

## Annex IV: Brazil

<b>I. BRAZIL MIC SPECIFICITIES .....</b>	<b>II</b>
DEMOCRATIC INSTITUTIONS AND GOVERNANCE .....	II
<i>Political system</i> .....	<i>ii</i>
<i>Challenges of government's legitimacy / armed conflicts</i> .....	<i>ii</i>
<i>Rule of law</i> .....	<i>ii</i>
<i>Government effectiveness</i> .....	<i>ii</i>
<i>Corruption</i> .....	<i>ii</i>
<b>II. ROLE OF EU AID AND MILLENNIUM DEVELOPMENT GOALS .....</b>	<b>III</b>
POVERTY .....	III
<b>III. EU COUNTRY STRATEGY PAPERS .....</b>	<b>IV</b>
3.1 EUROPEAN COMMUNITY.....	IV
<i>EC Objectives</i> .....	<i>V</i>
<i>Country Analysis: challenges</i> .....	<i>V</i>
<i>Past Interventions: Assessment</i> .....	<i>V</i>
<i>EC Cooperation Response: Focal Sectors</i> .....	<i>vi</i>
<i>National Indicative Programme: the Programme (and Memorandum of Understanding)</i> .....	<i>vi</i>
3.2 UNITED KINGDOM .....	VII
<i>UK Objectives</i> .....	<i>vii</i>
<i>Country Analysis: Challenges</i> .....	<i>vii</i>
<i>Assessment of Past Interventions</i> .....	<i>vii</i>
<i>UK Cooperation Response: Focal Sectors</i> .....	<i>viii</i>
<i>UK Programme 00/01</i> .....	<i>viii</i>

## I. Brazil MIC specificities

Brazil is a lower middle income country<sup>1</sup> with a per capita income very close to that of upper middle income countries.

### Democratic institutions and governance

#### *Political system*

Brazil is a constitutional federal republic composed of 26 states and the Federal District. The latest elections for president, senate and deputies took place in October 2002.

Brazil was rated 'free' in 2003 (Freedom House). The rating was 2 with regard to political freedom and 3 in the areas of civil liberties.<sup>2</sup> The 2002 elections were free and fair and were the fourth consecutive elections since the end of military rule in 1985. Privately owned media vigorously reported and commented on government performance.

#### *Challenges of government's legitimacy / armed conflicts*

Rural violence, including the killings of land reform and rural labour activists, persisted. Large landowners control nearly 60 percent of arable land, while the poorest 30 percent share less than 2 percent. However, the state as such and its institutions are not put into question.

#### *Rule of law*

The legal system is based on the Roman code. Organised crime related to drugs is very high and Brazil has the highest rate of homicides caused by firearms of any country not at war. The efficiency of the judicial system in resolving conflicts is low. The 2003 US State Department Brazil country report notes that the Federal Government generally respected the human rights of its citizens; however, there continued to be numerous serious abuses; the human rights record of several state governments was poor.

#### *Government effectiveness*

Government effectiveness compares well in the region but lags behind OECD countries and the region's best performers (World Bank database 2002). Brazil ranks 50 among 199 countries on the WBI government effectiveness indicator. Brazil has strong budget systems and uses transparent and inclusive decision-making processes, i.e. participatory budgeting and involvement of community associations and local councils in budget and policy decisions. In general, government capacity is stronger for policy than for implementation. The country has strong fiduciary systems. The CFAA rated the country's financial accountability system and institutions as well designed and reliable in tracking budget expenditures, with a high degree of transparency (CAE, p. 26). Similarly, the Country Procurement Assessment (CPAR) rated federal procurement systems and institutions as satisfactory and among the strongest in the region.

#### *Corruption*

Corruption is an important issue; Brazil ranks 54 of 133 countries in the TI Corruption survey (along the Czech Republic and Bulgaria).

---

<sup>1</sup> GNP per capita is \$2,830 in 2000. Upper middle income countries, \$2936-\$9075. It is eligible for 17 year IBRD terms.

<sup>2</sup> The score ranges from 1 to 7, with 1 representing the ideal case and 7 the worst performance.

