

# Brazil

1994·2002



*The era of the Real*

**Brazil** 1994-2002 The Era of The Real

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1994·2002



*The era of the Real*

Presidency of the Federal Republic of Brazil  
President Fernando Henrique Cardoso

State Secretariat for Government Communication  
Secretary João Roberto Vieira da Costa

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# Introduction

*Fernando Henrique Cardoso*

PRESIDENT OF THE FEDERAL REPUBLIC OF BRAZIL

**T**HE FACTS AND FIGURES PRESENTED IN THIS BOOK PROVIDE AN OVERALL PICTURE of government activities during my administration as well as of the significant changes that have taken place in Brazil over the last eight years. I offer this report, not to anticipate the judgement of history, but rather with a deeply felt certainty of having performed my duty as President. Above all, it is an expression of confidence in Brazil.

The country whose government I will shortly transmit to my successor can be fairly described as a victorious country. First, for the positive results it has achieved in this most turbulent world, in a period when so many developing countries were condemned to stagnation or worse. The figures in the following chapters prove this beyond any doubt, at least for those whose vision is not distorted by prejudice. Brazil shrugged off the “lost decade” of the Eighties and overcame obstacles along the path to sustained economic development, moving from generalized insolvency to fiscal responsibility, from hyperinflation to stable prices, from stagnation to moderate but continuous GDP growth, from outdated to state-of-the-art technology. Our achievements in education, health, agrarian reform and the fight against poverty were even more significant than our economic progress.

The objective measurements of these results by means of economic and social indicators are significant. But they do not tell the whole story. Equally important, perhaps even more so, were the changes in the way the government is organized and interacts with society in order to get the job done.

Brazil’s reencounter with democracy, in the second half of the Eighties, coincided with the crisis of a State that could no longer guarantee development, not even for a minority, as it had done in the past, and much less the rights and aspirations of the majority that were promised in the new Constitution, promulgated 1988.

To consolidate democracy and lay the foundations for a new cycle of economic development with social justice, we had to reform the State, corroded by years of inflation. So we did, in spite of the incomprehension of those who are obsessed with the past, and cannot turn their eyes to the construction of the future.

The signs of change are everywhere, some less visible but not any less real for that. A new basis for coordinating public and private investment has allowed us to restart expanding essential infrastructure; regulatory agencies offer the essential political counterweight to stronger markets; the federal government has formed partnerships with states, municipalities and NGOs to implement and monitor social programs; government accountability and fiscal responsibility have become enshrined in law and in the mindset of the Brazilian people. In short, we have built the foundations of a democratic State that is distinctly Brazilian, and the equal of the world's great democracies. It is, moreover, open to civil society and its multitude of organizations.

For me, the greatest legacy of all these changes is stability, not just of the economy, but of our institutions. This kind of stability is clearly discernible in the current process of government transition, as well as in the development of a broad political debate that goes far beyond the merely party-political, making it possible for civil society to participate in an organized way in government activities and decisions.

Much more than a victory for a government, consolidation of democracy is a victory for Brazil. I would like to think that as President I have made a contribution to this outcome. It is from this confidence that I draw the satisfaction of having accomplished my duty, and the certainty that Brazil's social and economic development will remain firmly rooted in democracy.

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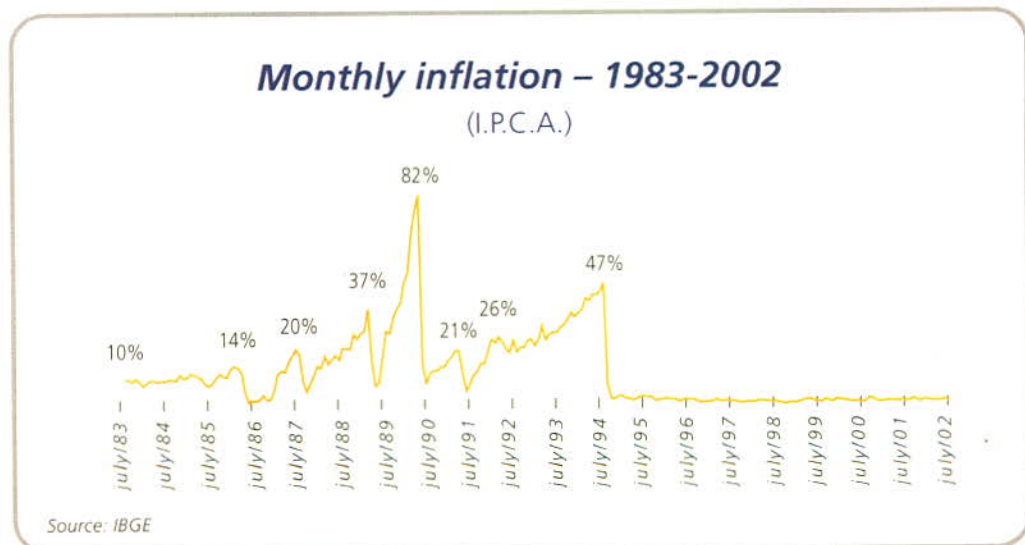
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# 1. A nation moves forward as life improves for the average Brazilian

## The Real Plan sweeps away inflation

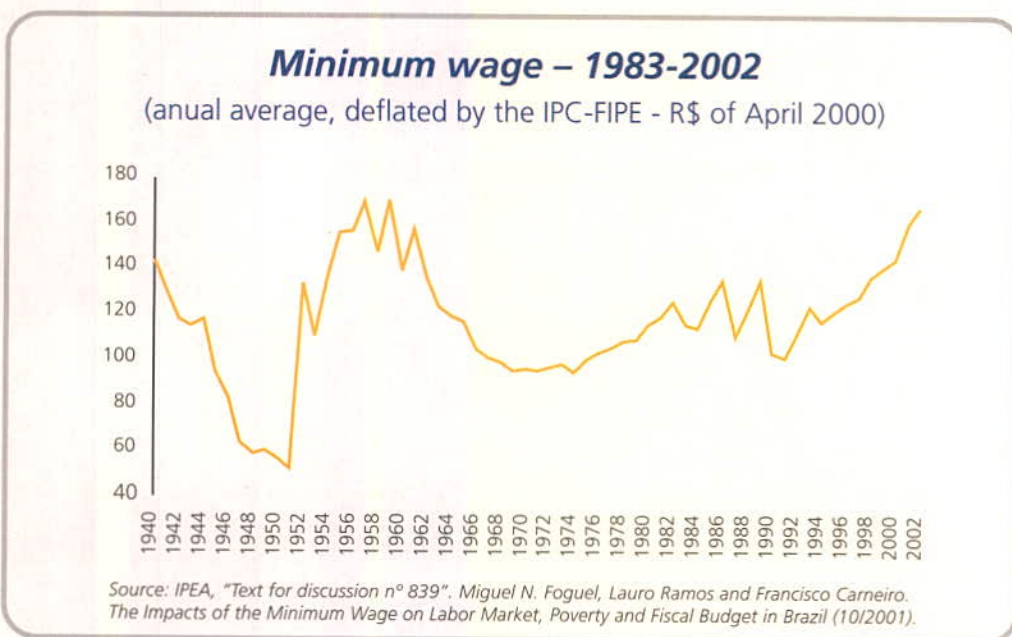
**W**ITH INFLATION AT DIZZYING HEIGHTS AND SALARIES MELTING AWAY BEFORE their very eyes, Brazilian families were unable to save or make plans for the future. It was a chronic problem for Brazil and it brought devastating consequences in its wake. In 1990, the upward price spiral hit a new record, no less than 82% in a single month! In June of 1994, with monthly inflation clocked at 47%, the government stepped in with a sweeping solution, the Real Plan, to drastically reduce the inflation rate. Since then, monthly inflation has averaged just 0.8%. In 2001, monthly inflation was even lower, averaging 0.6%.



- Inflation left a deep mark on daily life. In times of high inflation, Brazilians had no notion of the true value of goods. Payment delays of any kind meant a financial loss.
- Come payday, Brazilians would literally rush to the supermarket to stock up on the groceries they needed before the next lightning round of price hikes. Long lines jammed gas stations on the eve of every rise in fuel prices.
- And the economic plans? There were so many of them that today, few can remember them all. And every single one failed. There was the Cruzado Plan (1986), the Bresser Plan (1987), the Summer Plan (1989), the Collor Plan I (1990) and the Collor Plan II (1991).
- The above graph shows the roller-coaster path of Brazilian inflation until it was finally dealt a mortal blow by the Real Plan in July of 1994. Since then, the well-behaved line hugging the ground is evidence of the plan's success at bringing stability.
- Reforms undertaken in the wake of the Real Plan have consolidated Brazil's pattern of sustained steady prices. Such reforms, unlike previous plans, have guaranteed lasting benefits for wage earners and the poor.
- Inflation has declined to levels seen in most industrial country, and economic stability is now deeply rooted.

## Minimum wage at its highest value in 40 years

The constant erosion in the value of money caused by inflation hit hardest at the poorest wage earners. The minimum wage lost purchasing power every single month as it battled against the rising tide of inflation. In the period 1990 to 1994, the real value of



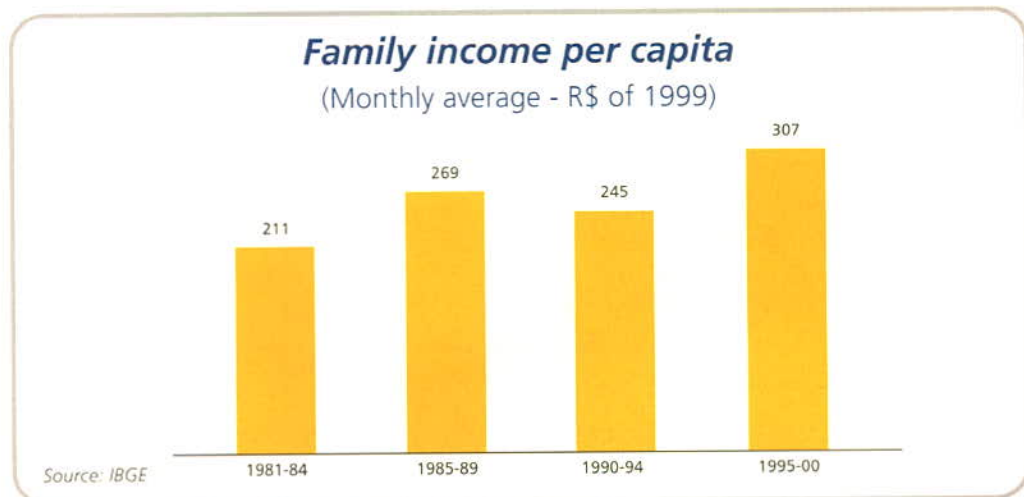
the Brazilian minimum wage fell below its average value for the entire decade of the 1980s. With the launch of the Real Plan in July of 1994, however, the minimum wage enjoyed an immediate 27% boost (when compared to its average real value for the first half of 1994). In relation to the early 1990s the gain was even greater: 41% over the period January, 1990 through December, 1993.

- In the days of high inflation, the wealthy could protect themselves by investing in the financial markets. Poorer wage earners, however, were defenseless. Inflation worked as a kind of perverse social tax, penalizing those who could least afford to pay.
- The beneficial effects of economic stability can best be seen by comparing the trajectory of the minimum wage with that of a “market basket” of basic goods. In such a comparison, gains under the Real Plan have reached nearly 100%.
- Before the Real Plan took effect, the monthly minimum wage was enough to buy a bit more than half (60%) of the goods in the standard “market basket.” Today, the monthly minimum is enough to buy an entire “market basket” plus one-fifth (or 120% of the standard array of goods). In comparison with the period April-June, the figure is even higher, 129%.

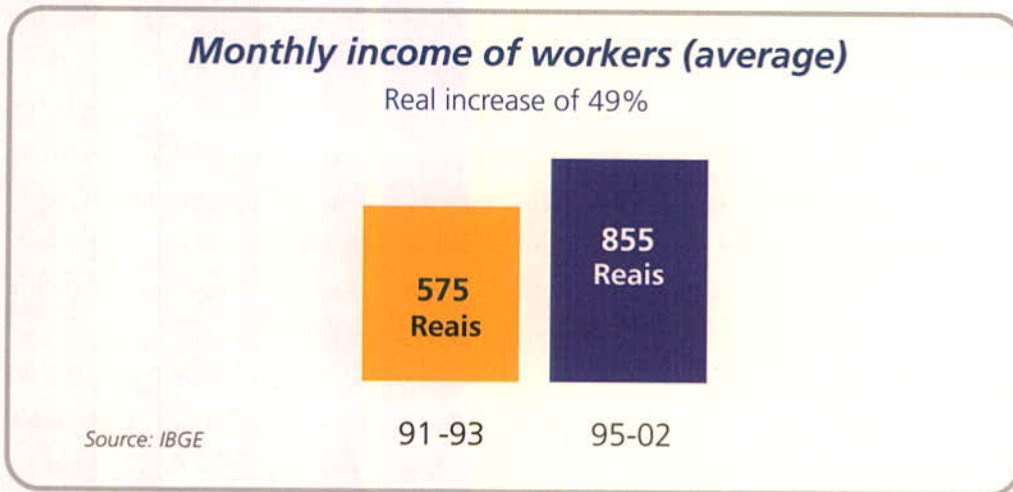
## Family prosperity on the rise

Economic stability brought a heightened sense of material well-being to average Brazilian families. This can be seen in the leap in family income, up 25% in the period 1995-2000 compared with the average level 1990-1994.

- The first two years of the Real Plan witnessed a major rise in average wage-earner income, due partly to the ongoing decline in inflation rates and partly to an expansion in employment. Real earnings then remained broadly stable until 1998.



- It must be recognized that average real incomes have suffered losses in recent years. Nevertheless, for the period 1995-2002, average monthly earnings for workers reached R\$855, a 49% rise over the 1991-1993 average of R\$575.



## Poverty is falling

In recent years, Brazil has been able to lift some nine million citizens from the clutches of poverty. In absolute terms, the number of those living below the poverty line declined from a 1990-94 average of 63 million to a 1995-2000 average of 54 million. This was due to a rise in household income per capita. In other words, the Real Plan was a major blow against poverty. And these gains have been consolidated.

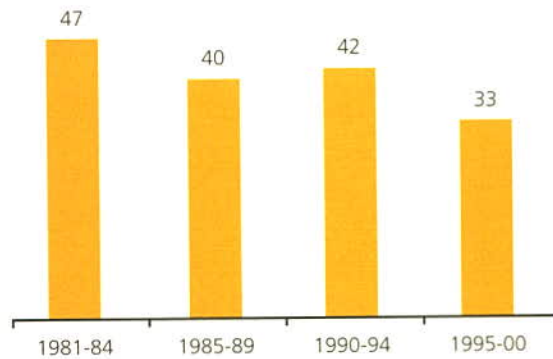
- The proportion of Brazilians living below the poverty line has fallen from an average 42% in the period 1990-1994 to 33% in 1995-2000. In other words, where 42 out of every 100 Brazilians were poor during the earlier period, that number has now fallen to only 33 (see graphs for details).
- The same phenomenon can be observed with respect to indigents (the extremely poor). During the same periods, the indigent portion of the population fell from 20% to 14%. In other words, during the period 1990-94, out of every 100 Brazilians, 20 were indigent. But, in the period 1995-2000, that number fell to 14 (see graphs below).
- Current figures for poverty and indigence, achieved in the wake of the Real Plan, are still far too high. Nevertheless, they are unquestionably the lowest in Brazilian history.
- In absolute terms, the average number of indigents in the period 1990-94 was approximately 30 million, dropping to a 1995-2000 average of 23 million.
- During the period 1995-2000, when Brazil's total population averaged 163 million,

the absolute number of indigents was actually lower than in the 1980s, when the population averaged 125 million.

- Different researchers adopt different criteria for estimating the number of poor and indigent. However, the decline in Brazilian poverty brought about by the Real Plan was significant by any measure, and those gains have been consolidated.

### ***Proportion of population classed as poor***

Four periods, average (1981-2000)

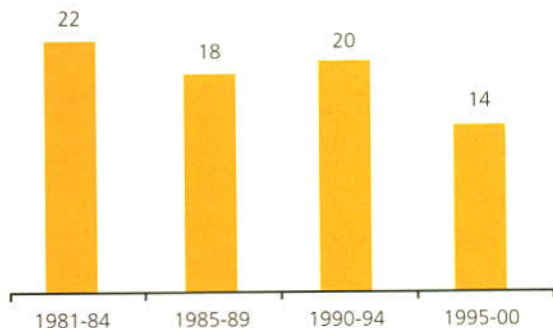


Period	1981-84	1985-89	1990-94	1995-2000
Proportion	47%	40%	42%	33%

Source: IPEA, based on PNAD, IBGE

### ***Proportion of population classed as indigent***

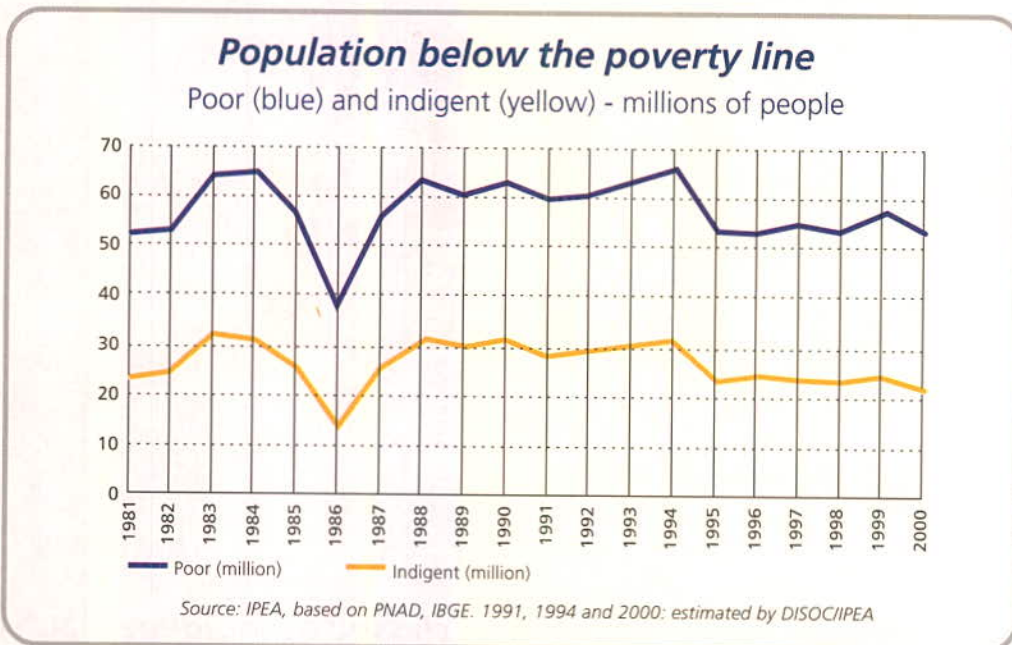
Four periods, average (1981-2000)



Period	1981-84	1985-89	1990-94	1995-2000
Proportion	22%	18%	20%	14%

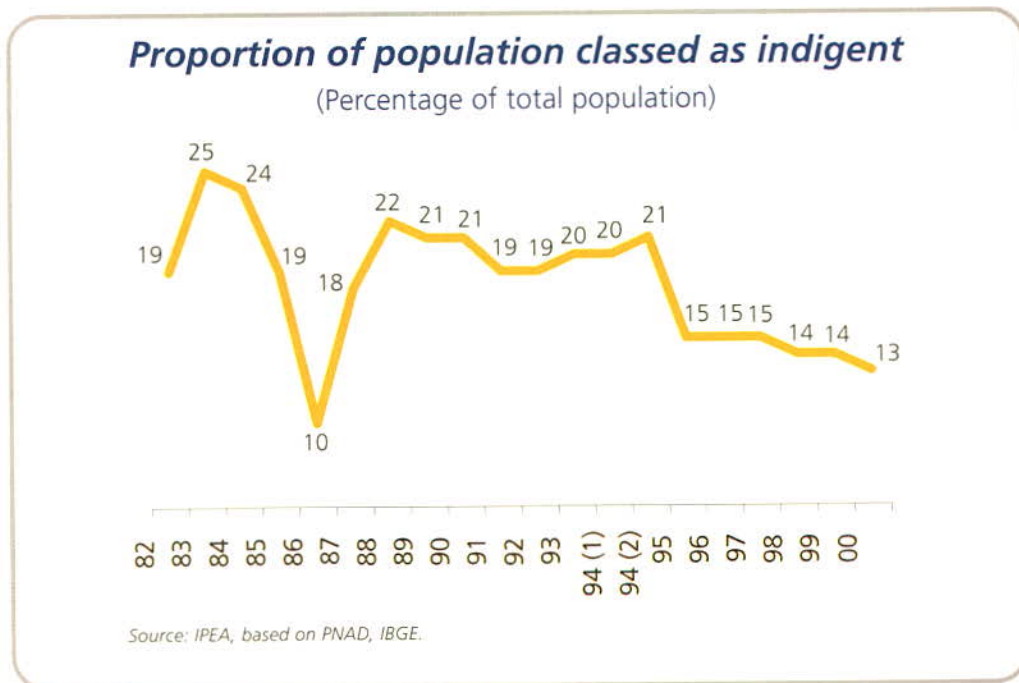
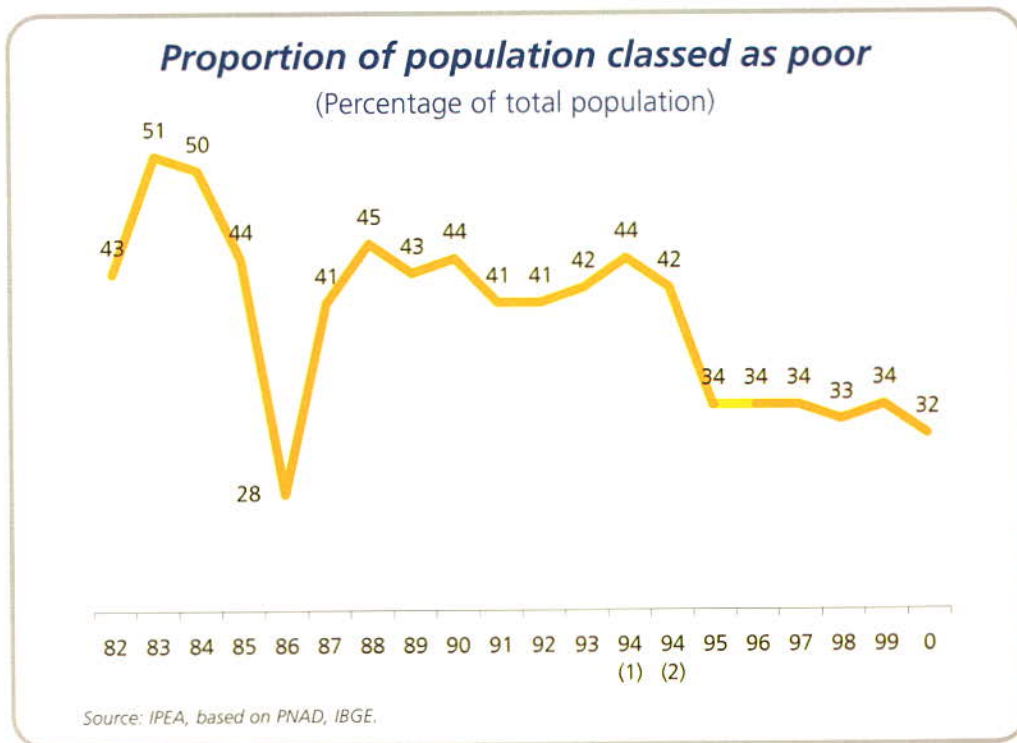
Source: IPEA, based on PNAD, IBGE  
 Extracted from "Evolução Recente das Condições e das Políticas Sociais no Brasil".

- The reduction of poverty is confirmed by a decline in infant mortality, detected in the 2000 Census, and an improvement in nutritional indicators.
- Contrary to the pattern observed after the 1986 Cruzado Plan, the relief of poverty promoted by the Real Plan has been durable. This has been due, in large part, to a consistent package of social programs (see graph below).
- Uncontrolled inflation and a lack of economic growth aggravated Brazil's long-standing pattern of misery. The country still suffers from large contingents of poor and indigent, but firm and determined steps are being taken to wipe out poverty.



- The decline of poverty in post-Real Brazil has been both an urban and a rural phenomenon. However, the most notable progress has come in rural areas. Similarly, poverty was rolled back in every region of the country, but nowhere more so than in the traditionally destitute Northeast.
- In order to focus worldwide debate on this issue, organizations such as the World Bank and the United Nations Development Program (PNUD) adopt as a poverty threshold an income level of US\$2 per person per day. The threshold for extreme poverty, or indigence, is half that. In Brazil, the Institute for Applied Economic Research - IPEA (linked to the Planning Ministry) uses a system of regional differentials ranging from R\$68 to R\$126 per person per month to take account of regional and urban/rural variations.
- The following graphs show the poverty trend year by year. In 2000, out of every 100 Brazilians, 32 were poor, a figure substantially lower than before the Real Plan.

Similarly, the number of indigents, 13 per 100, was also significantly below the pre-Real period. Note that “indigents” are included within “poor”, so the two figures cannot be summed.



## Population enjoys better housing and nutrition

Improvements in family income brought changes in the pattern of Brazilian consumer behavior. The average diet, for example, grew richer in protein, especially meats and dairy products.

- Chicken became a symbol of the Real Plan. Poultry production rose 86% in the years from 1994 to 2000. Yogurt was up 82%, with many other products following suit. Consumption of soft drinks more than doubled.
- The extraordinary increase in output was due almost entirely to pent-up demand among low-income consumers.
- Brazilians, meanwhile, took avidly to home improvements. Demand for cement, for example, had actually declined during the 1980s. But by 1995 it had shot up 45% from the 1991-1994 average.

### Food production

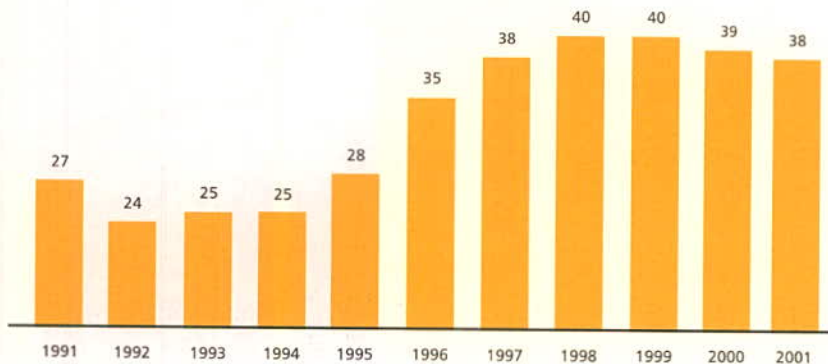
Growth from 1994 to 2000

Poultry meat	86%
Hog meat	57%
Bovine meat	35%
Yogurt	82%
Cheese	41%
Soft drinks	106%
Beer	75%
Biscuits	51%

Source: ABIA

### Cement consumption

(million tons)



Source: Sinduscon

## More comfort in the home

The Brazilian houses and apartments today offer considerable improvement, as shown by data from the 2000 Census conducted by the Brazilian Statistics and Geography Institute (IBGE).

- Brazil has seen an enormous increase in the number of citizens enjoying the benefits of electricity, running water, sewers and garbage collection.
- Homes are better stocked than ever before with domestic appliances and electronic goods. More and more families have telephones, color TVs, washing machines, freezers and video cassette recorders, goods previously restricted to the better-off.
- Color television ownership has become a nationwide phenomenon. Annual production of color TV sets rose 124% during the period 1994-2000, measured against the period 1991-1993. And automobile ownership has also expanded substantially.

