

TECHNICAL-COOPERATION LOAN
PUBLIC POLICY RESEARCH AND DEVELOPMENT NETWORK

(BR-0175)

EXECUTIVE SUMMARY

BORROWER: Federative Republic of Brazil

EXECUTING AGENCY: Instituto de Pesquisa Econômica Aplicada (IPEA)
[Applied Economics Research Institute]

AMOUNT AND SOURCE: IDB:
(OC, Single Currency Facility) US\$25,000,000
Federal government: US\$ 6,000,000
Total: US\$31,000,000

FINANCIAL TERMS AND CONDITIONS: Interest rate: variable
Commitment fee: 0.75%
Inspection and supervision: 1%
Disbursement period: 4 years
Amortization period: 20 years

OBJECTIVES: The objective of the program is to boost the capacity of the country's institutions, particularly the IPEA and other economic and statistical research institutes, for the decentralized and participative design, planning, and evaluation of public policies to meet the country's new needs and priorities.

The program's specific objectives are to establish, strengthen, and interconnect a network for public policy research and development (the IPEA network). It will be composed of the IPEA, which will act as coordinator, and a number of federal and state institutions, whose basic functions are economic research and planning and the production of socioeconomic data. The network will be supported and fed by data banks, new types of indicators, and the findings of studies and research with the goal of improving public and private sector access to information, while minimizing unnecessary duplication of institutional efforts.

DESCRIPTION: Three main components have been designed to attain the program's objectives:

a. Component I. Creation and interconnection of an information network, to establish the system, interconnect it with other institutions, and

reorganize existing state-level initiatives by public economic research and planning institutions. This component includes a training program for researchers from the IPEA and the other institutions.

- b. Component II. Improvement of basic economic statistics, to update and develop new core data bases on socioeconomic statistics using new statistical sampling methods. This component will boost the capacity of the Instituto Brasileiro de Geografia y Estatística [Brazilian Geography and Statistics Institute] (IBGE) to produce new national statistics and publish them in a timely fashion.
- c. Component III. Production and dissemination of economic studies, to strengthen the public policy and economic research development and analysis capacity that the network will finance and to disseminate the results.

**ENVIRONMENTAL
CLASSIFICATION:**

The Environment Committee, at its meeting of December 21, 1995, classified this as a Category II operation.

BENEFITS:

The results of the program are expected to include: (i) a computerized network, coordinated by the IPEA and interconnected with the country's other statistics and economic research institutions, available to the public for consultation; (ii) a substantial improvement in the country's basic statistics provided by the IBGE; (iii) ongoing training programs in key public planning and policy areas to support the technical teams of the institutions involved; (iv) modernization and revision of the studies and research plans of the IPEA and the other institutions participating in the network; (v) a fully functioning, continuous program of communications and relations with the mass media; (vi) equipment and trained human resources to enable the IPEA and the other partners to perform their functions under the new decentralized framework for economic research.

The public policy research and development network will produce direct and indirect benefits for the private sector. The direct benefits will stem from the generation of information that businesses can use for decision-making regarding investments and production and that the public can use to keep itself informed, which should promote civic participation. The network will also promote broad public access to

information by expanding the IPEA's home page services, which can be accessed through the Internet. There is vigorous demand for this service at present, as demonstrated by approximately 40,000 consultations thus far in 1996. The program will also make data banks that contain state and municipal information available to national and foreign researchers and Brazilian society in general.

RISKS:

Special precautions were taken in preparing this program, based on the IPEA's and the Bank's previous experience in similar operations. The measures include: (i) centralization of the program in the IPEA to avoid multiple coexecuting agencies; (ii) special care to ensure that the local counterpart funding is available on schedule; (iii) a detailed definition of the work plan for year one as a condition precedent to the first disbursement; (iv) appropriate sizing of the program executing unit; and (v) procedures for the approval of studies and investigations set out in the operating regulations. The country's macroeconomic and political stability also help to reduce the risks of the program.

**THE BANK'S
COUNTRY STRATEGY:**

The Bank's strategy, as agreed upon with the Brazilian authorities, includes three priority areas: (i) reduction in the so-called "Brazil cost" through modernization of the country's productive infrastructure; (ii) reduction in social inequalities and alleviation of poverty through funding for social programs; and (iii) reform of the public sector at the federal, state, and municipal levels. The public policy research and development network was designed keeping in mind the general guidelines of the master plan for government reform and the strategies agreed upon with the authorities for Bank action in this field.

**CONTRACTUAL
CONDITIONS:**

a. Conditions precedent to the first disbursement:

- (i) Signature of an agreement between the borrower and the IPEA in which the latter agrees to act as program executing agency and undertakes to comply with the terms and conditions established in the program documents (paragraph 3.3).
- (ii) Signature of an agreement between the executing agency and the IBGE, in which the latter undertakes to execute component II and to comply with the terms and conditions

established in the program documents (paragraph 3.12).

- (iii) Evidence that the program executing unit has been established and staffed (paragraph 3.4).
- (iv) Evidence that the program's executive board and technical committee have been established and their members appointed (paragraphs 3.1 and 3.6).
- (v) Approval by the Bank of the draft Operating Regulations for the program (paragraph 3.16) and subsequent evidence that they have been placed in effect.
- (vi) Signature of an agreement between the executing agency and the United National Development Program (UNDP), the latter will hire consulting services and procure equipment for the program (paragraph 3.7).
- (vii) Presentation of the work plan for the first year of the program, containing a description of the activities to be carried out, the terms of reference for the consulting services to be hired, the procurement plan for equipment, and the studies to be conducted (paragraphs 2.24 and 3.8).

b. Conditions subsequent to signature of the loan contract:

- (i) Within 12 months after the loan contract has been signed, the executing agency will present evidence that it has reached agreements with at least 10 state planning institutions to participate in the IPEA network (paragraph 3.11).

c. Other contractual conditions

The loan contract will also contain the Bank's standard clauses relating to reports, auditing, inspection, procurement and contracting, and ex post evaluation.

**PROCUREMENT OF
GOODS AND AWARDED
OF CONTRACTS FOR
CIVIL WORKS AND
CONSULTING
SERVICES:**

Bank procedures will be followed in procuring goods and awarding contracts for services to be financed with the proceeds of the proposed loan. The thresholds for international competitive bidding in this program will be US\$350,000 for goods and related services, and US\$200,000 for consulting services. No works will be contracted under the program.

**EXCEPTIONS TO
BANK POLICY:**

None

POVERTY TARGETING:

Although this operation is expected to have a favorable impact on the low-income population, the program does not directly target this group and therefore is not expected to have direct benefits in terms of paragraph 2.15(b) of the Eighth Replenishment document.

I. FRAME OF REFERENCE

A. Changes in the economic context

- 1.1 At the start of the 1980s a number of major socioeconomic, political, and institutional changes took place in Brazil, whose consequences are still being felt. In the economic sphere, the key event was an end to the rapid growth that the country had enjoyed almost uninterruptedly since the mid-1960s. This was partly because most of the opportunities for industrialization based on import substitution, which had sustained the prolonged economic expansion, had been capitalized on by then.
- 1.2 The first indications that growth was reaching its limit appeared after the oil crises of 1973 and 1979. However, it was with the onset of the "lost decade" of the 1980s and the external debt crisis in 1982 that the need for a new economic growth model became imperative. The need arose because economic activity had stagnated, inflation had begun to soar, and social problems had worsened.
- 1.3 In response, Brazil began to apply a new growth model based on improving economic efficiency, restructuring the public sector, and opening up the economy to free trade. One unifying principle behind the new policies was to promote modernization of the industrial park in the context of a globalized economy that was expanding rapidly. An additional objective was to eliminate one of the main causes of the country's chronic inflation by facilitating larger imports of manufactured and consumer goods, thus checking arbitrary increases in prices by businesses. Tariffs were thus lowered significantly in 1988 and 1990. Last, trade liberalization was further enhanced in March 1991 when Brazil signed the Asunción Treaty that created MERCOSUR.
- 1.4 In the midst of the turbulent economic situation at the start of the 1980s, Brazil also launched a vigorous process of democratization and political decentralization. Country-wide municipal elections were held after two decades of authoritarian government and in 1990 Brazil returned to full democracy when it elected a new president for a four-year term. However, in many respects, the most important political event of the decade was promulgation of the 1988 constitution. Apart from covering a great many matters relating to economic policy, the new constitution reduced the powers of the Executive Branch, increased those of Congress, and substantially changed the nature of Brazil's fiscal federalism. This was achieved by increasing tax transfers from the federal to the state and municipal governments, although it was not accompanied by a parallel transfer of functions.
- 1.5 This complex process of socioeconomic and political change has, in turn, had an enormous impact on institutions involved in planning,

research, and the collection and analysis of social and economic data. Two interrelated problems should be stressed. First, most of the institutions in existence in the early 1980s had been gradually undermined by inflation, budget cuts, and restrictions on hiring qualified staff. Second, the weak financial situation of those institutions made it difficult for them to engage in the new type of economic planning that economic and political decentralization demanded.

