Overseas Development Institute

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Sector Wide Approaches in Brazil
Drivers, features and emerging lessons

– A study for DFID –

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Brasília, Janeiro 2007

Outline

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2. International context
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1. The study: background and objectives

- 3 **ongoing SWAp operations in Brazil**, 1 being negotiated, more in the pipeline?
- **SWAps in MICs** expanding although different aid framework
- **Aid effectivess**: changing aid approaches and principles, nature of conditionality, emphasis on partnerships and working through domestic systems

- Provide a **synthesis of lessons** learned in key aspects of Brazilian SWAps
- Offer **recommendations** on how to take the experience forward

1. The study: set up and methods

- **Team**: ODI, University of Birmingham and Brazilian researcher
- **Duration**: 3 months
- **Stages**: desk literature review, 2-week field work, report writing, dissemination
- **Literature**: (i) SWAps, with reference to WB policies; (ii) aid effectiveness; (iii) aid structures and trends in MICs, with reference to LAC region
- **Field work**: semi-structured interviews with key informants from GOB, GOC, WB, IADB and DFID
- **Caveat**: re the 3 selected programmes, this was an analysis of the underlying lending framework and not a detailed study of the programmes *per se*

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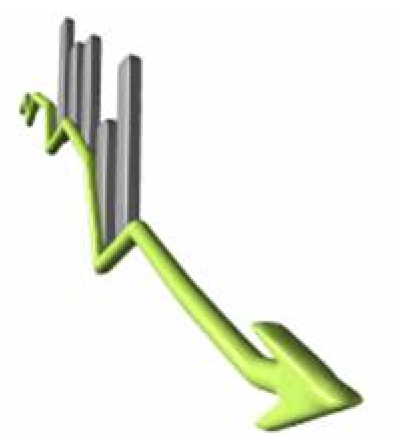
1. The study: guiding research questions

1. What are the defining features and objectives of Brazil SWAps – how different from the original concept?
2. How has the SWAp approach evolved in Brazil?
3. Have the SWAps improved aid effectiveness?
4. What factors determine the appropriateness and effectiveness of aid approaches and instruments in Brazil?
5. What lessons from the Brazilian experience can be applied to other LA countries and MICs?

2. International context: aid to MICs

- Aid relationship different in MICs relative to heavily aid-dependent and systems-weak LICs
- **Balance of power** in the ‘aid relationship’ shaped by lower aid dependency and stronger leadership and capacity in MICs



- Proportionately small ODA in MICs (vs private)
- Declining multilateral lending to MICs – IBRD’s by a quarter between early 90s and early 2000s
- World Bank Task Force on MICs: notes lack of alignment of priorities, rigidity of lending procedures and complexity of conditions
- New lending approach to reverse downward trend… followed by other multilateral agencies…

2. International context: aid effectiveness and SWAps

SWAps are part of the new lending approach to MICs

- SWAps **originated in different context** – to address fragmentation of aid framework and lack of policy coherence and ownership in countries/sectors with multiple and sizeable financing sources (high aid dependency and low capacity)
- Five **typical elements** in a SWAp: (i) integrated policy framework, (ii) under govt leadership, (iii) bringing together major stakeholders, (iv) using common procedures, (v) with increasing alignment with govt. systems
- **Mixed experience** with SWAps but concept found appealing and keeps reinventing itself, including in MICs
- **Relevance of SWAp concept** to MICs has been debated but some features suitable to the current aid/lending context

3. Brazilian context: public finances and politics

Legacies from economic and recent political history:

- ***Military regime***: financial centralisation, tax increases, external borrowing and high rates of economic growth
- ***1988 Constitution***: 'constitutionalisation' of public policies and earmarking of large share of public resources to specific purposes (81% in 2003 and 56% in 1988)
- ***Plano Real***: fiscal adjustment, fiscal responsibility, tax increases, inflation control

3. Brazilian context: public finances and politics

Current fiscal position:

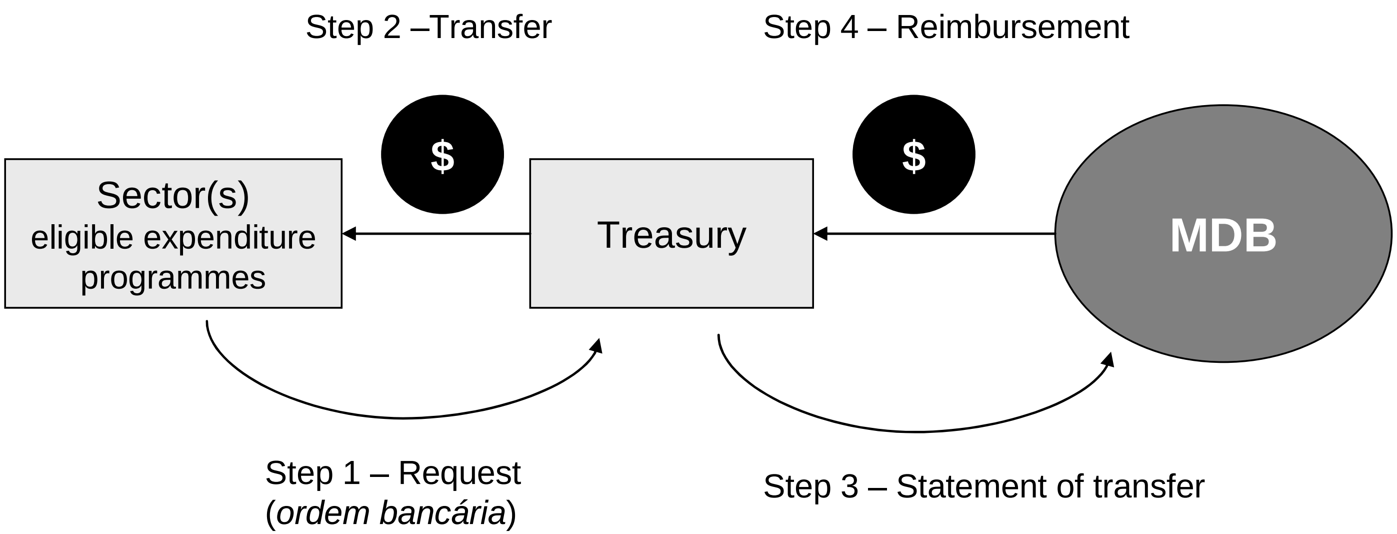
- Raise of interest rates, aggravating domestic debt burden
- Decrease of external debt (9%-7% of GDP between 2005/06)
- High budget surplus by all level of govt
- Appreciation of the R$
- Ceiling on public sector debt and payroll
- Control of sub-national debt