### Enjoying modern living standards

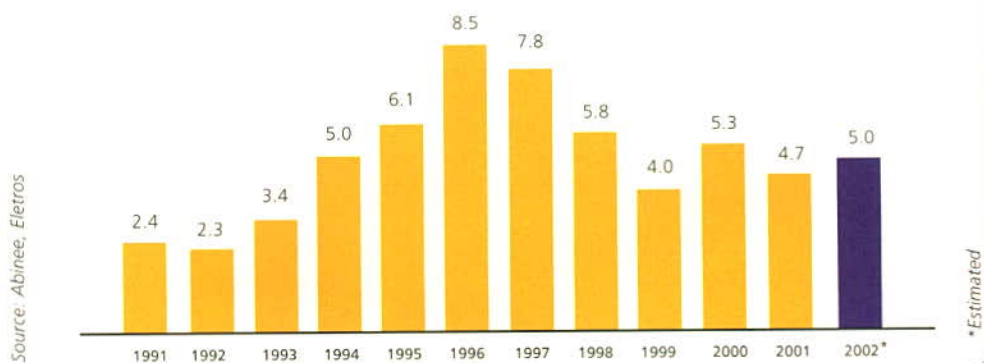
Proportion of homes with specific goods and services - census data

	1991	2000	Variation
Electric light	86.9%	93.0%	7.0%
Television	79.6%	87.0%	9.3%
Refrigerator or freezer	81.0%	83.2%	2.7%
Garbage collection	63.8%	79.0%	23.8%
Running water	70.7%	77.8%	10.0%
Waste water	52.4%	62.2%	18.7%
Telephones	18.6%	39.7%	113.4%
Washing machines	26.2%	33.1%	26.3%
Vehicles	23.1%	32.7%	41.6%

Source: 2000 Demographic Census, IBGE, Folha de S. Paulo, O Globo, Estado de S. Paulo (05/09/2002)

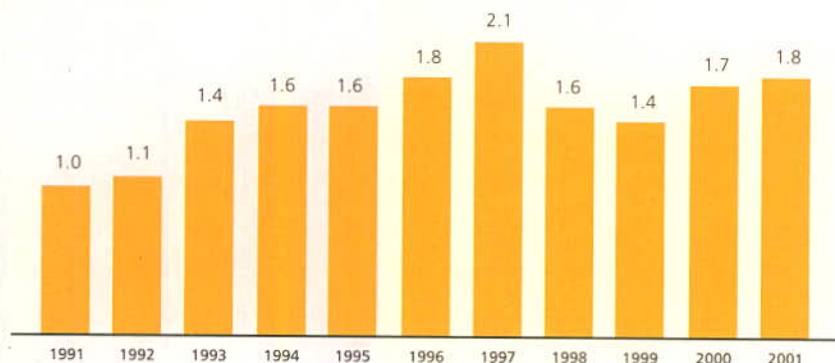
### Production of color television sets

(millions)



## Vehicle production

(millions)



Source: Anfavea

## Telephones more common in low-income homes

With the privatization of the nation's telecommunications system, millions of low-income Brazilians have been able to install fixed-line telephones at home. For decades, such services had been the exclusive province of the more wealthy.

- In 1994, there were 13.3 million fixed-line telephones in Brazil. That figure has risen to 49.4 million, an increase of 271%.
- Between 1997 and 2001, the proportion of Class-D (low-income) consumers among fixed-line telephone subscribers in the Southeast, Northeast and North rose from 6% to 61%. In the South, Centerwest and in Acre and Rondônia, the proportion shot up from just 5% to 51%. The figures contained in the following tables tell the story.

### Getting connected

Expansion of Brazilian phone system, 1994 - 2001

	1994	2002	Variation
Fixed-line residential	13.3 million	49.4 million	271 %
Fixed-line residential per 100 of population	8.6 units	28.8 units	235 %
Mobile phones	800,000	31.6 million	3,850 %
Fixed-line public pay-phones	343,000	1.4 million	367%

Source: Anatel (2001 Balance)

## Telephones for all

Proportion of fixed-line residential phones, by socio-economic class (1997-2001)

	Class A		Class B		Class C		Class D	
	1997	2001	1997	2001	1997	2001	1997	2001
Region 1: Southeast, Northeast, North	85%	99%	71%	91%	34%	82%	6%	61%
Region 2: South, Centerwest, Acre and Rondônia	91%	99%	77%	99%	25%	87%	5%	51%
Region 3: São Paulo	95%	99%	77%	93%	36%	77%	11%	46%

Source: Anatel (2001 Balance: Including the excluded)

- In the first table, note the rapid growth of fixed-line subscribers among Class C consumers (82%, 87% and 77%). The table indicates that, within a short time, fixed-line telephones will become virtually universal among such families.
- Among Class D consumers, the growth of telephones was even more dramatic (from 6%, 5% and 11% to 61%, 51% and 41%), although there is still some distance to go before every single family has a telephone line.

## Schools: no child left behind

Brazil is drawing very close to the goal of having every child in school, a truly historic social achievement of President Cardoso's two terms in office. The nation has experienced a spectacular break with the past over the last seven years, with primary school attendance (first to eighth grades) becoming nearly universal.

- According to Education Ministry estimates, as of 1999, primary school enrollment was equal to 97% of Brazilians aged seven to 14 years.
- In 2001, 35.4 million children nationwide were enrolled in school, 3.4 million more than in 1994.

## School attendance – children aged seven to 14

Registration of schoolage children – %

	1980	1991	1994	1999	
Brazil	80.9	89.0	92.7	97.0	The projection is to reach 100% within the near future.
North	70.3	81.3	88.9	95.8	
Northeast	69.6	82.7	87.3	95.6	
Southeast	90.2	93.5	96.1	98.2	
South	85.3	93.5	94.8	97.7	
Centerwest	80.7	93.8	94.6	97.3	

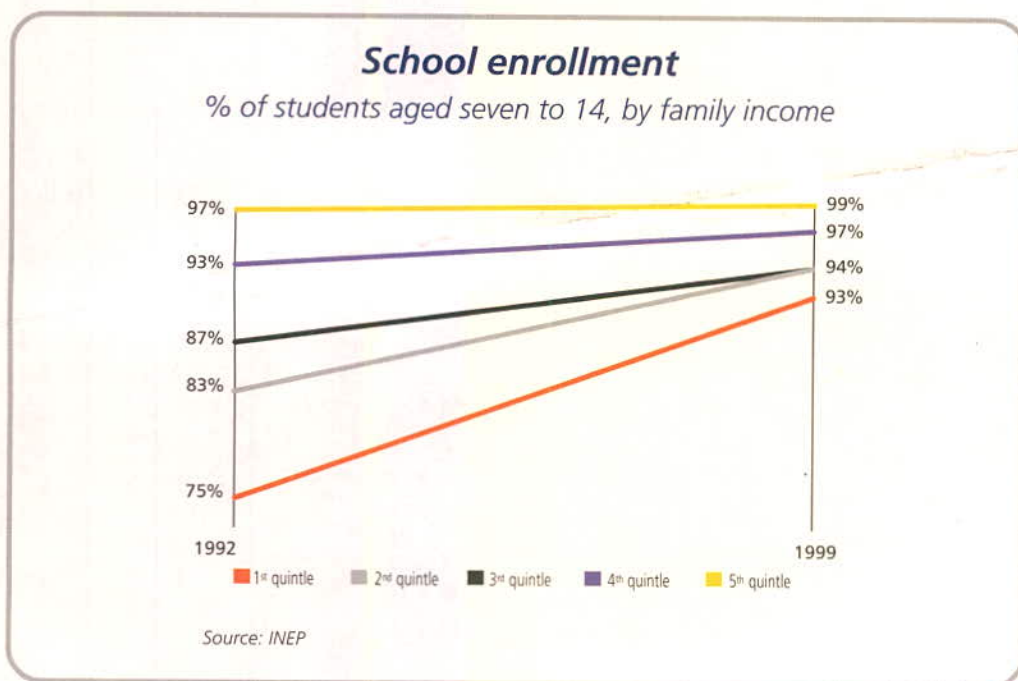
Source: MEC/INEP.

- Primary school enrollment thus became the first public service to fulfill the republican ideal of universal coverage, free of any discrimination.
- The IBGE confirmed the universal availability of primary schooling in its report on the 2000 Census.
- According to an IBGE analysis: “During the last decade, school attendance has increased for every age group. The highest percentage occurs in the seven-to-14 age group where Brazil approaches universal coverage, with some 94.9% of children attending school.” Note that Education Ministry measures registration at the start of the school year, while IBGE figures refer to mid-term attendance.

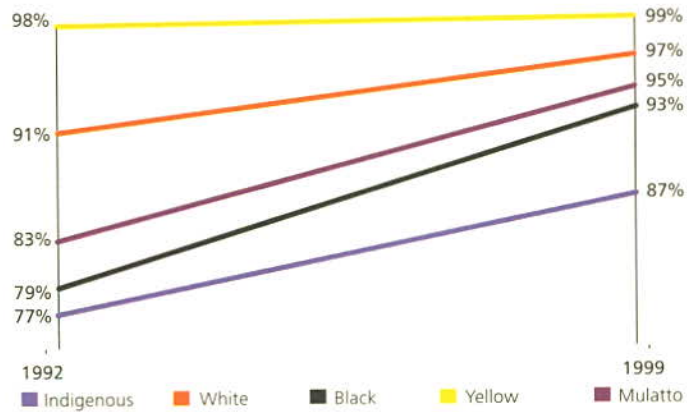
## Schools receive more poor and black students

With broader opportunities for all at Brazilian schools, the nation’s educational system has been able to overcome previous inequalities and social and racial barriers. Today, the proportion of poor and black children enjoying the benefits of primary education is much higher than in the past.

- In 1992, one out of every four poor children (25%) was out of school. By 1999, that figure had fallen to just 7%.
- When it comes to race, the distance between black children and white children declined from 12 to just four percentage points. With respect to mulatto children, the difference fell from eight to just two percentage points.



## Percentage of students aged seven to 14, by race



Source: INEP

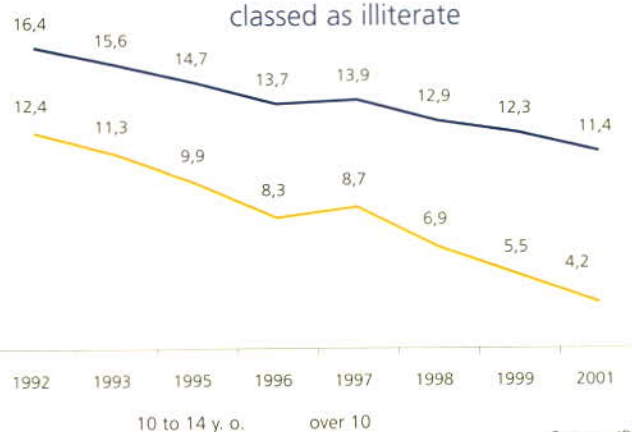
## Decline in illiteracy and child labor

At current rates of progress, illiteracy among Brazilian children aged 10 to 14 will be completely eradicated within five years. Current education policies have brought about a rapid decline in illiteracy. In 1993, 11,3% of children aged 10 to 14 were illiterate. By 2001 that proportion had fallen to 4,2%.

- Illiteracy has also declined among the adult population (aged 15 and over) but at a slower pace. In 1993, the proportion of illiterates among Brazil's adult population was 15,6%, dropping to 11,4% by 1999.

## Literacy rate - evolution

Blue (population aged 10 to 14) and yellow (population aged 15 and over) classed as illiterate



Source: IPEA based on PNAD/IBGE

- Child labor has fallen as a direct result of increased school attendance. From 1995 to 1999, the number of children aged five through 15 working in fields and shops fell 25% from 5.1 million to 3.8 million. The country's efforts in this regard were recognized by the International Labor Organization (ILO) in May of 2002.

<b>Child labor</b>						
Children aged five - 15, in employment (thousands)						
Year	Brazil	Centerwest	Northeast	North	Southeast	South
1995	5,100	334	2,300	231	1,400	915
1999	3,800	236	1,900	221	873	604
1999/1995	- 25%	- 29%	- 18%	- 4%	- 35%	- 34%

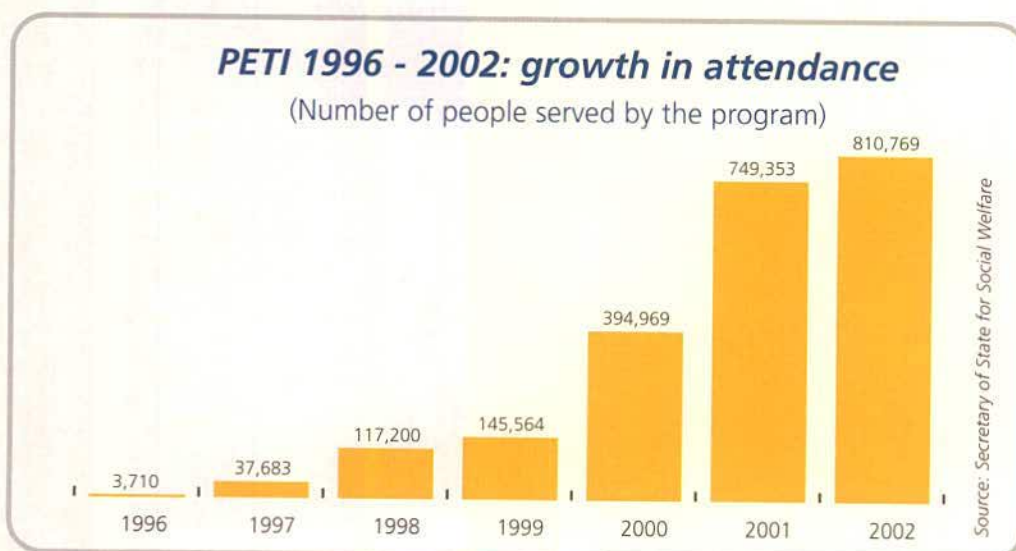
Source: Pnad (1995-1999), IBGE

## A success story

In 1996, the federal government adopted a new strategy to eradicate child and adolescent labor in activities judged to be hard, difficult, unhealthy and/or degrading. It was called the Program for Elimination of Child Labor (PETI - Programa de Erradicação do Trabalho Infantil).

In its first year, still as a pilot program, PETI resolved the situation of 3,710 children aged seven through 14 working in charcoal burners and tea plantations in 14 municipalities in the state of Mato Grosso do Sul.

Today, the program is active in 2,590 municipalities in all 26 states and the Federal District. It has put 810,000 children back into school - an increase of some 22,000% over 1996 (see graph below).



PETI acts in three ways:

- Young Citizen Scholarships, which compensate families for the loss of income that children would have earned;
- The Extended Schoolday, which includes catch-up classes and sporting, artistic, cultural and play activities, always in a period additional to normal school hours; and
- Investment in programs to generate family income, seeking to improve families' situations and bring them more into society.

Direct results are:

- Reduction of school drop-out and failure rates;
- Increase in annual pass rates;
- Increase in student and family self-esteem;
- Strengthening of ties within families; and
- Improve of children's physical development.

PETI has also boosted local economies, via the effect of regular payment of the scholarships.

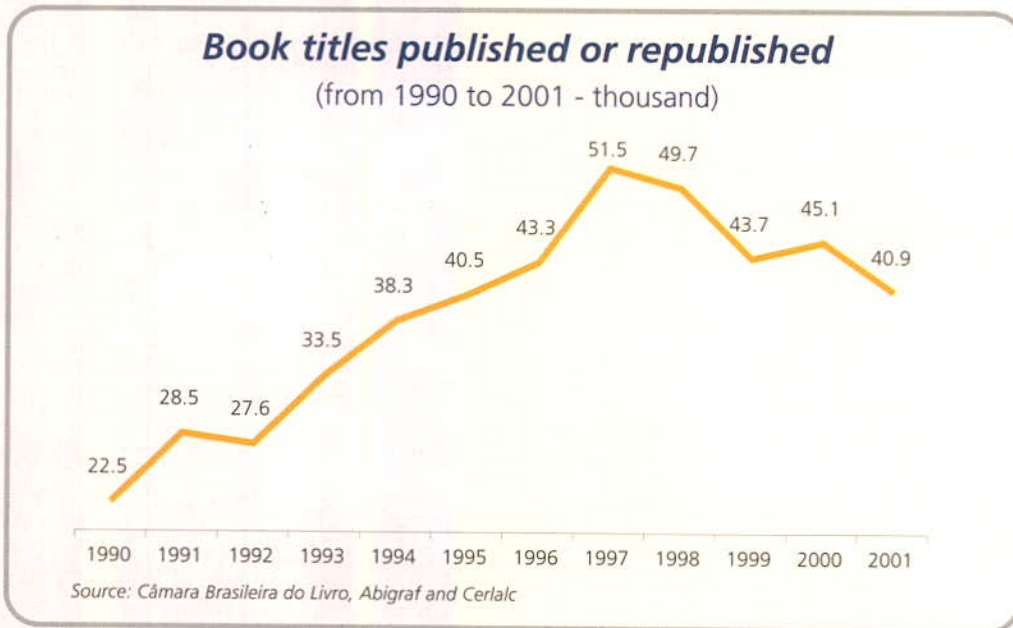
<b>Literacy in Brazil</b>		
Proportion of people aged 10 and over, able to read and write		
	<b>1991</b>	<b>2000</b>
Total	80.3%	87.2%
Urban	86.4%	90.4%
Rural	59.9%	72.4%
Men	80.0%	86.8%
Women	80.6%	87.5%

Source: 2000 Demographic Census

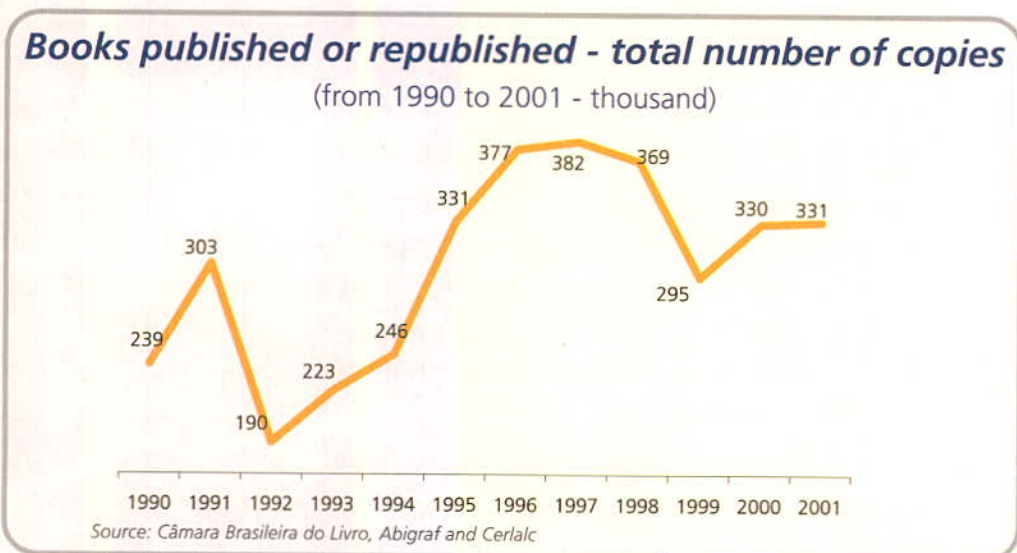
A comparison between the 1991 Census and the 2000 Census shows that educational opportunities have expanded for all Brazilians in all age groups. In 2000, the proportion of literate Brazilians aged 10 or more was 87.2%, compared with just 80.3% in 1991. In other words, in 2000 there were 120 million adult Brazilians who considered themselves able to read and write at least the simplest text.

- The most significant gains were in rural areas, where literacy leapt from 59.9% to 72.4%, or a rise of 12.5 percentage points. This was considerably above the national average, which gained about seven percentage points.
- Analyzed by age, gains were most salient among two distinct groups, those aged 10 to 14 years and those over 40.
- Major advances were also registered in the North and Northeast regions of the country, a factor tending to diminish the traditional gap in educational levels between those areas and the rest of Brazil.

- As literacy levels improved, the nation witnessed an unprecedented expansion of its publishing industry. Brazilians today publish and read more books than ever before, as shown by the following survey of the publishing industry.



- In 1994, a total of 38,253 new titles were published. By 1997, that figure reached 51,460. Since then the industry has been maintaining levels significantly higher than at the beginning of the decade.
- The total number of copies published or republished grew from 246 million in 1994 to 331 million in 2001.



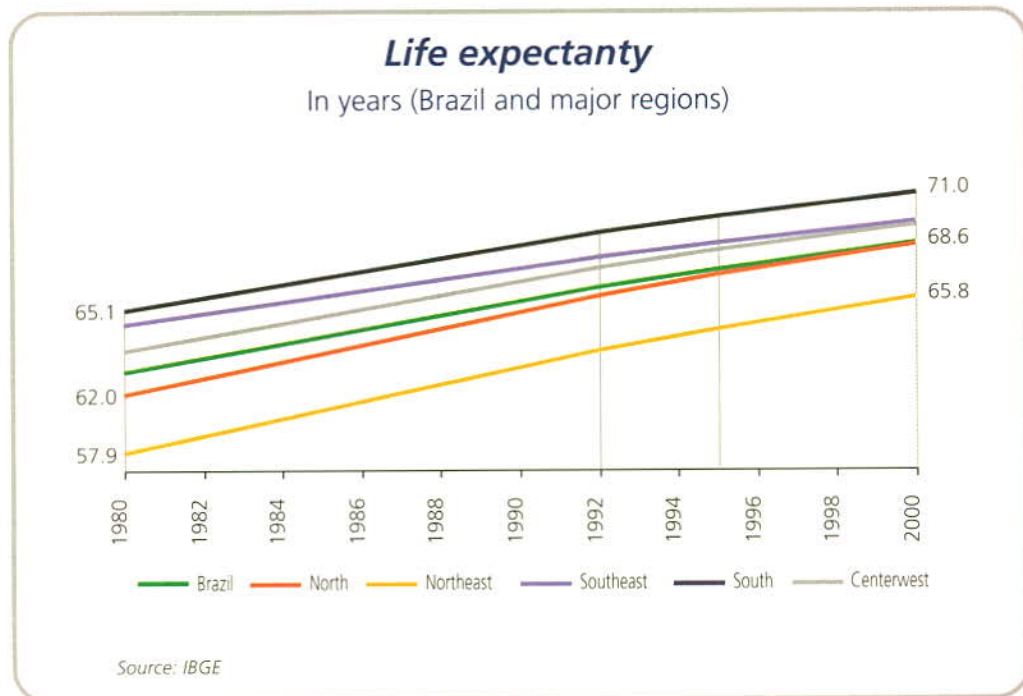
## Infant mortality drops sharply, life expectancy rises

Released in May of 2002, the results of the 2000 Census show a dramatic decline in the rate of infant mortality, one that occurred throughout the Nineties. The figures showed a drop in infant mortality from 48 to 29.6 deaths per 1,000 live births. The Northeast was the region with the greatest gains (for details see Chapter 11 - Health).

<b>Infant mortality</b>										
Deaths per 1,000 live births, 1990 - 2000										
1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
47.8	45.2	43	41.1	39.6	38.4	34.5	36.7	36.1	34.6	29.6

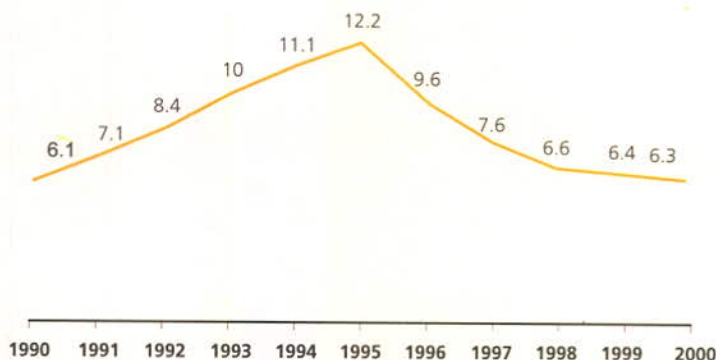
Source: IPEA. with data from IBGE (PNAD and the census)

- On average, life expectancy for Brazilians rose 2.6 years between 1991 and the end of the decade. By 2000, life expectancy for a newborn Brazilian was 69 years.
- Brazil's anti-AIDS program has gained worldwide recognition. Catastrophic predictions about the advance of the disease have not come to pass. This is due largely to government efforts at prevention and to the distribution of appropriate medication through the public health system.



### AIDS - mortality

Deaths per 100,000 of population



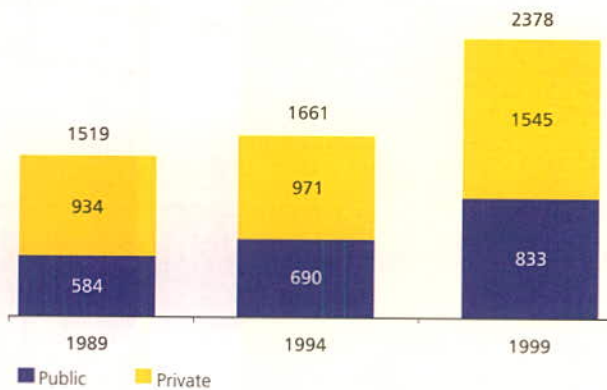
Source: MS

### A nation prepared for modern technology: Brazil online

In a time when knowledge is power, educational opportunities at Brazil's universities have been expanding fast. From 1994 to 1999, university registrations rose at an annual pace of 8.6%, up from 3.6% for the period 1989 to 1994. Public universities added 143,000 new places, while private colleges and universities expanded by 547,000 places.

### University matriculation

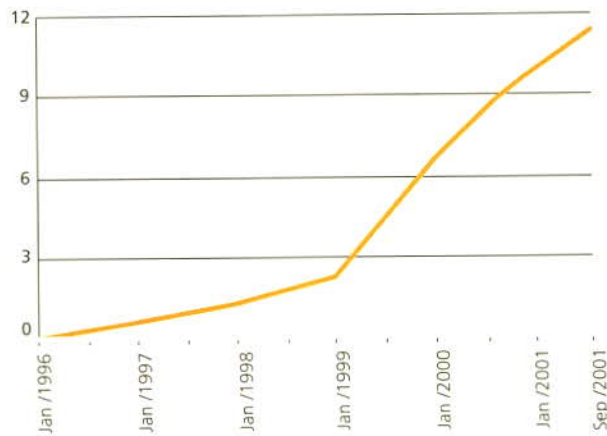
(Thousands)



Source: MEC/INEP/SEEC

## Internet users

(Millions)



Source: Various researchers. Elaborated by [www.e-commerce.org.br](http://www.e-commerce.org.br)

- Meanwhile, Brazilian scientists are researching, writing and publishing as never before. Articles published by Brazilians in scientific journals rose by no less than 97% between 1994 and 2000.
- Privatization of the telecommunications system was a crucial step by the Brazilian Government towards integrating the nation more closely with the biggest technological revolution in the world in our time: the Internet.
- The number of Brazilians with access to the global computer network skyrocketed from 170,000 in January of 1996 to 12 million as of September, 2001.
- Meanwhile, Brazilians are also reading and writing more books. From 1994 to 2000, the number of copyrights issued rose 175% from 8,000 to 22,000.



## 2. The Social Protection Network: doing more for those who need more

### Help for 37.6 million of the poorest

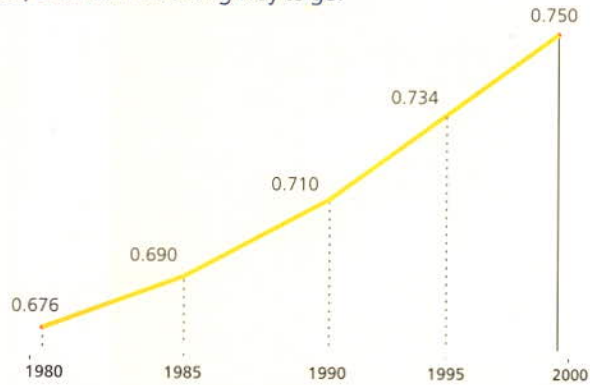
**I**N ADDITION TO SOCIAL PROGRAMS THAT IMPACT THE POPULATION AS A WHOLE, starting 1995 the government decided to give special attention to programs that focus on the neediest of the needy - the least protected and most vulnerable segments of society. To help this substantial part of the population, the government created the Social Protection Network (Rede de Proteção Social) that benefits 37.6 million people nationwide.

