

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

# **BRAZIL AND IDB GROUP STRATEGIC AGREEMENT COUNTRY STRATEGY**

2024 – 2027

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3. [Fiduciary Technical note](#)
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5. [Government Plan](#)

# ABBREVIATIONS

<b>ATRICON</b>	Association of Members of Tribunals of Accounts
<b>BCB</b>	Brazilian Central Bank
<b>BNDES</b>	National Economic and Social Development Bank
<b>CAPAG</b>	Subnational Capacity of Payments Index
<b>CBR</b>	Brazil Country Office
<b>CCLIP</b>	Conditional Credit Line for Investment Projects
<b>CDC</b>	Country Development Challenges
<b>CDRF</b>	Climate and Disaster Risk Finance
<b>COFIEX</b>	External Financing Committee
<b>EBP</b>	Brazil Country Strategy
<b>ESG</b>	Environmental, Social, and Governance
<b>FGV</b>	Getulio Vargas Foundation
<b>GDP</b>	Gross Domestic Product
<b>GHG</b>	Greenhouse Gas
<b>HDI</b>	Human Development Index
<b>IMF</b>	Internacional Monetary Fund
<b>IBGE</b>	Brazilian Institute of Geography and Statistics
<b>IPEA</b>	Institute for Applied Economic Research
<b>HDI</b>	Human Development Index
<b>ICPR</b>	Independent Country Program Review
<b>INEP</b>	National Institute of Educational Studies and Research
<b>INPE</b>	National Institute for Space Research
<b>LAC</b>	Latin American and Caribbean
<b>MDB</b>	Multilateral Development Bank
<b>M&amp;E</b>	Monitoring and Evaluation
<b>MIDR</b>	Ministry of Integration and Regional Development
<b>MSME</b>	Micro, Small, and Medium Enterprise
<b>NDC</b>	Nationally Determined Contribution
<b>OECD</b>	Organization for Economic Cooperation and Development
<b>PBL</b>	Policy-Based Loan
<b>PPA</b>	Multi-Year Plan
<b>PNAD</b>	Nacional Household Sample Survey

<b>PPP</b>	Public-Private Partnership
<b>TFP</b>	Total Factor Productivity
<b>MSME</b>	Medium, Small, and Micro Enterprises
<b>SEAID</b>	Secretariat for International Affairs and Development
<b>SME</b>	Small and Medium Enterprise
<b>SNIS</b>	National Sanitation Information System
<b>WEF</b>	World Economic Forum
<b>WRI</b>	World Resources Institute

# INTRODUCTION

## A NEW APPROACH FOR IMPACT

### Brazil's Potential

Brazil stands as the largest economy in Latin America and the Caribbean, underpinned by a robust and diversified production base, along with a sizable middle class. As the region's leading financial market, it also boasts one of the most dynamic innovation ecosystems. The green transition offers Brazil a unique opportunity to implement impactful measures aimed at fostering economic growth and reducing poverty and inequalities. The country's vast natural resources present significant potential for both economic and social development. On the global stage, Brazil plays a crucial role, particularly in ensuring food security and supplying key commodities. Moreover, it is home to the world's largest biodiversity. The accelerating global shift towards a greener economy is closely aligned with Brazil's economic strengths, natural resources, and climate commitments.<sup>1</sup> The nation is well positioned to harness its natural, financial, physical, and human capital to drive development, while addressing poverty and inequality. By realizing this potential, Brazil could emerge as a global leader in the green economy, promoting sustainable growth and prosperity for all its citizens and establishing a global standard for inclusive and sustainable development.

### Country Strategy New Approach

The EBP 2024–2027 aims to enhance the impact of the IDB Group in Brazil by adopting a more selective approach. The approach intends to leverage its resources, expertise, and strategic partnerships to address Brazil's multifaceted challenges and capitalize on the country's unique opportunities. The IDB Group will focus on actions with the highest potential to generate a transformative impact. By concentrating its efforts on underdeveloped regions such as the North, Northeast, and Midwest and on strategic sectors aligned with federal government objectives. The strategic selectivity framework follows a structured process. Initially, the objectives of the new institutional strategy are aligned with priorities identified in the Country Development Challenges, as well as the government's goals outlined in the Multi-Year Plan, Growth Acceleration Plan and the Ecological Transformation Plan. The strategic objectives are also aligned with key flagship programs, such as Amazonia Forever, IDB Clima and Routes for integration, to enhance scalability and optimize international resource mobilization. In sequence, the selectivity process involved an assessment of the IDB's positioning in Brazil relative to other Multilateral Development Banks (MDBs) along with a review of the IDB Group's operational experiences and lessons learned. Finally, the selectivity process analyzed the risks associated with implementing the country strategy, using the new IDB Risk Taxonomy (GN-2547-15), and identified detailed mitigation measures. The result is a set of prioritized actions with the greatest potential for transformative impact, ensuring maximum efficiency, effectiveness and impact of its interventions and foster a greener, more resilient, and inclusive economy.

### Identified Pillars of Intervention and Expected Impact

Accordingly, the EBP 2024-2027 is designed around three pillars: **(i) Enabling the Green Transition and Strengthening Climate Resilience.** The actions under this pillar are designed to integrate environmental considerations into Brazil's development model. This can contribute to reducing poverty and inequality, stimulating sustainable economic growth, and strengthening the country's resilience to adverse shocks, such as those caused by climate change. The strategic objectives of the pillar are: Conserving the environment and recovering degraded

<sup>1</sup> Brazil's NDC aims to reduce emissions by 48.4% and 53.1% from 2005 levels by 2025 and 2030, respectively, and achieve climate neutrality by 2050.

areas; Promoting the sustainable use of natural resources; and Building inclusive and resilient cities.

**(ii) Accelerating Growth Through Strong Institutions and Enhanced Productivity.** The actions under this pillar aim to stimulate short-term growth by addressing structural bottlenecks. A more globally integrated economy, supported by improved infrastructure and a stronger private sector will enhance productivity and contribute to reducing poverty and inequalities. Strengthening the fiscal framework is also essential for providing better social protection while maintaining macroeconomic and socio-economic stability—an indispensable condition for a sustained robust growth. The pillar strategic objectives include: improving the quality of spending and the sustainability of public debt; Empowering sustainable investments and Fostering Regional Integration; Driving infrastructure growth by leveraging private investment.

**(iii) Advancing a New Social Agenda for a Prosperous and Inclusive Country.** If not addressed, poverty and inequality have adverse consequences on the country's long-term growth and social cohesion. The historical persistence of poverty and social inequalities indicates that growth alone cannot reduce them permanently. In addition, poverty and inequalities make productivity bottlenecks more difficult to tackle. Therefore, reformulating the social agenda must be a core aspect of the country's development model, with a view to achieving better and long-lasting social outcomes. The strategic objectives of the pillar are: Improving the quality of spending on education and health; strengthening citizen and integrated public security; and Support policies for the protection and care of women and diverse populations.

The implementation of the EBP 2024-2027 will be measured through a series of indicators in line with the IDB Group's Impact Framework 2024-2030.

The strategy provides cross-cutting support for challenges related to: **(a) Gender Equality and the Inclusion of Diverse Population Groups; (b) Climate Action; and (c) Institutional Capacity, Rule of Law, and Citizen Security.** The IDB Group has been mainstreaming environmental, climate, gender and diversity, and institutional capacity issues in its operations in Brazil. The IDB Group will enhance the role of crosscutting themes during the EBP 2024 – 2027. The IDB Group will integrate into its operations specific measures aimed at enhancing gender equity and diversity.<sup>2</sup> These measures will involve assessing disparities, supporting the design of gender and diversity policies, strengthening implementation capacity, facilitating training, and creating opportunities for productive inclusion. During the EBP 2024 – 2027, the IDB Group will also continue its trend of increasing climate financing.<sup>3</sup> Finally, the IDB Group portfolio includes components related to strengthening institutional capacity in all operations, especially among subnational governments in Brazil.

**The EBP 2024–2027 will effectively leverage the relative strengths of the various IDB Group windows, along with their resources and expertise.** Given the dynamism of Brazil's private sector, fostering public-private synergies is essential to maximizing impact. The IDB Group will coordinate a range of public and private solutions, with potential synergies derived from knowledge sharing, upstream efforts to promote private-sector development, operations that scale

<sup>2</sup> During the EBP 2019 – 2022 period, more than 39 gender-aligned loans (64%) and 25 diversity-aligned loans (41%) were approved in the education, urban development, transport, health, tourism, fiscal, connectivity, sanitation, and innovation sectors. The share of operations aligned with gender and diversity rose from 33% and 13% in 2019 to 92% and 75% in 2023, respectively, and four operations were classified as direct investments in gender and diversity.

<sup>3</sup> Climate financing increased from 29% in 2019 to 40% in 2023.



solutions and encourage innovation, and the integration of instruments from different windows. By promoting a more comprehensive dialogue on public-private opportunities and IDB Group synergies, the country strategy will strengthen alignment among IDB Group members and partners. This approach will help identify opportunities for market creation and enhancement in priority development areas, as well as upstream initiatives that have the potential to unlock greater private investment and development impact. Furthermore, strategic partnerships will be emphasized to amplify these efforts.

### **Partnership Brazil-IDB Group**

The relationship between Brazil and the IDB Group has been a cornerstone in promoting sustainable economic and social development in the country. This collaboration has evolved over time, focusing on addressing Brazil's most pressing development challenges while leveraging its unique strengths. The IDB Group has provided Brazil with essential financial support, technical expertise, and strategic guidance across a range of sectors, significantly contributing to the nation's growth. During the EBP 2019–2022, the IDB Group proved to be a vital partner for Brazil, particularly in navigating the challenges brought about by the pandemic.<sup>4</sup> Looking ahead to the EBP 2024–2027, with climate change and environmental sustainability becoming increasingly central to Brazil's development agenda, the IDB Group is well-positioned to play a pivotal role in advancing the country's green transition. The EBP 2024–2027 is closely aligned with Brazil's national development objectives and programs. The shared commitment to fostering a greener, more resilient, and inclusive economy reflects both Brazil's and the IDB Group's dedication to addressing long-standing social challenges while positioning the country for sustainable, long-term growth. Through continued collaboration, the IDB Group will remain a key partner in Brazil's path towards achieving its development goals, leveraging its financial resources, technical expertise, and international partnerships to support Brazil in overcoming challenges and seizing opportunities. This enduring partnership is not only crucial for Brazil's future but also for the broader development of Latin America and the Caribbean.

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<sup>4</sup> For more details, see the electronic link IDB Group in Brazil.



# I. BUILDING A NEW COUNTRY

## STRATEGY: PURPOSE AND APPROACH

### A. THE COUNTRY CONDITIONS ARE IN PLACE FOR A DECISIVE LEAP FORWARD

#### **BRAZIL'S EXTRAORDINARY POTENTIAL<sup>5</sup>**

- 1.1 Brazil is the largest economy in Latin America and the Caribbean (LAC).** In 2023, Brazil's Gross Domestic Product (GDP) reached US\$2.28 trillion in nominal terms, and with a population of approximately 204 million, the country's per capita GDP was US\$10,049.40 in current dollars.<sup>6</sup> Brazil is richly endowed with a wide range of natural resources, which provide a solid and diversified production base. The country boasts a large domestic consumer base and a sizeable middle class. Its financial market is the largest in Latin America and features one of the region's most dynamic innovation ecosystems. Despite the country's numerous challenges, these advantages offer significant growth potential.
- 1.2 GDP growth has been volatile in recent decades.** The Brazilian economy grew rapidly from the late 1960s through the 1970s, a period often referred to as the "economic miracle." However, Brazil's economy was unable to sustain this robust expansion. In the 1980s, an external debt crisis severely hampered growth, leading to what is known as the "lost decade." While growth accelerated modestly during the 1990s and early 2000s, the 2010s witnessed the weakest expansion in over a century, with average annual growth rates even lower than during the "lost decade." Since 2020, the pandemic has inflicted extreme welfare losses across the world and in Brazil, where the crisis added to a long history of sharp fluctuations in economic activity.
- 1.3 Aggregate productivity has faced challenges over the last several decades.** Total Factor Productivity (TFP) growth has long been inconsistent. After experiencing a sharp decline in the 1980s, TFP growth turned positive in the 1990s, but it remained very low at an average rate of just 0.1% per year. TFP growth accelerated in the 2000s, rising to an average of 1.5% per year over the decade, then turned negative again in the 2010s. By 2023, Brazil's TFP was just 10% higher than it had been at the beginning of the 1980s (FGV-IBRE, 2023). Historically, productivity gains have not been Brazil's main engine of economic growth, and declining productivity was an especially severe drag on economic growth during the 1980s and 2010s. Instead, a rising capital stock has driven growth in all decades since 1948, with the sole exception of the 2000s (CDC, 2022). Brazil's ability to overcome its longstanding productivity challenges and leverage its other strengths will be critical to its future growth. A steady focus on strategic policy reforms could rapidly improve productivity and support sustainable economic development.
- 1.4 Despite the recent economic recovery, there is evidence that Brazil's growth model is approaching its limit.** Brazil's growth for 2024 is projected to be about 3%, driven by strong consumption and agricultural output and favorable external conditions, against the backdrop of the historical floods in Rio Grande do Sul. The country's demographic dividend—a period when the working-age population surged relative to the total population—ended in 2018. According to Velloso et al. (2020), the share of the working-age population is now in decline, and this trend is expected to

<sup>5</sup> More details about the economic context can be found in the CDC, 2022.

<sup>6</sup> Source: Central Bank of Brazil.

continue, gradually increasing the demographic burden over the long term. Meanwhile, investment is low relative to GDP,<sup>7</sup> which could pose further growth challenges. To sustain an annual GDP growth rate of 5.1%, investment would need to average about 22% of GDP each year.<sup>8</sup>

**1.5 Brazil's fiscal imbalances continue to be a challenge. Brazil's debt-to-GDP ratio is among the highest in LAC.**<sup>9</sup> In addition to its size, the debt burden's composition and average maturity pose challenges for debt management. Mandatory expenditures and earmarked revenues create significant downward rigidity in the public budget, leaving limited room for fiscal adjustment. Structural reforms are essential to address this issue and prevent a low-quality fiscal adjustment that could penalize investment and harm the welfare of vulnerable groups. Despite these challenges, comprehensive structural reforms that improve debt management while creating a more flexible and resilient fiscal framework offer a clear pathway to fiscal stability. By implementing sound fiscal policies and strategic adjustments, Brazil can strengthen macroeconomic stability and foster sustainable growth. Addressing fiscal imbalances will enable the government to invest more effectively, ensuring the welfare of its citizens and paving the way for long-term economic prosperity. It is important to highlight that Brazil has made some substantial reforms in this regard, including the independence of the Central Bank and a profound and highly anticipated tax reform, which was cited in the recent upgrade of Brazil's sovereign rating to one notch below investment grade by Moody's.

**1.6 Despite recent improvement, poverty and inequality continue to be deeply entrenched in Brazil.** According to the Brazilian Institute of Geography and Statistics (Instituto Brasileiro de Geografia e Estatística, IBGE), 67.8 million Brazilians, or 31.6% of the population, lived below the poverty line in 2022.<sup>10</sup> Moreover, Brazil has long exhibited some of the world's highest social and economic inequality levels.<sup>11</sup> The proportion of people living in extreme poverty dropped by 40% in 2023 due to strengthening of social policies (especially Bolsa Familia), increase in workers income (up 8.3%) and low unemployment (down 20% year over year). Inequalities in Brazil are structural and persistent (IBGE, 2020).<sup>12</sup> Racial, gender, and geographic disparities play a major role in poverty and inequality in the country. The IBGE defines 42.7% of the population as branco (white) and 56.3% as preto (black) or pardo (brown), yet in 2019, pretos and pardos accounted for 77% of all households in the bottom income decile, while brancos accounted for 70.6% of households in the top decile. In addition, gender and racial disparities in educational outcomes, employment opportunities, and access to public services, including violence prevention and other forms of social protection, remain stark.<sup>13</sup> Emphasizing inclusive growth and equal access to resources will improve the quality of life for all citizens and contribute to a more just and prosperous society. A commitment to understanding and mitigating these disparities is crucial to achieving sustainable development and fostering a more inclusive future for Brazil. Implementing targeted policies and initiatives that focus on reducing inequality and enhancing opportunities for marginalized groups will enable Brazil to fully leverage its human capital to support broad-based growth.

**1.7 Climate change and technological progress will profoundly influence Brazil's socioeconomic landscape in the coming years.** Investing in climate resilience and technological adaptation can help countries accelerate economic growth, enhance competitiveness, improve resource management, and

<sup>7</sup> The ratio of investment to GDP was 16.9% in the first quarter of 2024 (source: IBGE).

<sup>8</sup> Bonelli and Bacha (2011) suggests that each percentage-point increase in the investment rate could enhance the GDP growth rate by an estimated 0.4%.

<sup>9</sup> According to the IMF's definition of public debt.

<sup>10</sup> <https://biblioteca.ibge.gov.br/visualizacao/livros/liv102052.pdf>

<sup>11</sup> World Inequality Index.

<sup>12</sup> In recent decades, periods of robust growth have yielded improvements in poverty and inequality, but these gains have been limited, uneven, and in some cases temporary. In 2020, the World Inequality Database found that households in the top 10% of the income distribution received 58.6% of all pretax income, while those in the bottom 50% received just 10%.

<sup>13</sup> The intersection of data on gender and race reveals that afro-descendant women stand out among the poor: they make up 28.7% of the population, but 39.8% of the extremely poor and 38.1% of the poor. Households led by afro-descendant women, without a spouse and with children under the age of 14 have the highest incidence of poverty: 24% have a per capita household income less than US\$1.90 per day, and 62.4% less than US\$5.50 per day. The data also show significant gaps in labor-market outcomes: the labor force participation rate for women was 53% in 2022, while for men it was 72%. The unemployment rate was 9.8% among women and 6.5% among men. In 2022, men earned 23.4% more than women. Disparities are also persistent among people with disabilities: the labor force-participation rate among people without disabilities was 66.4% in 2022, while for people with disabilities it was just 29.2%. Access to education is also lower among afro-descendants. In 2022, among young people aged 14 to 29 who were out of school, 70% were Afro-descendants and 28% were brancos. Furthermore, violence is more prevalent among the Afro-descendant and LGBTQ+ populations (data from the Public Security Forum).

provide essential services to the poorest and most vulnerable groups. Brazil's natural resources offer especially significant economic and social development opportunities. However, extreme weather events caused or exacerbated by climate change will be among the most significant threats to Brazil over the next decade, along with extreme heat, biodiversity loss, ecosystem collapse, and shortages of natural resources.<sup>14</sup> The floods in Rio Grande do Sul between April and June 2024, considered the country's worst in over 80 years, affected more than 2.4 million people and marked the fourth environmental disaster in Brazil within a 12 month period. Meanwhile, technological advances and the transition to a green economy could lead to short-term job losses and permanent disruptions to certain occupations, potentially exacerbating inequality.<sup>15</sup>

- 1.8 Brazil is well-positioned to leverage the global trend toward sustainability.** Brazil contributes significantly to global food security as a major producer and exporter of various commodities. Its natural assets provide critical development opportunities, particularly in less-developed regions. As the world's most biodiverse country,<sup>16</sup> Brazil plays a crucial role in maintaining the global ecosystem, of which the Amazon is a cornerstone. Brazil's natural resources also provide essential services to communities and the economy.<sup>17</sup> By leveraging these advantages, Brazil can accelerate economic growth, reduce poverty, mitigate inequality, and maximize the societal benefits generated by environmental assets.

## B. THE KEY INSIGHTS FROM THE 2019 – 2022 COUNTRY STRATEGY

- 1.9 The EBP 2024 – 2027 was developed within a framework of strategic selectivity.** This approach sharpens the strategy's focus by establishing a limited range of clear and measurable objectives under a robust vertical logic. Furthermore, the EBP 2024 – 2027 enhances the processes for identifying and mitigating risks.<sup>18</sup> During the EBP 2024 – 2027 period, the IDB Group will develop a country program strongly aligned with the EBP's objectives, maximizing potential synergies. To enhance its impact, the IDB Group will capitalize on its unique strengths, including its strong alignment with government priorities and programs, its application of evidence-based practices from past interventions to improve new operations, and its expertise in managing technically complex projects while mitigating environmental, social, and financial risks. The IDB Group will expand its knowledge agenda, which, along with technical cooperation, is recognized as a distinguishing feature of the IDB Group in Brazil compared to other MDBs. Finally, the EBP will further exploit the synergies that exist within the IDB Group, with other development partners, and with the private sector, which involves the development of joint strategies to coordinate the action in specific sectors.

- 1.10 Several lessons were learned during the implementation of the EBP 2019 – 2022.** At the strategic level, the IDB Group strengthened its relationship with the federal government and maintained a privileged status with subnational governments, which allowed for a significant impact on policy design and implementation. Conditional credit lines for investment projects (CCLIPs) facilitated this impact by maintaining a direct connection between the federal government's policies and their implementation at the subnational level. The EBP 2024 – 2027 incorporates lessons from the Office of Evaluation and Oversight<sup>19</sup> evaluations to enhance future operations and increase their relevance. The IDB Group will expand selectivity by implementing a programmatic approach, allowing a more robust ex-ante view of

<sup>14</sup> The Global Risks Report (World Economic Forum, 2024).

<sup>15</sup> The effects are likely to be heterogeneous across groups. For example, more than 80 percent of the new jobs created by the decarbonization agenda will be in today's male-dominated sectors (IDB, 2024).

<sup>16</sup> Brazil is home to more than 15-20% of all species on the planet, with the greatest number of endemic species. Species of flora and fauna are spread across the six terrestrial biomes (Amazon, Caatinga, Cerrado, Atlantic Forest, Pantanal, and Pampa) and the various marine ecosystems (such as coral reefs, dunes, mangroves, lagoons, estuaries, and swamps). Brazil has the world's largest continuous stretch of mangroves (1.3 million hectares) and the only reef environments of the South Atlantic, distributed along 3,000 km of the northeastern coast (Convention on Biological Diversity, 2024).

<sup>17</sup> Among other benefits, ecosystem services provide food, water, and clean air; regulate climate, air, soil, and water quality; prevent disease; control floods and erosion; cycle nutrients; enable pollination; preserve biogenetic wealth; and provide cultural services, enhanced quality of life, recreation, tourism, and spiritual benefits.

<sup>18</sup> The following sections clarify the selectivity process, determination of objectives, and risk management.

<sup>19</sup> ICPR, 2023. Five factors reduced the relevance of the country strategy: lack of strategic selectivity, objectives that were too general, weakness in the country strategy (CS)'s vertical logic, gaps in its monitoring mechanisms, and weaknesses in the identification and mitigation of some risks.

sectoral needs and the type of interventions required. The programmatic approach will extend beyond the use of CCLIPs, as they are limited to IDB loans, and will encompass IDB Invest and IDB Lab operations. In addition, to enabling a medium to long-term vision, a programmatic approach will allow to reinforce the selectivity and vertical logic of interventions, strengthening consistency between expected results and the resources allocated to each program. Given the existing portfolio and the ongoing preparation of projects, a gradual transition to the programmatic approach will be necessary, with full integration expected by the end of the EBP 2024–2027.<sup>20</sup>

**1.11 At the operational level, the effects of the COVID-19 pandemic posed significant challenges to the execution of the IDB Group's portfolio during the EBP 2019 – 2023 period.** Nevertheless, the IDB Group's sovereign-guaranteed operations maintained satisfactory performance, with a success rate of over 90% according to the project monitoring report (PMR)<sup>21</sup> methodology. This performance was made possible by the reinforcement of key operational measures, such as:

- a. Comprehensive portfolio reviews<sup>22</sup> for sovereign-guaranteed loan operations. The reviews were conducted in collaboration with the federal government, which acts as a guarantor, the National Treasury Secretariat, and the Secretariat of International Affairs and Development (Secretaria de Assuntos Internacionais e Desenvolvimento, SEAID). Notably, the IDB's Internal Audit Office (AUG) and counterparts, including the federal government and borrowers, have acknowledged this approach as a best practice.
- b. Continuity in the implementation of minimum criteria for authorizing extensions to the last disbursement deadline, contingent on a satisfactory PMR, with a maximum extension time of up to 150% of the original deadline, and/or a commitment to cancel resource allocations that are not executed within the authorized period.<sup>23</sup>
- c. A reduction in the number of operations contracting management-support firms (gerenciadoras), limiting them to cases where they are strictly necessary. According to the latest AUG report, the Brazil Country Office (CBR) reduced the number of operations with such contracts by 40%, from 20 projects in 2019 to 12 in 2023.
- d. Improvements in the capacity of executing units to manage projects, provide knowledge-sharing spaces, and exchange best practices for planning and monitoring, fiduciary management (procurement and financial), environmental and social solutions, and risk management<sup>24</sup>.
- e. Strengthening planning and management capabilities of the Operations Analyst<sup>25</sup> team through training and certification, which posed a challenge given the new modality of hiring consultants (CNS) for only three years without the possibility of renewal.

**1.12 At the programming level, actions were implemented to strengthen dialogue with the federal government and improve the prioritization of demands, including:**

- a. Establishing new instances where SEAID participated in the preparation of operations, mainly in analysis missions, promoted greater knowledge of the intervention. This participation and close and

<sup>20</sup> The need for possible adjustments in strategic objectives and the allocation of resources between programs must also be recognized regarding possible changes in government priorities. However, the development of consistent programs, based on the government's priorities, has the potential to reduce instability. The importance of guiding program development through a portfolio review process is emphasized, to identify baselines in terms of projects and resources already contributed by the Group. It is also necessary to set goals and coordinate efforts among the IDB, IDB Invest, and IDB Lab regarding the expected allocation of financing. Additionally, the use of coordinated technical cooperation to guide proposals for programs identified in the country strategy is highlighted.

<sup>21</sup> PMR summary: 85% (March 2019), 94% (March 2020), 95% (March 2021), 92% (March 2022), 93% (March 2023)

<sup>22</sup> Given the continental dimensions of Brazil, decentralized portfolio reviews are conducted in Brasília, São Paulo, and other state capitals. During the pandemic, portfolio reviews continued to be conducted virtually. The main execution challenges and joint solution options are addressed, based on risk management and results.

<sup>23</sup> For 2019–2023, despite pandemic restrictions, only 3 out of 65 projects that had an extension to the last disbursement deadline partially met the criteria (BR-L1343, BR-L1369, BR-L1421).

