

SECTOR PROGRAM TO BUILD HUMAN CAPITAL

(BR-0360)

EXECUTIVE SUMMARY

Borrower and guarantor:	Federative Republic of Brazil	
Executing agencies:	Ministry of Planning and Budget and Ministry of Finance	
Amount and source:	IDB (OC):	US\$500 million
	Total:	US\$500 million
Financial terms and conditions:	Amortization period:	20 years
	Grace period:	5 years
	Disbursement period:	2 years
	Interest rate:	variable
	Inspection and supervision:	1.0%
	Credit fee:	0.75%
	Currency:	U.S. dollars, under the Single Currency Facility
Objectives:	This sector program will support the implementation of federal income-based transfer programs for poor families with an eye to building Brazil's human capital and thus breaking the vicious circle of poverty.	
Description:	<p>The program is structured as a sector loan that will be executed over a period of up to 24 months and disbursed in two tranches of US\$250 million each. Disbursements will be subject to specific actions being completed to enhance four income-based transfer programs: the food-support subsidy program (<i>Bolsa Alimentação</i>), the education-support subsidy program (<i>Bolsa Escola</i>), the program to eradicate child labor (PETI), and the youth-support subsidy program (<i>Agente Jovem</i>).</p> <p>These programs transfer cash directly to poor families having monthly per capita incomes equivalent to or less than one half the monthly minimum wage (US\$36) in exchange for compliance with an agenda of commitments. The agenda of commitments for each program consists of specific actions for health care, nutrition, education, or</p>	

training that can be performed by the family and that complement government efforts to pursue human development objectives. For instance, the family's commitment in the education sphere can be to ensure that children did not miss school, with the objective of lowering drop-out rates and improving school performance.

The sector program's action focuses on a set of measures that will trigger the disbursements and are geared to meeting challenges faced by the programs in four areas:

- (i) **Targeting.** Targeting instruments will be developed, fine-tuned, systematized, and implemented for purposes of expanding the transfer programs' coverage. The goal is to improve program targeting by having municipal governments adopt appropriate targeting instruments and thereby increase the poverty alleviation impact. Better targeting will also bring greater equity to program actions by ensuring equitable participation of the country's poorest municipios, defined as those with the lowest Human Development Index (HDI). The expected impact of this component is to enhance targeting instruments and their use, thus helping to eliminate arbitrary biases in resource allocation and make social spending more efficient and effective.
- (ii) **Evaluation.** Process and impact evaluation methodologies will be developed and applied for each of the programs, with an eye to providing input on each program's targeting, efficiency, and effectiveness and make the necessary adjustments. The impact of these actions will be to make technical criteria available for redirecting the programs in the future and, in the medium term, evaluating their impact on beneficiary families.
- (iii) **Institutional framework.** Planned actions in this area will seek to consolidate the programs' institutional framework, including the establishment of legal and administrative instruments to provide the necessary legal, organizational, financial, and operative backing. These actions are expected to consolidate the financial and institutional framework and thus make the programs more sustainable.
- (iv) **Management.** Strategic plans and policies will be formulated and implanted to enhance the programs' management, including: (i) policies and strategies for coordination with subnational governments and with similar programs so as to avoid overlapping and ensure

greater complementarity; (ii) the establishment of permanent information systems for monitoring, providing oversight, and measuring performance with an eye to identifying and taking timely remedial action; and (iii) the development of technical instruments to increase the programs' operational efficiency and equal access by eligible beneficiaries and make program actions more relevant. The expected impact of these actions will be to ensure timely generation of the necessary inputs on the programs' performance so as to facilitate proper monitoring and oversight.

**The Bank's
country and
sector strategy:**

The Bank's strategy, as set forth in the July 2000 country paper, is to support the government in its efforts to grow within a framework of stability and to reduce inequalities and poverty. The main areas of action are: (i) promote and deepen reform and modernization of the State; (ii) support efforts to enhance the competitiveness and market access of Brazilian products; (iii) reduce social inequalities and poverty; (iv) address environmental and natural-resource issues; and (v) support regional integration efforts.

The proposed program falls mainly within the area of reducing social inequalities and poverty, inasmuch as its actions support: (i) the implementation and enhancement of income-based transfer programs aimed at alleviating poverty; and (ii) the development and fine-tuning of targeting systems to better channel public resources to the most vulnerable groups, with consideration being given to gender issues and priority attention to children and young people. It is also related to the deepening of reform and modernization of the State, to the extent that these programs entail significant advances in the way social support for the country's poorest families is managed.

**Environmental
and social
review:**

Inasmuch as this is a sector program, no provision is made for financing works or the related management actions. Accordingly, it will not have any impact on the environment nor will it be necessary to take environmental-protection action during implementation (see paragraph 3.16).

Benefits:

Strengthening these programs will also bolster a core aspect of the fight against poverty in Brazil by ensuring the relevance of instruments to prioritize, coordinate, rationalize, and target the main social-protection interventions for the poorest of the poor.

The scheduled actions will make an important contribution to ensuring effective implementation and improvement of the programs, while helping them to achieve the desired impact on reducing poverty in the country. This fine-tuning of instruments to protect the most

vulnerable population will help to enhance the well-being of the poorest population and to break the vicious circle of poverty by building human capital on a sustainable basis and encouraging families to assume an attitude of shared responsibility. In the medium term, the goal is to reduce the national infant mortality rate from 34 per 1,000 live births to 30 in 2003, reduce the school dropout rate from its current level of 12%, and reduce significantly the number of children and young people engaged in dangerous, unhealthy, or degrading work, such as prostitution, drug-trafficking, trash-picking, etc.

Risks:

Delays in approval of the loan by the national legislature. Approval of the previous sector operation (Reform and Social Protection Program, loan 1174/OC-BR, which has been fully disbursed) was delayed seven months because of the debate it sparked during legislative processing by the Congress. Although the present operation will be submitted to the Congress in a pre-election year (presidential elections are slated for October 2002), this risk is expected to be less, since the government—based on the lessons learned from the previous experience—will take the necessary steps to secure timely support from legislators. Even if delays do occur, the government is expected to continue to comply with the agreements contained in the program even if the commitment has not yet been formalized.

Continuity of the process. Another risk is the position that the new country authorities could take vis-à-vis the priority and improvements to the programs once the operation has ended. This risk will be mitigated by high participation levels and efforts to build consensus among stakeholders and the Bank's regular monitoring of the country's loan portfolio, especially social-sector operations. Evidence of Brazilian society's priority and support for this type of targeted transfer program was observed in the local print and broadcast media when legislation was passed creating the *Bolsa Escola* program. The legislation was considered and approved unanimously and in record time (two weeks). The same was observed in the Congress's approval of the Fund to Combat and Eradicate Poverty, which will fund these programs.

**Special
contractual
conditions:**

Disbursement of each tranche will be subject to the borrower performing the following, to the Bank's satisfaction: (i) maintain consistency in the macroeconomic setting agreed with the International Monetary Fund; and (ii) comply with the policy actions agreed for the respective tranche and specified in chapter II and Annex II-1 (see paragraph 3.4).

A specific condition precedent for the first disbursement will be the presentation of evidence that: (i) the line ministries have the necessary

resources to carry out, to the Bank's satisfaction, the policy actions agreed for the second tranche; and (ii) specific, separate bank accounts have been opened to manage the loan proceeds (see paragraph 3.5).

Poverty-targeting and social sector classification:

This operation qualifies as a project that promotes social equity, as described in the key objectives for the Bank's activity set forth in the report on the Eighth General Increase in Resources (document AB-1704). In accordance with that report's guidelines and inasmuch as this is a fast-disbursing sector loan, the program cannot be considered a poverty-targeted investment (see paragraph 3.15).

Exceptions to Bank policy:

None.

Procurement:

Proceeds of the Bank loan will be used to finance execution of a project to support the national public sector of the borrower, including the importation of eligible goods. The Bank's applicable sector-lending procedures will be applied, which do not require international competitive bidding.

I. FRAME OF REFERENCE

A. Recent economic developments

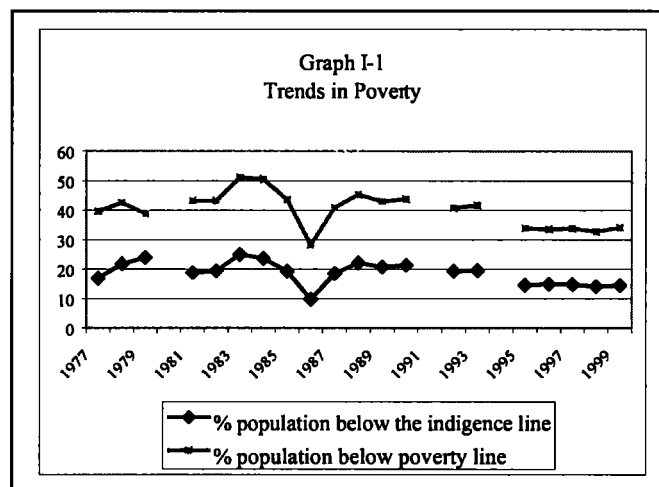
- 1.1 Beginning in late 1999, Brazil began to slowly recover from the impact of the Asian recession and Russia's moratorium. In 2000, this positive economic performance took the form of significant increases in output and employment, ongoing fiscal adjustment, and the maintenance of low inflation rates. This virtuous circle had a very important impact on investor confidence, as witnessed by the surge in foreign investment coupled with lower sovereign risk.
- 1.2 Following the currency devaluation of January 1999, Brazil was faced with the challenge of maintaining price stability without the support of an exchange anchor, which had been the case since the launching of the *Real* Plan in 1994. Since the devaluation, however, Brazil has posted excellent results in this area; in 2000, consumer prices rose 5.9% and the country met the inflation target agreed with the International Monetary Fund for the second year in a row.
- 1.3 The trade deficit shrunk to nearly US\$700 million in 2000, which—although less than the US\$1.26 billion registered in 1999—was significantly below the US\$2.5 billion surplus projected at the beginning of the year. Exports continued to perform favorably, increasing 14.7% to US\$55.1 billion; imports, however, grew 13.2% to US\$55.8 billion in 2000, thanks mainly to greater demand for intermediate and capital goods and the jump in oil prices. The current-account deficit was pared back by US\$454 million, to stand at US\$24.6 billion or 4.1% of GDP. The deficit was financed entirely by way of foreign investments, which totaled US\$30 billion in 2000. As of December 2000, Brazil had US\$33 billion in international reserves, equivalent to eight months of imports.
- 1.4 After such excellent performance in 2000, when the economy grew 4.5%, Brazil's economic situation took a turn for the worse in 2001, triggered by external as well as internal factors. Externally, there was uncertainty in Argentina's economy; world economic growth had slowed down, especially in the United States; and external capital flows felt the impact of the greater risk associated with emerging economies. Internally, adverse weather conditions had pushed up farm-product prices, and an electricity rationing program was launched in June as a result of the worst drought in 70 years and the lack of investment in the energy sector.
- 1.5 Because of the uncertainty unleashed by these factors and a widening current-account deficit (which reached nearly 5% of GDP in July), the authorities embarked on a new round of negotiations with the IMF. The negotiations were concluded on 3 August, and extended the current agreement for an additional year, to December 2002. The new agreement, scheduled to enter into effect as of mid-September, provides a total of US\$15 billion in fresh resources. Of that amount, US\$12.5 billion will be earmarked for a facility to increase reserves, with the other US\$2.5 billion going into a stand-by facility.

- 1.6 As a condition for gaining access to these resources, the authorities agreed with the IMF on a number of adjustments to the macroeconomic targets, chief among them: (i) an increase in the fiscal surplus for 2001 from 3% of GDP to 3.35% of GDP and for 2002-2004 to 3.5% of GDP; (ii) domestic debt stock to be limited to 54% of GDP in December 2001 and to 53.2% of GDP in December 2002; (iii) current-account deficit to be pared back to US\$26.5 billion in 2001¹ and to US\$24 billion in 2002; and (iv) the allowable band for consumer price increases will be increased from between 4% and 5.8% at the beginning of 2001 to a new band of between 6% and 7.8%.
- 1.7 To meet these targets, additional cuts will need to be made in fiscal spending and this could slow down economic growth in the short term. Also, past experience has shown that periods of macroeconomic instability tend to erode the purchasing power of the poorer segments of the population. It should be noted, however, that the measures proposed in the new agreement with the IMF provide strong endorsement for the macroeconomic policy that the Brazilian authorities have been pursuing in recent years.
- 1.8 The outlook for 2002 is that the situation described in paragraph 1.4 will gradually turn around, with economic growth expected to grow 3.5% during the year. The inflation target of 3.5% is expected to be met, against a backdrop of continued cautious monetary policy, improved external financing conditions, and none of the atypical negative shocks that affected the country this year. In the fiscal policy sphere, the government is expected to continue its commitment to maintain stability. Lastly, the Brazilian economy's external financing requirements in 2002 are expected to be less than in 2001. Depreciation of the *real* has significantly increased the return on tradables, which—in a scenario of greater growth in the global and U.S. economies—should translate into an improvement in the balance of trade and non-factor services.
- 1.9 At the structural level, progress has been made in two specific areas in recent years: social-security reform, which tackles one of the largest sources of fiscal deficit in Brazil, and the Fiscal Responsibility Act, which formalizes a policy of fiscal discipline and transparency at all three levels of government. The focus on efficiency in spending is another noteworthy aspect of the fiscal reform. As further evidence of the federal government's interest in better targeting of social spending, it recently launched the *Projeto Alvorada*, which attaches priority to federal investments in the country's poorest municipalities—including the income-based transfer programs that are supported by the present project and, as will be shown below, provide income support for the country's poorest families.

