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COUNTRY ASSISTANCE STRATEGY PROGRESS REPORT

FOR

THE FEDERATIVE REPUBLIC OF BRAZIL

FOR THE PERIOD FY2004-2007

May 8, 2006

Brazil Country Management Unit
Latin America and Caribbean Region

International Finance Corporation
Latin America and Caribbean Department

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CURRENCY AND EQUIVALENTS

The Brazilian Real (R$)
R$ 2.11 = US$ 1

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AAA	=	Analytic and Advisory Activity	Atividade Analítica e de Aconselhamento
APL	=	Adaptable Program Loans	Empréstimos Programáticos Adaptáveis
ARPA	=	Amazon Region Protected Areas	Projeto de Áreas Protegidas da Amazônia
BRASA	=	Brazil Social Assistance Program	Programa de Assistência Social para o Brasil
CAS	=	Country Assistance Strategy	Estratégia de Assistência ao País
CADE	=	Economic Safeguards Administrative Council	Conselho Administrativo de Defesa Econômica
CDES	=	Social and Economic Development Council	Conselho de Desenvolvimento Econômico e Social
CVM	=	Brazilian Securities & Exchange Commission	Comissão de Valores Mobiliários do Brasil
DPL	=	Development Policy Lending	Empréstimo para Desenvolvimento de Políticas
FUNDEB	=	Fund for the Development of Primary Education	Fundo para o Desenvolvimento do Ensino Básico
FY	=	Fiscal year	Ano Fiscal
GDP	=	Gross Domestic Product	Produto Interno Bruto
GEF	=	Global Environmental Facility	Fundo para o Meio-Ambiente Mundial
HDI	=	Human Development Index	Índice de Desenvolvimento Humano
IDF	=	Institutional Development Fund	Fundo para o Desenvolvimento Institucional
IFC	=	International Finance Corporation	Corporação Financeira Internacional
IMF	=	International Monetary Fund	Fundo Monetário Internacional
LRF	=	Fiscal Responsibility Law	Lei de Responsabilidade Fiscal
MDGs	=	Millenium Development Goals	Metas de Desenvolvimento para o Milênio
MICs	=	Middle Income Countries	Países de Renda Média
MIGA	=	Multilateral Investment Guarantee Agency	Agência Multilateral de Garantia de Investimentos
PIU	=	Project Implementation Unit	Unidade para Implementação de Projetos
PPA	=	Multiyear Plan	Plano Plurianual
PPP	=	Public-Private Partnership	Parceria Pública e Privada
SELIC	=	Overnight Interbank lending Rate	Taxa Básica da Economia (Selic)
SOF	=	Federal Government Budget Secretariat	Secretaria de Orçamento Federal
SWAP	=	Sector Wide Approach	Abordagem Setorial Ampla
UNDP	=	United Nations Development Program	Programa das nações Unidas para o Desenvolvimento
WBI	=	World Bank Institute	Instituto Banco Mundial

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HIGHLIGHTS

- This Report assesses CAS progress at mid-term, and describes adjustments being made to further enhance the contribution of the World Bank in Brazil. Outcomes consistent with Brazil's Multi-year Plan (PPA) have been achieved, though more slowly than planned. Brazil's admirable tight fiscal management has limited the scope for traditional World Bank investment lending and led to the deployment of instruments (such as DPLs and SWAPs at both the Federal and State levels) better tailored to Brazil's needs.

- The mid-term assessment is that the FY04-07 CAS framework remains valid and that Brazil has moved into a higher performance scenario in the upper limit of the base case. The IBRD lending envelope is also appropriate, as current and expected lending levels are in accordance with the CAS high base case.

- The objectives and the thrust of the Private Sector Strategy (PSS) remain valid and supportive of the needs of the private sector. The IFC has continued to build a large and diversified portfolio. IBRD and IFC are working in closer partnerships on key PSD issues for enhanced results on the ground and maximum WBG impact.

- Hallmarks of the strategy going forward will be a more modest but more ambitious World Bank program: "modest" in terms of scope and "ambitious" in terms of engaging primarily with path-setting, complex development challenges faced by Brazil. This will include a major reengagement by the Bank in reconciling the twin challenges of economic development and environmental sustainability in the Amazon. And it will include closer integration of major parts of the IFC and IBRD programs.

COUNTRY ASSISTANCE STRATEGY PROGRESS REPORT
A MORE EQUITABLE, SUSTAINABLE, AND COMPETITIVE BRAZIL

I. INTRODUCTION

1. ***For the first time in a generation Brazilians are experiencing economic growth, albeit modest, and low inflation, along with measurable improvements in wellbeing.*** Building on fiscal and monetary discipline that started in the late 1990s, over the past two years the Government has earned recognition for its signature blend of mature macroeconomic management and policies aimed at enhancing social equity. This dual focus has yielded results. Benefiting from favorable external conditions, the economy has experienced steady, albeit moderate growth during 2003-4, which slowed in 2005. At the same time, inflation is in single digits, the balance of payments has recorded surpluses and the country's debt vulnerability has been reduced. At the same time, average Brazilians are better off. Unemployment has declined, poverty has been reduced, income inequality is improving, and those in need increasingly have access to a more efficient social safety net. Benefiting from the monetary and fiscal discipline, the private sector has been fueling the country's economic growth.

2. ***This Report assesses CAS progress at mid-term, and steers the Brazil-Bank Group partnership toward ensuring the sustainability of recent gains.*** In particular, this CAS Progress Report (PR) refocuses Bank Group efforts on the most challenging core of issues confronting Brazil today: (i) making recently renewed growth sustainable – economically, environmentally and socially; and (ii) safeguarding the sustainability of fiscal adjustment through greater public sector efficiency and a prudent mix of other macroeconomic policies. Hallmarks of the strategy going forward will be tackling more ***ambitious*** development challenges – while simultaneously recognizing the inherently ***modest*** role the Bank Group plays in a country the size of Brazil. This will of necessity lead to greater ***selectivity*** and concentration of Bank Group support. IBRD and IFC have developed closer partnerships over time in support of the private sector on key issues such as agribusiness, infrastructure, access to finance, and improving the business enabling environment (BEE) to maximize the impact of the WBG assistance.

3. ***The conclusions set out in this CAS PR were reached in close collaboration with the Government,*** through a Second CAS and Portfolio Review held November 21-23, 2005, and follow-up discussions. A consultation was held with civil society under the auspices of the Social and Economic Development Council (CDES) on February 5, 2006. This CAS PR was prepared jointly with IFC, with inputs from MIGA.

II. RECENT DEVELOPMENTS

4. ***Disciplined fiscal and monetary management have paved the way for steady progress in economic outcomes.*** When it took office in 2003, the administration of President Luíz Inácio Lula da Silva faced a crisis in investor confidence, reflected in high sovereign spreads, currency depreciation, and the resulting negative spiral of economic implications. Prudent macroeconomic policies (including primary fiscal surpluses, prudent debt management, consistent pursuit of enhanced credibility in the inflation targeting regime and maintenance of the floating exchange rate) shepherded an impressive turnaround. Sovereign spreads fell from 2400 basis points (bp) in 2003 to about 220 basis points by April 2006. Nevertheless, inflation fell from 12.5 percent in 2002 to 5.7 percent by end-2005, and is expected fall within the target range again in 2006 (4.5 percent). GDP grew by 4.9 percent in 2004 but slowed down to 2.3 percent in 2005, although it is expected to recover in 2006 to 3.5 percent. (A summary of recent economic developments is in Annex 1).

5. ***Debt and external vulnerabilities have been substantially reduced.*** Prudent primary fiscal surpluses, steady real GDP growth, and the recent decline in interest rates also have contributed to a decline in Brazil's net public debt ratio (from about 57½ percent of GDP in 2003 to around 51½ percent of GDP at the end of 2005, of which about 40 percent is short-term). The Government has met or exceeded its annual primary fiscal surplus targets (recording 4.8 percent of GDP in 2005) as an effective device to demonstrate policy credibility. Fiscal policy has allowed Brazil to reduce its external public debt stock. In September 2004 Brazil elected not to renew its Stand-By Arrangement with the IMF and made an early repurchase of all of its liabilities (US$15.7 billion) at the end of 2005. Similarly, Brazil prepaid outstanding Brady bonds in April 2006 and is in the process of prepaying Paris Club creditors. The composition of this public debt also has improved markedly.

6. ***Brazil's dynamic private sector has been the growth engine of the Brazilian economy***. The business sector is large, dynamic, diversified and boasts a talented entrepreneurial and managerial class. Over the years, Brazilian businesses have shown remarkable resilience to the country's severe economic cycles. From largely inward looking, domestically focused players, they have emerged in recent years as significant global and regional players in the production of several agricultural and mining commodities where Brazilians are recognized as lowest cost producers. Nevertheless, the private sector remains stiled by various barriers and regulations preventing Brazil from achieving its growth potential. Key impediments to doing business include the limited access to term financing for MSMEs, excessive bureaucracy, an unstable and complex regulatory framework, a high tax burden, and a shortage of quality and efficient infrastructure services. Recently, there has been increased awareness and pro-activity in addressing these issues at all levels of government including Federal, State and Municipal.

7. ***In spite of progress achieved, additional measures to strengthen macro-fiscal and financial foundations will be required for enhanced sustainability and improved growth prospects***. The size of government and related distortionary impacts have constituted a drag on economic growth prospects. Current spending has continued to expand (in real terms) through mandated transfers to subnational governments, minimum wage increases, and increases in deficits in the pension system. Less than 20 percent of budgetary spending is discretionary, due to earmarking and other budget rigidities. These features make fiscal policy pro-cyclical and distortionary. Moreover, the quality of services relative to outlays (which represent about 40 percent of GDP) remains relatively low compared with other countries. In order to pay for these expenditure increases and simultaneously achieve the primary fiscal surplus target, fiscal adjustment has placed a heavy burden on increasing revenue (to roughly 38 percent of GDP, among the highest for Middle Income Countries). The current trends in spending and revenue collection are unsustainable. At the same time the public debt burden remains high, despite recent improvements in its size and composition. As a result, nominal and real interest rates remain high, putting additional pressure on the fiscal balance and limiting economic growth.

8. ***Given the likelihood that prudent fiscal policy will be sustained, inflationary pressures and expectations will remain low, and the external position will remain strong, the outlook is favorable*** for continued declines in the headline interest rate in the near term. Enhancing the efficiency and effectiveness of public expenditures, in particular in the social sectors, and increasing public investment, in particular in infrastructure, would support the sustainability of fiscal adjustment.

9. ***Brazil has recently witnessed a historical improvement in social indicators.*** However, both poverty and inequality have fallen impressively in recent years, reaching historical lows. The Gini coefficient has fallen from 58.5 in 2003 to 57.4 in 2004, its lowest level in three decades. Poverty has fallen from over 40% in the early 1990s to about 32%, with economic stabilization causing the biggest decline. Transfers from the well-targeted Bolsa Família Program explain a significant share of the recent reduction in poverty and inequality in Brazil.

10. ***Despite this significant and historical social progress, challenges remain.*** Poverty and inequality remain unacceptably high, as do gaps in the coverage of pre-school and secondary school enrollment (particularly among the poor). Regional differences are also stark, particularly for health and nutrition indicators.

11. ***Continued momentum on the domestic reform agenda is essential, but the pace is likely to slow in the near term.*** While Brazil has begun to play a visible role on global issues, taking leadership positions on trade, climate change, and green energy, areas important to middle-income countries (MICs), the domestic agenda will be critical to sustaining economic development. Government has won support for its social programs, including conditional cash transfers, and for developing an innovative legal framework for private-public investment, among other areas. However, the administration was shaken during mid-2005 by allegations of campaign finance irregularities (although markets barely reacted, signaling Brazil's enhanced credibility). Despite the Government's commitment to reform, the political cycle starts in early-2006 for Presidential elections in October, reducing the likelihood of major economic reforms during 2006.

III. TAKING STOCK AT MID-TERM

A. Brazil's Development Program and the CAS Framework

12. ***The FY04-07 CAS was organized around the Government's multi-year plan (PPA), and aimed for a higher lending envelope than the previous CAS***. Building on the Government's PPA "*Um Brasil de Todos*" (A Brazil for All), the CAS objective was to improve the wellbeing of Brazilians – especially the poorest – by fostering greater equity, sustainability, competitiveness and macroeconomic stability. The total lending envelope under the base case was US$4.0-7.5 billion over four years, with two performance scenarios (table below). At the outset of the CAS period, the Bank considered Brazil to be above the midpoint of the base case; in the high range, however not at the highest point.

Summary Features of Brazil FY04-07 CAS	
Objective	• *Help improve the wellbeing of all Brazilians, especially the poorest* • *Specific focus on opportunities for supporting government's focus on macroeconomic stability and enhanced social equity*
Pillars	• *A More Equitable Brazil* • *A More (Environmentally) Sustainable Brazil* • *A More Competitive Brazil* • *Macroeconomic Foundations*
Private Sector Strategy	• *Growth:* o *Growth generating firms/Export enhancing activities* o *Infrastructure/logistics* o *Access to long term finance, including SMEs* • *Social equity:* o *Environmental and social sustainability* o *Corporate governance*
Results Framework	• *Key long-term indicators, including MDGs and PPA targets (CAS Table 4, p. 8)* • *Annual joint monitoring of policy and program achievements and Bank Group contributions through CAS matrix template (CAS Annex 10, pp. 162-167)* • *Monitoring of CAS lending triggers by pillar (CAS Table 14, p. 54-57)*
Lending Envelope	• *US$4.0 – 6.0 billion over four years in a lower base case* • *US$6.0 – 7.5 billion over four years in a higher base case*

13. ***The Brazil CAS was built on a results monitoring framework as part of the "Results-Based CAS Pilot*.**" Specific monitoring tools were developed at the outset of the CAS. These

include a joint government-Bank Group semi-annual review (amended to annual reviews by mutual agreement). The framework has enabled the Government and Bank Group teams to objectively assess: (i) progress toward the Millennium Development Goals (MDGs), PPA and other development trend indicators; (ii) progress toward particular development objectives and outcomes consistent with the PPA and CAS; and (ii) the Bank Group's contribution to specific achievements. The PPA and the monitoring framework are further complemented by the private sector strategy. The PSS supports the government PPA, and attempts to address the constraints to the development of the private sector. IFC's continued strong support to the Brazilian private sector complements Bank assistance in enhancing the prospects for competitiveness and growth and improving social equity. The Multilateral Investment Guarantee Agency (MIGA) supports the strategy by facilitating foreign investment.

B. Progress Towards CAS Outcomes

14. ***Brazil has made steady progress in the last two years in meeting long-term development targets, including MDGs*** (see Annex 2). Extreme poverty, at 12 percent of total, has been nearly halved from its 1990 level. Access to primary education is almost universal and virtually equal for boys and girls. Infant mortality has been sharply reduced and maternal mortality is declining, though more slowly; both goals are likely to be met. Distance remains, however, between MDG goals and current indicators in two areas: (i) although the number of new HIV infections has declined, the total number of cases of AIDS has increased, because effective treatment reduces the number of AIDS patients who die; and (ii) water and sanitation coverage has lagged.

15. ***Outcomes consistent with Brazil's PPA have been achieved, though more slowly than planned***. Brazil's strongest achievements have been in the areas of macroeconomic stability and social equity. Important achievements were made towards improved competitiveness, however the challenges remain substantial. In the area of sustainability, modest preliminary steps have been taken. The details of Brazil's achievements, along with the Bank Group's contributions, are provided in the CAS Results Monitoring Matrix (Annex 4), and summarized by CAS pillar below. Actual Bank lending and AAA during FY04-05 is provided in Tables B3 and B4.