- The Social Protection Network coordinates 13 programs sponsored by the Federal Government and for which R\$30.0 billion were earmarked (details in the table below).
- The Network represents the most significant and all-inclusive redistribution of income benefiting the poor that has ever been done by the state in the country's history.
- To put the Network allocation in context - the Federal Government's share of the income tax collected from individuals and corporations in 2001 totaled R\$20.18 billion.

## Efforts to increase HDI

Over the past decade, social conditions in Brazil have improved substantially, according to the United Nations Human Development Index (HDI). Despite this progress, Brazil still has a long way to go.

Low: up to 0.5  
Medium: 0.5 – 0.8  
High: above 0.8



Source: PNUD

## School Grant Program uses magnetic card

- There are approximately five million personal magnetic cards (see below) in Brazil, given to mothers registered in the program.
- Mothers can withdraw money directly at the cashier, without embarrassment or bureaucracy.
- The money goes directly from the Federal Savings Bank (Caixa Econômica Federal) into the mother's account.
- There are no intermediaries, which means the mothers owe no favors to local politicians - a blow against cronyism.
- Without intermediaries there is no risk of the money being diverted - a blow against corruption.
- In many towns, for many mothers, the card has become a symbol of respect, making it easier to obtain credit in local stores.



- The impact this money has on the lives of each family is immediate. A mother with three children enrolled in the School Grant Program can rely on receiving R\$45 each month.
- Once registered, family members receive priority in social programs and services in education, health, housing and income generation.
- This priority is guaranteed by the Social Card (Cartão Social) which will become a passport to citizenship. In the future, it will replace the identity card.

## Social Protection Network - 13 programs

Name	Target audience	Benefit	Beneficiary (1,000)	R\$*(millions)
Food Grant Program	Children aged under six, and pregnant and breast-feeding mothers, in families under half minimum wage per capita.	R\$15 per child, up to 3 children	1,200	300
Cooking Gas Voucher	Low-income families, who receive compensation for the end of a subsidy on cooking gas (LPG) that was removed when the market for petroleum derivatives was opened up to competition.	R\$15 every two months	8,109	956
Child Labor Eradication (Peti)	Children aged seven to 15 in insalubrious, painful or degradable work, in families with per capita income up to a half minimum wage.	R\$25 per child (rural) or R\$40 (urban)	810	428.6
School Grant	Children aged six to 15 in families with per capita income up to a half minimum wage.	R\$15 per child, up to 3 children	8,600	1,835
Young Agent for Social and Human Development)	Youth aged 15 to 17 in low income communities, in families with per capita income up to a half minimum wage.**	R\$65 per month	104	52
Income Supplement PIS/PASEP	Worker receiving two minimum wage monthly average in previous year (with at least 30 days registered work) and registered at least five years at PIS/PASEP.	1 minimum wage	5,900	884
Training Grant	Worker with suspended contract, registered in a course or professional qualification program offered by the employer.	Based on last three paychecks	2.9	1.8
Unemployment Insurance	Domestic worker dismissed without fair cause, (domestic included) traditional fisherman during the prohibited fishing season;	From a minimum wage to R\$336,78 up to 5 months; domestic and traditional fisherman, up to 1 minimum wage	4,686	5,347.3
Harvest Insurance	Families at risk in a drought area.	Up to six payments of R\$100	938	169.8
Rural Retirement Pension	Rural workers.	1 Minimum wage	6,795	15,267.4
Continued Monthly Income (BPC/LOAS)	People over 67 with per capita income up to one minimum wage.	1 Minimum wage	1,487	3,305.5
Energy Discount	All families registered in the <i>Single Consolidated Register</i> , with electricity consumption under 220 kw/month.	Discount of up to 65% on the bill, at discretion of local distributor		
Monthly Income for life	People aged 70 and over, not able to work and without subsistence gains or support.	1 Minimum wage	715	1,711.5
		<b>Total</b>	<b>30,355</b>	<b>30,027.2</b>

\* 2001 Execution. \*\* Including youth supported by White Martins company, Social Assistance State Secretary partner; returned youth from Child Labor Eradication Program; and Alvorada Gateways youth in action. Indicated values shows only what was consigned from the Young Brazil Program budget.  
Source: Sectorial Ministries.

The chart demonstrates that the 13 programs of the Social Protection Network benefited precisely the most vulnerable of the needy.

- **Families** - those with per capita income up to R\$100 automatically receive Cooking Gas Vouchers and a discount on the electricity bill, once they are enrolled in the consolidated register of the Network.
- **Children** - benefits right from the moment of conception. These include the programs for the Food Grant, the School Grant and Child Labor Eradication (Bolsa Alimentação, Bolsa Escola Erradicação do Trabalho Infantil). Together these represented more than R\$2.5 billion in funds in 2001.
- **Young people** - those aged 15 - 17 receive a grant from the Young Agent for Social and Human Development Program (Programa Agente Jovem de Desenvolvimento Social e Humano).
- **Pregnant and breast-feeding women** - receive support from the Food Grant Program.
- **The elderly** - are benefited by the Monthly Income for Life, Rural Retirement Pension or Continued Monthly Income programs (Renda Mensal Vitalícia, Aposentadoria Rural, Prestação Continuada). These benefits total over R\$20 billion.
- **Disabled** - receive via the Monthly Income for Life Program, by virtue of disability, or Continued Monthly Income Program - in total, more than 1.2 million people.
- **Unemployed** - receive support from the Wage Bonus, Unemployment Insurance or Training Grant programs (Abono Salarial, Seguro Desemprego, Bolsa Qualificação). These had funds totaling nearly R\$6 billion in 2001.
- **Small farmers** - those hit by drought in Northeast Brazil receive support under the Harvest Insurance (Seguro Safra) program.

### ***Support lifts the aged and disabled out of indigence***

Brazil's Constitution includes a provision for support for the very needy. This has been enacted via the Continued Monthly Income (BPC - Prestação Continuada) program, regulated in the General Welfare Law (Lei Orgânica de Assistência Social - LOAS) and to date has lifted out indigence 1.5 million of the aged and disabled living in families which have a per-capita income of less than one-quarter of the minimum wage.

Beneficiaries now receive one minimum salary per month, which, at least, has doubled their income. The benefit is paid directly by a bank or an authorized welfare center, by use of a magnetic card. The program started paying benefits in 1996 under the management of the Secretariat of State for Welfare Assistance and represents the first step towards ensuring these people proper support under the Social Protection Network and access to goods, services, programs and projects that already exist within the community.

## Social Programs: Brazil spent more and better

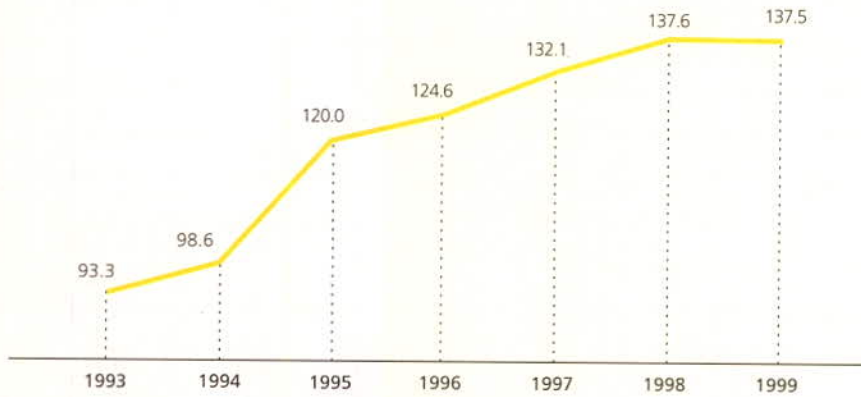
The importance attributed to the Social Protection Network demonstrates that not only has the Federal Government helped the needy, but also has focused its priorities on the most vulnerable. Progress wasn't achieved by chance. Since 1995, Brazil has spent more and, most importantly, spent better on its social policies. Studies prove that:

- Inflation was controlled in 1994 with expansion rather than reduction of expenditure on social programs;
- Essential social programs were protected from spending cuts made in subsequent years, specifically from 1999.

### **Federal Government social spending - evolution**

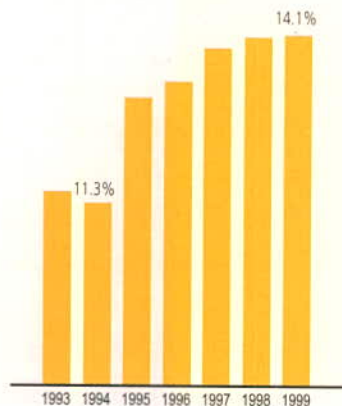
Year by year, in R\$ billions (value December 1999)

1994 total spent = R\$98.6 billions; 1999 total spent = R\$137.5 billions



Source: IPEA/DISOC, based on monthly data from SIAFI/SIDOR systems.

### Social spending and GDP: increase from 11.3% in 94 to 14.1% in 99



Source: IPEA/DISOC, based on monthly data from SIAFI/SIDOR systems.

- The Federal Government increased social spending by an average 7.8% between 1995 and 1999, when in real terms it was 39% higher than in 1994
- In 1994, Brazil allocated 11.3% of GDP to social programs. Starting 1995, this increased gradually and in 1999 stood at 14.1% of GDP - the highest level of all times.
- Growth in Federal Government social spending since 1995 has far surpassed growth in Gross Domestic Product (GDP).
- Growth, sector by sector, is illustrated below.

### **Federal Government social spending (R\$ billions)**

Annual average, by budget item, personnel excluded (\*)

	1990-1994	1995-1999	Growth
Social security, welfare	28.4	62.6	120%
Health	7.1	15.6	118%
Education	4.3	9.0	112%
Employment	4.5	5.8	28%
Housing, urban development	0.1	0.4	208%
Social spending - total	44.5	93.4	110%
Federal spending - total	72.4	139.6	93%

(\*) Based on value of June, 2001. Source: MF/SPE.

### **Recalling the not-to-distant past:**

- Historically, Brazil spent public funds poorly.
- With the wrong priorities, the government protected the rich and left the poor abandoned and unprotected.
- Funds were swallowed up by excessive bureaucracy, exchange of political favors and corruption before they reached needy regions.
- Instead of helping combat poverty, social programs often helped increase inequality.

#### QUOTES

The fight against inflation was the starting point for this policy. Read what Fernando Henrique Cardoso said in 1993 when he was Finance Minister:

**Inflation is the most unjust and cruel of all taxes. It is paid by the poorest. Companies and the wealthy learn how to protect themselves. The legion of the excluded see the value of their meager resources deteriorate day by day.**

**Bringing down inflation is the most efficient social policy. Only price stability will create the conditions for production, employment and income distribution and thus eliminate the gap that separates wealthy Brazil from misery-ridden Brazil.**



### 3. The Citizen's Card: help without humiliation

#### One single account for all social benefits

**T**HE FEDERAL GOVERNMENT HAS INTRODUCED THE CITIZEN'S CARD (Cartão do Cidadão), an instrument that allows low-income families to withdraw money from social programs in which they are registered.

Initially, the Citizen's Card will include five programs benefiting the poor - the School Grant (Bolsa Escola), Gas Subsidy (Auxílio-Gás), Food Grant (Bolsa Alimentação), Child Labor Eradication (Erradicação do Trabalho Infantil) and Young Agent (Agente Jovem). A family registered for example in three of these programs will have just one card to make the withdrawals it is entitled to.

- In the first half of 2002, these five programs benefited close to 17 million needy people in families with per capita income less than half a minimum salary a month.
- The magnetic Citizen's Card is made of yellow plastic and is similar to ones used by the banking system. The cards are personalized for individual use and is distributed preferentially to mothers, thus strengthening the woman's role in the family. The name that appears engraved on the card must also be preferentially of the mother.
- Each user has a password and receives a statement to keep track of how much he or she is receiving from each social program. The card can be used to withdraw money in any municipality at branches of the Federal Savings Bank (Caixa Econômica Federal - CEF), authorized lottery agency or other institution authorized by the CEF.
- The Citizen's Card is a powerful tool for the consolidation of the Social Protection Network (Rede de Proteção Social) - a group of initiatives that benefits 41 million people and which has become the most comprehensive income redistribution pro-

gram in the country's history, receiving R\$30.4 billion in 2002 alone.

- To participate in programs comprising the Social Protection Network and receive the Citizen's Card, each family must enroll with municipal authorities in the federal government's Consolidated Register of beneficiaries.

### *The first five programs in the Citizen's Card*

<b>Name</b>	<b>Goals and payments</b>	<b>Beneficiaries</b>
School Grant	<ul style="list-style-type: none"> <li>• Ensure that all needy families can keep their children at school from age seven through 14</li> <li>• Pays R\$15 per child per month up to three per family (max. R\$45)</li> </ul>	8.6 millions
Food Grant	<ul style="list-style-type: none"> <li>• Promotes good conditions of health and nutrition for pregnant and nursing women with babies up to six months, and for children from six to 83 months old, where there is risk of inadequate nutrition.</li> <li>• Pays R\$15 per month per beneficiary, up to three per family (max. R\$45).</li> </ul>	1.3 millions
Cooking Gas Subsidy	<ul style="list-style-type: none"> <li>• Help to buy LPG cooking gas, compensating poor families for withdrawal of a subsidy on the fuel.</li> <li>• Pays R\$15 every two months.</li> </ul>	8.1 millions
Child Labor Eradication Program(Peti)	<ul style="list-style-type: none"> <li>• Seeks to eradicate hard, dirty, degrading and/or dangerous work for children aged seven through 15, in urban and rural areas, promoting access to and permanence in school.</li> <li>• Pays up to R\$40 per child per month.</li> </ul>	811,000
Young Agent	<ul style="list-style-type: none"> <li>• Trains young people aged 15 - 24 to work in their communities, in areas of health, culture, the environment, citizenship, sports and tourism, seeking to raise social conditions in the municipality.</li> <li>• Pays R\$65 per month per young person.</li> </ul>	105,000

*\* Data relating to the Young Agent program indicates the number of young people receiving payment. Note: The aim of the Child Labor Eradication Program (Peti) is to assist 866,000 children and adolescents by the end of the year. Currently, 810,000 are being assisted. Source: Federal Savings Bank - CEF*

## **Single consolidated register facilitates assistance for the needy**

The Citizen's Card will use the Federal Government's Single Consolidated Registry for Social Programs (Cadastro Único para Programas Sociais) launched by President

Fernando Henrique Cardoso on July 2001. The registry is a nationwide database with information on families that have monthly per capita income of half the minimum salary or under. The Federal Savings Bank - CEF is responsible for the database.

- To be included in the registry, a family must be in a situation of poverty. For the first time, Brazil has a clear idea of the profile of the target public for its social policies - family income, family makeup, educational level of family members and services they will have access to.
- This information will allow for the elaboration and implementation of social services that are best suited to the needs of poverty-stricken families. The Single Consolidated Registry is an efficient instrument for the proper identification of those who really need the Social Protection Network.
- When the social programs were being implemented, it was noticed that each one of them has a specific registration process although they were aimed at the same public.
- As its name indicates, the Single Consolidated Registry will unify everything. Besides the five aforementioned programs (School Grant, Food Grant, Child Labor Eradication, Young Agent and Cooking Gas Subsidy) it will also include the Continued Monthly Income (Benefício de Prestação Continuada), Monthly Income for Life (Renda Mensal Vitalícia) and Rural Retirement Pension (Aposentadoria Rural) programs, as well as others of the Social Protection Network.
- The goal is to reach all those living in poverty or indigence - close to 9.3 million families, according to the 2000 census and the 1999 PNAD (a national sample household survey).
- The nationwide registration effort involved monitors from the Child Labor Eradication Program; professors from the municipal school network; coordinators from the Young Agent Program; Community Health Agents; non-government organizations and volunteers, among others. The Social Security and Welfare Ministry's Social Welfare Department coordinated this joint effort.
- The CEF distributes forms and is responsible for processing the database. It is a standard form in which families provide details of members, all of whom are registered.

#### QUOTES

**We are inaugurating a new income distribution policy.  
(President Cardoso)**

The Citizen's Card and the Single Consolidated Registry were themes of President Fernando Henrique Cardoso's weekly radio program "A Word from the President" (Palavra do Presidente) aired February 15 and March 5, 2002:

### **Simplification and guarantee:**

- “We are inaugurating a new income distribution policy. (...) With the single consolidated registry we facilitate enrollment and with the magnetic card we have simplified payment, thus assuring that the money will not get lost along the way and making sure the benefits reach those who most need them. The magnetic card can be used in more than 10,500 points in Brazil - branches of the CEF, lottery agencies and other authorized places.” (5/3/2002)

### **Technology against bureaucracy:**

- “The biggest problem of some social programs is reaching families without delay or intermediaries. Delays and bureaucracy diminish, and often wipe out, the efforts undertaken by the government to help low-income individuals.”
- “We are now better able to move forward with the Social Protection Network. Over the past few months, CEF staff have begun visiting small towns that do not have bank branches or lottery agencies. In these places, the CEF is contracting bakeries, drug stores and grocery stores to function as if they were the local bank.”
- “The satellite dish used in houses to improve TV images will help us greatly. Thanks to modern technology, all we need to do is connect an antenna to a computer and a bakery becomes a bank where you receive your benefits. Using your card for the School Grant or Peti you access the computer and the bakery’s employee gives you the money sent by the Federal Government.”
- “Small towns may not have a bank branch, but they do have satellite dishes and computers installed in the so-called town banks that receive your Social Protection Network benefits.”
- “In May, the 2,000 smallest towns will have establishments transformed into banks to deliver the funds of our social programs.” (15/02/2002)

The president was right. On May 24<sup>th</sup>, 2002, the CEF inaugurated the 2,012<sup>nd</sup> small-town bank and now has established a presence in all 5,561 municipalities in Brazil.

### **The “famous card” and the Social Protection Network:**

- “Direct income distribution programs totaled R\$29.4 billion\*. In other words, we are indeed redistributing income! (...) And what is more important, or just as important, is the fact that we are changing the way we do this with the famous card.
- “I hope we can finish this project this year and have the card which is called the Social Protection Network. With this, we will group into one single program, or better yet, we will establish just one way to distribute the funds of several pro-

grams. These various programs are ways of distributing income and of promoting education and health. (6/2/2002)

\* The current value is R\$30.4 billion.

## **Direct payment increases the value of women in society**

By making mothers responsible for the account in which the money from social programs is deposited, the Federal Government is making a substantial contribution toward the recognition of the importance of women in society. It is a simple, successful initiative that has been having surprising results. One example is the federal School Grant Program through which money is sent directly to the mothers of poor children, without intermediaries. A study conducted by the World Bank has shown that transferring money to women instead of men results in better use of the funds. It also assures a greater participation of mothers in the education and development of their children.

### **How the School Grant Program trusts women - in five steps:**

1. Every month, each registered family receives R\$15 for each child between the ages of 6 and 15 who goes to school on a regular basis. The idea is to encourage mothers to keep their children in school. This is part of a nationwide effort to guarantee basic education for all.
2. A poor family can have up to three children enrolled in the program and receive R\$45 per month, while Brazil's current average is R\$30. The mother must register in order to be eligible for the money from the School Grant Program.
3. One of the biggest innovations was the creation of the plastic magnetic School Grant Card. Each family is entitled to one card, delivered to the mother with her name on it.
4. Once she has the blue card, the mother simply goes to any branch of the CEF, a lottery agency, or another agent accredited by the CEF to withdraw her monthly allowance.
5. The money comes from the National Treasury and goes directly into the mother's account without the interference of ministers, governors, congressmen or any other authority or intermediary.

## **School Grant Program numbers (April 2002)**

Mothers with Blue Card	4.55 millions	91% of the total families accredited
Families benefited	5 millions	85.7% of families
Children benefited	8.5 millions	79%
Municipalities benefited	5,514	99%
Total month invested	R\$128 millions	- -

## **Estimates through the end of 2002**

<b>Municipalities</b>	<b>Families</b>	<b>Children at school</b>	<b>R\$ millions</b>
5,561	5,707,401	10,752,936	161

*Source: School Grant Program*

- The recognition of women's value can be verified in the smallest and poorest cities in the interior of the country, where regular monthly payments help strengthen the concept of women as responsible individuals. In numerous cases they are the de facto head of the family - a growing trend in Brazilian society.
- Since there are no intermediaries, women avoid that awkward situation of receiving money and being left owing favors to local politicians. It's a blow against cronyism.
- The "Little Blue Card" as it is known in some places, has become a symbol of respect for numerous mothers. More than 4.55 million cards have been delivered to women, compared to less than 500,000 for men. Nine out of every 10 cards go to women.
- Mothers understand the meaning and value of the School Grant Program and spare no effort to have their children attend school on a regular basis.
- In many cases, the money increases a family's income by close to 20%.

## **A monthly allowance in the mother's name**

The decision to send the benefit in the mother's name emerged when it was noticed that women - mothers, grandmothers, sisters - are the ones who keep the family together, according to Wanda Engel, Social Welfare Secretary and national coordinator of the Alvorada Project. "Women care for the more vulnerable members of the family and raise and feed the family," she says. Following are some excerpts of a statement made by Engel on the subject.:

- "Currently, 43% of families living in extreme poverty are headed by women."
- "A guaranteed income allows a woman to refuse to put up with ill treatment and beatings she receives from her husband. It guarantees a roof over her family's head when the husband runs away with another woman. And if she wants, she can get another man."

- “The aim of the Alvorada Project is to extend this initiative to 15 programs in the areas of education, health and income generation that benefit the poorest families in cities where the Human Development Index is lowest.”
- “Alvorada is a project created in the ‘mother’s name’. Financial support programs, land ownership and job and income generation programs are aimed principally at her. This is the biggest effort ever undertaken in Brazil to combat inequality.”
- “Inequality in Brazil has a face. It is that of a black, northeastern woman. They, the Severinas and Marias, are the agents capable of pulling their families out of the poverty they are subject to. They must be supported in this mission.”

### Men and women in Brazil (millions)

Urban and Rural			Urban			Rural		
Total	Men	Women	Total	Men	Women	Total	Men	Women
170	84	86	138	67	71	32	17	15

Source: IBGE, Demographic Census, 2000.

### Many more families headed by women

The proportion of women responsible for Brazilian homes grew 38%, from 1991 to 2000, according to census data.



	Total	Men	Women	% Men	% Women
1991	34 millions	28 millions	6 millions	82%	18%
2000	45 millions	34 millions	11 millions	75%	25%

Source: IBGE 1991 and 2000 Demographic Census

## *Proportion of women as heads of family*

	Proportion in 1991 was	Proportion in 2000 changed to	Variation
Brazil	18%	25%	+38%
North	16%	23%	+47%
Northeast	20%	26%	+33%
Southeast	19%	26%	+38%
South	16%	23%	+41%
Centerwest	17%	24%	+43%

Source: IBGE, Demographic Census, 2000 and 1991.

## **How the School Grant Program served as an example for the Cooking Gas Subsidy Program**

In February of 2002, when the Cooking Gas Subsidy Program was launched, the Federal Government resorted to the same successful payment procedure used by the School Grant Program. The blue card of the School Grant Program allows low-income families to receive R\$15 every two months to buy cooking gas. The money compensates for the end of gas price subsidies that were removed in January of 2002. This is how it works::

- The Cooking Gas Subsidy is aimed at families with a monthly per capita income of less than half a minimum salary. Payment started being made to nearly 5 million families registered in the School Grant Program.
- Thus, the Social Protection Network received a new program. Consumers used to buy cooking gas at prices that were below cost because the Federal Government subsidized the price. People who needed this subsidy, as well as those who did not need it were benefited. Now only the needy receive this subsidy.
- Close to R\$950 million is earmarked for the Cooking Gas Subsidy Program. Funds come from the Contribution from the Intervention in the Economic Domain (Cide), a tax levied on gasoline and diesel. The Northeast has potentially the largest number of beneficiaries, as per the following chart.

### *Northeast receives biggest share of Cooking Gas aid*

Program goal is to help 9.3 million families nationwide

Region	Population	% of neediest population to be benefited
Northeast	4.8 million	45.4%
Southeast	2.3 million	14.5%
South	1 million	18.5%
Centerwest	579,000	22.4%
North	543,000	19.0%

Source: "Mercado Eletrônico".

## 4. The Alvorada Project: action to aid the poorest Brazilians

**B**RAZIL IS COMPOSED OF 5,500 MUNICIPALITIES GROUPED INTO 27 STATES (including the Federal District). Of these, 2,361 municipalities in 23 states are home to a concentration of millions of the nation's poorest citizens.

To improve the lives of these most severely disadvantaged citizens, the federal government created a special program called the Alvorada Project, or "Sunrise Project". In 2001 alone, the program invested R\$4.19 billion to fight inequalities across the country.

While Brazil looks to the future, the Federal Government is making sure that the urgent problems of the neediest citizens are not ignored. The Alvorada Project was budgeted to distribute, through the end of 2002, a total of R\$13.2 billion.

- The Alvorada Project coordinates the efforts of 17 separate government programs in each municipality chosen for funding. These range from the Family Farm Support Program to the Child Labor Eradication Drive and the National Water and Sewage Project (see following list).
- Target communities were chosen based on the Human Development Index (HDI) as used by the United Nations. The HDI measures social development standards in communities worldwide, using three basic indicators: income; longevity (life expectancy from birth); and education (literacy and school enrollment).

### *Below the poverty line*

Municipalities with lowest HDI	Alvorada Project programs	Expenditure in 2001
2,361	17	R\$4.19 billion

- In 2000, the Federal Government identified 14 states where the HDI was below national average: Acre, Alagoas, Bahia, Ceará, Maranhão, Pará, Paraíba, Pernambuco, Piauí, Rio Grande do Norte, Rondônia, Roraima, Sergipe and Tocantins. In these states, there were 1,962 municipalities with extremely low HDI levels - comparable to those of African nations such as Sierra Leon.
- Federal Government action under the Alvorada Project was extended to other states to include 399 municipalities where the HDI was 0.500 or less. The states chosen were Amazonas, Amapá, Espírito Santo, Goiás, Minas Gerais, Mato Grosso, Paraná, Rio Grande do Sul and São Paulo.
- Altogether, the program includes 2,361 municipalities in 23 states.

## **Government actions coordinated by the Alvorada Project**

<b>Actions</b>	<b>Objectives</b>	<b>Goals</b>
Adult Literacy (Alfabetização Solidária)	Improve literacy rates in selected states, by reinforcing the Adult Literacy Program	Teach 1.35 million people aged 15 - 29 to read and write.
Develop basic education and supplementary education for adults (Apoio ao Desenvolvimento do Ensino Fundamental e Educação de Jovens e Adultos -Recomeço)	Promote the universalization of basic education by financing projects that contribute to this objective.	Reach 525,000 students via extension courses.
Support for high-school education (Apoio ao Ensino Médio)	Support state projects for high-school education, so ensuring places for all students graduating from basic education.	Increase quality of education for 1.5 million students in state high-school systems. Bring into the state systems 180,000 students currently in municipal systems. Create conditions to educate one million additional students.
School Grant (Bolsa Escola)	Guarantee a minimum income for needy families, so making it possible for children aged 7-14 to remain at school.	Ensure that needy families keep children aged 7-14 at school.
Program for Elimination of Child Labor (PETI)	Eliminate hard, difficult, unhealthy and/or degrading labor for children aged 7-14, in urban and rural areas.	Reach out to 717,000 children and adolescents, assisting all of those who work in inadequate conditions.
Water for Schools (Água na Escola)	Supply drinking water to schools, with the option of extending supplies to neighboring communities.	Serve all schools with more than 20 students that lack water or sewage systems - a total of 17,500 schools.
Basic Sanitation (Saneamento Básico)	Reduce sickness and infant mortality provoked by disease associated with the lack of adequate sanitation.	Supply 1.35 million families with water, sewage collection and improvement in basic sanitation services.
Family Health and Community Health Agents (Saúde da Família e Agentes Comunitários de Saúde)	Give priority to actions for preventative medicine and the promotion and recuperation of the health of individuals and families, in a complete and continuous program, by use of Community Health Agents.	Serve all municipalities with Family Health Teams - a total of 9,865 additional teams for 31 million people.
Humanize birth procedures and reduce infant mortality (Humanização do Parto -Redução da Mortalidade Materna e Neonatal)	Develop actions to aid and promote the health of pregnant women and the newly-born, by improving access to and quality and quality of obstetrics and neonatal services.	Provide support for 2.34 million mothers-to-be and newly-born.