¹ The conversion factor used herein is R\$2.5 per U.S. dollar, as the estimated average for 2001.

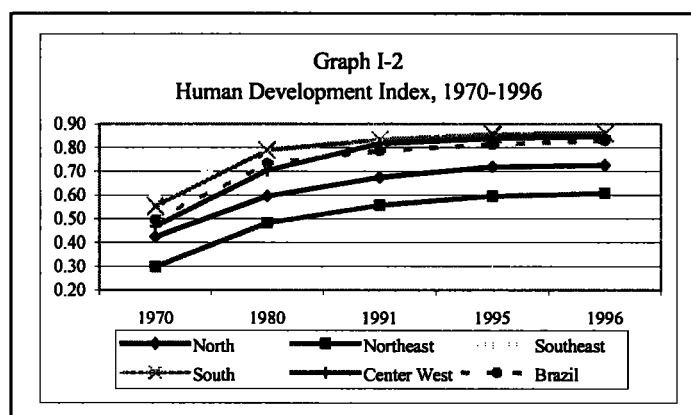
B. Poverty in Brazil

1.10 Among other things, the monetary stability brought by the *Real* Plan helped to push down the percentage of poor Brazilians from 42% in 1993 to 34% in 1995, according to the Bank's poverty line. Despite advances in making social spending more efficient, Brazil has not been able to bring this level down any further; in 1999 as well, 34% of



Brazilians had income levels below the poverty line, with 15% of them classified as living in indigence. Graph I-1 tracks the poverty situation in Brazil over recent years. The country's poor population is mainly rural and nearly 50% work in the informal sector. Poverty affects children and young people disproportionately, with 48% of children aged 17 or younger falling in this category.

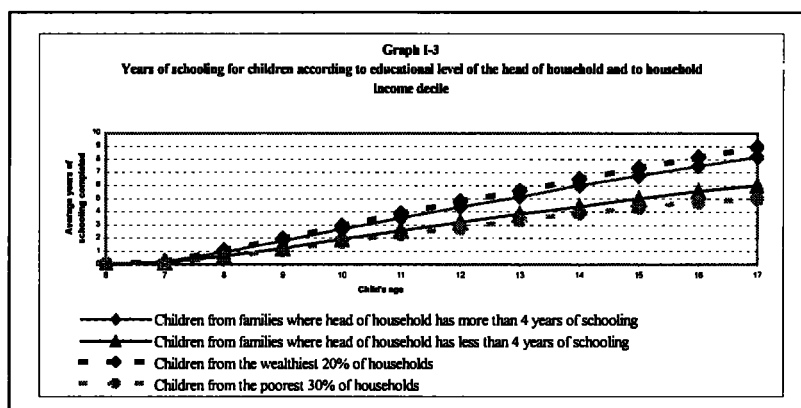
1.11 Poverty and human development present sharp regional differences in Brazil. With a Human Development Index (HDI)² of 0.83, Brazil is situated among the countries with medium human development. However, this national average hides significant divergences from one region to the next. As



Graph I-2 shows, despite the upward trend in regional HDIs, the gap between the less developed regions and those with high human development does not appear to have shrunk significantly: in 1996, the Northeast and North regions had HDIs of 0.61 and 0.73, respectively, while the South and Southeast had an HDI of 0.86.

² The HDI is an arithmetic average of health conditions (life expectancy), education (literacy rate), and revenue (per capita income). The index ranges from 0 to 1, with 1 representing the best relevant position.

1.12 As is the case in most countries, Brazil shows a strong correlation between educational attainment and income level: 74% of the poor live in homes where the head of household



has fewer than four years of education. The incidence of poverty drops from 46% among those with less than one year of education to 5% for those with 8 to 12 years of schooling. In addition, this correlation between poverty and level of schooling points to the key role of human-capital formation in intergenerational transmission of poverty. As can be seen in Graph I-3, the educational attainment of children from homes where the head of household has fewer than four years of schooling is systematically lower than that of children from homes headed by individuals with more schooling.

1.13 Inasmuch as Brazil's per capita GDP situates it among the region's wealthiest countries, it can be concluded that the high poverty levels are chiefly the result of sharp inequality in income distribution and limited opportunities for social and economic inclusion of a large percentage of the population. Brazil has one of the most unequal income distributions in the world. Between 1997 and 1998, the wealthiest 10% of the population accounted for 50% of the country's aggregate income, while the poorest 50% accounted for just over 10%. Income inequality in Brazil is related to such factors as the distribution of ownership of physical assets and wealth, unemployment, inflation, and disparities in educational attainment. Moreover, the "income gap" of the poor is relatively small—for 1996 it was calculated at US\$12 billion, or 1.6% of that year's GDP³—when compared with macroeconomic aggregates or with total social spending. Unlike traditional social programs, the income-based transfer programs to be strengthened under the proposed project are targeted and occupy a central position in social assistance in Brazil.

C. Social spending

1.14 Overall social spending in Brazil includes spending on health, education, social assistance, social security, and housing and urban development. As Table I-1

³ Theoretically, the resources needed to eradicate income poverty would be the sum of the difference between the income of each person below the poverty line and the poverty line. The calculations herein use a poverty line of US\$26 per capita per month (R\$65).

shows, Brazil allocates just over 20% of its GDP to social expenditure, compared with 12% for Latin America as a whole. Roughly 60% of this amount is paid out by the federal government. As can be deduced from the table, most federal spending is biased towards transfers such as pensions and social

Table I-1 Consolidated social spending as a percentage of GDP*, 1996				
	Federal Gov't.	Subnational governments	Total	US\$ (billions)
Health and nutrition	1,8	1,5	3,3	25,6
Education and culture	0,9	3,2	4,1	31,8
Social assistance	0,6	0,4	1,0	7,8
Social security	8,2	2,1	10,3	79,9
Housing and urban development	0,2	1,3	1,5	11,6
Total	11,7	8,5	20,2	156,7

* The most recent data on consolidated social spending are from 1996.

security, which account for over 50% of all social spending. This percentage has risen over the years, placing pressure on other social programs such that in 1998 these programs' combined deficit stood at 5.7% of GDP. These programs are currently being reformed in order to make them more equitable and fiscally sustainable.⁴ Excluding social security, housing, and urban development, social spending on health, education, and social assistance represented 8.4% of GDP in 1996, equivalent to US\$65 billion.⁵

D. Fund to Combat and Eradicate Poverty

- 1.15 With regard to how social-sector spending is financed, special mention should be made of the establishment in December 2000 of the Fund to Combat and Eradicate Poverty. The Fund is intended to afford Brazilians access to dignified levels of subsistence by channeling resources to supplementary actions in education, housing, nutrition, family income support, and other social programs. Expected to be active through 2010, the Fund has three core sources of financing: (i) the 0.08% add-on to the provisional financial transactions tax (CPMF); (ii) the 5 percentage points added on to the excise tax on manufactured products (IPI), which is levied on alcoholic beverages and tobacco; and (iii) the wealth tax (IGF). The Fund's annual estimated revenue will be on the order of US\$1.6 billion.⁶

⁴ The Bank will help to modernize management of Brazil's social security system through operation BR-0327, financed with loan 1346/OC-BR (approved in September 2001).

⁵ Brazil's GDP in 1996 was US\$775.3 billion.

⁶ The fiscal impact of increasing social spending under this fund was the subject of careful analysis by the country's economic authorities and the IMF. The increase has also been reflected in the macroeconomic targets included in the recent agreement with the IMF.

- 1.16 The Fund's resources will be channeled towards actions to benefit families or individuals with per capita incomes below the poverty line, residents of municipios and isolated urban or rural communities, and those living in unfavorable conditions. The Executive Branch will publish the poverty line and the list of eligible communities each year. These families will be targeted on a priority basis through income-based transfer programs, such as the *Bolsa Alimentação*, *Bolsa Escola*, *Eradication of Child Labor*, and *Agente Jovem* programs, which will be fine-tuned under this project (they are described in the following section). An advisory board—made up of government and civil society representatives and appointed by the President of the Republic—will be set up to monitor the drafting of policies and guidelines and the use of Fund proceeds.
- 1.17 For purposes of the proposed sector program, it is important to note that the income-based transfer programs referred to in the previous paragraph have an established source of financing and do not represent any significant fiscal burden. The aggregated annual estimated budget for these programs comes to US\$1.03 billion, which is less than the annual amount estimated for the Fund to Combat and Eradicate Poverty and is equivalent to only 0.6% of total social spending and 1.5% of social spending on education, health, and social assistance. No additional or negative fiscal impact is foreseen for local governments inasmuch as these programs do not require local counterpart resources to pay benefits to the families; their participation is centered around providing physical infrastructure and local management. Similarly, the increase that the transfer programs will necessitate in the supply of social services is already provided for in fiscal and physical terms in the plans to expand coverage in each sector and the budget allocations for 2002. The following paragraphs discuss recent developments in social programs and policy with regard to stimulating poor families' demand for basic social services.

E. Stimulating demand for basic social services

1. Income-based transfer programs for poor families

- 1.18 These programs (see Table I-2 for summary data) transfer cash directly to poor families whose monthly per capita income is less than or equivalent to one half the monthly minimum wage (US\$36) in exchange for compliance with an agenda of commitments. The agenda of commitments for each program consists of specific actions for health care, nutrition, education, or training that can be performed by the family and that complement government efforts to pursue human development objectives.

Table I-2
Income-based transfer programs for poor families*: Summary data

	Bolsa Alimentação Children under 6, pregnant women, and nursing mothers who are at risk of undernutrition	Bolsa Escola Children between 6 and 15	PETI Children aged 7 to 14 who are engaged in work that is considered dangerous, unhealthy, or degrading	Agente Jovem Young adults aged 15 to 18, not attending school, especially those who have "graduated" from the PETI or <i>Bolsa Escola</i>
Target beneficiaries	US\$230 million 3,500,000	US\$680 million 10,700,000	US\$109 million 860,000	US\$14 million 55,000
	That they receive basic health services	That they attend school regularly	That they attend school and extended-day activities regularly	That they work in the community
Policy framework	Adopt regulatory instruments defining institutional arrangements for operation and ensuring the availability of the necessary budgetary resources.	Implement Law 10,219, which established the <i>Bolsa Escola</i> program, and the necessary regulations.	Establish agreements with: (i) the Labor Inspection Secretariat, to plan, supervise, and assess actions to combat child labor; and (ii) each of the 27 states, to generate work and income for adults in beneficiary families.	
Implementation	Formulate policies for coordination with similar national and subnational programs to prevent overlapping and inefficiencies. Make arrangements for beneficiaries to receive payments in approximately 1,500 municipalities that currently lack electronic banking access. Set up permanent monitoring and oversight information systems to identify and implement remedial action in a timely manner.		Foster greater joint participation by states, municipalities, and civil society Improve the management and quality of services.	Since this is a new program, design and operation need to be evaluated.
	Reach 700,000 beneficiaries in Brazil's poorest municipalities in 2002. Validate targeting instruments to identify, register, and pay benefits to eligible families. Increase the number of instruments for measuring well-being so as to offer tested, effective targeting alternatives that better respond to the programs' features and their decentralized operating arrangements. Integrate the beneficiary registration systems.	Reach 2.4 million beneficiaries in Brazil's poorest municipalities in 2002. Identify and make instruments and mechanisms available to help municipalities target eligible beneficiaries so as to enhance the expected distributive impact.	Reach 860,000 beneficiary families in 2002.	Reach 55,000 at-risk youth in 2002.
	Adopt impact and process evaluation methodologies for each program in order to provide relevant information on targeting, efficiency, and effectiveness. Collect field data to prepare baseline for program evaluation.			

*Families with incomes below or equivalent to one half the monthly per capita minimum wage (equivalent to US\$36).