## II. Role of EU aid and Millennium Development Goals

Brazil received less than \$ 350 mill of net ODA from all donors -average 2000-2002),<sup>3</sup> less than 0.1% of its GDP. This compares to about \$ 10 billion in net private flows,<sup>4</sup> and \$2 billion in government revenues. Thus, the role of donors and EU aid is limited.

The Brazilian economy is large, almost \$ 500 billion, and 10-25% of 175 million Brazilians live in poverty. In this context the impact of the EU aid on poverty is modest. Measurement of this impact is also complicated by the fact that the EU country strategies (EC and UK) do not refer explicitly to the MDGs.<sup>5</sup>

In the Brazilian context, the poverty impact of aid could be enhanced by:

- a) Providing knowledge and technical assistance to support equitable and sustainable growth.
- b) Innovative, well-performing pro-poor investments that can be replicated
- c) Support government's political will to tackle inequality and poverty.<sup>6</sup>

**The EU Member States have focused their interventions in Brazil in the following sectors (3 digit DAC):**

	(%)
General environment protection	14
Other Social Infrastructure	11
Energy generation and supply	10
Forestry	8
Post-secondary education	8

The environment and forestry sectors have received 22% of the bilateral aid from Member States. They are also priority sectors in the EC and UK country strategies. Environmental issues are key challenges in Brazil but it is not clear how much donor programmes in this area contribute to poverty reduction.<sup>7</sup>

The main sectors receiving EU aid do not include basic social services which are often strongly linked to poverty reduction strategies and the MDGs.<sup>8</sup>

Brazil has made important progress in reducing poverty, particularly through health and education interventions and interventions in the Northeast (WB CAE). This has been made through government programmes, with limited donor support. These programmes have made important contributions towards meeting the MDGs. However, success in other sectors, including governance, regulatory reforms and environment has been more limited (WB CAE).

### Poverty

The poverty rate in Brazil was reduced from 40.7% in 1990 to 33.6% in 2000; this is a better record than other countries in the region (UN-ECLAC 2002). In the Northeast poverty was reduced from 68.6% to 57.4%, partly as a result of the 1994 stabilisation programme and also because of the introduction of rural pensions and health and education pro-poor programmes.

<sup>3</sup> 500 mill USD in gross ODA

<sup>4</sup> DAC Aid at a Glance data.

<sup>5</sup> UK CSP predates the MDGs.

<sup>6</sup> This is precisely the chosen strategy for the UK in Brazil (see section on the UK CSP).

<sup>7</sup> The UK country strategy noted that "there was still need to improve the links between the environment programmes and poverty". Some other donors, e.g. World Bank, noted satisfactory results.

<sup>8</sup> Indicator 34 for monitoring progress of MDGs, as reviewed in May 2002.

## ANNEX IV: BRAZIL

Brazil achieved a significant increase in net enrolment rate in basic education: from 84% in 1991 to more than 95% in 1999 and in the Northeast, from 72 to 93%. However, the quality of teaching is still weak. In health, infant mortality declined from 48 per 1000 live births in 1990 to 31 per 1000 in 2000, particularly in the Northeast, and life expectancy increased. There was also a decline in the transmission of HIV/AIDS and deaths from communicable diseases. (World Bank, Table 9, CAE page 32) and success in expanding access of the population to basic services, such as improved water source (rose from 73 percent of the population in 1986 to 87 percent in 2000), electricity and sanitation.

In the 1990s Brazil made significant progress in all areas of the MDGs and is likely to meet all national targets by 2015, although some monitoring on child nutrition and maternal mortality is necessary (World Bank).