- 1.6 These shortcomings have been particularly evident at the state and municipal levels of government, where human and financial resources are very scarce or, in many cases, nonexistent. The situation must be immediately addressed since the lower levels of government are responsible for a growing number of major economic and social functions.
- 1.7 The country's socioeconomic information requirements have also changed dramatically. There is a pressing need for better and more far-reaching statistics on national accounting and public finances, particularly at the lower levels of government. Data are published with major delays and are frequently incomplete and sometimes inconsistent. Also, access to information is a chronic problem for many analysts and experts, and the situation is aggravated by insufficient and antiquated computer systems that make it difficult to install modern data banks. Last, to address these issues, in addition to strengthening its existing institutions (a process that has begun to a degree), Brazil will have to completely restructure some of them to operate in a much more cost-effective manner. In some cases this will require privatization and/or the establishment of different kinds of partnerships with the private sector.

B. Impact on the country's economic statistics system

- 1.8 At the federal level, the national statistics system has lagged behind the times. The Instituto Brasileiro de Geografia y Estatística (IBGE) [Brazilian Geography and Statistics Institute], which is the chief body responsible for compiling and processing information and statistics, has encountered great difficulties in carrying out some of its most important tasks, such as the 1991 economic and population census and the national household surveys of 1992 and 1993, owing to a lack of capacity and funds.
- 1.9 Still on the federal level, the Instituto de Pesquisa Econômica Aplicada (IPEA) [Applied Economic Research Institute], the main body in the government's planning and analysis system, has lost some of its capacity to supervise and plan the country's socioeconomic development. Salary restrictions led to a vast exodus of professionals: (i) to other government agencies able to offer additional benefits; (ii) to the private sector, through leaves of absence to work in private business; and (iii) through early retirement schemes as a way of ensuring that they would continue to receive the benefits threatened by administrative

reforms. As a result of this reduction in its specialized staff, the IPEA cut back on the technical training it provided at the state and regional levels and disbanded technical groups specializing in public finance, demographics, the external sector, and macroeconomic forecasting.

- 1.10 Consequently, current social and economic policies are very often based on old data, unreliable estimates, and false assumptions. The federal budget has ceased to reflect the government's real spending intentions, while public balance sheets do not provide an exact or comprehensive view of budget execution. This situation has led to criticism and dissatisfaction in almost all sectors of society, which are calling for transparency, efficiency, and effectiveness in government action. Governments themselves are equally dissatisfied with existing systems, mechanisms, procedures, methodologies, and techniques, which have proven useless in view of the complexities of the current situation and the new roles and functions of the state. This situation could have a serious adverse effect on the efforts of the current government to stabilize the economy and reform and modernize Brazilian society.

C. The new role of government

- 1.11 If the project to modernize the country is to have concrete results over the medium term, it is vitally important for the government to rebuild its capacity to coordinate and lead the development process. Privatization of government enterprises and the removal of obstacles to private capital investment in public services must be accompanied by the adoption of a modern, efficient system of planning and regulation.
- 1.12 It is not enough to reduce direct government intervention in the economy, since there will still be a need to strengthen government tools for supporting private decision-making and guiding it toward the public good. In addition, decentralization of government requires a well-articulated mechanism for coordinating the activities of the federal, state, and municipal governments, in order to prevent the fragmentation of resources, duplication of efforts, and waste.
- 1.13 Consolidation of this model will require a fresh and sweeping approach to the institutional and financial design of the Brazilian public sector. On the institutional level, appropriate exercise of the regulatory function depends on developing effective new planning, monitoring, control, and supervisory mechanisms in the public sector.

D. The Ministry of Planning and the Budget and its role in the new planning model

- 1.14 Reorganization of the Ministry of Planning and the Budget [Ministério do Planejamento e Orçamento] (MPO) in early 1995 was

one of the first steps taken by the new government for administrative reorganization and is evidence of the government's concern with strengthening economic research and reestablishing its key role in the design and implementation of a development strategy able to cope with future challenges. ^{1/} As the same time, the authorities began to promote, under the leadership of the IPEA, the creation of a new association of institutions whose basic functions are economic research and planning and the preparation and publication of socioeconomic statistics. Aside from the IPEA, the other main participants in the new network of institutions include the IBGE, the Fundação Getúlio Vargas (FGV), and the Instituto Nacional de Altos Estudos [National Advanced Studies Institute] (INAE).

E. The central function of the IPEA in a decentralized economic research model

- 1.15 The IPEA is the MPO's main arm for public policy research. It is a public foundation established in 1967, which has come under the MPO as of January 1, 1995, as mandated by Decree 1361. The IPEA's mission is to assist the MPO in preparing and monitoring economic policy and in promoting applied economic research in the fiscal, urban, social, financial, external, and sector development fields. The institute is also responsible for the training and professional development of economic researchers and planners.
- 1.16 The new responsibilities assigned to the MPO will demand a great effort to rebuild the action capacity of the IPEA, as the body responsible for conducting studies and analysis, formulating and evaluating public policies and programs, making projections and designing macroeconomic and sector scenarios, estimating investment requirements and determining how they can be executed, and helping to institutionalize a planning process.
- 1.17 The difficulties currently faced by the IPEA in carrying out its new mandate are principally: (i) the lack of formal mechanisms for interagency coordination which could be used to back its operational capacity; (ii) shortcomings in existing training programs with regard to the specialties needed to cover the different aspects of its field of action; and (iii) absence of an

^{1/} Under a provisional measure introduced by the federal government to reorganize its administrative structure (MP 813/95), the MPO is responsible for the following, among other functions: (a) coordination and management of the federal planning and budgeting system; (b) preparation, monitoring, and evaluation of national and regional development plans; (c) socioeconomic studies and research; (d) design and coordination of national urban development policies; (e) management of national mapping and statistics systems; and (f) development of guidelines for monitoring and evaluating programs to finance regional development.

integrated computerized information system that can link it to the other institutions in the system.

- 1.18 To enable the IPEA to respond to the demands on it as the mainstay of the MPO's planning activities, it will be necessary to develop a strategy to improve its role as technical coordinator. Accordingly, the proposal is to set up an interlinked network of institutions - each with specific mandates and functions in the planning system and able to draw on its special comparative advantages - which will be decentralized, flexible, and able to support government planning.
- 1.19 The IPEA is currently undergoing recruitment and modernization process that was begun in 1995. It received authorization to hire new researchers in order to revitalize its research teams, and introduced, under a special system, a new plan for positions and salaries to motivate its staff. Its annual budget rose from US\$35 million in 1994 to about US\$95 million in 1996, which points to the support that the federal government is providing for its new role. The institution currently has a staff of 456, with an additional 211 people seconded to other government agencies, for a total of 667. With the modernization mechanisms and improvements in research conditions that will be created under the program, the IPEA will be able to substantially increase its production in order to strengthen the country's new economic research system.
- 1.20 The public policy research and development network (IPEA network) project presented below has been designed to tackle some of the challenges described earlier. A series of priority measures has been carefully coordinated, whose objective is to rehabilitate, modernize, and revitalize the main institutions in the fields of economic planning and statistics. They include initiatives in key areas such as training, the design and purchase of modern computer systems, and the development of interconnected information networks to assist the agencies involved. In addition, support will be provided for key areas of economic research, particularly those closely linked to the requirements of the country's new economic and political structure. Last, the project will seek to improve the quality and timeliness of vital social and economic statistics in fields such as state GDP and the finances of lower levels of government.

F. Public policy research and development network

- 1.21 The initiative to establish a public policy research and development network is intended to respond to information requirements for government decision-making, under a new model for government action in a decentralized context, by optimizing efforts, avoiding existing duplications, establishing partnerships, and implementing mechanisms for linkage and the exchange of information between the federal and state levels.