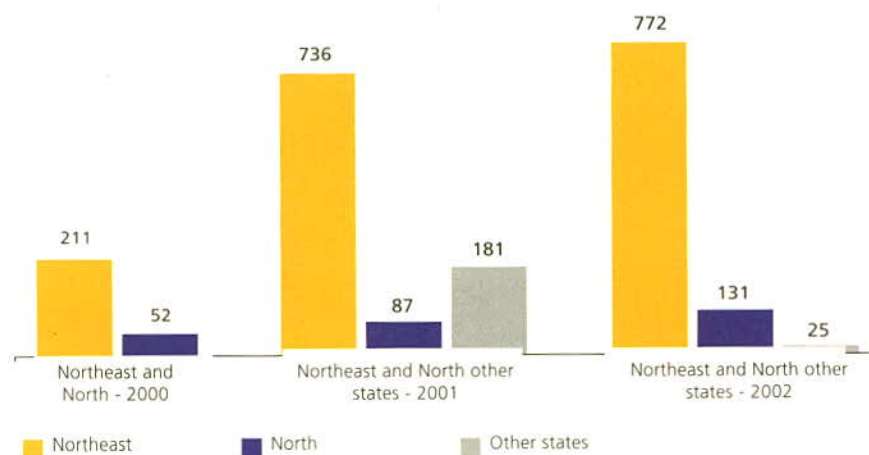
<b>Actions</b>	<b>Objectives</b>	<b>Goals</b>
Infrastructure for tourism (Infra-estrutura Turística - Prodetur II)	Complement actions already undertaken in the Prodetur Northeast I program, so consolidating tourism in the Northeast.	Expand tourism-related infrastructure in the Northeast region, using an IDB loan of 300 million and a counterpart of US\$200 million.
Fight rural poverty in the Northeast (PCPR – Combate à Pobreza Rural nos Estados do Nordeste)	Attend the poorest rural areas in the Northeast via state programs that enjoy World Bank support.	Finance programs to fight poverty in the Northeast using a US\$400 million World Bank loan with US\$100 million counterpart from the states.
Support family farming (Apoio à Agricultura Familiar - Pronaf - Infra-estrutura)	Support family farming, applying a strategy for sustainable rural development.	Serve an additional 571 municipalities, bringing the total to 1,092.
Generate jobs and income in poor areas nationwide (Programa Nacional de Geração de Emprego e Renda em Áreas de Pobreza - Pronager)	Control the situation of unemployment and underemployment in poor rural and urban communities, generating income and productive occupations by training people and communities to undertake their own productive organization.	Creation of five Organizational Laboratories for Courses (LOC), 250 Organizational Laboratories for Land (LOT), and implantation of the Social System for Generation of Employment and Income (SIPGER), seeking to place 100,000 trained people in the market.
Energy for small communities (Energia das Pequenas Comunidades)	Supply electrical energy to isolated communities off the regular grid.	Install 18,489 kits for solar energy electrification in schools and health centers.
Development of Tocantins state (Desenvolvimento do Estado de Tocantins)	Onpass over three years a total of R\$300 million for development programs related to the 1988 creation of the state.	Utilize resources onpassed by the Federal Government in programs for social development, infrastructure and the environment that contribute to the objectives of the plan.
Young Agent (Agente Jovem de Desenvolvimento)	Support for young people aged 15-24 who are in situations of vulnerability or socially at risk, applying a grant of R\$65 per month for six months.	Give support to over 9,000 young people.
Food Grant (Bolsa Alimentação)	Improve health conditions for children up to six years of age and give dietary support to pregnant and breast-feeding women via grants of up to half a minimum salary per capita (R\$15 per child, up to three children).	

Source: Alvorada Project

## Youth harnessed to the cause of development

- Under the Alvorada Project, adolescents aged 15 to 17 are guaranteed participation in a program called Youth for Social and Human Development. Participants receive an automatic monthly grant of R\$65, money which immediately contributes to improvement of the quality of life and the social indicators of the regions receiving benefits.
- In 2001, there were 25,700 participants in the Youth for Social and Human Development Program.
- In addition to these participants, there were another 6,300 who took part in the Alvorada Gateways Program, coordinated with the aid of municipal authorities to lend support to social programs. At “Gateway” locations, residents of low-income neighborhoods are able to obtain information and sign up for benefits under any of the Alvorada Project programs.
- The Youth for Social and Human Development Program is not limited to the Alvorada Project alone. Implemented by the Federal Social Assistance Department (SEAS) in conjunction with the Justice Ministry, the program is also active in major cities, where it acts as one of the government’s most effective tools against violence.

### Number and distribution of Alvorada “gateways”



Other states: Espírito Santo, Mato Grasso, Goiás and Paraná

Source: SEAS/IMPAS

Operating in 2,138 municipalities in all 27 states, there are currently 105,000 youths from low-income families taking part in the program. These young people receive learning and skills in areas such as environmental protection, health, law and citizenship, with an expected multiplier effect in their local communities.

- As of 2001, a total of 1,267 Gateways were operating in 21 states, representing an investment of R\$21 billion and generating 8,900 direct jobs, 6,340 of them held by members of the Youth for Social and Human Development Program.
- For 2002, the government was forecasting creation of another 928 Gateways, providing direct employment for an additional 6,496 youths.

## 5. Community Solidarity: partnerships against poverty

**T**HE COMMUNITY SOLIDARITY COUNCIL WAS FOUNDED 1995 BASED ON THE idea that contemporary society is an indispensable partner for any government in the battle against poverty and discrimination. The initiative heralded a form of social mobilization that was unprecedented for Brazil and involved both intellectual and financial resources from government, the private sector and non-profit foundations (the so-called “Third Sector”). Together, the three are now working to move the country forward with clear goals.

- The Community Solidarity Council was created to develop more efficient public welfare policies and to spur greater social involvement in implementing solutions.
- By working together in a spirit of solidarity, government and society can use human, technical and financial resources more efficiently to fight poverty and discrimination.
- Innovative programs have been developed step-by-step. These include University Solidarity and Literacy Solidarity, created by the Community Solidarity Council in a way designed to consolidate the new model of social action (see summary on next page).

## Community Solidarity

University Solidarity (UniSol)	Mobilizes university students nationwide to work in poor communities.
Training Solidarity (CapaSol)	Finances professional training courses for poor youths aged 16-21. Supports training for social project leaders in NGOs.
Literacy Solidarity (AlfaSol)	Promotes partnerships with companies, universities, city halls and volunteers, with Ministry of Education support, to train youths and adults to read and write.
Handcraft Solidarity	Fosters revitalization of traditional crafts, as alternative form of income.
Youth Network	Offers Internet access and leisure and learning alternatives for youngsters, in particular those in situations of social risk.
Volunteers	Spreads a modern vision of volunteer work, stressing efficiency of services and training of people and institutions. The program Friends of the School, working in conjunction with a TV network, took volunteer collaborators into 30,000 schools nationwide.

Source: Community Solidarity Council

- These projects represent an alternative to traditional social welfare, a model marked by inefficiency and centralization. Instead, they involve the community, grant local autonomy and guarantee professional management through periodic review.
- Through December 2001, the program had enlisted 423 partner companies.
- Community Solidarity operates on two fronts simultaneously.
- Partnerships are formed between government and local civic organizations. Such partnerships are the responsibility of the Community Solidarity Council.
- The program helps to promote partnerships within government, between the federal, state and municipal levels, aimed at fighting poverty and promoting development in poor municipalities. This is a function of the Executive Secretariat of Community Solidarity.

## *Data for selected Community Solidarity programs, year by year*

	1996	1997	1998	1999	2000	2001
<b>Total</b>						
<b>UniSol</b>						
Students mobilized	990	760	2,200	2,200	2,460	4,500
13,110						
<b>AlfaSol</b>						
Students benefited	–	9,150	228,000	538,850	724,000	1,676,000
2,400,000						
<b>CapaSol</b>						
Students trained	1,073	4,211	14,053	32,002	35,952	27,665
114,956						

*Source: Community Solidarity*

## University Solidarity brings together students and the poor

- The University Solidarity Program (UniSol) was created 1995 to mobilize students for work among the poor.
- UniSol has to date involved 180 institutions from 910 municipalities. In 2001 alone, 4,500 students took part. They worked in programs in 250 municipalities (see following summary). Some 17,210 students and 1,415 teachers were to have participated in the program through the end of 2002, since its inception in 1996.
- Students share their experiences with local populations. A network of agents is thus formed to help solve the problems of each locality. The aim is sustainable development through innovative solutions to the problems of each area.
- Roles of the various agents:
  - Community Solidarity coordinators set up networks of local partnerships;
  - Government agencies and private companies place their resources at the disposal of the program;
  - Participating universities recruit and train student teams; and
  - Local governments make housing and transportation available to team members.

## University Solidarity - evolution

From 1996 to 2001, the total of students involved nationwide was 17,120

Year	Students involved	Municipalities benefited	Universities participating
1996	990	98	58
1997	760	75	70
1998	2,200	195	120
1999	2,200	212	128
2000	2,460	236	140
2001	4,500	250	180
2002 (*)	4,100	260	190

Source: Community Solidarity. \*Projection

## Literacy reaches 2.4 million more Brazilians

- The Literacy Solidarity Program (AlfaSol) aims to drastically reduce illiteracy in regions where it is still a scourge.
- To meet this goal, the program has developed a literacy ranking based on Brazilian Census Bureau (IBGE) findings from the 1991 Census.
- During the first half of 1997, some 9,200 people were aided in 38 municipalities in the North and Northeast. As of December, 2001, the program had reached a total of 2.4 million Brazilians in 1,578 municipalities.
- In 2002, the program was to be active in 2,010 municipalities in 21 states as well as in the Sao Paulo, Rio de Janeiro and Brasilia metropolitan areas. The program cost just R\$34 per student.
- So far, 114,000 teachers have been trained at 204 universities.
- The AlfaSol program was developed in partnership with private companies, universities, individual participants, city governments and the Education Ministry.

## Literacy Solidarity - evolution

From 1997 to 2002, the total number of municipalities involved in the program increased from 120 to 2,010, nationwide

ogram

Year	Municipalities involved	Students reached
1997	120	38,650
1998	581	237,150
1999	866	538,850
2000	1,016	724,000
2001	1,578	900,000
2002 (*)	2.010	1,2 million

Source: Community Solidarity Council. (\*) Projection

## Training Solidarity graduates 115,000 young people

- The Training Solidarity Program (CapaSol) was created 1996 to cut the cost of professional training for low-income youths in the 16-to-21 age bracket. The program also aims to help local assistance organizations grow and develop.
- From 1996 to 2001, the program developed partnerships with 2,342 non-governmental organizations to train 115,000 youths in nine major metropolitan areas. These were: Recife, Fortaleza, Aracaju, Belém, São Luis, São Paulo, Salvador, Porto Alegre and Rio de Janeiro.
- Projects are executed by public and private companies as well as multilateral development agencies. The NGOs propose the study courses, which are designed to appeal to local business needs.
- Study courses were also aimed at development of local organizations. The numbers for these are impressive, as seen below.

## Training Solidarity - numbers

(1996-2001)

Students trained	115,000
Study courses	3,882
NGOs involved	2,342

Source: *Community Solidarity*

- **Social Management.** This course is offered to social management professionals at NGOs, government agencies, unions, universities, public training programs (such as Sesc, Senac, Senai and others) and interested companies. As of the end of 2001, 125 social management courses had been offered to 4,400 professionals in 19 Brazilian states.
- **“Small Is Beautiful” Planning and Management.** This course is offered to coordinators and managers of Copasol-financed teaching programs aimed at vocational training for youths. Through 2001, 66 courses had been offered to 2,232 professionals.
- At the beginning of 2001, the Training Solidarity Program was invited by the Federal Government’s Social Assistance Office to take part in the broader Alvorada Gateways initiative. Capasol did its part by structuring an Interpersonal and Administrative Skills Development course. Through the end of 2001, the program administered 87 courses involving 3,224 participants, most of them youths. The 255 municipalities favored by the courses were located mainly in the North and Northeast, regions in which the Human Development Index tends to be low and poverty high.

## Program gives new life to handicrafts in 53 communities

- With the objective of revitalizing traditional craftsmanship, the Handicraft Solidarity Program took shape as an initiative of the Community Solidarity Council in partnership with The Small Business Administration (Sebrae), the Northeast Development Authority (Sudene) and the Brazilian National Savings Bank (CEF). Currently, the program aids some 2,000 artisans in 53 communities.

## Pioneer municipalities and their handicrafts

Alagoas	<ul style="list-style-type: none"> <li>• Pão de Açúcar: lace and woodworking</li> <li>• Piranhas: lace</li> </ul>
Ceará	<ul style="list-style-type: none"> <li>• Juazeiro do Norte: packaging</li> </ul>
Piauí	<ul style="list-style-type: none"> <li>• Pedro II: weaving</li> <li>• Parnaíba: baskets</li> <li>• São João da Varjota: ceramics</li> </ul>
Rio Grande do Norte	<ul style="list-style-type: none"> <li>• Nísia Floresta: lace</li> </ul>
Paraíba	<ul style="list-style-type: none"> <li>• Esperança: popular toys</li> <li>• Itabaiana: popular toys</li> </ul>
Sergipe	<ul style="list-style-type: none"> <li>• Divina Pastora: Irish lace</li> <li>• Poço Verde: weaving</li> </ul>
Pernambuco	<ul style="list-style-type: none"> <li>• Bezerros: xylography</li> <li>• Serrita: ceramics and leather</li> <li>• Tracunhaém: ceramics</li> <li>• Ibimirim: carved wooden saints</li> </ul>
Bahia	<ul style="list-style-type: none"> <li>• Irará: ceramics</li> <li>• Valente: fiber weaving</li> <li>• Araci: fiber weaving</li> <li>• Entre Rios (Porto de Sauípe): fiber weaving</li> <li>• Rio Real: ceramics</li> </ul>
Minas Gerais	<ul style="list-style-type: none"> <li>• Berilo: weaving</li> <li>• Turmalina (Vale do Jequitinhonha): ceramics</li> <li>• Minas Novas (Vale do Jequitinhonha): ceramics</li> <li>• Cônego Marinho (Candeal): ceramics</li> <li>• Urucuia: coco matting and fibers</li> </ul>
Espírito Santo	<ul style="list-style-type: none"> <li>• São Mateus: fibers and wood</li> </ul>

Source: *Community Solidarity*

As a first step, the communities themselves are heard. Their needs and suggestions are evaluated. Only then do program coordinators work out a plan, one that is always designed to involve the largest possible number of artisans. Basic objectives are:

- Identify and work with groups that create traditional handicrafts. These will typically involve regional themes, easily available raw materials and the use of skills handed down from one generation to the next. Aesthetic standards based on community traditions are thus guaranteed.
- Reinforce existing artisan groups or, as the need arises, to form new ones.
- Develop better production techniques.

- Advertise and market handicrafts, with an emphasis on their cultural roots, the skills used in creating them and their place in regional history and development.
- Obtain adequate facilities for artisans to undertake their work.
- Sell the resulting products to a wide public.

## Youth network turns the key on the Internet

- Working in partnership with the Science and Technology Ministry, the Youth Network Program is aimed at adolescents and young adults, especially those who have in some way been left behind by society. Through the Internet, these youths are able to gain expression, creativity and an enhanced social role.
- At the heart of the program is a network of Internet-wired locations called Youth Spaces. There, participants find leisure activities, training, skills and professional development opportunities. There is also time and space for creativity and a convivial social atmosphere. Special Web sites stimulate virtual interaction and an expanded sense of community.
- In essence, the Youth Space is its own cybercafe.
- The target public is low-income youths who would otherwise lack access to Internet technology. Through the Youth Space network they are able to gain, and share, knowledge about health, rights and professional skills.

### *Youth network - profile in July 2002*

Youth centers installed	9
Cities	Salvador (2), Santo André (SP), Aquiraz (CE) Itaboraí (RJ), São Paulo (SP), Varjão (DF) and Rio de Janeiro (RJ)
Youths - average presence per week	300
Computers installed in each center	5 to 10, connected to Internet
Partner companies	IBM
Support institutions	Ministry of Science and Technology, University of Campinas and Senac

Source: *Community Solidarity*

## Community outreach touches 11.6 million of the poorest

Created in 1999, the Community Outreach Program sparks community efforts in Brazil's poorest cities and towns. Residents are encouraged to use their own skills in the mobilization against poverty. By the end of 2002, 11.6 million Brazilians in 695 localities nationwide will have joined in such efforts.

- Community Outreach participation has increased significantly since inception of the program, when two million Brazilians in 157 municipalities initially took part. Since then, participants have shaped a whole new approach to the problem of conquering poverty, called Local Integrated Action for Sustainable Development.
- Participating localities typically have fewer than 50,000 inhabitants and present a Human Development Index (HDI) below 0.5. These are, in other words, the poorest of the Brazilian poor.
- Community Outreach traces its roots back to the creation, in 1995, of the original Community Solidarity Program, which aimed at combating poverty where its incidence was most acute.
- Experience has shown that traditional welfare policies are not enough to alleviate poverty and promote development. This is why the government, starting in 1999, began to invest in its new strategy of Local Integrated Action for Sustainable Development.
- Community Outreach is an innovative way to plan for development. It promotes sustainable communities, ones that are able to care for their own immediate needs. Human values come first, with the emphasis on comparative regional advantages and potential.
- Since its inception, Community Outreach has relied on innovation to combat poverty. It's not about money. It's about something more important: knowledge. The Outreach agent consults closely with community representatives. Together, they set the course for the program.

The program has scored many successes. The Cajueiro Sewing Circle in Alagoas is one. Its members discovered that a quilting bee can be more than just a hobby. The group's quilts have found buyers throughout Brazil. The Unemployed Mothers of Campo Redondo, Rio Grande do Norte, are another success story. They formed a co-op that exports tulle netting for the packaging industry in Canada. Yet another is a group in Riacho Fundo, near Brasilia, who make money by recycling garbage.



## 6. Human rights: restoring dignity

### The political “disappeared”: respecting the national memory

**T**HE RECOGNITION BY THE BRAZILIAN STATE OF THE DEATHS OF PEOPLE who disappeared during 1961 and 1979, involved in or accused of involvement in political activities, was an event of great historical significance and symbolism for Human Rights policy.

- Members of the families of the “disappeared” were indemnified and accounts were settled with the past, without diluting the conciliatory essence of the Amnesty Law of 1979.
- Legislation created in 1995 allowed the country to begin repaying a debt to its citizens and to its own memory.
- In December 1995, President Fernando Henrique Cardoso ratified the Law of the Disappeared (Law 9,140), which “recognizes as dead, people who disappeared as a result of participation, or alleged participation, in political activities, during the period 2/9/1961 to 15/8/1979”.
- A list appended to the law contains names such as Rubens Paiva, David Capistrano, Honestino Guimarães, Mário Alves, Maurício Grabois, Onofre Pinto, Paulo Stuart Wright and Stuart Angel Jones, among dozens of others who took part in resistance to the military regime.
- A Special Commission for Recognition of the Political Dead and Disappeared (Comissão Especial de Reconhecimento dos Mortos e Desaparecidos Políticos) was created to examine other accusations presented by family members. The work of this

commission was to recognize the persons concerned, locate the bodies of those who disappeared, and to produce a report as a basis for indemnification.

- The creation of a National Prize for Human Rights awakened growing support and participation among the public. Inclusion of the theme of Human Rights and related legislation in primary school curricula has encouraged awareness of the subject among children and adolescents.

## The biggest demarcation of indigenous lands yet undertaken

The recognition of the rights of indigenous peoples resulted in the demarcation of 41 million hectares of indigenous lands from 1995 to 2001. This represents 40% of all the indigenous lands set aside in Brazil since the first boundaries were established during the Empire. The 1994-2002 Federal Government, therefore, is responsible for the demarcation of the biggest number and greatest extension of indigenous lands in history.

- From 1995 to 2001, 104 indigenous reservations were declared (32 million hectares) and 144 indigenous reservations were ratified (41 million hectares). Most of these are in the Amazon region, where they make up one fifth of the land area.

### *Brazilian Indigenous population - numbers*

Indigenous lands	216
Different languages	180
Population	350,000
% of Indigenous within the total Brazilian population	0.2%
Indigenous growth rate	3.5% a year
General Brazilian population growth rate	1.6% a year
Demarcated lands	584
Demarcated lands - total area	One million km <sup>2</sup> or 12% of the total national territory
New Indigenous lands "declared" (1995-2001)	104 or 32 million hectares
New Indigenous lands "ratified" (1995-2001)	144 or 41 million hectares
Education	1,666 Indigenous schools with 3,041 indigenous teachers

Source: Funai

- **Reduced Mortality** - The indigenous population of Brazil has been increasing at a steady rate of 3.5% a year. The average rate of growth of the Brazilian population as a

whole was 1.6% during the period 1996 to 2000. One of the reasons for this increase is the falling mortality rate, due to the improvement in health services provided to indigenous peoples. There are 350,000 indigenous people in Brazil, making up 0.2% of the national population.

- Partnerships - The Government has entered into innovative partnerships with indigenous organizations and indigenous support groups to carry out the physical work of demarcation. One example is the Indigenous Land of the Rio Negro (in Amazonas state), which contains 11 million hectares and was laid out in a partnership with the National Federation of Indigenous Organizations of the Rio Negro (Federação Nacional das Organizações Indígenas do Rio Negro - Foirn), the National Foundation for Indigenous People (Fundação Nacional do Índio - Funai) and the Socioenvironmental Institute (Instituto Socioambiental).
- Isolation - The isolated peoples, who do not maintain regular contact with the rest of the national population, received special attention from Funai, through the work of the six Fronts for Ethno-Environmental Protection (Frentes de Proteção Etno-Ambiental). There is strong evidence of the existence of at least 42 isolated peoples.
- Health - Health services have been brought to the indigenous populations by means of the Special Indigenous Health Districts (Distritos Sanitários Especiais Indígenas), linked to the National Health Foundation (Fundação Nacional de Saúde - Funasa). The 34 Health Districts brought a significant improvement in services for the indigenous peoples, through provision agreements that absorbed R\$100 million in 2001.
- Education - Special care has also been taken with regard to indigenous education, based on schools which form part of the Brazilian educational system but which also pay special attention to specific aspects such as the use of indigenous languages and of school materials prepared by the indigenous peoples themselves, with specific curricula and a schedule adapted to the rhythms of the day-to-day and ritual activities of the indigenous peoples.
- Teachers - There are 3,041 indigenous teachers in Brazil today, working in 1,666 indigenous schools.
- Sustainable development - The Federal Government has encouraged and supported initiatives which provide an economic return and at the same time preserve the ecological balance of indigenous lands. One of these is the Forestry Management Program developed by the Xikrin people of Cateté (in Pará state), for the extraction and sale of wood and other resources in a sustainable manner. It receives finance from Companhia Vale do Rio Doce and from the program Pró Manejo - PPG7.
- New Statues - In April 2000, the Federal Government sent National Congress a

proposed change to the law governing the relationship between indigenous peoples, the State and society at large, called the Project for a Statute on Indigenous Societies (Projeto de Estatuto das Sociedades Indígenas). The goal is to ensure that protection of indigenous peoples will be based on a recognition of their cultural differences, and no longer on the basis of a false perception of their inferiority.

## Promotion of equality and affirmative action

By recognizing racial discrimination as a major obstacle to the exercise of citizenship, the Federal Government has opened a new phase in the fight against racism. At the same time as the Government recognized the existence and severity of the problem, it also recognized the black movement in Brazil as a partner in dialogue and reaffirmed the need for affirmative action.

- The Ministry for Agrarian Development (MDA) and the Ministry of Justice have started to put affirmative policies into practice. These initiatives have become a landmark in the struggle to assert the rights of those Brazilians who historically have not enjoyed equal access to opportunities.
- The Program of Affirmative Action implemented by the Ministry of Agrarian Development seeks to increase the level of democracy in social relationships. It includes a series of measures:
  - A minimum quota of 20% of blacks to fill positions in the directorates of the MDA and Incra (the National Land Reform Institute) in 2001, and 30% in 2003;
  - 20% of employees and consultants hired by companies supplying subcontracted services and by international organizations should be black;
  - Tenders for filling appointments by open competition at the MDA and Incra to stipulate that 20% of positions should go to black candidates;
  - 30% of the MDA budget for land reform, including the Land Bank (Banco da Terra) and the Family Farms Program (Pronaf), should be earmarked for predominantly black rural communities.
- The Affirmative Action Program implemented by the Ministry of Justice adopted the following targets for its directorate and superior advisory positions, as well as for subcontracted services, through the end of 2002:
  - People of African descent: 20%
  - Women: 20%
  - Handicapped people: 5%
- The National Council for the Combat of Discrimination was created. This will study

the adoption of affirmative policies in favor of people of African descent, with reference to concrete themes such as:

- Preferential investments in the areas of education, health, habitation, sanitation, drinking water, and environmental control in regions principally inhabited by people of African descent, which in general means the poorest parts of the country;
- Earmarking of public funds, in initiatives also involving the private sector, for study grants for black students;
- Projects for the sustainable development of communities made up of the descendants of slaves (quilombos); for the formation of black leaderships; support for black business people and for exchange programs with African countries.
- In May 2002, the National Program for Affirmative Action (Programa Nacional de Ação Afirmativa) was launched, which includes:
  - The adoption of percentage targets for people of African descent, women and handicapped people at directorate and superior advisory level in federal public service;

### ***Condemnation of slavery and the slave trade***

Brazil's participation in the Third World Conference against Racism, Racial Discrimination, Xenophobia and Related Intolerance, which took place in the South African city of Durban in August and September of 2001, sparked a heated public debate across the country. It involved non-governmental organizations and entities concerned with monitoring and developing proposals to overcome the problems discussed at the Conference.

- Organizations for religious freedom and those representing the black movement, indigenous peoples, women, and homosexuals mobilized millions of people in this dialogue with the government.
- Brazil had a significant presence at the World Conference, with some 600 representatives taking part.
- President Fernando Henrique Cardoso made the following statement: "In Durban, our delegation voted for a declaration and program of action which recognized slavery and the slave trade for what they are and as they should always have been considered - as a crime against humanity. All of us know how much black people suffered as a result of this crime and how strongly its consequences are felt, even today, by their descendants, in the form of discriminatory and racist attitudes."

- The inclusion, in the terms of negotiated transfers of funds agreed by the Public Federal Administration, of clauses stipulating conformity with the program;
  - The observance, in invitations for tender issued by the Public Federal Administration, of criteria granting additional points to suppliers who demonstrate the adoption of policies compatible with the aims of the program;
  - The inclusion, in contracts for hiring companies supplying services, as well as technicians and consultants in projects developed in partnership with international organizations, of measures which establish percentage participation targets.
- The Foreign Ministry adopted a Program of Affirmative Action for its diplomatic entry training school, the Rio Branco Institute - there will be 20 grants each year for candidates of African descent embarking on a diplomatic career. Fernando Henrique Cardoso, speaking in December 2001, commented: "Our diplomatic corps must be a reflection of our society, which is multiracial. It is wrong that we should present ourselves to the world as a white society, because we are not."
  - The Brazilian government ratified article XIV of the International Convention on the Elimination of all Forms of Racial Discrimination, which guarantees all individuals the right of appeal in cases involving violation of the rights laid down in the Convention.