MDGs	1990	1995	2001	2002
Population below 1 a day			8.2	
Prevalence of child malnutrition	7.0	5.7		
Net primary enrolment ration	86.4	89.7	97	
Percentage of cohort reaching grade 5	71.7	70.8		
Ratio of girls to boys in primary and secondary ed			103.1	
Under 5 mortality rate (per 1000)	60	48	36	35.7
Immunisation, measles (% of children under 12m)	78	90	99	
Births attended by skilled health staff	75.6	91.5		
Prevalence of HIV female			0.5	
Forest area (% of total land area)	65.6		63	
National protected areas (% of total land area)		4.2	4.4	
Access to an improved water source (% of pop)	83		87	
Access to improved sanitation (% of pop)	71		76	

### III. EU Country Strategy Papers

#### 3.1 European Community

The latest European Community CSP, 2001-2006, was approved in August 2002, only 2 months before the Brazilian general elections.<sup>9</sup> The previous CSP covered the period 1998-2000 and focussed on: modernisation of the economy, public administration, social development and *the* environment.

The CSP 2001-2006 provides the rationale for the EC programme as described in the National Indicative Programme and in the Memorandum of Understanding (Commission and Government of Brazil). However, the Brazilian CSP also notes that it needs to be consistent with the draft memorandum of Understanding<sup>10</sup>. The MoU (November 2002) notes that the focal sectors are

<sup>9</sup> As a consequence of the timing, the CSP recognised that it might have to be revised "It should not be excluded that it might be necessary to revise the EC response strategy in the course of 2003 in function of the new government's priorities".

<sup>10</sup> "response strategy should also be consistent with the draft Memorandum of Understanding." The Memorandum of Understanding was signed on 19 November 2002. (Two months before the inauguration of the new Government).

consistent with the priorities established on the “Orientacoes pluriannuais indicativas para o Brasil” (OPIN- approved in October 1998).

The timing of the CSP 2001-2006 and the fact that the MOU refers to the 1998 OPIN strongly indicate that the CSP could not have taken into account the priorities of the incoming Lula administration -January 2003. For example, the new government has made more explicit its commitment to reducing poverty reduction and inequality and to meeting the Millennium Development Goals. However, unlike the World Bank Country Assistance Strategy –approved in December 2003- the EC CSP does not refer to the MDGs. Below we analyse the poverty focus of different sections of the EC CSP:

### *EC Objectives*

The CSP specifies the European Community’s general objectives as well as its objectives in Latin America. It also notes EC objectives concerning Mercosur and Brazil – particularly in the context of the EU-Brazil Framework Co-operation agreement (ratified in 1995). Here, there is an important emphasis on trade, investment, finance and technology cooperation. The focus on poverty is lower.

### *Country Analysis: challenges*

The largest part of the CSP’s analysis section (about 40%) describes the economic and commercial importance of Brazil for EU investment and EU trade and the importance of achieving an Association Agreement -including a Free Trade Area agreement. However, this section also includes a discussion on poverty and inequality (about 25% of the section). The CSP notes the pervasive dichotomy of Brazil where the GDP PPP of Brasilia DF is close to that of Portugal while the GDP of Maranhao State is close to that of Pakistan, “ Brazil contains both the First World and the Third World”.

The CSP also briefly notes that “Approximately 50 million Brazilians (...) live below poverty level” and that inequality is related to land distribution and race. However, the CSP does not present a systematic analysis of the profile or dynamics of poverty or how Brazilian poverty and inequality compares to that of other countries. The CSP notes regional disparities but it does not provide further analysis. Similarly, no analysis is provided of the recent positive evolution of education and health indicators and the MDGs. Instead, the CSP identifies some general weakness in Brazil’s social programmes, e.g. paternalism, poor coordination and global strategy and insufficient follow up on the ground, and notes the importance of more effective redistribution mechanisms. The contribution made by this section of the CSP to the understanding of poverty in Brazil and to the design of effective pro-poor interventions is limited.

### *Past Interventions: Assessment*

This section includes a brief assessment of past EC projects in Brazil (about 20% of the section), paragraphs on economic cooperation, social cooperation, administrative reforms, science and research and the environment. This section also includes a relatively comprehensive discussion of programmes from other donors, e.g. it notes that DFID focuses strongly on poverty and inequality and the MDGs, Denmark focuses on indigenous peoples and Finland, Ireland and Sweden only work through NGOs.