<sup>24</sup> Main initiatives: (i) launching of the Executors Network (Rede de Executores); (ii) consolidation of the Brazil Operations Day (Dia das Operações); (iii) promoting the adoption of fiduciary interfaces that facilitate transactionality in operations, such as Online Disbursements (OD) and Online Bidding Processes (OBP); (iv) updated offering of training mainly in policies and procedures (PM4R, procurement, etc.).

<sup>25</sup> CBR has 19 operations analysts, of which only 8 are staff. Up to 2023, the training effort of the operational team accumulated a total of 546 hours.



coordinated dialogue with the Operations Chief reduced the comments received and negotiation times.

- b. Maintaining agreements with SEAID and signing of an annual memorandum of understanding reflecting the agreed schedule to demonstrate commitment and keep a consistent focus on preparation efforts.
- c. Reinforcing the programmatic approach through approving projects associated with the five approved CCLIP<sup>26</sup> lines for Brazil during the Country Strategy period. Thirteen projects linked to these CCLIPs were prioritized and approved, with a total value of US\$1.024 billion.

**1.13 IDB Group operations have yielded several lessons at the strategic and operational levels.** At the strategic level, key lessons include the importance of mobilizing third-party investors, which enhances the effectiveness of IDB Invest's projects by providing additional financial resources and technical expertise, thereby overcoming the limitations of IDB Invest's balance sheet. Additionally, increasing IDB Invest's activity in the Amazon faces multiple challenges that require the adaptation of financial products, the enhancement of ESG tools and processes, the scaling of upstream activities, the revision of project-structuring approaches, and the possible creation of a delivery unit to drive origination efforts.<sup>27</sup> Specific lessons include:

- a. The design of operations targeting vulnerable segments, such as productive SME portfolios, should include portfolio-level risk mitigation strategies and realistic target values. When designing projects, it is important to consider the institutional limitations of midsize banks, such as their lack of economies of scale and limited risk-absorption capacity. Promoting SME lending should involve supporting strong banks with existing SME relationships and ensuring consistency in SME definitions between IDB Invest and clients to simplify reporting and meet project objectives.
- b. When structuring projects, the client's priorities and capacity should be considered, with monitoring indicators aligned to broader development goals. Effective green-lending projects require clear target portfolios and the alignment of training and tools with environmental and social criteria. Tailored strategies must be designed to address the challenges involved in implementing environmental and social policies. Extending loan tenors may be necessary when market conditions change, provided strong sponsor commitment exists.
- c. Future operations should identify tangible sub-project pipelines through due diligence and thorough competitiveness analysis to ensure favorable terms and conditions.

## C. THE FOCUS ON SELECTIVITY TO DELIVER TANGIBLE IMPACT

### WHY SELECTIVITY TO ACHIEVE IMPACT?

**1.14 The importance of a selectivity approach.** The IDB Group's selectivity framework aims to ensure that resources are concentrated on the most impactful areas, with a focus on actions that offer the greatest potential for transformative change. This approach increases the likelihood of interventions generating significant and lasting outcomes, which is particularly important when addressing complex challenges such as economic growth, poverty reduction, and environmental sustainability. A selectivity approach allows the focus to be placed on sectors or regions most aligned with national priorities, while also helping to manage risks by concentrating efforts on areas where the chance of success is higher. It enables the early identification of potential challenges and the development of tailored mitigation

<sup>26</sup> Programa de agricultura e desenvolvimento sustentável (BR-O008), ProSocial (BR-O009), Brasil Mais Digital (BR-O010), PRO-SEGURANÇA (BR-O011), ProMorar (BR-O014).

<sup>27</sup> Castillo Martinez, P., R. Funes, A.G. Rogers (2024) "Insights for Smart Origination – Amazon", IDB Invest.

strategies. Additionally, this approach supports scalable solutions that, once successful, can be replicated or expanded to other areas. Finally, a selectivity framework ensures that synergies between various stakeholders—both public and private—are effectively leveraged. By concentrating on fewer, well-defined areas, different partners can align their strengths and expertise, resulting in a stronger overall impact than would be achieved if efforts were spread too sparsely across many areas.

**1.15 Subnational Engagement.** The selectivity process focuses on interventions supporting subnational entities while advancing the federal government's objectives and targets. During the EBP 2019 – 2022 period, the lending program mainly consisted of 55 sovereign-guaranteed operations, 45 of which (81.8%) involved collaborations with state governments, state-owned enterprises, regional banks, or municipalities. The IDB Group can maximize its impact by supporting the federal government in achieving its strategic objectives, working in close partnership to deliver these objectives through synergetic operations in federal, state, and municipal governments, as they implement public policies and disseminate best practices. During the EBP 2024-2027 period, the IDB group will also strengthen its relationship with the National Development System (Sistema Nacional de Fomento, SNF).<sup>28</sup>

**1.16 Geographic Selectivity.** Due to the size and diversity of the country's regions, the next step in the selectivity process was to focus on areas with lower levels of social development and higher sustainability risk indicators to maximize the impact of the IDB Group's resources. Geographically, the strategy primarily centers on the North, Northeast, and Midwest regions, which have severe development challenges, possess significant natural capital, and face more acute sustainability risks.<sup>29</sup> Regarding adaptation, the strategy prioritizes urban centers with the lowest levels of human development<sup>30</sup> as measured by social indicators and labor productivity.<sup>31</sup> By concentrating its efforts on these regions, the IDB Group can better contribute to combating poverty and inequality while increasing the country's productivity and addressing its complex environmental challenges. Over the years, the IDB Group has acquired extensive experience in these regions,<sup>32</sup> and geographic selectivity will allow the IDB Group to increase the scale and enhance the impact of its operations across the country's diverse and unequal landscapes.<sup>33</sup>

## HOW DO WE SHARPEN FOCUS?

**1.17 Alignment of Priorities:** Initial strategic areas and actions were selected through a consultative process involving stakeholders from civil society, the government, and the private sector. The selection process considered lessons learned from the EBP 2019-2022 and the recommendations made by the Office of Evaluation and Oversight in the 2019-2022 Independent Country Program Review (ICPR) for Brazil. Priorities identified in the IDB's Country Development Challenges (CDC) document were compared with the objectives outlined in the government's Multi-Year Plan (Plano Plurianual, PPA), Ecological Transformation Plan, and New Growth Acceleration Plan to identify areas of alignment. The shared objectives were then aligned with the new institutional strategy, IDB Invest+ and IDB Group flagship programs, especially Amazonia Forever IDB Clima. and Opportunities for integration were identified to enhance the scalability of interventions and maximize international resource mobilization.

<sup>28</sup> The SNF is a network of financial institutions in Brazil designed to support economic development through financing strategic sectors. The SNF plays a crucial role in enabling projects, financing productive activities, decentralizing their regional implementation, and executing development public policies. With over 30 institutions, the SNF is a heterogeneous group that includes federal public and development banks as BNDES, Banco do Brasil (BB), Caixa Econômica Federal (CAIXA) and Banco do Nordeste (BNB); state development banks and development agencies, as Banco de Desenvolvimento de Minas Gerais (BDMG) and Fomento Paraná; cooperative banks, like Sicredi (Sistema de Crédito Cooperativo), Sicoob (Sistema de Cooperativas de Crédito do Brasil), and Cresol (Sistema Cresol); as well as Financiadora de Estudos e Projetos (Finep) and SEBRAE.

<sup>29</sup> In 2022, the Northeast was home to 27% of Brazil's total population but 43.5% of the population in poverty and 54.6% of the population in extreme poverty. The North, which accounted for 8.7% of the total population, encompassed 12.8% of people in poverty and 11.9% of people in extreme poverty. More than half (51%) of the population of the Northeast was in poverty in 2022.

<sup>30</sup> Even regions with higher HDI scores face many social inequalities, especially in large municipalities. The IDB Group will also prioritize regions more prone to suffer from extreme weather events like the state of Rio Grande do Sul.

<sup>31</sup> FGV-IBRE (2019). Peruchetti, P. & Baeta, F. Produtividade do trabalho: uma análise regional.

<sup>32</sup> For example, the IDB Group's multiple interventions in the states of Ceara and Bahia have increased its relevance and impact.

<sup>33</sup> The Amazon region could greatly benefit from the selectivity approach. Despite their abundant natural resources and biodiversity, the nine Brazilian states composing the Legal Amazon contribute less than 9% to national GDP. The region also lags the rest of the country on various social indicators. The average Human Development Index (HDI) scores for the Legal Amazon consistently fall below the national average across all three HDI dimensions: income, longevity, and education. About 90% of the municipalities in the region are classified as medium, low, or extremely low on the HDI scale, and 40% of the region's population lives in poverty, a significantly larger share than in the rest of the country.

The EBP 2024 – 2027 actions contribute to the five pillars of the Amazonia Forever program, which include: (i) combating deforestation and strengthening environmental control and security in the context of national governments; (ii) promoting alternative and sustainable economic activities as part of the bioeconomy; (iii) ensuring adequate access to quality education, healthcare, and employment; (iv) promoting sustainable cities, infrastructure, and connectivity; and (v) encouraging sustainable, low-carbon agriculture, livestock, and forestry. In addition, the program prioritizes including women, Indigenous people, Afro-descendants, and local communities; climate and forest conservation; and strengthening institutional capacities and the rule of law. Finally, the EBP 2024 – 2027 actions are aligned with IDB Group's Natural Capital and Biodiversity Mainstreaming Action Plan (2024-2025) (GN-3216-1) to embed the responsible management of natural capital more deeply in the country's operations while scaling up biodiversity-finance mechanisms. The selection of sectors was also informed by Brazil's status as the host of the G20 summit in 2024 and COP30 in 2025, which present significant opportunities for the IDB Group to enhance its visibility and impact.

**1.18 The IDB Group's proposed actions and cross-cutting themes are aligned with the New Institutional Strategy, IDBStrategy+, and its three core objectives—addressing climate change, bolstering sustainable regional growth, and reducing poverty and inequality—as well as its seven areas of operational focus.**

It is also consistent with the IDB Group's Natural Capital and Biodiversity Mainstreaming Action Plan (2024-2025) (GN-3216-1) and with the pillars of the Amazonia Forever program. Moreover, the proposed actions and themes are aligned with the New Vision and Business Model for IDB Invest (IIC/CCA-221) (IDBInvest+), with the IDB Invest Business Plan for 2024,<sup>34</sup> and the IDB Lab Business Plan (MIF/GN-270-1), specifically in the areas of: (i) agriculture and natural capital; (ii) essential service infrastructure; (iii) financial inclusion; (iv) education, talent, and employment; and (v) health. Finally, the EBP 2024-2027 supports Brazil's Pluriannual Plan 2024-2027 in its future vision of a “democratic, fair, developed and environmentally sustainable country, where all people live with quality, dignity, and respect for diversity” and its axes of social development and guarantees of rights, economic development, and socio-environmental and climate sustainability, as well as its defense of democracy, the state, and national sovereignty.

**1.19 Strategic Positioning.** The strategic selectivity assessment reviewed the IDB's positioning in Brazil relative to other MDBs. The analysis revealed that all MDBs in Brazil maintain diversified portfolios and frequently operate within the same sectors and that no MDB exhibits complete specialization, reflecting the complex challenges faced by the country. The analysis showed that through consecutive country strategies, the IDB has built partnerships with subnational entities in areas such as renewable energy, logistics, water, sanitation, urban mobility, fiscal issues, access to credit and financial inclusion, climate and sustainability, digital government, and health. These areas also represent the comparative advantages of the IDB Group. According to the Office of Evaluation and Oversight (2024), these were important areas during the implementation of the EBP 2019 – 2022 and continuing to focus on them during the EBP 2024–2027 period will enhance the IDB Group's impact and strengthen its position within the country. However, the IDB Group will continue to engage in other areas through its portfolio and technical assistance. The assessment concluded that competitive pressures for government guarantees have increased and that the IDB Group should work to ease restrictions on cooperation with other MDBs in areas where programs overlap. Expanded discussions with MDBs and the government will facilitate collaboration in key areas. During the EBP 2024 – 2027 period, the IDB Group will strengthen coordination with the federal government to enable greater participation in cofinancing by different multilateral and bilateral agencies. Under each pillar, the EBP 2024 – 2027 will promote strategic alliances for financing, knowledge-sharing, and technical assistance with key partners in academia, the private sector, and civil society.

**1.20 Evidence-based delivery.** Following the steps of the selectivity process, a review of the IDB Group's operational experiences revealed that, on average, projects have similar operation challenges Index, yet the main challenge differs by sector, pointing out the necessity of a specific view according to the

<sup>34</sup> This plan will be the transition between IDB Invest's two business models.



sector. The analysis shows that targeted technical assistance support during both the preparation and eligibility stages tends to produce positive impacts on performance and pace of execution. In addition, the Government's appropriation of the design, ensuring that the vertical logic and scope of the program reflect the priorities of the counterpart, tends to minimize substantial changes during execution, especially when this occurs from the beginning of the design stage.

**1.21 Risk Assessment.** The strategic selectivity process assessed the risks associated with implementing the country strategy based on the new IDB Risk Taxonomy (GN-2547-15) and identified detailed mitigation measures.<sup>35</sup> Among the main risks, the selectivity process highlighted the potential for regulatory changes associated with the activities of the External Financing Committee (Comissão de Financiamentos Externos, COFLEX), the guarantees process, the indebtedness of subnational entities, and the calculation of the Subnational Capacity of Payments Index (CAPAG). In addition, extreme weather events, macroeconomic sustainability and execution represent significant risks for the EBP 2024 – 2027. These findings underscore the need for continuous monitoring and maintaining a diversified portfolio to mitigate the identified risks.

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<sup>35</sup> See section 4 – risk outlook.



## II. BUILDING MAIN PILLARS OF ACTION AND EXPECTED IMPACT

- 2.1. The purpose of the IDB Group's strategy in Brazil for the 2024-2027 period is to build a route toward sustainable and inclusive growth.** The EBP 2024–2027 proposes to contribute to the acceleration of the country's economic growth and the reduction of poverty and inequalities in a manner aligned with Nationally Determined Contributions (NDCs), by enhancing productivity and promoting private investment in opportunities stemming from the green transition, while ensuring greater responsiveness and resilience to climate-related shocks, all within a sustainable fiscal framework. The strategy is structured around three core priorities: (i) enabling the green transition and strengthening climate resilience; (ii) accelerating growth through strong institutions and enhanced productivity; and (iii) advancing a new social agenda to promote prosperity and inclusion. Furthermore, the strategy will offer comprehensive support to address overarching challenges concerning (a) gender equality and the inclusion of diverse population groups, (b) climate action, and (c) institutional capacity, the rule of law, and citizen security.<sup>36</sup>

### PILLAR 1. ENABLING THE GREEN TRANSITION AND STRENGTHENING CLIMATE RESILIENCE

#### WHY IT MATTERS:

- 2.2. The transition to a greener economy can boost growth and reduce poverty and inequalities.** According to a study by the World Resources Institute (WRI, 2020),<sup>37</sup> a rapid transition to a low-carbon and resilient economy by 2030, aligned with Brazil's Nationally Determined Contribution (NDC) under the Paris Agreement, would yield significant benefits compared to a business-as-usual growth scenario. This transition would generate a net increase of more than two million jobs—four times the current level of employment in Brazil's oil and gas sector—and boost GDP by US\$535 billion. Implementing a green development model would yield advantages from the outset, including a reduction in greenhouse gas (GHG) emissions that exceeds Brazil's current 2025 NDC. Specifically, it would entail a 42% reduction in GHG emissions by 2025 relative to 2005 levels while enhancing access to international financing. Brazil's rich biodiversity provides vital ecosystem services and opportunities derived from its vast genetic heritage, and the sustainable utilization of the country's natural capital offers enormous economic potential. Indigenous peoples and traditional communities possess extensive and unique knowledge of the sustainable use and management of the country's flora and fauna. More effectively leveraging Brazil's natural capital would immediately contribute to accelerating economic growth.
- 2.3. Deforestation is Brazil's main green-economy challenge.** Unlike other major economies, Brazil's GHG emissions are primarily due to deforestation and land-use changes. In 2022, the deforestation rate reached its highest level since 2016, according to the Institute for Space Research (Instituto Nacional de Pesquisas Espaciais, INPE). Although deforestation in the Amazon decreased by 21.8%

<sup>36</sup> The CDC (Annex I) provides all the references and detailed analyses of the development challenges discussed in this document.

<sup>37</sup> Romeiro, V. et al. 2020. "A New Economy for a New Era: Elements for Building a More Efficient and Resilient Economy in Brazil. Working Paper. São Paulo, Brasil: WRI Brasil. Available at <https://wribrasil.org.br/pt/publicacoes>.

in 2023, it increased in the Cerrado<sup>38</sup> biome. Deforestation has significant economic and environmental impacts, including reduced biodiversity, increased tree mortality, extreme dryness, less long-term water infiltration, worsened soil erosion, more flash flooding, and sediment release that degrades drinking-water quality. Deforestation is partly caused by environmental crimes, especially in the Amazon, by organized groups operating in a global illegal market valued at between US\$51 and US\$152 billion (Nellemann et al., 2018). The major drivers of ecosystem degradation and biodiversity loss in the country are habitat loss and fragmentation, introduction of alien species and exotic illnesses, overexploitation of plants and animals, use of hybrids and monoculture in agro-industry and reforestation programs, pollution, and climate change. (Source: Brazil country profile from the Convention on Biological Diversity).

- 2.4. Restoring forests can significantly reduce GHG emissions, reverse ecosystem degradation, and curb biodiversity loss while bolstering the economy.** According to the Escolhas Institute (2023),<sup>39</sup> Brazil needs to invest R\$228 billion to fulfill its NDC, including reforestation of 12 million hectares of land by 2030. Although this investment is substantial, the anticipated benefits are expected to surpass it, generating net revenue of R\$776.5 billion, creating 2.5 million new jobs, and helping achieve a critical climate milestone. Moreover, implementing the proposed models would yield 1 billion m<sup>3</sup> of timber for trade and produce 156 million tons of food. Restoration efforts are poised to generate significant employment and income growth while removing 4.3 billion tons of CO<sub>2</sub> from the atmosphere—effectively linking social and economic development with climate-crisis mitigation. The annual value generated by the Amazon rainforest is estimated at no less than US\$317 billion (Strand, 2022), while the Pantanal and Upper Paraguay River Basin in Brazil generate another US\$94 billion per year (Bolzan, 2021).
- 2.5. A low-carbon, regenerative, resilient agricultural sector and a strong bioeconomy are key to reducing deforestation, reversing ecosystem degradation, and stopping biodiversity loss while bolstering economic growth.** The agricultural sector is Brazil's second-largest GHG emitter, with major contributions from cattle belching and the use of synthetic fertilizers. Despite its adverse environmental impacts, the agri-food sector, encompassing both agricultural and agro-industrial activities, remains one of the most dynamic elements of the Brazilian economy. In 2023, it accounted for 24.0% of Brazil's GDP, up from 18.6% a decade earlier, as well as 44% of total exports and 37% of national employment (Cepea, 2023).<sup>40</sup> Furthermore, developing a sustainable bioeconomy represents a pivotal element in the transition to a green economy, with significant potential to stimulate growth in Brazil's less-developed regions, particularly the Amazon and Caatinga biomes. Consequently, investment in the bioeconomy promises substantial economic returns.<sup>41</sup>
- 2.6. Developing a low-carbon, regenerative, and resilient agricultural sector presents multiple challenges.** Brazil has yet to develop a comprehensive long-term strategy for aligning its growth objectives with environmental conservation,<sup>42</sup> for example, by intensifying livestock and agricultural output without expanding land use. A report by WRI (2021) indicates that pasture stocking rates (cattle per hectare of pasture) have stagnated and even declined in the Midwest and Amazon regions over the past decade. Meanwhile, agricultural output growth has been uneven,<sup>43</sup> and over 85% of rural producers lack technical assistance and rural extension services. There are also important barriers to

<sup>38</sup> The Cerrado biome covers around 21% of Brazil's land area. Despite its ecological importance, the Cerrado has been subject to extensive deforestation.

<sup>39</sup> Instituto Escolhas (2023). Estratégias de Recuperação da vegetação nativa em ampla escala para o Brasil, setembro 2023.

<sup>40</sup> CEPEA, 2021. Metodologia – PIB do Agronegócio brasileiro – base e evolução.

<sup>41</sup> For instance, TNC (2021) reports that the total value added of the açai palm production chain in Pará could rise from R\$3.7 billion in 2019 to R\$109.3 billion by 2040. Additionally, WRI (2021) identifies that non-exhaustive extraction activity, encompassing 37 items from 31 native plant groups, generates competitive average revenues ranging from US\$334 to US\$470 per ton (R\$1,750 to R\$2,460 per ton).

<sup>42</sup> The ABC+ Plan, while setting targets and outlining tools to achieve the Nationally Determined Contributions (NDC) goals, focuses primarily on rehabilitating degraded pastures, expanding the use of no-till farming, and enhancing crop-livestock-forestry integration (ILPF) systems.

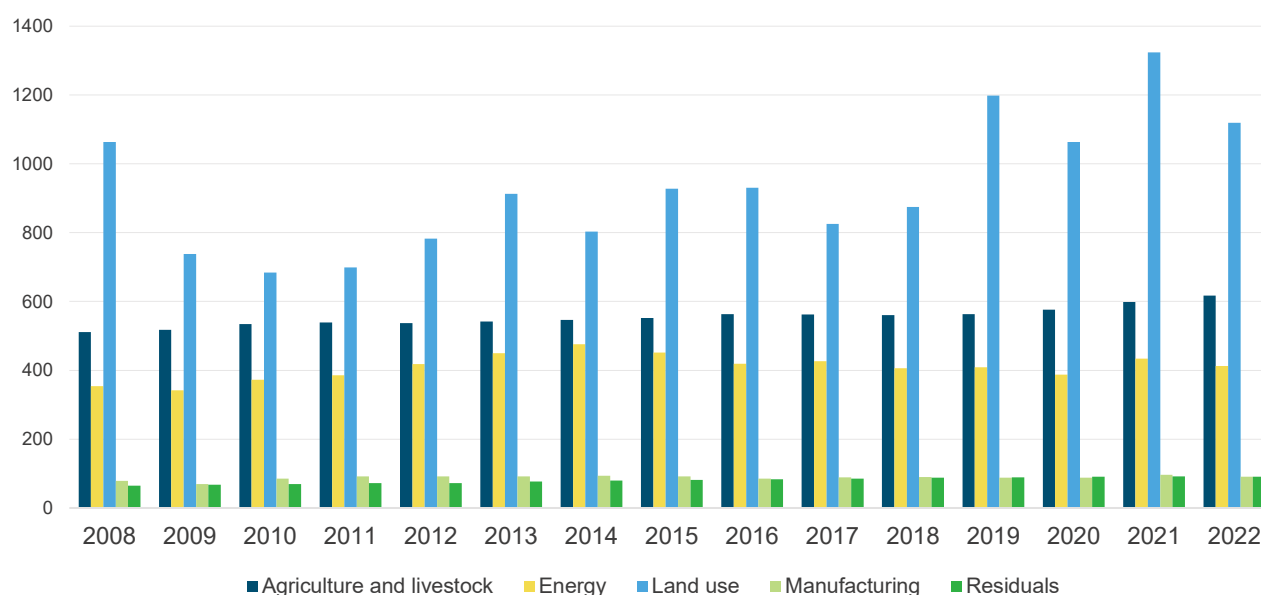
<sup>43</sup> Significant advances in productivity in Brazil over the past decades have predominantly originated from the agricultural sector. The growth in productivity is attributed to sustained increases in agricultural research expenditures from 1970 to 1997, the introduction of numerous innovative technologies, and supportive agricultural credit policies and incentives (CDC, 2022).

family producers' access to support services, particularly in technical assistance<sup>44</sup> and credit<sup>45</sup> (CDC, 2022).

**2.7. Several critical challenges hinder the development of Brazil's bioeconomy.** Key issues include; insufficient financial resources allocated to the bioeconomy; a scarcity of technical assistance; complex land-tenure issues; difficulties implementing assessments of ecosystems services and integrating their value into public accounting, planning, and reporting systems, as well as policies and investment plans; environmental crimes; logistical constraints; a lack of traceability and certification standards for natural products; and a lack of fiscal and health mechanisms adapted to the bioeconomy. Although Brazil presents robust environmental legislation, its enforcement remains a challenge. Targeted public policies, training programs, and initiatives aimed at enhancing the organization of value chains are essential to address these challenges and support bioeconomy-based firms.

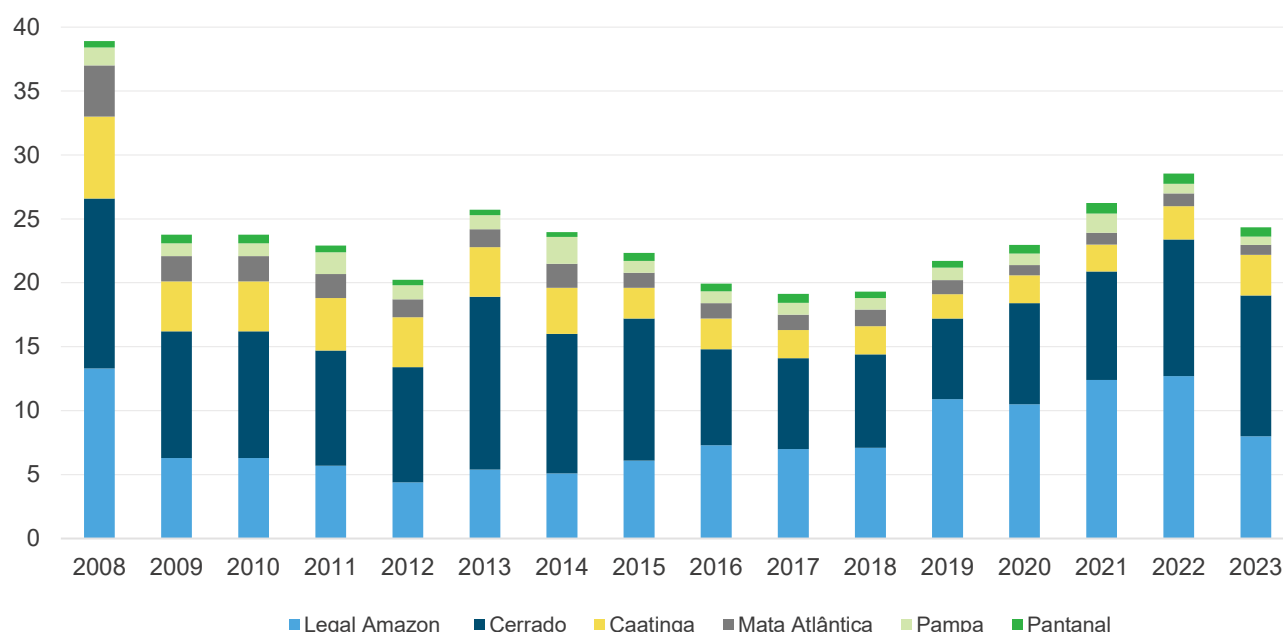
**2.8. To promote a low-carbon economy, Brazil needs to improve innovation.** Brazil's vast biodiversity and abundant agricultural resources offer a solid foundation for developing biological products and industries. Transforming the emerging sectors of the bioeconomy into engines of sustainable growth will require scientific research and technological innovation. Yet, Investments in R&D are highly concentrated in the public sector (CDC, 2022), and Brazil is developing incentives for investment into climate-change mitigation and adaptation projects. The country launched in 2024 the Eco Invest Brazil Program, aimed at boosting investments in projects that promote ecological transformation, especially in the areas of transition to sustainable practices and technologies, technological densification, bioeconomy, circular economy, energy transition and infrastructure, and adaptation to climate change. Appropriate policies can promote the responsible exploitation of biodiversity-based products and strengthen their market. In this context, the National Strategy for Bioeconomy and the Ecological Transformation Plan are important legal frameworks to boost biodiversity-based products and markets. Measures that promote sustainable.