## **Handicapped people: the conquest of citizenship**

Although the 1988 Constitution ensured positive rights for handicapped people, very little had been achieved in practice. A new scenario was mapped out during the period 1995 to 2002, under which questions relating to handicapped people were brought into the area of human rights. The Federal Government carried out important actions dealing with vital issues, such as improved access to urban spaces, the removal of architectural barriers, and professional training and rehabilitation of handicapped people into productive activities.

Other results:

- The "City for Everyone" Project (Projeto Cidade para Todos), carried out in partnership with municipal councils, NGOs and international organizations, provided better conditions for some 410,000 citizens.
- Training programs in accessibility and Modernization of the Buildings and Works Code were undertaken by 220 engineers and architects.
- Technical cooperation agreements, designed to facilitate and promote mobility for physically handicapped people and people with otherwise reduced mobility, were reached with the following institutions: Caixa Econômica Federal (the federal savings

bank), the Brazilian Association for Technical Standards (Associação Brasileira de Normas Técnicas), the Federal Council for Engineering, Architecture and Agronomy (Conselho Federal de Engenharia, Arquitetura e Agronomia), automaker Fiat do Brasil and private-sector bank Banco Real.

- Work carried out together with Iphan (the Institute of National Historic and Artistic Heritage), Embratur (the Brazilian Tourism Authority) and Ibama (the Brazilian Environmental Protection Agency) has provided access for handicapped people to sites of historical, cultural and environmental interest.
- Specific questions relating to handicapped people were included in the 2000 Census.
- The United Nations recommends that member countries carry out annual campaigns with positive messages to promote favorable attitudes to handicapped people. The Federal Government carried out its first such campaign in 2002, under the theme of equal opportunities.
- Other campaigns were implemented to prevent sexual violence and to increase awareness among society of this and other issues.
- In the area of information, emphasis was given to the new National System of Information on the Handicapped (Sicorde), created from a predecessor in 1999. Sicorde's mission is to create and maintain databases, bring together and disseminate information on the situation of handicapped people, and encourage research and study. It is active in 21 states. Its units form a cooperative information network that may be broadened to include human rights as a whole.
- In the area of publications, both in ink and in Braille, a number of titles were published and some 500,000 volumes distributed. All Brazilian libraries belonging to the National System of Public Libraries received copies.
- The National Council for Handicapped People (Conselho Nacional da Pessoa Portadora de Deficiência - Conade) was created in 1999 to plan, monitor and evaluate public policy for this segment of the population.
- A number of laws were drafted and regulated, allowing greater effective exercise of citizens' rights by handicapped people.
- Affirmative action programs are starting to gain ground in the Federal Administration, fixing quotas for handicapped people in hiring and in outsourcing for service contracts.
- Defending the rights of handicapped people and coordinating National Policy on the Integration of Handicapped People are the responsibility of the National Coordinator for the Integration of Handicapped People (Coordenadoria Nacional para Integração da Pessoa Portadora de Deficiência).

## Rights of children and adolescents

The Federal Government has worked tirelessly in the defense of the rights of children and adolescents, especially those rights guaranteed under the Statute for Children and Adolescents (Estatuto da Criança e do Adolescente - ECA), a conceptually advanced law that places Brazil in the vanguard among the international community.

Activities are grouped under four programs:

- Program for Defense of the Rights of Children and Adolescents (Programa de Defesa dos Direitos da Criança e do Adolescente). This aims to prevent violations of the fundamental rights of children and adolescents, most commonly encountered in intra-family relationships and aggravated in the wider community. It also aims to avoid the marginalization of young boys and girls, given that the constant violation of their rights often brings them into conflict with the law.
- Program for the Social Rehabilitation of Adolescents in Conflict with the Law (Programa de Reinserção Social do Adolescente em Conflito com a Lei). This aims to stimulate and facilitate efforts by the socio-educational system set up by the Statute for Children and Adolescents to provide offending adolescents with opportunities for constructive social development by exercising their rights and duties as citizens.
- International Adoption Program.
- Peace at School Program (Programa Paz nas Escolas). Its aim is to provide an answer to the high levels of violence in schools, helping to build a harmonious school environment by disseminating experiences and providing incentives for new proposals for constructing a culture of peace.

Results of these programs include:

- Dissemination of the applicable law, the Statute for Children and Adolescents;
- Creation of specialized police units for the protection of children and adolescents;
- Creation of the Specialized Offices of Public Defenders;
- Measures to combat the sexual exploitation of children and adolescents;
- Implementation of the National Network for Judicial and Social Protection of Child and Adolescent Victims of Crime, by means of 35 Centers for the Defense of Children and Adolescents in the 26 States and the Federal District;
- Technical and financial support for state-level plans for promotion and protection of the rights of Infants and Adolescents, in the 26 States and the Federal District;
- Technical and financial support for state and municipal-level projects for the creation and strengthening of the Councils on the Rights of Children and Adolescents, and Educational Advisory Councils. Some 3,009 Educational Advisory Councils and

3,949 Councils on the Rights of Children and Adolescents were established in a universe of 5,560 municipalities.

- Implantation of the National Network of Information on Violence, Exploitation and Sexual Abuse of Children and Adolescents (Rede Nacional de Informações sobre Violência, Exploração e Abuso Sexual de Crianças e Adolescentes - Recria), which integrates and articulates regional data banks, coordinating the production of knowledge and organizing it along the thematic lines proposed by the National Plan for Confronting Sexual Violence against Infants and Youths (Plano Nacional de Enfrentamento da Violência Sexual Infanto-Juvenil). Recria makes its information available on the Internet;
- Implementation at a national level of the National System for the Reception, Treatment, Accompaniment, Monitoring and Evaluation of Allegations of Sexual Exploitation Committed against Children and Adolescents (Sistema Nacional de Recepção, Tratamento, Acompanhamento, Monitoramento e Avaliação de Denúncias de Exploração Sexual Praticada contra Crianças e Adolescentes). During the period this dealt with some 3,000 allegations;
- Installation of the Central Administrative Authority for Adoption of Children and Adolescents (Autoridade Central Administrativa de Adoção de Crianças e Adolescentes). The creation of the Federal Central Administrative Authority and of the Central Authorities in the States and Federal District, as well as the Council of Central Authorities of Brazil, enabled the Brazilian government to meet its obligations under the Hague Convention;
- Implantation of the Integrated System of Information for Infants and Adolescents (Sistema Integrado de Informação para a Infância e Adolescência - Sipiá) in 800 municipalities. This is a national system for the registration and treatment of information relating to the safeguarding and defense of the fundamental rights of children and adolescents, as laid down in the Statute for Children and Adolescents.
- First stage in the implantation of the Network for Identifying and Locating Missing Children and Adolescents (Rede de Identificação e Localização de Crianças e Adolescentes Desaparecidos).



## 7. Fighting Corruption

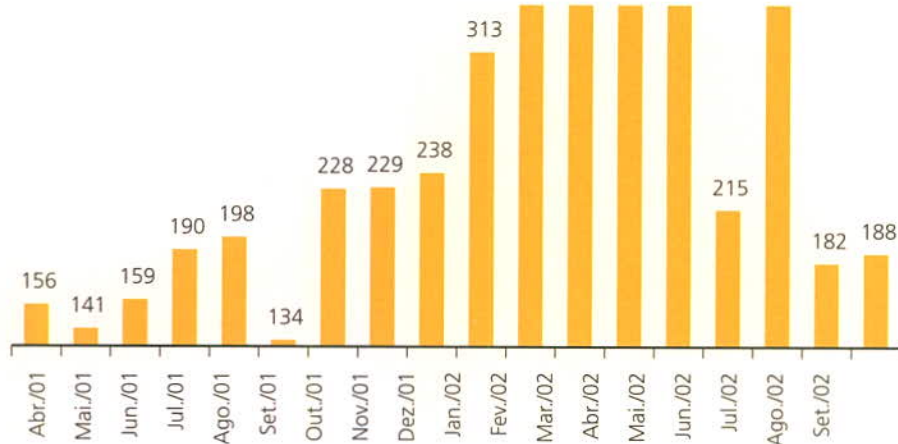
**I**N APRIL 2001, THE GOVERNMENT CREATED THE OFFICE OF COMPTROLLER-GENERAL of the Union (CGU - Controladoria-Geral da União) to investigate allegations of corruption and other irregularities in the federal administration. The CGU acts as an instrument of the Executive, speeding up and in general facilitating investigations of alleged misuse of public funds. Its aim is to punish those responsible and to ensure that any monies involved are repaid to the Union.

- The CGU, which has the status of a ministry, reports directly to the President of the Republic. It has the authority to demand - from any sphere of the federal administration, direct or indirect - information and documents necessary to its work and to the establishment of administrative procedures and processes.
- Several prominent cases dealt with in 2001 serve as examples of CGU activities. Among others, the following were objects of its investigations:
  - The existence of fraud in projects carried out in the area covered by Sudam (Superintendency for Development in the Amazon);
  - Irregularities concerning the granting and ongoing provision of finance by Sudene (Superintendency for the Development of the North-East);
  - Evidence of the irregular use of regional development funds, such as Finor and Finam;
  - Irregularities in judicial proceedings for the expropriation of land under the ambit of the DNER (National Highways Department);
  - Evidence of improper use of the assets of Terracap (Real Estate Company of Brasília), in which the Union is a shareholder, during the expropriation of public land in the Federal District.

- Investigations and administrative procedures were initiated in all these cases, and judicial and administrative measures were taken to punish those responsible and ensure the repayment of public monies.
- Three registers were established to assist the CGU in the execution of its duties: a Register of Administrative Procedures in Process; a Register of Accusations; and a Register of Punishments. These are available for public consultation via the Internet ([www.presidencia.gov.br/cgu](http://www.presidencia.gov.br/cgu)). This allows members of the public to follow step by step the progress and quantity of investigations under way, guaranteeing absolute transparency in CGU activities.

### ***Accusations received by the CGU***

From April 2001 to May 2002  
(3,497 total; monthly average 250)



Source: CGU

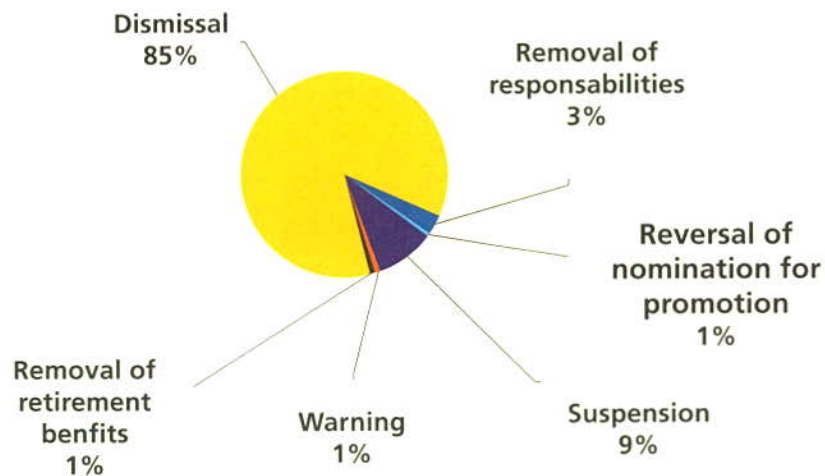
- The register of Administrative Procedures in Process shows that, in June 2002, some 3,097 procedures were in progress under the auspices of the CGU. These include a number of cases brought to the public's attention through the news media (such as those involving the DNER, Terracap, Sudam, Sudene, Escelsa, unfinished public

works and others). Cases that attract less media attention receive identical treatment from the CGU. When the CGU began its work, all ministries were asked to submit a list of procedures in their areas, which helped in compiling the register.

- From the outset, the CGU has received complaints and accusations by letter and e-mail from a number of states. These formed the basis of a separate register. Up to May 2002, the Register of Accusations contained 3,497 processes, an average of 250 a month. To make it easier for the public to contribute to the register, a form was made available on the Internet, entitled “How to Make Your Accusation”.
- Since the end of April, the Register of Punishments has also been available on the Internet. It contains an account of all administrative punishments applied since 1/1/2001 to federal employees as a result of disciplinary proceedings carried out to investigate their involvement in irregularities.

### ***Federal Executive Branch - punishments***

By category, from April 2001 to May 2002, (345 total)



Source: CGU

- On 31/5/2002, this register listed 345 punishments, broken down as follows: dismissal (295), suspension (32), removal of responsibilities (10), removal of retirement benefits (3), warning (3) and reversal of nomination for advancement (2).
- By means of the constantly updated Register of Punishments, the Federal Govern-

ment provides an ongoing report to Brazilian society, allowing members of the public to follow CGU progress in correcting irregularities in the Executive.

- In all cases, the CGU carries out an analysis of the facts and circumstances in order to assess alleged irregularities, evaluate their severity, and identify those responsible. If an irregularity becomes apparent, necessary measures are defined and the appropriate public organs are brought into play. These may include the Attorney General of the Union, the Internal Revenue Service, various bodies of the System for Internal Control, the Federal Police, the Public Accounts Tribunal and the Federal Prosecutor's Office.
- A further aim of the CGU has been to promote transparency among employees of the federal executive, to prevent irregularities being covered up and to promote control and inspection of the Executive by the public.
- The widespread publicity given to the work of the CGU, the intensified investigation of irregularities and the application of sanctions and complementary judicial measures have encouraged public employees to pay greater attention to the management of public policy, and provided a stimulus for greater transparency in public administration.
- At the same time, the large volume of accusations received by the CGU is a demonstration of its credibility among the public, and of the effective and growing public participation in the supervision and control of the work of the federal administration in all areas.
- The support given to the CGU by the various ministries and federal bodies reinforces the federal government's determination to fight corruption. More importantly, the work of the Comptroller-General reinforces the view that encouraging public supervision is the best protection against irregularities in public administration.

## 8. Solicitor General's Office

**T**HE SOLICITOR GENERAL'S OFFICE - SGO (ADVOCACIA-GERAL DA UNIÃO) has been making an important contribution to defending the public coffers, which are frequently threatened by court decisions that favor massive indemnity payments, overcharged debt payments or the "industry" of court injunctions. The office is responsible for the judicial and extra-judicial representation of the Union, as well as for consulting and legal counseling for the Executive. In the last five years in which the SGO has acted as defender of the Brazilian taxpayers' money, R\$59.4 billion has been saved.

### ***Solicitor General's Office - in defense of the public coffers***

Readjustment of the FGTS fund - savings	R\$40 billions
Contesting debt calculations	R\$21 billions
Overcharged debt at the Highway Department	R\$443.7 millions
Recovery of money from the new São Paulo Labor Court	R\$4.8 millions
Rio de Janeiro International Airport	R\$16.9 billions
Repayment of values relating to anti-inflation plans	R\$255.6 millions
Total	R\$78.6 billions

*Source: AGU*

### **Readjustment of the FGTS fund**

This was a legacy of economic plans brought in by previous governments. The final Federal Supreme Court ruling came in 2000 and a solution has been implemented in this administration. The Union's defense was decisive for the Supreme Court to rule to reduce the readjustment on deposits of the FGTS, a savings fund for registered workers

(Fundo de Garantia por Tempo de Serviço), from 120% to 68%, a saving of R\$40 billion for the public purse. The settlement allowed 19.2 million FGTS account holders to make a deal with the Federal Savings Bank (Caixa Econômica Federal - CEF) to receive the adjustment via administrative process. Some 700,000 of them abandoned lawsuits they had filed against the bank.

## **Contesting debt calculations**

Another expressive episode is the result of lawsuits to contest the calculations of court-decreed debt payments against the Union, investigated by the Department of Calculations and Investigations of the SGO. Since 1995, the total contested amounted to R\$19 billion. This meant that the National Treasury would have an expense of this magnitude, if not for the action of public attorneys. The numbers show that in the first months of 2002 alone the savings came to R\$2.5 billion and, in 2001, to R\$3.7 billion.

## **Overcharged debt at the Highway Department**

The court-ordered debt payments of the defunct National Highway Department (Departamento Nacional de Estradas de Rodagem - DNER) are receiving careful scrutiny from the SGO. The office's action in legal suits against the extinct department averted, in 2001, the undue payment of R\$443.7 million from overbilled debt.

One claim was from the National Syndicate of Heavy Construction Industries (Sindicato Nacional das Indústrias da Construção Pesada - Sinicon), which fell from R\$373.8 million to R\$79.2 million, a reduction of 78.5%, according to the calculation of a commission formed by representatives of the ministries of Finance and Transport and the SGO. The SGO played a decisive role in identifying irregularities in the Highway Department, which resulted in its extinction.

## **Recovery of money from the new São Paulo Labor Court**

Work by technicians from the Coordinating Office for Actions for Recovery of the Patrimony of the Union (Coordenação de Ações de Recomposição do Patrimônio da União), a department of the SGO, led to the first-ever recovery from abroad of money embezzled from construction of the Regional Labor Court in Sao Paulo.

Public attorneys obtained the recognition by an American court that the Brazilian government was the legal owner of an US\$800,000 apartment in Miami belonging to former judge Nicolau dos Santos Neto, because it was acquired with embezzled money. Together with the Federal Public Ministry, the department's attorneys

also helped impound approximately US\$4 million in bank deposits in Switzerland held by the former judge.

## Rio de Janeiro International Airport

SGO action prevented payment of a R\$16.9 billion Indemnity Action relating to expropriation of land for Rio de Janeiro's International Airport. The judge of the 3<sup>rd</sup> Federal District Court in Rio de Janeiro dismissed the case, accepting the argument of the SGO that the case time limit had expired, and that the Companhia Brasilia was not properly represented.

## Repayment of values relating to anti-inflation plans

The Supreme Labor Court - TST accepted a plea by the SGO that a total of R\$255.6 million had been improperly paid to employees of the Central Bank, as compensation for alleged losses during the "Bresser" and "Summer" anti-inflation plans. The judge ruled the money should be returned.

### *The largest legal office in the country*

Union attorneys	1,164
Federal Prosecutors	3,140
National Finance Prosecutors	858
Total	5,162

*Source: AGU*

- With cabinet-level status, the SGO today is the largest legal office in the country.
- To meet the demand of some two million lawsuits currently being processed, involving the Union, the office has 1,449 federal attorneys, 2,410 federal prosecutors in the Federal Prosecutor's Office to act in government agencies and foundations, and 858 National Finance Prosecutors.
- In the past two years, the SGO has geared up to become a modern and agile law office, prepared to face in court the largest private practices in the country.
- Offices in all the states are interlinked by a computer network, to enable more coordinated action.
- The department is playing its part to make the Brazilian judicial system more agile. Administrative briefs published by the SGO help reduce the volume of lawsuits processed by the courts. Public attorneys are authorized not to appeal against verdicts already issued in some 150,000 lawsuits against the Union. Briefs relating to

- Social Security will reach a total of 50,480 lawsuits in federal courts.
- The SGO, along with the Federal Justice Council, played a decisive role in the process of creating the Special Federal Courts, set up in January of 2002, where individuals, micro-businesses and small businesses can file suit against the Union, federal agencies, foundations and federal public companies in lawsuits not greater than 60 monthly minimum salaries. Resolution of a lawsuit, which used to take up to 10 years, can now happen in just six months. Payment is made directly to the interested party, without the need of legal orders.
  - The politicization of judicial actions or the eventual political use of the judicial system has required more agility from the SGO in its response to judicial attacks made on public policies. Examples include lawsuits against the privatization of the São Paulo State Bank (Banco do Estado de São Paulo - Banespa), against Social Security regulations and more recently in the case of electricity rationing, among others.

## 9. The health revolution

**U**NTIL THE MID-1990S, SO INADEQUATE WAS BRAZILIAN PUBLIC HEALTH CARE THAT it was impossible to imagine the country could take the steps necessary to improve the health conditions of its population, especially the poorest segment. However, thanks to unprecedented action by the federal government in this area, the picture has begun to improve.

The most relevant indicator in the area of health, and one which sums up the social advances achieved in recent years, as well as showing clearly the result of public health policies, is the infant mortality rate, which declined 38% over the past decade, according to the 2000 Census by the Brazilian Institute of Geography and Statistics (Instituto Brasileiro de Geografia e Estatística - IBGE).

The Northeast region, which historically always had the highest levels of infant mortality, saw the greatest decline. The expressive reduction of infant mortality in Brazil surpassed all the goals set by the United Nations.

Reducing the number of children who die before reaching one year of age was not an isolated fact, but a reflection of the revolution the Health Ministry has been conducting since 1995 in conjunction with the Social Protection Network created by the federal government.

Other initiatives of the Health Ministry also had great impact on the improvement in health of Brazilians and deserve mention, such as:

• The Women's Health Program (Programa Saúde da Mulher);

- Aid for the elderly;
- The Family Health Program (Programa Saúde da Família);
- The Community Health Agents Program (Programa Agentes Comunitários de Saúde);

- The fight against AIDS;
- Wide-scale adoption of generic medicines;
- The National Immunizations Program (Programa Nacional de Imunizações) and the fight against endemic diseases;
- The National System of Transplants (Sistema Nacional de Transplantes);
- Attention to indigenous health; and
- Decentralization of health activities.

#### QUOTES

We celebrate the fact that, for the first time in history, Brazil has registered an infant mortality rate under 30 (...) In historical terms there are reasons to commemorate. The rate surpasses the expectation of the IBGE itself. In the real world, however, the index is still enormous. (...) The reduction is significant and should be stressed as a positive point of the current government. But it is necessary to say that it is still very far from the ideal. (Editorial in *Folha de São Paulo*, on May 13, 2002).

The greatest conquest of the nation in its social indicators was the reduction in infant mortality. (...) Although basic sanitation is still wanting, the public policies in the area of health have been efficient, with aid for expectant mothers and close assistance after childbirth by local agents familiar with the reality of their own communities (...) Partnerships functioned in the pockets of poverty where the mortality rates were alarming and are becoming less so. (Editorial in *O Globo*, on May 10, 2002).

The mortality index is decisive for judging the quality of life. The decade of the Nineties was not lost. The decade of the Nineties, in social terms, was a decade that accelerated the process of social change in Brazil.

We surpassed the U.N. target for the reduction of infant mortality. Brazil made an even greater effort and managed to reduce mortality even further. We reduced social exclusion in Brazil. Period. We are indeed fighting poverty and inequality with great force.

The infant mortality index comes from a very precise survey and is decisive for judging the quality of life. This did not happen by accident. It happened because we have public policies that led us to this. There is no miracle. There is work. One does not go from one moment to the next, nor even from one decade to the next, from a very precarious situation to a situation of blue skies. But it is possible to improve. There still are clouds, but it is now possible to see the sun. The decade of the Nineties was not lost. (President Fernando Henrique Cardoso, on May 9, 2002).

## Brazil surpasses U.N. goal in the reduction of infant mortality

### *Fall in infant mortality*

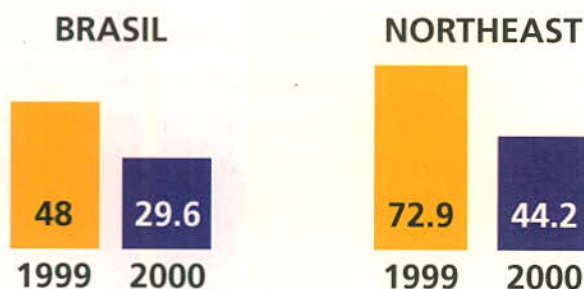
	<i>Before: 1990</i>	<i>After: 2000</i>
Brazil - total	48.0	29.6
Northeast	72.9	44.2
North	45.1	29.2
Centerwest	31.3	21.2
Southeast	30.2	20.6
South	28.7	19.7

Source: IBGE, 2000 Census

- According to the results of the 2000 Census, released in May 2002 by the IBGE, the infant mortality rate in Brazil fell 38% between 1990 and 2000. In 1990, for each thousand children born alive no fewer than 48 died before completing one year of age. By 2000, this number had declined to 29.6 children. Between 1991 and 2000, no fewer than 404,000 children under one year of age survived problems generally linked to poverty and lack of care.
- The region that had the best performance was the Northeast. In 1990, the region had 73 deaths per thousand live births; by 2000, this number had dropped to 44 deaths, a decline of nearly 40%. Of the 404,000 lives saved, almost half were Northeastern children.
- In the South and Southeast regions, the rates of infant mortality are near levels considered low by the World Health Organization - under 20 deaths per thousand live births.

### ***Greatest decline was in the Northeast***

Infant mortality fell 40% in the region, from 72.9 to 44.2 deaths per thousand live births



Source: IBGE, 2000 Census

- With these results, Brazil managed to surpass the target stipulated by the United Nations Children's Summit, which was 32 deaths per thousand live births for the year 2000.
- The decline of 38% was greater than the reduction that had been estimated earlier by the IBGE technicians. They expected that Brazil would reach the year 2000 with the index standing around 33.5.
- Although the result is extremely positive, Brazil must maintain its efforts to continue reducing the rate of infant mortality. The result of the decade of the Nineties indicated a strong downward tendency, which can accentuate if current public health policies are maintained.

## **Child health: better fed and healthier children**

Beyond the decline in infant mortality, the federal government achieved other expressive results in the improvement of child health.

### **The level of child malnutrition falls**

Poor children are eating better and there was an important decline in the rates of child malnutrition. Deaths caused by malnutrition fell 61% between 1995 and 1999.

- The number of internments of children under one year of age for diarrhea in hospitals associated with the government health system (Sistema Única de Saude - SUS) fell 39% between 1995 and 2001. The deaths of children caused by diarrhea fell 71%.

In the case of deaths from pneumonia, the decline was 48%.

- The average duration of breastfeeding, which was only 5.5 months in 1989, grew to 9.9 months in 1999.
- The deficiency in iron and vitamin A also is being attacked with the Program of Incentives for the Reduction of Nutritional Shortages (Programa de Incentivo ao Combate às Carências Nutricionais), which was implanted in 1998, reaching 5,061 municipalities in 2001. More than 800,000 children and expectant mothers have benefited by the distribution of whole milk or other products of proven efficiency in the recovery of malnutrition.
- Four million doses of vitamin A, for children six to nine months, were distributed in the Northeast and in the Jequitinhonha Valley, in Minas Gerais state, regions characterized for centuries by the problem of diet deficiency.
- In the municipalities of the Northeast that implanted the Program of Incentives for the Reduction of Nutritional Shortages there was a decline of 13.6% in malnutrition in less than a year (between June 1999 and April 2000), very significant in relation to the previous tendency.
- The supply of daily lunches for 37 million schoolchildren in all states also contributed decisively to bolstering the health of children. The School Lunch Program (Programa de Merenda Escolar), funded by the federal government, is the largest such program of food distribution in the world.

### ***Municipalities fighting infant mortality***

Of every 10 municipalities, nine already benefit under the Program of Incentives for the Reduction of Nutritional Shortages

<b>1997</b>	0
<b>1998</b>	3,097
<b>1999</b>	4,793
<b>2000</b>	5,011
<b>2001</b>	5,061

Source: "Message to National Congress" (FHC, 2002)

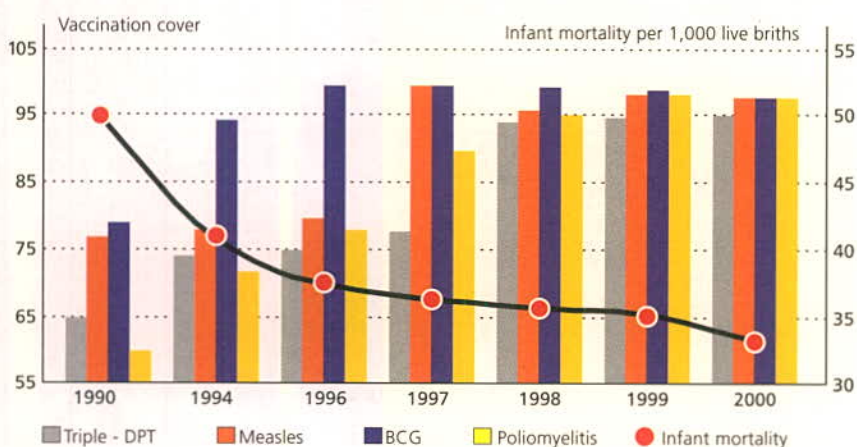
## **Vaccination reduces child diseases**

- The vaccination of children has become routine in health services and one of the decisive factors for the reduction of infant mortality. In the last six years, the National Immunization Program covered 100% of children under one year of age, with immunization for BCG.