Pillar 1. A More Equitable Brazil

16. ***Indicators show improved access to social services, however they highlight the challenge of continued reforms.*** While education indicators show primary school attendance nearing 100 percent, pre-primary and secondary school attendance remains low compared with other MICs. Improvement will be essential to the competitiveness of Brazil's labor force, as well as for enhancing incomes and wellbeing. Infant and maternal mortality rates are improving; however, the national indicators mask significant regional differences, particularly in the Northeast and North. Although the globally-recognized National AIDS Program has registered significant success – both in terms of improving the quality of life of people living with AIDS and in terms of reversing a previously increasing trend in the incidence of HIV and AIDS -- there is evidence that the epidemic's profile is changing as it spreads towards the interior and to poorer groups, women, and afro-Brazilian/indigenous populations.

17. ***Policy changes have brought improvements in the targeting of the social safety net and health care financing, and promising steps in secondary education. The Bank has been a substantial partner with a catalytic effect on these achievements, in particular through the HD Programmatic DPL and a series of SWAps to support flagship social programs.*** The government achieved significant improvements in the coverage and effectiveness of the social safety net by unifying various elements into one conditional cash-transfer program, *Bolsa Familia*. Since the program was launched two years ago, improvements have been made in its targeting, monitoring, oversight and evaluation. The program now reaches nine million families and has been recognized as one of the top conditional cash transfer programs worldwide. The HD Programmatic DPL series

provided support to the core reforms in social protection, health and education. With an emphasis on promoting equitable access, quality and efficiency, and governance and accountability in all three sectors, the HD DPL provides an "umbrella framework" for the Bank's strategy in the social sectors. Within this framework, the Bank has directly engaged in key flagship social programs primarily through the use of innovative SWAps. With a strong record of accomplishments, there remain nevertheless challenges, in particular regarding education. Further improvement in the national indicators will only come with effective improvements in the quality of spending that involve better service provision at the local level in the areas of public health care, health and nutrition education and improved water, sewerage and sanitation.

18. ***The private sector and social inclusion.*** An increasing number of private corporations have stepped up the Corporate Social Responsibility (CSR) efforts to contribute in a commercially sustainable way to the social development of the communities they operate in. Greater emulation and market-based are needed in this area to complement private sector actions. IFC is supporting this emerging and positive trend in corporate social investments through (i) various non-investment initiatives in CSR, and (ii) factoring in commitments to CSR in its investment screening criteria. This has been complemented by WBI training on CSR and business ethics.

Pillar 2. A More Sustainable Brazil

19. ***Indicators show progress on the "green" agenda but the "brown" agenda lags behind.*** The last two years have seen a marked increase in the amount of Brazilian territory set aside as protected areas and as indigenous lands. These demarcations have a major impact in reducing the incentives for deforestation by land speculators, the major cause of deforestation in the Amazon. In addition, as the awareness of water quality and scarcity has grown, the legal allocation of water rights has increased in many important water basins, facilitating greater sustainability in water use and resource management. But the results in terms of potable water supply and sewage service coverage are disappointing and have stagnated in the last several years. The main causes of this poor performance are the general fiscal problems faced by municipalities, uncertainties in the regulatory framework for the sector, and a stalemate on a new water and sanitation law.

20. ***Among Brazil's recent accomplishments are improvements in housing and rural electricity programs and new environmental legislation. The Bank played a modest but catalytic role in these achievements, in particular through the Housing DPL and the Sustainability DPL and special programs.*** Over the last two years several national housing subsidy programs have been better targeted, and initial reforms have been taken in housing finance, supported in part by the First Housing DPL. A first Sustainability DPL helped move forward the Government's environment legislative and administrative reform agenda, including the recently approved Forest Concession Law. In addition, the Bank manages grants and private sector funding – through the Rainforest Pilot Program, the Global Environment Facility and the Carbon Fund – that help support environmental sustainability in particular in the North (Amazon) region in Brazil. Substantial challenges remain however in both the "green" and "brown" environmental agendas. On the overall environmental management system, an important issue will be to continue improving Brazil's environmental legislation without hampering the investment climate.

21. ***IFC has played the same modest but catalytic role in building a more sustainable Brazi***l. The Corporation has been striving to work as the leading promoter of sustainability in the Brazilian private sector by: (i) constructive engagement to support selected private sector players willing to establish and/or strengthen industry benchmarks; (ii) sponsoring broad market sustainability benchmarks including the Novo Mercado listing, Sustainability Index, and Equator Principles; and (iii) promoting the Company Circle (jointly supported by OECD) which brings together an elite group of IFC clients who are leaders in Corporate Governance in Latin America and the Caribbean. Climate change has also been another area of focus of IFC, including (i) supporting carbon credit purchase related to 6 mini hydro plants operated by Brascan, small power producer, and to animal

waste management through its investment in AGCERT, and (ii) making an equity investment in wind based power generation in the Northeast of Brazil (see Annex 7).

22. ***Bank Group re-engagement in the Amazon***. One of the greatest development challenges facing Brazil is how to develop the Amazon Basin in an environmentally-sustainable manner. After reputationally-damaging engagements in the 1980s, the Bank did not invest in the Amazon. In the intervening decades circumstances have changed in several important ways. Brazil has developed many of the legal and institutional instruments necessary for reconciling development and environmental protection. Equally important, there is now a generation of national and state political leaders with a strong commitment to environmentally-sustainable development. Simultaneously the World Bank Group has gained much experience in dealing with the infrastructure/agriculture/environment nexus and in reaping a "double dividend"[1]. Accordingly, the Bank Group will re-engage, when requested by Brazilian authorities or where private sector opportunities arise, with the full spectrum of challenges in the Amazon (environment, forestry, transport, energy, agriculture) in a selective and strategic manner using the full range of instruments (IBRD and IFC lending, carbon funding, GEF, donor-funded technical assistance, and AAA) .

Pillar 3. A More Competitive Brazil

23. ***Growth- and trade-related indicators are positive but spreads remain high and public investment is low, putting at risk the sustainability of growth.*** Trade volume has increased substantially. While the total investment level is consistent with plans, the aggregate indicator masks very low public investment, in particular in infrastructure – where Brazil's ratio of one percent of GDP is among the lowest of MICs. While the SELIC base interest rate has been gradually reduced, the risk spreads charged by banks continue among the highest in the world, dampening access to credit for investment. These macroeconomic constraints continue to severely limit Brazil's growth prospects.

24. ***An important package of microeconomic reforms was enacted in the last two years which should help improve Brazil's investment climate. The Bank has had a modest and supportive role, primarily through the First Growth DPL, the Growth TAL and investment operations***. Among the key measures include an ambitious law regulating private-public partnerships (PPPs), along with the establishment of a PPP unit in the Ministry of Planning and selection of a core group of top priority large infrastructure first "pilot PPPs." The Programmatic Growth DPL I supported the investment climate, financial sector and innovation sector reform measures. Brazil's bankruptcy law has been approved, and anti-trust law has been sent to Congress, and rationalization of the business registry is underway. There has also been some progress on transport logistics, with a second road concession program launched and output-based maintenance contracts now in effect on 30 percent of federal roads. This support will continue under a Road SWAp scheduled to be presented to the Board this fiscal year.

25. ***To improve the competitiveness of the Brazilian private sector, IFC has been working has been working on several fronts***. On BEE, IFC's efforts focused on ensuring wide dissemination in Brazil of the doing business reports, and strong advocacy along side the private sector for BEE change. This have led the city of São Paulo to enter in a TA agreement with IFC to simplify its business registration process and 25 other municipalities or states to participate in a benchmarking exercise that will assess the investment climate (in cooperation with FIAS and IBRD). In infrastructure and logistics, IFC is advising the Federal Government on its first PPP in addition to its continued strong investment. In the financial sector, ongoing investments focus to support mid-sized banks will contribute to increase competition in the banking sector. Finally, IFC invested in

[1] President Paul Wolfowitz gave a major speech on this theme: Environment and Development: Reaching for a Double Dividend, at the Special Session of the Sao Paulo Forum on Climate Change, December 20, 2005.

several growth generating sectors, notably agribusiness, petrochemicals, and manufacturing. A closer integrated World Bank Group approach in the past year, particularly in agribusiness/environment areas, is increasingly demonstrating the value added the WBG can bring to the private sector.

Pillar 4. Macroeconomic Fundamentals

26. ***Fiscal and monetary discipline has been practiced across two Government administrations of different political parties, indicating likely continued political support for prudent macroeconomic policies.*** In terms of concrete reform achievements, Brazil passed important new social security legislation in 2005, which will contribute to pension sustainability, while reducing the fiscal burden of this largest single expenditure component in the budget. Less has been achieved on public sector management, where reforms are under discussion or have already been put into place at federal level (and some states) aimed at performance orientation. However these have yet to bear fruit and since the quality of the fiscal adjustment is not sustainable, deeper and broader reforms may need to be considered.

27. ***Most macroeconomic indicators are consistent with PPA targets. The Bank has had modest direct impact but a continuous supportive role in Brazil's strong progress through AAA, in particular through the Third Programmatic Fiscal DPL.*** The Bank played a back-stage supportive role through policy dialogue and external outreach efforts to support the Government's macroeconomic management efforts. Continued prudent macroeconomic policies would focus the future agenda on finding additional fiscal space and making use of that space efficiently and effectively. Looking ahead to the reform agenda, the next steps will also include continued pension, labor and financial market reforms. Challenges include the quality of public spending and public sector institutional capacity. All states, except two, are in compliance with a key target under the landmark Fiscal Responsibility Law (LFR): meeting the 60 percent threshold for the ratio of personnel costs to net current revenues. This represents a substantial improvement from two years ago, when eight states were out of compliance. This also indicates the growing sustainability of sub-national fiscal adjustment and the crucial role the LFR has played.

C. Analytical and Advisory Activities

28. ***For the remaining of the CAS period, AAA will aim for higher impact through less fragmentation, greater focus and concentration, higher relevance, and more effective dissemination.*** While individual efforts have had a strong impact, the bulk of the AAA program has had more limited relevance and impact than it could have had. Going forward, in close collaboration with the Government, the AAA program will be focused in large part around several "big blocks" led by large programmatic initiatives. Improving the quality of public spending will be one driving theme and will include work on monitoring and evaluating results. AAA will be linked closely to the lending program and will shift emphasis from the more generic "what" to the more Brazil- and situation-specific "how." WBI learning and capacity development programs will be linked as much as possible to the programmatic AAA. The planned FY06-07 Bank program is provided in Table B 4. IFC has an active advisory program in Brazil serving both the private and public sector, most notably on PPPs and focused primarily on turning PPPs in infrastructure services targeted at low income population into viable investments.

D. Lessons of Implementation

29. ***The Bank's role has usually been quite modest but often catalytic***. Given the small size of the Bank program relative to the Brazilian economy, the Bank's financial role is inherently modest. However, where the Bank's role has been most effective is when it has leveraged this small financial role for greater impact by, for example: (a) bringing relevant global experience that helps improve the efficiency and effectiveness of reform or program design (e.g., Bolsa Família); (b)

speeding the pace of reforms which otherwise might have proceeded more slowly (e.g., the Sustainability DPL); (c) stimulating Government to scale-up an effective approach to reach a greater number of beneficiaries (e.g., Highways Management output-based contracting); or (d) enhancing capacity of public sector institutions (e.g. water management institutions in the Northeast). An effective formula under the pillar model is a Programmatic DPL combined with targeted AAA supporting an agreed reform agenda, one or more SWAp operations with well-targeted TA in support of "core" Government programs, and strategic support to specific, cross-cutting development challenges at the local, state or regional level, as has been the case in the equity pillar.

30. ***There were constraints to optimizing Bank financial impact. Implementation of the investment portfolio remains subject to systemic constraints but the Government and Bank have worked together to improve performance.*** Overall, the Bank lent about US$3.2 billion over the first two years of the CAS, less than the upper limit of US$4.4 billion possible under the highest scenario. The pace of policy reforms was a natural regulator of the DPL envelope. Advantage could not be taken of the scope for higher investment lending, due to the lack of fiscal space for investment lending, "stop and go" budgetary allocations, and the Government's difficulty in approving loans in a timely way, primarily at sub-national level, where a cumbersome, albeit necessary, creditworthiness review has created programming uncertainties and, often, has added months and even years to preparation time. Greater use of SWAps, which alleviate the fiscal space constraint, closer coordination with Government on budget allocations, and work towards use of country systems have helped to reverse the situation over the past year. As a result, portfolio implementation has improved (Annex 5), with the Q3 FY06 disbursement ratio reaching 30 percent (a marked improvement over 12 percent at end-FY03 during the time of CAS preparation). Problem projects have remained about constant at a ratio of 10 percent. This puts portfolio implementation performance above the mid-point of the base case, according to criteria established in the CAS (CAS Table 15, p. 57).

31. ***To ensure that recent gains in portfolio implementation are capitalized and continued***, the Government and the Bank Group have agreed on an action plan which includes the following:

- Fiscal space. Agreement on disciplined use of creditworthiness and other criteria for sub-national borrowing to ensure smooth processing of a few well-prepared projects.
- Client capacity. Focusing implementation capacity into one PIU per ministry and building the technical capacity of this smaller number of PIUs (with a longer-term view of evolving out of the PIU model and toward working directly with Ministry staff in the context of the SWAp model). Limited use of international agencies for implementation capacity.
- Procurement and financial management. Pursuing harmonization and use of country systems for procurement and financial management to further streamline investment lending (especially SWAp) preparation and implementation.

E. Performance and Lending Envelope

32. ***The mid-term assessment is that Brazil has moved into a higher performance scenario in the upper limit of the base case.*** The conclusion of the review process is that Brazil is in the higher range of the base case, at a point higher than at the outset of the CAS (details in Annex 6, summary in table below).

33. ***In terms of Bank Group support, the FY04-07 CAS framework remains valid. The IBRD lending envelope is also appropriate***. The experience with the CAS results framework over the last two years has been positive. While simple and flexible, the monitoring tools agreed, including the annual review meetings to discuss outcomes and adjustments to the program, facilitated objective evaluation of progress and provided a framework for considering Bank Group effectiveness.

Policy Performance Progress for Lending ("Triggers")	
Pillar area	Policy Performance Progress
Equity	• Strong progress on social assistance programs and health care finance, good progress in secondary education • ***Well within higher range of base case***
Sustainability	• Good progress on green agenda, however, little or no progress on brown agenda • ***At mid-point of base case***
Competitiveness	• Progress on microeconomic reforms to spur investment, however, infrastructure regulation and investment lag • ***Above mid-point of base case***
Macro Foundations	• Very strong fiscal, monetary discipline, strong debt management • ***Near highest point of higher range of base case***

IV. EXPOSURE

34. ***Net negative flows to Brazil are expected to be reversed during the remaining of the CAS period***. Brazil's debt outstanding (DOD) at the end of calendar 2005 was US$8.1 billion. There was no explicit target for DOD at the end of this period, but the CAS mentions an exposure ceiling of US$10 billion for the lower base case.

35. ***Current and expected lending levels are in accordance with the CAS high base case***. Commitments in FY04 (US$1,267 million) and FY05 (US$1,772 million) were below the CAS "high base case" scenario. The projection is for lending over the entire CAS period to be about US$ 6.6 billion, of which 51% would be development policy lending. Exposure at end-FY07 would be about US$10.9 billion. Projections by the Risk Department indicate that lending to Brazil will have to stabilize at around $1.5 billion a year in the coming five years in order to leave some headroom for "a rainy day" while remaining within the Single Borrower Limit ($14.5 billion) . Moving forward, the mix of lending instruments will be managed according to country needs within an overall framework of prudent exposure growth.

36. ***Brazil is currently IFC's second largest country exposure after Russia.*** Over the elapsed CAS period (FY04 to March 2006) IFC financed 27 projects for a total of US$1.3 billion of which US$0.8 billion was from IFC, and US$0.5 billion was from participating banks. As of March 31, 2006, outstanding and committed portfolios for IFC's own account totaled US$1,025 million and US$1,554 million respectively, representing 7.6% and 8.1% of IFC's portfolio. Syndicated loans (B loans) for which IFC is lender of record amounted to US$385 million as of the same date. IFC Brazil portfolio is well-diversified and reflects the key strategic priorities of the PSS.