**FIGURE 1: BRAZIL'S GHG EMISSIONS (1,000T) AND DEFORESTATION (10, 000 KM<sup>2</sup>)**



<sup>44</sup> The most recent Agricultural Census, conducted in 2017, revealed that out of approximately 3.9 million family farmers nationwide, only 18% had received ATER. The scarcity of technical assistance is further compounded by the low levels of training and education among farmers—for instance, 16% of producers in the Amazon have never attended school (IBGE, 2018).

<sup>45</sup> According to data from the 2017 Agricultural Census, only about 15% of Brazilian family agricultural establishments accessed some form of credit, from public or private funds. This share dropped to 9% in the North and 13% in the Northeast, below the national average.



Source: SEEG Brasil and INPE

**2.9. Brazilian cities are vulnerable to climate change.** Brazilians are increasingly vulnerable to the impacts of climate change, including extreme events such as floods, droughts, heat waves, and rainstorms. These tragic events damage human development and incur considerable economic losses. Between 1995 and 2014, floods, landslides, droughts, and other natural hazards imposed costs of US\$56 billion. IDB (2024) estimates the short-term costs of the floods in the state of Rio Grande do Sul in 2024 were close to US\$10 billion. The costs to Brazil in the coming years or decades could be higher or lower depending on various factors, including the intensity and frequency of extreme weather events and the effectiveness of mitigation and adaptation measures.

**2.10. Rapid urban expansion in Brazil has led to settlement patterns that put many residents at risk of natural disasters.** The country's urban population rate rose from 65% of the total population in 1980 to over 87% in 2020 and is still growing at about 1% yearly (World Bank, 2021). The lack of housing has led to occupying areas at risk (PBMCI, 2018). In 2010, 8.27 million people lived in areas at risk across 872 municipalities (IBGE, 2018). Urban concentration in metropolitan regions and large- and medium-sized cities contributes significantly to Brazil's environmental challenges. The country ranks as the eighth most congested in terms of road traffic globally, with São Paulo holding the fifth position on the Global Traffic Scorecard's ranking of the most congested cities. Uncontrolled urban expansion has increased the demand for mobility infrastructure, yet Brazil lacks integrated planning for land use and transportation (IADB & UKSip, 2021). Most cities do not utilize a climate planning tool, and data on contributions to greenhouse gas (GHG) emissions remain incomplete. Although cities with populations exceeding 20,000—totaling 3,065—are legally required to develop mobility plans, as of 2023, only 389 had complied, largely due to limited technical and institutional capacities. Moreover, public policies in most Brazilian cities favor private transportation, particularly the use of cars and motorcycles, hindering progress toward sustainable urban mobility. According to CPI (2018), the predominance of motorized individual transport negatively impacts air quality and road safety. Notably, Brazil records the highest annual number of motor vehicle accident victims in the world.

**2.11. Brazil has a quantitative and qualitative housing deficit.** In 2022, Brazil's quantitative housing deficit affected an estimated 6.2 million households (FJP, 2023; PnadC, 2022). Many households lived in precarious conditions, with many facing overcrowding and excessive rent. Over 5 million

households, representing 7.8% of all households, were estimated to live in informal settlements (i.e., slums), a 60% increase from 2010. More than 26 million urban housing units were considered qualitatively inadequate.<sup>46</sup> Urban sprawl and the poor condition of urban infrastructure—including mobility services, and sanitation—undermine living conditions, and vulnerable groups such as women, pretos, and pardos are most likely to live in informal settlements.

**2.12. A substantial share of Brazil's population lacks water and sanitation systems access.** According to the National System of Information on Sanitation, nearly 33 million Brazilians lack access to treated water, and over 93 million do not have sewage collection or residential sanitation (SNIS, 2022). The availability of water supply is highly uneven, varying significantly between regions, municipalities, and even within different districts. Water losses reach more than 50% in some regions. Nationwide, sanitation access remains inadequate, with only 59.2% of municipalities having a public sewage system and the rest relying on alternative solutions. The legal framework for sanitation services introduced in 2020 has spurred renewed interest from private companies in this sector. To address these challenges, public and private sectors can collaborate through various models, including concessions, Private Public Partnerships (PPPs), and service outsourcing. Achieving universal service provision by 2033 will necessitate an investment of R\$893.3 billion, with at least R\$308.1 billion required over the next four years, as indicated by the Brazilian Association of Concessionaires and Sanitation Service Providers (Abcon/Sindcon, 2023).

**2.13. Building resilient cities can assist in reducing inequality.** The unchecked sprawl of urban areas, especially the expansion of low-income suburbs, worsens congestion and extends commuting times. A safe and reliable transportation system connects people with social services, jobs, and other opportunities, contributing to poverty reduction and sustainable development (UN, 2015).<sup>47</sup> In Brazil, however, only 11.7% of municipalities operate urban transport services with fleets accessible to people with disabilities. Relative to the average for the overall population, Afro-descendants tend to live farther from motorized and active transport systems,<sup>48</sup> pay more in fares, and face overcrowding and a lack of transit options. In addition, 91% of Afro-descendant women live farther from medium- and high-capacity stations and cannot access services suited to their mobility needs.<sup>49</sup> To help reduce inequality and poverty, public transport policies need to adjust benchmarks of quality, coverage, safety, social accessibility, and affordability to the needs of women, persons with disabilities, the elderly, and vulnerable groups while ensuring the economic viability of investments.

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<sup>46</sup> The inadequacy of households is related to the characteristics of the households that impair the quality of life of the residents, that is, to the idea that families/people inhabit a specific type of household that is unable to meet the needs or basic services that a house should provide with quality. Therefore, its focus is primarily to indicate the need for improvements in housing. Household inadequacies are the lack of urban infrastructure (electricity, water supply, sewage, and garbage collection), building deficiencies (absence of an exclusive bathroom, number of rooms serving as bedrooms and water storage, inadequate floor and roof), and urban land inadequacy.

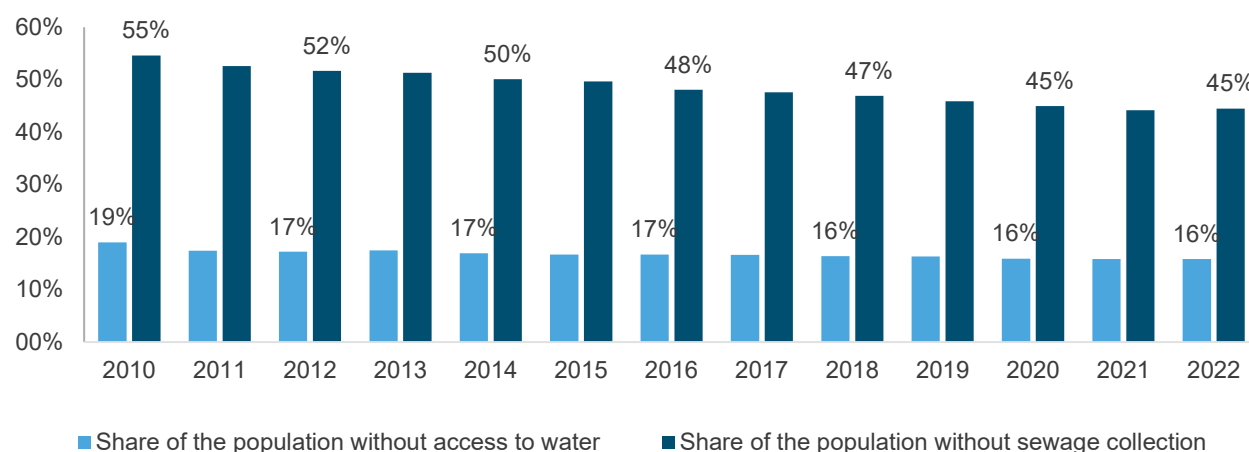
<sup>47</sup> Mobility is a social right under Brazil's Federal Constitution. Access to safe, accessible, and sustainable transport for all, with special attention to the needs of women, children, elderly, people with disabilities and vulnerable groups, is a sustainable development goal (SDG -11).

<sup>48</sup> In one-third of state capitals, more than 90% of the population lives far from a bicycle lane.

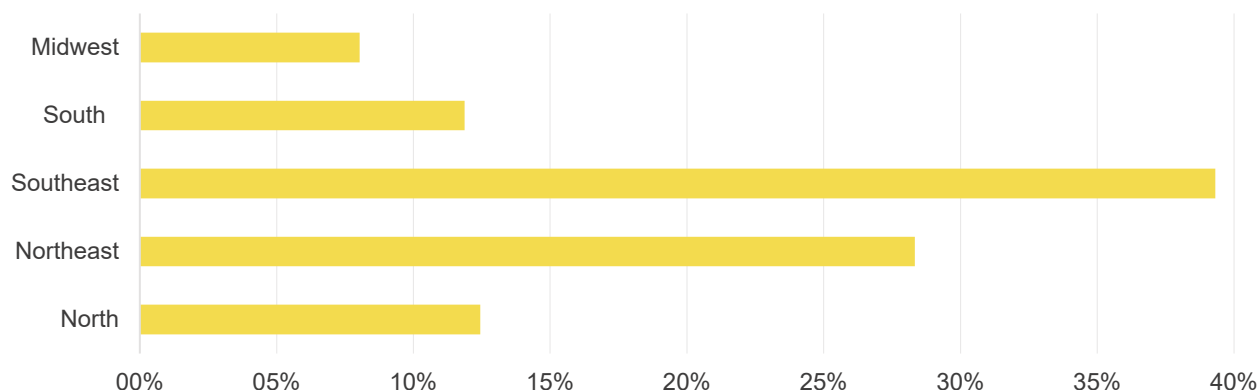
<sup>49</sup> Data covering Sao Paulo, Rio de Janeiro, Curitiba, and Fortaleza (Bittencourt, Gianotty and Marques, 2020), and surveys from The Color of Mobility Program (ITDP, 2021). Afro-Brazilian women are also vulnerable to gender-based violence on public transportation. Sao Paulo, Curitiba, and Uberlandia have successful examples of social access to transport.



**FIGURE 2: ACCESS TO SANITATION AND HOUSING DEFICIT**



#### HOUSING DEFICIT BY REGION (% OF TOTAL)



Source: SNIS (2022) and PhadC (2022), FJP (2023)

**2.14. Access to housing and urban services varies significantly by gender and race.** Households headed by women account for a large and growing share of the housing deficit (60% in 2019 versus 54.3% in 2016). The stark racial divide in access to water, sanitation, and solid-waste management infrastructure has significant health implications. Data from the 2022 census show that 75% of the preto population and 69% of the pardo population lack access to proper sanitation. The coverage of sanitation for Indigenous people is also very low, with only 30% having access to sewage systems. In 2018, 12.6% of the preto and pardo population lived in households without garbage collection, versus just 6.1% of brancos. Similar racial disparities were observed in households without access to piped water (17.9% versus 11.5%) or improved sanitation (42.8% versus 26.5%). Vulnerability increases even further when racial and gender disparities intersect. For example, overcrowding and the absence of a washing machine are twice as prevalent among preto or pardo households (7% and 44.8%, respectively) as among branco households (3.6% and 21%, respectively).<sup>50</sup> The divide also has a

<sup>50</sup> Source: IBGE 2019. Social Inequalities by Color or Race in Brazil.

significant regional component, with areas in the North and Northeast facing the worst housing quality (CDC, 2022).

## **WHAT WE WILL DO:**

**2.15. Strengthen environmental conservation and recover degraded areas.** The IDB Group will prioritize actions that foster investment in mitigation, adaptation, and nature-based solutions, focusing on policies to curb deforestation. Developing a coherent set of incentives based on a careful and transparent assessment of potential tradeoffs and negotiating agreements with all stakeholders on mutual commitments would facilitate the elimination of subsidies that have negative implications for biodiversity and enable the expansion of policies that are biodiversity-positive or neutral. The IDB Group will help the government transition from mostly relying on command-and-control policy instruments to a more nuanced framework combining voluntary and market-led actions, economic incentives (e.g., directed credit and subsidies), extension services and other public-sector support, and stringent enforcement of forest-protection measures. The IDB Group will also promote responsible land management by supporting the conversion of public forests into protected areas and prioritizing land repurposing. The IDB Group will also act to reduce biodiversity loss and conserve, restore, and sustainably manage the Brazilian terrestrial and aquatic ecosystems, especially the most degraded ones and those with greater impact on economic sectors. Finally, the IDB Group will support the development of strategies to rehabilitate forests and degraded areas, promote soil recovery, and support restoration projects in degraded and abandoned areas.

**2.16. Promote the sustainable use of natural resources.** The IDB Group will support plans that promote sustainable development by involving the public sector, the private sector, and civil society. These plans will highlight the traditional knowledge and techniques of Indigenous peoples and local communities, promoting sustainable production systems to ensure the conservation and responsible management of environmental resources on which local people depend, including Indigenous groups, quilombolas, and traditional communities. Efforts will also include decarbonizing the manufacturing sector (especially steel, cement, pulp, and paper production, as well as the construction industry) and integrating climate resiliency to adapt to temperature shifts and resource availability. The IDB Group will support low-carbon, regenerative, and climate-smart agriculture by improving technical assistance and providing financing and credit via financial intermediaries, especially for small and medium-sized farmers. The IDB Group will support developing and adopting new technologies and bio-solutions with positive impacts on agricultural productivity, the environment, and food security. The IDB Group will support climate-smart agribusiness, including sustainable forestry, nature-based solutions, and projects that generate verified carbon credits. The IDB Group will also support measures to strengthen the bioeconomy and promote sustainable global value chains. The IDB Group will encourage the development and application of technologies to reverse biodiversity loss and promote the conservation, restoration, and sustainable use of nature. The IDB Group will support the development of the bioeconomy by promoting innovation, especially in the private sector, and fostering entrepreneurship.

**2.17. Build inclusive and resilient cities.** The IDB Group will promote integrated approaches to improving the quality of life in cities, with an emphasis on investments in disaster risk management, housing, urban mobility, water, sanitation, and drainage, as well as institutional strengthening for urban management and land use planning, also working to support the New Growth Acceleration Program (Novo PAC) and its new sustainable and resilient cities initiative<sup>51</sup> The IDB Group will also support integrated neighborhood upgrading programs to tackle urban decay and urban poverty by addressing the qualitative housing deficit and mitigating the impacts of climate change. The IDB Group will support the development of an integrated urban-renewal program with qualitative investments in public spaces and socially oriented interventions. Support for sustainable urban mobility will include promoting biofuels and the electrification of public and private transportation to reduce emissions and

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<sup>51</sup> Novo PAC will invest in the modernization of urban mobility in a sustainable way; in urbanization of slums; sewage; solid waste management; and in containing eroding hillslopes and fighting floods.



local pollution, as well as assisting with developing transport concessions. Nature-based solutions such as green corridors and urban parks can greatly reduce the effect of urban heat islands while improving air quality, generating public health benefits, enhancing biodiversity, and reducing GHG emissions. The revegetation of hillsides and marshes can protect infrastructure against landslides and sea-level rise, and other nature-based solutions have applications across the transportation, logistics, and urban development sectors. In Water and Sanitation, the IDB Group will support Brazil's goal of achieving universal access to water and sanitation services by 2033 and efforts to make the sanitation sector more climate-resilient, inclusive, and efficient. Nature-based solutions can be applied at the local and landscape levels to enhance water availability, quality, drainage, and disaster risk management.

**2.18. Gender equality and the inclusion of diverse population groups.** The IDB Group will promote gender equality and foster the inclusion of diverse groups (i.e., Afro-descendants, Indigenous communities, persons with disabilities, and the LGBTQ+ population). This will require institutional support to the recently created Ministries of Women, of Indigenous People and of Racial Integrity in Brazil. It will also demand the support to reforms aimed at solving fundamental issues to secure rights and inclusion of these populations. The IDB Group will help amplify the voices of traditional communities and vulnerable groups, facilitate their engagement, valorize the traditional knowledge of Indigenous peoples, encourage the development of technologies for biodiversity conservation, bolster the territorial rights of local populations, and strengthen biodiversity value chains. Regarding gender equality and the inclusion of diverse population groups, the IDB Group will develop integrated urban-renewal programs with high-quality public spaces and socially oriented interventions.

**2.19. Institutional capacity, the rule of law, and citizen security.** The IDB Group will support improvements in federal enforcement in Brazil, including building the capacity of the Policia Federal and IBAMA, as well as state and municipal agencies. The IDB Group will aid in developing tools essential for preventing, investigating, sanctioning, and deterring environmental crimes. The IDB Group will enhance the capacities for disaster prevention, risk management, and response to disasters and adaptation to climate change, as well as the government's institutional capacity to build urban mobility plans and to design and implement PPPs, especially at the subnational level. The IDB Group will also collaborate with public companies, notably in the water, sanitation, and drainage sectors, to foster institutional capacity development for project structuring, particularly at the state level.

## EXPECTED OUTCOMES

### *ENABLING THE GREEN TRANSITION AND STRENGTHENING CLIMATE RESILIENCE*

Strengthen environmental conservation and the recovery of degraded areas. The IDB Group will focus on curbing deforestation, especially in the Amazon and Cerrado biomes, and will support efforts to increase forest coverage across Brazil.

Promote the sustainable use of natural resources. The IDB Group will aim to reduce GHG emissions in the agriculture and livestock sectors.

Build inclusive and resilient cities. Reductions in the qualitative housing deficit will be gauged by the share of households needing a dwelling. Building a green transport system will reduce the sector's GHG emissions. Water and sanitation coverage expansion will be measured by the percentage of the population with access to water and sewage networks.

Portfolio Alignment.<sup>52</sup> The portfolio discussed with the government for the 2024–25 period promotes innovative financial instruments<sup>53</sup> integrated with the IDB’s Amazon Forever Program and IDB Clima. The portfolio aims to foster the sustainable development of the North<sup>54</sup> and Northeast<sup>55</sup> regions, encouraging productive business activity in the context of the bioeconomy and sustainable tourism<sup>56</sup>. The portfolio contributes to expand the coverage of sanitation systems<sup>57</sup> and includes efforts to enhance access to affordable home improvements, promote urban resilience, and support revitalization programs in socially and environmentally vulnerable areas, including urban slums<sup>58</sup> and promote the electrification of public transportation<sup>59</sup>. The portfolio encompasses climate-adaptation investments, including drainage and slope-retention work that will mitigate the risk of natural disasters.

## PILLAR 2. ACCELERATING GROWTH THROUGH STRONG INSTITUTIONS AND ENHANCED PRODUCTIVITY<sup>60</sup>

### WHY IT MATTERS:

**2.20. Effective fiscal institutions are crucial to accelerate growth and ameliorate inequality.** Public investment remains near historical lows, and over 90% of public spending is rigid. A credible fiscal adjustment program could improve public debt dynamics, as Brazil’s debt burden is large, a considerable share of the debt stock has short maturities, and average interest rates are higher than in many comparable emerging markets.<sup>61</sup> Moreover, Brazil should improve its long-term planning institutions to guide sound public investment decisions. Strengthening its medium-term budget framework and promoting results-based budgeting and multi-year planning, among other reforms, will contribute to a more efficient allocation of public funds. Fiscal challenges extend beyond the federal level, with subnational authorities experiencing significant imbalances over the past decade. There is also scope to improve efficiency, accountability, and transparency in fiscal management. Productivity growth and social equity could be bolstered by consolidating the fiscal accounts. In addition, climate change imposes significant fiscal risks, and Brazil could improve planning and introduce fiscal instruments specifically designed for climate change and natural disasters, including risk-analysis techniques and dedicated funds and insurance mechanisms. Fiscal policy could also be enhanced by promoting equality across all levels of government. For example, only three Brazilian states currently have laws mandating a gender-sensitive budget (State LOAs, 2024).

**2.21. Brazil faces challenges involving debt management that hinder sustainable growth.** Brazil’s debt level is high by international standards. According to the IMF’s definition of public debt, Brazil’s debt-to-GDP ratio is among the highest in LAC. Brazil’s debt is not only substantial in size, but its composition and average maturity also present challenges for effective debt management. The

<sup>52</sup> Does not include the IDB Lab and IDB Invest pipelines.

<sup>53</sup> BR-L1639, BR-L1638.

<sup>54</sup> BR-L1625, BR-L1633, BR-L1644.

<sup>55</sup> BR-L1617, BR-L1623.

<sup>56</sup> BR-L1636.

<sup>57</sup> BR-L1615, BR-L1616, BR-L1647.

<sup>58</sup> BR-L1628, BR-L1648, BR-L1588, BR-L1590.

<sup>59</sup> BR-L1622.

<sup>60</sup> Related to the Amazonia Forever Program, Pillar 2 is aligned with the strategic objectives of Connectivity and Digital Inclusion, Institutional Capacities and Rule of Law, Increase Financing and employment and sustainable cities and infrastructure.

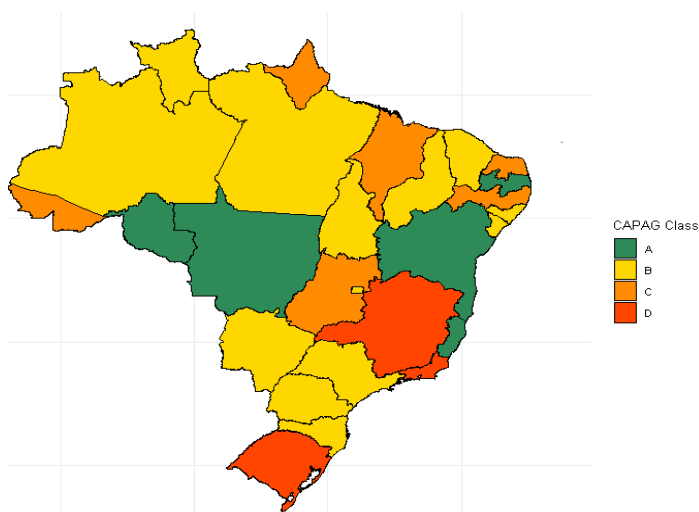
<sup>61</sup> Approximately 20% of public debt matures within one year.

amortization schedule requires that about 20% of the debt be refinanced within one year, which would present considerable risks in the event of a crisis of confidence.<sup>62</sup>

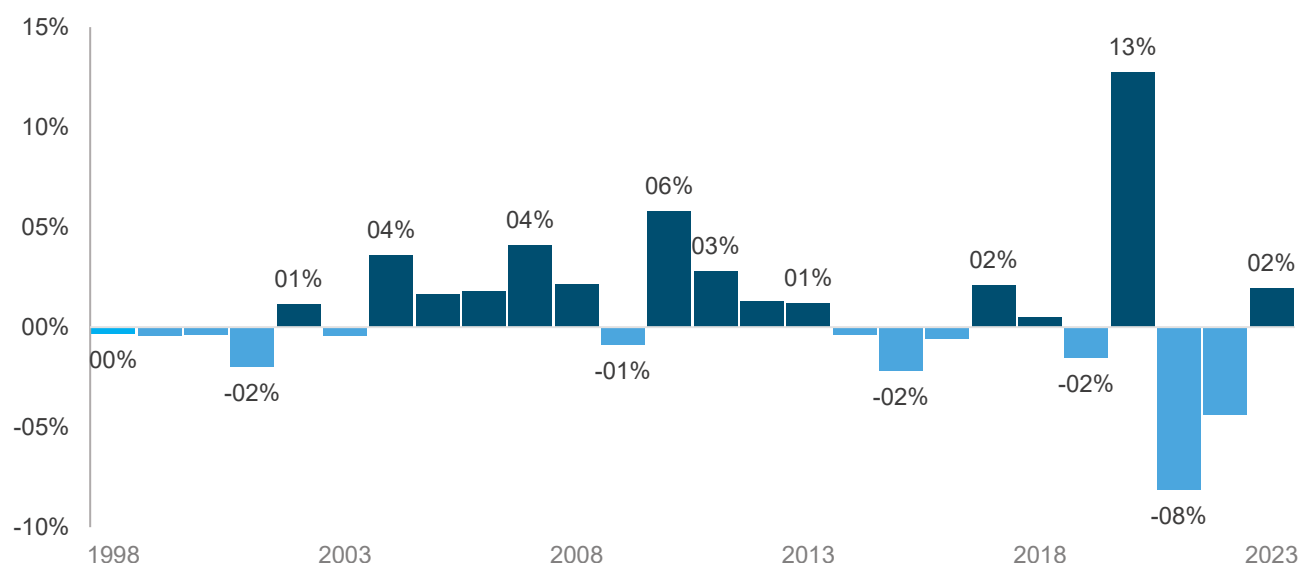
**2.22. Brazil's subnational public finances are also in an increasingly tenuous position.** Since 2008, the fiscal situation among Brazilian states and municipalities has deteriorated, leaving subnational governments ill-equipped to manage the economic and fiscal repercussions of adverse shocks. Despite renegotiations of intergovernmental debts, the trajectory of expenditures has not changed, particularly current expenditures, which are driven mainly by public sector wages and other benefits. Given ongoing demographic trends, increased pension spending by the federal government and subnational entities will exacerbate fiscal weaknesses. Court-ordered payment requests (precatórios) increase expenditure pressure, which the National Treasury regards as one of the main fiscal challenges facing states and municipalities. Meanwhile, state-level revenues have diminished over the years, primarily due to a tax base that relies heavily on consumption. The National Treasury measures the fiscal position of subnational governments via CAPAG indicators, and many states have CAPAG ratings of C or D, indicating a weak or poor fiscal position. State CAPAG indicators have recently worsened, driven by increased expenditures and declining revenues.