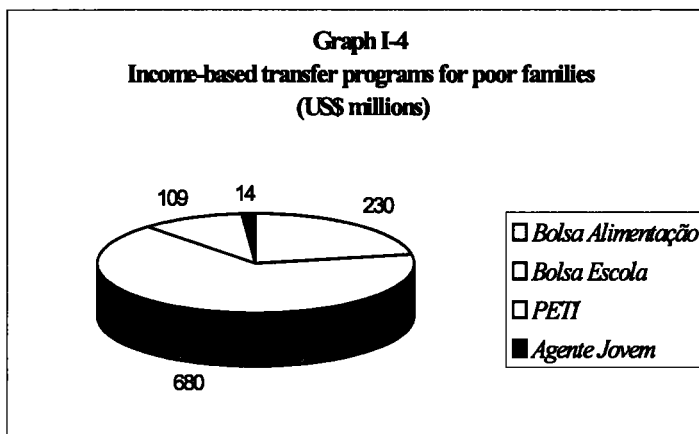
- 1.19 The four income-based transfer programs are: the *Bolsa Alimentação* food-support subsidy program, which is linked to the Ministry of Health and has an agenda of commitments that promotes maternal and child health; the *Bolsa Escola* education-support subsidy program, which is linked to the Ministry of Education and has an agenda of commitments aimed at keeping children in school; and the Eradication of Child Labor (PETI) and *Agente Jovem* youth-support programs, whose agendas of commitments seek to eradicate the worst forms of child labor and to help at-risk young adults become full members of their communities. The programs seek not only to alleviate poverty in the short term but also to ensure that the new generation of children and young people has a better likelihood of leading a healthy life equipped with the necessary values, knowledge, and skills to enable them to attain higher levels of well-being and economic and citizen participation in the community.
- 1.20 The amount to be transferred to each family under these programs will be determined on the basis of various objectives: (i) alleviate poverty; (ii) offset part or all of the opportunity cost of child labor as an incentive to participate in the programs; (iii) not discourage adult family members from participating in the labor market; (iv) make it possible for families to purchase a specific basket of goods; (v) extend coverage with limited resources; (vi) maintain administrative simplicity; and (vii) facilitate social monitoring and transparency.⁷ In Brazil's education sector, there is evidence that transfers of between 25% and 50% of the minimum wage are effective in keeping children in school, while transfers of 10% or less are not. Accordingly, the *Bolsa Alimentação* and *Bolsa Escola* programs, which each transfer between 15% and 25% of the minimum wage, are felt to be sized appropriately. Likewise, the PETI program, which transfers between 25% and 50% of the minimum wage, and the *Agente Jovem* program, which transfers approximately 35% of the minimum wage directly to young people, are also properly sized to offset the labor cost.
- 1.21 Political neutrality in the allocation of program resources will be ensured by the following: (i) active participation by civil society in the committees that verify and approve the list of beneficiaries at the community level; (ii) ongoing publicity and continuing priority assigned to the programs by the media; (iii) broad dissemination among civil society of information on the programs' scope, objectives, and features; (iv) clear beneficiary-selection criteria and targeting instruments for identifying beneficiaries; and (v) setting of temporary ceilings by municipio to ensure equity among communities; these ceilings were set on the basis of 2000 census data and

⁷ In the case of Mexico's Health, Food, and Education Program (PROGRESA), which is an income-based transfer program with a methodologically rigorous evaluation, family benefits were between 25% and 50% of the national minimum wage and the agenda of commitments included both health and education actions. The program was found to have a positive impact on health and education indicators of beneficiary families and, in education, it was economically profitable. At the same time, this level of benefit did not discourage participation in the labor market by adult members of beneficiary families.

the national household survey. The following paragraphs describe some of the key features of each of the programs that will be subject to conditionalities under the present operation (detailed information on the programs is available in the technical files).

1.22 *Bolsa Alimentação.*

Launched in July 2001 with start-up phased in during September of that year, this program lends support to poor families who are at nutritional risk by means of cash transfers of US\$6 per beneficiary to supplement the family's income and strengthen food intake,



especially among pregnant women, nursing mothers, and children under 6. The agenda of commitments seeks to link at-risk families with the Single Health System (SUS) in order to carry out basic health actions and bring these families into the social mainstream. Each beneficiary family may receive up to three subsidies, i.e., US\$18 per month, which represents the average estimate for two children under age 6 per family plus one pregnant woman or nursing mother. The goal is to reach 3.5 million beneficiaries with an annual budget of US\$230 million. One of the program's objectives is to reduce infant mortality from the current national average of 34 per 1,000 births to 30 per 1,000 live births by 2003.

- 1.23 *Bolsa Escola.* Building on previous Brazilian experiences with this type of initiative, the *Bolsa Escola* program was launched in April 2001 (with the passage of Law 10,219) and is currently in the process of start-up. Its main purpose is to encourage municipalities to create permanent programs to provide a cash incentive of US\$6 per beneficiary to poor families so they can keep their children in school and attending at a monthly rate of at least 85%. Eligibility for these municipal programs is open to all poor families having children between the ages of 6 and 15. Roughly 10.7 million children are expected to register for the program. The program's approved 2001 budget is US\$680 million. Through this program, the government hopes to reduce the dropout rate (currently at 12%) and, indirectly, improve the level of learning of poorer students.

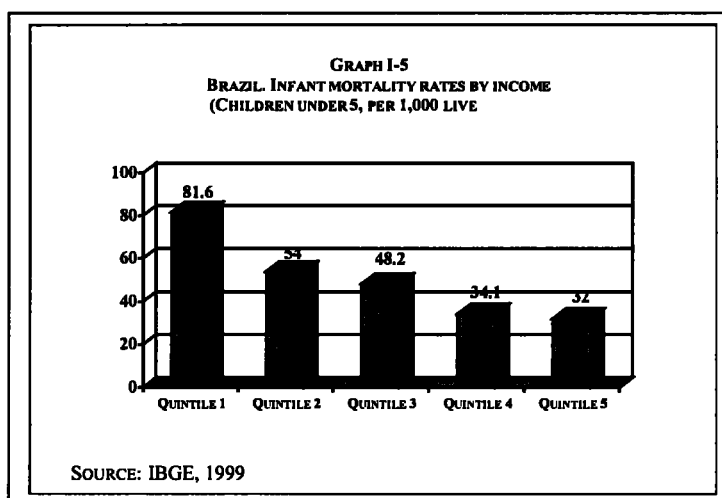
- 1.24 *Program to Eradicate Child Labor (PETI).* Launched as a pilot initiative in 1996 in the Brazilian state of Mato Grosso, this program seeks to eliminate the worst forms of child and youth labor in Brazil. The beneficiaries are children aged 7 to 14 who come from poor families and are engaged in work considered to be dangerous, unhealthy or degrading, e.g., prostitution, drug-trafficking, coal mining, trash-

picking. For each eligible child, mothers can receive US\$10 per month in rural areas and US\$16 in urban areas in exchange for the child not working and attending school at least 75% of the time.⁸ In addition to the cash transfer, the PETI supports the family as a whole through socioeducational interventions and generation of work and revenue. With an approved 2001 budget of US\$109 million, the program expects to reach 860,000 beneficiaries.

- 1.25 *Agente Jovem*. Launched in late 1999, this program seeks to help marginalized teenagers aged 15 to 18 become active participants and agents of change in their communities. Priority is given to youths who are neither in school nor working, especially those who have “graduated” from the PETI program, as well as young offenders who are on parole. The subsidy has a maximum duration of three years and is intended to get these teenagers back in school and prepare them for the working world, by offering them training in basic and social skills so they can become active in their communities in such areas as health, sports, tourism, justice, culture, and the environment. Part of the training involves applying these new skills in community work, and for this young beneficiaries receive a direct cash subsidy of US\$26 each month. The federal government also transfers funds to participating municipios to cover costs associated with selecting and paying guidance councilors and instructors. With an approved budget of US\$14 million for 2001, the program expects to reach 55,000 beneficiaries in 2002.

2. Recent developments in the supply of basic social services

- 1.26 In the **health sector**, the main thrust in recent years has been to improve the poor population’s access to quality basic services as a means of gradually attaining health indicators that are more in line with the country’s level of development while reducing socioeconomic and regional inequalities. According to data from



1999, poor families in the first income-distribution quintile had the highest number

⁸ There is no evidence that the program promotes or leads to child labor (World Bank study on eradication of child labor in Brazil, 10 June 2001). Beneficiary families are selected through a two-stage process: (i) the municipal commission first approves the list of prospective beneficiaries; and (ii) the state commission validates and confirms the municipal lists. Further operating details on the programs can be found in the technical files.

of children at risk of undernourishment (80%) and, as Graph I-5 shows, the highest infant mortality rates (82 per 1,000 live births among children under five, compared with a national average of 50 per 1,000 live births for this age group).

- 1.27 Consequently, primary health care has become a strategic priority of the Ministry of Health to expand and improve the supply of basic health services, especially to the poorest of the poor. Between 1996 and 2000, a set of programs was articulated around an approach focused on health promotion and prevention; they include the Family Health Program, support to combat nutritional deficiencies, nationwide vaccination, basic drugs, comprehensive health care for women, and the basic health care allocation (*piso de atenção básica*, or PAB). To a great extent, the increase in primary health resources has been possible thanks to the priority assigned to the health sector in the public budget and underpinned by the 1999 enactment of a constitutional amendment linking federal, state, and municipal health spending to GDP growth.
- 1.28 Today, the Family Health Program (PSF) is the backbone of the care model inasmuch as it directly links health teams to preventive and promotional follow-up of a fixed number of families in the community, establishing close ties of trust and social legitimacy through effective participation that is promoted by community health agents who are recognized leaders in their respective communities.⁹ The PSF's goal for 2002 is to cover 70 million persons across the country with over 20,000 family health teams.
- 1.29 Thanks to the Government of Brazil's significant efforts to increase the supply and quality of health services over the past few years, today it is in a position to responsibly promote direct demand among poor families, especially those at nutritional risk, through preventive and promotional health care actions and meet expectations efficiently. In this connection, preliminary Ministry of Health estimates are that the number of primary health care visits will increase by around 11% as a result of the *Bolsa Alimentação* program. This increase is expected to be met adequately with existing resources, although it may be necessary to reschedule nurses' working hours during the program's initial stages in order to handle the greater demand for prenatal care. Furthermore, municípios that participate in the *Bolsa Alimentação* program agree to ensure the availability of basic health services, such as pediatric and gynecological care, for beneficiary families.
- 1.30 In the **education sector**, in recent years the government has successfully pursued a policy to expand and improve the country's public education system, and today it is in a position to responsibly promote families' demand for education.
- 1.31 With regard to primary education, since 1988 all states and municípios are required by the Constitution to allocate to the education sector, principally primary

⁹ The PSF teams are made up of a physician, a nurse, and a nursing auxiliary.

education, at least 25% of all revenue from taxes and transfers; this has helped to guarantee an important local source of financing for the sector. The Basic Education and Teachers' Incentive Fund (FUNDEF), created by legislation enacted in 1996, oversees the allocation of roughly two thirds of these resources and ensures that the poorest municipios receive sufficient transfers to cover a minimum cost per enrolled student of approximately US\$144 (R\$360);¹⁰ it has been successful in encouraging local governments to expand their education systems. The Ministry of Education, with funding from the World Bank, has been supporting improvements and expansion in school systems in the country's poorest regions through such programs as the School Improvement Fund (FUNDAESCOLA). As a result of these efforts, in 2000 Brazil had total enrolment of 33.2 million students in primary education, for a school attendance level of 97% of all children aged 7 to 14 years.

- 1.32 As for secondary education, in 2000 the Ministry of Education signed loan agreement 1225/OC-BR with the Bank to help the states expand and upgrade their secondary-education systems. With support from the Bank-financed Vocational Education Project (1152/OC-BR), the ministry is also reforming vocational education in Brazil. In a relatively short period, it has completely revamped the institutional framework of the system that provides training for technical careers, and work is under way to organize a network of vocational training centers with close ties to the private sector and other employers.
- 1.33 Despite the advances posted in the area of enrollment, the educational system continues to suffer from critical internal-efficiency problems related to the poor quality of teaching and low demand, as reflected by high truancy and dropout rates. To address the issue of quality of teaching, the government will continue with the aforementioned programs. To address the issue of truancy, which contributes to learning problems, high repetition rates, age-grade discrepancies, and dropout rates, all of which are indicative of the school system's lack of internal efficiency, the government has identified as a viable alternative the stimulation of direct demand among poor families by supporting their income in exchange for their children remaining in school.
- 1.34 In the **social-assistance sector**, the last decade witnessed sweeping changes in the institutional, organizational, and legal framework of Brazil's social assistance system.¹¹ The major policy changes in this area relate to: (i) decentralization of responsibilities and jurisdiction to the municipios; (ii) redefinition of the concept of coverage, with better targeting of social services using more technical and

¹⁰ Amount set each year by the Executive Branch.

¹¹ The legal framework, the 1988 Constitution, and the Social Welfare Act (Law 8,742) of 1993, define social assistance as the body of policy for protection of the family, mothers, children, adolescents, and the elderly; underprivileged children and adolescents; integration in the labor market; and rehabilitation and mainstreaming of the disabled.

transparent criteria for selecting beneficiaries and service providers; and (iii) broader participation by civil society in the system, both in selecting beneficiaries and in supervising the process of articulating with other federal, state, and municipal agencies and with civil society organizations.

- 1.35 In January 1999, the Secretariat of State for Social Assistance (SEAS) of the Ministry of Social Security and Social Assistance was raised to a level equivalent to that of a ministry, thus giving it greater visibility, dynamism, and autonomy of action. The SEAS has been taking comprehensive action aimed at social inclusion and protection of those segments of the population felt to be most vulnerable, focusing on the family unit rather than on its individual members. Another area of advancement was the establishment of the Department of Youth Affairs within the SEAS, to formulate programs for a segment of the population not served by the SEAS: young people aged 15 to 18 who are at social risk. The *Agente Jovem* program is one of the initiatives that addresses this group's needs.
- 1.36 Recent years have seen a considerable increase in the demand for social welfare services. Despite the success and recent upscaling of the PETI to the national level, many children and young people (some 446,000 in 2000) are still working in harsh, degrading activities. To address this situation, the SEAS plans to expand the PETI's coverage.
- 1.37 Inasmuch as Brazil possesses a financed supply of basic social services that is on its way to providing adequate levels of coverage and quality, mainly in primary education and basic health care, the government feels that promoting demand for these social services by setting up income-based transfer programs for poor families is a politically viable and relevant option.

