SOCIAL SECTOR REFORM AND SOCIAL PROTECTION PROGRAM

(BR-0308)

EXECUTIVE SUMMARY

BORROWER AND GUARANTOR:	The Federative Republic of Brazil	
EXECUTING AGENCY:	Ministry of Budget and Management (MPG)	
AMOUNT AND SOURCE:	IDB:	US$2.2 billion (OC)
	World Bank:	US$252 million
	Total:	US$2.452 billion
FINANCIAL TERMS AND CONDITIONS:	Amortization period:	5 years
	Grace period:	3 years
	Disbursement period:	16 months
	Interest rate:	Six-month USD LIBOR rate plus a spread of 400 basis points per year
	Credit fee:	0.75%
	Special fee:	1% in advance
	Currency:	U.S. dollars
	Waiver of credit fees:	The waivers that would normally be allowed for regular ordinary-capital loans do not apply.

OBJECTIVES: The general objective of the program is to support the measures taken by the government to protect federal social spending levels during a downturn in the economy, while helping to maintain macroeconomic stability to restore confidence in the country's capital market. The specific objectives are to: (i) ensure that public spending on federal programs to deliver basic social services targeted to low-income groups remains at adequate levels while improving efficiency; (ii) support the government in carrying out and deepening the reforms under way in the education, health, labor and social welfare sectors; and (iii) provide fast-disbursing funds to support the measures taken by the government during the macroeconomic stabilization process.

DESCRIPTION: The program is an emergency sector operation intended to facilitate the following three components:

(i) Support for the country's three-year economic and financial reform program. The actions to be supported under this component relate to compliance with the *economic policy memorandum* signed with the International Monetary Fund, which backs the government's goals of obtaining a fiscal surplus, while promoting even greater openness of the economy and other measures to guarantee monetary discipline and macroeconomic stability. The agreement with the IMF includes lines of actions and targets for the

transition period from 1999 to 2001.

(ii) Protection of federal social spending. Under this component the government undertakes to maintain financing and levels of delivery of basic social services for certain priority federal programs in the education, health, labor and social welfare sectors in 1999-2000 in order to minimize the social cost of fiscal adjustment. The operation will ensure that the budget for 1999 complies with the targets and will protect them in the budget programming for 2000.

(iii) Monitoring of and support for the social reforms under way. This component includes commitments to improve certain federal social programs in the fields of education, health, labor and social welfare with a view to improving the efficiency and quality of the services delivered to Brazilians, particularly the poor. In the medium and long terms, these reforms will result in higher quality education, greater efficiency and equity in the delivery of health care services, and better targeting, efficiency and transparency in poverty-reduction and job-creation programs.

ROLE OF THE PROJECT IN THE BANK'S COUNTRY AND SECTOR STRATEGY:

In accordance with the country paper approved in 1996 and updated in 1998, the Bank is implementing a strategy of cooperation with the Brazilian government that gives priority to the following areas: (i) modernization and reform of the State on the federal and subnational levels of government; (ii) economic liberalization and a lowering of domestic costs that impact expert competitiveness and/or increase the costs of imports (referred to as the *Redução do Custo Brasil* initiative); (iii) reduction in social inequalities and poverty; (iv) targeted and efficient delivery of basic social services; and (v) attention to critical environmental problems.

This program forms part of the Bank's operational strategy for the country since it is geared to the targeted and efficient delivery of basic federal social services and is designed to contain growth in social inequality and poverty at a time of restricted spending. It will help to develop human capital, maintain basic social services in education, health care, labor and social welfare and facilitate access thereto and support the consolidation of reforms in these sectors.

DISBURSEMENTS:

The loan will be disbursed in three tranches: the first for US$1.1 billion (50%), the second for US$660 million (30%) and the third for US$440 million (20%). The first tranche will be disbursed in March 1999 or thereabouts. The second and third tranches will be disbursed when the corresponding contractual conditions are complied with, estimated for August 1999 and March 2000, respectively.

ENVIRONMENTAL AND SOCIAL CONSIDERATIONS:

The protected programs comply with the country's environmental standards and procedures. They focus chiefly on the provision of basic social services and not on the construction of civil works (see paragraph 4.32).

The program's social impact will be positive, since it is intended to protect social spending at a time of fiscal tightening and also because it supports actions and reforms in the above-mentioned social sectors, which will improve access to basic social services for the most vulnerable groups in low-income sectors (see paragraph 4.33).

BENEFITS:

The program is expected to produce the following benefits:

(i) Maintaining budget allocations and improving the efficiency of federal social programs will translate into greater capacity by low-income groups to build up and maintain human capital, which will protect them from the possible negative impact of the adjustment program;

(ii) Helping the government to speed up the reforms under way will help to improve a number of federal social programs in the fields of health care, education, labor and social welfare, with a view to boosting the efficiency and quality of the services delivered to the public, particularly to the poor. In the medium and long terms, these reforms will lead to high quality education, greater efficiency and equity in health care services, and better targeting, efficiency and transparency in poverty-reduction programs; and

(iii) Providing the government with fast-disbursing funds which, when added to funds from other emergency operations by the IDB, the World Bank, the IMF and the seven most highly-industrialized countries (G7), will contribute significantly to maintaining a stable macroeconomic environment, which will help to restore confidence in the Brazilian capital market. Stability is essential for maintaining the low inflation that has brought substantial benefits to low-income families in recent years.

RISKS:

In a scenario in which the international financial crisis persists during 1999, the financial situation will again be under pressure from high interest rates and the volatility of the international financial system, which could lead to further cuts in government spending and make it impossible to maintain the commitments set forth in the program. A mechanism for regular monitoring has been designed to make any needed adjustments in the targets, with the safeguard that if spending is further curtailed, the cuts will go no deeper than 1997 spending levels.

Another risk is that compliance with the package of targets and reforms contained in the agreement with the IMF might be held up owing to political delays in Congress. However, the Executive Branch has the will and commitment to comply with the goals and reforms

set forth in the agreement. One clear example of its commitment is that approval was obtained from Congress for the social security system and administrative reforms (see paragraph 1.17 (a) and (b)).

SPECIAL CONTRACTUAL CLAUSES:

General conditions. As a condition precedent to each disbursement, the borrower will present evidence to the Bank's satisfaction with respect to: (i) the consistency of the macroeconomic framework agreed upon with the IMF; and (ii) progress in the relevant actions established in the policy letter (see paragraph 4.7).

Special conditions. Program disbursements for each of the three tranches will be subject to the presentation of documentation providing evidence of compliance with the goals for the different components, as described in paragraphs 4.8 to 4.27. The conditions are also presented in the matrix attached as Annex III-1.

POVERTY-TARGETING AND SOCIAL-SECTOR CLASSIFICATION:

The operation seeks to protect programs in social sectors selected owing to their impact on poverty reduction. Although a large number of the beneficiaries of those programs belong to low-income groups, they do not constitute the majority, and therefore the program cannot be classified as a poverty-targeted investment in accordance with document AB-1704 (paragraph 2.15).

With respect to the social classification of the loan (document AB-1704, paragraph 2.13), this program qualifies under the social equity and poverty reduction category, since it protects investments in the education, health, labor and social welfare sectors.

EXCEPTIONS TO BANK POLICY:

None

PROCUREMENT OF GOODS AND SERVICES:

Not applicable