**2.23. Digital technologies are key to improve government's efficiency and the quality of services.** Despite substantial progress in digitalizing public services, important challenges persist. At the federal level, Brazil ranked among the top 20 countries in the latest United Nations online services subindex (2022) and 2nd of 198 countries in the World Bank's digital government maturity index (2022). More than 89% of total federal government services (or over 4,424 individual services) are fully digital, and more than 153 million people have an account on the gov.br platform. At the state level, however, progress has been limited and uneven. As of 2022, only 29% of states offered over half of their services in fully digital format. A third of the states had digitalized between 16% and 49% of their services, and 37% had digitalized less than 15% (GTD.GOV, 2022). The situation is worse at the municipal level.

**FIGURE 3: CAPACITY OF PAYMENT (CAPAG) – STATES AND PRODUCTIVITY GROWTH (TFP)**



<sup>62</sup> It is important to highlight the upgrade made by credit rating agency Moody's, to long-term issuer and senior unsecured bonds ratings from Ba2 to Ba1. This was mainly due to improvement in the country's growth outlook, the implemented economic and fiscal reforms and the country's commitment to fiscal targets.



Source: Fiscal Preview (STN) and FGV

## 2.24. Brazil needs to accelerate growth by tackling structural bottlenecks that inhibit productivity.

Given the diminishing returns from capital and labor accumulation, Brazil must prioritize enhancing productivity to boost growth. Strengthening the private sector, integrating more deeply with international markets, and increasing the investment in infrastructure could significantly boost productivity while simultaneously addressing poverty and inequality.

**2.25. Access to finance is critical to growth.** At the national level, financial access directly impacts economic growth,<sup>63</sup> productivity,<sup>64</sup> competitiveness,<sup>65</sup> and innovation.<sup>66</sup> Total domestic credit to the non-financial sector reached 53% of GDP at the end of 2023,<sup>67</sup> well below the OECD average of 160.7 percent.<sup>68</sup> MSMEs face especially low liquidity and high costs for long-term financing, and the market for long-term bond issuances is underdeveloped. In general, MSMEs in Brazil have less access to bank credit than larger firms and remain dependent on other sources of financing such as family savings, cash flow from current operations, trade finance, advance payments, or loans against products.<sup>69</sup> As a result, the estimated financing gap for formal MSMEs is equivalent to 27% of GDP, and this share rises to 49% when the informal sector is included (SME Finance Forum, 2018). It is also important to emphasize the need for a more structural agenda for SMEs to reduce the costs of doing business in Brazil. These costs and challenges, such as the tax system, bureaucracy, labor costs, and digitalization gaps, are particularly burdensome for SMEs. A more comprehensive approach is needed to reduce the regulatory burden and digitalization gaps, while also improving market integration in regional supply chains, access to public procurement, and to innovation programs. This would enhance the positive impacts of better access to finance for SMEs.

**2.26. Boosting growth and adopting policies to foster the green transition will require several investments.** A successful transition demands a deep economic transformation, requiring the mobilization of private finance on a large scale (IMF, 2021). The financial sector can be an important driver of the Brazilian transition to a green economy. Brazil has an estimated US\$1.3 trillion in green

<sup>63</sup> Aghion et al. (2005); Bech et al. (2000); Rajan and Zingales (1998).

<sup>64</sup> Arizala et al. (2013) and IDB (2010).

<sup>65</sup> Galindo et al. (2007) and Manova and Yu (2010).

<sup>66</sup> Aghion et al. (2010).

<sup>67</sup> Central Bank monetary and credit statistics.

<sup>68</sup> World Bank, 2020.

<sup>69</sup> International Telecommunications Union (2024). Digital Development Dashboard: Brazil.

investment needed by 2030 for energy, transport, buildings, waste, and industrial energy efficiency, based on its climate commitments set out in the Nationally Determined Contribution (NDC)<sup>70</sup>.

**2.27. The availability of funding for the bioeconomy remains limited.** Bio-businesses are typically micro, small, and medium-sized enterprises (MSMEs), often too small to access capital markets. In the Amazon, this challenge is exacerbated by the scarcity of financial institutions and stricter credit conditions; as of 2019, the share of credit transactions involving firms in the Legal Amazon constituted only 3% of the national total. Additionally, bioeconomy businesses possess characteristics that increase their credit risk, such as: (i) being in early development stages, generating low incomes, and operating in less-developed regions; (ii) relying on small enterprises or producers within their value chains, who often lack independent funding; (iii) lacking traditional forms of collateral; (iv) employing payback models that raise transaction costs and risk levels; (v) operating in volatile markets; and (vi) having limited or no track record to assess profitability, biodiversity impacts, or contributions to mitigating climate and environmental risks. The financial sector, both as a financial intermediary—through credit operations—and as an institutional investor and insurer, will play a critical role in the economic transformation. However, challenges remain, particularly with respect to socio-environmental analysis, monitoring, and the development of appropriate rating and valuation models.

**2.28. In Brazil, multidimensional inequalities affect access to finance and the use of credit products and services.** Women, members of Indigenous groups, pretos, pardos, persons with disabilities, and LGBTQ+ persons face unique barriers that inhibit their participation in financial markets, with negative implications for their economic empowerment and social well-being.<sup>71</sup> Female-owned businesses are marginally more concentrated in the commercial sector than their male-owned counterparts (36.6% versus 34.6%) (PNAD, 2019). While 6.6% of male entrepreneurs report having requested a loan to open or expand a business, the same is true for just 2.9% of their female counterparts (Global Findex, 2017). In the last quarter of 2020, 58% of all credit to micro-entrepreneurs was allocated to men, while 42% was allocated to women. (BCB, 2021).<sup>72</sup> Similar patterns are evident across other groups. While no racially disaggregated information is available on microenterprise ownership at the national level, a 2017 IDB report<sup>73</sup> found that in two Brazilian cities, the share of microentrepreneurs with unsatisfied demand for credit was 44.6% among pretos, 35.1% among pardos, and 29.4% among brancos. SEBRAE (2022) found that only 36% of total credit goes to Afro-descendant entrepreneurs. Many Indigenous communities suffer from elevated poverty rates and face information gaps and other challenges that limit their access to the financial system.<sup>74</sup>

**2.29. International trade is a powerful productivity driver,<sup>75</sup> yet Brazil is less globally integrated than other LAC economies.** Brazil's participation in global value chains is limited,<sup>76</sup> and its share in intraregional trade has declined in recent decades. The proportion of Brazilian exports to and imports from Latin America fell from 28% in 1997 to 15% in 2023 (SECEX, 2024). Key issues include high transport costs, poor transport infrastructure, and limited logistical services between countries, especially via borders in the Amazon region; high tariffs on capital goods and intermediaries in the region's largest economies; sub-regional trade agreements that do not address critical constraints such as non-tariff barriers, disparate rules of origin, and restrictive trade regulations. These challenges inhibit Brazil's ability to access international value chains while slowing the growth of intraregional trade and investment.<sup>77</sup> Initiatives such as the Integration Routes, launched in 2023 by the Ministry of Planning

<sup>70</sup> See also Brazil's National Green Growth Plan and the role of the Inter-ministerial Committee on Climate Change and Green Growth in the creation and consolidation of green criteria, taking into consideration the characteristics of each region of Brazil and all its biomes. Brazil's Green Monitor provides an overview of current initiatives.

<sup>71</sup> For a discussion about access to credit and gender for SMEs see IDB (2022). Caracterização das MPMEs brasileiras e os entraves do acesso ao crédito sob a perspectiva de gênero.

<sup>72</sup> Gender differences also affect the amount of financing obtained. In 2019, 70% of women were able to obtain loans through the financial system, compared to 60% of men, yet loans to men were in significantly greater amounts. Over half of all loans to men exceeded R\$30,000, and 30% exceeded R\$60,000, whilst most loans to women were for amounts under R\$30,000, and 29% were under R\$10,000. (SEBRAE, 2019).

<sup>73</sup> BID, 2017, Acesso ao crédito produtivo pelos microempreendedores afrodescendentes. All racial affiliations were self-identified.

<sup>74</sup> Fundación Microfinanzas BBVA.

<sup>75</sup> See IDB (2019) and Mesquita Moreira (2019) for a detailed literature review on this matter.

<sup>76</sup> Hollweg and Rocha (2018) show that although Brazil has witnessed high growth in total domestic value added embodied in gross exports since 1995, it exhibits less international engagement in global value chains.

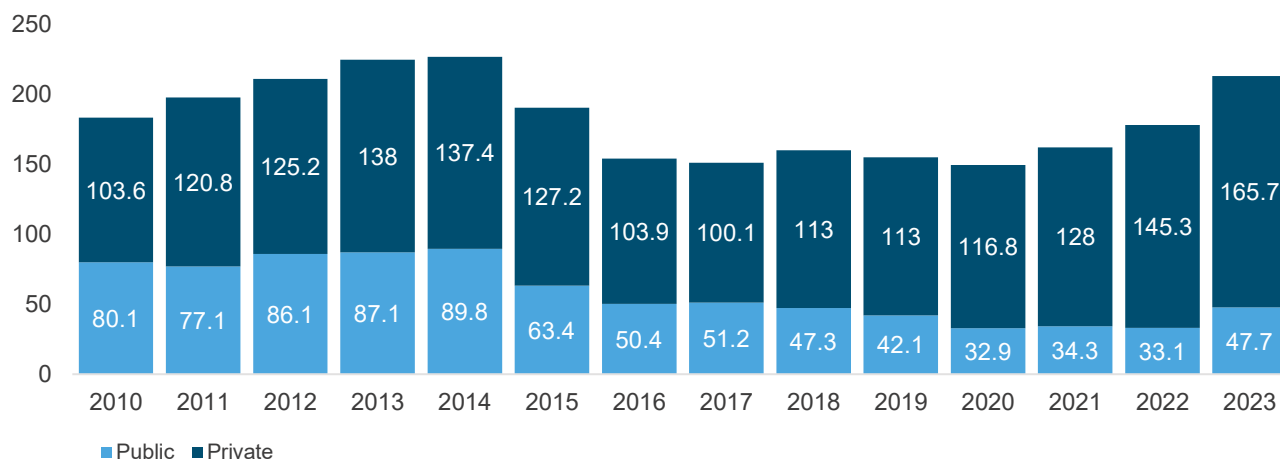
<sup>77</sup> Moreira et al. 2008); Cadestin, C. et al. (2016). Another relevant factor is the rise in political and institutional instability in the largest countries in the region in recent years.

and Budget, aimed at boosting infrastructure projects connecting Brazil to LAC countries, can foster regional trade and development.

**2.30. Infrastructure gaps impose major constraints on economic growth.** The low quality of Brazilian infrastructure poses a challenge to productivity and economic development. Brazil ranked 51st out of 139 countries in the World Bank's 2023 Logistics Performance Index and did not record any substantial improvements over the last decades. In addition, the country ranks 78th out of 141 countries on the quality of overall infrastructure, 116th on road quality, 78th on railroad density, 104th on the efficiency of seaport services, and 85th on the efficiency of air transportation services (WEF, 2019). The inadequate availability and low quality of transportation infrastructure is also among the key obstacles to doing business domestically. Furthermore, infrastructure investment in Brazil is low and declining. In the 1970s, Brazil invested on average 5.42% of its GDP in infrastructure, but in 2023<sup>78</sup> this share had dropped to 1.99%.

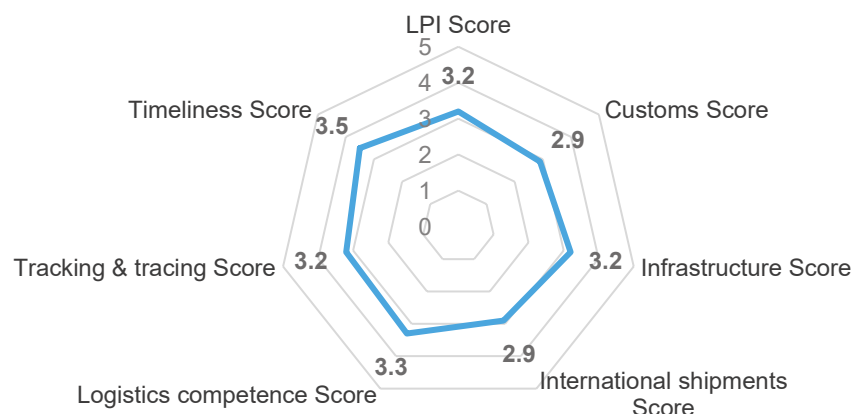
**2.31. Current levels of investment are insufficient to close Brazil's infrastructure gap.** In 2023, infrastructural investment in Brazil expressed as a percentage of GDP, amounted to 0.25% in sanitation, 0.87% in electricity, 0.39% in transport and logistics, and 0.48% in telecommunications, for a total of 1.99%—well below the minimum annual investment required in these sectors, equal to 4.31% of GDP. Mobilizing private capital is key for infrastructure growth. The role of the public sector in infrastructure finance has been evolving, while the private sector needs to step up its efforts. Tapping long-term finance for infrastructural projects remains a challenge. The Brazilian financial market is crowded, but most players focus on short-term lending. It is, therefore, essential to encourage the private sector to expand their role in the investment in infrastructure.

**FIGURE 4: INVESTMENT IN INFRASTRUCTURE (R\$ BILLIONS) AND LOGISTIC PERFORMANCE INDEX (LPI)**



<sup>78</sup> Estimation by Abdib (2024) with data until September 2023.





Source: ABDIB and World Bank

**2.32. PPPs can be a powerful tool to engage the private sector in national development.** PPPs can promote the adoption of new technologies and improved processes while enhancing the efficiency and transparency of Brazilian infrastructure investment and social policies. Brazil has made a concerted effort to implement PPPs over the past 20 years.<sup>79</sup> Issues around governance and risk allocation, capacity constraints at the subnational level, political risk, and the effective management of aggregate fiscal liabilities complicate the PPP process, reducing project expected profitability and creating challenges to its implementation. Given the need of a programmatic approach to private sector investments through PPPs to deliver selectivity, scale and impact, it is critical to design projects in a consistent manner with the federal government and its strategic objectives.

**2.33. Climate and resilient infrastructure represent an opportunity for Brazil.** Fostering sustainable infrastructure will strengthen Brazil's preparedness to face natural disasters and the effects of climate change, enhance its natural capital, increase productivity, and help the country avoid becoming locked into a carbon-intensive, highly polluting development path, while also promoting inclusion and equity. Investments in nature-based solutions, also known as green infrastructure, can complement or substitute for traditional infrastructure, helping maximize its benefits in a cost-effective manner. There is an opportunity to drive future investment with climate-smart and sustainability considerations. As climate and sustainability become priority topics in the policy agenda, the country can use this momentum to enhance the structuring and financing of infrastructure assets. In Brazil, investment opportunities in sustainable infrastructure amount to up to US\$660 billion over the next 20 years and could create over two million jobs.<sup>80</sup>

**2.34. Multiple constraints inhibit the development of sustainable, resilient, and inclusive infrastructure.** In addition to addressing longstanding issues like the lack of long-term credit denominated in domestic currency, the government can improve the strategic framework for identifying green investments and applying technical criteria to project prioritization (Cavallo et al., 2020). Developing clear decarbonization strategies that transparently outline the economic benefits of low-carbon activities is crucial. Project selection should prioritize sectors that contribute to decarbonization, create jobs, and enhance equity. Resilience criteria are essential to improve the prioritization and selection of public investments. Still, a lack of standardized sustainability principles means that investments often fail to address climate mitigation and adaptation concerns (CDC, 2022). Supporting

<sup>79</sup> The IDB defines a PPP as a long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance. Under Brazilian regulation, projects can meet this definition under three types of contracts: the *concessão comum*, a PPP funded exclusively by user tariffs; the *concessão administrativa*, a PPP funded exclusively through government payments; and the *concessão patrocinada*, a PPP with mixed funding.

<sup>80</sup> Carbon Trust, 2020. Sustainable investment Opportunities in Brazil.

the government in establishing standards for efficiency, resiliency, and the circular economy, along with clear regulations, will attract private investment in the sectors described below.

**2.35. The low quality of transport and logistic infrastructure poses significant barriers to growth and productivity.** The infrastructure investment gap in transportation and logistics is particularly pronounced in Brazil. According to Abdib (2024), Brazil requires investment in this sector, equivalent to 2.26% of GDP, which is nearly six times higher than the current investment level. Roads account for 58.3% of domestic cargo transportation; however, only 14% of the road network is paved, and a mere 32.5% is in good or very good condition. The poor quality of roads not only hampers traffic flow but also increases emissions by reducing vehicle efficiency. In terms of efficiency, Brazil's ports and airports rank 135th and 71st, respectively, out of 144 countries (World Economic Forum, 2023), both of which contribute significantly to the transport sector's total emissions.

**2.36. Brazil can expand the participation of wind and solar sources in its energy matrix.** Energy availability on the best possible terms of quality, security, opportunity, and price is fundamental to sustainable economic development. However, electricity in Brazil is expensive, affecting economic competitiveness and job creation compared to peers (CDC, 2022). Brazil's electricity production relies heavily on hydropower generation, which is vulnerable to climate change. This represents a major challenge for sustaining future energy supply (EIA 2021). In 2000, hydropower accounted for 83% of Brazil's installed capacity and 87% of electricity production; as of 2021, it still represented about 63% of both installed power and gross electricity production, well above other renewable sources. Climate change and ecosystem degradation impact Brazil's energy security: impacts of deforestation and climate change have been modeled to decrease dry season hydropower throughout the nation's largest dam network by 7% (Arias et al. 2020). The generation of wind (9.2%), biomass (9%), and solar (3%) remains significantly below its potential. However, the growth in production from variable renewable energy resources (mainly wind and solar) has accelerated in recent years. Finally, the economy still emits substantial GHGs due to fossil-fuel combustion in transportation and industry and, to a lesser extent, in electricity generation, especially in thermal power plants that use natural gas, coal, or oil.

## **WHAT WE WILL DO:**

**2.37. Strengthen public-sector sustainability and efficiency across all levels of government.** The IDB Group will assist the country in improving its fiscal framework by strengthening program evaluation, boosting public investment efficiency, and supporting the adoption of a national public-sector management system and a medium-term budget framework. The IDB Group will work with the federal and subnational governments to reduce their mandatory expenditures and increase the available fiscal space. The IDB Group will help Brazil enhance fiscal risk management and enhance public-sector efficiency by expanding the government's digital transformation, digitalizing all public services, and adopting digital technologies to support fiscal policymaking and management, especially among subnational governments.

**2.38. Empowering sustainable investments and fostering Regional Integration.** The IDB Group will improve access to finance by bolstering the credit supply, especially for MSMEs, entrepreneurs, and vulnerable people, while encouraging green and resilient investments in opportunities created by the transition to a low-carbon economy. The IDB Group will prioritize MSMEs that contribute to developing the bioeconomy or to support the empowerment of women, black, and Indigenous populations. The IDB Group will promote the issuance of thematic bonds that finance sustainable economic activities and support the development of a market for such bonds. The IDB Group will support Brazil's integration with regional markets by engaging with other development banks to provide financial and technical support for strategic projects, mainly infrastructure projects, to create a South American network of routes for integration and development. The IDB Group will aid the country by reducing bureaucratic obstacles to international trade, strengthening cross-border logistics, and increasing the financial resources available for productivity-enhancing private investment and trade facilitation.



**2.39. Driving infrastructure growth by leveraging private investment.** Achieving large-scale investments in infrastructure will demand a joint public-private effort. The IDB Group will expand the country's investment in infrastructure, especially by mobilizing private resources. The IDB Group will mobilize private capital for long-term financing by improving the business environment and attracting domestic and international private investors, which will act as a catalyst for investment. The IDB Group will assist in regulatory reforms and supporting public works to enhance the business environment, lower costs, and scale up private investment in infrastructure. The IDB Group will also aid the country in structuring sustainable, inclusive, and efficient concessions and PPPs to address infrastructure challenges through private-sector engagement and strengthen the institutional framework and management capacity of PPPs. In transportation, the IDB Group will assist the country in developing a multimodal green transportation system to reduce logistics costs and support value chains. In energy, the IDB Group will aid Brazil in mobilizing the private sector to increase energy access, diversify the energy matrix (including through energy storage), embrace distributed generation, and become a global leader in low-carbon solutions such as green hydrogen. These efforts will also include modernizing and digitalizing the electrical network to improve the resilience and efficiency of isolated systems.

**2.40. Gender Equality and Inclusion of Diverse Population Groups.** The IDB Group will assist the federal and subnational governments in mainstreaming gender and race in the budget process. In addition, the IDB Group will aid the government in incorporating gender, diversity, and inclusion issues into public policies, strengthening the institutional work of the ministries that lead women, racial inclusion and indigenous people's agenda. The IDB Group will support measures to increase access to credit for small and medium enterprises (SMEs) owned by women, Afro-descendants, Indigenous people, quilombolas, and LGBTQ+ persons, which will help narrow the gender and racial gaps in entrepreneurship. Affirmative-action programs in the financial sector will improve access to credit for women and Afro-descendants, enabling them to start or expand a business more easily. The IDB Group will also help Brazil develop inclusive infrastructure by supporting the government in planning infrastructure projects that deliver services to poor and marginalized communities and structuring PPPs to encompass gender and other dimensions of diversity in their design, implementation, oversight, and monitoring phases (IDB, 2024).

**2.41. Institutional Capacity, Rule of Law, and Citizen Security.** The IDB Group will support efforts to boost the institutional capacity of state and municipal governments. In addition, it will help development finance institutions maximize their impact by strengthening their governance structures and internal capacities (CDC, 2022). The IDB Group will also aid the financial sector in overcoming institutional capacity constraints and building a sustainable bond framework. Furthermore, the IDB Group will work with regulators to enhance their institutional capacity in all sectors, especially infrastructure.<sup>81</sup> The IDB Group will strengthen transparency mechanisms in the budget and public-policy formulation processes. Finally, the IDB Group will work with the SNF to build frameworks for developing green financial instruments.

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<sup>81</sup> CDC, 2022 discusses the challenges on the institutional capacity in the different sectors.

## EXPECTED OUTCOMES

### *ACCELERATING GROWTH THROUGH STRONG INSTITUTIONS AND ENHANCED PRODUCTIVITY*

**Strengthening public-sector sustainability and government efficiency.** To improve fiscal sustainability, the IDB Group will target an increase in the number of states with a CAPAG rating of “very good” or “good” (A or B). To accelerate the digital transformation of subnational governments, the IDB Group will support efforts to increase the number of states with top classifications in the ABEP—TIC Index.<sup>82</sup>

**Empowering sustainable investments and fostering Regional Integration.** Given the numerous factors that slow productivity growth in Brazil together with the opportunity brought by the green transition, the IDB Group will aim to facilitate access to credit for MSMEs and increase the ratio of MSME banking credit to total banking credit with particular attention to the financing of the bioeconomy expressed by the volume of financing to the sector. In addition, the IDB Group will attempt to boost sustainable finance in Brazil by increasing the annual issuances of thematic bonds, comprising green, social, sustainability-linked, and transition bonds. Finally, given the key role of trade integration on productivity and growth, the IDB Group will increase regional integration as measured by the share of LAC trade flows (exports and imports) in total trade flows.

**Driving infrastructure growth by leveraging private Investment.** The IDB Group will assist the country in reducing the infrastructure gap, especially leveraging private participation in infrastructure through the improvement in the business environment, enhancement of the regulatory framework, and the structuration of PPPs and concessions. This will be measured by the total volume of private investment in infrastructure. In transport and logistics, the IDB Group will aid in improving the logistics assessed by the World Bank Logistics Performance Index. Finally, In the energy sector, the IDB Group will support investments that increase the share of renewable energy (e.g., wind and solar) in the energy matrix.

**Portfolio Alignment.** The pipeline<sup>83</sup> discussed with the authorities will help deepen and expand access to credit, especially for MSMEs, especially in the Amazon and for the bioeconomy<sup>84</sup>. In addition, the IDB Group will continue supporting measures to strengthen the fiscal situation of subnational governments<sup>85</sup> and accelerate the digitalization of all levels of government.<sup>86</sup> The portfolio will assist in improving regulation and the business environment for financing mobilization<sup>87</sup>. Finally, in the infrastructure sectors, the portfolio will boost the private investment in infrastructure for renewable energy production<sup>88</sup>.

<sup>82</sup> Associação Brasileira de entidades estaduais e públicas de tecnologia da informação e comunicação.

<sup>83</sup> For the years 2024 – 2025.

<sup>84</sup> BR-L1604; BR-L1638; BR-L1625.

<sup>85</sup> BR-L1614; BR-L1629; BR-L1643.

<sup>86</sup> BR-L1620; BR-L1618; BR-L1626; BR-L1627.

<sup>87</sup> BR-L1635.

<sup>88</sup> BR-L1637.

## PILLAR 3. ADVANCING A NEW SOCIAL AGENDA TO PROMOTE PROSPERITY AND INCLUSION<sup>89</sup>

### WHY IT MATTERS:

**2.42. Growth is necessary but not sufficient to reduce poverty and inequality.** Persistently elevated levels of poverty and inequality underscore the limited extent to which growth alone can address Brazil's social challenges. A structural improvement in social outcomes will require efficient and focused public policies and a more agile, effective, and fiscally sustainable public sector. Efficiency gains in the public sector will require designing, implementing, monitoring, assessing, and adjusting social policies according to international best practices. Targeting policies to the most vulnerable groups will help reduce poverty and inequality while accelerating productivity growth.