F. Rationale for the operation

- 1.38 The Government of Brazil's agenda for 2001-2002 shows that debate on the country's social policy has ceased to revolve solely around the volume of funding allocated to the social sectors (just over 20% of GDP) and now addresses the composition, quality, and efficiency of public spending and, in the shorter term, the need to move forward with the targeting of social spending, especially through the income-based transfer programs.
- 1.39 The value added by the Bank through this sector operation centers around a set of actions geared towards meeting the challenges outlined in Table I-2 as conditions for access to the loan proceeds. These challenges relate to: **targeting**, since the income-based transfer programs need to attain proper coverage in the country's most critical areas, and develop and test better suited instruments for identifying, selecting, and registering beneficiaries; **evaluation**, since the programs—in their initial phase—lack process and impact evaluation instruments for their implementation and operation, such as to provide early warnings for timely

remedial actions and to be in a position, subsequently, to evaluate their impact; the **institutional framework**, inasmuch as the programs lack policy and administrative instruments for their timely implementation; and **management**, since the programs lack permanent monitoring and oversight systems, as well as proper coordination with similar national and subnational programs so as to avoid inefficiencies and/or redundancies, among others.

- 1.40 Successful completion of these actions will contribute significantly to ensuring the implementation and improvement of the income-based transfer programs. Given their size in terms of resources channeled each year (US\$1.03 billion) and the number of poor benefited (nearly 16 million, who are the poorest 10% of the population), any improvement in the programs' targeting and operation would have an important impact on efforts to fight poverty in the country.

G. Relevant issues in preparation of the operation

- 1.41 The actions proposed herein to address the challenges faced by the income-based transfer programs have been agreed to by the respective sector counterparts. The following paragraphs outline the main areas of joint work conducted with the country, which provided important input for sizing the operation during its preparation.
- a. The Brazilian sector teams and representatives from the Institute for Applied Economic Research (IPEA) went on a study tour to Mexico to observe first-hand that country's Health, Food, and Education Program (PROGRESA) and the lessons learned from its execution. The visit allowed the Brazilian technical teams to fine-tune some technical design aspects of their programs, incorporate some of the lessons learned in the definition of operational processes, and enhance the implementation strategy.
 - b. Support was received in the form of a specialized consultancy by the International Food Policy Research Institute (IFPRI), which collaborated with the Health and Education Ministries' technical teams responsible for start-up of the respective programs. The consultancy reviewed aspects of: the design and legal basis for the *Bolsa Alimentação* program; implementation, with special reference to targeting; coordination between municípios, states, and the federal government in management aspects associated with developing the necessary information systems; and design of a work plan to develop monitoring and evaluation instruments for implementation of the *Bolsa Alimentação* and *Bolsa Escola* programs.
 - c. Specialized local consultancy to conduct a rapid assessment of the PETI and *Agente Jovem* programs, which identified the main problems, bottlenecks, and weaknesses of each program and served as a reference document between the Bank and the SEAS.

- d. An international seminar was held on evaluating the impact of social policies with participation by experts from institutions of excellence in the United States and Brazil, such as Yale University, University of North Carolina, IFPRI, Universidade de Campinas, Universidade de São Paulo, Universidade do Rio de Janeiro, IPEA, and the Secretaria Federal de Controle, among others. The seminar, which focused on income-based transfer programs in Brazil, sought to promote an exchange of experiences and knowledge that would contribute to defining a menu of methodological options for a rigorous evaluation of these programs' impact.
- 1.42 The main outcomes of the seminar were used to define the action plan to follow for the process and impact evaluations of the income-based transfer programs. Details on the seminar can be found in the Bank's technical files. The most salient aspects are:
- a. The participants and the national authorities displayed considerable interest, willingness, and demand to conduct a statistical evaluation of social policies. It was noted that Brazil had made significant progress in this area, but there was still room to strengthen actions. Proposals and options were presented for evaluating the programs under consideration, and comments were offered by local and international experts. Each program would need to conduct its own evaluation individually, using methodologies specific to its operational characteristics and various phases of implementation rather than a single, comprehensive methodology. Mention was made of the methodological problems of measuring synergies in the impact of this type of program, since this had been one of the obstacles impeding the conduct of this type of analysis in a similar income-based transfer program in Mexico (PROGRESA).
 - b. Priority was assigned to the need to evaluate instruments and processes for social-program targeting and management so as to enhance program design and implementation. In this connection, it was recommended that alternative targeting instruments and mechanisms with special emphasis on income-based transfer programs be pilot-tested.
 - c. Another priority would be to improve data collection and the measurement of social indicators for families. It was also deemed advisable that there be a single database (to be set up by presidential decree) that would make it possible to cross-verify information on program beneficiaries. It was suggested that an effort be made to formally establish suitable monitoring systems to provide feedback to the managers of each program.
 - d. It was suggested that a workshop be organized to analyze the process and impact evaluation proposals for each of the four programs.

- 1.43 The participants praised the seminar for having provided a forum for deeper thought and reflection on the need for and usefulness of systematic evaluation of public policies. As an outgrowth of the seminar, a consultative group was set up to act as advisory body on the matter of evaluation; the group would be chaired by IPEA with participation by the line ministries and academic centers that lend methodological support to the income-based transfer programs.

H. Experience and lessons learned

- 1.44 In 1999, the Bank approved loan 1174/OC-BR in the amount of US\$2.2 billion to support the Brazilian government's Sector Program for Social Protection and Reform. The program, which was disbursed satisfactorily in three tranches, helped to raise the profile of the government's social agenda and of the protected programs in the eyes of Brazilian society. Specifically, it: (i) maintained, and in some cases expanded, the coverage and quality of federal social services in education, health, labor, and social welfare at a time of economic contraction and fiscal adjustment; (ii) helped to build management capacity at the agencies responsible for delivering basic social services; and (iii) supported dialogue and consensus-building among the various stakeholders, giving a voice to the poorer, less organized groups. This new level of dialogue was evident in the constant presence of social issues in the Congress and the print and broadcast media, and in the interest shown by local and international civil society organizations.
- 1.45 The Sector Program for Social Protection and Reform included some programs that were strategic—given their direct impact on the poorest of the poor—and performed very satisfactorily, serving subsequently as reference for the formulation and extension of coverage of the income-based transfer programs discussed herein. For instance, the Minimum Income Guarantee Program was reformulated as the *Bolsa Escola* program and its funding was increased significantly as of 2001 (4,000%); the Program to Combat Nutritional Deficiencies will be gradually replaced by the new *Bolsa Alimentação* program, with a budget increase of 400%; and the Program to Eradicate Child Labor will receive a budget increase of 328%.
- 1.46 The sector program's project completion report noted the following lessons: (i) the need for coexecuting agencies (line ministries) to understand the nature of such a sector operation, which does not entail additional funding for a specific sector but rather foreign-exchange support for the central bank; otherwise, it is hard to grasp the logic of striving to meet conditions that do not "benefit" the respective sectors; (ii) identify sectors where the Bank already has a commitment and a technical agenda; (iii) develop a quarterly monitoring plan with each sector as a management and monitoring instrument between the Bank and the various actors; and (iv) ensure that for each of the conditions there is adequate financing available for timely compliance.

I. The Bank's strategy

- 1.47 The Bank's strategy, as set forth in the July 2000 country paper, is to support the government in its efforts to grow within a framework of stability and to reduce inequalities and poverty. The main areas of action are: (i) promote and deepen reform and modernization of the State; (ii) support efforts to enhance the competitiveness and market access of Brazilian products; (iii) reduce social inequalities and poverty; (iv) address environmental and natural-resource issues; and (v) support regional integration efforts.
- 1.48 The proposed program falls mainly in the area of reducing social inequalities and poverty, inasmuch as its actions support: (i) the implementation and enhancement of income-based transfer programs aimed at alleviating poverty; and (ii) the development and fine-tuning of targeting systems to better channel public resources to the most vulnerable groups, with consideration being given to gender issues and priority attention to children and young people. It is also related to the deepening of reform and modernization of the State, to the extent that these programs entail significant advances in the way social support for the country's poorest families is managed.

II. THE PROGRAM

A. Objectives

- 2.1 This sector program will support the implementation of federal income-based transfer programs for poor families with an eye to building Brazil's human capital and thus breaking the vicious circle of poverty.

B. Description

- 2.2 Under the proposed sector program, disbursements will be subject to the successful completion of specific actions to fine-tune the four programs described earlier in four strategic areas: (i) institutional framework; (ii) management; (iii) targeting; and (iv) evaluation of processes and impact. Together, these programs constitute one of the most important and innovative interventions in Brazil's social sector.
- 2.3 Although all the income-based transfer programs face challenges in the same strategic areas, each program is at a different stage and has different specific needs; accordingly, the conditions are not the same for all the programs. Annex II-1 contains a social policy action matrix summarizing the conditions that the country must fulfill in order to have access to the loan proceeds. The following paragraphs outline the sector program's areas of activity.

1. Targeting of the income-based transfer programs

- 2.4 Disbursements under this component will be subject to the development, fine-tuning, systematization, and implementation of targeting instruments to expand the programs' coverage so as to attain coverage targets. Support will be given as well for establishing a single registry of program beneficiaries.
- 2.5 For the first tranche, the following items are to be presented to the Bank's satisfaction: (i) proposal from IPEA—including an implementation schedule and the respective costs—to develop targeting methodologies and instruments to evaluate the effectiveness of self-targeting by beneficiary families under the current system; (ii) establishment of a single registry of program beneficiaries; (iii) evidence that 50 municípios with an HDI below 0.5 have applied to participate in the *Bolsa Alimentação* program and that the program is covering a total of 2,000 beneficiaries in those municípios; (iv) evidence that 1,900 municípios with an HDI below 0.5 are participating in the *Bolsa Escola* program and that the program is covering a total of 2.1 million beneficiaries in those municípios; and (v) evidence that the PETI program has attained a coverage level of 500,000 beneficiary families and the *Agente Jovem* program a coverage level of 40,000 young people.

- 2.6 For the second tranche, the following items are to be presented to the Bank's satisfaction: (i) evidence that IPEA has pilot-tested¹² a new household survey instrument to verify poverty levels; (ii) evidence that the single registry of program beneficiaries has been implemented in states with an HDI below 0.5; (iii) evidence that 550 municípios with an HDI below 0.5 have applied to participate in the *Bolsa Alimentação* program and that the program is covering a total of 350,000 beneficiaries in these municípios; (iv) evidence that 2,100 municípios with an HDI below 0.5 are participating in the *Bolsa Escola* program and that the program is covering a total of 2.4 million beneficiaries in these municípios; (v) the PETI program has attained a coverage level of 860,000 beneficiary families in municípios identified as having higher incidence of children engaged in labor activities considered to be dangerous, unhealthy, or degrading; and that the *Agente Jovem* program has attained a coverage level of 55,000 young people; and (vi) successful experience with the targeting mechanisms has been surveyed, analyzed, and disseminated.
- 2.7 This component's expected impact is to enhance targeting instruments and their application, thus helping to eliminate arbitrary biases in resource distribution and thereby improve the efficiency and effectiveness of social spending. The income-based transfer programs will also be given greater equity, thus making for equitable participation by the country's poorest municípios, defined as those with an HDI below 0.5.

2. Evaluation of the programs

- 2.8 Disbursements in this area will be subject to the development of a process and impact evaluation methodology suited to each of the programs, together with a field survey of their respective baselines.
- 2.9 For the first tranche, the terms of reference for preparing the process and impact evaluation methodology for each program, including current best practices, are to be presented to the Bank's satisfaction.
- 2.10 For the second tranche, the following items are to be presented to the Bank's satisfaction: (i) the design of the process and impact evaluation methodology, the work plan for its implementation, and the cost and schedule for execution; and (ii) evidence of the baseline field survey for the evaluation of each program.
- 2.11 The impact of these actions will be to provide technical criteria for recharting the future direction of the programs and, in the medium term, evaluate their impact on beneficiary families.

¹² The pilot is scheduled to be carried out in all cities over 5,000 inhabitants in the state of Maranhão, which had a population of over 5.6 million in 2000.

3. Institutional and budgetary framework of the programs

- 2.12 Disbursements under this heading will be subject to a series of actions aimed at consolidating the institutional framework within which the programs would operate, including the entry into force of several legal and administrative instruments that will provide the necessary legal, organizational, financial, and operational foundations.
- 2.13 For the first tranche, the following items are to be presented to the Bank's satisfaction: (i) evidence of entry into force of the legal instruments that provide the legal foundation for the *Bolsa Alimentação* program, define the institutional structure for operation, specify the arrangements for coordination with subnational governments, and ensure budgetary resources for start-up during the second half of 2001; (ii) evidence of the enactment and entry into force of Law 10,219, establishing the *Bolsa Escola* program, and implementation of the respective operating regulations; and (iii) the technical-cooperation agreement signed by SEAS and the Labor Ministry's Labor Inspection Secretariat for the planning, supervision, and evaluation of actions to combat child labor, together with the agreements between SEAS and the 27 federal entities with regard to work- and income-generating activities.
- 2.14 For release of the second tranche, evidence is to be presented, to the Bank's satisfaction, of scheduled financing under the 2000-2003 Multiyear Plan to ensure resources for continuing the programs.