V. RISKS

37. ***The CAS's risk management strategy tailored lending to policy performance.*** The main internal and external risks identified have not materialized (CAS Table 5), with a summary of the main risks as follows:

- ***External***. Brazil's stronger economy and reduction in debt and external vulnerabilities put it in a position to much more effectively withstand external shocks, reducing external risks.
- ***Internal.*** Poor public spending quality puts fiscal adjustment under pressure, and low public (and private) investment, in particular in infrastructure puts growth at risk. The Bank Group's program in the second half of the CAS has shifted to tackle precisely these issues, helping to mitigate these risks.

- ***Political***. Perhaps the most important risk over the next two years is the pace of the reform agenda in the election period.
- ***Operational***. Delays in preparation of projects give rise to a risk of not being able to deliver the envelope the Government would like, and certainly not being able to implement it. Implementation and preparation delays associated with complex private sector initiatives of large projects. This is mitigated by close cooperation between Government and the Bank on pipeline readiness management.
- ***Reputational.*** A strategy that includes engagement with large infrastructure projects requiring careful management of potential environmental impacts brings reputational risks to the institution, as does a major re-engagement in the Amazon. Capacity building provided by the Environmental Sustainability DPL and associated TAL is strengthening Government ability to manage these risks. An outreach strategy is also being formulated to mitigate this risk. (It should also be noted that there are major reputational risks from non-engagement with complex issues, too).

VI. THE REMAINDER OF THE CURRENT CAS AND THE FY08-11 COUNTRY ASSISTANCE STRATEGY

38. ***The challenge for Brazil going forward is to capitalize on progress by ensuring the sustainability of gains***. Within this structure, the CAS PR re-focuses Bank Group support in the direction of tackling the areas where less progress has been made, yet where the durability of success will be determined. This will imply at the margin a shift in the activities the Bank Group plans to support in the remaining next two years (FY06-07) of the CAS period toward:

- ***Investing in growth,*** notably through the private sector, including enhanced emphasis on improving competitiveness and investing in infrastructure; private sector led growth will be a key focus through an integrated WBG PSS;
- ***Improving environmental sustainability*** in the "green" and "brown" environmental arenas;
- ***Making fiscal adjustment sustainable***, enhancing the quality of public spending to deliver the most effective services most efficiently, thus also freeing up resources for investment, as well as improving public sector management;
- ***Building human capital*** for improved equity and growth; and
- ***Regional development*** in both urban and rural environments, with a special focus on the northeast and selected urban areas.

39. ***The Government considers Programmatic DPLs, clustered by pillar area, a key vehicle for Bank support***. Programmatic DPLs help leverage limited financial support by addressing core challenges, and require cross-sectoral, global knowledge. New DPLs will be prepared according to progress registered in key reforms. The Government has requested that the Bank provide technical assistance through grants such as PPIAF and IDF, in the context of the AAA program, and other innovative approaches, rather than through stand-alone Technical Assistance Loans or TALs linked to DPLs.

40. ***The Government seeks a shift to SWAps as the primary investment lending instrument***. By their nature, SWAps help leverage limited financial support by bringing global knowledge and by helping to scale up impact. They are highly valued by the Government as a way of supporting priority programs with needed technical fine-tuning while providing flexible financing that does not compound the problem of budgetary earmarking. We will continue through the Fiduciary Action Plan and our AAA program to strengthen the due diligence that is already being conducted by the Bank to permit increased use of such operations. A PFM Policy Note under preparation will

highlight how Brazil's specific budgetary framework compares with Bank's fiduciary requirements with regards to SWAp approaches.

Fiduciary Action Plan: Key Elements

Enhance governance and improve the quality of public spending through stricter enforcement of fiduciary responsibilities; improve procurement function and identify quick savings that could be obtained at the federal and state level through the improvement of these practices.

Assist in increasing external oversight control of conditional cash transfer programs or projects involving transfers from the federal Government for implementation by the municipalities.

Meet higher internal Bank requirements for compliance with fiduciary obligations and prepare and implement follow-up program to improve risk management and mitigate fiduciary risks in our portfolio: 100% compliance with fiduciary obligations in supervision: procurement post-reviews, financial management supervision and financial audits.

Partnership with key internal and external control institutions to roll on streamlined and reinforced fiduciary controls and financial audit practices to subnational governments.

Criteria for Sub-National Lending

Among the criteria for lending to **states:**

- **Fiscal health**. States must have demonstrated strong fiscal and financial performance, as evidence by full compliance with the Fiscal Responsibility Law and debt rescheduling agreements with the federal government. Relevant projects must be included in the state's PPA and explicitly budgeted.
- **Commitment to reform**. States must have demonstrated a commitment to a clear, unambiguous and unchanging reform agenda, elaborated clearly in the PPA, and the proposed project must play a clear and unambiguous role in achieving the core development objectives of the state.
- **Public sector management impact**. In addition, the state must have demonstrated commitment to building public sector institutional capacity and public sector expenditure efficiency and transparency and the proposed project should help address these objectives.
- **Sustainable growth impact**. Priority would be given to those projects which have a direct impact on sustainable growth, preferably in the context of regional development.
- **Poverty levels** and impact of the proposed interventions.

Additional criteria for lending to **municipalities**:

- **Clustering**. In response to Government request, and to ensure economies of scope in preparation and supervision, all municipal projects would be clustered in a consortia or regional package. The legal (and financial if relevant) structure for the clustering arrangement should be clear.
- **Strategic integration**. Bank engagement must focus on competitiveness and growth of the municipality, and on improving fiscal performance, municipal management and economically-critical issues such as land management. Specific investments must be embedded in, and supportive of, these higher-level objectives.
- **Lending in local currency** is to be done whenever appropriate and whenever agreed upon by the municipality and federal government.

41. ***Sub-national lending would continue to be an important part of the program, but would be substantially more selective and oriented toward sustainable growth.*** Sub-national lending can provide an opportunity to leverage the Bank's limited resources by bringing an integrative focus to local development issues and may be an appropriate vehicle for regional development, which is important for the sustainable growth agenda. However, experience has shown that extreme discipline is required to ensure that the prospect of Bank finance does not undermine implementation of the Law of Fiscal Responsibility, in selecting viable sub-national projects, so as to avoid delays in preparation, processing and implementation. Thus, the Bank would continue to work with sub-national governments, based on strict selectivity criteria (Box above). Government has also requested the Bank to increase the amount of lending in Reais to sub-national entities.

42. ***The conclusions of this review suggest that consistent with Brazil's maturing role in the global economy, the Bank Group's partnership with Brazil also needs to evolve.*** Going forward the Bank Group will be more selective by focusing on areas: (i) that are the core, involving "paradigmatic challenge" (systemic, transformative) where Brazil needs to leverage international knowledge service to define development paths for decades to come; (ii) where the Bank Group can bring global knowledge, and where there are both global public goods and local benefits ("double dividend"), and (iii) where the challenge involves both doing (projects) and thinking (advice). In recognition of Brazil's maturing role and the valuable lessons that it can offer to other countries, the Bank (in particular through WBI) will support South-South knowledge exchanges to share Brazil's experience, both within the region and to other parts of the world, particularly Lusophone Africa.

43. ***IBRD/IFC are developing closer partnerships.*** Some of the challenges to preserving the sustainability of growth will require an integrated WBG approach to create a propitious environment for continued private sector dynamism. These include executing joint strategies on (i) BEE, (ii) access to finance, notably SMEs, (iii) private investment in infrastructure and growth sectors such as agribusiness. Potential projects in the above key areas have been identified jointly, and a set of operating principles agreed including: (i) recognize different project cycles, client contacts, time lines to completion; (ii) need to clarify how IFC and IBRD work and manage client expectations, (iii) conduct joint missions where appropriate; (iv) strengthen bilateral communications, especially through clarification of contact points in IBRD and IFC; (v) other areas for potential future collaboration would develop over time. IBRD will proactively identify potential IFC clients in key development areas (e.g. progressive livestock, timber and agricultural companies in the Amazon. IFC will incorporate this information into its business development processes.

44. Increasing Brazil's competitiveness remains the WBG Private Sector Strategy main objective to make growth sustainable and equitable. ***Through the joint CAS approach, IBRD and IFC have been working together for some years in support of the private sector.*** We have been developing closer partnerships on key issues such as agribusiness, infrastructure, access to finance, and improving the business environment, to have a more focused and integrated approach maximizing the impact of the WBG assistance. IFC's area of focus will include:

- **Access to Finance and capital market development** through investments in microfinance, credit line to middle market companies, to improve access to funding of Brazilian companies of all sizes. Typically, IFC would channel such funding through banks and large corporations who have SME suppliers.
- **Export-oriented and growth companies** where IFC can help improve corporate governance and environmental and social practices, **and companies with scale gearing to become regional or global players** and likely to generate South-South investments.
- **Helping improve the business enabling environment,** e.g. simplification of business registration, licensing and construction permit issuance processes at the municipal level.
- **Financing infrastructure and logistics sectors**, including power, roads and ports.
- **Continue IFC's work as a leading promoter of sustainability in Brazil**, particularly in domestic resources sectors including agribusiness. Sustainable growth is an equally important challenge for the private sector. IFC will remain engaged on this front by supporting the development of broad market benchmarks as well as clients willing to set them. Joint IBRD/IFC efforts to improve public policy to implement clear and enforceable rules to establish market references for social/environmental standards will be pursued.

ANNEX 1: RECENT ECONOMIC DEVELOPMENTS

Macroeconomic fundamentals of the Brazilian economy have improved since 2003. For the first time in three decades, the Brazilian economy seems to be entering in a cycle of **sustained, albeit modest, economic growth**, improved income distribution, and poverty reduction in a context of low inflation, a comfortable external situation, and fiscal discipline. Economic growth rate increased from 0.5 percent in 2003 to 4.9 percent in 2004 (the highest rate in ten years). However, tight macroeconomic policies and a series of political scandals contributed to slow the growth rate to 2.3 percent in 2005. The end of the monetary contraction (that began in mid-2005), the fall in unemployment, and the recovery of income suggests more favorable growth prospects for 2006 of about 3.5 percent.

Fiscal policy was, and continues to be, a main factor responsible for the improvement in market sentiment, as reflected in improved credit ratings based in part on sustainability and growth considerations. The government has set primary fiscal surplus targets to reassure Brazil's credibility in financial markets and the improved sustainability of public debt. The government has demonstrated its commitment to fiscal discipline by meeting or exceeding the primary fiscal surplus targets. The primary fiscal surplus increased from 3.9 percent of GDP in 2002 to 4.8 percent of GDP in 2005.

Despite these results, some **concerns remain with respect to the quality of the fiscal adjustment**. The fiscal adjustment has been accomplished through strong revenue increases and by curtailing public investment. The tax burden has grown from 29 percent of GDP in 1998 to 35 percent in 2004 (and an estimated 38 percent in 2005). Similarly, federal government investment fell from about 1 percent of GDP in 1998 to about ½ percent of GDP per year in 2003-05. There is limited scope to pursue further fiscal adjustment through increased taxes or cuts in capital spending. The discretionary portion of the budget is limited to less than 20 percent of total spending. Mandated spending includes payments for social security and transfers to subnational governments, as well as stickiness in the wage bill (which is sensitive to increases in the minimum wage). This provides limited room to expand fiscal space for reducing the tax burden or expanding investment spending. The quality of fiscal adjustment could negatively impact economic growth and jeopardize the consensus for prudent fiscal policy. Therefore, improved efficiency of expenditures has become increasingly important in the fiscal reform agenda.

The fiscal stance contributed to a **fall in public debt as a share of GDP**. The 2002 crisis led to sharp depreciation of the *Real* and high interest rates to dampen inflationary pressures in the first half of 2003. Sluggish GDP growth in 2003 also contributed to a higher debt-to-GDP ratio. However, the increase of the primary fiscal surplus target (that was met), positive GDP growth, and lower interest rates led debt to fall from over 57½ percent of GDP in 2003 to about 51½ percent of GDP in 2005. For 2006, further interest rates cuts and better prospects for growth could lead to further declines in the debt-to-GDP ratio.

The authorities also have **improved the composition of public debt** to make it more sustainable. Efforts concentrated on reducing the volume of indexed debt and increasing fixed interest rate debt. Foreign exchange-indexed debt and related Central Bank of Brazil (BCB) issues foreign exchange swaps fell from a peak of 41 percent of total debt in 2002 to 1 percent as of December 2005. Fixed rate bonds as a share of domestic debt increased from 2 percent in 2002-2003 to 27 percent by December 2005. However, public debt linked to the SELIC headline interest rate (the federal funds rate) remains at about 50 percent of total debt.

The government has repeatedly shown a commitment to **an inflation targeting regime**. Inflation fell from 12.5 percent in 2002 to 5.7 percent in 2005. The realignment of inflationary expectations to the BCB target zone heralded a substantial reduction of the headline interest rate from 26.5 percent in February 2003 to 16 percent in April 2004. However, the resumption of inflationary pressures in the third and fourth quarters of 2004 forced the BCB to adopt substantial monetary tightening. After 15 months of monetary contraction, inflation and inflation expectations converged to the BCB target. Reduced inflationary prospects allowed the BCB to cut the headline interest rate from a peak of about 19.7 percent in mid-2005 to 17.25 percent in January 2006.

Strong external sector performance led to reduced external vulnerability. The value of exports almost doubled from 2002 to 2005. Exports benefited from high commodity prices and diversified industrial exports. As a result, Brazil has obtained increasing trade surpluses for the last three years with the trade surplus rising from US$ 13 billion in 2002 to almost US$ 45 billion in 2005. The external current account surplus grew from 0.8 percent of GDP in 2003 to 1.8 percent of GDP in 2005. These results contrast with more than a decade of large current account deficits. The robust trade and current account balances promoted an appreciation of the nominal exchange rate from just below R$ 4 to the US dollar in October 2002 to around R$ 2.1 in April 2006.

Net international reserves (which exclude IMF resources) have reached near US$ 54 billion in 2005, an historic peak. Parenthetically, under these improved macroeconomic conditions Brazil chose not to renew its Stand-By Arrangement with the IMF. Moreover, the growing strength of Brazil's external position, (especially continuing trade and current account surpluses, and strong capital inflows), have boosted reserves and reduced external debt, allowing Brazil to make an early repayment of its entire outstanding obligations to the IMF in December 2005. In early 2006, Brazil begun to pre-pay other external creditors. Brazil pre-paid its outstanding Brady Bond debt that was incurred during debt restructuring operations in the 1980s, and has begun to pre-pay Paris Club creditors.

In turn, reduced external vulnerability **improved Brazil's external debt sustainability indicators** that are now the strongest in 30 years. Strong exports reduced the interest payments-to-exports ratio to fall from 35 percent in 1999 to less than 15 percent in 2005. Similarly there was a significant decrease in the net debt-to-exports ratio from the 3.5 in 1999 to 1.4 in 2005.

Not surprisingly, therefore, **sovereign spreads have been dramatically reduced**. Sovereign spreads fell from 2,400 basis points in October 2002 to less than 500 basis points in December 2003. Sovereign spreads continued to decline in 2004 and 2005, reaching historical lows by end-2005. These spreads were just over 300 basis points by end-2005 and below 230 basis points in April 2006.

There is still some way to go before Brazil attains "investment" grade in capital markets. Besides the low quality of the fiscal adjustment, the level of public debt and its high costs represent a persistent source of risk. On the external front, despite the fact that increasing trade and current account balances have reduced the country's external financing requirements, a deceleration in world economic growth and a reduction in international liquidity could raise the financing costs of Brazil's debt and could interrupt the improving trend in Brazilian external sustainability indicators. The strong performance in the external sector could be threatened by continued appreciation of the exchange rate. In turn, higher interest rates would clearly make the external debt dynamics less favorable.