**2.43. Brazil has ample scope to improve the quality of social spending.** The government devotes a sizeable share of the budget to social policies. For example, spending on health and education has risen rapidly over the last two decades, partly due to constitutionally mandated minimum spending requirements in both sectors.<sup>90</sup> Expenditures on these sectors are higher than in other Latin American countries: Brazil spends 6.2% of its GDP on education,<sup>91</sup> well above the Latin American average of 4.0%, and the OECD average of 4.9%, yet education indicators remain weak. To sustainably improve social outcomes, reformulating social policy must be a core aspect of the country's strategy.

**2.44. The health system continues to strive for universal care, but concerns about quality, efficiency, and equity persist.**<sup>92</sup> Brazil has significantly improved health indicators since the creation of the national health system (Sistema Único de Saúde, SUS) in 1988.<sup>93</sup> Providing access to quality health services requires coordinating responsibilities at the municipal, state, and federal levels, as well as with the private sector.<sup>94</sup> Municipalities are responsible for delivering many frontline health services, but their technical and operational capacity is often low. In addition, a 2002 report by the U.S. Centers for Disease Control and Prevention found that Brazil devotes a large share of resources to relatively inefficient hospital-based services, as about 30% of hospitalizations are for conditions that could have been treated at the primary-care level. A 2018 IDB analysis<sup>95</sup> revealed significant inequities in access to primary care and found that patients with private insurance have better experiences with primary care than those who rely on the public system. The study also highlighted the need to improve the service-management model through better communication with patients, better scheduling systems for appointments and consultations, and better coordination between levels of care.

**2.45. Basic educational outcomes in Brazil are poor.** Brazil had one of the lowest average scores on the OECD's 2022 Programme for International Student Assessment, with only 10% of high school students showing adequate proficiency in mathematics, 24% in reading, and 19% in science. These achievement gaps make learning more advanced concepts difficult and often frustrating, which increases dropout rates.<sup>96</sup> Poor outcomes at the high school level reflect underlying deficiencies in basic skills, as only 36% of 2nd-grade students can read at their grade level, and only 37% of 5th-

<sup>89</sup> Related to the Amazonia Forever Program, Pillar 2 is aligned with the strategic objectives of Connectivity and Digital Inclusion, Institutional Capacities and Rule of Law, Increase Financing and employment and sustainable cities and infrastructure.

<sup>90</sup> There are additional sources of pressure in social spending. In the health sector, for example, there is concern about the accelerated growth of its expenses, a phenomenon that occurs in a similar way in many parts of the world. In the LAC region, health spending doubled between the years 2000 and 2020, faster than the growth in the fiscal capacity of these countries, increasing their weight in GDP. The IDB carried out studies on the growth trend in healthcare spending in the region, which concluded that the main factors driving this increase are the rapid aging of the population, technological advances and the change in the epidemiological profile, with a strong prevalence of chronic diseases, which require long and costly treatments.

<sup>91</sup> The expenditure is divided in 4.8% for Basic Education, 0.8% for infant education, 2.9% for fundamental education, 1.2% for High School and 1.4% for superior education. Source: INEP/MEC – Censo Escolar 2022.

<sup>92</sup> IDB (2018).

<sup>93</sup> There have been substantial reductions in child mortality (11.5 deaths per 1,000 children born alive in 2020, versus 24.7 in 2003) and maternal mortality (59 deaths per 100,000 live births in 2018, versus 143 in 1990), and the country has achieved 100% coverage on childhood immunization.

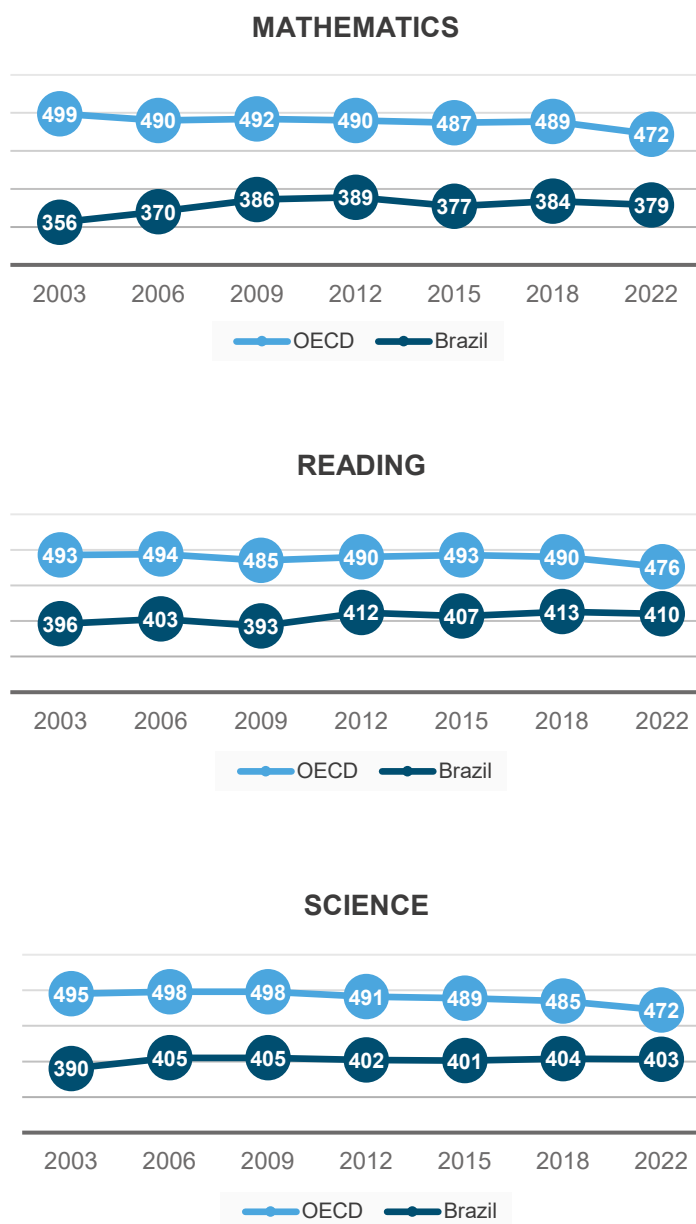
<sup>94</sup> The federal government contributes 43.2% of the health budget, the 27 states contribute 25.7%, and the country's more than 5,500 municipalities contribute the remaining 31.1%.<sup>94</sup>

<sup>95</sup> Guanais, Frederico, Ferdinando Regalia, Ricardo Perez-Cuevas, Milagros Anaya. 2018. Desde el paciente. Experiencias de la Atención Primaria de Salud en América Latina y Caribe. Washington, DC: BID.

<sup>96</sup> In Brazil, only 71.2% of the students complete HS in the right age. INEP/MEC – Censo Escolar 2023.

grade students perform adequately in math. Greater instructional time could help address these challenges, but the share of students in full-time schools remains lower than expected for Brazil based on international benchmarks.

**FIGURE 5: PISA RESULTS**



Source: OECD, INEP 2022

**2.46. Brazil has made significant advances in educational coverage, but early childhood education continues to pose challenges.** The enrollment rate of infants and children in childcare (creches) rose significantly from 25.7% in 2012 to 38.7% in 2023 but remains far short of the National Education Plan's target of 50% by 2024.<sup>97</sup> Moreover, 75.7% of children from the lowest-income households do not attend early childhood education, compared with just 44.0% of children from the highest-income households.<sup>98</sup>

**2.47. The skills taught in schools could be more aligned with those demanded for entry-level jobs, and the coverage of vocational education is low.**<sup>99</sup> Brazil needs to better translate its education investments and coverage expansions into increased employability. This disconnect can be partly attributed to the absence of strong incentives for employers to invest in training, even though they are best positioned to understand the market's demands for workforce skills. For technical and vocational education to successfully increase employability and economic productivity, programs must address local productive vocations and emerging labor-market trends, with curricula adapted to the specific needs of regional economies. Although enrollment rates in technical and professional courses have increased in recent years, they remain low relative to those of comparable countries. The number of students attending secondary-level technical and vocational education relative to the number of students enrolled in general high school is only 15% in Brazil, versus 47% in the EU, 42% in the OECD, 27% in Colombia, and 16% in Chile. Finally, there are no standards to evaluate the quality of the courses or whether the curricula reflect the needs of the labor market.

**2.48. Citizen security has been among Brazil's most significant challenges in recent decades.** In 2018, Brazil's homicide rate was the second highest in LAC (27.4 homicides per 100,000 inhabitants), but it fell by 19.5% between 2018 and 2021.<sup>100</sup> The cost of crime and violence in Brazil was estimated at 3.78% of GDP, or US\$124.3 billion in purchasing-power-parity terms. In 2023, Brazil ranked 22nd out of 193 countries for the prevalence of organized crime and 87th for the institutional capacity to confront this type of crime (Global Organized Crime Index, 2023). Institutional capacity gaps thwart the country's ability to address violence and crime. Police work lacks a strong preventative approach. Police forces in Brazil are often perceived as reactive and repressive while showing limited capabilities to conduct criminal investigations—which are critical to preventing impunity. In addition, only 44% of all homicides nationwide in 2018 were solved. Furthermore, Brazil is among the top ten in number of people imprisoned in the world in extremely poor living conditions (WPB, 2021). This is fertile ground for flourishing organized crime (Cafferata & Scartascini, 2024). In addition, 25% of companies in the region identify crime as a serious or very serious restriction on doing business, with an average of 17% worldwide.

**2.49. Brazilian Judiciary faces a wide array of challenges, from problems in productivity and outcomes to trust and image.** Judicial independence is a pillar of Rule of Law and a determinant of the quality of justice that courts dispense (Haagard, MacIntyre and Tiede, 2008). Also, the rule of law impacts on economic development capacities, mainly through contract enforcement and securing property rights. Regarding the Rule of Law World Governance Indicator (2019), Brazil was below the world median but within the regional median. An improper rule of law not only hampers the business environment but also reflects on violence and associated economic costs. According to the WEF Index, business costs of crime and violence in Brazil are very high, with a score of 2.68 out of 7, below the regional and world median score. According to Latinobarometro (2020), 79% of Brazilians consider that citizens are not equal before the law, and 23% of the citizens do not trust the justice system at all. In terms of access to Justice, in 2019, 13% of people who experienced a legal problem in Brazil were

<sup>97</sup> Basic Education Yearbook, 2021.

<sup>98</sup> There are also differences linked to racial inequality. The share of children outside the early education system is 60.6% among branco children (the lowest average) versus 68.4% among pretos and pardos and 71.8% among indígenas. Finally, only 29.8% of preto and pardo children under the age of four attend daycare, versus 36.2% of branco children. The lack of vacancies near the family residence is the main reported reason for not attending daycare.

<sup>99</sup> Accenture, 2018; Bassi et al, 2012.

<sup>100</sup> Brazil is responsible for 20% of total global homicides, with a population of 2.7% of the planet's inhabitants (UNODC, 2020). The robbery rate, not including vehicle theft, reached 469.6 per 100,000 inhabitants in 2020, down 25% from 2019.



able to access help, well below the world average of 29%. Also, access to justice is not equal for men and women. Due process of the rights of the accused is well below the world and regional median, with a 0.35 out of 1, indicating a clear issue on this topic.

**2.50. Inequality is evident across all levels of education.** Poorer, Afro-Brazilian, rural students, and students in the North region significantly underperform the national average. In primary school, only 32.7% of Afro-Brazilian students, 29.7% of poor students, and 33.9% of students in the North region have adequate proficiency in math, well below the national average of 51.5%. At the end of middle school and high school, the national averages for math proficiency are 24.4% and 10.3%, respectively, far above the averages for Afro-descendant students (14.4% and 4.6%), poor students (13.5% and 4.9%), and students in the North (13.6% and 4.3%). Overall, branco students outperform Afro-descendant students by approximately 10 percentage points (SAEB, 2019). According to the 2018 Programme for International Student Assessment report, Brazil has the highest rate of perceived student discrimination among South American countries for which data are available. Brazil's education system is not designed to meet the needs of its sizable rural, Indigenous, and quilombola populations. According to the 2021 Education Yearbook, 4,426 Brazilian municipalities reported being home to students who lived in rural areas, but only 2,570 had specific educational practices and materials for them. Similarly, Indigenous students were present in 420 municipalities, but only 279 had specific programs for them; while quilombola students were present in 658 municipalities, of which 484 had targeted educational policies. The lack of targeted programs and materials creates a disconnect with the needs of Indigenous, quilombola, and Afro-descendant students, fostering disengagement and underperformance and leading to higher dropout rates.

**2.51. Structural inequalities prevent vulnerable groups from accessing high-quality jobs.** Women, the poor, and the young face disadvantages in the labor market. Women are more likely than men to attend high school but often lack specific skills that the job market demands. In addition, women have traditionally been the primary providers of family and domestic care in Brazil: on average, they dedicate 21.3 hours per week to housework, versus just 11.7 hours among men. These factors contribute to gaps in employment and income. Just 45.3% of Brazilian women are employed, compared to 65.7% of men, and women earn 76% of the average wage of their male counterparts. Afro-descendants, meanwhile, face structural inequalities that begin in childhood and extend throughout their working lives.<sup>101</sup> An analysis of the 2,000 largest companies in Brazil revealed that branco men filled 61% of director-level roles, versus 11% for Afro-descendant men and less than 5% for Afro-descendant women. Moreover, branco employees filled almost 80% of management positions, even though Afro-descendants made up 53% of the total workforce.<sup>102</sup>

**2.52. Violence in Brazil is disproportionately concentrated among certain demographic groups.** Violence is highly concentrated among the Afro-descendant population. Young preto men are the most frequent victims of homicide in the country, and homicide rates for this category have risen over the years.<sup>103</sup> In 2018, Afro-descendant women accounted for 68% of all women murdered in Brazil.<sup>104</sup> In 2020, 91.3% of homicide victims were men, and 76.2% were Afro-descendants. According to the World Health Organization, Brazil has the fifth highest number of femicides in the world, and between 2016 and 2020, the annual number of femicides increased by 45%. In 2021, 81% of murdered women lost their lives at the hands of their partner or ex-partner. An estimated 27% of Brazilian women experience sexual violence, and only 50% feel safe in their communities.<sup>105</sup> In addition, homicide is the leading cause of death for young people between the ages of 15 and 29. In 2018, 30,873 young people were victims of homicide, representing a rate of 60.4 homicides per 100,000 young people and accounting for 53.3% of the country's total homicides. A meta-analysis published in 2016 identified Brazil as the country with the highest estimated incidence of child abuse and neglect among 28 countries. Violence

<sup>101</sup> Instituto Brasileiro de Geografia e Estatística (IBGE) - PNAD Contínua.

<sup>102</sup> Lins de Oliveira, C. & Morrison, J. Raça e Gênero nas Grandes Empresas: Um perfil da força de trabalho do Brasil. Nota técnica – BID, 2021.

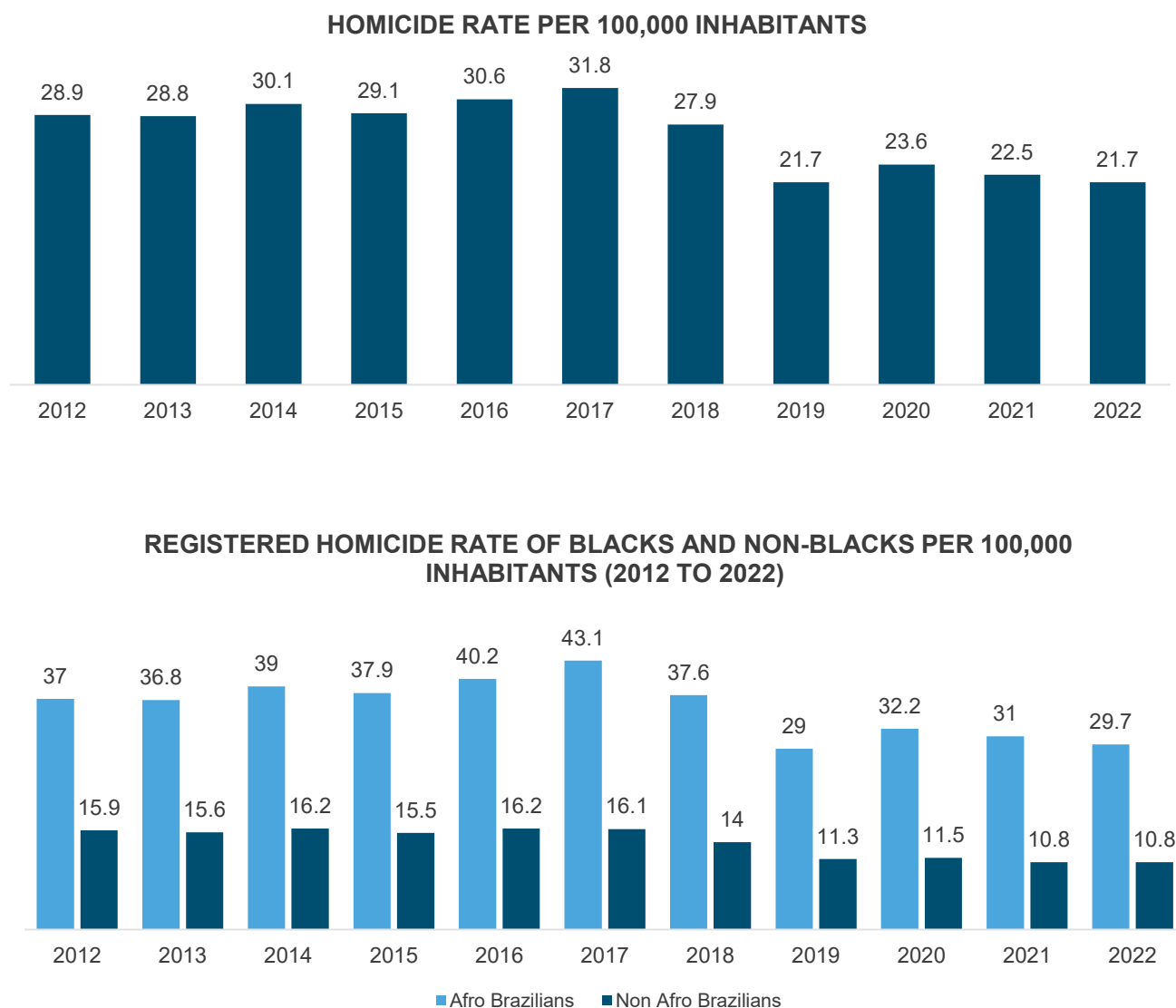
<sup>103</sup> IPEA (2020), "Atlas of Violence".

<sup>104</sup> Ibid.

<sup>105</sup> IPEA (2020), "Atlas of Violence".

claimed the lives of 34,918 children and adolescents between 2016 and 2020. Finally, the rate of violence against LGBTQ+ people has increased by an average of 7.7% in the 11 states that keep records of anti-LGBTQ+ crimes.<sup>106</sup> Finally, guaranteeing land rights is a key step towards reducing the violence against indigenous and fostering a green transition. The Legal Amazon is home to over half of Brazil's Indigenous population (IBGE, 2023), which could benefit from improved living standards. Data from FUNAI indicates that out of 631 indigenous territories, 461 are regularized, 60 are indigenous reserves and 110 are only delimited or declared.

**FIGURE 6: VIOLENCE AND GENDER AND DIVERSE INEQUALITIES**



Source: Atlas da Violência (IPEA)

<sup>106</sup> FBSP (2020).

## WHAT WE WILL DO:

**2.53. Improve the quality of spending on health and education.** The IDB Group will seek to improve access to high-quality health services and support adopting a healthcare service-delivery model founded on primary care. The IDB Group will assist the country in enhancing coordination among different government bodies through adopting a digital health strategy, improvements in the efficiency of hospital services, and efforts to promote innovative health modalities. The IDB Group will assist the country in expanding the coverage of early childhood education and improving education quality. The IDB Group will expand the coverage of education networks in Brazil, especially for nursery-age (0-3 years) and primary-age (4-5 years) children. The IDB Group will help states and municipalities efficiently manage early-education resources essential to expand and improve creches in the country, with positive effects on the ability of women to study and work. The IDB will boost the digital transformation of the education sector by encouraging the uptake of digital learning tools and platforms. The IDB Group will support measures to bolster human capital, align workforce skills with labor-market trends, and develop professional qualification programs that reflect the demands of the private sector. The IDB Group will also assist the government in creating new academic models consistent with the private sector's evolving skill requirements. The IDB Group will help prepare the country for an equitable green transition and support the adaptation of the workforce to digital transformation.

**2.54. Promote citizen and integrated public security.** The IDB Group will prioritize violence prevention, improving the effectiveness of existing policies, promoting coordination among government entities with special attention to protecting vulnerable social groups, contributing to the fight against organized crime, and deforestation and environmental crimes in the Amazon region. Furthermore, The IDB Group will build the capacity of justice institutions to be more effective, efficient, accessible, and impactful.<sup>107</sup>

**2.55. Enhancing Policies for the Welfare and Protection of Women and Diverse Populations.** The IDB Group will support policies for the protection and attention of women and diverse populations, seeking equal rights, financial autonomy, equal pay and violence reduction. The IDB Group will also promote the rights of indigenous peoples, quilombolas and traditional populations, ensuring a dignified life and citizenship with an appreciation of their culture, traditions, ways of life, and knowledge. This will include guaranteeing land rights by increasing the number of Indigenous lands approved and regularized, strengthening legal protections, and promoting sustainable income sources. This could call for a policy-based loan approach to focus efforts towards the delivery of a robust and coherent agenda for gender, inclusion, and Indigenous people, recognizing the existing government programs and the need to strengthen these initiatives to deliver their expected results. The IDB Group will combat racism and promote racial equality in a structuring and transversal way. To contain urban violence, especially against women, Afro-descendants, and LGBTQ+ persons, the IDB Group will prioritize prevention efforts and improvements in police training. In the education sector, the lack of targeted programs and materials creates a disconnect with the needs of students from these groups, fostering disengagement and underperformance and raising dropout rates. The IDB Group will expand the coverage of targeted materials, create specific programs for traditional communities (including Indigenous, riverside, and quilombola communities), implement incentives for teachers to decrease potential biases, and encourage families and students to adopt growth mindsets. In addition, the IDB Group will design programs to reinforce cognitive, socio-emotional, and technical skills and develop training job programs (CDC, 2022).<sup>108</sup>

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<sup>107</sup> According to Latinobarometro (2020), 79% of Brazilians believe that citizens are not equal before the law, and 23% do not trust the justice system. In 2019, 13% of people who experienced a legal problem reported being able to access help, well below the world average of 29%. Also, access to justice is not equal for men and women.<sup>107</sup> Indicators of due process for the accused are well below the global and regional averages, with a Global State of Democracy index score of 0.35 out of 1.

<sup>108</sup> Apprenticeship programs for Afro-descendant youth can promote job placement. Employment rates have fallen more sharply among youth than among older age groups (ILO, 2020), while Afro-descendants experience higher unemployment rates overall (World Bank, 2018). An apprenticeship program that targeted Afro-descendants in Uruguay may serve as a useful model: participating in it increased access to formal jobs by 5% on average one year after completion, with stronger effects among the most vulnerable youth (MIDES, 2016).



**2.56. Institutional Capacity, Rule of Law, and Citizen Security.** The IDB Group will invest in digital platforms to streamline case management and improve physical infrastructure to enhance access for vulnerable populations. In the education sector, the IDB Group will improve management systems among the poorer states and municipalities to enable them to take full advantage of recent changes in the functioning of the Basic Education Development Fund (Fundo de Manutenção e Desenvolvimento da Educação Básica), under which municipalities that show improvement will receive more resources, increasing their engagement.<sup>109</sup> The IDB Group will provide special assistance to poorer states and municipalities to build their capacity to perform the required tasks and achieve priority targets.

## EXPECTED OUTCOMES

### *ADVANCING A NEW SOCIAL AGENDA FOR A PROSPEROUS AND INCLUSIVE COUNTRY*

Improve the quality of spending on health and education. The expansion of access to quality healthcare will be measured by the share of the population with access to primary care. Increased access to quality education will be measured by the share of the population with access to creches and pre-school and by improved scores on the Index of the Development of Basic Education<sup>110</sup> for the final years of primary education. Finally, the expansion of full-time technical-professional education will be assessed based on enrollment in secondary technical-professional education as a share of total secondary enrollment.

Promote citizen and integrated public security. The IDB Group's support for citizen security and the rule of law will aim to reduce the rate of intentional violent deaths per 100,000 inhabitants.

Enhancing Policies for the Protection and Welfare of Women and Diverse Populations. The IDB will support the country in developing targeted policies for women and diverse populations. In the area of citizen security, the reduction of violence against women and diverse groups, including Afro-descendants and LGBTQ+ individuals, will be measured by the number of violent deaths—specifically, homicides of Afro-descendants, domestic violence against women, and recorded violent incidents against LGBTQ+ individuals. The increase in school retention among Afro-descendants will be evaluated by the proportion of Afro-descendant students aged 15–17 attending high school or having completed basic education. Lastly, the reaffirmation of indigenous people's land rights will be measured by the number of regularized land titles.

Portfolio Alignment. The pipeline for 2024 – 2025 The portfolio will also improve healthcare quality and access to services.<sup>111</sup> The portfolio will also increase the quality of education and strengthen the qualifications of the labor force.<sup>112</sup> Finally, the portfolio will assist in citizen security.<sup>113</sup>

<sup>109</sup> This approach has been implemented in Ceará; the state most successful at improving literacy rates in all its municipalities.

<sup>110</sup> Índice de Desenvolvimento da Educação Básica.

<sup>111</sup> BR-L1612; BR-L1602; BR-L1630.

<sup>112</sup> BR-L1621; BR-L1580.