4. Management of the programs

- 2.15 Disbursements under this heading will be subject to the development and implementation of strategic plans and policies to enhance various aspects of the programs' management, such as: (i) coordination with similar national and subnational programs to prevent overlapping and ensure greater complementarity; (ii) access to electronic payment of cash benefits to poor families; and (iii) development of permanent systems to provide appropriate and timely monitoring and oversight.
- 2.16 For the first tranche, the following items are to be presented to the Bank's satisfaction: (i) the strategic plans of the *Bolsa Alimentação* and *Bolsa Escola* programs, including the development and implementation of monitoring and supervision instruments for each program in order to fine-tune their respective operations; (ii) the strategy to enhance and expand the PETI program, including criteria for expansion, joint participation by the states and/or municipios, public-information campaigns, ongoing training, and the development and implementation of a monitoring and oversight system; this should be accompanied by a work plan and implementation calendar; (iii) the strategy to improve and expand the *Agente Jovem* program; and (iv) the findings of the *cartão social* pilot exercise to use a

magnetic card for electronic payment of benefits to PETI and *Agente Jovem* beneficiaries and the strategy for its implementation in other participating municipios.

- 2.17 During the second tranche, the following items are to be presented to the Bank's satisfaction: (i) a progress report on implementation of the *Bolsa Alimentação* program, with emphasis on technical design features (relevance of interventions, identification of beneficiaries, and targeting), implementation, and coordination with subnational governments, including specific measures taken to fine-tune it; (ii) a progress report on the strategic plan for implementation of the *Bolsa Escola* program, with emphasis on objectives attained, operational problems encountered and specific steps taken to help fine-tune the program, and implementation of guidelines for coordinating with other education-related income-transfer programs; (iii) a progress report on implementation of the actions listed in the work plan to enhance and expand the PETI program; and (iv) a progress report on implementation of the *cartão social* magnetic card for the PETI and *Agente Jovem* programs.
- 2.18 One of the expected impacts of these actions will be to ensure the timely generation of inputs that the programs need in order to provide for appropriate monitoring and oversight, ensure greater operational efficiency and equitable access by eligible beneficiaries, and make their interventions more relevant.

C. Cost and conditions of financing

- 2.19 This sector program will channel US\$500 million, drawn on the Bank's Ordinary Capital resources, to the Brazilian treasury. As a sector loan, the proceeds are not linked to the execution of any specific component, but rather to the comprehensive fulfillment, to the Bank's satisfaction, of policy actions defined and agreed for the program. The size of this operation is justified in terms of the magnitude of resources needed to implement the set of policy actions being pursued by the government, as well as in terms of the financial programming of external resources by the country's economic authorities. The terms of the loan are listed in Table II-1 below.

Table II-1. Conditions of the loan

Source of financing	Ordinary Capital
Amount	US\$500 million
Amortization	Terms: 20 years
Grace period	5 years
Disbursement period	2 years
Interest rate	Variable
Inspection & supervision	1% of the loan amount
Credit fee	0.75% per annum on the undisbursed amount, as of the operation's effective date.

III. PROGRAM EXECUTION

A. Borrower and executing agency

- 3.1 The Federative Republic of Brazil will be the borrower, and the Ministry of Planning and Budget and the Ministry of Finance will be the executing agencies. The International Affairs Secretariat (SEAIN) of the Ministry of Planning and Budget will serve as the sector program's coordinating unit, and the National Treasury Secretariat will be the unit responsible for the operation's financial aspects.

B. Execution and administration

- 3.2 SEAIN will oversee program supervision, monitoring, and evaluation; serve as liaison with the Bank; coordinate, consolidate, and present progress and outcome reports as agreed. It will also comply with all other requirements as may be set forth in the loan agreement. To carry out the program, SEAIN will receive support from: (i) the Ministry of Health, the Ministry of Education, and the Secretariat of State for Social Assistance, which will appoint a manager as counterpart for each of the income-based transfer programs; (ii) IPEA, for the targeting component; and (iii) the Office of the Special Advisor to the President of the Republic, which is responsible for advising the government on the formulation and articulation of social policies. The National Treasury Secretariat will prepare and process the loan disbursement requests.

C. Execution period and disbursement schedule

- 3.3 The maximum period for execution of the program will be 24 months. The loan proceeds will be disbursed in two tranches of US\$250 million each. The amount of each tranche reflects the importance of the policy actions and the financial programming of the country's external resources.
- 3.4 The disbursement of each tranche will be subject to the borrower performing the following, to the Bank's satisfaction: (i) maintain a macroeconomic setting consistent with the economic policy memorandum agreed with the IMF; and (ii) comply with the policy actions agreed for the respective tranche and specified in chapter II and in Annex II-1 hereto.
- 3.5 For the first disbursement, additional conditions precedent will be the presentation of evidence that: (i) the draft Budget Act contains the necessary resources to carry out the agreed policy actions for the second tranche, and (ii) a specific and separate bank account has been opened for handling the proceeds of the loan.

- 3.6 The first disbursement is expected to be made when the policy actions agreed for the tranche have been performed and approved to the Bank's satisfaction, which should take place during the month following signature of the loan agreement. For the disbursements under the second tranche, compliance with the agreed policy actions and their respective approval to the Bank's satisfaction is expected to take place within approximately 12 months after the loan signature date.
- 3.7 The borrower, by way of the executing agency, will be responsible for maintaining financial and accounting records on the use of the loan proceeds and preparing and presenting disbursement requests, ensuring that these documents are available for inspection by the Bank and/or external auditors, if deemed necessary. The borrower should keep specific and separate bank accounts to manage the loan proceeds and should submit information to the Bank on these accounts before the first disbursement is made.
- 3.8 The project team will evaluate the information presented by the country on its fulfillment of the agreed policy actions and will prepare the respective reports for the Bank's Management and the Board of Executive Directors in order to request authorization for the disbursements, pursuant to applicable policy.

D. Monitoring and ex post evaluation

- 3.9 The executing agency and the Bank will monitor the program continuously to ensure timely fulfillment of the accompanying policy actions, especially for authorization of the second tranche. Annex III-1 contains the quarterly monitoring plan that will be used as a management instrument by the Bank and the executing agency.
- 3.10 The executing agency has indicated its decision not to commit in advance to conducting an ex post evaluation. In any event, the monitoring reports, the monitoring and oversight systems of the income-based transfer programs, each of those programs' baselines, and the process and impact evaluation reports will allow the executing agency and, if necessary, the Bank to conduct such an evaluation. In this regard, the borrower agrees to cooperate directly and by way of the executing agency, supplying information, data, and documents that may be requested and providing all technical, logistic, and administrative support that may be requested.

E. Policy letter

- 3.11 The Bank agrees with the borrower on the policies outlined in the attached policy letter (Annex III-2), which contains a summary of the social and economic policies that frame the present operation.

F. Procurement of goods and services

- 3.12 Proceeds of the Bank loan will be used to finance the execution of a project to support the national public sector of the borrower, including *inter alia* imports of eligible goods. In this case, applicable Bank procedures on sector lending will be followed, which do not require international competitive bidding.

G. Internal audit

- 3.13 The Bank reserves the right to request that the borrower provide financial reports on the use made of the loan proceeds, audited by the Finance Ministry's Federal Audit Secretariat.

H. Inspection and supervision

- 3.14 The Bank will establish such inspection procedures as it deems necessary to ensure satisfactory execution of this sector loan. To that end, the borrower will cooperate fully, providing all necessary assistance and information.

I. Social, environmental, and gender impact

- 3.15 This operation qualifies as a project that promotes social equity, as described in the key objectives for the Bank's activity contained in the Eighth Replenishment report (document AB-1704). In accordance with the guidelines set forth in that document and inasmuch as this is a fast-disbursing sector loan, the program cannot be considered as a poverty-targeted investment. Even so, the planned actions are targeted to the poorest segments of Brazil's population and contribute directly to improving their living conditions in the short term, allowing new generations to effectively break the cycle of poverty. Depending on the degree to which the practices and instruments developed and implemented under this operation are adopted by other social programs, the social impact could be even greater.
- 3.16 The program involves policy actions and programs that do not require any measures relating to civil works or other actions that could have an impact on the environment. The Committee on Environment and Social Impact considered this operation at its 13 June 2001 meeting and did not request any specific action.
- 3.17 Given the high percentage of poor women who are heads of household in Brazil (20.6% of all families in 1994), the program will improve access to nutrition programs and study grants for households headed by women living in extreme poverty. The impact evaluation methodology of each of the programs will establish gender indicators to determine the relevance of the interventions for Brazilian women. By providing program benefits directly to mothers, the program creates an opportunity for them to manage household resources, which not only raises their status in the family but also gives them an important additional skill. The requirement that adult members of PETI beneficiary families participate in work-

and income-generating programs will proportionally favor poor women more, insofar as these women suffer from higher rates of unemployment and underemployment. Lastly, with regard to girls and teenage women, the four programs together contribute to preventing teenage pregnancy, which has a high incidence among the poor.

IV. VIABILITY, BENEFITS, AND RISKS

A. Viability

- 4.1 The actions called for in this sector program have been reviewed carefully by—and are the result of—consensus with the respective sector authorities; they can feasibly be carried out in the established time frames; and they fall completely within the purview of the Executive Branch. Moreover, there is broad-based support for the income-based transfer programs among the various political parties and the nongovernmental sector, which gives reason to believe that support for the targeting and evaluation measures will continue even after the effective period of the loan conditions.
- 4.2 The institutional arrangements adopted for implementation of this operation are the same as those used for the previous social sector program (Sector Program for Social Protection and Reform, loan 1174-OC), which proved to be useful and effective in ensuring coordination and a satisfactory pace of execution among a considerable number of agencies at the three levels of government. Also, an effort has been made since the program's initial preparation to create and strengthen these coordination arrangements, with specific actions being included in the program to facilitate monitoring of execution, e.g., the development of oversight systems and the use of quarterly plans to identify intermediate products and actions with their respective schedules. Accordingly, no problems are anticipated with execution.
- 4.3 Furthermore, as a sector operation, this program does not generate any pressure on the national treasury. However, as mentioned in the section on lessons learned, implementation of the previous operation pointed up a number of difficulties in meeting some SEAS conditions, owing to the lack of financial resources. During the preparation of the present program, the source of financing was identified for carrying out the activities whereby the agreed conditions would be fulfilled. This helped to ensure the timely availability of the funding needed to carry out the activities that did not have financing, such as the conditionalities for the PETI and *Agente Jovem* programs and the conditionality on alternative targeting methodologies to be met by IPEA. To this end, the government has amended the 2001 budget to make available a budgetary supplement of US\$1.5 million equivalent.

B. Benefits

- 4.4 Strengthening these programs will bolster a core aspect of efforts to combat poverty in Brazil, which is to guarantee the relevance of existing instruments for priority-setting, coordination, rationalization and targeting of the main social-protection interventions targeted to the poorest of the poor.

- 4.5 Successful completion of the planned actions will be a significant contribution towards ensuring effective implementation and improvement of the programs, while helping them to have the intended impact on reducing poverty. This fine-tuning of instruments to protect the most vulnerable segments of the population will make it possible, in turn, to increase the level of well-being of the poorest population and help to build human capital on a sustainable basis, encouraging families to assume an attitude of joint responsibility so as to break the vicious circle of poverty. In the medium term, the goal is to reduce the national average for infant mortality from 34 to 30 per 1,000 live births by 2003, reduce the school dropout rate from its current level of 12%, and significantly reduce the number of children and young people who are engaged in dangerous jobs.

C. Risks

- 4.6 *Delays in approval of the loan by the Congress.* The congressional approval process for the previous sector operation experienced a delay of seven months for entry into force, owing to the debate generated by the loan during legislative consideration. Although this operation will be presented to the Congress in a pre-election year (presidential elections are slated for October 2002), the risk is expected to be less since the government—based on the lessons learned from the previous experience—will take the necessary steps to obtain the support of the legislators. Even so, should delays occur, as in the past, it is expected that the government will continue to advance with the fulfillment of the agreements contained in the program even without a formal commitment.
- 4.7 *Continuity of the process.* Another risk is the position of the new country authorities on the programs' priority and enhancements once the operation has been completed. This risk will be mitigated by high participation and consensus-building by stakeholders and normal Bank monitoring of the country loan portfolio, especially operations in the social sectors. Evidence of the priority and support that society assigns to this type of income-targeted transfer programs was observed in the local written and broadcast press when the law was passed creating the *Bolsa Escola* program. This law was considered and approved unanimously in record time (two weeks). The same occurred with the approval of the Fund to Combat and Eradicate Poverty, which will finance these programs.