Income distribution and poverty reduction strongly improved in 2004. The recent release of the PNAD (National Household Survey) revealed the fall of income distribution inequality Gini index from 0.59 in 2002 to 0.58 in 2003 and to 0.57 in 2004. The poverty rate, which had risen from 32.9 percent in 2002 to 34.1 percent in 2003, experienced a strong drop to 31.7 percent in 2004. Economic growth, well targeted conditional cash transfer programs (such as the *Bolsa Familia*), as well as the recovery of labor income and the decline in unemployment (from over 12 percent in 2003 to below 10 percent in 2005), were among the main reasons for the improvement of income distribution and poverty reduction.

ANNEX 2: SELECTED LONG-TERM DEVELOPMENT INDICATORS

GOAL	INDICATOR	1990	Latest year available (2002-05)	PPA/CAS 2007 TARGETS (* indicates a PPA target)	MDG 2015 TARGETS
A MORE EQUITABLE BRAZIL					
Less extreme poverty, vulnerability, and social exclusion	Population living in extreme poverty	22%	15% ('01)	Hunger eradicated,* with all poor households getting income transfers (less than 10% got them in 2000)*	11% (MDG 1)
	GDP per capita ratio (NE)/BR	0.46	0.47	Increase	
Better knowledge and skills	Net primary enrollment	86%	97%	100%*	100% (MDG 2)
	Net secondary enrollment	15%	36%	45% * (figure imputed from PPA target for new enrollees)	
	Female to male illiteracy rates	1.03	1.03	Maintain at close to 1	Near 1 (MDG 3)
	Adult literacy rate	82%	88%	100%*	
Longer, healthier lives	Infant mortality (per 1,000 births)	48	29	24*	16 (MDG 4)
	Maternal mortality (per 100,000)	120	56 ('99)	Decrease	30 (MDG 5)
	New AIDS cases (per 100,000 population)	8.0 ('91)	15.9 ('00)	10 (PPA: 400 million condoms given out, double the no. in 2000 *)	No net increase (MDG 6)
A MORE SUSTAINABLE BRAZIL					
More equitable access to local services	Population without safe water access	24%	22%	% in urban areas to fall to 6.5% from 7.6% in 2000*, and 3.7 million people in semi-arid areas in NE to get potable water*	12% (MDG 7)
	Population without adequate sanitation (no piped sewerage or septic tanks)	39%	31%	% of urban residents without piped sewerage facilities to fall to 42% from 49% in 2000*	20% (MDG 7)
	Families with permanent dwellings	95.3%	93% ('00)	95.5%*	Increase (MDG 7)
	Rural families with electricity	52%	78% ('01)	100%*	
Better water quality and water resource management	Legal allocation of water rights (share of main basins)	<2%	10%	35%	MDG 7 (sustainable development policies enhanced, environmental resource loss reversed)
Sustainable management of land, forests, and biodiversity	Share of land area that is under : (i) protected areas; (ii) indigenous lands	(i) 6 % (ii) 4%	(i) 8% (ii) 11%	(i) 12% (100 million ha) (ii) 12% (100 million ha)	
	Area under certified sustainable forest management (hectares)	100,000	190,000	700,000*	
A MORE COMPETITIVE BRAZIL					
Improved infrastructure and investment climate, and competition	Trade volume (% of GDP)	15%	24%	35%*	Outcomes key for attaining the MDGs
	Total investment (% of GDP)	20%	19% ('01)	21%*	
	Rank in World Competitiveness Survey (best is 1; covers 59 economies)		15	Improve	
Broader and more efficient financial sector	Spread (lending to financing) for enterprises	100% ('94)	22% ('01)	16%	
	Bank accounts (savings + sight deposits), in millions	90 ('93)	95 ('01)	105	
More modern innovation climate	Patents issued in the USA to Brazilians	52	150	Higher (PPA: target to be set later)*	
All categories	Annual economic growth	-4.3%	1.5%	5%	

FOUNDATIONS OF ECONOMY AND GOVERNANCE						
Sound macroeconomic management and fiscal reforms	Public debt to GDP ratio	38%	57%		Below 50%*	Outcomes key for attaining the MDGs
	Share of domestic public debt that is (i) due within a year; (ii) foreign exchange-indexed	(i) >90% (ii) 11%	(i) 43% (ii) 36%		Lower—according to annual borrowing plan based on cost-risk tradeoff	
	Inflation rate	2510%	8%		4%*	
Efficient public sector management	Ratio of state personnel costs to net current revenue	To be below LRF target of 0.6 for all states				
Good governance	Rank (among 199 countries) of WBI Government Effectiveness Indicator	52.5 (’96)	50		Improve (achieve smaller number)	

ANNEX 3: CAS RESULTS FRAMEWORK: KEY BANK GROUP CONTRIBUTION

Long Term Goals	Key Targets for 2007 & most recent year baseline	Medium-term Outcome (Intermediate Indicators)	Bank Group Supported Activities Contributing to Indicator
Equity			
Reduce extreme poverty, vulnerability and social exclusion	Extreme poverty halved (from 15%) Progress on convergence of NE GDP vs. Brazil GDP (from 0.47 toward 1.0)	Better coordinated, targeted and monitored social safety net	• Bolsa Familia (unified cash transfer) SWAp • BRASA, BRAVA AAA • 10 NE State Poverty reduction projects • IFC support for CSR in private sector
		Decreased vulnerability for poorest households in the NE	
Better knowledge and skills	Primary enrollment universalized (from 97%) Secondary enrollment increased (from 36%) Progress on illiteracy (from 1.03 towards 1.0) Progress on adult literacy (from 88%)	Improved quality of fundamental education (Reduced repetition rates)	• Fundescola II, IIIA • State integrated education projects (CE, BA, PE) • Education Quality AAA
		Enhanced access and quality of secondary education	• HD PRSL I
Longer, healthier lives	Infant mortality decreased (from 29 per 1,000) Maternal mortality decreased (from 56 per 100,000), New AIDS cases reduced (from 15.9 per 100,000)	Reduced equity gap in health services (Basic care targeted to indigenous and other groups)	• VIGISUS II • HD PRSL I
Sustainability			
More equitable access to local services	Increased access to permanent dwelling (from 93%) Increased access to safe water (from 78%) Increased access to sanitation (from 69%) Increased access to electricity (from 78%)	Higher quality of care, including AIDS prevention (Improved systems of surveillance and prevention)	• AIDS III • VIGISUS I and II • Hospital performance AAA • IFC support for private health providers • Housing TA project • Growth Housing DPL • IFC investments in housing
		Housing programs better targeted to poorest Housing finance reforms and land tenure reform undertaken	
Better water quality and water resource management	Legal allocation of water rights (from 10% of basins)	Increased number of NE water basins with legal allocation of water rights	• Sustainable DPL • PROAGUA • CE PROGERIRH • BA state WRM
		More efficient WRM, especially in the arid NE (Increased investment and better management of WRM infrastructure)	• NE State Water Resources Management projects • National Water Resources Management projects (Proágua I & II)
More sustainable land management, forests and biodiversity	Increased protected land (from 8% of total) and indigenous (from 11% of total) Increased area under forest management (from 190,000 ha)	Adoption of sustainable forest strategy (North and Mata Atlântica) (Reduced illegal timber trade)	• National Forest project • Carbon Fund • IFC support for corporate social and environmental responsibility Sustainable DPL, TAL, ARPA, PNMA, PPG7, GEF
		Strategy for biodiversity conservation (Increased percentage of land under conservation practices)	• Amazon Region Protected Areas Program, ARPA • Rain Forest Pilot Project • GEF grants

Competitiveness			
Improved infrastructure	Increased trade volume (from 24% of GDP) Increased investment (from 19% of GDP)	Lower logistics costs (Multimodal bottlenecks analyzed, strategy developed Port container handling costs reduced)	• Growth Agenda Programmatic DPL series • Partial risk guarantees • MIGA guarantees • Road maintenance SWAp • IFC investment and advisory
Broader and more efficient financial sector	Lower spreads for enterprises (from 22%) Increased access to bank services (from 95 million bank accounts)	Lower interest rates for individuals and enterprises (New bankruptcy law enacted Reduced spreads in company borrowing costs)	• Programmatic Reform Loan series • Financial Sector AAA • IBRD and IFC Microfinance lending and SMEs
		Increased access for poor to banking services	IBRD and IFC Microfinance lending
Improved investment climate	Higher rank in World Competitiveness Survey (from 15 out of 59)	Clearer application of antitrust laws (Antitrust law amended, and reformed agencies in place)	• Growth Agenda Programmatic Reform Loan series • FIAS and IFC LAC facility
Macroeconomic management and fiscal reforms	Lower public debt ratio (from 57%) Lower share of public debt due within a year (from 43%), and share of debt foreign exchange indexed (from 36%)	More fiscally sustainable social security system (Social security reform passed and implemented)	• Programmatic Fiscal Reform Loan series • Social security AAA
			• Social Security TA
Macroeconomic Foundations			
More efficient public expenditure management	Lower ratio of state personnel costs to net current revenues (varies by state, target below 0.6, 7 states exceeded target in 2002)	Reduced budget rigidity for more public investments	• Programmatic Fiscal Reform Loan series
		Increased quality and efficient of spending (monitor in particular at state level)	• Programmatic Fiscal Reform Loan series • BRAVA, MG Partnership DPL, CE Integrated SWAp
		Increased efficiency and transparency in government procurement.	• Public Sector Expenditure/Management TA • State procurement AAA

ANNEX 4: CAS RESULTS FRAMEWORK MONITORING

Theme	Brazil's Long-Term Goal	Key Targets for 2007 & most recent year baseline (see Table 4 and Annex 9)	Areas to Which the Brazil FY2004-2007 CAS Would Contribute[2]				
			Medium-term Outcome	**Intermediate Indicators for Medium-Term Outcomes**	**Progress Towards Intermediate Indicator**	**Bank Group-Supported Activities Contributing to Inter. Indicator**	**Progress in Bank-Supported Activities**
Equity	**Reduce extreme poverty, vulnerability and social exclusion**	Extreme poverty halved (from 15%) Progress on convergence of NE GDP vs. Brazil GDP (from 0.47 toward 1.0)	Better coordinated, targeted and monitored social safety net	Unified benefit program targeting and monitoring systems strengthened	Significant progress through BF in efficiency and coverage. Actions to strengthen targeting and monitoring	▪ Bolsa Familia (unified cash transfer) SWAp	BRASA AAA, Bolsa Familia SWAp (good progress toward SWAp performance milestones)
			Reduced youth unemployment (from 18%)	Increased training opportunities, improved job services for youth	Govt. launched "Pro Jovem" program	▪ Primeiro Emprego (youth employment) SWAp	Youth at Risk AAA completed. No Youth SWAp
			Decreased vulnerability for poorest households, in particular in the NE	Framework developed for households to deal with shocks		▪ BRASAs AAA ▪ NE State integrated projects	
			Decreased wage, service gap of women, indigenous populations	Targeted programs developed and launched for excluded populations	Targeted funding and activities for Quilombos	▪ Social Exclusion AAA ▪ VIGISUS II	VIGISUS II under satisfactory implement.
			Culture valued and employed as an asset	Expanded cultural recognition of excluded groups		▪ Tourism components in state projects ▪ IDF for Quilombolos	No tourism components

[2] Brazil's progress toward meeting intermediate indicators, and the contribution of Bank-supported activities, would be monitored every six months with the government in the context of the semi-annual review. Progress would be measured against relevant current baselines (a selection of which included in the table above, with greater detail provided in CAS Matrix, Annex 9). Specific targets for subsequent six-month periods, both for country progress and contribution of Bank-supported activities, would be established at each semi-annual review.

	Better knowledge and skills	Primary enrollment universalized (from 97%) Secondary enrollment increased (from 36%) Progress on female/male illiteracy (from 1.03 towards 1.0) Progress on adult literacy (from 88%)	Improved access and quality of early childhood programs (5.9 million children in ECD programs)	Increased and varied models of early child development in municipalities	No progress, though pre-school included in FUNDEB	▪ Rio Early Child Development project ▪ Municipal Early Child Development project	No ECD projects (Rio awaiting auth to Negotiate – creditworthy issue)
			Improved quality of fundamental education	More schools implementing community participation Reduced repetition rates	All schools (more than 20 students) received PDDE resources. Fundescola products in 2,700 municipalities.	▪ State integrated education projects ▪ Transforming schools AAA ▪ WBI training (in partnership with Fundescola) in education reform.	Fundescola IIIA and state projects (CE, BA, PE) under satisfactory implement. Education Quality AAA
			Enhanced access and quality of secondary education	Funding mechanism to expand secondary education operating Increased supply of secondary schooling in mid-sized cities	Presentation to Congress of constitutional amendment to create FUNDEB	▪ Human Development Programmatic Sector Reform Loan series	HD PRSL I targets supported FUNDEB establishment
	Longer, healthier lives	Infant mortality decreased (from 29 per 1,000**)** Maternal mortality decreased (from 56 per 100,000) New AIDS cases reduced (from 15.9 per 100,000)	Reduced equity gap in health services	Basic care targeted to indigenous and other groups Programs for special populations evaluated	Progress re-targeting sector funding to poorest municipalities and vulnerable groups	▪ VIGISUS II	HD PRSL I conditions VIGISUS II under good implement.
			Higher quality of care, including AIDS prevention	Improved systems of surveillance and prevention for transmittable diseases	Significant progress in surveillance and prevention of communicable disease, however incidence of AIDs increases	▪ AIDS III (ongoing) ▪ VIGISUS I (ongoing) and II	AIDS III VIGISUS II under satisfactory implement.
			Increased accountability of health services	Performance based contracts in use Facility ratings system established		▪ Hospital performance AAA ▪ IFC support for private health providers	

			Fewer water-borne diseases in poorest populations	Increased access of poorest households to water and sanitation	data being obtained from SNIS database	State Integrated Health and Water projects	Amazonas project under preparation, PROSANEAR contributing project designs in poor neighborhoods
Sustainability	**More equitable access to local services**	Increased access of to permanent dwelling (from 93%) Increased access to safe water (from 78%) Increased access to sanitation (from 69%) Increased access to electricity (from 78%)	Housing programs better targeted to poorest Housing finance reforms and land tenure reform undertaken	Targeting proposals developed Housing finance and land reform proposals developed	Housing subsidy programs (Fazenda, CEF and FGTS) better targeted. Land reform proposals considered some progress in housing finance	▪ Housing TA project ▪ Housing SWAp ▪ IFC investments in housing	Growth II (housing) DPL and TAL supported some reforms, SWAp awaiting decision
			Integrated program in place for investment in water and sanitation infrastructure	Framework for integrated program proposed	Inter-ministerial working group on WSS established, Consortia and PPP laws approved, WSS Law sent to Congress, however not approved creating uncertainty	▪ Small Municipalities Water Supply and Sanitation project ▪ Water supply and sanitation SWAp ▪ PMSS II	Small Mun. pending auth to Negotiate PMSS II helping develop framework for regulation of WSS sector PROAGUA and NRPP both support provision of urban water supply.