- 1.22 The IPEA, as the government agency in charge of studies and analysis, will coordinate the economic policy research and development network. Agreements will be concluded with the other participating institutions to provide financing for the activities planned under the program.
- 1.23 The main national and regional institutions already identified by the IPEA are:
- Fundação Instituto Brasileiro de Geografia e Estatística [Brazilian Geography and Statistics Institute] (IBGE). The IBGE is a public foundation established in 1967 whose mandate is to produce information and studies in the fields of statistics, geography, and demographics, necessary to understand physical, economic, and social conditions in the country, particularly for economic and social planning. As the senior body in the statistics system, the IBGE is of key importance, alongside the IPEA, for providing basic data for all Brazilian planning bodies.
 - State public planning institutions. These institutions for public policy planning and coordination have the mandate, in the regional and state spheres, to conduct research and produce information. The FEE in Rio Grande do Sul, IPARDES in Paraná, FUNDAP in São Paulo, SEI in Bahia, SEPLANTEC in Sergipe, FUNDAJ in Pernambuco, IPLANCE in Ceará, Fundação SEADE in São Paulo, Fundação João Pinheiro in Minas Gerais, IDESP in Pará, and CODEPLAN in the Federal District are the best prepared and consolidated and are already linked to the IPEA. They are part of the core of the IPEA network. Information on these institutions can be consulted in the Bank's technical files (Annex IX).
 - Escola Brasileira de Administração Pública [Brazilian School of Public Administration] (EBAP) of the Fundação Getúlio Vargas (FGV). The Getúlio Vargas Foundation is a nonprofit technical, scientific, and educational institution, with full legal status under private law, established in 1944. One of its five units is the EBAP, the oldest school of public administration in the country, which together with IPEA, and particularly with the Centro de Treinamento para o Desenvolvimento Econômico e Social [the IPEA's Economic and Social Development Training Center] (CENDEC), will be responsible for coordinating the extensive training program for officials from the IPEA, the IBGE, and the institutions participating in the network to be carried out under this operation.
 - Instituto Nacional de Altos Estudos [National Advanced Studies Institute] (INAE). The INAE is a nonprofit civil association founded and staffed by leading economists and social thinkers, whose mandate is to investigate and disseminate ideas and formulate policies for development, democracy, and culture in

Brazil. The National Forum, established by the INAE in 1988, makes concrete proposals to the federal government for the modernization of Brazilian society. The INAE's experience will be crucial in conveying the public policy research and development network's proposals to society.

- 1.24 Since the public policy research and development network is in the very early stages of institutional integration, the proposed operation will support consolidation of the system and will strengthen the MPO's principal planning instrument (the IPEA and other members of the IPEA network).

G. Bank experience and strategy in the country

- 1.25 The Bank has already gained experience in institutional strengthening in a similar operation for the Ministry of External Affairs (Itamaraty), recently approved loan 814/OC-BR for US\$10 million, currently under way. The project includes equipment procurement and training components. In October 1996, the Bank approved a technical-cooperation project for US\$740,000 to support the Ministry of Administration and State Reform in implementing federal government reform policies. In addition, the Bank is also preparing a loan for 1997 to modernize the federal government's administrative apparatus.
- 1.26 Strengthening the public planning system in Brazil is consistent with the Bank's country strategy for 1995-1997, which is to support reforms and modernization of the public sector. The Bank's strategy, as agreed upon with the Brazilian authorities, includes three priority areas: (i) reduction in the so-called "Brazil cost" through modernization of the country's productive infrastructure; (ii) reduction in social inequalities and alleviation of poverty through funding for social programs; and (iii) reform of the public sector at the federal, state, and municipal levels. The public policy research and development network was designed keeping in mind the general guidelines of the master plan for government reform and the strategies agreed upon with the authorities for Bank action in this field.
- 1.27 The IPEA has experience in executing international operations. The lessons learned from the public sector management program (GESEP) financed by the World Bank under loan 2721-BR, and other operations, were taken into account in this operation to keep the risks to a minimum and optimize the results. Some of those lessons included the need for coordination to be centered in a single institution, adequate staffing for coordination, a detailed description of the terms of reference for the activities planned, a clear definition of activities and expected results, and the provision of training programs geared to the new functions.

II. THE PROGRAM AND ITS OBJECTIVES

A. Objective

- 2.1 The objective of the program is to boost the capacity of the country's institutions, particularly the IPEA and other economic and statistical research institutes, for the decentralized and participatory design, planning, and evaluation of public policies to meet the country's new needs and priorities.
- 2.2 The program's specific objectives are to establish, strengthen, and interconnect a network for public policy research and development. The IPEA network will be composed of the IPEA, which will act as coordinator, and a number of federal and state institutions, whose basic functions are economic research and planning and the production of socioeconomic data. The network will be supported and fed by data banks, new types of indicators, and the findings of studies and research with the goal of improving public and private sector access to information, while minimizing unnecessary duplication of institutional efforts.
- 2.3 To attain the objective, the program will: (i) promote the establishment and interconnection of the IPEA network through important institutional agreements, new equipment, and training; (ii) modernize and increase the capacity to compile and process basic socioeconomic data; and (iii) boost the IPEA's capacity to analyze public policies and economic research, prepare policy proposals, and establish more appropriate channels for disseminating the results.

B. Program description and expected results

- 2.4 The proposed program is intended to lay the foundations for a public policy research and development network by equipping and technically strengthening Brazil's main economic research institution (the IPEA), linking state planning institutes to the new decentralized economic research model, and helping the country's main economic statistics agency (the IBGE) to improve the basic data for economic research, produce economic studies, and conduct research for public policy proposals.
- 2.5 The results of the program are expected to include: (i) a computerized network, coordinated by the IPEA and interconnected with the country's other statistics and economic research institutions, available to the public for consultation; (ii) a substantial improvement in the country's basic statistics provided by the IBGE; (iii) ongoing training programs in key public planning and policy areas to support the technical teams of the institutions involved; (iv) modernization and revision of the studies and research plans of the IPEA and the other institutions participating

in the network; (v) a fully functioning, continuous program of communications and relations with the mass media; and (vi) equipment and trained human resources to enable the IPEA and the other partners to perform their functions under the new decentralized framework for economic research.

- 2.6 The sustainability of the program is ensured by the following: (i) the new data banks will be continuously updated by the IPEA and the other research institutes, since the program will provide them with the necessary methodologies and information systems; (ii) the training programs can be reproduced later by IPEA/CENDEC instructors; (iii) the new statistics to be produced by the IBGE will be entered into the national statistics systems; and (iv) the studies and research conducted by the IPEA in association with the other institutions will lay the foundations for future joint work by the members of the network, thus facilitating convergence in analysis and priority issues.

C. Program components and main activities

1. Component I. Establishment and interconnection of the information network (US\$7 million)

- 2.7 This component is designed to set up and interconnect the IPEA network and to reorganize initiatives at the state and municipal levels being carried out by planning institutions. The capacity of the IPEA's information systems will be strengthened, and it will be provided with the means necessary to interconnect the network. The institutions will be informed of methodologies and results to enable them to produce standard economic and social indicators that can serve as the basis for future studies, and a training program will be offered for the specialists of the participating institutions.
- 2.8 This component constitutes the core of the program, since it directly involves the state planning institutes and other institutions engaged in economic research. It will raise awareness of the work being done by those institutions, identify training opportunities, training needs, and deficiencies in disseminating the studies. It will furnish instruments to address those needs and provide the network with more information about local conditions.
- 2.9 This component has three subcomponents: (a) modernization and expansion of the IPEA's data processing systems; (b) interconnection of the data banks of economic research institutions at the federal and state levels; and (c) a training program in public policies for specialists from the institutions participating in the public policy research and development network.