SECTOR PROGRAM TO BUILD HUMAN CAPITAL (BR-0360)
SOCIAL POLICY ACTION MATRIX

	ACTION	IMPACT	Disbursement Conditions	
			First Tranche (US\$250 million)	Second Tranche (US\$250 million)
A. Enhancement of the Economic Framework				
world in country's stability.	Help to maintain the country's macroeconomic stability.	Stable macroeconomic setting.	Maintenance of a macroeconomic setting consistent with the economic policy memorandum agreed with the IMF.	Maintenance of a macroeconomic setting consistent with the memorandum agreed with the IMF.
B. Fine-tuning of Income-based Transfer Programs				
ing d for which le clusion who are ible. It n of pios n not ipate	<p>In all the programs: (i) increase the number of instruments for measuring well-being, in order to offer effective, tested targeting alternatives that better respond to the features of the programs and their decentralized operating arrangements; (ii) set up the beneficiary registration systems, since current systems are independent, which makes it difficult to control and coordinate benefits granted; and (iii) expand coverage to include the country's poorest municipalities.</p> <p><i>Bolsa Alimentação.</i> Targeting instruments will be validated that help to identify, register, and grant benefits to eligible families; priority should be given to the poorest municipalities.</p> <p><i>Bolsa Escola.</i> Instruments and arrangements should be defined and made available that help municipalities to target eligible beneficiaries; to better achieve the intended distributive impact in their implementation, priority should be given to the poorest municipalities.</p>	<p>Improve execution of the programs by having municipalities adopt proper instruments for targeting and coordination with similar programs and thus enhance their impact in terms of poverty alleviation.</p> <p>Improve the pool of information on program beneficiaries.</p> <p>Ensure that the poorest municipalities take equitable part in the programs.</p>	<ul style="list-style-type: none">• Definition—by the IPEA—of alternative targeting methodologies and systems, an implementation schedule, and cost.• Establishment of a single registry of program beneficiaries.• <i>Bolsa Alimentação.</i> Evidence that 50 municipalities with an HDI below 0.5 have applied to participate, and that 2,000 beneficiaries are covered in those municipalities.• <i>Bolsa Escola.</i> Evidence that 1,900 municipalities with an HDI below 0.5 are participating, and that 2.1 million beneficiaries are covered in those municipalities.• <i>PETI.</i> Evidence of having achieved coverage of 500,000 beneficiary families, and for <i>Agente Jovem</i> 40,000 young people. <p>See paragraph 2.5</p>	<ul style="list-style-type: none">• IPEA has pilot-tested the alternative targeting methodologies.• A single registry has been established for all program beneficiaries.• <i>Bolsa Alimentação.</i> Evidence that 50 municipalities with an HDI below 0.5 have applied to participate, and that 2,000 beneficiaries are covered in those municipalities.• <i>Bolsa Escola.</i> Evidence that 1,900 municipalities with an HDI below 0.5 are participating, and that 2.1 million beneficiaries are covered in those municipalities.• <i>Bolsa Escola.</i> Evidence that 1,900 municipalities with an HDI below 0.5 are participating, and that 2.1 million beneficiaries are covered in those municipalities.• <i>PETI.</i> Evidence of having achieved coverage of 860,000 beneficiary families, and for <i>Agente Jovem</i> 40,000 young people. <p>See paragraph 2.5</p>

I	ACTION	IMPACT	Disbursement Conditions	
			First Tranche (US\$250 million)	Second Tranche (US\$250 million)
on ure of y, and se eded in ly ss and and to asis for ions.	In all the programs: promote the development of a relevant process and impact evaluation methodology and prepare a baseline in the field.	Provide guidance for the future direction of the programs. Evaluate, in the future, the programs' impact on families.	<ul style="list-style-type: none"> For each program: the terms of reference for preparing the process and impact evaluation methodology of the respective program, incorporating current best practices. <p><i>See paragraph 2.9</i></p>	<ul style="list-style-type: none"> For each program: the process and impact evaluation methodology, the work implementation, cost, and implementation. For each program: evidence baseline for the evaluation prepared. <p><i>See paragraph</i></p>
network t the ry ely hich in	Consolidate the institutional framework in which the programs would operate. Implement regulatory instruments that define the operating arrangements and ensure budgetary resources for implementation.	Formalize and implement the programs.	<ul style="list-style-type: none"> Effective implementation of legal instruments and technical agreements to consolidate the programs' institutional framework, define their operating arrangements, and ensure budgetary resources for their implementation. <p><i>See paragraph 2.13</i></p>	<ul style="list-style-type: none"> Financing scheduled in Multiyear Plan includes resources to continue the income-based transfer p <p><i>See paragraph</i></p>
ently ary ely hich ne s.	In all the programs: (i) adopt policies for coordination with similar national and subnational programs to prevent inefficiencies and/or redundancies; (ii) provide beneficiary-payment arrangements in roughly 1,500 municipios that currently lack electronic bank access; and (iii) set up permanent information systems for monitoring and oversight to guide decision-making on policy guidelines, provide feedback for program designs, and adopt timely remedial actions.	Have the necessary inputs on the programs' performance to facilitate proper monitoring and oversight, enhance operational efficiency and equitable access to the programs, and fine-tune planned interventions.	<ul style="list-style-type: none"> Presentation of the strategies and action plans that will support management of the programs with an eye to effective monitoring and oversight of their respective operations, focusing on aspects of design, operational execution, and coordination with subnational governments. <p><i>See paragraph 2.16</i></p>	<ul style="list-style-type: none"> Presentation of progress program on the aspects first tranche, including adopted to fine-tune the <p><i>See paragraph</i></p>

SECTOR PROGRAM TO BUILD HUMAN CAPITAL

QUARTERLY MONITORING PLAN

ACTIONS	INDICATOR	First Tranche	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter
AREA: INSTITUTIONAL FRAMEWORK						
presentation of: (i) evidence of entry into force of the legal instruments provide the legal backing for the <i>Bolsa Alimentação</i> program; (ii) evidence of the entry into force of Law 10,219 creating the <i>Bolsa Alimentação</i> and its operating regulations; (iii) presentation of the technical-cooperation agreement signed by SEAS and the Labor Ministry's Education Secretariat for actions to combat work, together with the SEAS agreements with the 27 federal entities to generate work and income.	Legal instruments and agreements in force					
Implementation of legal instruments with state and municipal authorities with organizations representing the community.	Meetings and workshops organized					
presentation of proposed budget allocations for the program for 2003.	Proposals presented					
Budget negotiations with SEAIN.	Negotiations conducted					
presentation, to the Bank's satisfaction, of evidence that financing has been programmed in the 2000-2003 Multiyear Plan to ensure resources for the continuity of the programs.	Evidence presented					
AREA: TARGETING						
presentation of: (i) IPEA proposal to develop alternative targeting methodologies and systems, and their implementation schedule and cost; (ii) establishment of a single registry of beneficiaries; (iii) evidence that municipalities with an HDI below 0.5 have applied to participate in the <i>Bolsa Alimentação</i> program and that 2,000 beneficiaries are covered in these municipalities; (iv) evidence that 1,900 municipalities with an HDI below 0.5 are participating in the <i>Bolsa Escola</i> program and that 2.1 million beneficiaries are covered in these municipalities; (v) evidence that the PROETI program has attained coverage of 500,000 beneficiary families and that the <i>Agente Jovem</i> program has attained coverage of 40,000 young people.	Evidence presented					

ACTIONS	INDICATOR	First Tranche	1 st Quarter	2 nd Quarter	3 rd Quarter	Se Tr
selection of pilot areas, definition of alternative targeting systems, and establishment of registry based on self-targeting.	Progress report					
Development and application of the alternative targeting instrument.	Progress report					
Achievement of 25% of coverage targets for second tranche of each program.	Progress reports presented					
Achievement of 50% of coverage targets for second tranche of each program.	Progress reports presented					
Achievement of 75% of coverage targets for second tranche of each program.	Progress reports presented					
Presentation of: (i) results of pilot test of alternative targeting methodologies and systems; (ii) evidence of implementation of the registry of beneficiaries; (iii) evidence that 550 municipalities with HDI below 0.5 have applied to participate in the <i>Bolsa Alimentação</i> program and that 350,000 beneficiaries are covered in those municipalities; evidence that 2,100 municipalities with an HDI below 0.5 are participating in the <i>Bolsa Escola</i> program and that 2.4 million beneficiaries are covered in those municipalities; and (v) evidence that the I program has achieved coverage of 860,000 beneficiary families that the Agente Jovem program has achieved coverage of 55,000 young people.	Evidence presented					
AREA: EVALUATION						
Definition of the terms of reference for developing a process and exact evaluation methodology for each program, incorporating current practices.	Terms of reference presented					
Design of evaluation instruments (representative sample, baseline survey, control groups, etc.).	Designs of evaluation instruments presented					
Development of evaluation instruments, planning of field work, and definition of simulation exercises to test program operation and impact.	Progress report on evaluation instruments and definition of simulation exercises presented					

ACTIONS	INDICATOR	First Tranche	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter
Field work for baseline survey.	Baseline survey conducted.					
Processing of findings of baseline survey and analysis of consistency validation.	Analysis report on findings of baseline survey presented					
Preparation of: (i) design of process and impact evaluation methodology, work plan for its implementation, cost and schedule for implementation; and (ii) evidence of the field work to prepare the baseline for evaluation of each program.	Design, work plan, and evidence presented					
AREA: MANAGEMENT						
Preparation of: (i) strategic plan including <i>Bolsa Alimentação</i> and <i>Bolsa Escola</i> for the development and adoption of monitoring and oversight instruments to fine-tune their respective operations; strategy, work plan, and schedule for improving and expanding the PETI; (iii) strategy to improve and expand <i>Agente Jovem</i> ; and (iv) the outcomes of the pilot exercise to implement the <i>cartão social</i> magnetic-card system for the PETI and <i>Agente Jovem</i> and the strategy to implement it in the rest of the country.	Strategic plans presented					
Monitoring of progress with implementation of all the programs, with emphasis on the technical design, operational execution, progress of information systems, and aspects of coordination.	Progress reports presented					
Prepare proposals to fine-tune implementation of the <i>Bolsa Alimentação</i> program, with emphasis on aspects of technical design, operations execution, and coordinating with subnational governments, including specific measures adopted to fine-tune them.	Proposal presented					
Prepare proposals to fine-tune implementation of the <i>Bolsa Escola</i> program, with emphasis on objectives attained, operational problems encountered and specific measures taken to help fine-tune them, and strategies for coordination with other income-transfer programs.	Proposal presented					
Implementation of specific fine-tuning measures with municípios and beneficiaries.	Meetings and workshops organized					
Organization of workshops with states and municípios for planning, coordinating, and training in implementation of the <i>cartão social</i> magnetic-card system.	Workshops held					

ACTIONS	INDICATOR	First Tranche	1 st Quarter	2 nd Quarter	3 rd Quarter	Second Tranche
4.7 Presentation of: (i) progress report on <i>Bolsa Alimentação</i> implementation; (ii) progress report on the strategic plan for <i>Bolsa Escola</i> implementation; (iii) progress report on improving expansion of PETI; and (iv) progress report on implementation of the <i>cartão social</i> magnetic-card system for the PETI and <i>Agente Jovem</i> .	Progress reports presented					

Federative Republic of Brazil
MINISTRY OF PLANNING, BUDGET AND MANAGEMENT
International Affairs Secretariat

Communication No. 470MP

Brasilia, 5 November 2001

TO:
Mr. Enrique Iglesias, President
Inter-American Development Bank

Dear Sir:

1. The basic mission of every government is to enhance citizens' quality of life and reduce social inequalities by affording everyone the opportunity for employment and access to goods and services to ensure individual well-being and dignity. Sweeping changes in production processes have exacerbated the concentration of wealth and poverty in various areas around the globe, making poverty a challenge that is faced by virtually all countries in today's world.

2. In Brazil, this challenge takes on immense proportions. A significant percentage of the Brazilian population lives under the poverty line, deprived of the benefits of economic development. The problem of social exclusion in Brazil stems not just from recent difficulties, but from inequalities that have accumulated over the country's history.

3. In the early 1990s, the incidence of poverty in Brazil hovered at around 44% of the population. The *Real* Plan brought improved incomes to all segments of the population, especially the poorest of the poor, with the incidence of poverty dropping to 34% in 1997.

Recent Performance of the Brazilian Economy

4. Since overcoming the exchange crisis in 1999, the Brazilian economy has been following a path of renewed growth with stability. In 2000, GDP grew by 4.39% and inflation stood at 5.97%; expectations for economic growth were on the same order, with a drop in inflation forecast as part of a policy of decreasing inflation targets.

5. During the first six months of 2001, Brazil's economy was subjected to a series of severe shocks that had a deep impact on key macroeconomic variables and expectations for future performance vis-à-vis the forecasts from the beginning of the year. A variety of causes contributed to this turn-around, mainly the sharper-than-expected slowdown in the world economy; heightened risk associated with emerging economies and the consequent negative repercussions on external capital flows and intense pressure on the exchange

rate; higher farm-product prices owing to the exchange-rate shock and adverse climate conditions at a time when, seasonally, these prices normally show stability or even drop; and lastly the energy crisis.

6. The costs triggered by these shocks are mainly short-term and have been diminishing as the government's action—through its management of rationing and expanding the supply of energy, management of monetary policy to cope with inflationary pressure, and implementation of mechanisms to protect against the contagion of external shocks—has reduced instability and created conditions to overcome these difficulties. As a result, even with short-term instability, macroeconomic fundamentals have consolidated, as expressed in the priority attached to maintaining stability by adopting a policy of inflation targets, the maintenance of a floating exchange rate, and the bolstering of fiscal policy. These fundamentals will make it possible to overcome the current period of slow economic growth triggered by the aforementioned shocks.