			Sectorally integrated strategies implemented for sustainable local service provision in both rural and urban areas	Urban and rural service provision strategies developed, with focus on NE (rural) and SE (urban)	3.2 million new electricity connections (11% increase in NE vs. 5.5% nationwide). Luz no Campo program launched to supplement Luz para Todos in NE	▪ Rural Electrification SWAp ▪ Municipal Strategy AAA ▪ Northeast Strategy AAA	Policy support to energy sector since SWAP not requested by govt; Municipal strategy underway
	Better water quality and water resource management	Legal allocation of water rights (from 10% of basins)	Increased number of NE and SE water basins with legal allocation of water rights	Integrated water resource management legislation and institutions developed and implemented	Progress at federal and state level in creating water basins and allocation of water rights	▪ Sustainable Development Programmatic Reform Loan Series	PROAGUA and CE, BA state WRM projects, Sustainable DPL
			Improved water quality, especially in the urban SE	Cost recovery policies designed and established for environmental damage at local level		▪ São Paulo Billings Project ▪ State Integrated Water Resources Management Loans	Billings project well advanced but awaiting COFIEX consideration
			More efficient water resource management, especially in the arid NE	Increased investment and better management of water resource management infrastructure	Greater investment efficiency	▪ NE State Water Resources Management projects ▪ National Water Resources Management projects (PROAGUA I & II)	PROAGUA implementing well despite funds shortage, BA completed, CE implement improved

	More sustainable land management, forests and biodiversity	Increased protected land (from 8% of total) and indigenous (from 11% of total) Increased area under forest management (from 190,000 ha)	More systematic land use zoning and enforcement	Participatory zoning and land use planning strategies in place in Amazon region states		▪ Sustainable Development Programmatic Loan series ▪ State Integrated projects	
			Adoption of sustainable forest strategy (North and Mata Atlântica)	Reduced illegal timber trade Increased number of new state/municipal forests	Forest concession law drafted, mahogany sale moratorium, Mata Atlântica law sent to Congress. But has significantly increased	▪ National Forest project ▪ Carbon Fund ▪ IFC support for corporate social and environmental responsibility	Sustainable DPL, TAL, ARPA, PNMA, PPG7 and GEF all support combating illegal deforestation, PA project preparation
			Strategy for biodiversity conservation	Programs in place for promotion of locally appropriate technology Increased percentage of land under conservation practices	Some 8-9 million ha of new protected areas set up in the Amazon, esp. around BR 163	▪ Amazon Region Protected Areas Program (ARPA, ongoing) ▪ Rain Forest Pilot Project (RFPP new and ongoing), grants ▪ GEF grants ▪ WBI training on environmental management	ARPA and PPG7 have provided direct support to these initiatives
Competitiveness	**Improved infrastructure**	Increased trade volume (from 24% of GDP) Increased investment (from 19% of GDP)	More modern infrastructure regulation and maintenance	Water, energy, transport, telecommunications regulatory framework strengthened Public-private partnership framework amended, and use of public-private partnerships increased	PPP legislation should pave way for new investment opportunities; improvements (second road concessions, energy auctions) and some setbacks (regulatory agencies insufficient funding and clarify of roles)	▪ Growth Agenda Programmatic Reform Loan series ▪ Partial risk guarantees ▪ MIGA guarantees ▪ Road maintenance SWAp ▪ WBI training on infrastructure finance and regulation and on CSR and sustainable competitiveness ▪ IFC investments and advisory	Growth DPL I and TAL support directly. Growth DPL II under preparation, Road SWAP awaiting govt authorization to negotiate

			Lower logistics costs	Multimodal bottlenecks analyzed, strategy developed Port container handling costs reduced	Some improvements in customs effectiveness, geographical restructuring of railways concessions, output-based maintenance (CREMA) contracts on 30% of state highways.	▪ Growth Agenda Programmatic Reform Loan series ▪ Growth Agenda TA project ▪ IFC activities to support growth generating firms, infrastructure investment, and corporate finance ▪ MIGA guarantees	Growth DPL and TAL have supported logistics studies. Highways project supports state CREMA contracts, new Roads SWAp awaiting authorization to negotiate
	Broader and more efficient financial sector	Lower spreads for enterprises (from 22%) Increased access to bank services (from 95 million bank accounts)	Lower interest rates for individuals and enterprises	New bankruptcy law enacted Reduced spreads in company borrowing costs	Bankruptcy law passed, financial sector reforms (credit registries, payroll deduction loans and CVM regulations) would eventually help lower spreads	▪ Growth Agenda Programmatic Reform Loan series ▪ Financial Sector AAA ▪ IBRD and IFC Microfinance lending ▪ IFC investments	Growth DPL and TAL and, Financial Sector TAL (CVM component) supporting these reforms
			Enhanced competition, lower directed credit	Improved antitrust regulation of financial sector	Agreement between BACEN and CADE on antitrust regime for banking industry, but no progress in area of competition	Central Bank TA project (ongoing and new)	BACEN component of FSTAL closed, and new study on competition being initiated with BACEN
			Increased private-sector long-term finance	Increased private sector financial intermediation Improved access to long-term investment financing		IFC activities to support financial markets development	

			Increased access for poor to banking services	Expanded financially sustainable microcredit and non-bank financial services	Measures on agricultural insurance, rural credit, regulations on cooperatives and micro-credit for consumption purpose support the poor	IBRD and IFC Microfinance lending	CrediAmigo granted 987,000 loans increasing its client base to 189,000. Dialogue in financial sector supporting reforms
	Improved investment climate and competition	Higher rank in World Competitiveness Survey (from 15 out of 59)	Clearer application of antitrust laws	Antitrust law amended, and reformed agencies in place	Antitrust Law sent to Congress, pending approval	▪ Growth Agenda Programmatic Reform Loan series	Reform being supported by Growth DPLs
			Simplified company registration and taxation	Company registries unified across Brazil Reduced time to register a business reduced	Tax exemptions for capital goods imports of exporting firms approved, rationalization of business registry to commence	Investment climate AAA IFC LAC facility	ICA completed and results to be discussed with Govt and private sector Business registry supported by Growth DPL
	More modern innovation policy	Increased patents issued in the US to Brazilians (from 150)	Establishment of modern institutional, legal, financing framework	Innovation law passed and fund established Reduced time to register a patent, authorize technology transfer	Innovation law approved and legal framework for subsidy to private sector R&D in place	▪ Innovation AAA ▪ WBI innovation system assistance	Growth TAL supporting this work
			More equitable access to higher education	Higher percentage of secondary students continue on to university education More investment lending in the areas of science and technology and higher education		IFC activities to support in higher education	

	Sound macroeconomic management and fiscal reforms	Lower public debt ratio (from 57%) Lower share of public debt due within a year (from 43%), and share of debt foreign exchange indexed (from 36%)	Falling public debt and improved debt composition	Fiscal institutions strengthened Decreased debt to GDP ratio Reduced indexation of debt to SELIC rate or foreign exchange Investment grade rating for public debt Increased transparency and accountability in the management of government debt	Continued strengthening of fiscal discipline and institutions, reduced debt/GDP, reduced debt indexation, investment rating improved	▪ Programmatic Fiscal Reform Loan series ▪ Social security AAA ▪ Fiscal reforms for investment AAA	Fiscal loan DPL series
			More fiscally sustainable social security system	Social security reform passed and implemented	Social security legislation passed	▪ Social Security TA (ongoing) ▪ Social Security AAA ▪ Programmatic Fiscal Reform Loan series	Fiscal III (Pensions) DPL and TA
			Increased openness of the economy	Implemented competitiveness reforms (see above)		Growth Agenda Programmatic Reform Loan series	
Macro economic foundations	**More efficient public expenditure management**	Lower ratio of state personnel costs to net current revenues (varies by state, target below 0.6, 7 states exceeded target in 2002)	Reduced budget rigidity, reallocations for more public investments	Legislation passed to reduce impact of earmarking (for example, DRU), increase the share of budget that is discretionary	DRU to expire end 2006, budget rigidity remains a serious issue, with 90% of spending non-discretionary. PPI will exempt $3 b in public infrastructure investment from primary surplus target	▪ Programmatic Fiscal Reform Loan series ▪ Public Sector Expenditure/Management TA	Federal programmatic PER and state PERs, Fiscal IV preparation going well. IDF grant for project assessment under PPI

			Increased quality and efficient of spending (monitor in particular at state level)	Evaluation culture established: program evaluation incorporated as part of public expenditure management	Ambitious public management reforms at federal level (and some states) aimed at performance orientation	▪ Programmatic Fiscal Reform Loan series ▪ Public Expenditure Review (federal and selected states) ▪ Public Sector Expenditure/Management TA ▪ State financial management AAA	BRAVA M&E AAA, AAA on HR management issues at local level, TA for SP municipal, state integrated projects, MG Partnership DPL, CE Integrated SWAp
			Increased efficiency and transparency in government procurement.	New law or amendment passed for procurement methods Procurement certification and training program implemented.	Procurement law considered robust framework, more work needed on certification and training	▪ Public Sector Expenditure/Management TA ▪ State procurement AAA	State procurement AAA in PE, BA, dialogue through Fiscal IV and possible TA
	Good governance	Rank of WBI Government Effectiveness Indicator (from 50 out of 199)	Increased capacity and results-orientation of subnational governments	Improved systems for public expenditure monitoring, evaluation, and reallocation Improved incentives for service delivery	Highly variable institutional capacity, with reforms incomplete and excessive bureaucracy, need for greater access for most vulnerable.	▪ Subnational Public Expenditure Reviews ▪ Integrated state projects ("horizontal components) ▪ WBI capacity building programs (in partnership with ESAF) on municipal management	State level PER work and state integrated loans, MG Partnership DPL, CE Integrated SWAp
			Increased public participation	Effective models of transparent, participatory local government in place More municipalities with participatory budgeting	Brazil ranked in mid-range on WBI's governance index. While institutions exist (Ministério Público), seems insufficient	▪ IDF grant to the Social and Economic Development council (CDES, ongoing) ▪ WBI governance assistance ▪ Governance AAA	

			Improved property rights, law, and contract enforcement	Implemented measures to improve judicial performance	Crime and violence particular problem in urban areas, hinder economic activity, systemic reform of criminal justice system needed	▪ Judiciary AAA ▪ Programmatic Loan Series for Economic Growth	Two AAA reports and ongoing dialogue with STF and other courts (however dialogue is politically delicate)

ANNEX 5: PORTFOLIO PERFORMANCE (FY04 – FY06)

Overall

As of March 1, 2006, the Brazil IBRD portfolio included 48 projects, with a net commitment of US$ 4.5 billion. Total undisbursed balance is of US$ 3,115 million.

The overall quality of the portfolio is good. However, the first half of the CAS implementation period was marked by a slow down in the preparation of new loans and a fall in disbursements. The project cycle in Brazil, from preparation to first disbursement, is extremely long, with an average of 22 months for federal investment loans, and 31 months for sub-national projects. This includes including approval of *Carta Consulta* by Federal Government, negotiations with line ministries and Treasury, and Senate approval.

Portfolio performance has been constrained by the lack of fiscal space for federal investment projects. Bank projects are implemented in conformity to Budget procedures, thus Bank funds are not additional do budget allocations. The funds are slowly made available in the course of the year to preserve the overall target for primary surplus. Weak implementation capacity in executing agencies and frequent government changes in all administrative spheres are systemic causes of slow implementation.

In addition, Government changed the disbursement procedures for federal investment projects, from advances to special accounts to reimbursement to the treasury account of incurred eligible expenditures. This caused the disbursement ratio of investment projects to fall to a low of 12 percent in FY03. Slow disbursement of investment projects is the main reason for the reversal of positive financial flows from the Bank to Brazil in FY04 and FY05.

During this CAS period, the Government of Brazil and the Bank have worked together to address systemic implementation issues of the portfolio, including simplification of project design and implementation arrangements, continuous effort to build capacity at implementation agencies, and increased use of country systems for procurement and financial management in federal projects. At the same time, the Bank shifted its strategic approach to the pipeline with a strong emphasis on the use of innovative instruments like SWAps, and increased focus on sub-national lending.

Joint Bank Group/Government teams have been established to collaborate on ways to improve project implementation. This included working closely with the Federal Treasury in the mapping of projects' financial needs to improve budget allocation, and addressing budget execution rigidities through our fiscal policy dialogue. Many implementation issues were dealt by early identification of problems, and timely project restructuring, with cancellation of balances that would no longer be disbursed during the life of the projects (cancellations are expected to reach US$ 500 million during the current CAS implementation period).

Strong efforts on both sides have contributed to reverse this picture, with disbursements reaching US$ 1 billion in FY05. The disbursement ratio continued to improve, reaching 31.2% in May 1, 2006. The expectation is of achieving net positive flows to Brazil for the remaining period of the CAS. In spite of the tight federal fiscal space issue, the strong performance of the approved SWAps caused Federal loans to account for more than 50 percent of disbursements from investment loans in FY05. The Federal/State split of net commitments has also tilted towards the federal level, at about 60-40 percent.

Disbursements have accelerated with the use of innovative approaches such as SWAps (Bolsa Família is one of the top disbursing loans in Brazil's portfolio of projects under supervision), and the decentralization of the disbursement function. Starting November 2004, 100 percent of portfolio disbursement is being processed in the field and, as a result, average processing times have decreased to about 3 days. Brazil has also taken advantage of the Bank's program of simplification and modernization for investment lending, including streamlined procedures for simpler and repeater projects, and streamlined/improved project documentation.

Key characteristics of the portfolio

- **New commitments at the mid-point of the base case scenario:** as of March 1, 2006, 21 new projects were approved by the Board, for a total of US$ 3,405.1 million.
- **Disbursements pick-up:** after a low in FY03 (12.4%), the Disbursement Ratio (investment projects) has picked-up in FY04 (17.0%), and FY 05 (18.6%), and is currently higher than 30 percent (US$505.0 Million as of March 1, 2006).
- **Good portfolio performance**: Percentage of Projects at Risk dropped from 19% in FY04 to 13% in FY06, and the overall quality ratings - such as number of problem projects and commitments at risk - are above the region indicators.
- Current **average project age** is 3.32 years old with only 3 overage projects.
- Problem projects are now about 10.4% of the portfolio (5 projects);
- Potential Problem project represents 2% of portfolio (1 project).

Challenges and Objectives

The Bank will continue to work closely with the Federal Government and increasingly with the states to address structural issues that affect implementation of the portfolio. Among specific actions planned:

- Continuous simplification of fiduciary arrangements, with increasing reliance on country systems;
- Building capacity at executing agencies. Continuing training for project staff in basic procurement and financial management skills.
- Explore, together with Government, the more intensive use of SWAPs in Federal and State investment loans; further refining of SWAP model is needed.
- Liaise frequently with "Secretaria de Orçamento Federal"- SOF on budget implementation, namely on "descontingenciamento" of funds to line ministries.
- Creation of joint group for upstream coordination with government agencies and Bank to explore potential opportunities to streamline the approval process.