- 2.10 Subcomponent a. Modernization and expansion of the IPEA's data processing systems (US\$3 million) to consolidate the network, whose objective is to provide infrastructure and equipment for the new data banks to be created, link them to the other participating institutions, and make the information available to the government and the public. Additional computer equipment will be procured to provide the IPEA with the infrastructure necessary to interconnect with the other institutions (US\$1.3 million). More modern and efficient applications will be procured (US\$200,000) and consulting services will be provided to develop the new data banks and information systems to be shared by the network and made available to the public (US\$1.5 million). The technical files on the operation present details on the cost and financing of this component (Annex I-1).
- 2.11 Subcomponent b. Interconnection of the data bases (US\$1 million), whose objective is to prepare new methodologies to be disseminated by the participating institutions so that data bases and economic and social indicators will be uniform and integrated. The aim is to obtain greater reliability in the research conducted by the different statistics and planning institutes. This component will also eliminate redundancies and optimize and share results, thus making significant progress toward convergence in the work of drafting, evaluating, and monitoring public policies.
- 2.12 To attain the objectives, this subcomponent will focus on the following specific activities: (i) development of new economic, social, and environmental indicators, particularly related to emerging problems and new events such as the fundamental changes in consumption patterns in different economic groups, and in wage structures and the work force; (ii) preparation of more extensive and detailed information on states and municipalities, which is needed to tackle the challenges that have arise in the wake of the recent changes in fiscal federalism; (iii) preparation of trade matrixes by region and state, which are required to evaluate current transportation policies and improve investment programming in the sector; and (iv) the development of performance indicators for more appropriate and timely adjustments in the many social programs under way, especially for monitoring, evaluation, and followup on IPEA network programs. Aside from new methods and indicators, this subcomponent also calls for better use of existing sources of information to attain its objectives, including environmental assesments (the Annual Report on Social Indicators) and the administrative records available in the Ministry of Social Welfare, the Caixa Econômica Federal [Federal Savings and Investment Bank], and other public agencies.
- 2.13 This subcomponent will finance the consulting services needed to bring about integration, by developing and disseminating the methodologies identified and analyzed in detail in the technical files, which also describes the expected results (Annex I-2).

- 2.14 Subcomponent c. Training in public policies (US\$3 million), which is intended to instruct the specialists of the IPEA and the other participating institutions in the new management methods and techniques for planning and public policies and the new economic research methods, training the teams of researchers recently hired by the IPEA and those institutions, and strongly boosting the operating capacity of CENDEC, the IPEA's unit responsible for human resource training. Over its 30 years of existence, CENDEC has provided training for close to 34,000 public servants. The goal of this subcomponent is to provide 1,700 training opportunities during the four years of the program.
- 2.15 The training program will focus on professional development for the technical teams of the participating institutions, particularly the recently-hired researchers, coaching for IBGE specialists in information production, and instruction for the researchers of those institutions in the new public-policy management techniques.
- 2.16 The program's technical files provide more information on this subcomponent and a cost table (Annex I-3).

2. Component II. Improvement in basic economic statistics
(US\$5 million)

- 2.17 This component is intended to upgrade existing systems and develop new data bases of socioeconomic statistics based on new statistical sampling methods. It will introduce and modernize procedures for making up-to-date information available to guide the government's actions and support public policies. It is urgent to attain the objectives of this component since the mechanisms currently used for economic research and censuses entail prohibitive costs and extremely long delays before the results can be made available.
- 2.18 Under the component to improve primary economic statistics, the capacity of the IBGE to compile basic data will be built up and more extensive and modern statistics will be produced.
- 2.19 Enhancing the IBGE's capacity to compile and process basic data consists of financing certain specific activities which are priorities for modernizing the country's economic statistics, as follows:
- a. Revision of the model used to produce the statistics (US\$550,000)
 - b. Introduction of a new system of national accounts (US\$630,000)
 - c. Introduction of a new system of regional accounts (US\$1 million)
 - d. Public finances and financial accounts of the state governments (US\$720,000)

- e. Construction of a system of social and demographic indicators (US\$500,000)
 - f. Development and absorption of new information production technologies (US\$620,000)
 - g. Computerization of the operating base (US\$450,000)
 - h. Project to modernize the data processing systems of the IBGE (US\$400,000)
 - i. Improvement in the profiles of the specialists who produce the information (US\$430,000)
- 2.20 The technical files present the justification for the activities planned, a breakdown, costs, and financing (Annex II).
3. Component III. Production and dissemination of economic studies (US\$14.5 million)
- 2.21 This component is intended to finance economic studies and research of interest to the country, disseminate the results and public policy proposals, and encourage a national debate on these issues. It includes two subcomponents: (a) a comprehensive line of studies and research for public policy design and evaluation; and (b) financing for dissemination of the studies and public policy proposals produced by the network.
- 2.22 Subcomponent a. Studies and research (US\$13.5 million). This subcomponent will permit the IPEA to capitalize on the new partnerships established through the network and step up its activities by contracting individual consultants and consulting firms to conduct studies and research. The studies and research already identified stem from: (i) demand from within the IPEA that has not been met owing to the lack of institutional capacity; (ii) the government's agenda, which suffers from a paucity of analysis in new areas such as globalization and sectors undergoing structural reforms; and (iii) the country's economic research institutions.
- 2.23 The following subjects are priorities and were established on the basis of the IPEA's current work plan, under the guidelines of the Ministry of Planning:
- (i) public finances and financial and fiscal policies;
 - (ii) infrastructure, privatization, deregulation;
 - (iii) industrial modernization, quality, and productivity;
 - (iv) agriculture and agricultural policy;

- (v) demographics, employment, and the labor market;
- (vi) social security;
- (vii) education, poverty, and inequality;
- (viii) the environment;
- (ix) regional and urban studies;
- (x) study, analysis, and design of macroeconomic models; and
- (xi) government concessions and regulation.

2.24 Subcomponent b. Conferences and seminars (US\$1 million) is designed to provide the public policy research and development network with an instrument for informing the government and the different segments of civil society about its proposals. The activities will be carried out in conjunction with the program's other components in order to optimize the results. They will be based on work plans to be prepared by the IPEA, approved by the executive board, and submitted to the IDB as a condition precedent to the first disbursement.

2.25 In carrying out the activities of this subcomponent, the IPEA will seek to bring the results of the studies and policy proposals to the attention of the largest possible audience in both the public and private sectors, and will rely on the capacity of the National Institute for Advanced Studies [Instituto Nacional de Altos Estudios] (INAE) to bring together a wide variety of government institutions and other segments of society.

2.26 Bank funds will be used to finance the costs of national and international speakers to participate in the discussion of selected topics, the preparation of documents for the debates, and consulting services to analyze the results and prepare public policy proposals.

D. Program cost

2.27 The program will cost a total of US\$31 million to be partially financed under a technical-cooperation loan from the IDB in foreign exchange for US\$25 million. The local counterpart will be US\$6 million, to be provided out of the federal budget.

2.28 The program is scaled as shown in the following table.

Public policy research and development network
Program cost
(US\$ thousands)

Component	IDB	Local	Total
1. Program executing unit	500	1,250	1,750
2. Component I. Establishment and interconnection of the information network	5,000	2,000	7,000
3. Component II. Improvement of basic economic statistics	4,000	1,000	5,000
4. Component III. Production and dissemination of economic studies	14,500	0	14,500
5. Contingencies	750	250	1,000
6. Finance charges	250	1,500	1,750
TOTAL	25,000	6,000	31,000

2.29 Program funds will be used to finance the investment categories shown in the following table:

(US\$ thousands)

Category	IDB	Local	Total
1. Program executing unit	500	1,250	1,750
2. National and international consultants	3,500	1,000	4,500
3. Equipment	1,500	1,000	2,500
4. Personnel training	4,000	1,000	5,000
5. Studies and research	13,500	0	13,500
6. Seminars and conferences	1,000	0	1,000
7. Contingencies	750	250	1,000
8. Finance charges	250	1,500	1,750
TOTAL	25,000	6,000	31,000

E. Financing

2.30 The Bank's contribution will come from the ordinary capital and be converted into local currency. According to current regulations, the financial terms and conditions will be:

Interest rate:	variable
Commitment fee:	0.75%
Inspection and supervision:	1%
Disbursement period:	48 months
Amortization period:	20 years
Currency composition:	Single Currency Facility

- 2.31 The local contribution of US\$6 million will come from the federal budget.
- 2.32 The Bank's contribution will be used chiefly to finance: (i) the hiring of individual consultants to perform the work; (ii) the hiring of academic and research institutions to conduct the studies and research; (iii) training programs, grants, and travel on mission; (iv) computer equipment, to be procured following the procedures established in Annexes B and C to the loan contract.
- 2.33 The Brazilian government's contribution will be used to finance: the full cost of the program executing unit; the cost of the services provided by the United Nations Development Programme (see paragraphs 3.6 to 3.8); the salaries, fees, and domestic travel expenses of IPEA and IBGE officials, and other costs not eligible for financing from Bank funds.