Only the assessment of social cooperation programmes make some reference to poverty,<sup>11</sup> e.g. projects show good results and should be replicated but NGO co-financing should give more priority to poverty reduction.

---

<sup>11</sup> The CSP mentions that the conclusions are based on the mid-term and final evaluation of the project b7-310/94/107 “Programa Infancia Desfavorecida no Meio Urbano” and the mid-term evaluation of B7-310/95/115 “Programa de Apoio as Populacoes Desfavorecidas” and the mission report regards budget line B7-6000 for NGO co-financing.

*EC Cooperation Response: Focal Sectors*

This section argues that EC policies are coherent and again focuses considerably on trade but also on science, environment, information society, etc. "Our policies towards Brazil form part of the framework of EC policies towards Mercosur as a whole and are linked to the EC policies towards the other members of Mercosur". The CSP justifies the focus on trade issues by noting that "..., the Council and the Commission have adopted a joint statement in 2000 on development policy, which clearly links trade and development and recognizes the need for technical assistance in this area".

This section takes into account EC objectives, country analysis and assessment and proposes an EC programme of 64 million euro for the 2000-2006 period focusing in 3 focal sectors: economic reform, social development and the environment.<sup>12 13</sup> Only the programmes in the social development focal sector are explicitly targeted to the poor (15 million euro or 23% of the total indicative budget). These include a) poverty programmes in the Northern and North-Eastern Regions and (7.5 million euro) b) Social programme for rural areas and urban shanty towns (7.5 million euro).

As noted, about a quarter of the EC programme is directly targeted to the poor. The Brazil EC CSP notes that normally EC cooperation with a middle income country would focus on economic and trade issues rather than on poverty. However, the Brazil CSP argues that the levels of poverty and inequality in Brazil are so high that the programme had to address poverty issues.<sup>14</sup>

*National Indicative Programme: the Programme (and Memorandum of Understanding)*

The interventions on *economic reform* (22 million euro, 35% of the indicative budget) are intended to support structural reform and the integration of Brazil into the world economy ("activities of mutual interest" as defined in the Memorandum of Understanding). These interventions are mostly Trade Related Technical Assistance and Capacity Building -trade facilitation and standards, intellectual property, trade and investment, etc. The CSP does not suggest an explicit link between these activities and poverty reduction. The indicative projects include support to Information Society Cooperation, Chambers of Commerce, EU exchanges with the Labour Relations Secretary in Sao Paulo and Sanitary measures in agriculture. This focal sector also includes programmes on science and technology designed to contribute to innovation and competitiveness, (8 million euros, 12% of the indicative budget)<sup>1516</sup>.

The interventions on the focal sector *environment* (6 million euros, 9% of the indicative budget)–second phase of the Pilot Programme for the Conservation of Brazilian Tropical Forests (PPG7)–also do not present explicit links with poverty reduction.

On the *social programme*, (23% of the indicative budget), however there is an explicit link to poverty. The NIP argues that given the limited resources of the EC it is particularly important to focus EC programmes on well defined issues and communities, in order to achieve local impact and develop successful intervention models. Two programmes are proposed targeting poverty in

<sup>12</sup> Note that in practice public sector reform is also a focal sector for the 2000-2006 period (see below). The country programme is also a result of the Memorandum of Understanding, negotiated with the Brazilian authorities.

<sup>13</sup> This programme of 64 million euro excludes horizontal programmes for co-operation in Latin America such as AL-INVEST, URB-AL, ALFA; @LIS; in science; in energy; environment and cofinancing; human rights, drugs, etc.

<sup>14</sup> "In the case of Brazil there is a paradox. On the one hand co-operation with a middle-income country like Brazil...should in principle not be based on the same criteria as development cooperation with poorer countries. On the other hand, due to wide-spread social problems, often related to poverty, EC cooperation is unavoidably drawn towards social needs".

<sup>15</sup> The MOU mentions support to the Technological Centres Network.

<sup>16</sup> The NIP notes that one expected result of this programme is "improve the disparities between centres in the North and South of Brazil". However, this objective is not mentioned in the signed Memorandum of Understanding.