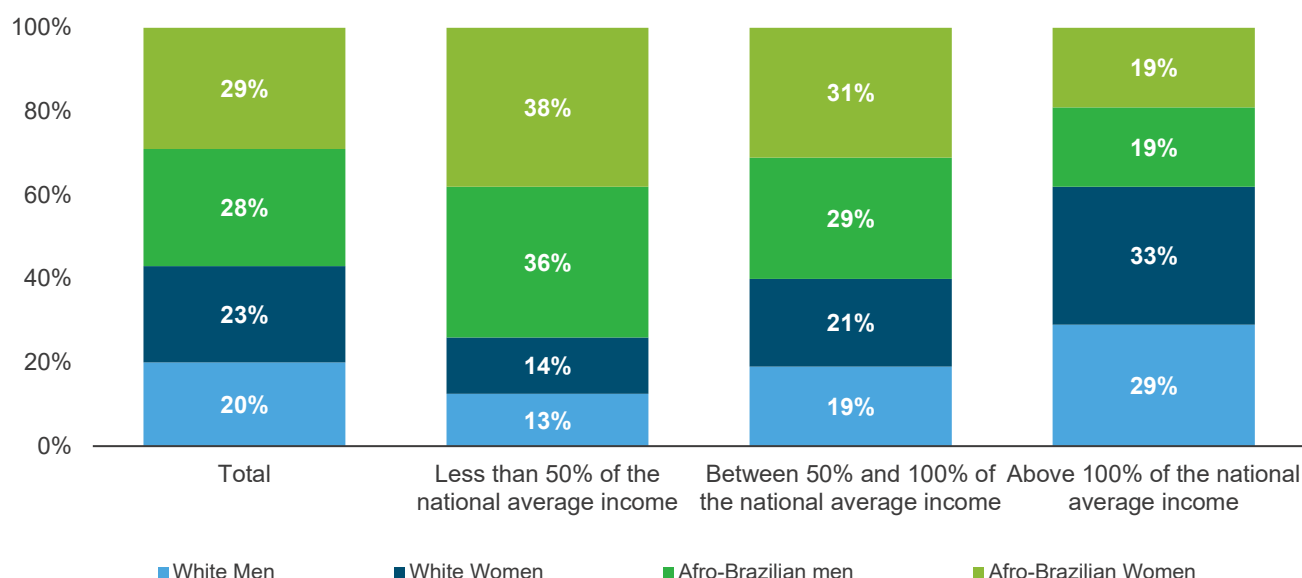
<sup>113</sup> BR-L1649.

## CROSSCUTTING ISSUES

### WHY THEY MATTER:

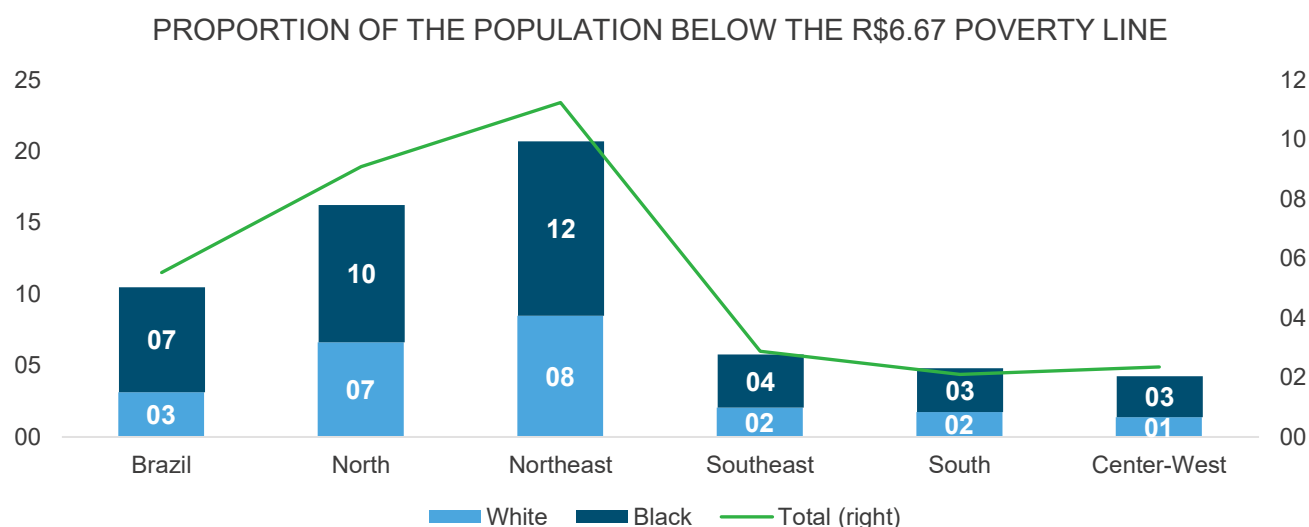
➔ **2.57. Gender, racial, and social inequalities are deeply rooted in Brazil.** Despite recent progress, women, Afro-descendants, Indigenous people, immigrants, and LGBTQ+ persons are all less likely to escape income poverty<sup>114</sup>. In Brazil, brancos earn 66% more, on average, than do members of other ethnic groups. Non-brancos are 60% more likely to lack access to basic sanitation and more than twice as likely to be illiterate (OECD, 2020). Preto women have the highest unemployment rate at 20.1%, compared with 12.9% for both preto men and branco women and just 9.1% for branco men (UNDP, 2022). Discrimination also limits equal access to opportunities in education, work, and housing for LGBTQ+ people (UNDP, 2021). Women and Afro-descendants face unique disadvantages in the labor market. Finally, Venezuelan refugees and other immigrants in Brazil often have difficulty integrating into the education system, social protection programs, and the formal labor market. Compared to native Brazilians, they are 53 percent less likely to be in school, 64 percent less likely to have formal employment, and 30 percent less likely to access social assistance programs.<sup>115</sup>

FIGURE 7: CROSS-CUTTING ISSUES



<sup>114</sup> Between 2013 and 2019, over 260,000 Venezuelans applied for refugee or residency status in Brazil, with the vast majority entering through Roraima. As of May 2024, there approximately 568,000 Venezuelan migrants had settled in Brazil (R4V, 2024).

<sup>115</sup> Integration of Venezuelan Refugees and Migrants in Brazil (2021), World Bank and UNHCR.



Source: IBGE and IPEA Social Indicators

**2.58. Climate change poses severe risks to the Brazilian economy.** Climate change is a developmental challenge, not just an environmental one, that jeopardizes the achievement of key development goals and threatens the viability of infrastructure assets essential to future prosperity. Increasingly frequent and severe extreme events and the acceleration in slow-onset trends—such as rising temperatures and sea levels and glacier retreats—will take a toll on development and compromise socioeconomic progress worldwide. Adaptation and climate resilience are vital to protect assets from current and expected climate risks. WRI (2020) found that countries such as Brazil tend to be more susceptible to risks caused by extreme weather events, as they have less resilient infrastructure and less advanced mechanisms to prevent and cope with natural disasters. The effects of climate change will be most severe in the agriculture, forestry, and energy sectors. Reduced water availability is likely to slash yields, while diminished soil moisture is expected to change the distribution of areas suitable for agriculture. The livestock industry is also highly vulnerable to the impact of rising temperatures on animals and reduced water availability (World Bank, 2021; Muñoz Castillo et al., 2020)<sup>116</sup>. In 2024, Rio Grande do Sul, Brazil's southernmost state, was affected by unprecedented floods. In the state's capital, Porto Alegre, the Guaíba River rose more than five meters above its normal level, breaking a record set in 1941. The floods displaced over 600,000 people and directly or indirectly affected over 2 million. In 446 of the state's 497 municipalities, more than 150,000 individuals were displaced. The flooding was attributed to a rare combination of above-average temperatures, high humidity, and strong winds. The state government has estimated the rebuilding cost to be over US\$4 billion.

**2.59. Institutional capacity, rule of law, and citizen security are crucial for sustainable and inclusive growth.** Institutional capacity is vital to improve the ability of the state to perform its functions and services and to create an enabling environment for investment and private-sector development. Strong institutions are critical to promoting inclusive and sustainable growth, increasing expenditure efficiency and tax collection, enabling the effective implementation of policy and the delivery of public services, bolstering public and private investment, increasing domestic resource mobilization, promoting transparency, integrating feedback from civil society, and improve citizen security and quality of life. In addition, institutional capacity is critical to enable the effective implementation of development projects and ensure the sustainability of outcomes.<sup>117</sup>

<sup>116</sup> Brazil has experienced increased frequency and severity of extreme weather events. Estimates from the National Water Agency (2019) suggest that, by 2035, 73.7 million Brazilians will live in inadequate water-safety conditions due to the high rate of urbanization combined with water scarcity in areas such as the semi-arid Northeast region.

<sup>117</sup> IDB Strategy+, 2024.



## III. HOW WE WILL DO IT

### A. PROGRAMMATIC APPROACH

- 3.1 Programmatic approach to strategic selectivity and impact.** A programmatic approach is needed to achieve scale and impact across Brazil's diverse geographical settings, enhancing the alignment between national priorities and the needs identified by clients at the federal, state, and municipal levels. The primary goal of adopting this approach is to implement a diverse set of interventions tailored to specific development challenges, ensuring strong internal consistency and measurable objectives. This approach will guide the evolution of the portfolio to meet defined strategic objectives, focusing on a larger scale, but on a smaller number of priorities, thus promoting selectivity. It aims to increase the scale of interventions, and, consequently, the potential impact of projects, resulting in a better use of funds with sovereign guarantee. A program can be defined as a set of interventions that includes various types of support, instruments, and technical cooperation, adaptable according to the indicators of each program but maintaining strong internal consistency.
- 3.2 These approaches have gained greater prominence among Multilateral Development Banks (MDBs).** Programmatic instruments such as Conditional Credit Lines for Investment Projects (CCLIPs) and Programmatic Policy-Based Loans (PBLs) will be utilized to address systemic challenges. During the period of the EBP, the IDB will intensify its commitment to designing and deploying CCLIPs as an organizing instrument, increasing the depth of each credit line's diagnostic of the development needs and the types of interventions required over time. The proposed program-based approach would allow the IDB to strengthen the selectivity and vertical logic of interventions, including the consistency between expected results and the resources allocated for them, and the complementarity of smaller-scale interventions for aggregate impact. Also, this approach will better integrate IDB Group's initiatives in Brazil, and thus the achievement of a better balance between operations in institutional capacity and investment projects in each sector, maximizing the potential impact of interventions. A programmatic approach also encompasses a strategic use of IDB instruments, such as result-based projects, to guarantee long-term sustainability in the implementation of public policy and reach the defined objectives in the long run. Also, technical cooperation can be used to elaborate on the established programs.
- 3.3 The programmatic approach will seek to leverage internal synergies, multilateral cooperation and the knowledge agenda.** During the EBP period, special emphasis will be placed on creating synergies across different IDB Group divisions and mobilizing resources from other donors and strategic partnerships. The IDB will strengthen the upstream work especially through PBLs. Given the substantial unmet demand for federal guarantees and the increased activity of other multilateral development banks (MDBs) in Brazil, the IDB Group will intensify its dialogue with the government and other development partners to strengthen cooperation and create a robust pipeline of high-impact projects. The IDB Group's support extends beyond operations. It includes ongoing policy dialogue, a comprehensive knowledge agenda, technical assistance, and active engagement with the existing portfolio, all aligned with the country's strategic objectives.
- 3.4 Innovative financial tools will be deployed to align client needs with strategic objectives.** These include federal and state-level PBLs for essential reforms, multisectoral PBLs, hedging instruments,

long-term foreign exchange (FX) liquidity facilities, blended finance, and debt swaps. The IDB Group will also enhance resource mobilization through local-currency lending and guarantees, targeting the public and private sectors to attract investment and mitigate risks. Furthermore, the IDB Group will actively engage with global impact investors, particularly for initiatives within the Amazon region. The 2024–2027 Country Strategy will also advocate for using new financial instruments, such as debt-for-nature and debt-for-climate conversions, to support Brazil in fulfilling its biodiversity and climate commitments, especially through the policies and actions of subnational entities. In addition, tools for managing the risk of natural disasters will be promoted, reflecting the IDB Group's commitment to leverage financial innovation to advance development efforts. Finally, in collaboration with other partners, the IDB Group will support the establishment of a regional framework conducive to the issuance of Amazonian bonds.

## B. SYNERGIES

- 3.5 IDB Invest and IDB Lab's alignment with the strategic objectives of Brazil's PPA will boost synergies within the IDB Group.** The PPA envisages private interventions in areas such as access to quality public healthcare; urban mobility, housing, basic sanitation, social facilities, and infrastructure; conservation, environmental restoration, and the sustainable use of resources; industrialization that leverages new technological bases and promotes the decarbonization of the economy; the strengthening of production chains and improvements in the business environment; the expansion of clean and renewable energy sources and greater energy efficiency; and inclusive digital transformation, including through the dissemination of high-speed internet. The pillars of the strategy cover all these areas, and the private sector's actions are outlined under each pillar.
- 3.6 IDB Invest's new business model and increased capital provide additional tools to improve the IDB Group's impact and contribution to Brazil's strategic objectives.** These new tools will enable the IDB Group to step up the mobilization of institutional investors and enhance its local currency offering while increasing its ability to engage in high-risk, high-impact projects. They will also enable the IDB Group to focus on the social agenda to better support poor and vulnerable populations and expand advisory services.
- 3.7 IDB Lab will collaborate across various areas.** While it will continue to finance investments in start-ups, venture capital, and seed funds, it anticipates placing a greater emphasis on institutional capacity building and policy dialogue. This includes more systematic engagement with federal and subnational authorities, particularly in innovation. In equity, the strategy proposes placing greater emphasis on investments in start-ups within the bioeconomy sector.
- 3.8 During the EBP 2019 – 2022 period, the IDB Group supported various PPP initiatives, both at the national and sub-national levels.** This support included technical assistance, fee-for-services arrangements, and loans focused on building capacity, reforming institutions, strengthening the regulatory framework, improving project preparation, and financing projects. The sectors targeted for projects included urban mobility, transportation, public lighting, sanitation, sustainable roads, healthcare, education, and parks, among others.<sup>118</sup>
- 3.9 The EBP 2024 – 2027 identifies key areas for upstream work.** These include strengthening the institutional frameworks for structuring PPPs; providing accurate analysis and reporting of the fiscal impact of PPPs; developing upstream regulatory technical assistance and structuring concessions in water and sanitation, solid-waste management, and resilient and sustainable transport; supporting microeconomic reforms that underpin guarantees and improved credit access; strengthening regulations around climate risk; designing innovative instruments to mobilize resources for sustainable

<sup>118</sup> IDB, 2023. PPP Country Profile – Brazil.

investment; constructing public-private models for the electrification of municipal public transport fleets; and identifying and studying value chains associated with the bioeconomy, including logistics networks and infrastructure.

**3.10 In Enabling the green transition and strengthening climate resilience, the IDB Invest and IDB Lab will create private-sector solutions to restore ecosystems, finance productive development, and promote innovation.** IDB Invest can support private-sector projects to develop sustainable bioeconomic activities in recovered areas. To protect ecosystems, the IDB Group will evaluate and structure PPP schemes for managing and conserving natural parks and forests and reforesting degraded areas in the Amazon. This will involve extensive public dialogue and stakeholder engagement.<sup>119</sup> The public sector can improve law enforcement, strengthen environmental asset management, enhance social protection and public services, and improve the business environment for sustainable activities. The IDB Group will support innovative housing projects, including through PPPs, and help design financial mechanisms to incentivize private investment.<sup>120</sup> Developing guarantees to promote access to housing finance for low-income households will help address disparities in homeownership while mobilizing additional private resources. In water and sanitation and urban mobility, the IDB Group will continue its efforts to increase private-sector participation through concessions, public-private partnerships (PPPs), and other modalities while also supporting improved planning, transparency, and supervision by regulatory bodies and enabling larger investments in the sectors.

**3.11 In accelerating growth through strong institutions and enhanced productivity, the IDB Group will support using innovative public procurement tools and e-government solutions to enhance efficiency in the public sector.** Integrated financial solutions at the IDB Group level will improve households' and firms' access to credit. Deploying government guarantees to mitigate the credit risk for commercial financial institutions can expand credit access for MSMEs and other underserved groups, particularly in the North and Northeast and for sustainable investments. IDB Invest will continue to provide financial resources to firms to foster intraregional trade and strengthen integration into global and regional value chains. IDB Invest will utilize trade-finance solutions to enable linkages with global supply chains and support the internationalization of domestic companies. The IDB Lab will support the development of Brazil's entrepreneurship ecosystem and promote innovations. The IDB Invest will support productivity gains and job creation by leveraging industry 4.0 and neo-industrialization to enhance Brazil's global competitiveness. Using its technical expertise and additionality, the IDB Invest will focus on sustainable and inclusive infrastructure financing, particularly for large or complex projects. The IDB Group will aid the country in areas in which the private sector will require extensive institutional support, including risk mitigation, financial structuring, and advisory services, among others. In PPPs and concessions, the IDB Group will aid the country in streamlining the PPP process and enhance its transparency, build institutional capacity for PPP design and implementation, especially at the subnational level. mitigate political risk for investors and lenders and improve the fiscal management of PPPs (CDC, 2022).

**3.12 In advancing a new social agenda to promote prosperity and inclusion.** The IDB Group will invest in innovative private-sector projects in several key areas. The IDB Group will prioritize and scale PPPs in the health and education sectors. In the education sector, the IDB Group will support improved learning outcomes and investments in school infrastructure<sup>121</sup> by helping governments construct new schools in underprivileged areas and renovate older schools in more affluent parts of the country under PPP schemes. IDB Invest is committed to assisting the private sector in delivering health services through robust, long-term contracts with high-performing companies and organizations. This approach

<sup>119</sup> The government's pledge at COP 28 to restore and reforest 12 million hectares of forest area by 2030 can be achieved only by scaling up current restoration efforts. In 2021, Brazil passed a law allowing payments for environmental services in forestry concessions, forging a new path to private participation in restoration efforts. Analysis shows that forest restoration projects could mobilize up to R\$60 billion in investments over 30 years, mainly in the Amazon (BNDES, 2024).

<sup>120</sup> See: <https://www.gov.br/cidades/pt-br/assuntos/publicacoes/publicacoes-periferias>.

<sup>121</sup> School infrastructure in Brazil, encompassing facilities, equipment, and services, are essential for the operation of schools and support of student learning and plays a crucial role in educational outcomes. The state of school infrastructure varies significantly across the country, with disparities often seen between urban and rural areas, as well as among different regions.



ensures a sustainable impact on public health management. PPPs in the health sector will reduce reliance on public spending in cases where market conditions make private-sector solutions feasible. The IDB Group will also implement advisory services focused on reskilling and upskilling the workforce while promoting simultaneous investments in technology and professional training. The IDB Group will promote entrepreneurship in critical segments such as education, and health, leveraging the dynamism of private-sector innovation. The IDB Group will support the application of open innovation tools to create new solutions to development challenges, particularly in the education and health sectors. These efforts will be particularly relevant in addressing challenges around access to services in the Amazon. The IDB Group will incentivize the private sector to boost female participation in the workforce, including in managerial and C-suite positions, and reduce discrimination against Afro-descendants. The private sector can play a key role by partnering with academia to update job specifications, and skills demanded to reflect labor-market needs better and by encouraging female participation in STEM programs. Finally, the IDB Group can support the country in improving its care system by building affordable childcare and eldercare facilities, which will further increase female participation in the labor force. In innovation, the IDB Group will aid the country in creating programs to encourage women to enter STEM fields and develop mentorship opportunities, support networks, and role models for women interested in STEM careers.

## C. IDENTIFICATION OF REFORMS<sup>122</sup>

**3.13 In Pillar 1**, the IDB Group will support financial, fiscal, and environmental policy reforms designed to mobilize resources, create markets, and build the institutional capacity necessary to facilitate the implementation of the Ecological Transformation Plan. In this context, the IDB Group will promote the adoption of new methodologies and institutional mechanisms and the implementation of financial innovations to reduce exchange-rate risk by creating a platform for financial solutions supporting investments that advance climate change adaptation and mitigation and other socio-environmental objectives. Some of the key reforms at the Federal and state level targeted include: (a) design and implementation of the legal and normative framework to reduce exchange-rate risk for foreign investment in sustainable projects (Eco-Invest Program); (b) promotion of low-carbon hydrogen in Brazil, to contribute to the decarbonization of the transport and industry sectors and with significant export potential; (c) implement the National Bioeconomy Strategy and promote forest concession contracts for greater private sector participation in the industry; and (d) implement the Brazilian framework for sustainable sovereign bonds, allowing the issuance of sustainable sovereign bonds and consolidating the domestic green bond market, while serving as catalysts for the development of the corporate bond market. This intervention will be coordinated with IDB Invest to attract more private investment in Brazil.

**3.14 In Pillar 2**, The IDB will assist the country in reforming its tax system to boost growth and reduce inequality. The Brazilian tax system needs to be modernized, made more equitable, and less costly to comply with.<sup>123</sup> The recently approved tax reform will simplify indirect taxation through a value-added tax (VAT) system and reduce existing distortions, with important effects on long-term growth. Tax reform will profoundly change Brazil's fiscal-federalism framework, especially measures that strengthen tax collection. The IDB Group will aid the country in reforming regulatory governance and strengthening monitoring and evaluation (M&E) systems. It will also support future reforms to increase productivity and enhance the fiscal and regulatory environment.

**3.15 In Pillar 3**, making the best use of available data sources, including the Unified Social Assistance System (Sistema Único de Assistência Social) and the Unified Registry (Cadastro Único), to accurately identify vulnerable people and design effective policies is crucial to modernize the country's social

<sup>122</sup> IDB will support the country in key reforms during the strategy period.

<sup>123</sup> Ayres et al. (2022) show that a tax reform would boost long-run growth by 1.4%. The IDB will assist the government in reforming income and consumption taxation through studies and the PROFISCO III line of credit.



protection system. In recent decades, Brazil has created social protection schemes to protect workers from economic shocks, alleviate poverty, and mitigate inequality. However, most existing programs focus on formal workers, and an estimated 6 million vulnerable individuals—including informal, unemployed, discouraged, and self-employed workers—are not included in any government registry.<sup>124</sup> The IDB Group will support efforts to improve data quality to better identify and target vulnerable populations.<sup>125</sup> In addition, the Bank intends to deploy a Gender and Diversity Policy-Based Loan with MPO to strengthen regulations and institutional capacities for gender equality, to reduce ethnic-racial inequalities and to address the exclusion of LGBTQ+ communities.

## D. REGIONAL IDB GROUP FLAGSHIP PROGRAMMES

**3.16 All pillars of the EBP 2024–2027 have contributed to the IDB Flagship programs.** Regarding Amazonia Forever, **Pillar 1** is aligned with the strategic objectives of combating deforestation, strengthening environmental control and security, promoting sustainable low-carbon agriculture, livestock, and forestry, advancing the bioeconomy and creative economy, and fostering sustainable cities and infrastructure. Additionally, it addresses cross-cutting issues, including the inclusion of women, youth, Indigenous peoples, Afro-descendants, and local communities in climate, biodiversity, and forest conservation efforts. **Pillar 2** aligns with the strategic objectives of enhancing connectivity and digital inclusion, building institutional capacities and the rule of law, increasing financing and employment, and promoting sustainable cities and infrastructure. **Pillar 3** is focused on the People-centered objectives, aiming to ensure adequate access to quality education, healthcare, and employment, while also addressing sustainable cities and the inclusion of women, youth, Indigenous peoples, Afro-descendants, and local communities. Furthermore, regional integration under Pillar 2 will contribute to the Routes for Integration program. The EBP 2024–2027 will support the country through financing and technical cooperation, facilitating the implementation of initiatives centered around the integration routes.

## E. STRATEGIC ALLIANCES

**3.17** During the EBP 2024–2027, the IDB Group will establish strategic partnerships to maximize its impact and leverage resources and knowledge. **In Pillar 1**, given the importance of environmental issues, the IDB Group plans to collaborate with various multilateral development banks (MDBs) to finance initiatives that support the green transition.<sup>126</sup> Regional development banks also represent key partnership opportunities due to their extensive presence and influence within the country.<sup>127</sup> In terms of knowledge and technical assistance, the IDB Group aims to establish partnerships with various think tanks and civil society organizations that focus on environmental and climate change issues.<sup>128</sup> **In Pillar 2**, the IDB Group will prioritize partnerships to mobilize resources, particularly in the infrastructure sector. Additionally, it will seek partners to improve the quality of public expenditure and advance the digitalization of governments.<sup>129</sup> The IDB Group will also collaborate with think tanks and academic institutions to enhance the country's international integration, particularly within global value chains. **For Pillar 3**, the IDB Group intends to partner with MDBs, think tanks, civil society, and academic

<sup>124</sup> Souza et al. (2020)

<sup>125</sup> Data on formal workers come from the Annual Report of Social Information (Relação Anual de Informações Sociais, RAIS), is updated annually, but the same is not true for CadU data. Camargo et al. (2022) estimate that as of 2019, the CadU featured up-to-date information for slightly over half of those registered. The AE program boosted registration, but how this data will be updated and used to improve the program's focus remains to be seen. The pandemic revealed the need to expand the protection network, reaching groups not covered by worker protection programs—especially informal workers.

<sup>126</sup> The World Bank, NDB, AFD, KFW, CAF, BEI, ADB, AIIB, KIF, AECID.

<sup>127</sup> BNDES, BB, and CEF.

<sup>128</sup> Examples are World Bank, USAID, UK, SIDA, AFD, WWF, GEF, AECID, BEI, GCF, UK, Fundação Dom Cabral, FGV Sustentabilidade, INPE, USP, UFAM, INPA, Cepam, Instituto de Energia e Meio Ambiente, IPEN-USP, Insper. Civil Society: SOS Amazônia, FAS, WWF, Nature Conservancy, Conservation International, Instituto Ecoar, ECAM, Ipê, ISA, WRI, Fundação Biodiversitas, FBDS, COIAB, CONAQ, CNS, IPAM, Conservation International, Conexsus, Museu Paraense Emílio Goeldi, SEBRAE, The Nature Conservancy, Conservation International, and private-sector mobilization partners.

<sup>129</sup> Financing: KFW, AFD, World Bank, CAF, KIF, Regional Development Banks, Private Banks. Knowledge and Technical Assistance: SAID, KFW, GIZ, AFD, USAID, UK, WRI, GIZ, FGV, Insper, USP, USP-RP, UnB, the IMF, the World Bank, and the OCDE. Civil Society: Sistema B Brasil, IECAP, Artemisia, Quintessa, BrazilLab, FAPESP, SEBRAE, SDE, CUBO, Fundação Itaú, ImpulsoGov, JPAL-LAC.

institutions to improve the quality of expenditure in health and education. These partnerships will also focus on evaluating public policies, particularly emphasizing reducing inequalities.<sup>130</sup>

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<sup>130</sup> Examples are Financing: World Bank, NDB, AFD, KfW, CAF, BEI, ADB, AIIB, KfW, AECID, Regional Development Banks. Knowledge and Technical Assistance: WHO, PAHO, FGV Social, Insper, USP, UnB, UNESCO, UNICEF, IEDE, and Fundação Carlos Chagas. Civil Society: IMDS, Fundação Bradesco, Fundação Itaú Social, Instituto Ethos, todos pela Educação, CLP, Fundação Abrinq, Fundação Estudar, Gol de Letra, Instituto Ayrton Senna, Sou da Paz, Fundação Lemann, Instituto Sonho Grande, MegaEDU, Instituto Unibanco, Imaginable Futures, Fundação Telefônica Vivo, Instituto Natura, Fundação Bracell, and Fundação Maria Cecília Souto Vidigal.



