horizonte (6)

Track crew laying new rail near Belo Horizonte (7)

A worker at COSIPA steel plant (8)

A worker making yarn at the TECANOR/Hering mill (9)

Workmen installing lines in São Paulo (11)

Farmer using water buffalo for plowing (12)

Herd of beef cattle (13)

Thrashing rice in Piauí (14)

Pediatric care in Ouro Preto Hospital (16)

Planting seedlings in Quatro Mares, Polonoroeste (17)

All World Bank photos
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