- The Health Ministry maintained polio eradicated. In 12 years, not a single case of paralysis has been registered in Brazil.
- Vaccination against hepatitis B is being applied to people under 20 throughout the country.
- Acting against one of the principal causes of infant meningitis, the Health Ministry maintains routine vaccination against *Haemophilus influenzae* type B in children under two.
- Preventive measures together with vaccination have enabled the continued control of diseases such as tuberculosis, tetanus, whooping cough, diphtheria, measles, rabies, yellow fever and mumps.
- In June of 2000 a national vaccination campaign against measles reached more than 16 million children between one and 11 years of age, 100% of the target population. The vaccination carried out all over Brazil was part of a worldwide emergency plan to eradicate measles, a joint effort by 30 countries. Since then, Brazil has not registered a single case of measles.

### ***How vaccination helped reduce infant mortality***

The vertical colored bars represent four vaccines (triple, measles, BCG and polio), whose application by the federal government has increased for children under one year since 1995. Notice that the curve for infant mortality fell gradually in the same period.



Source: Health Ministry

## More humane and better quality care for babies

Seeking to offer care for high-risk and premature newborn infants, the Health Ministry implanted a national network of Human Milk Banks (Bancos de Leite Humano). Internationally recognized as the biggest and best services of its kind in the world, the network already has 151 units installed in 23 states, with services for the collection, pasteurization and distribution of milk with quality controls and promotion of breastfeeding. More than 100,000 liters of human milk are collected and distributed each year, benefiting thousands of babies.

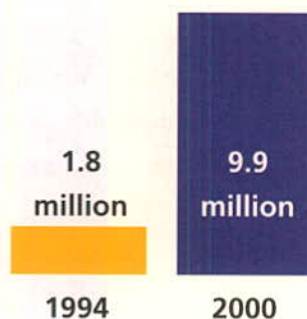
- To further encourage breastfeeding and promote more humane care for newborns, the Health Ministry is encouraging the implantation of initiatives such as the “Child Friendly Hospital” (“Hospital Amigo da Criança”) and the “Kangaroo-Mother Project” (“Projeto Mãe-Canguru”). In 24 states, 212 hospitals were accredited “Child Friendly.” The Kangaroo-Mother Project is implanted in 230 maternity hospitals of the SUS health system.
- More than 16,000 mail carriers across Brazil took part in the “Friendly Mail Carrier” (“Carteiro Amigo”) project, a joint initiative of the Health Ministry and the Brazilian Postal and Telegraph Company, promoting breastfeeding and taking information to more than two million expectant women and mothers of two million children under one year of age.

## Women’s health: 10 million prenatal consultations per year

For the first time, women receive special attention in the health system, and emphasis is on the quality of care for pregnancy, childbirth, post-delivery and newborn infants. The Women’s Health Program had a broad reach:

- There was a better than fivefold increase in the number of consultations for prenatal care, which rose from 1.8 million in 1994 to more than 10 million in 2001 nationwide.

### *Pre-natal consultations per year*



Source: Health Ministry

- Cesarean section deliveries fell from 32% of total in 1995 to 25% in 2001.
- Access was increased to the Program for More Humane Delivery and Birth (Programa de Humanização do Parto e Nascimento) which includes at least six consultations and all laboratory tests during the prenatal period.
- In 2001, more than 19,000 obstetric beds were made available in hospitals and maternity wards of the Program for Care of High-Risk Pregnancies (Programa de Atendimento à Gestante de Alto Risco). In the same year, 26 of the 27 Brazilian states received support for training some 4,300 professionals that deal with women's health.
- There was a sharp decline in maternal mortality in SUS hospitals, especially in the North and Northeast regions. Nationwide, the rate fell from 37,4 deaths per 100,000 obstetric internments in 1995 to 28.6 per 100,000 em 2001, a reduction of 22%.
- Launched at the end of 2001, the Food Stipend (Bolsa Alimentação) program will reach the entire country in 2002. The goal is to reach 800,000 expectant women and mothers who already are nursing, as well as 2.7 million children up to six months of age in risk of inadequate nutrition. Each family receives R\$15 per child per month, up to a total of three children (R\$45), paid at offices of the Federal Savings Bank upon presentation of a magnetic card supplied on enrollment.

### **Cancer of the uterus: 33 million Papanicolau tests**

In 1995, during a world conference on women, held in China, Brazil pledged to developed a national program for the control of uterine cancer, the cause of 16% of

cancer deaths among Brazilian women aged 35 through 49. The following year, the disease began to be traced through Pap tests, promoted throughout the country by Health Ministry education campaigns.

- In 1997, the pilot project Viva Woman (Viva Mulher) began in six locations (the cities of Curitiba, Brasília, Recife, Rio de Janeiro and Belém and the state of Sergipe).
- Based on this experiment, in 1998 the program expanded to 98% of Brazilian municipalities, with more than three million tests performed. Between 1998 and 2001, the total came to more than 32 million tests.

### **“Viva Woman” Program**

Nationwide actions to control cancer of the uterus,  
from 1998 to 2001

Papanicolau tests performed (all age groups)	32.6 million
High-frequency surgery equipment distributed	181
Gynecologists trained for high-frequency surgeries	69
Professionals trained to monitor programs	997
Professionals trained to execute the programs	1,422

Source: Ministry of Health

## **Health of the elderly: 82% vaccinated**

As with children and women, for the first time the elderly have enjoyed special programs for health care and prevention of diseases. From 2000 to April of 2002, the SUS system registered the internment of 5,218,000 patients over 60. In this period, more than R\$2.7 billion was spent in procedures for care of this group.

One of the noteworthy initiatives was the vaccination against influenza, diphtheria and tetanus, promoted by the Elderly Appreciation and Health Program (Programa Valorização e Saúde do Idoso). Of every five people over 60, four received the vaccine. Begun in 1999, the first campaign reached 7.5 million people over 65. In 2000, the vaccination was extended to people over 60. In 2001, more than 10.7 million elderly were immunized, attaining vaccine coverage of 82%.

Among measures to make care more humane was the permission for a friend or relative to accompany an elderly person in the hospital, and the creation of the National Program of Caregivers for the Elderly (Programa Nacional de Cuidadores de Idosos), as well as programs against ill treatment.

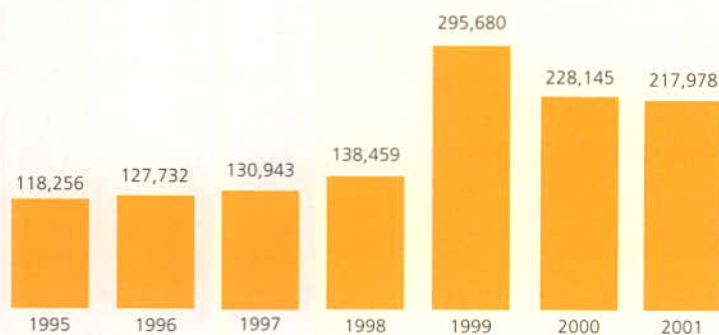
To improve care for the elderly, the Health Ministry established norms for enrolling reference centers for health care of the elderly and also the Assistance Pro-

gram for Victims of Alzheimer's Disease (Programa de Assistência aos Portadores da Doença de Alzheimer).

In recent years, the Health Ministry has carried out national campaigns to attend victims of varicose veins, cataracts and prostate cancer, afflictions typical of the elderly. The wide-scale surgery performed during the campaigns reduced the waiting lines and the demand for care.

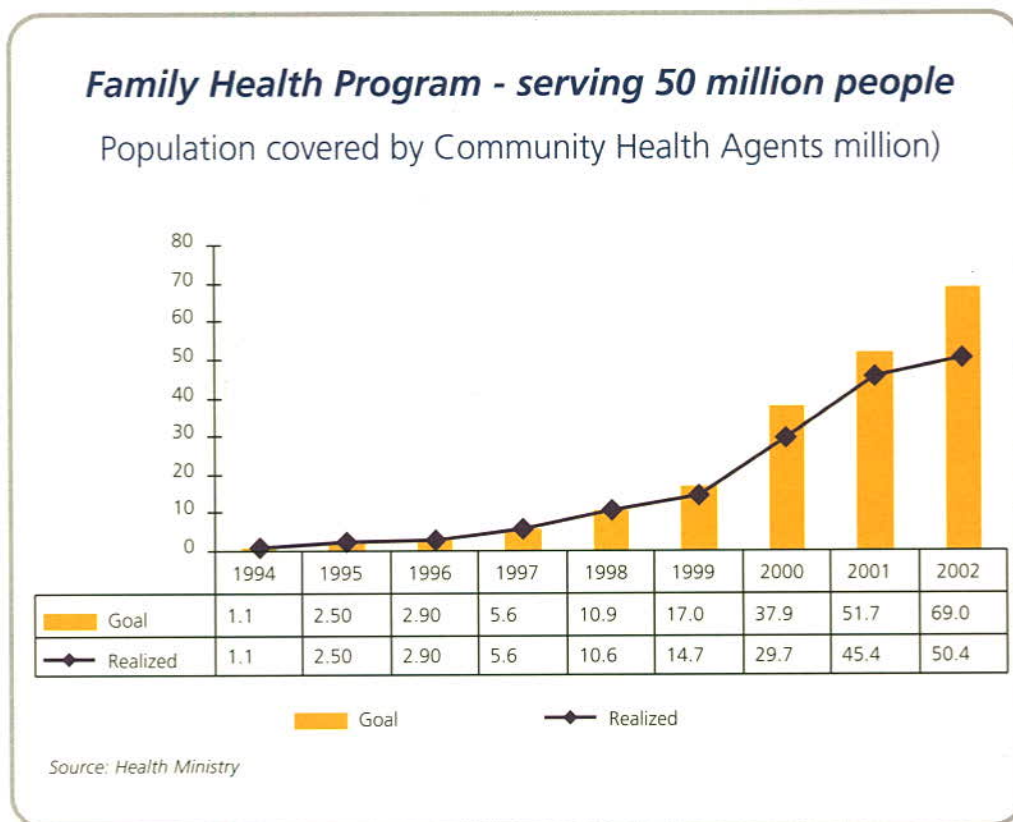
- **Varicose veins** - From 1998 to 2001, 188,000 operations were performed. And between 1999 and 2001, R\$60.8 million was spent on surgery performed during and outside of the campaigns. The projection for the 2002 campaign was to perform another 59,240 operations.
- **Prostate** - Between 1998 and 2001, 134,000 prostate operations were performed. From 1999 until last year, R\$64.5 million was spent. In 2002, an additional 32,500 operations were to be performed.
- **Cataracts** - The elderly also benefited from the Mass Campaign for Cataract Surgery (Mutirão de Cirurgia da Catarata). It is estimated that in 1998 there were about 600,000 Brazilians blinded by cataracts, with 120,000 new cases each year. With the campaign, 296,000 operations were performed in 1999 alone, an increase of 113% in relation to the previous year.

### ***Cataract operations in the government health service (SUS)***



Source: SAS/IMS

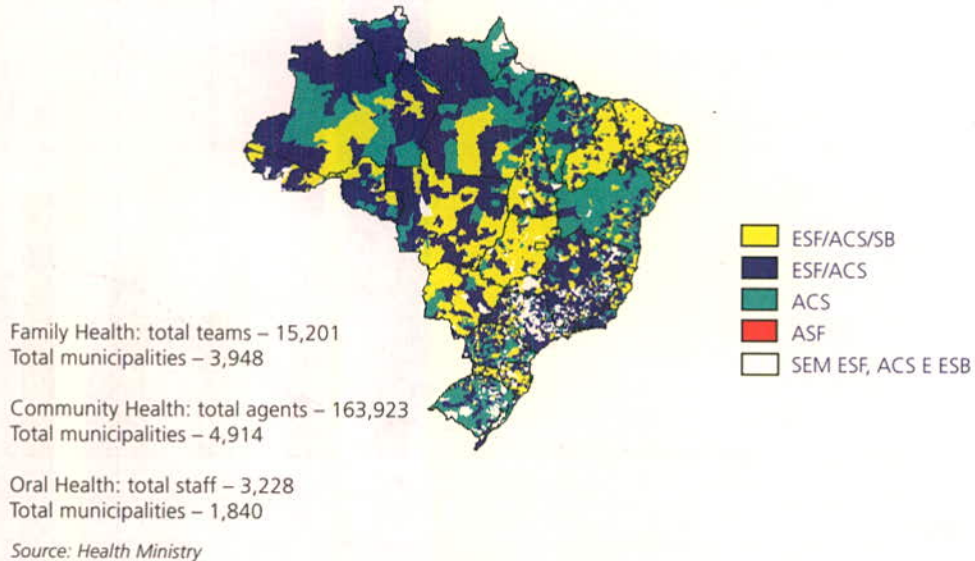
## Family Health Program: 50 million attended



Advances in the area of public health achieved in recent years were the product of a change in the direction of public policy. The best example of this was the expansion of the Family Health Program (Programa Saúde da Família - PSF), which brought medical care and health services closer to the homes of the Brazilian people, including municipalities in the interior and on the outskirts of the state capitals. In April of 2002, the program reached the impressive mark of 50 million people attended.

## Family Health , Oral Health and Community Health Agents - implantation

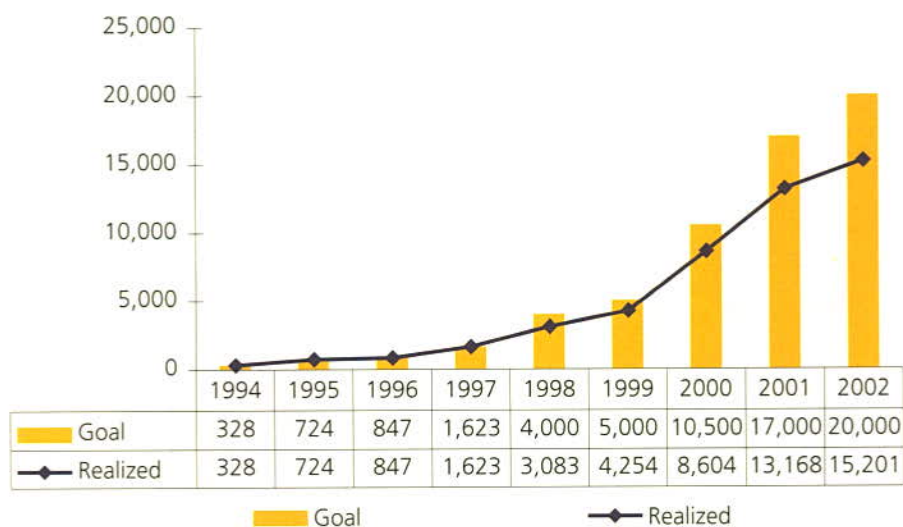
Brazil, May 2002



- Almost one-third of the 172 million Brazilians receive care under the Family Health Program. It is precisely the poorest segment of the population that is most benefited.
- The basic health units are capable of resolving almost nine out of every 10 health problems that arise in a community. They offer quality assistance, prevent diseases, avoid unnecessary hospitalization and contribute to a better quality of life for all.

## Family Health staff - evolution

Brazil, 1994 – May 2002



Source: Health Ministry

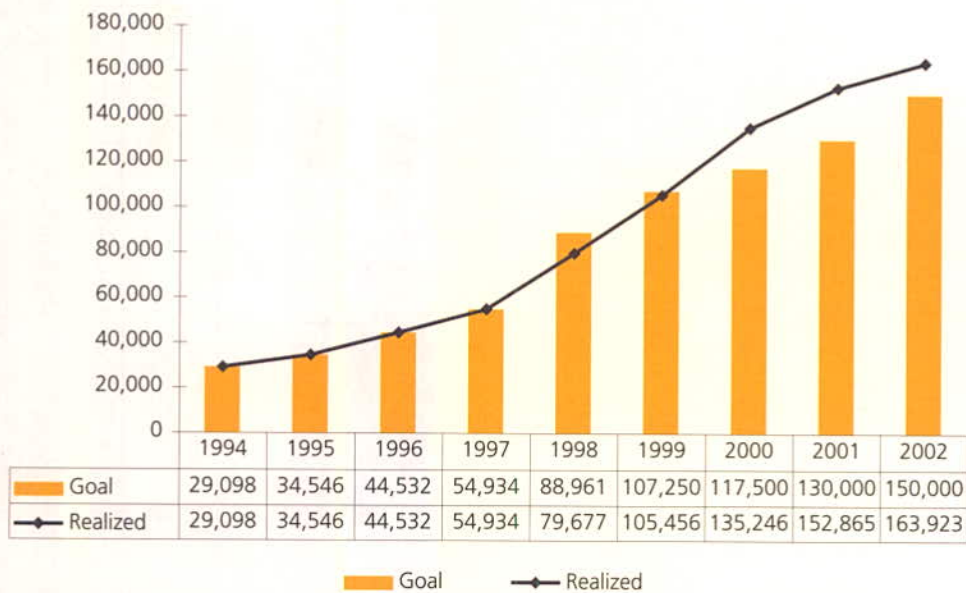
- A team of the Family Health Program is comprised, at the minimum, of a doctor, a nurse, a nurse's aide and five or six community health agents, to attend 3,500 people on average. In 1994, there were 328 teams. In May of 2002, there were more than 15,000 teams, attending families directly.
- The program, in addition to broadening the access to health services, give a human face to health care because the professionals in the teams know all the families under their responsibility.
- The program gives greater emphasis to action for the prevention and early diagnosis of diseases, treating and accompanying all family members. Whenever necessary, assistance is carried out in the home. This work method strengthens the bonds with the families served.

The Family Health Program is more capable of producing good results in the health of the population because its teams prioritize care for the problems most common in the community.

## Over 162,000 community agents now attend 80 million people

### Community Health Agents - evolution

Brazil, 1994 – May 2002

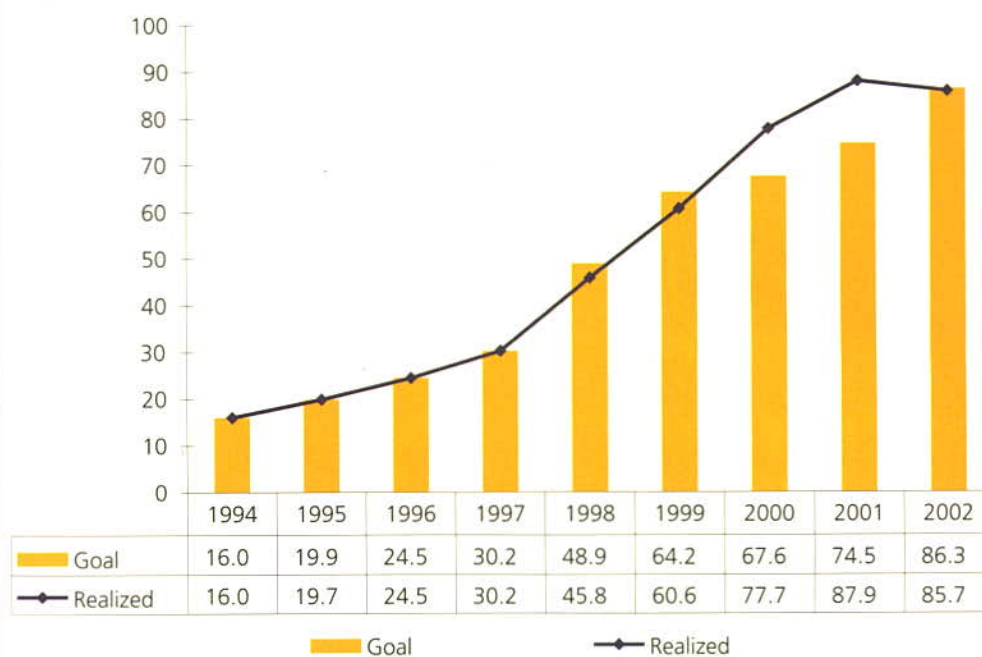


Source: Health Ministry

- Serving in the most distant cities and the peripheries of the major cities, the community health agents visit families in their homes in nine of every 10 municipalities.
- In 1994, there were 29,000 community agents, responsible for accompanying 16.7 million people in 879 municipalities. In 2002, 162,000 agents, serving in 4,914 municipalities, attend more than 90 million people.

## Population covered by Community Health Agents

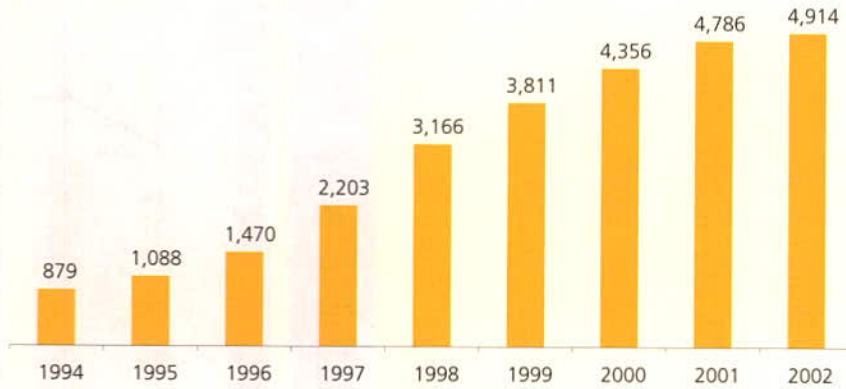
Brazil, 1994 – May 2002 (In millions)



Source: Health Ministry

- One in every two Brazilians receives the regular visit of a community health agent at home.
- A true link between the health services and the population, the community agents enroll every domicile and identify the people or the families that require more attention from the health teams.
- The community agents are people from the community itself. For this reason, they are familiar with local customs and culture. They value local capabilities and encourage popular participation in the development of public policies.
- The agents prevent disease and promote the health of families and the community.

## *Municipalities served by Community Health Agents*



Source: Health Ministry

## **Sanitation improvements**

Prevention and control of disease is closely linked to the availability of clean running water and sewage systems in homes. For this reason, the Health Ministry began to make investments in basic sanitation, especially in the poorer neighborhoods of cities with up to 30,000 inhabitants.

- Improvements introduced into family homes included bathrooms, running water, sewage and trash collection.
- From 1995 to 2001, 3.54 million families received improvements in home sanitation, water supply systems and treatment of sewage and waste.

## Basic Sanitation

	Municipalities attended	Families served
<b>Water</b>	1,438	1,816,770
<b>Bathrooms</b>	1,904	678,305
<b>Sewage</b>	461	764,667
<b>Garbage</b>	317	346,366

Source: Ministry of Health

For the poorest municipalities, with a lower Human Development Index (HDI), there was a significant increase in funds destined for basic sanitation. The “Sunrise Project” (Projeto Alvorada), which includes actions by the Health Ministry, contemplates exactly this segment of poverty.

## International recognition for Brazil’s fight against AIDS

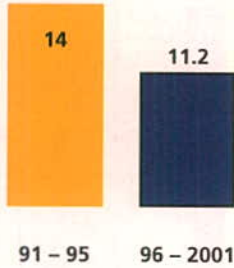
The efficacy of federal AIDS policies has been recognized internationally and is a model of successful action in the prevention, control and assistance for carriers of the HIV virus. Results:

- The Health Ministry reduced the speed with which the disease was spreading and today has half the number of cases the United Nations projected for Brazil for the year 2000.
- Starting 1996, the rate of occurrence of AIDS began to stabilize around 14.5 cases per 100,000 inhabitants. At the end of the Nineties, a decline in new cases was detected. Between 1999 and 2000, the rate of 12.9 new cases per 100,000 inhabitants fell to 10.5.
- Between 1995 and 1999, the number of AIDS deaths fell by half, from 12 per 100,000 inhabitants, in 1995, to six per 100,000 inhabitants in 1999.
- In six years, the Brazilian model of fighting AIDS enabled a significant improvement in the quality of life for HIV/AIDS patients. In this period, the cost of treatment was reduced by 48%, and the number and duration of hospitalizations also fell. In 1996, the average hospital entry was 1.7 per patient with HIV/AIDS. In 2001, the average was 0.3 per patient - a reduction of 82%.
- The need for more complex treatment also fell. Between 1996 and 2001, the occurrence of tuberculosis in AIDS patients declined 65%.

## AIDS in Brazil: the progress

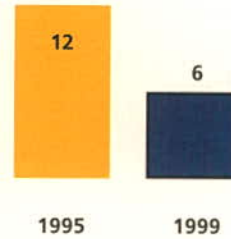
### Fewer sick people

AIDS cases  
per 100,000 of population



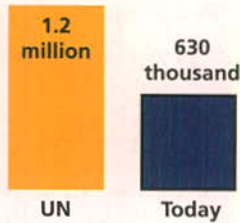
### Fewer deaths

Deaths per  
100,000 of population



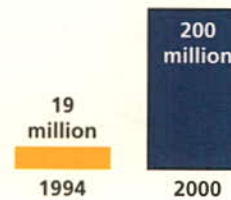
### Worst fears not confirmed

Aids cases



### More condoms

Government purchases



Source: President's Message to National Congress, 2002

- Health Ministry prevention campaigns have an educational role that is very relevant for changing behavior. Use of condoms in the first sexual relation rose from just 5% in the middle of the 1980s to 48% in 1999. Increasingly, Brazilians are adopting safe practices to avoid HIV.
- Some 200 million condoms were purchased by the Health Ministry for distribution in 2001. This number is 10 times greater than in 1994 (19 million units).
- To carry out tests and offer care for HIV/AIDS carriers, between March of 1994 and 2001 a total of 74 day hospitals were implanted, along with 54 home therapeutic care services and 700 specialized care services. A further 375 hospitals received associate accreditation.

- Brazil is the only developing country that offers such decisive support for HIV/AIDS carriers. Some 115,000 patients benefit from free distribution of the latest anti-retroviral medicine by the public health network. About R\$550 million is spent annually on acquisition and distribution.
- Thanks to firm action with wide international repercussions, the Health Ministry succeeded in lowering the price of medications for treatment of HIV carriers. Between 1997 and 2001, the reduction in the price of medication was 48%. In Brazil, the annual treatment by anti-retrovirals costs on average US\$2,500, while in the United States and Europe this figure is around US\$10,000. The reduction was the result of intense action with international bodies to break patents and for the supply of generics to the Brazilian market.
- Thanks to prenatal care, to precautions at childbirth and to assistance for newborns, including the offer of anti-retroviral medication, the perinatal transmission of HIV was reduced by 48% in the period from 1998 to 2000.

## Cheaper and better-quality medicine

The Federal Government reduced taxes on prolonged-use medications and began to control price abuses through annual freezing. In recent years, the free distribution of medication to the low-income population was tripled, via programs such as Basic Pharmacy, People's Pharmacy and High-Complexity Medications (Farmácia Básica, Farmácia Popular and Medicamentos de Alta Complexidade).

Between 1997 and 2001, the federal government's investment in the purchase of medications grew from R\$351 million to R\$969 million. The Basic Pharmacy program alone jumped from R\$47 million to R\$168 million. The anti-AIDS "cocktail" eventually was distributed to 115,000 bearers of the disease and 90,000 people were treated for Hansen's disease.

In addition to the distribution of medication, the Health Ministry also transfers resources to all states for the purchase of medications of exceptional use and high cost. The annual cost for the purchase of such medicines rose from R\$74 million in 1995 to R\$449 million in 2001. Expense per capita with exceptional medication between 1995 and 2002 jumped 445% (from R\$0.48 to R\$2.59).

The policy of producing generic medicines is another hallmark of Health Ministry activity. The bill that instituted generic medication in Brazil was stuck in the National Congress for nearly a decade - until it finally became law in 1999. Two years ago, the first generics were registered in Brazil.