ANNEX 6. EVALUATION OF CAS TRIGGERS (FY04-07 CAS TABLE 14)

Competitive Brazil				
		Lower Limit Base	**Mid-Point Base**	**Upper Limit Base**
Productivity agenda	2003 CAS trigger framework	No substantial move toward protectionist, interventionist, e.g., **no move toward growth policies focused on privileges for specific industries, creation of fiscal liabilities or trade protection**	Some progress on productivity agenda, e.g., **substantial steps toward improvement in investment and innovation climate**	Move toward consistent productivity agenda, e.g., **implementation of ambitious plans to improve investment and innovation climate**
	2005 CAS Progress Report evaluation ***Upper Limit***			*Consistent productivity- enhancing agenda is emerging through microeconomic reforms including innovation and bankruptcy laws. Labor productivity and formal labor have increased. Tax exemptions for capital goods and port modernization.*
Infrastructure Regulation	2003 CAS trigger framework	No substantial reduction in effectiveness of regulation, e.g., **no increase in uncertainty about regulatory framework**	Some progress on regulatory framework, e.g., **confirmation of reasonable framework**	Improved regulatory framework, e.g., **strengthened regulatory framework which effectively attracts private investment**
	2005 CAS Progress Report evaluation: ***Lower Limit***	*Some progress on regulatory frameworks, including PPP and consortium laws, rail restructuring, energy auctions, road concession. However, insufficient support to regulatory agencies and low infrastructure investment contributes to "custo Brasil" and jeopardizes growth.*		
Financial Sector	2003 CAS trigger framework	No substantial reversal in financial sector reforms, e.g., **no reduction in private sector share in intermediation, no increase in fiscal risks from banks**	Continuation of financial sector reforms, e.g., **some measures to expand financial access and ensure reasonable performance of public banks**	Deepening financial sector reforms, e.g., **increased competition, private sector share of intermediation, improved public bank performance, reduced spreads**
	2005 CAS Progress Report evaluation: ***Mid-Point***		*Continued reforms, including use of wage bill as collateral (expanding consumer credit), reforms in housing credit, advances in bank regulation, supervision, however bank competition, re-insurance laws not approved.*	

Foundations				
		Lower Limit Base	**Mid-Point Base**	**Upper Limit Base**
Fiscal discipline	2003 CAS trigger framework	No substantial decline in fiscal discipline (national or subnational), e.g., **primary surplus maintained, continued compliance with LFR**	Reasonable fiscal discipline, e.g., **stable public debt to GDP ratio, increased compliance with LFR**	Effective fiscal discipline and strengthening of fiscal institutions, e.g., **declining public debt to GDP ratio, strengthening of fiscal rules and institutions, full effectiveness of LRF**
	*2005 CAS Progress Report evaluation **Upper Limit***			*Strong fiscal discipline and institutions, with primary fiscal surplus target exceeded, reduced public debt to GDP ratio, strong compliance with LRF by nearly all states*
Monetary policy and debt management	2003 CAS trigger framework	No substantial weakening in monetary discipline and debt management, e.g., **maintenance of inflation targets, no increase in short term and indexed debt, stable reserve requirements**	Reasonable monetary discipline and debt management, e.g., **inflation targets achieved, gradual decline in short term and indexed debt**	Effective monetary policy and debt management, e.g., **Central Bank autonomy, inflation targets consistently achieved, substantial reduction in short term and indexed debt, reduced reserve requirements**
	*2005 CAS Progress Report evaluation: **Upper Limit***			*Strong monetary and debt management, with inflation targets met and inflation expectations reduced, reduced interest rate, improved debt composition (substantially lower short term and indexed debt), issuance of external debt bonds in reais, improvement in credit rating*
Public spending quality	2003 CAS trigger framework	No substantial worsening in public spending quality, e.g., **some elements of social security passed**	Some progress on public spending reform, e.g., **substantial social security reform, extension of DRU de-earmarking, progress toward M&E of programs**	Effective public spending reforms, e.g., **major social security reforms, substantial progress in reduced budget rigidities, progress toward government-wide M&E system**
	*2005 CAS Progress Report evaluation: **Mid-Point***		*Some progress on public spending reform, including PPP law and IMF pilot to improve selection of infrastructure projects, some progress on development of M&E of government programs*	

Sustainable Brazil				
		Lower Limit Base	**Mid-Point Base**	**Upper Limit Base**
Environmental and natural resource management	2003 CAS trigger framework	No substantial worsening, e.g., **no weakening in management of land and priority ecosystems, no reduction in coordination of policies across ministries**	Some progress, e.g., **priority ecosystems identified and partially or selectively managed, intensified dialogue toward integrated national policy framework for regional development strategies**	Reforms for more effective policies, e.g., **priority ecosystems and land identified and managed using modern techniques, integrated policies across ministries in support of environmental management and regional development strategies**
	2005 CAS Progress Report evaluation: ***Mid-Point***		*Intensified activity identifying priority ecosystems, setting selectivity criteria, however this has not yet led to an integrated national framework or regional strategies.*	
Urban service provision policies	2003 CAS trigger framework	No substantial weakening in policies, e.g., **no worsening of land regularization and efficiency policies or targeting of housing programs**	Some progress on service provision policies, e.g., **some steps toward urban land regularization and better designed targeted housing programs, progress toward definition of regulatory framework for provision of water and sanitation, better designed and targeted water and sanitation programs**	Effective reforms for service provision, e.g., **successful policies for urban land regularization and better designed targeted housing programs, definition of regulatory framework for water and sanitation provision, better designed water programs**
	2005 CAS Progress Report evaluation: ***Mid-Point***	*Some progress in policy for urban low income access to urban services, local land regularization, improved coordination in housing, however water and sanitation law not approved and better coordination of programs needed.*		

Equitable Brazil				
		Lower Limit Base	**Mid-Point Base**	**Upper Limit Base**
Health	2003 CAS trigger framework	No substantial move away from policies for good sector performance, e.g., **no worsening in equity of health sector resource allocation**	Some progress on sectoral policies, e.g., **steps toward needs-adjusted resource allocation in health sector**	Significant progress on sector policies, including ECD and secondary education, e.g., **substantial progress toward needs-adjusted resource allocation in health sector**
	2005 CAS Progress Report evaluation: ***Mid-Point***			*Substantial improvement in needs-adjusted funding, differential payments mechanism favoring poor municipalities, increased transfers to low-IDH municipalities including targeting to specific populations, e.g. Quilombos*
Education	2003 CAS trigger framework	No substantial move away from policies for good sector performance, e.g., **no decline in per capita student transfers**	Some progress on sectoral policies, e.g., **steps toward design and implementation of funding mechanism for secondary education**	Significant progress on sector policies, including ECD and secondary education, e.g., **successful design and beginning implementation of funding mechanism for secondary education**
	2005 CAS Progress Report evaluation: ***Mid-Point***		*Strong steps toward creation of FUNDEB, critical to expand secondary education. Steps to improve provão (ENADE), improved effectiveness and M&E in many programs. However, ECD and tertiary developments are slower.*	
Social protection	2003 CAS trigger framework	No substantial reduction in effectiveness of policies, e.g., **no weakening in targeting or coordination of transfer programs**	Some progress on policies, e.g., **some improvement in coordination and targeting of transfer programs**	Move toward well-targeted and coordinated social protection, e.g., **effective implementation of well-targeted unified transfer program**
	2005 CAS Progress Report evaluation: ***Lower Limit***			*Significant progress consolidating multiple safety net programs into single Bolsa Familia, efficiency gains in improved coverage (8 million families), efforts to strengthen targeting and M&E. BF rated in top 10 international programs*

ANNEX 7: THE IFC PROGRAM

***The private sector and social inclusion* -** IFC has been supporting private sector initiatives in CSR, though non-investment financing and giving a priority to clients ready to set standards/benchmarks in CSR. IFC has been using grant financing for projects supporting social inclusion (Integrare, an NGO which promotes businesses owned by afro descendents, indigenous people and handicapped. POEMA, an NGO involved in developing sustainable micro-businesses in the Amazon). Another initiative was support to Fome Zero including financing the establishment of a call center and a Web-site to establish links between companies and the local communities. Furthermore IFC ACS staff used the database encompassed on it to select some of the poor municipalities in Brazil to receive direct support from IFC.

IFC has played a modest but catalytic role in building a more sustainable Brazil. The Corporation has been striving to work as the leading promoter of sustainability in the Brazilian private sector by: (i) Constructive engagement to support selected players willing to establish/strengthen industry benchmarks; (ii) Sponsoring market sustainability benchmarks including the novo Mercado listing, sustainability Index, and Equator Principles; and (iii) Promoting the Company circle (jointly supported with OECD) which brings together an elite group of IFC clients who are leaders in Corporate Governance (CG) in Latin America and the Caribbean. Climate change has also been another area of focus of IFC: supporting carbon credit purchase from Brascan for its 6 mini hydro plants, and making an equity investment in wind based power generation in the Northeast of Brazil.

The development of the Novo Mercado listing established more stringent requirements on CG for companies wishing to be listed. Novo Mercado companies have registered significantly better performance relative to their peers. IFC also sponsored a “Companies Circle” of Latin American firms that have improved their Corporate Governance practices. The Circle will share their experiences with the broader market of Latin American businesses and provide input from the corporate perspectives. The majority of the Companies in the Circle are Brazilian. In sustainability: IFC funded and supported the development of the Sustainability Index launched on December 2, 2005 by Bovespa. It is the second such index on Emerging Markets. On June 4, 2003, IFC played host to 10 leading banks from seven countries as they announced their commitment to environmental and social responsibility through the adoption of the “Equator Principles.” ABN AMRO, Barclays PLC, Citigroup, Credit Lyonnais, Credit Suisse Group, HVB Group, Rabobank, Royal Bank of Scotland, WestLB AG, and Westpac Banking Corporation are applying these voluntary principles, which are based on the environmental and social policies and guidelines of IFC and IBRD, to their global project-finance activities in all industry sectors. The first 5 domestic emerging market banks in the world to adopt the Equator Principles are all Brazilian banks.

Access to finance and capital market development, IFC has been supporting increased competition in the Brazilian banking sector, structuring innovative transactions, developing local capital markets, using TA and investment products. Priorities include: (i) supporting smaller and medium-sized banks, including operations favoring the use of local currency or trade-finance related credit through IFC’s Global Trade Finance Program; (ii) supporting securitization firms, notably to build-up Brazil’s asset-backed securitization markets, developing housing finance, making use of domestic capital markets through local currency funding; and (iii) case-by-case transactions with Brazil’s larger banks, usually focused on sustainability-related initiatives and capital markets-oriented transaction that can efficiently mobilize SME funding. A third of IFC's Brazil portfolio is invested in the financial sector.

Improving the Business Enabling Environment. IFC has been working on two fronts following upon work done in the Doing Business Reports, which IFC helped to launch, and the ICA report. First, *Simplifying Municipal Business Registration Process*: Business registration was shown as one of the key hurdle for the formalization of SMEs. The Municipality of São Paulo was also shown as the worst place in Brazil for an SME to register (152 days). IFC LAC TA Facility is funding a cooperation and TA agreement with the city of SP to streamline the business registration process as well as the licensing and issuance of construction permits. The second front involves *Benchmarking 12 Brazilian Municipalities/States on Ease of Doing Business* : At the request of the Federal Ministry of Finance, FIAS will be reviewing administrative procedures and regulations for business in five DB indicators (opening a business, registering, property, getting credit, enforcing contracts and payment taxes) for 12 Brazilian cities/states. This will allow benchmarking too highlight regional differences not captured in the DB exercise.

Infrastructure and logistics. A strategic priority for IFC in Brazil, the approach has been two fold: (i) *At the advisory level*, IFC supports the state and federal governments on PPPs through various advisory mandates (e.g. road development at the federal level - BR 116/324, irrigation); (ii) *On the Investment side*, IFC is working to identify PPP investments (roads, urban transit, sanitation) we could finance to demonstrate to the private sector that they can be sensibly and commercially structured. In addition, IFC has been financing projects in power, railroads, aviation, and logistics. IFC has financed various projects over the past 4 years amounting to US$675 million in new commitments, including US$404 million for its own account. IFC continues its efforts in supporting infrastructure financing.

Power sector - In 2005 Brazil unveiled its new power sector regulations in what seems to be the last set of a series of changes since privatization was launched in the early 1990s. The initial framework was established with the help of a World Bank funded study, as IFC worked through the day-to-day implementation issues of the proposed framework in joint investments with the private sector. IFC learnt first-hand, the difficulties in financing thermal plants (Macaé and TermoFortaleza) and distribution companies (CPFL) in a deregulated and hydro-dominated electricity sector. IFC's lessons-of-experience proved useful to the dialogue with the World Bank, the government and investors and to propose new regulations and rules. IFC closely coordinated with the World Bank on the effect of new regulations regarding the simultaneous dispatch of thermal power plants to define capacity limits (Resolution No. 40) and efforts to recognize the fair energy pricing of 'half-built' hydro plants under the 'new' versus 'old' energy auctions (Regulations of Articles 17 and 18 of Law 10.848/2004). More recently, the IFC and WB have exchanged information on the new auctioning system for wholesale energy which counted with the participation of both state-owned and private sector players. Last but not least, the WB and IFC have been coordinating on promoting investment in renewables (wind, small-hydros, biomass, carbon credit) and on promoting large infrastructure projects. One third of IFC's Brazil portfolio is invested in infrastructure and logistics.

Export oriented and growth generating companies. IFC has been active in several growth generating sectors, notably agribusiness, petrochemicals, and manufacturing. The lack of a stable access to long-term financing particularly in times of crises remains a key constraint for Brazilian companies of all size in a country that will continue to be vulnerable to external shocks and market fluctuations. IFC plays an important role in providing stable funding diversification to Brazilian companies. In this context, IFC's role as provider of countercyclical support, particularly in times of crisis, is essential and valued by its clients. Furthermore, IFC sees sustainable growth as an important challenge for its clients, both today and in the future. As discussed under the sustainability pillar IFC feels it has a strong mandate to help selected players to establish industry benchmarks and demonstration to ensure environmentally and socially sustainable practices. Such standards are key for companies who aspire to become global/regional players. A closer integrated World Bank Group approach in the past year, particularly in agribusiness/environment areas, is increasingly demonstrating the value addition the WBG can bring to the private sector.

Annex A1-
Key Economic & Program Indicators - Change from Last CAS

As of Date 04/28/2006

						Estimate	Forecast	
	2000	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*
Economy (CY)								
Real Growth rates (%) GDP	4.4	1.3	1.9	0.5	4.9	2.3	3.5	3.5
Gross Investment	4.4	1.1	-4.2	-5.1	10.9	1.6	6	7.5
Exports (GNFS)*	11.1	11.2	7.9	9	18	11.6	8.2	7.4
Imports (GNFS)*	11.4	1.2	-12.3	-1.7	14.3	9.5	17	12
External Sector								
Current account (% GDP)	-4	-4.6	-1.7	0.8	1.9	1.8	1	0.2
Inflation (%)	6	7.7	12.5	9.3	7.6	5.7	4.5	4.5
Public finance (% GDP)								
Primary Surplus	3.5	3.7	3.9	4.3	4.6	4.8	4.3	4.3
International reserves (as months of imports)	4.2	4.5	5.4	6.9	6.1	5.1	5.2	5.8
Program (Bank's FY)	FY00[c]	FY01[c]	FY02[c]	FY03[c]	FY04[c]	FY05[c]	FY06[b]	FY07[a]
Lending ($ million)	1,289.9	1,676.7	1,566.2	1,237.2	1,267.3	1,771.8	1,736.1	2,087.3
Gross disbursements ($ million)	1,639.1	1,723.1	497.1	1,746.8	1,397.7	997.8	2,000.0	1,400.0

* "GNFS"denotes "goods and nonfactor services"

a. Estimated year

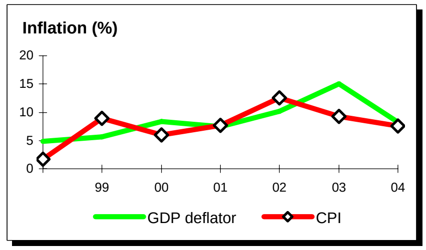
b. Projected year

c. Actual outcome

Brazil

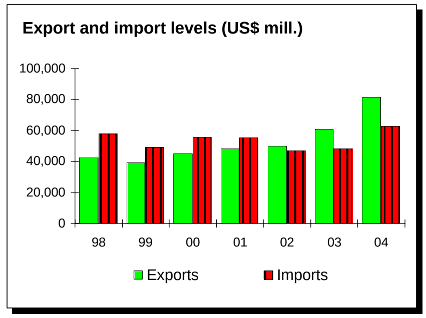
PRICES and GOVERNMENT FINANCE

	1984	1994	2003	2004
Domestic prices				
(% change)				
Consumer prices	192.1	2,075.9	9.3	7.6
Implicit GDP deflator	212.8	2,239.1	15.0	7.9
Government finance				
(% of GDP, includes current grants)				
Current revenue	9.1	18.6	23.7	..
Current budget balance	-1.4	-15.8	3.0	..
Overall surplus/deficit	-1.9	..	3.8	..