## IV. CONSIDERATIONS FOR IMPLEMENTATION AND CAPACITY BUILDING

### A. KNOWLEDGE

- 4.1 Fostering a robust policy dialogue and advancing a knowledge agenda that actively responds to government priorities represent comparative advantages for the IDB Group.** The government regards the knowledge agenda, in particular, as a distinguishing feature of the IDB relative to other multilateral organizations, as it is not solely tied to specific IDB investment projects yet remains aligned with the IDB Group strategy. The government acknowledges the IDB Group's efforts to generate and disseminate strategic knowledge crucial to implementing public policies and promoting socioeconomic development. During the EBP 2024 – 2027 period, the IDB Group will promote a knowledge agenda that effectively contributes to the objectives of IDBStrategy+ and the country strategy. It will also establish a corporate system to record and analyze knowledge products to facilitate the sharing and disseminating the knowledge generated.
- 4.2 The knowledge agenda will contribute for all pillars of the EBP 2024 -2027.** For Enabling the Green Transition and Strengthening Climate Resilience, the IDB through the Amazon Coordination Unit (ACU) is developing a unique geospatial intelligence and knowledge platform<sup>131</sup> called *Amazonia360*, that will provide the user a simplified access to a large amount of information and data about the Amazon region to help understand the region and contextualize operations in an optimized way. The IDB is also building an agenda that aims to strengthen Brazilian climate governance and its mitigation actions within the framework of the Climate Plan<sup>132</sup>, providing technical support to the Interministerial Committee on Climate Change. The IDB together with the government has analyzing the measure for improving environmental and social systems and realigning national public policies to promote a just transition to a low-carbon and resilient economy and subsidizing the country's position at the UN Climate Change Conference (COP 30), which will be held in Belém in 2025. The IDB is supporting the strengthening of state foundations to funding research in the legal Amazon region of Brazil and the creation of a network of research and innovation institutions between countries in the region, aiming to contribute to the scientific, technological and innovation development that allow the sustainability, quality of life and health of the Amazonian population.
- 4.3 The knowledge agenda will support the development of resilient and inclusive cities.** In water and sanitation, the IDB is supporting different initiatives focusing on the universalization of the services. For the EBP 2024 -2027, the IDB expects continues these collaborations, and to finance studies for improving the resilience of Brazilian cities and emergency plans of subnationals facing climate disasters. The IDB will also analyze the decarbonization plans for Brazilian subnationals. In Housing, the IDB has been working with the federal government for the modernization of the sector, including social housing<sup>133</sup>, sector data management and microcredit for home improvements. The IDB has also analyzed the environmental sustainability in home improvements. The IDB has been studying rental housing programs for the poor, assisting the government to create a new national program on social

<sup>131</sup> With capabilities from Operation RG-T4174.

<sup>132</sup> BR-T1575.

<sup>133</sup> <https://publications.iadb.org/pt/publications?f%5B0%5D=author%3A29617.https://legis.senado.leg.br/norma/37377355/publicacao/37378984>

rental, at the pre-design stage for a first piloting before national launch.<sup>134</sup> The IDB has helped to design several subnational programs on housing innovations.<sup>135</sup>

- 4.4 The IDB has a robust agenda for Accelerating Growth Through Strong Institutions and Enhanced Productivity.** The IDB is supporting models for simulation of an income tax reform and several improvements in the country's fiscal framework. The IDB Group is also aiding in the launch of sovereign sustainable bonds, and the establishment of the new hedging platform for sustainable investments, among other significant contributions. In addition, the role of dialogue and the knowledge agenda at the federal and subnational levels is crucial to combine policy, regulatory, and implementation measures that foster sustainable and resilient infrastructure. In The IDB will also develop a knowledge agenda to promote resilient-driven technologies, technical regulations and policy orientations in the infrastructure sector. Specifically, the IDB has an extensive knowledge production in renewables energy in Brazil.<sup>136</sup> The IDB analyzed different scenarios to achieve the decarbonization of the Brazilian economy in 2050.<sup>137</sup>
- 4.5 The knowledge agenda will also address social issues.** Partnership between the IDB and JPAL (The Abdul Latif Jameel Poverty Action Lab) focused on employment, generated studies ranging from professional qualification to microcredit and informality, directly benefiting Brazilian managers. The IDB has collaborated with Nubank and SEBRAE to launch a report on female entrepreneurship, as well as an important global alliance with the OECD, UNESCO, and the University of Oxford, to assess the impacts of AI on women's working lives. In citizen security, The IDB is supporting the analysis about the organized crime especially in the legal Amazon, environmental crimes and the intersection between drug trafficking and environmental crime. In Education, the IDB has been analyzing the use of digital technologies for management and learning, including a project to structure an early warning system for school dropout and failure. The IDB has studying systems for the selection, acquisition, and implementation of digital pedagogical platforms for the recompositing of learning. In addition, the IDB has analyzed the expansion of the integral education, the selection and allocation of professors and the racial education inequality in Brazil.

## B. MONITORING AND EVALUATION (M&E) CAPACITY

- 4.6 Brazil's advanced M&E system is aligned with OECD standards, but it could be further strengthened by institutionalizing, integrating, and scaling its various components and processes.** Technically and operationally, the role of M&E in the public administration is largely formal, and it could be more effectively consolidated in practice. The PPA is technically sound despite the absence of a standardized methodology. However, the lack of standardization results in major changes in structure and programmatic categories between government periods, which hinder the PPA's integration with the budget.
- 4.7 The country has substantial institutional capacity to implement M&E, and the system could be scaled and harmonized across different federal government sectors and among the states.** Brazil's highly qualified civil service includes well-trained and experienced M&E staff, but their technical capabilities could be further improved. Institutions such as the Ministry of Social Development (MDS) have developed their M&E systems over several decades, and some of these systems are superior to the Federation System in key respects, but the articulation with the work of the CMAP (Council for

<sup>134</sup> See <https://blogs.iadb.org/brasil/pt-br/concentrando-esforcos-em-busca-de-solucoes-para-questoes-complexas-o-exemplo-da-locacao-social/>.

<sup>135</sup> ProMorar Recife (BR-L1609) focusing on slum upgrading (infrastructure, disaster management, land titling, home improvements) and new housing policies (social rental, Housing First for the homeless); (2) ProMorar São Luis (BR-L1628) focusing on city center renewal (retrofit of heritage abandoned buildings for social rental, private sector participation). The IDB also supported local innovations at the project level, within a broader investment program: new resettlement modalities ("assisted purchase", see <https://publications.iadb.org/pt/reassentamento-involuntario-com-compra-assistida-experiencia-de-niteroi-rj>) in Niteroi (BR-L1386), innovative housing condos with mix use in João Pessoa (BR-L1421).

<sup>136</sup> BR-T1340, BR-T1395.

<sup>137</sup> BR-T1432 and BR-T1610.

Monitoring and Evaluation of Public Policies) is still low. State-level M&E systems have been broadly but not uniformly successful,<sup>138</sup> and they continue to face significant development and institutionalization challenges.

- 4.8 Integrating M&E into planning and budgeting processes, focusing on results, could contribute to a more uniform program structure underpinned by minimum quality standards.** The PPA could be strengthened by adopting a results-based budgeting approach. Currently, the outcomes of the PPA and the budget are monitored independently, without a unified procedure for technical review or the validation of indicators and targets. Evaluations are credible, results are reported, and recommendations are monitored, but the findings of M&E play a modest role in informing the decisions of the legislative and executive branches. Despite the excellence of some individual institutions, there is not yet a widespread culture of results-based management. The expenditure reviews conducted during the pilot stage of the CMAP complement the existing M&E system and can help strengthen results-based budgeting. Guidelines for identifying knowledge needs are in place, but there are no structured evidence maps to strategically guide evaluation work.
- 4.9 The IDB Group could contribute to strengthening the national M&E system by supporting improvements in key processes.** Short-term priorities include: (i) adopting a governance framework and management model that clearly define the relationships between actors and functions within the M&E, planning, and budgeting systems; (ii) developing a management model for the CMAP portfolio of evaluation methodologies and integrating it into the evaluation process at the federal and state levels; (iii) strengthening the results-oriented approach of PPA and the government program and budget by standardizing their formulation methodologies and procedures and by harmonizing their value chains, indicators, and M&E targets; (iv) integrating the technical and operational approaches to PPA and budget monitoring, and develop a tool to support the management of evaluations and the dissemination of their results; and (v) enhancing sectoral and state-level M&E systems by adopting lessons from the country's top performers. In the medium term, the IDB Group could: (i) advise on the development of a new regulatory framework that strengthens the M&E system and tightens its links with the PPA and the budget; (ii) support efforts to strengthen the program structure and improve information systems; and (iii) further expand the government's M&E capabilities while leveraging the strengths of the private sector, especially at the sectoral and state levels.

## C. NATIONAL FIDUCIARY SYSTEMS

- 4.10 Use of National Systems.** The IDB Group fully uses all subsystems of the national budget, treasury, and purchasing information systems, especially those for accounting and reporting, internal audits, external audits, price comparisons (standardized goods and services), partial national public bidding, and advanced national public tendering. During the strategy period, the IDB Group will support financial management initiatives designed to: (i) improve the interoperability of the Integrated Financial Information System with other subnational government applications; (ii) accelerate the adoption of International Public Sector Accounting Standards (IPSAS) at the federal level; (iii) support the Court of Accounts' strategic agenda for strengthening external control systems; (iv) engage in dialogue with the Association of Members of Tribunals of Accounts (*Associação dos Membros dos Tribunais de Contas*, ATRICON), as interlocutor with the State Courts of Accounts, to strengthen its performance measurement framework for the Courts of Auditors and to maintain the technical capacity of the IDB Group's project-audit bodies. In terms of public procurement, the IDB Group will support the federal government in implementing actions related the new Law No. 14,133, the Bidding and Administrative Contracts Law (*Lei de Licitações e Contratos Administrativos*), which has been in the process of adoption since April 2023; creating more transparent, efficient and purpose-oriented modalities and processes; expanding the use of alternative means of dispute prevention and resolution; applying

<sup>138</sup> Minas Gerais, and Ceará are successful example of monitoring and evaluation of public policies.

sustainability and innovation criteria through bidding processes; and adopting an open-data format for public procurement information. An ongoing dialogue will be maintained with the authorities to perform a new MAPS assessment based on the 2018 methodology.<sup>139</sup>

**TABLE 1 COUNTRY FIDUCIARY SYSTEMS**

Use of Fiduciary systems	Baseline 2023	Estimated use by the end of the strategy (2027)	Planned actions
Budget	100%	100%	None anticipated
Treasury	100%	100%	1. Promote participation in the FOTEGALs
Accounting and financial reports	45%	48%	1. Promote participation in the FOCALs. 2. Review/update the status of IPSAS implementation
Internal audit	0%	0%	Maintain dialogue
External audit	65%	65%	1. Promote participation in the OLACEFs 2. Supporting the initiatives of the ATRICON 3. Diagnosis for Courts of Accounts
Information systems	100%	100%	1. Monitoring and evaluation 2. Promote participation in the working groups and conferences of the RIGC
Shopping	94%	100%	1. Monitoring and evaluation 2. Promote participation in the working groups and conferences of the RIGC
Individual consulting services	0%	0%	Not foreseen
Partial NCB	20%	20%	1. Monitoring and evaluation 2. Promote participation in the working groups and conferences of the RIGC
Advanced NCB	0%	0%	Not foreseen

<sup>139</sup> The annex II summarizes the level of use of National fiduciary systems, as of December 31, 2023.



## D. EMERGENCY RESPONSE

- 4.11 The EBP 2024 – 2027 pillars emphasize a comprehensive approach to emergency preparedness and response, particularly regarding climate-related disasters and economic resilience.**
- 4.12 Climate Change Mitigation and Adaptation.** The first pillar focuses on supporting the country in mitigating the effects of climate change and adapting to its unavoidable impacts. This includes planning for climate-related disasters such as floods and droughts. By enhancing resilience to climate change, this pillar aims to reduce the vulnerability of communities and critical infrastructure.
- 4.13 Fiscal Management System and Financial Instruments.** The second pillar addresses integrating emergency planning within the country's fiscal management framework. This involves mainstreaming emergency preparedness into the national budgeting process, ensuring that funds are allocated efficiently and are readily available when disasters strike. Moreover, the IDB Group can help Brazil build a robust, long-term solution to strengthen the government's readiness for natural disasters. This includes innovative financing approaches that combine capital-market instruments, contingent credit lines, and the restructuring of existing guarantee funds. The strategy can prioritize the restructuring and strengthening of the National Fund for Disasters. A systematic approach will help mitigate the economic impact of emergencies and enhance the government's readiness to respond.
- 4.14 Social Protection System Reform.** The third pillar seeks to overhaul the country's social protection system to make it more adaptable and responsive to emergencies. This could involve updating policies and programs to provide timely and practical support to affected populations. Enhancing the flexibility of the social protection system will help ensure that aid reaches those in need swiftly and that robust mechanisms are in place to provide support during crises.
- 4.15 The three pillars represent a holistic strategy that addresses the immediate impacts of emergencies and builds long-term resilience and adaptability into the country's infrastructure, economic planning, and social systems.** In addition, the IDB Group offers a comprehensive suite of innovative Climate and Disaster Risk Finance (CDRF) products and services designed to enhance the country's resilience and promote fiscal sustainability.<sup>140</sup> An effective financial strategy should include a mix of financial instruments tailored to the country's climate and disaster risk profile and financing needs, including the Contingent Credit Facility for Natural Disasters and Public Health Emergencies<sup>141</sup> and the IDB Group's climate-resilient debt clause or debt-pause clause,<sup>142</sup> as well as through market transactions executed by the IDB Group.<sup>143</sup>
- 4.16 In the post-disaster phase, the IDB Group's role is limited to humanitarian aid and focuses on rehabilitation and reconstruction.**

<sup>140</sup> The IDB Group's support will include: assisting governments in the development and adoption of holistic CDRF strategies; providing technical support for the implementation of country-specific CDRF programs; conducting comprehensive risk assessments, including studies of hazards, exposure, and vulnerability; installing early warning systems and equipping and training response brigades; preparing emergency plans and conducting fiscal feasibility studies for emergency financing; developing funding mechanisms for emergency financing, such as reserve funds. The IDB Group will also develop technical inputs necessary for tailoring CDRF solutions to the country's specific risk profile, evaluate various CDRF options to aid governments in making informed decisions, and prepare and support governments in making key technical, financial, and legal decisions related to CDRF transactions.

<sup>141</sup> The facility is one of IDB's main ex ante risk-financing instruments to help borrowing member countries strengthen the financial management of natural disasters and public health risks. Its objective is to provide borrowing member countries with a considerable number of liquid resources following a natural disaster and public health event of severe to catastrophic proportions (eligible event) to help them provide humanitarian relief and restore basic services to the population.

<sup>142</sup> This instrument enables borrowers to have a one-time option to defer principal repayments for two years following the occurrence of an eligible natural disaster and repay those amounts in future amortization installments. This clause is known in IDB loan contracts as the Principal Payment Option.

<sup>143</sup> In this case, borrowers can transfer catastrophe risk away to the capital and/or insurance markets to hedge against catastrophic events with a low probability of occurrence but high economic impact. If an event triggers the parametric coverage, payment will be made to the country. In exchange, the country pays the cost of protection to the IDB. Premiums are based on targeted layers of risks. The coverage period is determined by country's preference, and transaction costs depend on the market instrument used.

## E. RISK OUTLOOK<sup>144</sup>

### MACROECONOMIC FACTORS

- 4.17 Risks:** The federal government has approved a new fiscal framework. Comprehensive fiscal reforms are necessary to ensure the sustainability of the public debt. Fiscal issues are not confined to the federal government, and subnational finances also face challenges. Regarding external factors, higher or more persistent inflation in advanced economies could exacerbate interest- and exchange-rate risks, raising financing costs, restricting capital flows to emerging economies, and affecting commodity prices. Such shocks could worsen economic conditions at both the national and subnational levels, thereby increasing overall country risk.
- 4.18 Mitigation:** During the EBP 2024 – 2027 implementation, Brazil's economic situation will be monitored periodically through the IDB Group's economic reports, including the Independent Assessment of Macroeconomic Conditions by the Research Department. In addition, the country office will produce current reports on the fiscal situation of subnational entities and maintain a close dialogue with them to identify emerging fiscal issues early and develop mitigation plans. This process will incorporate scenario analysis and ensure that plans to attenuate volatility, particularly related to exchange rates and inflation, are integrated into budgeting and execution processes.

### REGULATORY RISKS

- 4.19 Risks:** The country strategy focuses on engagement with federal government in close coordination with subnational entities. However, legal and regulatory procedures by the National Treasury needed to obtain guarantees, and Brazil's federalism arrangements may cause delays in signing loan agreements. In addition, Brazil's institutional environment may experience changes during the strategy period, particularly regarding the rules for assessing CAPAG. These factors are likely to reduce the ability of subnational entities to obtain federal government guarantees, which would affect the implementation of IDB Group projects and the likelihood of achieving results in key areas. For example, during the EBP 2019 – 2022 period, the pandemic and domestic political issues prompted the government to adopt several changes to the processes for implementing COFLEX operations and guarantees, managing indebtedness, and calculating CAPAG.
- 4.20 Mitigation:** During the EBP 2024 – 2027 period, the IDB Group will maintain a close dialogue with the authorities around procedures for assigning government guarantees. The IDB Group will also develop a model for analyzing the fiscal capacity of subnational entities to collaborate with those that demonstrate greater fiscal prudence, lessening dependence on the federal government's classification process.

### EXECUTION RISKS

- 4.21 Risks:** The main execution risks faced by the IDB Group in Brazil include the challenging technical and organizational capacity of some executing agencies, particularly at the subnational level, which could impact the physical development and disbursement of operations. Election cycles and continual turnover among project management teams in the executing agencies and coordinating units pose significant risks. Limited M&E capabilities, especially among subnational entities, increase execution risks.

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<sup>144</sup> This EBP identifies risks based on a new risk taxonomy developed based on the IDB's Risk Taxonomy (GN2547-15).

**4.22 Mitigation:** To mitigate these risks, during the implementation of the EBP 2024 – 2027, as part of the project preparation stage, the IDB Group will conduct an institutional capacity assessment of the executing agency to identify weaknesses that can be addressed from the outset. The IDB Group also holds periodic portfolio review meetings that include participants from the federal government to monitor the execution of operations and reach agreements to guarantee satisfactory performance. It offers training opportunities for the staff of implementing agencies. The IDB Group will strengthen the systematic integration of lessons learned from interventions at the subnational level, incorporate efforts to build project implementation capacity into the design of operations and work with the authorities to ensure that the M&E system produces results that inform the design of new projects.

## **ENVIRONMENTAL, CLIMATE, AND SOCIAL RISKS**

**4.23 Risks:** Brazil's environmental context remains challenging, with deforestation continuing and climate change-driven heat waves impacting key sectors such as agricultural commodity exports. Brazil is the most at-risk country in South America regarding deforestation, and deforestation represents a significant environmental risk as it remains the country's main source of carbon emissions. The EU's Deforestation Regulation could represent a key opportunity to apply greater scrutiny to commodity supply chains and export requirements. Extreme temperatures, heavy precipitation, flooding, and landslides are the most frequent and disruptive natural hazards in urban areas, adversely affecting the country's ecosystems. Droughts and water scarcity, in general, are expected to intensify. According to the Brazilian Research Network on Food Sovereignty and Security, nearly 15% of the population faces severe food insecurity. Food insecurity is most common in the North. Legal uncertainty over land rights makes Indigenous communities especially vulnerable to criminal networks that engage in illegal mining and logging, which can result in conflict, violence, and other forms of social harm.

**4.24 Mitigation:** The country strategy will leverage concrete policy actions to mitigate environmental, climate, and social risks. The ESG Supervision Hub aims to strengthen the uptake of ESG norms and standards by monitoring the performance of all operations classified as having high or substantial risk and inaugurating a new paradigm and business model based on decentralization, integration, and support to internal and external clients. During the EBP 2019 – 2022 period, despite the challenges entailed by the pandemic, new technologies and remote-monitoring practices were adopted to ensure the supervision of 100% of the portfolio with high or substantial risk.<sup>145</sup> The IDB Group's new Environmental and Social Policy Framework (MPAS) took effect in 2021. The transition from the old safeguards policies to the new policy has enabled the ESG team to begin implementing a series of activities aimed at strengthening the social and environmental aspects of project management through customized training for clients, the dissemination of ESG knowledge products, the exchange of experiences among implementing agencies, greater stakeholder engagement, and the increased use of grievance-redress mechanisms. The IDB Group will strengthen efforts to increase client capacity to monitor the climate, environmental, and social performance of operations, improve conflict prevention, and enhance project management to ensure sustainability and promote an equitable distribution of project benefits.

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<sup>145</sup> During the EBP 2019-2022 about 40 programs were supervised, of which 18% were Category A, 77% category B and 5% related to Financial Intermediaries. Regarding risk categorization, 36% of the programs are classified as high risk, 59% are of substantial risk (5% of moderate risk). It should be noted that Category A and high-risk programs usually involve significant resettlements, covering more than 500 families each, and high risks of disaster and climate change. The greatest impacts tend to be observed in the sectors of housing and urban development, water and sanitation, and transportation.

## ANNEX I – RESULTS MATRIX

GOVERNMENT PRIORITY <sup>146</sup>	PRIORITY AREA	STRATEGIC OBJECTIVE	EXPECTED RESULTS	INDICATOR	BASELINE, SOURCE, AND YEAR
<b>Axis 1.</b> Social Development and Guarantee of Rights  <b>Axis 2.</b> Economic development and socio-environmental and climate sustainability	<b>Enabling the Green Transition and Strengthening Climate Resilience</b>	<b>Strengthen environmental conservation and recover degraded areas</b>	Curb deforestation in the Amazon and Cerrado biomes	Annual deforestation in the Amazon and Cerrado biomes (in 1,000 km <sup>2</sup> )	20.1 (2023) Source: Portal Terra Brasilis / INPE <sup>147</sup>
			Increase forest coverage	Forest coverage (% total Brazilian territorial)	494 Million ha (58.08%) – 2022 Source: Mapbiomas <sup>148</sup>
		<b>Promote the sustainable use of natural resources</b>	Develop low-carbon agriculture and livestock activities	Agriculture and livestock GHG emissions	617.2 (2022) (million t Co2 equiv.) Source: SEEG – Observatorio do Clima <sup>149</sup>
		<b>Build inclusive and resilient cities</b>	Reduce qualitative housing deficit	Proportion of households in need of a dwelling	Brazil: 41.18% (2022) North: 76.54% Northeast: 58.79% Midwest: 40.58% Source: FJP – PnadC
			Build a green transport system through lower sector emissions	GHG Emissions from the Transport sector	216.9 (2022) (million t Co2 equiv.) Source: SEEG – Observatorio do Clima
			Expand the coverage of Sanitation	% population with access to a sewage network	Brazil: 60.7% (2023) North: 23.17%; Northeast: 38.64%; Midwest: 62.74% Source: SNIS <sup>150</sup>
			Increase access to safe drinking Water	% population with access to a water network	Brazil: 84.9% (2023) North: 64.2% Northeast: 76.9% Midwest: 89.8% Source: SNIS
<b>Axis 2.</b>		<b>Strengthen the public sector sustainability and government efficiency</b>	Improve the fiscal position of the public sector	# of states with CAPAG C or D	9 out of 27 states (2023) North: 2 Northeast: 3 Midwest: 1 Source: National Treasury <sup>151</sup>

<sup>146</sup> Expressed in the Multi-Year Plan (Plan).

<sup>147</sup> [https://terrabrasilis.dpi.inpe.br/app/dashboard/deforestation/biomes/legal\\_amazon/rates](https://terrabrasilis.dpi.inpe.br/app/dashboard/deforestation/biomes/legal_amazon/rates)

<sup>148</sup> <https://brasil.mapbiomas.org/#>

<sup>149</sup> <https://seeg.eco.br/>

<sup>150</sup> <https://www.gov.br/cidades/pt-br/aceso-a-informacao/acoes-e-programas/saneamento/snis>

<sup>151</sup> <https://www.tesourotransparente.gov.br/publicacoes/boletim-de-financas-dos-entes-subnacionais/2023/114>

<p>Economic development and socio-environmental and climate sustainability</p> <p><b>Axis 3.</b> Defense of democracy and reconstruction of the state and sovereignty</p>	<p><b>Accelerating Growth Through Strong Institutions and Enhanced Productivity</b></p>	<p><b>Empowering sustainable investments and fostering Regional Integration</b></p>	Expand the digital transformation of the public sector	# of state governments with top classification in terms of provision of digital public services (state level)	Brazil - 4 (2024) North: 0 Northeast: 1 Midwest: 1 Source: ABEP <sup>152</sup>
			Facilitate the access to credit for MSMEs	Ratio of total banking credit for MSMEs / Total banking credit for firms	46.9% (2023) Source: BCB <sup>153</sup>
			Expand the Financing for Bioeconomy	Total flow of climate financing for the bioeconomy (R\$ Billions) <sup>154</sup>	R\$16.57 billion (2023) <sup>155</sup> North: R\$ 171.3 million Northeast: 376.0 million Midwest: R\$ 151.6 million Source: Climate Policy Initiative <sup>156</sup>
			Expand sustainable finance	Annual issuances of thematic bonds <sup>157</sup>	US\$7.2billions (2022) Source: Climate Bonds Initiative <sup>158</sup>
			Increase regional (LAC) trade integration	Ratio (exports+imports from LAC countries) / Total exports+imports	15.9% (2023) Source: SECEX <sup>159</sup>
		<p><b>Driving infrastructure growth by leveraging private Investment</b></p>	Increase the private investment in infrastructure	Total private investment in infrastructure (R\$ billions or % of GDP)	R\$ 165.7 billion – 1.52% of GDP (2023) Source: Abdib <sup>160</sup>
			Improve the country's logistic	Logistic Performance Index	3.2 (2031) – rank: 51 <sup>st</sup> Source: World Bank <sup>161</sup>
			Increase share of renewables (e.g., wind and solar) in the energy matrix	Share of renewable energy (wind and solar) in the energy matrix	3.5% (2022) Source: EPE
		<p><b>Improve the quality of spending on</b></p>	Strengthen the primary health care	% of population with access to basic health care <sup>162</sup>	84.7% (2023) <sup>163</sup> North: 68.1% Northeast: 83.65% Midwest: 74.8%

<sup>152</sup> <https://abep-tic.org.br/pesquisa-indice-abep-tic/>

<sup>153</sup> <https://www3.bcb.gov.br/sgspub/localizarseries/localizarSeries.do?method=prepararTelaLocalizarSeries>

<sup>154</sup> Includes private and public financing.