III. PROGRAM EXECUTION

A. Executive board

- 3.1 An executive board will be established for the program, representing different government agencies interested in the results produced by the IPEA network, which will allow it to be used as a tool for government action. Evidence that the board has been established is a condition precedent to the first disbursement.
- 3.2 The executive board will be responsible for guiding, defining, and approving the program's annual plan of activities. Chaired by the IPEA, it will have representatives drawn from senior levels of the Ministry of Planning and the Budget, the Ministry of External Relations, the Strategic Affairs Office, and the Analysis and Research Group of the Office of the President of the Republic. The board will be responsible for approving the annual work plans, identifying priority areas and issues for the country, and supervising the activities carried out under the program.

B. Executing agency

- 3.3 The Applied Economic Research Institute [Instituto de Pesquisa Econômica Aplicada] (IPEA) will be responsible for project execution. It is a foundation linked to the Ministry of Planning and the Budget, whose main function is to support the federal government in designing economic policy by promoting studies and research. As a condition precedent to the first disbursement, an agreement must be concluded between the borrower and the IPEA whereby the latter agrees to act as the program executing agency. The IPEA's institutional and financial capacity is analyzed in chapter IV of this document.

C. Executing unit

- 3.4 The IPEA will establish a unit in charge of program execution, which will be responsible for coordinating, implementing, and managing all the activities in the different components. The unit will be headed by a director general, a position expected to be occupied by the president of the IPEA, who will be responsible for general program management. The director will have two support groups: a strategic policy unit composed of the executive board (described in paragraphs 3.1 and 3.2) and a technical advisory committee; and an operational group divided into units for coordination of integration, program execution, and finance and administration. These units will be closely linked to the operating units of the IPEA that are responsible for the institution's various areas of activity, thereby allowing for proper incorporation of the research findings by the IPEA's

operating units. The Bank will finance consulting services to provide support for the executing unit to ensure efficient coordination the network activities, monitoring of the program activities, and periodic evaluation of program performance. Evidence that the executing unit has been established and appropriately staffed is required as a condition precedent to the first disbursement. A more detailed discussion of the configuration of the executing unit is available in the technical files (Annex V).

- 3.5 The technical advisory committee will support the executive board and the director general. It will be responsible for technical analysis of the proposals submitted to the office of the director general. Its members will be representatives of the IPEA, academic institutions, nongovernmental research institutions, and state research institutes, all of which have extensive and proven experience in the program's areas of action. Evidence that the technical advisory committee has been established is required as a condition precedent to the first disbursement.
- 3.6 Operational support will be provided by the following coordination units: integration, linked to the cooperation and development department; program execution, which will be responsible for the three program components; and finance and administration. These coordination units will be provided with specific technical support by other units in the IPEA to enhance its focus on program objectives. The advisory services of the UNDP will also be hired to guide and expedite the processes of hiring consultants and administering program funds. The UNDP's participation is fundamental to ensure expeditious the contacting of international consultants and to procure goods, in view of the strict requirements to which the participating institutions are subject under national legislation. On addition, the UNDP has extensive experience in similar programs with the IPEA. Signature of an agreement between the IPEA and the UNDP is a condition precedent to the first disbursement.

D. Program execution

- 3.7 The program will be executed on the basis of annual work plans proposed by the director general and approved by the executive board. The plans will contain the terms of reference for consulting services, the list of equipment to be procured and the necessary specifications, an enumeration of the courses, studies, and research to be carried out during the period, specifying the activities to be performed by the UNDP at the request of the executing unit. Submittal of the work plan for year one of the program is a condition precedent to the first disbursement.
- 3.8 The UNDP will procure the goods and services indicated in the approved work plans, under the terms and in the amounts stipulated in Annexes B and C to the loan contract.

- 3.9 The executing unit will monitor and evaluate: the services provided by the consultants; receipt and testing of the equipment procured; the selection of participants in the training programs offered; and the studies and research contracted.

E. Execution

- 3.10 Component I. This component will be executed in a manner that will make it possible to simultaneously: (i) develop the IPEA's basic computerized information network to be linked to the other participating institutions; (ii) identify, rationalize, and develop statistical methodologies for construction of the socioeconomic indicators to be shared by the participating institutions; and (iii) develop the training program for researchers from the different institutions and lay the groundwork for consistency in economic research and statistics. The executing unit will be responsible for coordinating the activities of the three subcomponents, seeking to optimize the use of program funds. The IPEA will enter into agreements with the public planning and economic research institutions for their participation in the network. Within 12 months after the contract is signed, the IPEA will submit evidence that contracts have been signed with at least 10 state planning institutes.
- 3.11 Component II. Modernization of the IBGE's statistics is planned around specific activities, each of which is intended to improve one aspect of the national statistics system. As coexecuting agency of this component, the IBGE will play a fundamental role by providing technical staff, facilities, and equipment for the consultants contracted under the program, ensuring close cooperation to obtain the expected results. The IPEA will coordinate these activities with the other components so as to optimize the results and disseminate them through the network to the other institutions. CENDEC, which is the IPEA's unit in charge of training for the network, will monitor this component, ensuring it is compatible with the others, so as to identify new training opportunities and needs. As a condition precedent to the first disbursement of the loan, an agreement will be signed by the IPEA and the IBGE, in which the latter undertakes to execute component II and comply with the terms and conditions established in the program documents.
- 3.12 Component III. The studies and research to be carried out will be coordinated by the IPEA through the program executing unit, to integrate and complement the activities of components I and II, thus optimizing the results of the network. The associations established under component I and the new statistics produced under component II should provide opportunities for new research to be financed under component III. The executive board will supervise this component closely, identifying government needs and opportunities for the private sector and to attract foreign

investors, and referring these initiatives to the program's director general for inclusion in the annual work plans.

- 3.13 The studies may originate in two ways: first through demand from the central government based on its development plans; and second, from proposals made by any research institute, university and/or individual researcher. In the latter case, the proposals will be analyzed by the technical advisory committee which will submit them, together with its technical recommendation, to the director general of the program. If approved, they will become part of the annual work program of the IPEA network. This procedure ensures that there will be no restrictions on participation in the network.
- 3.14 Once studies and research have been submitted through either of these two channels, the rules of competition established in the program's Operating Regulations will be applied. The regulations stipulate that all the studies selected and approved must necessarily comply with criteria of relevance, timeliness, coherence, and/or their potential contribution to more efficient allocation of resources. The Operating Regulations also establish that candidates for funding under this component will be evaluated on the basis of their competence, soundness, and knowledge. The details of the Operating Regulations can be consulted in the Bank's technical files. Last, the institutions and/or consultants that will conduct the selected studies and research will be selected and hired in accordance with Annex C to the loan contract, which sets forth the procedures for hiring consulting services in Bank-financed programs.
- 3.15 Some of the aspects defined in the Operating Regulations are: (i) the procedures to be followed in contracting out the studies and research, which are those established in Annex C to the loan contract; (ii) the criteria for technical analysis of the proposals; (iii) the ceiling for study and research contracts with a single entity (US\$2 million); (iv) the discretionary limit for the IPEA (US\$200,000); and (v) the role of the technical advisory committee in preparing technical opinions. As a condition precedent to the first disbursement, the Bank must approve the draft Operating Regulations for the program and subsequent evidence that they have been placed in effect.
- 3.16 The technical files present a representative sample of the priority studies and research to be financed (Annex III-2). The sample analyzed by the Bank and found to be acceptable represents about 30% of the total proposed portfolio. It includes studies on the public sector, competitiveness and integration, demographics and the labor market, and urban and regional development.

F. Execution schedule

- 3.17 The term for disbursement of the loan proceeds will be four years. This period was established taking into account the length of the

commitment and execution periods for each program component. It is considered sufficient to complete the planned work. The term for commitment of the resources for component III should be three years.

3.18 The disbursement schedule by source of funding is presented below.

Program disbursement schedule
(in US\$ thousands)

Source	Year 1	Year 2	Year 3	Year 4	Total
IDB	5,562	6,912	6,763	5,763	25,000
Local	1,212	1,712	1,463	1,613	6,000
Total	6,774	8,624	8,226	7,376	31,000

3.19 The execution schedule broken down by component and activity can be consulted in the technical files (Annex VIII).

G. Procurement of goods and awarding of contracts for services

3.20 For the procurement of equipment, materials, and other goods for the program, when financed in full or in part with loan proceeds, international competitive bidding will be required in all cases in which the purchase of such goods exceeds the equivalent of US\$350,000. This threshold is justified since outside bidders have demonstrated interest in similar projects in Brazil over this amount. In the remaining cases, bidding will be local. For the awarding of contracts for consulting services, the threshold for international competitive bidding will be US\$200,000. Bidding for lower amounts will be conducted in accordance with national legislation, provided it does not conflict with Bank procedures. Annexes B and C to the loan contract will govern the procurement of goods and the awarding of contracts for services.