7. The fiscal performance displayed since the launching of the Fiscal Stability Program (PEF) in October 1998, coupled with structural reforms in the fiscal sphere, has been crucial to making sure that the deteriorating external situation does not create imbalances that are even more serious for the Brazilian economy. The consolidated public sector shifted from a primary deficit of 1.2% of GDP for the 12 months ending in September 1998 to surpluses greater than 3% of GDP, to give a total, as of June 2001, of 11 successive quarters during which fiscal targets were met. Moreover, improvements in fiscal results occurred at all levels of government. Among the subnational governments, the figure rose from a deficit of 0.19% of GDP in 1998 to a surplus of 0.67% of GDP in the 12 months ending in June 2001.

8. Structurally, considerable headway has been made over the past few years. Pension reform tackled one of the largest sources of fiscal imbalance, with progress being made both in the general pension system (RGPS) and in the civil-service pension system. The Fiscal Responsibility Act (Supplementary Act 101 of 4 May 2000) has been in effect for one year and, thanks to its array of rules, principles, and standards, it has helped to institutionalize a policy of transparency and fiscal discipline at all three levels of government, creating a framework for change in Brazil's fiscal regime.

Macroeconomic Outlook for 2002

9. The outlook for 2002 is for a gradual reversal of the current difficult situation. With regard to inflation, the government reaffirms its commitment to the established target of 3.5%, working with a cautious monetary policy, improvement of external financing conditions—which will have an impact on external interest paid by Brazil and, consequently, on exchange rate fluctuation—and the expectation that the extremely adverse, atypical shocks of this year will not reoccur.

10. Brazil's external financing needs in 2002 should be less than in 2001. Currency depreciation has significantly increased the return on tradable products, which should help to boost exports and substitute imports. Furthermore, the U.S. economy should recover from its sharp slow-down in growth this year, with positive repercussions for the

world economy. For 2002, then, the negative results in the balance of trade and non-factor services are expected to turn around. Renewal of the agreement with the International Monetary Fund (IMF) made available a volume of resources up to US\$15 billion for 2001 and 2002, while foreign direct investment will continue to account for the bulk of external financing. As the external situation returns to normal, it will be possible to bring down interest rates without fanning inflation.

11. In the fiscal policy sphere, the intensification of the external shocks required an additional response, which was to alter the fiscal surplus targets for the 2001-2004 fiscal period. The 2001 target for the consolidated public sector was raised from 3% to 3.35% of GDP, while for the period 2002-2004 the target was set at 3.5% of GDP, representing an additional 0.5 percentage point. This response sought to bolster the government's commitment to pursue a responsible fiscal policy that could cope with changes in the macroeconomic scenario. Based on that commitment, an effort is being made to recover the credibility created by the performance posted since the Fiscal Stability Program was launched, building on a foundation of structural reforms. This will help to cushion the impact of external shocks on the Brazilian economy.

12. Accordingly, it is hoped that, by 2002, the situational shocks will be overcome, with renewed economic growth. The economy is expected to grow at 3.5%, with inflation at 3.5%, calculated on the basis of consumer prices. This scenario consolidates the fundamentals of the economic policy being pursued, based on the stability and sustained growth of the economy.

13. In the social policy arena, despite the unfavorable macroeconomic scenario, the objectives were maintained of broadening opportunities to raise the standard of living of most of the population, preserving investments in health and education, and channeling resources to the more vulnerable groups. Fiscal austerity has not been taken as a synonym of indiscriminate spending cuts, but rather as a means for constantly making more effective use of resources. For instance, the 2002 budget proposal calls for a 14% increase in social spending, despite the greater fiscal effort required to boost primary results.

14. PNAD 99 data show the concrete results of public policies pursued in the social sectors since 1995. In education, illiteracy dropped from 14% in 1995 to 5.5% in 1999, and the number of children not in school fell from 17.8% to 4.3% between 1989 and 1999, bearing witness to the effectiveness of the policies adopted. The increase in homes connected to water supply—from 76.3% in 1995 to 79.8% in 1999—is another example of the solid performance of the social policies adopted.

15. Social spending in Brazil currently stands at roughly 20% of GDP, and annual per capita income is approximately R\$6,500. These figures are inconsistent with the poverty levels that persist in the country. Many countries with similar or lower income levels present lower levels of poverty and inequality.

16. Reducing poverty and inequality levels calls for a strategy that emphasizes actions with potential to break the vicious circle of poverty once and for all. The programs

included in the *Avança Brasil 2000-20003* Multiyear Plan contain actions capable of making this objective viable.

17. It is important to stress efficiency in management and effectiveness in public spending, making sure that the benefits of such spending effectively reach the citizenry. The federal government is making an enormous effort to implement a management structure that is less bureaucratic and more driven by results.

Health

18. Over the past few years, the federal government has adopted new modalities and priorities for financing specialized outpatient and inpatient care, including emergency services, as well as associated diagnostic and treatment services. Actions to bring about better resource allocation and management have been reassessed in light of the epidemiological situation in order to provide care to all, especially the more disadvantaged groups, and thereby promote equity.

19. New policies for allocating sector resources, driven by demand and in line with established parameters, have been formulated. The basic health care allocation (*piso de atenção básica*) [PAB], established in 1997 and launched in early 1998, is a new financing mechanism under the Single Health System (*Sistema Único de Saúde*) [SUS] that represents a shift from the former approach of payment based on production. Under the new arrangement, municipal health funds receive directly from the National Health Fund (as a fund-to-fund transfer) a per capita amount that is established in advance, and the local government assumes responsibility for basic health care of citizens within its boundaries. *Municípios* can be approved for full management of basic health care or full management of the municipal system, if they meet the specific requirements; they receive the PAB allocation when they are able to manage independently the SUS health services in their area.

20. The PAB has two components: one that is fixed, which is to be used to cover basic care; and one that is variable, to be used for incentives to carry out actions in the specific area of basic care (health monitoring, epidemiological and environmental surveillance, community health agents program, family health program, nutritional deficiencies program).

21. With the reorganization of healthcare practice around new bases and criteria, replacing the traditional healthcare model which was geared towards treating diseases in hospitals, the new care model focuses on the family, viewed and perceived within its physical and social setting. This has enabled health teams to gain a broader understanding of the health-disease process and of the need for interventions that extend beyond simply curative practices.

22. With the implementation of the PAB, an important process was launched to broaden access to basic healthcare. The family health strategy is being expanded and is gradually becoming the backbone of healthcare organization. In the states, significant progress has been made in setting up integrated service networks through a process of

integrated programming, the establishment of oversight offices, stronger monitoring and evaluation, organization of intermunicipal consortia and, even more explicitly, through the formulation and gradual implementation of regionalization plans promoted by the State Health Secretariats.

23. By year-end 2000, over 99% of the country's municípios had fulfilled the management conditions stipulated in Basic Operating Standard 96 on the Single Health System (NOB-SUS 01/96), successful municipal experiences were being shared, and a contingent of professionals qualified in various areas of SUS management had been established. Decentralization of the SUS is proceeding as the states, municípios, and Federal District adopt management models for basic care and for the health system overall. The system is gradually being equipped to respond to the population's needs through the transfer of powers and responsibilities to the municípios.

24. The Program to Fight Nutritional Deficiencies (PCCN), which is part of the PAB's variable component, seeks to reduce and control general malnutrition among children, as well as specific nutritional deficiencies (mainly iron-deficiency anemia and hypovitaminosis A), and to promote breast-feeding.

25. The PCCN's intended beneficiaries are estimated at around 1 million persons. As of 2000, the program had attained a coverage rate of 88.5% of all municípios and was benefiting 92.5% of the target public.

26. As part of the new reallocation proposals, the Government of Brazil intends to replace the PCCN with the Bolsa Alimentação program, which has not yet been launched. The Bolsa Alimentação program will be a refinement of the PCCN and is intended to tackle the problem of malnutrition directly through direct transfers of resources. A total of 3.5 million people are expected to benefit, mainly pregnant women, nursing mothers, and children under six years of age who are at nutritional risk. Through this program, the government is looking to reduce infant mortality rates and, indirectly, to move forward with decentralization of the federal government's actions.

27. The federal government is maintaining the follow objectives for implementation in the near future: (a) clearly define the role of the private and public sectors; (b) create incentives for more efficient use of public resources in the health sector, strengthening the management commitment between the federal government, the states, and the municípios; (c) deliver services having a significant impact on health indicators; (d) strengthen social control over the health sector; (e) establish a differentiated hospital-accreditation system; (f) move forward with equipping the states, Federal District, and municípios with forms of decentralized health-system management, (g) foster processes that lead to autonomous management of public health establishments, with an eye to greater efficiency; (h) upgrade SUS systems for audit, control, and management information, and promote a culture of transparency of information; and (i) institute arrangements for recovering the costs of services provided by the SUS to beneficiaries of private healthcare and insurance plans as a means of promoting equity and making public health services financially sustainable.

Social Assistance

28. Social assistance, defined in the Constitution as a public policy that is a component of social security, was subsequently legislated under the Social Assistance Act (LOAS), which sets forth the relevant doctrinary and organizational principles; these include: decentralization to the municipios, equity, and complementarity of actions between the government and society. Pursuant to Article 2 of the LOAS, social assistance should be carried out “in an integrated fashion with other sector policies, seeking to tackle poverty, guarantee a minimum set of social conditions, create conditions to address social contingencies, and ensure universal enjoyment of social rights”.

29. Since the adoption of the new Constitution and the Social Assistance Act (Law 8,742 of 7 December 1993), a number of initiatives have sought to implement the principles embodied therein. Institutional reforms, new legal instruments, mobilization of society, and innovative experiences, among others, have helped to create conditions for the formulation and implementation of a decentralized and participatory system of social assistance.

30. By means of the LOAS, which establishes a broad social assistance program in the country's 27 states, the federal government is focusing its action on the family and on local integrated development. Accordingly, the LOAS involves benefits, services, programs, and projects geared towards vulnerable groups that suffer from social exclusion.

31. In December 1998, the federal government, by way of the National Social Assistance Secretariat (SEAS), formalized the implementation of its public policy for social assistance through two instruments: the National Social Assistance Policy and the respective Basic Operating Standard (NOB). These two management instruments (embodied in CNAS Resolution 207 of 16 December 1998) provide the framework for guidelines and operating arrangements for social assistance policy.

32. In January 1999, with the restructuring of the ministries, the SEAS was reorganized as the Secretariat of State for Social Assistance, at the ministry level. This gave greater visibility to its programs.

33. Another important item in the area of social assistance has been the Alvorada project, whose objectives coincide with the SEAS's institutional mission.

34. The Alvorada project, established pursuant to Decree 3,769 of 8 March 2001, is a broad-based strategy of the federal government that includes specific actions to reduce regional inequalities. The project comprises a set of programs that fall under various ministries and it is built around vertical and horizontal intersectorality, seeking to coordinate and articulate efforts by government and society to fight inequality, with emphasis on regions with a lower Human Development Index (HDI), by devising, implementing, and coordinating structural programs to raise these indicators.

35. The government's main objectives in this sector for the coming years are: greater efficiency; decentralization; targeting; service quality; organization of a social assistance network; streamlined resource-transfer procedures; greater involvement of society by strengthening social assistance councils at the three levels of government; and modernization of public administration and technical assistance in the social assistance sphere.

36. The National Social Assistance Policy is based on the principles of equal opportunity and promotion of citizens' rights. It includes direct revenue-transfer programs that, together, provide an important social safety net for situations of need and risk at different junctures in the life cycle: old age; inability to work; use of children in the labor market.

37. In view of the decentralized political-administrative model adopted by the assistance policy, which tasks different actors with carrying out actions, both in government and in civil society, the federal government is pursuing strategies to enhance the efficiency, efficacy, and effectiveness of the services, programs, and projects of the National Social Assistance Policy. For instance, in 2001 a number of strategies were formulated to streamline resource transfers to families under the policy's programs and projects, such as the social security card. The card is used to make payments directly to users and its main objectives are streamlined delivery of benefits, safety of the beneficiary at the time of receipt of the benefit, unification of payments, payments at a single venue, and administrative streamlining. By eliminating paperwork and using computers, the social security card represents a major advance in effective delivery of this benefit, since it dissociates a family's receipt of the benefit from noncompliance by the states or municipalities.

38. The need for better targeting, identification of the target public, and diversification of resource-transfer programs in the federal government made it necessary to implement a single instrument for registering beneficiaries. Presidential Decree 3,877 of 24 July 2001 created a registration tool—the Single Registry—to be used by all federal agencies in connection with permanent, targeted programs of the federal government, and made its use mandatory as of 15 September 2001. The registry will help to streamline the registration process at the various government agencies and will ensure data unity and integration for income-transfer programs, especially the PETI and Agente Jovem programs in the social assistance sphere.