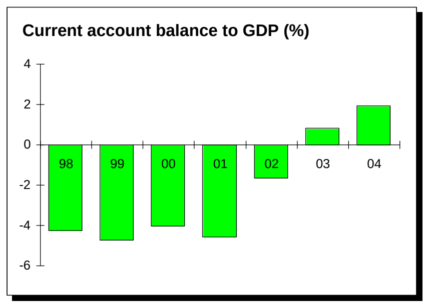
TRADE

	1984	1994	2003	2004
(US$ millions)				
Total exports (fob)	27,004	43,545	60,832	81,466
Coffee	1,771	2,500	3,456	4,759
Soybeans	2,570	4,135	4,290	5,395
Manufactures	14,530	27,891	39,653	52,948
Total imports (cif)	13,917	33,079	48,291	62,809
Food	..	2,014	924	1,058
Fuel and energy	7,345	2,339	6,579	10,317
Capital goods	2,151	12,690	10,350	12,132
Export price index *(2000=100)*	85	99	97	108
Import price index *(2000=100)*	45	70	76	90
Terms of trade *(2000=100)*	188	141	128	120



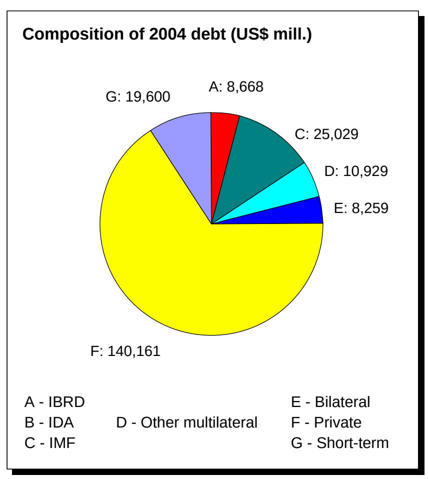
BALANCE of PAYMENTS

	1984	1994	2003	2004
(US$ millions)				
Exports of goods and services	28,938	46,702	83,531	109,059
Imports of goods and services	17,595	40,131	63,668	80,069
Resource balance	11,343	6,571	19,863	28,990
Net income	-11,472	-10,848	-18,552	-20,520
Net current transfers	10	2,588	2,867	3,268
Current account balance	-119	-1,689	4,178	11,738
Financing items (net)	5,488	9,037	-15,651	-15,377
Changes in net reserves	-5,369	-7,348	11,473	3,639
Memo:				
Reserves including gold *(US$ millions)*	11,995	38,806	49,296	52,935
Conversion rate *(DEC, local/US$)*	6.72E-10	0.6	3.1	2.9



EXTERNAL DEBT and RESOURCE FLOWS

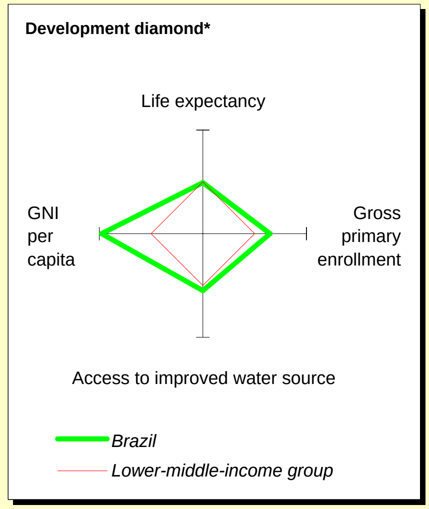
	1984	1994	2003	2004
(US$ millions)				
Total debt outstanding and disbursed	103,863	152,433	235,431	212,646
IBRD	3,969	6,311	8,588	8,668
IDA	0	0	0	0
Total debt service	13,710	15,940	56,718	50,992
IBRD	669	1,883	2,010	1,843
IDA	0	0	0	0
Composition of net resource flows				
Official grants	41	69	82	..
Official creditors	1,536	-2,293	-2,272	-2,788
Private creditors	4,550	4,671	316	-17,738
Foreign direct investment (net inflows)	1,594	3,072	10,144	..
Portfolio equity (net inflows)	0	7,280	2,973	..
World Bank program				
Commitments	306	1,024	1,150	1,215
Disbursements	1,300	640	1,291	1,447
Principal repayments	332	1,346	1,633	1,564
Net flows	968	-706	-342	-116
Interest payments	338	537	377	280
Net transfers	631	-1,242	-719	-396



Brazil at a glance

3/14/06

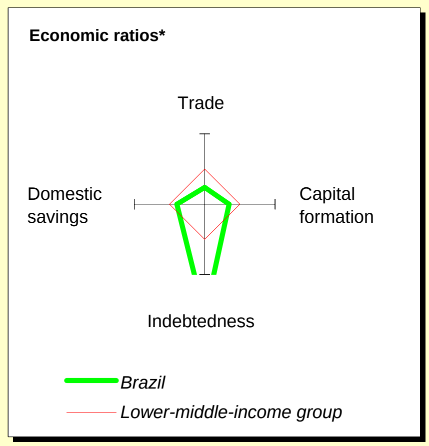
POVERTY and SOCIAL	Brazil	Latin America & Carib.	Lower-middle-income
2004			
Population, mid-year *(millions)*	178.7	541	2,430
GNI per capita *(Atlas method, US$)*	3,090	3,600	1,580
GNI *(Atlas method, US$ billions)*	551.6	1,948	3,847
Average annual growth, 1998-04			
Population *(%)*	1.2	1.4	1.0
Labor force *(%)*	1.5	0.9	0.7
Most recent estimate (latest year available, 1998-04)			
Poverty *(% of population below national poverty line)*	22	..	..
Urban population *(% of total population)*	83	77	49
Life expectancy at birth *(years)*	69	71	70
Infant mortality *(per 1,000 live births)*	33	28	33
Child malnutrition *(% of children under 5)*	..	..	11
Access to an improved water source *(% of population)*	89	89	81
Literacy *(% of population age 15+)*	86	89	90
Gross primary enrollment *(% of school-age population)*	148	123	114
Male	153	126	115
Female	144	122	113



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

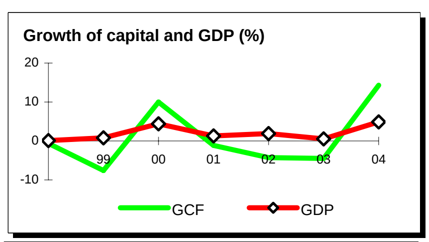
	1984	1994	2003	2004
GDP *(US$ billions)*	209.0	546.2	505.7	604.0
Gross capital formation/GDP	15.7	22.1	19.8	21.3
Exports of goods and services/GDP	13.5	9.5	16.4	18.0
Gross domestic savings/GDP	21.4	22.5	23.4	25.8
Gross national savings/GDP	..	21.3	20.4	25.8
Current account balance/GDP	-0.1	-0.3	0.8	1.9
Interest payments/GDP	4.5	1.1	2.9	2.1
Total debt/GDP	49.7	27.9	46.6	35.2
Total debt service/exports	45.4	31.2	65.2	45.4
Present value of debt/GDP	..	..	50.2	..
Present value of debt/exports	..	..	292.1	..

	1984-94	1994-04	2003	2004	2004-08
(average annual growth)					
GDP	2.0	2.1	0.5	4.9	3.3
GDP per capita	0.2	0.8	-0.7	3.7	2.1
Exports of goods and services	6.1	8.7	7.9	18.0	1.9



STRUCTURE of the ECONOMY

	1984	1994	2003	2004
(% of GDP)				
Agriculture	11.5	9.9	10.2	10.4
Industry	45.7	40.0	39.9	40.0
Manufacturing	33.9	23.7	11.1	..
Services	42.8	50.2	50.0	49.6
Household final consumption expenditure	70.4	59.6	56.7	55.4
General gov't final consumption expenditure	8.3	17.9	19.9	18.8
Imports of goods and services	7.9	9.2	12.8	13.4



	1984-94	1994-04	2003	2004

CAS Annex B2 -
Selected Indicators* of Bank Portfolio Performance and Management

As Of Date 04/27/2006

Indicator	2003	2004	2005	2006
Portfolio Assessment				
Number of Projects Under Implementation [a]	57	51	54	52
Average Implementation Period (years) [b]	3.6	4.0	4.1	3.5
Percent of Problem Projects by Number [a, c]	7.0	17.6	18.5	7.7
Percent of Problem Projects by Amount [a, c]	7.4	16.6	12.6	1.9
Percent of Projects at Risk by Number [a, d]	7.0	17.6	18.5	9.6
Percent of Projects at Risk by Amount [a, d]	7.4	16.6	12.6	16.2
Disbursement Ratio (%) [e]	12.3	17.0	18.8	31.7
Portfolio Management				
CPPR during the year (yes/no)	Yes	No	Yes	Yes
Supervision Resources (total US$)				
Average Supervision (US$/project)				

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	209	38
Proj Eval by OED by Amt (US$ millions)	25,737.2	5,546.6
% of OED Projects Rated U or HU by Number	26.5	8.3
% of OED Projects Rated U or HU by Amt	26.6	10.5

a. As shown in the Annual Report on Portfolio Performance (except for current FY).
b. Average age of projects in the Bank's country portfolio.
c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
d. As defined under the Portfolio Improvement Program.
e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

CAS Annex B3 - IBRD/IDA Program Summary Brazil

As Of Date 04/27/2006

IBRD Lending Program Approved (FY 04-05) and Proposed (FY06-07) [a]

Approved	*Proj ID*	*US$(M)*	*Strategic Rewards b (H/M/L)*	*Implementation b Risks (H/M/L)*
2004				
Equitable	BR Diseases Surveillance & Control APL 2	100.0		
	BR (CRL1) Bolsa Família 1st APL	572.2		
Competitive	BR Tocantins Sustainable Regional Developm.	60.0		
	BR Loan for Sust. And Equitable Growth	505.1		
Sustainable	BR Maranhao Integrated: Rural Developm.	30.0		
	Result	1,267.3		
2005				
Equitable	BR Pernambuco Integ. Dev.: Educ. Qual. Impr.	31.5		
Competitive	BR (CRL1) Prog. Growth for Housing	502.5		
	BR TA Sustain. & Equit. Growth	12.1		
	BR Espirito Santo Wtr & Coastal Pollut.	36.0		
Sustainable	BR (Amapa) Sustainable Communities	4.8		
	BR 1st PRL for Environmental Sustainable	502.5		
	BR Integ. Munici. Proj. Betim Minicipality	24.1		
Foundations	BR Prgm. Fiscal Ref. - Social Sec Reform	658.3		
	Result	1,771.8		
	Overal Result	3,039.1		

a. Proposed program for next two fiscal years.
b. For each project, indicate whether the strategic rewards and implementation risks are expected to be high (H), moderate (M), or low (L).
* Projects already approved by the Board FY06.

Proposed	*Proj ID*	*US$(M)*	*Strategic Rewards b (H/M/L)*	*Implementation b Risks (H/M/L)*
2006				
Equitable	BR HD Technical Assistance Loan*	8.0		
Competitive	BR 2nd Progr. Sustn.& Equit Growth	600.0		
	BR Housing Sector TAL*	4.0		
	BR Bahia Poor Urban Areas Integrated Dev.*	49.3		
	BR Road Transport SWAP	502.5		
Sustainable	BR Para Integrated Rural Development	60.0		
	BR Ceará Rural Poverty Reduction II	37.5		
	BR MG Rural Poverty Reduction*	35.0		
	BR Brasilia Environmentally Sustainable*	57.6		
	BR Environmental Sust. Agenda TAL*	8.0		
	BR (CRL 2) Bahia State Integ. Proj. Rur. Pov.*	54.4		
Foundations	BR MG Partnership for Development*	170.0		
	BR Ceara Multi-sector Inclus. Dev*	149.8		
	Result	1,736.1		
2007				
Equitable	BR HEALTH QUALITY PROJECT (QUALISUS)	500.0		
	BR Family Health Extension II	121.0		
	BR Rio Early Childhood Development	60.0		
	BR Amazonas: Regional Dev Project	76.0		
	BR HD Programmatic Sec. Ref. II DPL	500.0		
Competitive	BR Ceara Regional Development	42.0		
	BR Bahia Integrated State Highway Managmt.	100.5		
	BR Municipal APL1(Uberaba, Recife, Belo Horizonte, Teresina)	109.4		
	BR Goiás Highways 2	65.0		
Sustainable	BR RGN State Integrated Water Res Mgmt	35.9		
	BR PROAGUA 2	100.0		
	BR RS Integrated Municipal Development	60.0		
	BR Piauí Rural Poverty Reduction II	22.5		
	BR Pernambuco Rural Pov. Reduction II	30.1		
	BR Ceará Rural Poverty Reduction II	37.5		
	BR Guará Vermelho Mun. Cubatão	14.6		
	BR (CRL2) Sergipe Integrated Rural Poverty	20.8		
	BR RS Integrated Reg. Development	180.0		
Foundations	BR State Pension Reform TAL II	5.0		
	BR Federal Pension TAL	7.0		
	Result	2,087.3		
	Overall Result	3,823.4		

a. Proposed program for next two fiscal years.
b. For each project, indicate whether the strategic rewards and implementation risks are expected to be high (H), moderate (M), or low (L).
* Projects already approved by the Board FY06.

CAS Annex B3 (IFC & MIGA) for Brazil

Brazil - IFC and MIGA Program, FY 2003-2006

	2003	2004	2005	2006
IFC approvals (US$m)	160.53	166.20	400.30	232.32
Sector (%)				
Agriculture and For			25	
Chemicals			0	47
Collective Investme			4	
Finance & Insurance	6	18	39	1
Food & Beverages				6
Health Care		12		
Industrial & Consum	16		9	
Information			2	
Oil, Gas and Mining	25	0		
Pulp & Paper			12	
Textiles, Apparel &	19			
Transportation and	0	5		43
Utilities	34	65		2
Wholesale and Retai			9	
Total	100	100	100	100
Investment instrument(%)				
Loans	62	83	89	93
Equity	0	0	6	3
Quasi-Equity	37	4	5	4
Other	0	12	0	0
Total	100	100	100	100
MIGA guarantees (US$n	826.19	625.71	0.00	0.00

CAS Annex B4 - Summary of Nonlending Services - Brazil

As of 4/27/2004

Pillar	*Product*	*Completion FY*	*Audience* a	*Objective* b
Equitable	Social Assistance BRAVA I	FY04		
	Non-Communicable Disease	FY05		
	Youth at Risk	FY05		
	Education Positive Deviance	FY05		
	Social Exclusion / Social Protection (Program.)	FY04 / FY05		
	Hospital Finance Performance Phase I (Program.)	FY05		
Sustainable	Social Exclusion Study	FY04		
	Rede NÓS	FY04		
	Amazon Strategy	FY05		
	BR 163 Environmental Mitigation	FY05		
	São Francisco River TA	FY05		
	Irrig. Social Externalities in BR NE	FY05		
Competitive	Access to Financial Services	FY04		
	Insolvency	FY04		
	Brazil FSAP Follow up	FY04		
	Bankruptcy and Collateralized Credit	FY04		
	Investment Climate Assessment	FY05		
	Brazil Land Markets	FY05		
	São Paulo "Bairro Legal"	FY05		
	Brazil Housing & Urban Dev. Policy	FY05		
	Local Economic Development	FY05		
	Rio Grande do Sul Planning	FY05		
Foundations	Fiscal Policy for Invest. Grade	FY04		
	Judicial Performance & PS Impacts	FY04		
	Federal Pub. Expenditures I - Pernambuco	FY04		
	Conversion OPR into CPAR	FY04		
	State CFAA	FY04/FY05		
	State CPAR	FY04/FY05		
	Local Economic Development	FY05		
	Judicial Reform	FY05		
	Brazil Country Assessment 3	FY05		
	Social Security Reform Update	FY05		
	Brazil A&A ROSC	FY05		
	Debt Management	FY05		

a. Government, donor, Bank, public dissemination.
b. Knowledge generation, public debate, problem-solving.