3.21 Below is the tentative procurement schedule for the program:

Tentative Procurement Schedule				
Main items	Financing	Procedure	Prequalification	Semiannual period
Local and international consultants				
Component I				
(i) Consulting services for data processing (US\$1.5 million)	IDB (66%)	CB/ICB 2/	Y/N	I, II, III
(ii) Consulting services for research methodologies and evaluation (US\$1 million)	IDB (100%)	CB/ICB	Y/N	II, III, IV, V
(iii) Consulting services for staff training (US\$600,000)	IDB (66%)	CB	N	II, III
Component II				
(i) Consulting services for national statistics (US\$2 million/ 30 consultants)	IDB (100%)	CB/ICB	Y/N	from I to VI
Procurement of equipment				
Component I				
(i) Procurement of computer equipment (US\$1.3 million)	IDB (70%)	ICB	Y	II
(ii) Procurement of assorted software (US\$200,000)	IDB (100%)	CB	N	II, III, IV
Component II				
(i) Procurement of computer equipment (US\$1 million)	IDB (70%)	CB/ICB	Y/N	III, IV
Studies and Research (representative sample)				
Component III				
(i) Studies and research (US\$3.1 million) - 30 studies at an average cost of US\$100,000	IDB (100%)	CB/ICB	Y/N	I, II, III

H. Supervision and reports

3.22 Project execution will be supervised by the director general, who will prepare semiannual progress reports on the physical activities

2/ CB: competitive bidding
ICB: international competitive bidding

and financial situation of the program. The reports will include evidence of performance evaluation and the results achieved under the program.

- 3.23 Beginning on the date of the first disbursement of the loan, representatives of the IPEA, the UNDP, and the Country Office in Brazil will hold semiannual meetings. The Country Office will be responsible for Bank supervision and inspection, with support from the project team when necessary.
- 3.24 The contract between the Bank and the Brazilian government will stipulate that the IPEA is to prepare the following reports for submittal to the IDB, through the director general.

1. Initial report

- 3.25 An initial report will be prepared containing the timetable and work plan for the first year of the project, within 60 days after the loan contract is signed. The initial report will also include: (i) the terms of reference for consultants and the timetable for hiring them for that year; (ii) the list of personnel from the IPEA, the IBGE, and the state planning institutes to be assigned to the program; (iii) the training courses planned for year one; and (iv) the studies and research to be carried out in the period.

2. Progress reports

- 3.26 Throughout the program execution period, the IPEA will prepare semiannual progress reports and present them to the Bank within 30 days after the close of each six-month calendar period. The reports are to describe the progress made, the extent to which the results planned in the logical framework (Annex I) have been attained, and any deviations from the plan.

3. Financial reports

- 3.27 Within 120 days after the close of each calendar year throughout the project execution period, the IPEA will present the financial statements of the program, showing the use of Bank funds and the local counterpart. The reports are to be audited by the Federal Auditing Department [Secretaria Federal de Control] (SFC).

4. Midterm and ex post evaluations

- 3.28 A midterm evaluation will be performed within six months after the end of the second year of the program and an ex post evaluation within a year after disbursement in full. The evaluations, which will be performed by independent institutions, will use the indicators and means of verification described in the program's plan of execution, and will also take into account the findings and lessons learned highlighted in the project completion report on the operation prepared by the Bank.

IV. THE BORROWER AND THE EXECUTING AGENCIES

A. Institutional aspects

1. The borrower

- 4.1 The borrower of the proposed loan for the public policy research and development network project will be the Federative Republic of Brazil, which will be responsible for debt service.

2. Executing agencies

- 4.2 The project is divided into three main components: (a) establishment and interconnection of the information network; (b) improvement of basic economic statistics; and (c) production and dissemination of studies and research. The Applied Economic Research Institute [Instituto de Pesquisa Econômica Aplicada] (IPEA) will take general responsibility for coordinating and executing all activities under these components. The institutional structure for project execution also includes participation by the Brazilian Geography and Statistics Institute [Instituto Brasileiro de Geografia y Estatística] (IBGE) as coexecuting agency of the information network component.

3. IPEA. Description, objectives, and functions

- 4.3 The IPEA is a public foundation established in 1967 and linked to the Ministry of Planning and the Budget (MPO). Its chief mandate is to conduct studies and research on Brazil's economic development. Its duties are to assist the MPO in formulating, implementing, and evaluating medium- and long-term public policies, perform applied research to improve administrative, economic, and social planning, and provide training for personnel in studies and research.
- 4.4 These activities focus mainly on the following areas: (a) planning and public policies; (b) macroeconomic studies and economic analysis; (c) social analysis; (d) public finances; (e) financial and fiscal policy; (f) regional and urban development; and (g) cooperation and development.
- 4.5 Over its 30 years of life, the IPEA has undergone various reforms, but has never lost its bearing as an institution devoted to research and the preparation and dissemination of studies on the country's economic and social development. The studies conducted by the IPEA are based on annual work plans prepared following guidelines and priorities set by the federal government.
- 4.6 In the current fiscal year, the IPEA work plan calls for studies to prepare a document on the country's future, reorganization of the

planning information system, provision of training for planners, and promotion of discussion of its studies and their findings.

4. Organizational structure

- 4.7 IPEA has recently been reorganized based on the results of the economic stabilization plan and the administrative reform that broadened the powers of the Ministry of Planning and the Budget. Steps were taken to strengthen its institutional resources and boost its capacity to provide technical support for revitalization of the medium-and long-term economic planning system.
- 4.8 Guided by a consultative council and headed by a president, the IPEA's organizational structure is divided into six departments: administration and finance, planning and public policies, regional and urban policy, social policy, research, and cooperation and development. The departments are linked to coordination units for each of the IPEA's main functions. These coordination units, which divide up the work into projects and streamline the IPEA's activities, making them more flexible, provide greater stability and support for the IPEA staff.
- 4.9 CENDEC (Centro de Treinamento para o Desenvolvimento Econômico e Social) [Economic and Social Development Training Center] is also part of the IPEA. It is an institute linked to the cooperation and development department, which carries out information and training activities through discussions, courses, seminars, and the like, in different fields of knowledge. The purpose is to address issues that can offer significant and timely support for the government's work in planning, projects, public policy management, and information sciences.
- 4.10 This training center, which will play an important role in executing component I, has a small permanent staff, but taps a broad network of professionals in different specialties, selected on the basis of their expertise and the needs of the center.
- 4.11 Its activities are also based on a work plan approved each year by the IPEA in light of the training requirements presented by the government. In 1996, CENDEC is investing in research projects and activities for which it is seeking technical cooperation from international organizations, centers of excellence in Brazil, and sister institutions in states and municipalities.

5. Human resources

- 4.12 Human resources are the main asset of the IPEA, since it has one of the best teams of professionals specializing in socioeconomic research and planning, many of whom have studied specialized courses and hold master's and doctoral degrees. As a result, the IPEA is willing, in response to government requests, to second some of its staff to other public institutions in order to cooperate in

providing technical support for other government activities.

- 4.13 The following table gives an idea of the IPEA's technical staff in recent years:

Staff	1993	1994	1995	1996
In-house	483	502	426	456
Senior	208	202	175	216
Intermediate	275	300	251	240
Seconded	339	308	238	211
Total	822	810	664	667

- 4.14 The fields of specialization of its senior in-house staff are:

Economics	113
Social sciences	31
Administration	23
Engineering	14
Computer science	07
Mathematics	06
Law	04
Other	<u>18</u>
	216

- 4.15 As part of the processes of building up the IPEA and expanding its activities, a series of steps are being taken to upgrade its human resources, with government support. They are intended to improve the quality of the institution's operating results, boost the efficiency of the services it provides, and promote just compensation for the professional performance of its staff. Personnel policies are thus being redesigned, public competitions have been held to provide refresher courses for staff, and a salary increase has been approved to reward performance and productivity.

6. Budget and accounting systems

- 4.16 With the unification of the government's cash funds and the introduction of a financial information system in 1986, the Federal Treasury Department is required to set standards and oversee the budget, financing, and accounting performance of federal agencies, including the IPEA. The department established a single accounting plan for the federal administration that is used by the IPEA to organize and control its activities.

