Statement by Jiayi Zou, Executive Director for China
Date of Meeting: June 6, 2006

Brazil: CAS Progress Report (R2006-0069, IFC/R2006-0120) & Brazil: Road Transport Project (R2006-0071/1)

We welcome today’s discussion on Brazil’s Country Assistance Strategy Progress Report. The country’s economic performance and the progress in implementing the CAS is encouraging. We support management and staff’s assessment and main finding during the CAS implementation. We thank staff for briefing us of some updated information in the bilateral meeting.

I. MID-TERM ASSESSMENT ON CAS PROGRESS
We congratulate the Government of Brazil on the progress of economic and social development as well as CAS implementation. During the past several years, with the prudent macroeconomic pro-poor policies by the Government, Brazil’s economy has maintained sustained, albeit modest, economic growth. Poverty was reduced. Balance of payment has recorded surpluses. Debt and external vulnerability was substantially reduced. Primary fiscal surplus targets were met (a record high of 4.8% of GDP in 2005). Private sector has been fueling the economic growth. Unemployment has declined. Income inequality is also improving. The achievements demonstrated the power of ownership in development vision and wisdom by Brazilian people and Government, and how such ownership could be translated into results on the ground.

We concur with staff that (1) FY04-07 CAS Framework remains valid; (2) Brazil moved into a high performance scenario in the upper limit of the base case; (3) IBRD lending envelope is appropriate; (4) IFC’s Private Sector Strategy (PSS) remain valid, and supportive of the needs of the private sector.

II. Progress Towards CAS Outcomes
Pillar 1: A More Equitable Brazil
Great improvement has been made in term of access to social services, however there are still some challenges. Pre-primary and secondary school attendance remains low compared with other middle income countries. We note that there are some structural problems in tertiary and college education. Given the important role of education to improve the country’s competitiveness, employment and social inclusiveness, the Bank could help the Government to further strengthen its structural reform in education sector.

Pillar 2: A More Sustainable Brazil
While some progress has been made on the “green” agenda, “brown” agenda still lags behind.
Water and sanitation coverage is also lagging due to fiscal problems and uncertainties in the regulatory framework. Since Bank has a comparative advantage in these areas, we encourage the Bank to work closely with the Government to address these issues including easing the deforestation in Amazon with its full range of instruments.

**Pillar 3: A More Competitive Brazil**

Growth can be driven by both public sector investment and private sector investment. However, we note that public investment in Brazil is still low, particularly in infrastructure, due to budget constraints. At the same time, high interest rate and spread limit private sector’s access to credit for investment. We would like to hear views from staff on this difficult situation, and its impacts on Brazil’s growth sustainability.

**Pillar 4: Macroeconomic Fundamental**

Fiscal and monetary discipline has contributed a great deal to Brazil recent years’ growth and macro-economic stability. We concur with staff that future prudent macroeconomic policies will focus on finding additional fiscal space and make use of that space efficiently and effectively given that fact that tax burden is already high. We would appreciate if staff comments on the possibility of the Bank together with Brazilian Government to explore some innovative ways to increase the flexibility to free up additional discretionary resources for pro-growth investment. We would also like to have staff’s comments on the Bank’s role in helping the Government to reform its social security system and labor market.

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

We support the Bank’s future engagement strategy: ambitious and modest, selectivity and concentration. We support and encourage the Bank to continue to focus on areas where less progress made, (1) investing in growth, through private sector, (2) improving environmental sustainability in the green and brown arenas, (3) making fiscal adjustment sustainable to free up resources for investment, and (4) regional development in both urban and rural environments, with a special focus on northeast and selected urban areas.

### IV. Brazil Road Transport Project

We strongly support the proposed Road Transport Project. The project supports the Government in improving the efficiency of the Federal Road Maintenance and Rehabilitation Program which is the Government priority investment program. The project will help to improve the public expenditure efficiency and promote policy discussion in road sector. By increasing effectiveness in the use of the federal road infrastructure, the project contributes to Government’s growth strategy.

Finally, we wish the Government of Brazil a great success in economic and social development as well as the project implementation.