As of June 2002, Brazilians had at their disposal in pharmacies 610 generics, on average 40% cheaper than brand-name drugs and with the same guarantee as to their therapeutic effects.

- By the end of 2002, more than 700 generics will be available in pharmacies.
- By 2000, more than 150 generics, for various therapeutic indications, were evaluated and approved for commercial use, among them antibiotics, anti-inflammatories and antihypertensives. The current supply of more than 400 generics covers a much larger range of diseases, including diabetes, for example.
- In some cases, the price of a generic drug is fully 72% lower.
- Generics led to drastic declines in the costs of treatment for some diseases common in Brazil, such as hypertension, diabetes and high cholesterol. This is shown in a report by the O Globo newspaper (May 21, 2002). In 2000, a patient who spent R\$1,465 per year on the treatment of hypertension using Renitec, in 2001 spent R\$590 with the generic "Maleato de Enalapril".
- A survey cited in the report showed that 95% of Brazilians are familiar with generics and 48% of consumers ask for them at pharmacies.
- Similarly, a report in the Folha de S. Paulo newspaper (February 24, 2002) says that "two years after they were launched, generics already represent about 8.8% of all medications sold nationwide. The goal is to reach 20% by the end of this year and 30% in 2003, a pace twice as fast as that verified in Europe and the USA."
- Good results were obtained by the national campaigns to encourage doctors to prescribe generics, as well as to encourage their use and sale.
- On the international front, Brazil also has stood out for its medication policy that calls for the breaking of patents. In November of 2001, its action in conjunction with international bodies culminated in the victory of the Brazilian position at the meeting of the World Trade Organization, held in Doha, Qatar. Brazil's position created controversy, but the majority of countries recognized that public health prevails over the commercial interests of the laboratories that hold patents. This justifies breaking them if necessary.

## **National Program for Immunization and Repression of Endemic Disease**

Brazil has the most complete immunization program in the world. The country offers annually more than 300 million doses of immunobiological drugs (vaccines and sera). These are easily accessible and offered free of charge to anyone who needs them.

With the introduction in the past three years of vaccines against hepatitis B, against

Haemophilus influenza type B and vaccination against the flu, tetanus and pneumonia, Brazil now has in its basic calendar all the vaccines recommended by the WHO. Forty types of immunobiologicals are available throughout the country.

Brazil is the only country that manages, in a single day, to staff 131,000 health posts, mobilize 530,000 people (health professionals and volunteers) and vaccinate more than 17 million children, such as occurs in the polio vaccination campaigns.

- In 1998, 2,745 cases of cholera were registered nationwide. In 2001, that fell to just seven cases. This result is the fruit of a program implemented in 1999 for monitoring acute diarrhetic diseases in 2,107 municipalities. Operational responsibility is with municipal and state boards of health.
- In 1999, malaria cases reached 632,000, and numbers for the first half of 2000 pointed to increasing incidence. In August of 2000, the Malaria Control Measures Intensification Plan (Plano de Intensificação das Ações de Controle da Malária - PIACM) was launched, giving priority to malaria control measures in 254 municipalities in the Amazon region, via joint action by federal, state and municipal authorities.
- As a result, in 2001 there were 380,000 registered cases of malaria - 252,000 fewer cases than two years earlier, a reduction of 40%. It is estimated that with the implementation of the Malaria Control Plan 800,000 new cases of malaria were averted in the period 2000-2001. In indigenous areas, the reduction was 63%.
- The country is succeeding in interrupting the transmission of Chagas Disease. In 2003, Brazil should reach this goal nationwide with Pan-American Health Organization certification of the interruption of transmission in Paraná, Rio Grande do Sul and Bahia states.
- Similarly, the transmission of filariasis is being interrupted. This disease remains endemic in only three state capitals: Belém, Recife and Maceió. In Maceió the prevalence is close to zero and the goal for 2002 was to interrupt transmission. In Recife, where the disease is more seriously present, the number of cases fell from 1,713 in 2000 (3% prevalence) to 563 cases in 2001 (0,9% prevalence). The goal for this capital in 2002 was to maintain prevalence below 1%.
- Starting in 1998, vaccination against yellow fever was intensified in endemic and high-risk areas and also for people traveling there. In the period 1998-2001, 61.3 million doses of vaccine were applied. This made it possible to keep yellow fever in the wild under control - in 2001, only 39 cases were registered in all of Brazil - and, principally, to maintain urban yellow fever eradicated.
- The federal government strove to improve the quality of water consumed by the

population and thus avoid diseases. For this, new standards were established for drinking water, for the duties of the producers of potable water and for the responsibilities of public officials in vigilance of the quality of water for human consumption.

## **National transplants system**

Starting with the publication of the Transplants Law and its regulation (1997), the Health Ministry began an intense effort to organize the National Transplants System (Sistema Nacional de Transplantes), implant official lists of receptors and create state transplant centers to reduce the waiting lines for organs.

With the impact of the regulation of transplant activities, the increase in funding for procedures and the purchase of medication for transplant patients, there was a big increase in the number of transplant operations performed. Between 1997 and 2001, the number of transplants per year grew 83.8%, rising from 3,932 to 7,229.

Below, the increase in transplants performed by the SUS health system:

- Kidney transplants up 69.84%;
- Cornea transplants up 80.76%;
- Heart transplants up 80.36%;
- Bone marrow transplants up 99.15%;
- Liver transplants up 168.05%;
- Pancreas transplants up 175%;
- Lung transplants up 1,600%.

## **Indigenous health**

Since the Health Ministry took full charge of indigenous health in 1999, various advances have been made. The most expressive was the decline in infant mortality. In 1998 this rate was estimated 130 per of 1,000 live Indian births. In 2001, it fell to 74 per 1,000, representing a reduction of 43%.

Resources to attend the indigenous population had a significant increase in recent years. The National Health Foundation (Fundação Nacional de Saúde - Funasa) - responsible for indigenous health -, set aside R\$62.4 for the sector in 1999. Last year, more than R\$190 million was used, representing an increase of around 206%.

The actions of the federal government include maternal-infant care, with emphasis on the reduction of malnutrition, the control of infectious-parasitic diseases - such as malaria, tuberculosis, respiratory infections and verminoses -, and vaccination of the indigenous population, among other initiatives.

In nearly three years, the Health Ministry structured assistance to Indians under 34 Special Indigenous Sanitary Districts (Distritos Sanitários Especiais Indígenas - DSEI). The sanitary districts form part of the Subsystem of Attention to Indigenous Health (Subsistema de Atenção à Saúde Indígena), in tandem with the SUS health system, an advance in the Brazilian health sector.

The inexistence, until now, of a sectorial policy within the SUS that catered to the diversity of indigenous peoples compromised the adequate access to health care, denying Indians their rights as citizens and the guidelines set forth in the Constitution, concerning selective health care for Indians.

## **Decentralization of health activities**

Since 1998, the federal government has adopted a series of measures promoting the decentralization of the SUS health system. The fixed Basic Care Minimum (Piso de Atenção Básica) was implanted, which pre-finances actions in this area according to the size of the population in each municipality (pre-payment assigned per capita, instead of payment after procedures). There also was a significant increase in direct transfers from federal to state and municipal funds.

This period also saw an intense transfer of responsibilities, attributions and resources. Thousands of municipalities were empowered to act as stewards of the SUS, taking over direct care management for the population.

In April of 1999, the Health Ministry created the Strategic Action and Compensation Fund (Fundo de Ações Estratégicas e de Compensação - Faec) with the goal of guaranteeing federal financing for highly complex procedures and for strategic and high-priority areas for public health.

In addition to a clear definition of the responsibilities of the Union, states and municipalities in epidemiological and disease-control actions, the Integrated Pactual Programming (Programação Pactuada Integrada) also was established. This defines activities and goals for each state and the Federal District, as well as the corresponding financial resources needed for their achievement.

In recent years, the federal government raised from R\$300 million to R\$718 million (R\$547 million in federal resources and R\$171 million in counterpart funds from states and municipalities) the resources earmarked for funding epidemiological and disease-control activities. A new model for transferring funds to states and municipalities was implanted. Slow and bureaucratic formal joint agreements were replaced by fund-to-fund transfers, quick, practical and transparent.

The National Health Foundation ceded to states and municipalities 26,000 workers who perform field activities to control endemic diseases. The foundation also yielded assets and property used to carry out decentralized activities.

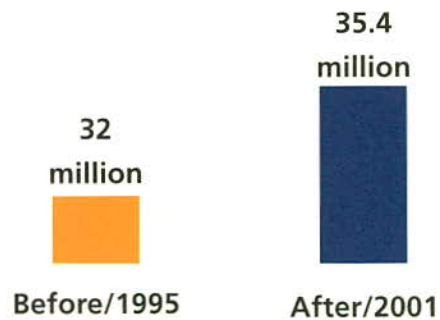
# 10. Education for all

## All children in school

ONE OF THE MOST IMPORTANT RECENT SOCIAL ACHIEVEMENTS HAS BEEN THE universalization of elementary education (ensino fundamental). Brazil is close to meeting a goal of having all children from seven to 14 years of age in school. As of 2001, 35.4 million children were in school, 3.4 million more than in 1994.

### ***Enrollment in Elementary Education***

Increase of 11% from 1995 to 2001 (3.4 million of children)



Source: "Fatos sobre a Educação no Brasil 1994/2001" (MEC)

- The advance is largely due to the creation of Fundef, a fund which encourages school attendance from the age of seven to 14 years and raises the salaries of teachers.
- With Fundef, 2,564 municipalities can count on receiving R\$350 for each student with proven enrollment. Many municipalities in the Northeast had average spending per student of less than R\$100 annually.

## Children learning more and better

The growth in basic education has come not only in quantity. During the last seven years, there was a major effort to constantly improve the quality of teaching. Key impacts are:

- More students are finishing elementary education. In 2001, the number of students finishing elementary education, or the eighth year of school, rose 67% to 2.6 million from 1.6 million in 1994.
- The average time for completing the eight years of elementary education, which was 11 years in 1995, has been declining annually.
- The percentage of students falling behind their classmates fell to 42% in 2000 from 60% in 1994.

### *Better performance in the classroom*

Elementary Education - percentage of students passing the year, repeating and dropping out - Brazil

out	Promotion	Repeat	Dropping
1995	64.5%	30.2%	5.3%
1999	74.6%	21.6%	4.8%

Source: MEC/INEP/ISEC, "Education facts in Brazil - 1994/2001".

- To improve the quality of teaching, it has been necessary to raise the capacity of teachers, beginning with lifting the salary level.
- Teachers' pay in many municipalities does not even reach the minimum wage. The Northeast and North had the biggest gains, as the following chart shows.
- Raising teachers' pay was possible due to resources from Fundef. The biggest raises were in the public municipal network and were given to professionals in the poorest towns. Thus the spread between their pay and the average of other regions was reduced.

## Teachers' salaries

Public school system - average growth

Northeast	60%
North	35%
Centerwest	27%
Southeast	24%
South	22%
Brazil	29,5%

Source: Education Ministry

## Student Aid keeps students in the classroom

After functioning only a year, the federal student aid (Bolsa Escola) program, has benefited more than five million low-income families in nearly all municipalities and reached 8.5 million children. The goal is to encourage mothers to keep their children in the classroom and raise the income of needy families.

## School Grant numbers (April, 2002)

Percentage indicates program reach within national potential

Families benefited	5 million	87,5%
Children benefited	8.5 million	79%
Municipalities involved	5,514	99%
Investment per year	R\$1.5 billion	-

Source: MEC/Student Aid

Its operation is quite simple and efficient:

- Each family receives R\$15 monthly for each child between six and 15 years of age studying in elementary education.
- A family can have as many as three children in the program, receiving a maximum of R\$45 a month. The current average is R\$30.
- Mothers enrolled in the program receive a personal magnetic card giving them the right to withdraw the monthly amount at a branch of Caixa Econômica Federal - CEF, a government-owned savings bank present in all 5,561 municipalities of the country.

## ***School Grants - state rankings (estimated)***

Bahia state places first, in terms of program adoption  
Of the 10 top states, five are in the North and Northeast

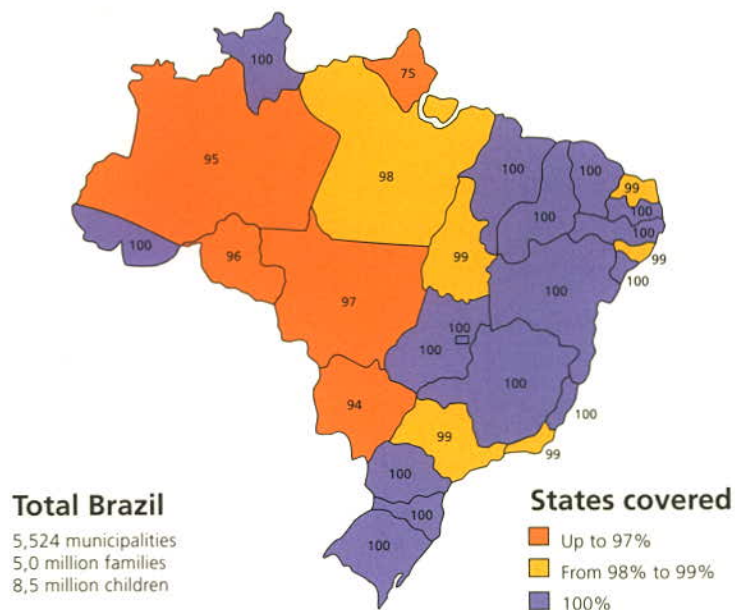
<b>Rank</b>	<b>State</b>	<b>Municipalities</b>	<b>Families</b>	<b>Children</b>	<b>Funds (R\$ million)</b>
1 <sup>st</sup>	Bahia	417	773,793	1,523,682	23
3 <sup>rd</sup>	Ceará	184	467,719	895,250	13
5 <sup>th</sup>	Maranhão	217	406,572	813,875	12
6 <sup>th</sup>	Pernambuco	185	397,771	755,315	11
7 <sup>th</sup>	Pará	143	300,159	611,253	9
<b>2002 year-end estimate</b>					
	Brazil	5,561	5.7 million	10.8 million	161

Source: Student Aid

Even with little time in service, the results of the federal student aid program have been very encouraging:

- Evaluations indicate that mothers understand quite well the significance of the program and strive to keep their children at school.
- Sending the money to the mothers (rather than the fathers) strengthens the woman's role in the education of children.
- Payments are made directly to the mothers, without intermediaries and without the possibility of money being diverted.
- The money represents an increase of close to 20% in family income in most cases.
- Principally in smaller towns, the regularity of the monthly payment helps to underscore the concept of mothers as responsible citizens.
- Participation of municipal governments and the communities has been vital for program acceptance. Only 43 municipalities were participating in May 2001, a number which jumped to 5,470 in November. In only eight months, 98% of the country was covered.
- A municipal council formed by the community monitors the program.

## School Grants - rapid national acceptance



Source: MEC/ Student Aid National Secretary

## A sea of textbooks

About 121 million textbooks, including dictionaries and literary works, were distributed in school year 2002 to children in 162,000 schools in all regions of Brazil. Textbooks for different school years in Portuguese, mathematics, science, social studies, history and geography are benefiting 32 million children.

### Textbooks free, all over the country

	Total issue (million)	Funds (R\$ million)
Before: 1995	57	126
After: 2001	121	539

Source: DIRAE/ GEPEA

Since 1995, the textbook program has been improved in the following ways:

- Scheduling - In 2001, for the first time, the distribution of the textbooks began three months before the start of the school year.
- Expansion - The titles cover the eight grades of basic education.
- Dictionaries - The distribution of dictionaries was included. These accompany the student for consecutive years and serve as a reference for the family.
- Evaluation - Textbook selection is through a rigorous evaluation by experienced educators who analyze the quality and the content.
- Durability - The textbooks are more durable, made to last for three years.
- Libraries - Close to 20,000 schools received a collection of 215 titles selected by writers to form a basic library for students.

### **Making Brazil a country of readers**

"Literature in My Home" program - actions in 2002

Who can benefit?	8,5 millions students from 4th and 5th grades nationwide can keep the book and take it home
Volumes distributed	30 titles, 60 million copies
Authors	Ruth Rocha, L. F. Veríssimo, João Ubaldo, Cecília Meirelles, Carlos Drummond de Andrade, Oscar Wilde, Mark Twain and others

Source: MEC/Radiobrás

### **School lunches in all municipalities**

Brazil's National School Lunch Program (Programa Nacional da Merenda Escolar) is already considered one of the best in the world. In 2001, close to 37 million children (the total population of a country the size of Argentina) receive lunches regularly during the 200 days of the school year. These are students enrolled in basic education and in preschool of the public schools or schools maintained by philanthropic groups.

### **School Lunch Program**

	Students (million)	Funds (R\$ million)
Before: 1995	33.3	590
After: 2001	37.1	902
Absolute growth	3.8	412

Source DIRAE/GEPAE

Until 1998, the program did not disburse funds sufficient to fulfill all 200 days in the school year (see table).

## School Lunch Program - days per year covered

1994	1995	1996	1997	From 1998 onwards
101	135	152	167	200

Source: Education Ministry/FNDE

School lunch distribution has shown the following results:

- Improve learning; reduce annual grade failure; reduced drop-out rate;
- Reinforces class attendance, especially when supplied regularly;
- Ensures student well-being, disposition, attention and ability to learn; clearly contributes to student health and nutrition.

## School Lunch Program - state ranking

Five states in Northeast and North receive most benefit

State	Students in 1995 million	Students in 2001 million	Funds in 1995	Funds in 2001
3 <sup>rd</sup> Bahia	3.0	3.8	65	98
5 <sup>th</sup> Ceará	1.5	2.0	24	48
8 <sup>th</sup> Maranhão	1.5	1.8	31	42
9 <sup>th</sup> Pernambuco	1.7	1.8	35	44
10 <sup>th</sup> Pará	1.6	1.7	21	43

Source: DIRAE/GEPAE

Empowerment of municipalities was the key to the program's success. Consider:

- The program existed since 1954 but only in 1994 did funds begin to be transferred directly to municipalities.
- The number of municipalities participating in decentralization rose from 1,532 to 4,314 between 1994 and 1998.
- All municipalities began to receive funds directly in 1999.
- Decentralization allows menus with regional tastes, use of fresh foods and gains for local farmers.
- One of the mottoes of the program is: "A school meal is the right of the child and the responsibility of the school community."

## *Basic approved foods for School Lunch Program*

Açaí fruit	Potato flakes	Eggs
Sugar	Chicken - fresh, chilled or frozen	Bread
Corn flour		Fish - fresh, chilled or frozen
Rice	Beans	
Lard	Fruits	Pulp - fruit, tomato
Potato (sweet and English)	Corn powder	"Polvilho" manioc powder
Biscuit "polvilho"	Chick pea	
Sweet maize biscuit	Inhame (root vegetable)	White cheese
Savory biscuit ( <i>cracker</i> )	Vegetables	Sugar cane sweet
Coffee	Milk - powder or liquid	Sago
"Canjiquinha" manioc sweet	Lentil	Salt
	Pasta	Sardines in oil
Cará (vegetable)	Manioc	Corn semolina
Beef - fresh, chilled or frozen	Butter	Soy beans
	Margarine	Concentrated orange juice
Salted beef	Honey	
Pork - fresh, chilled or frozen	Sugar cane syrup	Natural juice
	Corn for desert	Seasonings
Dried meat	Corn for popcorn	Unsmoked bacon
Cream of corn	Frozen entrails	Wheat for kibe (Arab dish)
Flour (manioc, corn, tapioca, wheat)	Chilled entrails	Salad greens
	Fresh entrails	Vinegar

Source: PNAE/MEC

- A fundamental step is "menu planning" to ensure the quality and nutrition of school food, in addition to forming good eating habits among children. Planning includes input from nutritionists.
- One of the guidelines is that the menu should be planned to supply, as a minimum, 15% per meal of the daily nutritional needs of the students. This corresponds to 350 kilocalories (kcal) and nine grams of proteins per meal in the menu.
- A meal of 156 grams of rice with chicken and vegetables, for example, is equivalent to 379 kilocalories and 15 grams of proteins.
- Menu planning efforts to include in each meal at least one element of each food group (proteins, carbohydrates and milk products; and vitamins and minerals).

## High school education grows 71%

High school education (Ensino Médio) is ceasing to be essentially an instrument to prepare students from better-off families for university, and is proof of the great progress made recently in Brazilian education. Growth in seven years was equal to the previous 14 years. Enrollment grew 71% from 4.9 million in 1994 to reach the significant level of 8.4 million.

<i>High School registration</i>	
<b>1994</b>	4.9 million
<b>2001</b>	8.4 million
<b>Increase</b>	71%

Source: DIRAE/GEPAE

Other indicators of the democratization of high school education:

- The rise in the supply of classroom space was accompanied by more access for students from the poorest families and in regions most lacking in resources.
- The Northeast and North had the biggest growth (80.2% and 77.8%, respectively). This reduced the regional differences with respect to high school education in Brazil.
- There have been excellent result for makeup high school (Ensino Médio Supletivo) in the evenings, aimed at students who did not complete regular high school. Enrollment in makeup high school soared 157% from 340,000 in 1995 to 873,000 in 2000. An even more surprising result was that the number of students completing makeup high school rose five-fold from 76,400 in 1995 to 381,000 in 2000.

<i>High School registration by region</i>			
	<b>1995 (million)</b>	<b>2001 (million)</b>	<b>Increase (%)</b>
Brasil	5.4	8.4	56%
North	0.34	0.62	82%
Northeast	1.1	2.1	91%
Centerwest	0.4	0.6	50%
Southeast	2.7	3.9	44%
South	0.83	1.2	45%

Source: MEC/INEP

Professional (vocational) education has also seen important changes, aimed at adjusting to the new realities of the regional labor markets. Starting point was a 1996/97 reform which separated professional education from the old second grade.

- It is the job of the Program to Expand Professional Education (Proep - Programa de Expansão da Educação Profissional) to prepare the student to join a highly competitive labor market.
- High school education became part of basic education (Educação Básica), while professional education became part of post-secondary with three levels: basic, technical and technological. Now, in addition to completing high school, any student who plans entering the labor market with professional education at the technical level ought to study under the professional education curriculum.
- The aim is to correct a system which privileged the middle class and produced professionals unprepared for today's market reality. The reform also seeks to increase the supply of courses and the number of professional education places via the involvement of the state and the community.
- Created in 1997 to be developed through 2003, Proep has available US\$500 million. Of this, US\$250 million comes from the Inter-American Development Bank and the rest from the federal government.
- These resources are being invested over six years to give centers for professional education (Centros de Educação Profissional) infrastructure, equipment and qualified staff, plus up-to-date curricula. The program finances projects for reform and construction of professional schools at the state, federal and "community initiative" level.
- The federal network for technological education grew from 114 to 137 schools between 1995 and 2001. Enrollment tripled from 90,000 to 267,000.

## Higher education resumes expansion

Higher education (Ensino Superior) is a major challenge, but one where the federal government is winning. The aim is to guarantee the quality, expansion and diversification of the system in a world constantly demanding more tools of knowledge. Expansion was resumed after a long period of low growth in student enrollment. More than a million students were added between 1994 and 2000. Between 1980 and 1994, or 14 years, enrollment rose by only 20%.

### Graduate registration

	Total	Public institution	Federal institution	Private institution
1994	1.7 million	690,000	364,000	971,000
2000	2.7 million	887,000	483,000	1.8 million
Growth	62%	29%	33%	86%

Source: MEC/INEPI/SEEC

Some basic characteristics of this expansion:

- The private sector has played a decisive role by offering courses such as administration, law, journalism, economics and accounting.
- Performance evaluation became the main criterion for accreditation and re-accreditation of courses and institutions.
- Society was able to accompany the periodic improvement of the quality of teaching in colleges throughout the country via the mechanism of the “Provão” - a nationwide test for graduates.

### *Number of students graduating from university*

	Total	Public insttution	Federal insttution	Private insttution
1994	246,000	86,000	43,000	158,000
2000	325,000	112,000	59,000	212,000
Growth	32%	28%	38%	34%

Source: MEC/INEP/SEEC

- More and more students are graduating from Brazilian colleges and universities, and the pace of growth is speeding up. For every 100 students who entered in 1989, 64 finished their studies. By 1999, the completion rate had risen to 70 per 100. This proportion is larger in the private schools than in the public ones.
- Enrollment in the federal universities grew more than in the prior period.

### **Post-graduate courses spread through the country**

Opportunities for a student to undertake post-graduate studies are no longer concentrated in the Southeast region, which for a long period held a virtual monopoly in this area of education. From 1994 to 2001, there was significant growth in other regions in terms of programs, courses, students enrolled and students finishing post-graduate studies. The following chart shows how the South, Midwest, Northeast and East surpassed the Southeast in terms of growth.

## Post-graduate expansion

	1994	2000	Growth
North	32	43	34%
Northeast	195	289	48%
Southeast	1,189	1,474	24%
South	231	395	71%
Centerwest	66	110	67%
Brazil	1,713	2,311	35%

Source: MEC/CAPES

- In tune with other levels of Brazilian education, post-graduate education also saw considerable expansion, especially in public federal institutions, as shown in the table below.
- Overall, adding public and private courses, the result was that in masters degree courses, enrollment rose more than 59% from 40,000 in 1994 to 64,000 in 2000. Doctorate courses almost doubled, rising from 17,000 in 1994 to 33,000 in 2000.

## Federal post-graduate registration

	Masters degree	Doctorate
1994	23,000	6,900
2001	45,400	17,000
Growth	95%	146%

Source: MEC

## Better qualified teachers

The improvement of teaching in Brazil since 1995 can be seen, among other things, from the rise in the qualification of elementary education teachers. According to the Law for Directives and Bases of National Education (Lei de Diretrizes e Bases da Educação Nacional), or LDB, teachers of pre-school and for the first to the fourth grades of elementary education must hold a preparatory course certificate in education. Currently 90% of the teaching staff at these levels complies with the LDB, up from 75% in 1995.

- There is thus a sharp decline in the number of poorly-educated teachers, and in particular those without the minimum acceptable level of education.

- In the fifth to eighth grades of elementary school, and at high school, the percentages of teachers who are university graduates and also hold a teaching certification stood at 67% and 77%, respectively.

### **Teacher qualification in basic national education**

*Proportion of teaching functions by level of qualification (%)*

Grade	Pre-school		Elementary School				High School	
	1995	2001	1st - 4th grade		5th - 8th grade		1995	2001
Teaching staff total	282,970	248,632	811,052	809,253	598,436	770,362	333,613	448,569
At least								
elementary school	21.7	7.1	15.7	5.8	0.9	0.4	0.4	0.1
High school without preparatory course	6.6	4.3	6.8	3.3	10.6	5.8	11.3	5.7
Preparatory course	57.0	63.9	58.7	63.8	16.7	19.3	6.0	5.4
Graduate	14.7	24.7	18.8	27.1	71.8	74.5	82.3	88.9
No preparatory course and without license	0.1	0.6	0.1	0.5	1.1	2.3	5.2	5.2
Preparatory course and without license	0.8	4.1	0.6	3.4	1.8	5.3	3.2	6.4
With license	13.8	20.0	18.1	23.2	68.9	66.8	73.8	77.2

Obs: Teaching staff functions include teachers who act in more than one modality and more than one place.

Source: MEC/INEPI/SEC

- There was a general trend in the 1995-2001 period for growth of teaching staff with appropriate education.

The growth in higher education was accompanied by quality improvement. Institutions have been seeking to raise the level of teaching, providing above all an increase in the number of professors holding advanced degrees.

- There were a total of 174,000 teachers in higher education in 1999. Within this universe, the proportion of professors in post-graduate courses for a masters or doctorate degree grew substantially (counting all the professionals who are active in more than one area of teaching or more than one educational establishment).

- For the first time, Brazil has more than 51% of university teaching staff with masters or doctorate degree - those with a doctorate degree represent 22% of the total.
- In public institutions (federal and state) the proportion of teachers with advanced degrees is much higher and also improved significantly in recent years.