39. The Program to Eradicate Child Labor (PETI) seeks to eliminate, by working in partnership with other spheres of government and with organized civil society, child labor among rural and urban children and teenagers aged 7 to 14 who are engaged in activities considered dangerous, unhealthy, difficult, or degrading. Launched in 1996, the PETI attempts to get children in the target group back into school, keep them there, and help ensure their success. The program transfers resources to beneficiary families in exchange for the family's agreement to keep the child in school; it also promotes children's social reintegration through extended-day activities where children and teenagers take part in socioeducational activities, including help with studying and sports

and cultural activities. Another initiative of the government has been the partnerships with family training programs under an SEAS agreement with the 27 states for the income-generation program. Families are given the opportunity to learn or hone any skill that could generate income, thus helping them to become more self-sustaining in the future and ensuring the sustainability of actions carried out under the program.

40. Targeting under the PETI will entail gaining a fuller knowledge of the target population. Accordingly, the strategy is to apply, on a sampling basis, a specific tool (known as the Colombia Instrument) to validate the previous registration of the family in the PETI. This task will be performed in partnership with the Institute for Applied Economic Research (IPEA).

41. Programs such as the PETI cannot be successful without continuous monitoring and evaluation of the seriousness of the problem being tackled and the public resources available. Although the evaluation methodologies to be used for determining the PETI's specific impact are still in the design stage, the Secretariat has developed—together with the Getúlio Vargas Foundation—the conceptual design of a network-based system that will provide: (i) greater reliability of data; (ii) streamlined information flows; (iii) adoption of an evaluation methodology with indicators to monitor program outcomes; (iv) continuous supply of data from the monitoring and evaluation system to the management information system; and (v) greater visibility and transparency in program execution.

42. The complexity of PETI execution, which ranges from identifying children who are engaged in harsh child labor to delivering benefits to families, requires that the Secretariat undertake specific actions in connection with the program's management, such as: (i) search for all possible partners inside the government (at all three levels), ministries (education, health, labor, justice), local labor organizations, NGOs, universities, and international agencies (ILO, UNICEF); (ii) establish an ongoing training system to give all involved agents a better understanding of the program's design and implementation arrangements, as well as clearly stated responsibilities; (iii) implement the social benefits card (cartão social) to streamline subsidy payments to families and ensure dissociation from the local government when the latter is dealing with compliance issues; (iv) launch a campaign to tackle such a complex issue as child labor, which is rooted in structural circumstances of Brazil's socioeconomic situation but also has cultural components; an ongoing effort to raise Brazilians' awareness is a strategy that would help to eradicate child labor once and for all; and (v) identify and disseminate best practices, especially with regard to the extended-day program.

43. In an effort to empower and mainstream young people who have been sidelined from society's goods, services and wealth, the federal government, through the Secretariat of State for Social Assistance, is actively implementing programs that supplement the school curriculum by providing access to computer skills for underprivileged children and teenagers.

44. The Agente Jovem program targets teenagers aged 15 to 17 who come from needy families having per capita incomes of less than one half the average minimum wage. The program seeks to prepare young people for the workplace, especially those who are not attending school or have “graduated” from the PETI. This maximum three-year program provides training through basic workshops for young people to become active in the community in areas such as health (where they could become community health agents, for instance), sports, tourism, etc. Inasmuch as the program involves transfers of funds to these young people, its implementation requires coordinated participation by all three levels of government (federal, state, and municipal), as well as by organized civil society.

45. Underprivileged youth are enrolled for the Agente Jovem program in such a way as to validate all the program’s eligibility criteria. As in the PETI, the Colombia instrument will be used here as well, to validate the registration.

46. Since it is still in its early stages, the Agente Jovem program does not yet have an evaluation of its outcomes in order to validate its design and implementation effectiveness. Accordingly, the SEAS has identified as a priority action the development of a management information system that includes a monitoring and evaluation component for the Agente Jovem program.

Education

47. President Cardoso’s first term (from 1995 to 1999) was characterized, in the educational sphere, by deep, sound reforms and a coherent policy to expand quantitatively and improve qualitatively the supply of education at all levels. The changes under way were defined institutionally by means of constitutional amendments and new legislation, mainly the National Education Act (Lei de Diretrizes e Bases da Educação Nacional). All the initiatives undertaken by the federal government were structural in nature, in that they were designed to tackle not the symptoms but rather the problems of the educational system at their root, in order to solve them in a firm, reliable, and lasting fashion.

48. Even if a longer period were necessary for its implementation, this posture has had and continues to have a clear objective: ensure that the country truly overcomes its shortcomings in the educational sphere by securing outcomes that are solid and capable of guaranteeing conditions for deepening further improvements in the future. Even with such an action strategy, indicators show that the current management has already produced palpable achievements, in advance of the expected trend.

49. Through this strategy, the federal government proposes to consolidate basic education, expand and improve secondary and vocational education, and expand and improve higher education, in line with modern systems for autonomous management and greater efficiency.

50. Among the objectives for the basic education cycle are: ensure access for children 7 to 14 and a higher completion rate; allocate resources to states and municipios on the

basis of quality and educational performance indicators, such as the Basic Education Assessment System (SAEB); encourage the establishment of school councils or similar bodies to ensure community participation in school management, including allocated resources; and promote autonomy of schools in terms of pedagogical projects and management of public resources.

51. The objectives for secondary education include: coordinate with the states on actions to expand courses at this level to cover all students who have completed the basic education cycle and young adults who wish to go back to school; adopt new reference curricula; support the states in reorganizing networks on the basis of pedagogical and organizational efficiency and the need for physical facilities suitable for the education of children and young adults; invest, together with the states, in expanding the secondary education network and equipping schools properly; encourage the states to gradually expand investment in this level of education; establish continuing evaluation systems for this level, articulating the national system with the state systems; and promote expansion of distance education, both for secondary education and for the training and credentialing of teachers.

52. With regard to vocational education, the objectives include: revamp vocational education, establishing partnerships between the state, municipal, and federal systems and the private sector to expand the supply of courses; mobilize, articulate, and expand the installed capacity of the network of vocational education institutions; and review basic, technical, and advanced vocational courses and make sure they respond to local and regional market requirements, through collaboration with employers, workers, and labor organizations.

53. The commitment to strengthen teachers' skills includes: professional training to ensure that teachers possess and can convey the skills to be taught and exercised in the classroom as well as the teaching methods needed for good school performance; a system of continuing education to allow teachers to expand their cultural knowledge as part of a critical vision and perspective of a new humanism; and a workday organized in accordance with the students' school day, preferably at a single school and with ample time allowed for activities to complement in-class work.

54. "Far from where we would like to be, but much better off than we used to be." In so many words, that is the balance of the first years of President Cardoso's educational policy.

55. At the end of six years of Cardoso administration, we can point to major victories in the area of basic education: 97% of Brazilian children aged 7 to 14 are in school, and the quality of schools has been improving continuously. In such a large, young population as ours, the remaining 3% represent millions of children, precisely the poorest and most vulnerable.

56. The Bolsa Escola program will transfer resources directly to the families of these children who should be in school, seeking them out in their homes, at work, or in the streets.

57. The National Bolsa Escola Program, which was launched in July 2001, will provide monthly income support to poor families who agree to keep their children in school. Thanks to the National Poverty Fund approved by the Congress, it will be possible to cover the entire target population. Across Brazil, there are some 11 million children aged 6 to 15 whose families earn less than one half the monthly per capita minimum wage.

58. Payments under the Bolsa Escola program are subject to the child's attending classes, which will be verified every three months. The child's mother receives the payment directly from the federal government by making a withdrawal at banks or accredited institutions using a magnetic card. All interested municipios may take part in the program. The program is nationwide, but gives priority to municipios participating in the Alvorada project, municipios that participated in the Guaranteed Minimum Income Program in 1999 and 2000, and municipios that took part in the Comunidade Solidária's program to distribute basic food baskets.

59. The system overall experienced enormous expansion, with a significant increase in access to education by children and young adults. The number of 7-to-14-year-olds in the basic education cycle rose from 89% in 1994 to 96.1% in 1999 as a direct consequence of the Fund to Maintain and Develop Basic Education and Enhance Teaching Skills (FUNDEF) and the School for All Children Program, which brought together the federal, state, and municipal governments and the community in a campaign to enroll children who were not in school. If the system continues to improve qualitatively, the number of children enrolled in the earlier grades is expected to continue to drop, as more students move into fifth grade than new students beginning first grade. The group in fifth to eighth grade grew by roughly 27% in the period 1994-99, showing not just greater coverage of the population in basic education but also the qualitative improvement in this level of education, with a clear trend towards rapid correction of the age-to-grade distortion.

60. An especially insightful development is the trend in secondary education enrollment, which mushroomed 57% between 1994 and 1999. In the last year alone, it expanded 11.5%, reaching 24% in some states (e.g., Minas Gerais). This remarkable growth can be attributed to three factors: more students are completing basic education; average student ages are younger, so they are at an age where they can continue their studies; and demand for more schooling has increased among young people, in part because of the requirements of an increasingly competitive labor market.

61. The past five years have seen a significant smoothing out of cross-regional differences in access to education and its quality. Using the same indicators as earlier for the country as a whole (i.e., growth in enrollment in first through fourth grades, fifth through eighth grades, and secondary education), expansion in the Northeast and North Regions has been well above the national average. Global indicators for basic and secondary education coverage are still below the national average in these two regions. The positive trend over the past few years, however, shows that these differences are being smoothed out rapidly. It is especially worthwhile to note this phenomenon in

relation to the Northeast, which has always had indicators well below the national average. Since 1994, basic education in the region has grown 27.2% compared with 13% for the country overall; enrollment in the fifth through eighth grades grew 49% as against 27%; and in secondary education, 62% in the Northeast compared with 57% in the country overall. Moreover, data from the Basic Education Assessment System show a very positive trend in the competency index of students in fourth through eighth grade and in the third year of secondary education. Here again, the absolute indices are still below the national averages, but they have improved faster than the average over the period from 1995 to 1997.

62. Pursuant to the recommendations made in the National Education Act, there was a strong move towards the “municipalization” of basic education and the “statization” of secondary education. In 1997, there were 18 million students in state-run basic education schools and 12 million in the municipal network. In 1999, there were 16 million each in state and municipal schools. At the same time, while secondary education enrollment increased 57% since 1994, enrollment in the state network grew 74% over the same period.

63. After a long period of stagnation in student numbers, higher education enrollment began to grow again in 1994, registering an increase of 424,000 students in just four years and totaling more than 2.1 million students in 1998, for an increase of 28%. In absolute terms, enrollment in higher education grew more in those four years than during the previous 14 years. This growth, which is revealing not only quantitatively, reflected a new and important feature: the public system had become active again, increasing by 28% its supply of places in the past four years.

64. At the same time, growth in the private sector now hinged on quality standards, as a result of new procedures for supervision and evaluation. Roughly one third of the growth in the private-sector supply occurred in the North, Northeast, and Center-West Regions, representing a significant shift away from the traditional urban centers and a smoothing out of the system’s interregional biases.

65. Enrollment at the graduate level also saw a large increase: enrollment grew from 43,100 to 50,800 in master’s programs and from 15,900 to 26,700 in doctoral programs between 1995 and 1998. The number of master’s programs increased from 1,159 to 1,339, while at the doctoral level the increase was from 616 to 727 over the same period. Brazil is thus conferring 12,500 master’s degrees and 3,900 doctorates per year, which is quite significant given the size of its higher education system. In this area as well, the North and Northeast Regions have displayed considerable expansion, thus improving the regional distribution of supply.

66. The evaluation system is now fully operative. The National Course Examination was held for the fourth consecutive year, covering in 1999 courses in 13 different areas and a total of 173,000 students. Skills-level indicators are available for the teaching staff of all institutions, as are the findings of the Higher Learning Census. Information on each institution’s academic infrastructure is also available.

67. Everyone at school, finally. Our objective is to protect our children and young adults not just from the worst forms of exploitation of child labor and violence, but also to ensure their right to dream and prepare themselves for life, work, and citizenship in the new millennium.

68. Far from where we could be, but with our destination already on the horizon. With this vision, the Brazilian government remains firm in its objectives, which include guaranteeing that all children and young adults are in school and receiving quality education. This task falls to us all: the three levels of government, organized society, the private sector, and the community. With everyone in school, learning and progressing, Brazil will be on the right path to combating poverty and creating a more just and solidary society.

69. In closing, the federal government will continue to develop, fine-tune, strengthen, and increase the number of available mechanisms to target a specific, well-defined set of programs to areas and segments that are especially poor and needy, to develop innovative forms of social assistance in partnership with the various segments and organizations of civil society, by tapping various initiatives in the area of integrated local development and including initiatives to promote volunteer social service.

Sincerely,
/signed/

Martus Tavares
Minister of State for Planning, Budget, and Management

PROPOSED RESOLUTION

**BRAZIL. LOAN /OC-BR TO THE FEDERATIVE REPUBLIC OF BRAZIL
Sector Program to Promote Human Capital**

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Federative Republic of Brazil, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a Sector Program to Promote Human Capital. Such financing will be for the amount of up to five hundred million dollars of the United States of America (US\$500.000.000), which are part of the Single Currency Facility of the Ordinary Capital resources of the Bank, and will be subject to the "Special Contractual Conditions" and the "Financial Terms and Conditions" of the Executive Summary of the Loan Proposal.