Northern and North Eastern Brazil (7.5 million euro) and in rural areas and shanty towns (7.5 million euro). However, the NIP does not describe the interventions to be chosen clearly. The MOU, however, suggests that these projects include support to local handicrafts, community development in the shanty towns of Rio de Janeiro (support for micro-enterprises) and Rural and Social Development, exchange of EU experiences in agricultural development.

Finally, while the CSP and the NIP do not mention Public Administration as a focal sector, the MoU explains that the NIP funds committed in 2000-2001 (13 million euro) supported public administration reform. Again, an explicit rationale describing how the modernisation of the state might contribute to poverty reduction is not provided. Projects in this area include: Institutional Support to the Human Rights Secretary; Support to State Modernisation and TA to the Escola Superior de Administracao Fazendaria.

### 3.2 United Kingdom

The UK Country Strategy paper was approved in December 1998, two months after the second Cardoso government was inaugurated in October 1998.

#### *UK Objectives*

The UK objectives are included in the summary of the CSP and refer to the targets on poverty reduction and Brazil's own priorities.

#### *Country Analysis: Challenges*

This section includes a discussion on poverty and inequality, macro-economic management, social services, governance, indigenous peoples and environment. In all these sections (except macro-economic management) the analysis is focussed on the links with poverty, i.e. on governance "much more needs to be done to ensure that the interest of poor people are properly reflected in government", on environment: "support needs to be given for the participation of the poorer and more vulnerable groups (...) in resource management decision-making, both to improve the opportunities available to them and to benefit the national environment".

The CSP notes that Brazil has one of the highest income inequality distribution in the world, the highest number of absolute poor in South America and rising expectations. It also notes that the Cardoso administration has not adopted a coherent over-arching strategy to address poverty. The CSP presents the Brazilian International Development Targets and progress to date and prospects. In this section the discussion of poverty has a central place. However, only in environment, the analysis is sufficiently detailed as to contribute to the rationale of effective pro-poor interventions.

#### *Assessment of Past Interventions*

This section presents a brief assessment of DFID interventions in the environment, public sector reform and human rights. The environment assessment appears to be realistic and provides a good summary of the successes of the DFID programme while noting that "there is also scope for the programme to reflect the White Paper criteria more closely by placing greater emphasis on promoting sustainable livelihoods of poor people within the Amazonian".

The assessment of public sector reform, both in the health sector and administrative reform with the Ministry for Federal Administration and State Reform –MARE, notes that the programme has supported public sector delivery but it recognises that it the projects only had an indirect link to poverty. This section is also focused on poverty and contribute to improve the pro-poor focus of future interventions.

## ANNEX IV: BRAZIL

### *UK Cooperation Response: Focal Sectors*

The UK CSP argues that the major constraint to poverty reduction in Brazil is not external funding but the political will to tackle inequality. As such, the UK's most effective contribution to tackle poverty is at the level of policy dialogue and in strengthening UK links with key multilateral agencies.

The UK CSP proposes to increase the programme to 11 million GBP by 00/01 (from 6 m. GBP) and include more direct links to poverty reduction. It proposes that the main focal sector environment/sustainable development will a) respond more directly to the needs of the poor with field level programmes to improve livelihoods (models to replicate) b) work more with Ministries and institutions responsible for environmental and rural poverty issues c) work with civil society to strengthen government institutions d) identify opportunities to improve the position of indigenous peoples. On public sector and health reform the CSP proposes that further interventions should be more "clearly targeted on the improvement of services for poverty reduction". Some limited support to Land Reform is also considered.

The UK CSP notes the possibility of collaboration in more trade-investment related areas but recognises that these areas are not the main focus of the UK programme.

### *UK Programme 00/01*

(binding commit)

Natural Resources	2
Urban Environment	0.2
Good Governance	0.2

(other plans)

Forest Management	0.6
Forest/Agriculture	1.4
Conservation	0.6
Floodplains/Fisheries Mg	1.2
Other Livelihoods	2.2
Good government	0.5
Health	0.6

Others

Total	11
-------	----