7. Auditing

- 4.17 As a federal government institution, the IPEA's administrative, financial, capital, and accounting areas are audited by the Internal Auditing Department of the Ministry of Planning and the Budget, and the Federal Auditing office, following the respective guidelines and rules for the different areas examined. These audits are performed annually or less often, depending on the area. The main points of reference are the institution's data on financial administration and budget performance.

B. Financial aspects

- 4.18 The IPEA's operating funds come from the annual federal budget. As a research institution, its main budget items are personnel costs and other recurrent expenses relating to its administrative and operational activities. Annex II presents a detailed table comparing the IPEA's budget execution from 1993 to 1995.
- 4.19 The following table gives a summary of its annual budgets in recent years, by category:

Category	1993	1994	1995	1996*
Personnel and social contributions	16,667	21,603	45,838	60,473
Financial obligations, external debt	426	218	477	509
Other recurrent costs	4,346	12,632	19,821	30,674
Investments	252	357	1,560	3,044
External debt repayments	741	434	1,247	1,060
Total	22,432	35,244	68,943	95,760
Indexes	100	157	307	426

* Budget approved for 1996

- 4.20 As the figures show, almost all of the budget (close to 95% in 1996) goes for personnel and other recurrent costs. The large increase in the total budget since 1995 should be noted. This increase, which reflects the steps taken by the government to strengthen the IPEA, was mainly used to hire new staff and raise salaries. The new hirings did not lead to a significant overall increase in staff, in view of the large number of people who retired from the IPEA and from the public sector in general, spurred by the reforms being proposed in the Brazilian social security system. However, they did represent a considerable increase in costs. Under current government legislation, the IPEA continues to be responsible for the pensions of its retirees.

C. Other participating institutions

1. Instituto Brasileiro de Geografia y Estatística

- 4.21 The IBGE is a public foundation established in 1967 and subject to the supervision of the Ministry of Planning and the Budget. Its chief mandate is to provide information and product studies in the fields of statistics, geography, cartography, and demographics, necessary to understand the physical, economic, and social situation in the country, particularly for purposes of economic and social planning.
- 4.22 As the main public institution devoted to the production of statistical and geographic information to support the government, the IBGE will be one of the main participants in executing component I - the production of selected information for the development of a new socioeconomic statistics data base.
- 4.23 Its structure includes the office of the president, a planning department, three technical departments (research, geoscience, and computer science), three divisions (human resources, finance, and a documentation and information dissemination center) and a national statistical sciences school. The federal government's supervisory agencies are responsible for formal, detailed control of its administrative and financial activities.
- 4.24 A reform of the IBGE's organizational structure is under study, which would eliminate excessive subdivision of its activities, reduce middle management levels, and improve the coordination and control capacity of the central level.
- 4.25 The federal government provides most of the IBGE's funding, through annual budget allocations.

2. Public planning institutes

- 4.26 These regional and state public policy planning and coordination institutions are responsible for conducting research and producing information. The FEE in Rio Grande do Sul, IPARDES in Paraná, FUNDAP in São Paulo, SEI in Bahia, SEPLANTEC in Sergipe, FUNDAJ in Pernambuco, IPLANCE in Ceará, Fundação SEADE in São Paulo, the Fundação João Pinheiro in Minas Gerais, IDESP in Pará, and CODEPLAN in the Federal District are the best prepared and consolidated and are already linked to the IPEA. They are part of the core of the IPEA network. Information on these institutions can be consulted in the Bank's technical files (Annex IX).

3. Fundação Getúlio Vargas. Escola Brasileira de Administração Pública

- 4.27 The foundation is a nonprofit technical, scientific, and educational institution, with full legal status under private law,

established in 1944. Its work in the fields of social sciences, economics, and administration is helping to address the country's economic development and social welfare problems.

- 4.28 Its research and teaching activities in the fields of public and private administration, economics, and environmental protection are carried out by five teaching units linked to the foundation: the Brazilian Economics Institute, the Brazilian School of Public Administration, the São Paulo Business Administration School, the Graduate School of Economics, and the Center for Contemporary Brazilian Historical Research and Documentation.
- 4.29 The Brazilian School of Public Administration, [Escola Brasileira de Administração Pública] (EBAP) established in 1967, offers theoretical and applied courses at the graduate level, maintains a large research program, and provides technical advisory services for government and nongovernmental organizations. Its research projects cover government and administration, public sector management, public policies, education in public administration, and public sector trends.
- 4.30 In view of its specialization in human resources and government planning, the EBAP (together with CENDEC and coordinated by the IPEA) will play a large role in executing component II, i.e. training for researchers from the IPEA and planning institutions.
- 4.31 The Getúlio Vargas Foundation obtains its financing from three main sources: fees for services in the form of courses and consulting services; donations from private foundations, international organizations, companies, and the federal, state, and municipal governments; and income from its properties.

4. Instituto Nacional de Altos Estudos

- 4.32 The INAE is a nonprofit civil association established by the country's leading economists, sociologists, and statesmen. Its purpose is to investigate and disseminate ideas and formulate policies for development, democracy, and culture in Brazil. It was born out of a public study and debate program known as the National Forum, begun in 1988, whose purpose was to make concrete proposals to the federal government for the modernization of Brazilian society. In 1991 the National Forum Program was formalized and made permanent with the establishment of the INAE.
- 4.33 INAE activities have been financed by a series of national and international public and private institutions and companies, and international agencies, including the IDB. Considering the importance of the studies and economic research it promotes and the high level of past debates, the INAE will participate in executing component III of the project, relating to studies and research.

V. PROGRAM FEASIBILITY

A. Justification

- 5.1 The proposed project is part of the Brazilian government's efforts to modernize the State by strengthening the institutions responsible for national planning, which will have a multiplier effect on different economic sectors.
- 5.2 The IPEA network to be supported under the program responds to the need to decentralize planning, which is vitally important in a country as large as Brazil, with marked regional and social inequalities, and a complex federal arrangement introduced in the 1988 Constitution. Its operation will be timely for reactivation of the macrofunctions of the Ministry of Planning and the Budget, which minimizes any risks that might arise.
- 5.3 The Bank's support of the program will: (a) provide an opportunity to participate in the decisive stage in redefining the role of the State in economic planning and research; (b) foster transparency and competitiveness to ensure the best distribution of resources among institutions and consultants, thus maximizing the quality-price ratio; (c) convert the IPEA into an tool for national integration and planning; (d) improve the likelihood of successful execution.

B. Institutional feasibility

- 5.4 The IPEA will be responsible for coordinating and executing the program. An executing unit will be established, reporting directly to the IPEA's president, with its own staff and specific functions and mandates, based on the different specialized areas of the program. This executing unit, which will also be responsible for coordinating and monitoring the work of the other participating institutions, will receive operational support from the IPEA's different technical units and from the UNDP.
- 5.5 The organizational structure proposed for this unit and its human resources are considered appropriate. Its proximity to the president of the IPEA will ensure good integration of the components, and efficiency and responsiveness in the decision-making processes that the program requires. The technical assistance to be provided by the UNDP in contracting consulting services, procuring equipment, and controlling resources will help to strengthen these aspects.
- 5.6 The contributions of the IBGE, in particular, and of the other public and private institutions involved in executing some of the project components will be guided by terms and conditions that are

formalized in agreements and contracts which will be presented to the Bank in advance for approval.

- 5.7 The suitability of the proposed organizational structure, the planned human resources, and existing specialized technical support will ensure that the IPEA has the institutional capacity required to satisfactorily attain the program's goals and objectives, thus making the program feasible from this standpoint.

C. Financial feasibility

- 5.8 Since the IPEA is a public institution linked to the Ministry of Planning and the Budget, its operating funds are set annually and provided by the federal government out of the general budget. The government has made a commitment to provide the local counterpart funding necessary for the program; the proposed budget for 1997 provides for a carryover of the funds that had been approved for 1996 but were not used since the project could not begin in that year. The sums planned are appropriate for program requirements.

- 5.9 The financial structure of the program, its costs, and sources of funds were analyzed and are considered suitable in view of the goals and the benchmarks presented for the financial structuring of each component. Accordingly, and in view of the government's commitment to provide funding out of the federal budget, the program can be considered feasible from the financial standpoint.

D. Technical feasibility

- 5.10 The program's Operating Regulations contain specific guidelines that must be adhered to by the studies and research to be evaluated and financed under the program. The program activities underwent a technical analysis and are considered priorities for improving the country's economic research system. The participating institutions are acknowledged specialists and have prior experience in operations that are similar in type and size. The results already obtained by these institutions confirm their reputations and those of their technical teams. On the basis of the indicators available and the measures taken during program preparation, it can be concluded that the operation is technically feasible.