<sup>155</sup> GDP in 2023: R\$10.9 trillion.

<sup>156</sup> <https://www.climatepolicyinitiative.org/wp-content/uploads/2024/09/Financiamento-para-a-Bioeconomia-no-Brasil-Fontes-e-Destinacao-dos-Recursos.pdf>

<sup>157</sup> Thematic bond issuances comprise the categories of green, social, sustainable, sustainability-linked bonds, and transition (Climate Bonds Initiative).

<sup>158</sup> [https://www.climatebonds.net/files/reports/cbi\\_lac\\_sotm\\_2022\\_pt.pdf](https://www.climatebonds.net/files/reports/cbi_lac_sotm_2022_pt.pdf)

<sup>159</sup> <https://www.gov.br/mdic/pt-br/assuntos/comercio-exterior/estatisticas>

<sup>160</sup> Livro-Azul-da-Infraestrutura-Edicao-2023-2.pdf (abdib.org.br).

<sup>161</sup> International Scorecard Page | Logistics Performance Index (LPI) (worldbank.org).

<sup>162</sup> Basic Health Care is the set of individual, family and collective health actions that involve promotion, prevention, protection, diagnosis, treatment, rehabilitation, harm reduction, palliative care and health surveillance, developed through integrated care practices and qualified management, carried out with a multiprofessional team and directed to the population in a defined territory, over which the teams assume sanitary responsibility (Source: PRT MS/GM 2436/2017, Art. 2).

<sup>163</sup> <https://iepsdata.org.br/local-health-panorama>

<b>Axis 1.</b> Social Development and Guarantee of Rights	<b>Advancing a new social agenda to promote prosperity and inclusion</b>	<b>health and education</b>		Share of population with access to infant education (0-3 years)	37.8% (2023) North: 21.2% Northeast: 35.8% Midwest: 32.9% Source: IBGE / INEP <sup>164</sup>
			Expand access and quality of education	Share of population with access to infant education (4-5 years)	Brazil: 89.9% North: 84.3% Northeast: 89.5% Midwest: 85.7% Source: IBGE / INEP
				Index of the Development of Basic Education <sup>165</sup> 5 <sup>th</sup> Grade – Final years	Brazil: 5.0 (2023) North: 4.6 Northeast: 4.7 Midwest: 5.2 Source: INEP <sup>166</sup>
				Expand technical and professional education	Brazil: 31.4% <sup>168</sup> (2023) North: 20.3% Northeast: 36.9% Midwest: 19.9% Source: INEP – Censo Escolar <sup>169</sup>
		<b>Promote citizen and integrated public security</b>	Lower the number of violent deaths	Rate of intentional violent deaths per 100 thousand inhabitants	21.7 (2022) North: 34.9 Northeast: 34.8 Midwest: 21.9 Source: Atlas da Violencia <sup>170</sup>
		<b>Strengthen policies for the protection and welfare of women and diverse population</b>	Reduce the Incidence of Violence Against Women and Diverse Populations, Including Afro-descendants and LGBTQ+ Individuals"	1. Violent deaths – afrodescendants (per 100 thousand inhabitants) 2. Women violent deaths inside home (per 100 thousand inhabitants) 3. Number of Violent cases against LGBTQ+	1. 29.7 (2022) 2. 1.2 (2022) 3. 8,028 (2022)  Source: Atlas da violencia (2022)
			Enhance the Retention and Graduation Rates of Afro-descendant Students Aged 15–17 in High School	% of afrodescendant population between 15 and 17 years old attending high school or completed basic education	73.4% (2023) Source: INEP
			Strengthen and improve the recognition and protection of land rights for indigenous peoples	Number of regularized indigenous territories	461 (2024) Source: FUNAI <sup>171</sup>

<sup>164</sup> <https://primeirainfanciaprimeiro.fmcsv.org.br/dados/brasil/>

<sup>165</sup> Brazilian Development Index of Basic Education.

<sup>166</sup> <https://www.gov.br/inep/pt-br/areas-de-atuacao/pesquisas-estatisticas-e-indicadores/ideb/resultados>

<sup>167</sup> The ratio of total enrollments in technical professional (any age) to total enrollment in secondary school

<sup>168</sup> Excludes subsequent courses or short duration.

<sup>169</sup> <https://www.gov.br/inep/pt-br/areas-de-atuacao/pesquisas-estatisticas-e-indicadores/censo-escolar/resultados>

<sup>170</sup> <https://www.ipea.gov.br/atlasviolencia/publicacoes>

<sup>171</sup> <https://www.gov.br/funai/pt-br/atuacao/terras-indigenas/geoprocessamento-e-mapas/painel-terras-indigenas>



## ANNEX II – PORTFOLIO ALIGNMENT AND INDICATIVE PIPELINE 2024 - 2025<sup>172</sup>

Priority Area	Strategic Objective	Portfolio Alignment
Enabling the Green Transition and Strengthening Climate Resilience	Strengthen environmental conservation and recover degraded areas	BR-L1613; BR-L1625; BR-L1634
	Promote the sustainable use of natural resources	BR-L1613; BR-L1625, BR-L1542; BR-L1562
	Build inclusive and resilient cities	BR-L1411; BR-L1421; BR-L1422; BR-L1497; BR-L1520; BR-L1596; BR-L1605; BR-L1609, BR-L1434; BR-L1445; BR-L1524; BR-L1589; BR-L1607; BR-L1402; BR-L1503; BR-L1532, BR-L1295; BR-L1492; BR-L1508; BR-L1574; BR-L1594, BR-L1369; BR-L1405; BR-L1487; BR-L1508; BR-L1536; BR-L1553
Accelerating Growth Through Strong Institutions and Enhanced Productivity	Empowering sustainable investments and fostering Regional Integration	BR-L1555; BR-L1556; BR-L1557; BR-L1576; BR-L1611, BR-L1582-
	Strengthen the public sector sustainability and government efficiency	BR-L1377; BR-L1498; BR-L1499; BR-L1500; BR-L1501; BR-L1502; BR-L1511; BR-L1513; BR-L1516; BR-L1517; BR-L1525; BR-L1527; BR-L1533; BR-L1534; BR-L1535; BR-L1539; BR-L1540; BR-L1550; BR-L1575; BR-L1592; BR-L1598; BR-L1599, BR-L1560; BR-L1564; BR-L1565; BR-L1591, BR-L1491
	Driving infrastructure growth by leveraging private Investment	
Advance a new social agenda for a prosperous and inclusive country	Improve the quality of spending on health and education	BR-L1372; BR-L1406; BR-L1408; BR-L1415; BR-L1429; BR-L1518, BR-L1519; BR-L1583; BR-L1606, BR-L1579; BR-L1328; BR-L1392; BR-L1551; BR-L1548; BR-L1597, BR-L1523
	Promote citizen and integrated public security	BR-L1331; BR-L1387; BR-L1545; BR-L1546; BR-L1547; BR-L1497; BR-L1331; BR-L1387; BR-L1545; BR-L1546; BR-L1547; BR-L1497; BR-L1620; BR-L1548; BR-L1621;
	Strengthen policies for the protection and welfare of women and diverse population	RG-T4609

<sup>172</sup> It does not include IDB Invest and IDB Lab operations.

Priority Area	Strategic Objective	Pipeline 2024 - 2025
Enabling the Green Transition and Strengthening Climate Resilience	Strengthen environmental conservation and recover degraded areas	<b>BR-L1633:</b> Bioeconomy Program for the Amazon - BB Amazon IDB-Banco do Brasil
	Promote the sustainable use of natural resources	<b>BR-L1617:</b> Bahia State Atlantic Forest Sustainable Development Project <b>BR-L1623:</b> Sustainable Rural Development Project of the State of Paraíba (PROCASE II) <b>BR-L1625:</b> PRO-AMAZÔNIA - BID-BNDES Credit Access Program for MSMEs and Small Entrepreneurs <b>BR-L1638:</b> IDB CLIMA - Minas for Results Program: Decarbonization and Climate Resilience Increase of the Minas Gerais Development Bank's credit portfolio <b>BR-L1639:</b> Reforms for the implementation of the Foreign Private Capital Mobilization and Exchange Protection Program and Support for Structural Improvements in Brazil's Institutional and Business Environment <b>BR-L1636:</b> Salvador Capital Afro - Afrocentred tourism development program of Salvador
	Build inclusive and resilient cities	<b>BR-L1588:</b> State Housing Program - State of Paraná - Vida Nova Project <b>BR-L1590:</b> Florianópolis/SC Urban Development Program - Floripa for All <b>BR-L1628:</b> ProMorar São Luís/MA Vem Pro Centro <b>BR-L1622:</b> Program for the Reduction of Polluting Gas Emissions through the Electrification of Bus Fleets <b>BR-L1615:</b> Parintins Integrated Sanitation Program - PROSAI Parintins <b>BR-L1616:</b> Program of Environmental Sanitation of CAESB 2 <b>BR-L1631:</b> Urban Environmental Program Macambira Anicuns Goiânia GO 2ª Etapa – PUAMA II <b>BR-L1648:</b> Contagem's Urban Requalification and Development Program – PROURBE <b>BR-L1647:</b> Belo Horizonte Environmental Recovery Program - 2nd stag
Accelerating Growth Through Strong Institutions and Enhanced Productivity	Empowering sustainable investments and fostering Regional Integration	Program for Regional Integration Routes <b>BR-L1604:</b> Financing Program for the Productive and Sustainable Recovery of MSMEs in Santa Catarina <b>BR-L1625:</b> PRO-AMAZÔNIA - BID-BNDES Credit Access Program for MSMEs and Small Entrepreneurs <b>BR-L1635:</b> Institutional reforms for competitiveness and improvement of the business environment <b>BR-L1619:</b> Credit Expansion Program for Investments in Telecommunications Networks <b>BR-L1633:</b> Bioeconomy Program for the Amazon - BB Amazon IDB-Banco do Brasil

	Strengthen the public sector sustainability and government efficiency	<b>BR-L1614:</b> Fiscal Management Modernization Project for the State of Tocantins - PROFISCO II TO <b>BR-L1629:</b> Project for the Modernization of Fiscal Management in the State of Amazonas - PROFISCO III AM <b>BR-L1618:</b> Project for Digital Transformation of the Judicial Branch of the State of Pernambuco <b>BR-L1620:</b> Program for the Modernization of the Judiciary of Espírito Santo - PROMOJUES <b>BR-L1626:</b> Bahia Mais Digital Program - Digital Transformation of the Government of the State of Bahia <b>BR-L1627:</b> PRODIGITAL - Federal Program for Digital Government and Infrastructure <b>BR-L1643:</b> Fiscal Management Modernization Project for the State of Ceará – PROFISCO III <b>BR-L1644:</b> Pará More Connected - Meaningful and Sustainable Connectivity for the Digital Transformation of Pará
	Driving infrastructure growth by leveraging private Investment	<b>BR-L1637:</b> Northeast Renewable Energy Integration Program
Advance a new social agenda for a prosperous and inclusive country	Improve the quality of spending on health and education	<b>BR-L1612:</b> Support of Social Reforms in Ceara - PROARES III- Phase II <b>BR-L1602:</b> SUS Strengthening Program in the State of Bahia - PROSUS II <b>BR-L1630:</b> Program for the restructuring and improvement of the quality of the hospital and specialized care network of the São Paulo <b>BR-L1621:</b> New Program to Accelerate Educational Progress in Amazonas State - PADEAM II <b>BR-L1580:</b> Program Education of the city of Sao Paulo can do better
	Promote citizen and integrated public security	<b>BR-L1649:</b> Safer Bahia Program
	Strengthen policies for the protection and welfare of women and diverse population	<b>BR-L1649:</b> Safer Bahia Program <b>BR-L1621:</b> New Program to Accelerate Educational Progress in Amazonas State - PADEAM II <b>BR-L1580:</b> Program Education of the city of Sao Paulo can do better <b>BR-L1635:</b> Institutional reforms for competitiveness and improvement of the business environment

## ANNEX III – NATIONAL SYSTEMS MATRIX

Strategic Objective	Expected Result	Indicator	Unit of Measurement	Baseline	Base Year	Target	Period	Alignment CRF
Increasing the Use of National Systems	Increase Use of the Accounting and Reporting Subsystem	Active Portfolio using the Accounting and Reporting Subsystem	Percentage of active portfolio	45%	2023	48%	At the end of the EBP	-Institutional Capacity and the Rule of Law -Productivity and Innovation -Social Inclusion and Equality
	Incremental Use of the Price Comparison Subsystem (pregão eletrônico)	Active Portfolio that uses the price comparison system (Pregão Eletrônico)	Percentage of active portfolio	94%	2023	100%	At the end of the EBP	-Institutional Capacity and the Rule of Law -Productivity and Innovation -Social Inclusion and Equality
Strengthening National Systems	Bridging gaps with international standards NICSP	Progress on the IPSAS Implementation Plan at the Federal Level	Implementation Progress Report	0	2023	1	At the end of the EBP	-Institutional Capacity and the Rule of Law -Productivity and Innovation -Social Inclusion and Equality
	Strengthened External Control System	Support for the Union Court of Accounts in the INTOSAI presidency	Documentation of case use technologies	0	2023	1	2023	-Institutional Capacity and the Rule of Law -Productivity and Innovation -Social Inclusion and Equality
		Support to the Union Court of Accounts in the UN Council of Auditors	Refresher course for Union Court of Accounts, UGC and State Courts of Accounts auditors in IPSAS	0	2023	1	At the end of the EBP	-Institutional Capacity and the Rule of Law -Productivity and Innovation -Social Inclusion and Equality
		Support ATRICON Update & Improve MMD Tool	Adjustment Recommendations Report	0	2023	1	At the end of the EBP	-Institutional Capacity and the Rule of Law -Productivity and Innovation -Social Inclusion and Equality
		Tenders that include sustainability and/or innovation criteria. Developed manuals or guides	Number of tenders with sustainability or innovation criteria supported by the IDB, or manuals developed	0	2023	8	At the end of the EBP	-Institutional Capacity and the Rule of Law -Productivity and Innovation -Social Inclusion and Equality
Improve the Operational Efficiency of the IDB Portfolio	Use of tender documents and contracts compatible with international practices in LPIs.	LPIs that use contracts with international standards.	Number of LPIs using documents with international standards	0	2023	3	At the end of the EBP	-Institutional Capacity and the Rule of Law -Productivity and Innovation -Social Inclusion and Equality

## ANNEX IV – ESTIMATED LENDING FRAMEWORK

During the 2024-2027 country strategy period, the IDB estimates approvals between US\$1.9 billion and US\$2.2 billion annually and annual disbursements in a range of US\$1.2 and 1.4 billion. Support will also take the form of national and regional technical cooperation projects and remunerated advisory services. As a result, the country's debt with the IDB will be US\$16.7 billion or 0.03% of its total gross public debt and 11% of its external public debt. Moreover, IDB Invest loans and technical assistance are expected to play an increasingly prominent role in the IDB Group's exposure to Brazil and facilitate resource leveraging to speed up economic growth and investment. IDB Lab will also facilitate synergies between the public and private sectors, spurring the development of innovative, high-impact operations.

Two scenarios are presented below. The first scenario assumes a more conservative projection of approvals between 2024 and 2027. Scenario 2 presents a less conservative scenario of approvals between 2024 and 2027.

Scenario 1	2019	2020	2021	2022	2023	2024	2025	2026	2027	Average 2024-2027
<b>Approvals</b>	<b>971.6</b>	<b>2,406.3</b>	<b>1,120.9</b>	<b>1,105.9</b>	<b>2,358.0</b>	<b>2,535.1</b>	<b>1,900.0</b>	<b>1,900.0</b>	<b>1,500.0</b>	<b>1,958.8</b>
- PBL/SDL	0.0	0.0	0.0	104.0	300.0	0.0	1,000.0	1,000.0	250.0	562.5
- Investment	971.6	2,406.3	1,120.9	1,001.9	2,058.0	2,535.1	900.0	900.0	1,250.0	1,396.3
<b>Disbursements</b>	<b>993.6</b>	<b>1,610.1</b>	<b>1,615.0</b>	<b>813.7</b>	<b>1,452.1</b>	<b>842.2</b>	<b>1,600.0</b>	<b>1,600.0</b>	<b>700.0</b>	<b>1,185.5</b>
- PBL	0.0	0.0	0.0	0.0	52.0	52.0	1,000.0	1,000.0	250.0	575.5
- Investment	993.6	1,610.1	1,615.0	813.7	1,400.1	790.2	600.0	600.0	450.0	610.0
<b>Repayment (Principal)</b>	<b>1,114.8</b>	<b>1,130.4</b>	<b>1,459.2</b>	<b>1,200.5</b>	<b>1,204.3</b>	<b>1,173.8</b>	<b>1,220.7</b>	<b>1,269.6</b>	<b>1,320.4</b>	<b>1,246.1</b>
<b>Net loan flows</b>	<b>-121.2</b>	<b>479.7</b>	<b>155.8</b>	<b>-386.8</b>	<b>247.8</b>	<b>-331.6</b>	<b>379.3</b>	<b>330.4</b>	<b>-620.4</b>	<b>-60.6</b>
<b>Suscrip. and contributions</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Interest and fees</b>	<b>545.0</b>	<b>369.8</b>	<b>238.3</b>	<b>404.1</b>	<b>986.5</b>	<b>1,082.7</b>	<b>1,126.0</b>	<b>1,171.0</b>	<b>1,217.9</b>	<b>1,149.4</b>
<b>Net cash flow</b>	<b>-666.2</b>	<b>109.8</b>	<b>-82.5</b>	<b>-790.9</b>	<b>-738.7</b>	<b>-1,414.3</b>	<b>-746.7</b>	<b>-840.6</b>	<b>-1,838.2</b>	<b>-1,210.0</b>
<b>IDB debt</b>	<b>15,470.0</b>	<b>15,827.0</b>	<b>16,400.0</b>	<b>17,202.0</b>	<b>16,700.0</b>	<b>15,285.7</b>	<b>14,538.9</b>	<b>13,698.3</b>	<b>11,860.1</b>	<b>13,845.8</b>
<b>IDB debt / Multilateral debt (%)</b>	<b>38.1%</b>	<b>39.3%</b>	<b>28.5%</b>	<b>29.8%</b>	<b>27.2%</b>	<b>24.9%</b>	<b>23.7%</b>	<b>22.3%</b>	<b>19.3%</b>	<b>22.5%</b>
<b>IDB debt / External public debt (%)</b>	<b>12.4%</b>	<b>12.7%</b>	<b>12.3%</b>	<b>14.1%</b>	<b>12.9%</b>	<b>11.8%</b>	<b>11.2%</b>	<b>10.6%</b>	<b>9.2%</b>	<b>10.7%</b>
<b>IDB debt / Central Government total debt (%)</b>	<b>0.04%</b>	<b>0.04%</b>	<b>0.03%</b>	<b>0.03%</b>	<b>0.03%</b>	<b>0.02%</b>	<b>0.02%</b>	<b>0.02%</b>	<b>0.02%</b>	<b>0.02%</b>

Scenario 2	2019	2020	2021	2022	2023	2024	2025	2026	2027	Average 2024-2026
Approvals	971.6	2,406.3	1,110.9	1,105.9	2,358.0	2,864.2	2,100.0	2,100.0	1,700.0	2,191.1
- PBL/SDL	0.0	0.0	0.0	104.0	300.0	0.0	1,000.0	1,000.0	250.0	562.5
- Investment	971.6	2,406.3	1,110.9	1,001.9	2,058.0	2,864.2	1,100.0	1,100.0	1,450.0	1,628.6
Disbursements	993.6	1,610.1	1,615.0	813.7	1,452.1	992.2	1,800.0	1,800.0	850.0	1,360.5
- PBL	0.0	0.0	0.0	0.0	52.0	202.0	1,000.0	1,000.0	250.0	613.0
- Investment	993.6	1,610.1	1,615.0	813.7	1,400.1	790.2	800.0	800.0	600.0	747.5
Repayment (Principal)	1,114.8	1,130.4	1,459.2	1,200.5	1,204.3	1,232.5	1,269.6	1,320.4	1,373.2	1,298.9
Net loan flows	-121.2	479.7	155.8	-386.8	247.8	-240.3	530.4	479.6	-523.2	61.6
Suscrip. and contributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest and fees	545.0	369.8	238.3	404.1	986.5	1,104.3	1,171.0	1,217.9	1,266.6	1,190.0
Net cash flow	-666.2	109.8	-82.5	-790.9	-738.7	-1,344.7	-640.6	-738.2	-1,789.8	-1,128.3
IDB debt	15,470.0	15,827.0	16,400.0	17,202.0	16,700.0	16,459.7	16,990.1	17,469.7	16,946.6	16,966.5
IDB debt / Multilateral debt (%)	38.1%	39.3%	28.5%	29.8%	27.2%	26.8%	27.7%	28.4%	27.6%	27.6%
IDB debt / External public debt (%)	12.4%	12.7%	12.3%	14.1%	12.9%	12.7%	13.1%	13.5%	13.1%	13.1%
IDB debt / Central Government total debt (%)	0.04%	0.04%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%



# ANNEX V – DEVELOPMENT EFFECTIVENESS MATRIX

## COUNTRY STRATEGY: DEVELOPMENT EFFECTIVENESS MATRIX

In August 2008, the Board of Directors approved the Development Effectiveness Framework (GN-2489) to increase the evaluability of all Bank development products.

The Development Effectiveness Matrix for Country Strategies (DEM-CS) is a checklist of the elements that are necessary to evaluate a country strategy. It is based on the evaluation criteria developed by the Evaluation Cooperation Group of the Multilateral Development Banks in the "Good Practice Standards for Country Strategy and Program Evaluation."

### COUNTRY STRATEGY: BRAZIL

#### STRATEGIC ALIGNMENT

Refers to the degree to which the design and objectives of the CS are consistent with the country development challenges and with the government's development plans and priorities.

#### EFFECTIVENESS

These measures whether the country strategy is likely to achieve its intended objectives, through an examination of three dimensions: (i) the quality of the diagnostics on which Bank action is based in each area of work; (ii) the quality of the results matrix for the strategy; (iii) the use and buildup of country systems.

Effectiveness dimensions	
<b>I. Country Diagnosis - Country Development Challenges (CDC)*</b>	<b>Yes/No</b>
- The CDC is comprehensive / holistic / complete	Yes
- The CDC clearly identifies the main development challenges	Yes
- The CDC presents magnitudes of the main development challenges that are based on empirical evidence	Yes
<b>II. Priority Areas Diagnostics</b>	<b>%</b>
- That clearly identify and dimension, based on empirical evidence, the <b>priority area's</b> specific constraints and challenges	100%
- That clearly identify and dimension, based on empirical evidence, the <b>main factors</b> or causes contributing to the specific constraints and challenges	100%
- That provide corresponding <b>policy recommendations</b>	100%
<b>III. Results matrix**</b>	<b>%</b>
- The strategic objectives are clearly defined	100%
- The expected outcomes are clearly defined	100%
- The strategic objectives and expected results that are directly related to the main constraints identified in the diagnosis	100%
- The indicators are outcome indicators and are SMART	100%
- The indicators have baselines	100%
<b>IV. Vertical logic</b>	<b>Yes/No</b>
- The CS has vertical logic	Yes

\* This analysis includes any potential diagnostic document used elaborated to inform

\*\* The Results Matrix is composed by indicators that are meaningful to, and capture progress towards, the expected results. The expected results stem from the strategic objectives.

## COUNTRY STRATEGY DIAGNOSTIC ASSESSMENT

As part of the country strategy, a country development challenges diagnostic assessment was presented (see the link containing the Country Development Challenges). This diagnostic assessment of development challenges is comprehensive and based on empirical evidence. It identifies three priority areas for the Bank's intervention: (i) enabling the green transition and strengthening climate resilience; (ii) accelerating growth through strong institutions and enhanced productivity; and (iii) advancing a new social agenda to promote prosperity and inclusion. The strategy will provide crosscutting support for challenges relating to: (a) Gender equality and inclusion of diverse population groups; (b) Climate Action; and (c) Institutional Capacity, Rule of Law and Citizen Security.

- The diagnostic assessment clearly identifies and dimensions, based on empirical evidence, the specific constraints, and challenges for the priority areas.
- It clearly identifies and measures, based on empirical evidence, the main factors or causes contributing to the specific constraints and challenges for the priority areas.
- It offers policy recommendations for Bank action, based on empirical evidence.

**Results matrix.** The results matrix corresponding to the new priority environment includes 9 strategic objectives for Bank action, 23 expected outcomes, and 26 indicators for measuring progress.

100% of the strategic objectives are clearly defined.

100% of the expected outcomes are clearly defined. 100% of the country strategy objectives are related to the main constraints identified in the diagnostic assessment.

100% of the indicators used are SMART.

100% of the indicators have baselines.

**Fiduciary systems.** Diagnostic assessments are available for all fiduciary subsystems. The Bank will continue using 100% of the country budgeting and treasury subsystems and partial use will be made of the accounting and information subsystem. For procurement, a diagnostic assessment is available for the information system. The Bank will work to strengthen procurement subsystems.

**Vertical logic.** The country strategy has vertical logic.

**Risks.** The Strategy identifies four risks: (i) macro risks; (ii) risks of execution and institutional capacity; (iii) Regulation risks, and (iv) natural disaster risks. Mitigation and monitoring measures have been identified for all the risks.