4. Brazilian SWAps: overview

- 3 established programmes: PROESF (2002), Bolsa Família (2004) and Ceará (2005)
- Federal and state levels
- Only BF with 2 MDBs
- Introduced new lending instrument, combining budget support (pooling of resources with govt) with conventional project modality (for TA)
- Alignment with govt systems
- Performance-based framework

PROESF

- Alignment with govt – pooling of resources
- Introduced **reimbursement mechanism**
- Use of performance targets and incentives (selection of beneficiary municipalities)



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4. Brazilian SWAps: evolution

Bolsa Família

- Two MDBs although separate contractual arrangements
- Strengthening of performance-based incentives (WB performance of technical component linked to financial disbursement)

Ceará

- Multi-sectoral focus
- Strong emphasis on results-based management beyond the programme (fiscal and social indicators and targets)
- Reimbursement mechanism creating incentives for inter- and intra-sectoral coordination (congruence of interests)

Road Transport

- Outside social sectors

5. Common **features** of SWAps in Brazil

- Lending against government initiated and led policy framework
- Mix of lending instruments (budget support + TA)
- Progressive use of govt systems and procedures
- Performance-based financing and disbursement
- Technical inputs focusing on results-based management
- Reimbursement mechanism (of executed expenditure) with no expansion of public expenditure
- Note: at federal level, programmes selected with earmarked revenue and of high priority within PPA

6. **Drivers** of Brazilian SWAps

Product of adaptation to specific circumstances

- **tied structure of the budget** with very high proportion of legally earmarked revenue (constitutional requirements and tied taxes)
- government's **policy of tight fiscal control** (running primary surpluses to reduce debt/GDP ratio)
- **MDBs' need to reverse lending trends** and increase loan disbursement rates
- MDBs' interest in engaging with and **influencing** programmes related to policies which governments have decided to grant high priority (within PPA)

6. **Drivers**: stakeholder motivations

Whole govt	▪ flexibility in accessing loans and simpler management mechanisms ▪ improve execution of programmes and quality of spending ▪ support for consolidation ongoing govt priorities on a long-term basis ▪ legitimacy for programmes with high visibility (MDBs convening power) ▪ focus on an entire sector/programme rather than isolated activities
Treasury (federal & state)	▪ greater control and more flexible fiscal management – to overcome fiscal constraints (high level of earmarking, debt and fiscal discipline) ▪ results-based framework creates incentives for core agencies to press line ministries for better performance ('challenge function')
Line ministries / secretariats	▪ release sector budgets from retention (*contingenciamento*) ▪ access to technical expertise to improve programme design and implementation ▪ guarantee of the maintenance of the programme (*blindagem*) ▪ incentives for further investment in the sector (particularly in Ceará)
MDBs	▪ raise/sustain level of lending in MICs ▪ greater flexibility and simplicity to increase disbursement rates (eg. reduce number of disbursement conditions) ▪ longer term lending framework ▪ entry point to policy making and implementation (eg. foster results-based management and M&E culture) ▪ provision of intellectual capital (technical advisory inputs)

7. **Impact** of Brazilian SWAps

- **Fiscal management**: increased flexibility of fiscal management and helped circumvent budget rigidities
- **Performance of loans**: allowed tailoring to needs and address shortcomings of conventional lending
- **Institutional relationships**: changed nature of the relationship between multilaterals and GOB/GOC and between govt agencies – core govt agencies (*Fazenda* and *Planejamento*) play a central role in the SWAp
- **Government management systems**: results-based framework used as management tool, fostering inter- and intra-sectoral coordination; but confidence required
- ***Any significant impact at sector level (beyond TA)?***
- ***Any fundamental difference between impact at federal and state level?***

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8. **Recommendations** and **future enquiry**

- **Terminology** clarification – different uses of the SWAp concept; term can be misleading
- Need for an **evaluation framework** – measuring benefits of SWAps over alternative approaches, validating stakeholder expectation re achievements, considering impact beyond SWAp arrangement
- Need for an explicit govt **aid policy framework** – clarifying selection of beneficiary sectors, states and programmes; lending modality preferences; alignment and harmonisation best practice; etc.
- Scope for further **harmonisation** between agencies? To be considered in the design of future operations?
- Assess **uniqueness** and **transferability** of the Brazilian experience by contrasting with other comparable cases in the LAC region – Mexico?

9. Received feedback (selected issues)

- Conditionality and results-based framework: results-based framework as a more creative way of addressing targets relative to traditional conditionality, but dependent on strength of and confidence on existing systems
- Reimbursement mechanism generating incentives for using results-based framework as management tool
- Assessing performance/impact of the SWAp – due?
- Is there a Brazilian model?
- Transferability of the Brazilian experience?

Your views and suggestions…