E. Economic feasibility and justification

- 5.11 Although they cannot be quantified, the program will clearly produce significant direct and indirect benefits. The main direct benefits include the design and preparation of new and better economic and social indicators at the federal, state, and municipal levels. Other direct benefits will stem from various studies on areas assigned priority for the country's economic and social development.

- 5.12 The impact of the direct benefits will be felt in the generation of useful and timely information for business investment and production decisions, and better information for Brazilian society as a whole. The IPEA network will promote much greater public access to useful information. This will partly be achieved by expanding the IPEA's home page services, which can be accessed through the Internet. There is vigorous demand for this service at present, as demonstrated by approximately 40,000 consultations in the first eight months of 1996. This is a further indication that the program is timely, since its benefits will be produced in a context of growing needs for new kinds of information and research. These needs are becoming increasingly evident in the wake of the enormous political, economic, and institutional changes that the country has undergone since the early 1980s.
- 5.13 The indirect benefits will stem from an improvement in the government's action capacity. The production of better statistics, studies, and research will result in a body of information and analysis that will permit the federal, state, and municipal governments to take action on a more solid footing.

F. Environmental feasibility

- 5.14 The program will have no direct environmental impact. However, environmental concerns are included in the subject areas eligible for financing in the IPEA's annual work plan and in the general guidelines for the country's multiyear investment plan. As the program leads to public policy proposals taking into account environmental issues, the operation can be expected to have a positive indirect effect.

G. Impact on the low-income population

- 5.15 The nature of this program does not allow for an analysis of its impact on low-income groups. The benefits for a highly heterogeneous population over different time horizons cannot be quantified, since additional investments will be necessary to execute public policies.
- 5.16 However, applied economic research designed to be used in the formulation of public policies should have a significant positive impact on low-income groups since it will help identify social and economic problems and delve deeper into regional and local issues.
- 5.17 Although this operation is expected to have a favorable impact on the low-income population, the program does not directly target this group. If therefore is not expected to have direct benefits, as defined in paragraph 2.15(b) of the Eighth Replenishment document.

H. Risks

- 5.18 Special precautions were taken in preparing this program, based on the IPEA's and the Bank's previous experience in similar operations, to avoid risks in design and execution. Earlier operations presented shortcomings such as: (i) long execution periods; (ii) difficulties in coordination and monitoring; (iii) lack of local counterpart resources; (iv) problems that were not detected when operations were designed; and (v) consulting services that did not achieve the expected results.
- 5.19 The measures to prevent risks include: (i) centralization of the program in the IPEA to avoid multiple coexecuting agencies; (ii) special measures to ensure that the local counterpart is available on schedule; (iii) a detailed work plan for year one to be submitted as a condition precedent to the first disbursement; (iv) appropriate sizing of the program executing unit; and (v) procedures for the approval of studies and research set out in the operating regulations. The country's macroeconomic and political stability also help to reduce the risks of the program.

PUBLIC POLICY RESEARCH AND DEVELOPMENT NETWORK

LOGICAL FRAMEWORK

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p><u>Objective:</u></p> <p>To boost the capacity of public sector institutions, particularly the IPEA, for the decentralized and participatory design, planning, and evaluation of public policies to meet the country's new needs and priorities.</p>	<p>Ministerial and interministerial decisions on public policy proposed or supported by the mechanism financed under the program.</p>	<p>Minutes, executive decisions, ministerial notices, resolutions, proposals, draft public policies submitted to the legislature.</p>	<p>Commitment by the government to coordinating, formulating, and implementing public policy proposals in a decentralized fashion.</p>
<p><u>Goal:</u></p> <p>To strengthen and interconnect the public policy research and development network in order to improve access to information and minimize duplication of institutional efforts.</p>	<p>Institutionalization, management, and administration of decentralized systems, study programs, training, communications, and operational activities.</p> <p>Modernization of the work plans of the IPEA and the other participating institutions.</p>	<p>MPO's budget, multiyear investment plan, government programs, sector and regional policies.</p> <p>Signature of at least 10 agreements between the IPEA and state planning institutes.</p>	<p>Firm commitment to decentralization.</p> <p>Continuation of the formal mandates of the MPO and the IPEA.</p> <p>Commitment by statistics and planning institutes to play an important role in the new model.</p> <p>Continuation of macroeconomic and institutional stability in the country.</p> <p>Continuation of decentralization in the country.</p>

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<u>Components</u> Component I. Establishment and interconnection of the information network: a. Modernization and expansion of the IPEA's information technology b. Interconnection of data bases c. Training in public policies Component II. Improvement in basic economic statistics Component III. Production and dissemination of economic studies: a. Studies and research b. Conferences and seminars	Regular meetings of the executive board of the public policy research and development network. - Institutionalization and operation of the network. - Development and dissemination of methodologies. - New national statistics system. - Training for the institutions involved. - Development of studies and research. - Interinstitutional partnerships established. - Dissemination of public policy proposals to the government, legislature, and civil society.	1. Minutes of the meetings of the executive board. 2. Program progress reports. 3. Bank supervision. 4. Presentation of studies and reports on courses to the Bank. 5. Publications on events financed by the program. 6. Consultants' reports. 7. Access to the information systems developed by the program.	1. Little resistance to change by the institutions involved. 2. The executive board avoids duplication of efforts and uses the studies to assist the government. 3. The executive board acts in accordance with national needs and the demands of society. 4. Timely execution of the program components. 5. Demand for information by the public and private sectors.
<u>Activities</u> I. <u>Establishment and interconnection of the information system</u> a. <u>Information equipment for the IPEA</u> 1. Procurement of equipment 2. Procurement of information systems 3. Consulting and information services	a. <u>IBGE</u> 1. New systems for national and regional accounts and social and demographic indicators. 2. New data systems base. 3. Teams of researchers trained to operate the new systems. 4. IBGE specialists trained to produce information using the new systems. 5. New products and means for disseminating information to the government and society.	Execution of the annual work plans and the program's budget	General: Competent coordinators and consultants contracted as established in the work plans. - Specialists and researchers in the IPEA, IBGE and other institutions have adequate technical capacity and make effective use of the systems provided by the network. - Adequate distribution and dissemination of the information produced by the program. - Opportunity for high-level training will boost productivity and further the professional careers of researchers.

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>b. <u>Information integration</u></p> <ol style="list-style-type: none"> 1. Economic, social and environmental indicators 2. State and municipal information and macroeconomic and spatial models 3. Trade matrix by domestic modes of transport 4. Performance indicators for social programs <p>c. <u>Training</u></p> <ol style="list-style-type: none"> 1. Training in public policies 	<p>b. <u>IPEA</u></p> <ol style="list-style-type: none"> 1. Information network linked to statistics, research and planning institutions. <p>c. <u>IPEA network</u></p> <ol style="list-style-type: none"> 1. Methodologies developed, disseminated, and shared by different institutions. 2. Some 1,700 training opportunities offered to researchers and managers selected according to the established criteria. 3. Studies and research conducted. 		
<p>II. <u>Improvement in economic statistics</u></p> <ol style="list-style-type: none"> 1. Revision of the economic statistics production model 2. Introduction of a new system of national accounts 3. Introduction of a new system of regional accounts 4. Public finances and financial accounts of state governments 5. Construction of a system of socio-demographic indicators 6. Development and absorption of new information production technologies 7. Computerization of the operational base 8. Modernization of the IBGE's computer systems 9. Improvement in the profile 			

PROPOSED RESOLUTION

BRAZIL. TECHNICAL COOPERATION LOAN /OC-BR TO SUPPORT A NETWORK FOR THE
RESEARCH AND DEVELOPMENT OF PUBLIC POLICY

The Board of Executive Directors

RESOLVES:

1. 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 agreements as may be necessary and to adopt such measures as may be pertinent for the execution of the Program referred to in Document with respect to a technical cooperation loan with the Federative Republic of Brazil to support the creation and integration of a network for the research and development of public policy.

2. That up to the sum of US\$25,000,000 is authorized for the purposes of this resolution, chargeable to the Single Currency Facility of the Ordinary Capital resources of the Bank.

3. That the above-mentioned amount is to be provided on a reimbursable basis, in accordance with the respective conditions which shall be set forth in the agreement to be executed in connection with this operation.