Pillar	*Product*	*Planned FY*	*Audience* [a]	*Objective* [b]
Equitable	BRAVA Programmatic Phase I	FY06		
	BRASA Phase 3	FY06		
	BRAVA Programmatic II	FY07		
	Labor Markets and Jobs Program.	FY07		
	Human Capital, Educ. Innov. Program.	FY07		
	Quality of Education Spending	FY07		
Sustainable	Environmental Safeguards	FY06		
	ESMAP - Energy Work	FY06		
	Regulation for Infrastructure	FY06		
	São Paulo Strategy	FY06		
	Spatial Approach	FY06		
	Urban Strategy	FY06		
	Regional Development Study	FY07		
	Country Environmental Analysis (CEA)	FY07		
	Drivers of Growth: Local Productive Arrangements/ Clusters	FY07		
Competitive	Transportation Logistics, Corridors and Infrastructure Investments	FY07		
	Improving Expenditures	FY07		
	Energy Security	FY07		
	Deepening and Broadening Financial Markets	FY07		
	City Economic Growth and Competitiveness	FY07		
Foundations	Strength. Plann. Capacity in São Paulo	FY06		
	Country Financial Accountability Assessment (CFAA)	FY06		
	Crime and Violence	FY06		
	Prog. State Integration II (Health in Curitiba & SP)	FY06		
	Interest Rate	FY06		
	BRAPOV I Poverty Measurement Study	FY06		
	Health PETS	FY06		
	Social Security Ref. for Equity and Growth	FY06		
	Policy Notebook	FY06		
	Enforcing Fiduciary Responsibilities	FY07		

Brazil Social Indicators

	Latest single year			Same region/income group	
	1975-80	1985-90	1998-2004	Latin America & Carib.	Lower-middle-income
POPULATION					
Total population, mid-year (millions)	121.6	148.0	178.7	541.3	2,430.3
Growth rate (% annual average for period)	2.4	1.8	1.2	1.4	1.0
Urban population (% of population)	66.2	74.7	83.6	77.0	48.6
Total fertility rate (births per woman)	4.3	2.7	2.1	2.4	2.1
POVERTY					
(% of population)					
National headcount index	..	..	22.0	..	..
Urban headcount index	..	..	14.7	..	..
Rural headcount index	..	..	51.4	..	..
INCOME					
GNI per capita (US$)	2,190	2,800	3,090	3,600	1,580
Consumer price index (1995=100)	0	0	203	..	..
Food price index (1995=100)	..	0	168	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Gini index	..	..	59.3	..	..
Lowest quintile (% of income or consumption)	..	..	2.4	..	..
Highest quintile (% of income or consumption)	..	..	63.2	..	..
SOCIAL INDICATORS					
Public expenditure					
Health (% of GDP)	..	..	3.6	3.3	2.5
Education (% of GDP)	..	..	4.2	4.3	3.5
Net primary school enrollment rate					
(% of age group)					
Total	..	86	97	95	..
Male	..	88	98	96	..
Female	..	83	91	94	..
Access to an improved water source					
(% of population)					
Total	..	83	89	89	81
Urban	..	93	96	96	93
Rural	..	55	58	69	70
Immunization rate					
(% of children ages 12-23 months)					
Measles	56	78	99	93	86
DPT	37	66	96	89	88
Child malnutrition (% under 5 years)	18	7	..	..	11
Life expectancy at birth					
(years)					
Total	62	66	69	71	70
Male	59	62	65	68	68
Female	64	69	73	74	72
Mortality					
Infant (per 1,000 live births)	67	50	33	28	33
Under 5 (per 1,000 live births)	86	60	35	33	42
Adult (15-59)					
Male (per 1,000 population)	221	193	259	222	192
Female (per 1,000 population)	161	135	136	125	123
Maternal (modeled, per 100,000 live births)	..	..	260	77	111
Births attended by skilled health staff (%)	..	..	..	..	86

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age.

World Development Indicators database, World Bank - 08/29/05

Brazil - Key Economic Indicators

Indicator	Actual 2001	Actual 2002	Actual 2003	Actual 2004	Estimate 2005	Projected 2006	Projected 2007	Projected 2008
National accounts (as % of GDP)								
Gross domestic product[a]	100	100	100	100	100	100	100	100
Agriculture	8	9	10	10	10	9	9	8
Industry	38	38	40	40	38	37	36	35
Services	54	53	50	50	53	54	55	57
Total Consumption	80	78	77	74	73	75	76	78
Gross domestic fixed investment	19	18	18	20	19	20	20	18
Government investment	2	1	1	2	2	1	1	1
Private investment	18	17	16	18	17	18	18	17
Exports (GNFS)[b]	13	15	16	18	23	23	23	24
Imports (GNFS)	14	13	13	13	15	18	20	21
Gross domestic savings	20	22	23	26	27	25	24	22
Gross national savings[c]	17	18	20	23	22	21	20	19
Memorandum items								
Gross domestic product (US$ million at current prices)	508433	460787	505747	603973	626797	650589	670153	690305
GNI per capita (US$, Atlas method)	3110	2860	2760	3090	3250	3470	3550	3620
Real annual growth rates (%, calculated from 95 prices)								
Gross domestic product at market prices	1.3	1.9	0.5	4.9	2.8	3.5	3.5	3.5
Gross Domestic Income	0.9	1.2	0.5	4.9	2.5	3.3	3.2	3.3
Real annual per capita growth rates (%, calculated from 95 prices)								
Gross domestic product at market prices	0.0	0.7	-0.7	3.7	1.7	2.4	2.4	2.4
Total consumption	-0.6	-1.1	-0.8	0.3	1.5	3.9	2.4	4.0
Private consumption	-0.8	-1.6	-4.5	3.1	0.7	3.9	2.5	4.5
Balance of Payments (US$ millions)								
Exports (GNFS)[b]	67545	69913	83531	109059	143647	146887	154364	165814
Merchandise FOB	58223	60362	73084	96475	119000	128000	139000	150956
Imports (GNFS)[b]	72653	61749	63668	80069	96529	118380	131495	141579
Merchandise FOB	55572	47240	48290	62809	78000	97999	111000	120323
Resource balance	-5108	8164	19863	28990	47118	28507	22869	24235
Net current transfers	1638	2390	2867	3268	100	50	100	100
Current account balance	-23213	-7637	4178	11738	18492	6322	-670	-604
Net private foreign direct investment	24715	14108	9894	8695	14700	14700	13300	13300
Long-term loans (net)	-15742	-17321	-12369	-22400	-13983	-11720	-1774	-10196
Official	2744	814	-2272	-2788	-1045	-1501	143	-568
Private	-18487	-18135	-10097	-19612	-12938	-10219	-1917	-9629

Brazil - Key Economic Indicators
(Continued)

Annex B6

Indicator	Actual				Estimate	Projected		
Indicator	2001	2002	2003	2004	2005	2006	2007	2008
Other capital (net, incl. errors & ommissions)	11385	8893	-13176	-1672	-2000	-500	-500	6500
Change in reserves[d]	2855	1957	11473	3639	-17209	-8802	-10356	-9000
Memorandum items								
Resource balance (% of GDP)	-1.0	1.8	3.9	4.8	7.5	4.4	3.4	3.5
Real annual growth rates (YR95 prices)								
Merchandise exports (FOB)	13.1	8.2	13.3	21.1	37.1	18.2	18.0	12.0
Primary	29.0	15.5	16.2	21.8	61.6	10.7	36.0	1.3
Manufactures	6.9	4.9	11.8	20.8	23.9	23.5	6.7	20.5
Merchandise imports (CIF)	11.8	-1.9	3.5	10.4	14.6	38.1	23.1	11.8
Consumer price index (% change)	6.8	8.5	14.7	6.6	4.9	6.9	5.8	5.1
GDP deflator (% change)	7.4	10.2	15.0	8.2	6.0	5.3	4.5	4.5

a. GDP at factor cost
b. "GNFS" denotes "goods and nonfactor services."
c. Includes net unrequited transfers excluding official capital grants.
d. Includes use of IMF resources.

	2001	2002	2003	2004	2005	2006	2007	2008
SELIC (average annual)	17.47	19.11	23.37	16.24	13.00	11.00	9.00	7.00
EMBI Global (end of year)	967	1490	490	372	300	320[e]	300[e]	..

e. Figures from FEBRABAN - Federacao Brasileiras de Bancos

Brazil - Key Exposure Indicators

Indicator	Actual				Estimate		Projected	
	2001	2002	2003	2004	2005	2006	2007	2008
Total debt outstanding and disbursed (TDO) (US$m)[a]	226790	228638	235431	212646	196100	185254	174214	165805
Net disbursements (US$m)[a]	5155	-2252	-15735	-25400	-16814	-10846	-11039	-8408
Total debt service (TDS) (US$m)[a]	54322	51664	57129	54092	50036	39620	40445	31674
Debt and debt service indicators (%)								
TDO/XGS[b]	319.4	311.7	270.6	189.1	163.2	161.2	145.1	135.9
TDO/GDP	44.6	49.6	46.6	35.2	29.8	27.1	24.7	22.9
TDS/XGS	76.5	70.4	65.7	48.1	41.6	34.5	33.7	26.0
Concessional/TDO	1.2	1.4	1.4	1.7	..	..	..	..
IBRD exposure indicators (%)								
IBRD DS/public DS	6.7	5.7	6.0	7.0	6.0	5.4	6.4	9.1
Preferred creditor DS/public DS (%)[c]	13.0	31.7	53.4	38.0	49.5	46.6	46.9	16.7
IBRD DS/XGS	1.9	2.1	2.3	1.6	1.3	1.2	1.4	1.4
IBRD TDO (US$m)[d]	7963	8585	8588	8668	9777	10813	11748	12203
Of which present value of guarantees (US$m)								
Share of IBRD portfolio (%)	6.5%	7.0%	7.4%	7.8%	9.4%	10.3%	10.9%	10.9%
IDA TDO (US$m)[d]	0	0	0	0	0	0	0	0
IFC (US$m)								
Loans	2001	2002	2003	2004	2005	2006	2007	2008
Equity and quasi-equity /c								
	863	808	1079	871	775	832f		
	264	279	250	198	138	192f		

b. "XGS" denotes exports of goods and services, including workers' remittances.

c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.

d. Includes present value of guarantees.

e. Includes equity and quasi-equity types of both loan and equity instruments.

f. As of Oct. 31, 2005

CAS Annex B8 - Brazil

Operations Portfolio (IBRD/IDA and Grants)

As Of Date 04/27/2006

Closed Projects **264**

IBRD/IDA *

Total Disbursed (Active)	1,497.12
of which has been repaid	127.78
Total Disbursed (Closed)	28,150.52
of which has been repaid	24,539.06
Total Disbursed (Active + Closed)	29,647.64
of which has been repaid	24,666.84
Total Undisbursed (Active)	3,168.26
Total Undisbursed (Closed)	4.29
Total Undisbursed (Active + Closed)	3,172.56

Active Projects

		Last PSR Supervision Rating			Original Amount in US$ Millions					Difference Between Expected and Actual Disbursements [a]	
Project ID	**Project Name**	**Development Objectives**	**Implementation Progress**	**Fiscal Year**	**IBRD**	**IDA**	**GRANT**	**Cancel.**	**Undisb.**	**Orig.**	**Frm Rev'd**
P087713	BR (CRL1) Bolsa Familia 1s	S	S	2004	572.2			2.861	327.1037	82.264669	
P093787	BR (CRL2) Bahia State Inte	#	#	2006	54.35				42.62328		
P054119	BR BAHIA DEVT (HEALTH	MS	MS	2003	30				21.91274	15.246071	
P006449	BR CEARA WTR MGT PRC	S	S	2000	136				45.07492	45.074922	30.51376
P083013	BR Disease Surveillance &	S	S	2004	99.5				86.02553	32.62553	
P090041	BR ENVIRONMENTAL SUS	#	#	2006	7.94				7.94		
P087711	BR Espirito Santo Wtr & Co	S	S	2005	36				33.13577	17.902438	
P038895	BR FED.WTR MGT	S	S	1998	198			40	15.3836	55.383598	-3.406153
P060221	BR FORTALEZA METROP(	S	MS	2002	85				116.2143	84.01681	
P073294	BR Fiscal & Fin. Mgmt. TAL	S	S	2001	8.88				6.74365	6.3036504	
P075379	BR GEF-RJ Sust IEM in Prc	#	#	2005			6.75		6.75		
P088009	BR GEF-Sao Paulo Riparia	S	S	2005			7.75		6.432535	-0.984132	
P055954	BR GOIAS STATE HIGHW	S	S	2002	65				15.84684	15.846842	9.591509
P006474	BR LAND MGT 3 (SAO PAU	MS	MS	1998	55			10	22.99048	32.990481	1.535789
P050772	BR LAND-BASED POVRTY	S	S	2001	202.1			58.1284625	117.3797	120.04726	
P088543	BR MG Partnership for Dev	#	#	2006	170				170		
P080830	BR Maranhao Integrated: F	U	U	2004	30				29.85	13.15	
P035741	BR NATL ENV 2	S	S	2000	15			6	1.928722	7.9287218	5.610222
P050776	BR NE Microfinance Develo	S	S	2000	50			10.233876	6.814157	17.048033	
P042565	BR PARAIBA R.POVERTY	S	S	1998	60				0.562522	0.5625223	-0.180394
P050881	BR PIAUI RURAL POVERT	S	S	2001	22.5				1.342121	1.3421208	0.574691
P086525	BR PRGM. FISCAL REF - S	S	S	2005	658.3				658.3	658.3	
P039199	BR PROSANEAR 2	S	S	2000	30.3			6.4	16.65151	23.051513	16.65151
P050880	BR Pernambuco Rural Pove	S	S	2001	30.1				1.129577	1.1295774	-0.134808
P043421	BR RJ M.TRANSIT PRJ.	S	S	1998	186			27.7788	46.44677	74.225565	46.44677
P048869	BR SALVADOR URBAN TF	S	MS	1999	150			32	46.38135	78.381349	
P043869	BR SANTA CATARINA NA	MS	MS	2002	62.8				38.62935	14.977949	
P051696	BR SÃO PAULO METRO L	S	S	2002	209				134.7446	132.2113	39.11472
P073192	BR TA Financial Sector	MS	S	2002	14.46			4.56819016	4.666664	9.2348543	
P083533	BR TA-Sustain. & Equit Gro	S	MS	2005	12.12				11.90763	2.7334647	
P060573	BR Tocantins Sustainable F	MS	MS	2004	60				57.4	30.066667	
P043420	BR WATER S.MOD.2	S	S	1998	150			125	19.32987	144.29987	14.02572
P078716	BR(CRL1)Prog Growth for I	#	#	2005	502.52				502.52		
P076924	BR- Amapa Sustainable Co	S	S	2005	4.8				4.8	1.3733333	
P059566	BR- CEARA BASIC EDUCA	MS	MS	2001	90				46.10276	46.102757	13.09151
P057653	BR- FUNDESCOLA IIIA	S	S	2002	160				74.32439	4.9720436	

a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.

P070827	BR-2nd APL BAHIA DEV. E	S	S	2003	60			10.90432	9.2909869	
P080400	BR-AIDS & STD Control 3	S	S	2003	100			55.95294	31.419605	
P081436	BR-Bahia Poor Urban Areas	#	#	2006	49.296			49.296		
P089440	BR-Brasilia Environmentally	#	#	2006	57.643			57.643		
P082142	BR-Ceara Multi-sector Soci	S	S	2006	149.75			85.37563	10.333333	
P076977	BR-Energy Sector TA Proje	S	#	2003	12.12			11.9988	8.9988	
P057665	BR-FAMILY HEALTH EXTE	MS	S	2002	68			22.0657	22.065702	
P050761	BR-Housing Sector TAL	#	#	2006	4			4		
P082328	BR-Integ.Munic.Proj.-Betim	S	S	2005	24.075			22.44695	4.3052824	
P052256	BR-MG Rural Poverty Redu	#	#	2006	35			34.9125		
P074777	BR-Municipal Pension Refo	MU	MU	2003	5			4.667101	4.6671009	2.417101
P069934	BR-PERNAMBUCO INTEG	S	S	2005	31.5			30.16814	10.168139	
P049265	BR-RECIFE URBAN UPGR	MS	MU	2003	46			43.6242	21.61087	
P066170	BR-RGN 2ND Rural Poverty	S	S	2002	22.5			3.002972	3.0029723	
P058503	GEF BR Amazon Region Pr	S	S	2003		30		19.81021	18.143543	
P070552	GEF BR PARANA BIODIVE	MS	MU	2002		8		4.597551	4.1658842	
Overall Result					4882.754	52.5	322.9703287	3205.855	1904.1678	175.852

a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.