### **Graduate teachers qualification**

(1994-2001)

	<b>T o t a l</b>				<b>F e d e r a l</b>			
	<b>Doctorate teachers</b>		<b>Masters or doctorate teachers</b>		<b>Doctorate teachers</b>		<b>Masters or doctorate teachers</b>	
1994	21,326	15%	54,857	39%	9,147	21%	24,046	55%
2000	39,522	22%	94,141	51%	16,302	37%	29,509	67%
Growth % (1994-2000)	85%		72%		23%		23%	

Source: MEC/INEP/SEEC

### **National curricula guidelines**

For the first time, Brazil has set national curricula guidelines for all levels and types of education: elementary, infant, indigenous, high school and professional. This sets a quality benchmark for teachers, educational professionals and authors of textbooks.

## **Technologies for teaching in public schools**

- Modern technologies were made available in the public schools in Brazil, in tune with world developments in education. In addition to enriching face-to-face education, the significant investments in technological infrastructure serve as a basis for important actions in distance teaching.
- Programs with national reach seek to give more value to public schools and reduce technological exclusion.

## Public Schools - technology

Project	Reach	Results
TV Escola	Around 29 million students Around 1.3 million teachers 27 states (inc DF) 5,206 municipalities	57,000 schools with TV, video and satellite dish. 21 million printed items for program support. 14 hours/day; 7 days/week of quality educational transmission. More than 4,000 educational videos available for schools.
National Program for IT in Education - ProInfo	Around 7 million students benefited 27 states; 1,116 municipalities.	1,419 core training staff prepared. More than 56,000 teachers trained. 2,738 schools with IT labs. 29,000 computers.

Source: MEC/INEP/ISEEC

## Money Direct to the School: trust in participation

One of the factors responsible for the good results in Brazilian education has been a program for channeling money directly to the schools (Programa Dinheiro Direto na Escola), created by the 1994-2002 administration.

- The program serves all schools in the public system that have more than 20 students, and the goal is to improve facilities and teaching. Resources must go to operating improvements: maintenance, conservation and repairs; purchase of equipment and teaching materials; and training for educational professionals.
- Program principles are decentralization, participation and efficiency in public spending, and involvement of the educational community through the formation of thousands of Parent-Teacher Associations - PTAs (Associações de Pais e Mestres).
- The PTAs structure community participation in the school. This is essential in the process of school administration. The amount transferred depends upon the number of students in each school, based on school census data for the previous year.

## *Money Direct to the School - evolution*

	1995	1996	1997	1998	1999	2000	2001
Schools							
with PTAs	11,643	27,426	48,266	55,318	67,865	71,276	71,576
Schools							
without PTAs	132,663	140,334	58,445	75,082	62,859	60,945	50,634
Students							
(in thousands)	28,350	31,288	26,673	28,961	30,666	31,492	30,590
Funds (in							
R\$ thousands)	229,348	259,745	279,419	306,375	305,787	315,635	307,156

Source: FNDE

- In summary: 130,000 schools on average were reached each year in the seven years of the program.
- An average of 30 million students have benefited annually.
- 72,000 schools created PTAs.
- R\$2 billion was sent directly to schools from 1995 to 2001.

## Permanent evaluation of teaching quality

Permanent evaluation of teaching has become an essential part of Brazilian educational policy. There is now national recognition for the National System for Evaluation of Basic Education (Saeb - Sistema Nacional de Avaliação da Educação Básica); the National Examination of High-School Education (Enem - Exame Nacional do Ensino Médio); and the National Course Examination (Exame Nacional de Cursos, known as the Provão).

Saeb establishes two-yearly evaluation of students in the 4th and 8th grade of elementary education and the third year of high school, together with their teachers and administrators. This has become a permanent instrument for assessing the quality of elementary education.

The test focuses on three elements: student learning; profile and practices of teaching staff; and the profile of the directors and school administration.

From 1995 to 2001, 825,000 students were evaluated. In 2001, there was the evaluation of a sample of 6,935 schools, 6,820 administrators and 21,754 teachers.

## National System for Evaluation of Basic Education (Saeb)

	Sample - schools	Sample - directors	Teacher/functions researched	Students evaluated
1995	2,839	2,839	4,967	90,499
1997	1,933	1,933	18,077	167,196
1999	6,890	6,890	53,815	279,764
2001	6,935	6,820	21,754	287,719
Total students evaluated				825,178

Obs: 4th to 8th grade of elementary school and four disciplines (math, portuguese, geography and history) of 3th grade high school are evaluated .

Source: MEC/INEP/DAEB

- Enem has evaluated 3.6 million students since 1998, when the first test was held. The number of municipalities hosting the examinations is expanding continuously to facilitate access of all those completing elementary education throughout Brazil. It is free for students in public schools.
- Enem is seen as an important tool to gauge the educational level of students completing high school. A growing number of universities and other institutions of higher education are using its results as partial criteria when selecting candidates for graduate courses.
- There are now 315 institutions of higher learning which consider Enem results as selection criterion for their graduate courses. The number of municipalities hosting the tests should reach 600 nationwide in 2002.

## ENEM - National Examination of High-School Education

	IHL using the ENEM <sup>(1)</sup>	Hosting municipalities	Students evaluated
1998	1	184	115,575
1999	93	162	315,960
2000	199	187	352,487
2001	296	277	1,200,883
2002 <sup>(2)</sup>	315	600	1,700,000
Accumulated total of participants			3,684,905

<sup>(1)</sup> Institutions of Higher Learning (IHL) which consider Enem results as selection criterion for their graduate courses. <sup>(2)</sup> Estimated

Source: MEC/INEP/DACC.

- The seven editions of the National Examination of Studies - Provão - held to date have tested close to 1.3 million new or recent graduates.
- Every year, new areas of study are included, and the courses examined are expanded.
- The number registered to take the examination in 2002 represented about 90% of students completing higher education that year.
- In 1996, the first year of the Provão examination, 55,000 students from 616 courses were evaluated - about 23% of all those completing graduate studies.

### *National University Course Examination - Provão*

	<b>Graduate areas</b>	<b>Courses</b>	<b>Students sitting exam</b>
1996	3	616	55,537
1997	6	822	85,576
1998	10	1,710	126,823
1999	13	2,151	160,018
2000	18	2,888	197,840
2001	20	3,701	271,421
2002	24	5,030	395,955
Students - total			1,293,170

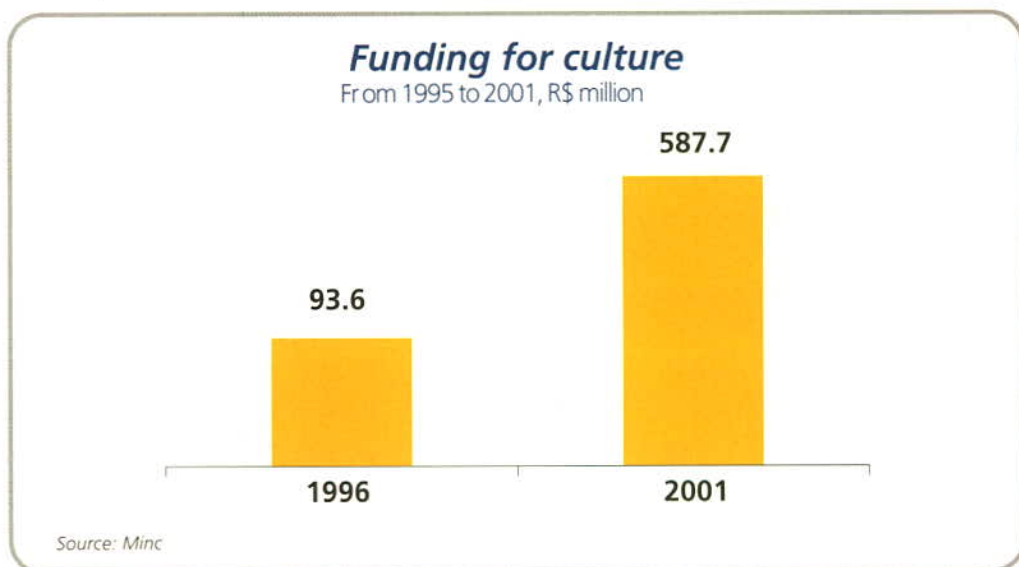
Fonte: MEC/INEP/DAES

# 11. Culture

## Cultural activities receive 528% more funding

**C**ULTURE BENEFITED GREATLY IN THE 1995-2002 ADMINISTRATION FROM incentive mechanisms that operate in partnership with international organizations, states, municipalities, state-controlled companies and private enterprise, as well as from resources allocated directly by the federal budget.

- Resources channeled to culture rose 528% from R\$93.6 million in 1995 to R\$587.7 million in 2001. Financial support for culture by the end of 2002 was projected to hit 84% over the 1996 level, offering potential financial security for many areas of Brazilian culture.



- Laws that give fiscal incentives to the arts and culture were important creations of earlier administrations, but they started to function in a broader and more effective way as of 1995.
- Effective 1995, the deduction limits for companies sponsoring cultural projects was raised. The authorization to raise resources became more agile. These instruments are known as the Rouanet Law (Nº 8,313, de 1991) and the Audiovisual Law (Nº 8,685, de 1993).

Some improvements to the legislation were especially important for encouraging more companies to participate in the financial support system (which consists of approval of projects aimed at getting sponsorship); to increase the budget revenue of the National Cultural Fund (which gives non-returnable money to cultural projects); and to improve the administrative structure. Significant points:

- Regulation of the Rouanet Law, establishing systematic implementation of the National Program for Support of Culture (Pronac);
- Regulation of the conversion of foreign debt into investments in Brazilian audiovisual projects of independent producers;
- An increase from 1% to 3% in the corporate tax deduction for investments in these audiovisual projects.
- Restructuring of the Ministry of Culture into thematic areas, including an executive secretariat and four secretariats defined by cultural segments;
- Increasing the deduction for taxpayers for the amounts spent in different cultural areas;
- Increasing from 1% to 3% of federal lotteries and similar contests of resources channel into the National Cultural Fund, via the “Ubiratan” law;
- Creation of Ancine (National Film Agency) and Prodecine (Program to Support the Development of National Filmmakers) through provisional measure No. 2,219 in 2001. The goal is to give the movie industry more substantive incentives, raising ties among the productive links of the audiovisual sector, representing output, distribution and exhibition, and defining a regulatory framework for cinematographic work in the country.

## Support for 17,000 cultural projects

The role of producer does not belong to the government, which has responsibility for the definition of the overall lines of cultural policy in conjunction with citizens, artists and producers. The state is also the articulator of support for relevant cultural segments and incentives, which do not have market support. Since 1995 the federal government's action has been aimed at democratization of the investment of resources available in the federal budget and of those raised in the market. The goal was to help reduce cultural inequalities that exist in different regions of the country and to give more transparency and efficiency in spending.

- From 1997 to 2001, investments in the cultural area were destined to approximately 17,700 projects. This is equivalent to 5.8 projects a day or one every five hours.
- These 17,000 projects involved resources of the order of R\$2.7 billion, of which R\$746 million came from annual budgets and R\$2 billion from fiscal incentives. Music and film arts led the investments in the program, as shown in the table below.

### *Applications by government programs*

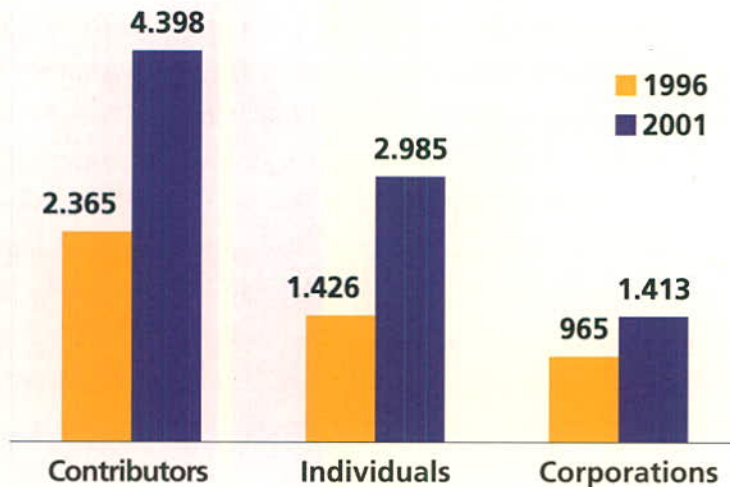
From 1995 to 2001, in R\$ million

Music and theatrical arts	684.2
Cultural production and marketing	611.9
Movie, sound and video	620.7
Cultural heritage	525.4
Open book	271.5
Afro-brazilian culture	19.6

Source: MinC

- The interest of taxpayers to support cultural projects through the Rouanet and Audiovisual laws rose significantly thanks to the disclosure policy implemented by the federal government with respect to mechanisms of cultural financing.

### Cultural support, using incentive laws



Source: MinC

- Total support rose from 533 contributors giving R\$33 million in 1996, to 10,551 giving R\$413 million in 2001 (see table). In other words, when total investments rose 87%, the number of individual taxpayers rose 271.5% and their investments through the incentives increased by 7,803%. The number of corporations rose by 48% with increase of 86.5% in the investments.

### Support for culture, using incentive laws (Rouanet and Audiovisual laws)

	Number of taxpayers			Value (R\$)		
	1996	2001	Increase	1996	2001	Increase
No. of taxpayers	2,365	4,398	86%	170 millions	318 millions	87%
Individuals	1,426	2,985	109%	713,000	2.7 millions	266%
Corporations	965	1,413	48%	169.3 millions	316 millions	86.5%

Source: MinC

- Creation of a national center for the education of workers and managers, called the São Paulo Culture Factory (Fábrica de Cultura) helped place cultural management within reach of all citizens. In 2000, 285 administrators were trained at this center, in partnership with private enterprise.

## The rebirth of Brazilian film-making

The participation of Brazilian movies on show in Brazilian cinemas fell to its lowest level at the beginning of the 1990s. The dismantling of the state system of support for cinematography production and distribution - caused by the closing of Embrafilme and Concine - drastically affected the capacity of the Brazilian filmmakers' industry to operate with efficiency in its own market.

Foreign movies, above all U.S. ones, occupied almost all the theaters, a significant slice of television and became a cultural reference for the Brazilian population, especially the lower income sectors. The resumption of governmental support to the Brazilian movie industry, through the laws for incentives to culture, began to change the situation.

### *Movies - evolution*

	Movies released		Public Attendance		% (National/Foreign)	
	National	Foreign	National	Foreign	Release	Frequency
1990	7	231	10,000,000	85,101,000	3.03	11.75
1991	8	239	3,000,000	92,093,000	3.35	3.26
1992	3	237	36,113	74,963,887	1.27	0.05
1993	4	234	45,454	69,954,546	1.71	0.06
1994	7	216	271,454	74,728,546	3.24	0.36
Total 1990-1994	29	1,157	13,353,021	396,840,979	2.51	3.36
1995	14	222	3,150,000	81,850,000	6.20	3.85
1996	16	236	2,550,000	59,450,000	6.80	4.29
1997	22	184	2,388,888	49,611,112	11.96	4.82
1998	23	167	3,606,279	66,393,721	14.00	5.43
1999	34	200	6,000,000	64,000,000	17.00	9.38
2000	28	133	7,551,000	64,828,340	21.00	11.65
Total 1995-2000	137	1,142	25,246,167	386,133,173	12.00	6.54

Source: MinC.00

- Releases of films made in Brazil showed exceptional growth of 372% from 29 to 137 movies in the periods 1990-94 and 1995-2000.
- The Brazilian public started watching national movies again. The number of spectators, 350,000 between 1992 and 1994, reached six million in 1999 and surpassed 7.5 million in 2000.
- In 2001 and 2002, progressive growth is expected in the number of people watching Brazilian films, surpassing the nine million level, and should reach market share of 20% of movies exhibited in 2003.

- A new model of relationship between the public and private sectors was started, between the state and the market. Jointly with the new films, new talents emerged.
- The quality of Brazilian movies gained recognition. The language was enriched and the styles diversified, all of which is reflected in the variety of themes, subjects and symbolism. Motion pictures regained their role in the search for roots and in the building of Brazilian cultural identities.
- Starting 1995, there were notable changes in the audiovisual sector:
  - No less than 160 new features, 669 short movies and about 80 documentaries were produced;
  - Brazilian-made movies secured an 12% share of the national exhibition market, and represented close to 18% of all movies released in the country in the year 2000;
  - No less than 55 new motion-picture directors emerged;
  - Four Brazilian films received Oscar nominations as the best foreign movie;
  - Some 200 prizes were won in competitions, 100 of them at international events;
  - A total of 191 new movie theaters were opened.
- More than 100 old movies, true mileposts in the history of Brazilian film-making, were released in VHS.
- Support measures were also directed towards staging public competitions for the production of short films, cultural documentaries and development of projects and scripts, as well as for production, marketing, distribution and exhibition of Brazilian movies in the national and international markets. Investments were about R\$39 million.
- The support for production, marketing and distribution of Brazilian low-budget feature movies became viable through the selection of 72 projects, financed through the programs Brazil Movies (Cinema Brasil), More Movies (Mais Cinema) and Support for Movie Marketing (Apoio à Comercialização de Filmes), established in 1999. More Movies was an alternative financing program in partnership with the Brazilian Development Bank (BNDES - Banco Nacional de Desenvolvimento Econômico e Social).
- The project Rediscovering National Movies (A Redescoberta do Cinema Nacional) was created 1999 to promote - via public and private television networks - the Brazilian people's rediscovery of their historic and cultural roots.
- Linked originally to TV Escola in the Ministry of Education but already exhibited on the Brazil Channel and in the public educational and cultural networks, and the

networks of the Senate and the House of Representatives, the “Rediscovering National Movies” project today reaches close to 62,000 public and private schools nationwide and 8.5 million parabolic antennas, with a potential public of 30 million, especially people in the less favored classes of the population.

- The Brazilian audiovisual sector was stimulated via 143 national events, including community programs, shows, seminars and workshops in various regions. This is expanding the geographic coverage of the production and distribution of cultural goods. In 2001, 16 agreements were signed to subsidize community programs in the cities and towns of Tiradentes, Florianópolis, Recife, Goiás, Curitiba, João Pessoa, São Luis and Fortaleza, among others.
- The Brazilian movie industry is also growing abroad. In addition to a constant presence in international contests, with more than 100 prizes in recent years, the government has supported expositions and international programs. Examples are the Brazilian Movies Program in Paris, the Brazilian Movies Exposition in Los Angeles, the Brazilian Movies Exposition at English Universities, the Brazilian Movies Show in Mercosul (the South American southern cone customs union), among others.

## **Respecting the historical heritage**

- The federal government in the period 1995 - 2001 relied on partnerships with states, municipalities and citizens for the protection of Brazilian cultural heritage, promoting historic centers and natural reserves to the Unesco category of world heritage.
- The Brazilian sites and resources elected during this period were the historic centers of São Luís, Maranhão state, and Diamantina, Minas Gerais state; the Atlantic rain forests in São Paulo and Paraná states in southeastern Brazil, the “Discovery Coast” (Costa do Descobrimento) in Bahia and Espírito Santo states; the Jaú National Park in Amazonas state; the Protected Areas of the Pantanal in Mato Grosso and Mato Grosso do Sul states; and the town of Goiás, in the state with the same name.
- Accreditation of these sites with Unesco was preceded by a series of improvements in basic sanitation, provision of public spaces and construction works, providing employment and income. Significant investments were made, which help justify inclusion of these centers in tourist guides. This has a multiplier effect for hotels, crafts and culture in general.
- Concern with cultural preservation is reflected in the large number of registrations to conserve properties, furniture and natural and historic centers. Worth highlighting are the architectural and landscape assets of Penedo in Alagoas state; of Lapa in

Paraná state; Pampulha in Belo Horizonte in Minas Gerais state; and the Barrio do Recife in Pernambuco state; the architectural complex of Icó in Ceará state; the Hercílio Luz bridge in Florianópolis; the Quilombo do Ambrósio in Ibiá, Minas Gerais state; the Zeppelins hanger at the Santa Cruz air force base; the Rodrigo de Freitas lagoon and the Maracanã stadium in Rio de Janeiro, and the Municipal Theater of São Paulo.

- Numerous properties were restored to benefit tourism and serve as sources of research and knowledge.
- Some of them: The architectural complex of the town of Antonio Prado, Rio Grande do Sul state; the chapel of São João Batista in Belém, Pará state, where three wall paintings of the Italian Antônio José Landi were also restored; the market of Diamantina, Minas Gerais state; the main church and theater of Pirenópolis, Goiás state; the Nossa Senhora do Carmo church in Alcântara, Maranhão state; documents of the 17th and 18th Centuries belonging to the Historic Institute of Rio Grande do Norte state on the Fort of Reis Magos in Natal; and the high altar of the São Bento Monastery of Olinda, Pernambuco state.
- The Monumenta Program for preservation of the cultural heritage (Preservação do Patrimônio Histórico) is the largest source of resources today seeking to finance the conservation of the national heritage. Resulting from a partnership with the Inter-American Development Bank (IDB) with the participation of Unesco, Monumenta is destined to revitalize main urban centers.
- In its first stage, from 2000 through 2003, Monumenta is raising more than US\$200 million, of which US\$62.5 million is a loan from the IDB, US\$62.5 million is from the federal, state and municipal budgets, and the rest is from participating financial institutions and companies. This money will be used in works in dozens of historic locations in various states. It is the biggest investment made in the Brazilian cultural area in one period of government.
- More than two dozen cities and towns will benefit, among them Ouro Preto, Olinda, Salvador, Brasília and Diamantina, included in the cultural heritage of Unesco. In addition to these, another five state capital cities were invited to participate in the program – Recife, Rio de Janeiro, São Paulo, Porto Alegre and Manaus – together with the historic towns of Congonhas and Mariana in Minas Gerais state, Porto Seguro, Lençóis and Cachoeira in Bahia state; Goiás in Goiás state; Alcântara in Maranhão state; Parati in Rio de Janeiro state; Laranjeiras in Sergipe state; Natividade in Tocantins state; Oeiras in Piauí state; Pelotas in Rio Grande do Sul state; São Francisco do Sul in Santa Catarina state; Icó in Ceará state; Penedo in

Alagoas state; and Corumbá in Mato Grosso do Sul state.

- Major expositions were held in national museums and historic houses, including exhibits of Auguste Rodin, Monet, Fernando Botero, Dali, splendors of Spain, from El Grecco to Velásquez, and Aleijadinho.
- Inaugurated in May 2000 in the Parque do Ibirapuera in São Paulo, the Exhibition of the Rediscovery (Mostra do Redescobrimento) had major international impact and was part of the official celebrations of 500 years of the discovery of Brazil by Portuguese sailors.
- The growing demand for spaces devoted to the development of cultural activities is being met with specific actions, aimed at stimulating local traditions and the recognition of regional differences. More than 800 projects were supported from 1995 to 2001 with resources of the order of R\$90 million, creating cultural centers to give the community the opportunity to develop its cultural life.

## **Libraries for 26 million Brazilians in small municipalities**

- In 1995, the public library network had close to 3,800 units in operation. The “Library in Every Municipality” Program (O Programa Uma Biblioteca em Cada Município) has been expanding the public library network at a pace without precedent in the country.
- Conceived in 1995 and operating since 1996, this effort led to installation of 1,551 libraries through 2001, corresponding to growth of 40% in national total. The Northeast stands out with the installation of 379 libraries, or 25% of the total. In 2001 more than 500 libraries were installed - more than one per day.
- These libraries are located out of schools but are used by 80% of the students, as well as researchers and the community in general. They represent 4.2 million books made available to citizens, directly creating approximately 2,000 new jobs and directly contributing to 950,000 people reading more.
- In 2001, 26 million Brazilians gained a public library in their municipality. This strengthens citizenship, the development of the habit of reading and the guarantee of continuing education. By the end of 2002, only 600 Brazilian municipalities (out of more than 5,500) still lacked a library.
- The National Library (Biblioteca Nacional), 190 years old in 2000 and one of the 10 largest in the world, has introduced up-to-date technology. Its Internet site is visited by more than two million people, while its headquarters receives around 13,000 users monthly.

- The Office of Authors' Rights (Escritório de Direitos Autorais) opened 15 regional representative offices. Thanks to this, registration of authors' rights rose 166% from 94,000 in 1994 to 250,000 in 2001.
- The Brazilian Agency of the International Standard Book Number (ISBN) had 63,141 book titles filed at the end of 1994. This reached 197,704 by the end of 2000. The annual number of registrations rose 175% in the period, 8,000 to 22,000 titles. This is a measure of the vitality of the Brazilian editorial market, reflecting the increase in the number of readers as well as the consumption capacity.

## Music and theatrical arts

- There has been a revival in the tradition of musical bands in Brazil. The creation and maintenance of bands in towns and cities had as its goal to give value to the diffusion of instrumental music. The participation of youths in musical groups was encouraged and the utilization of music as an instrument of citizenship and social inclusion was promoted. From 1996 to 2001, 1,850 musical bands in all regions received support. The average age of musicians in the bands fell.
- Starting 1997, the government gave support to Brazilian orchestras which showed plans to give free performances, acquire instruments and scores, hold teaching concerts and record CDs. Through 2001, this support benefited 184 orchestras, with predominantly national repertory. Priority went to those which serve regions lacking contact with traditional erudite music.
- The Forum of Orchestras was held in 2001, a pioneer governmental effort aimed at uniting musicians, conductors and administrators. The goal was improvement and modernization of management and organization.
- Also in the area of erudite music, the government has supported the publication of scores of works by Brazilian composers.
- As part of commemorations of 500 years of the discovery of Brazil, in 2000, allegorical symphonies were written by Brazilian composers Edino Krieger, Egberto Gismonti, José Antonio Rezende de Almeida Prado, Ronaldo Coutinho de Miranda and Jorge Antunes, chosen by a committee of renowned Brazilian orchestra conductors. The works were recorded in a CD entitled 500 Years of Symphonies (*Sinfonias 500 Anos*).
- The federal government began in 2000 to foster the National Contest of New Theatrical Texts (*Concurso Nacional de Textos Teatrais Inéditos*) with the goal of strengthening dramatic production and stimulating the emergence of new talents. In its first edition, 1,338 texts were entered in the categories of adult and children theater.

- Partnerships were formed with institutions to hold dramatic readings in São Paulo, Rio de Janeiro and Brasília, seeking to publicize new prize-winning theatrical texts and their authors. The competition had 836 entries in 2001.
- The project EnCENA Brazil selected 131 theater and dance groups, which received prizes to arrange and hold performances, benefiting all Brazilian regions.
- Diverse musical performances and events in various cities also received support of the Ministry of Culture.

## Fostering of Afro-Brazilian Pride

Various actions were taken to promote the inclusion and participation of the black Brazilian population in the process of development. These actions emphasized the identification, recognition and registering of the remaining lands of communities of escaped slaves (quilombos).

- The community of Rio das Rãs in Bahia state had their lands recognized and surveyed in 1995, and the community of Boa Vista in Pará state received title to property. From 1996 through 2001, 743 communities were identified, 42 were recognized and 29 received final title to the property of their land.
- Prominent among them: Kalunga in Goiás state; Mocambo in Sergipe state; Rio das Rãs; Castainho in Pernambuco state; Mata Cavalo in Mato Grosso state; Boa Sorte in Mato Grosso do Sul state; Jamary dos Pretos in Maranhão state; Campinho da Independência in Rio de Janeiro state; Porto Coris in Minas Gerais state; Curiaúl in Amapá state; Itamoraí in Pará state; and Ivaporanduva in São Paulo state.
- In partnership with the Community Solidarity Program, measures to teach reading were implemented in areas concentrating the black population in the cities of Rio de Janeiro and São Paulo, using space in various samba schools. These benefited more than 2,000 students. In 33 remaining communities in the Northeast and North regions, 3,300 descendants of slaves were taught to read and write. Among the local residents, some were trained as teachers.
- The national curricula guidelines began to include orientation for the appropriate treatment of Brazilian multiculturalism and, in particular, blacks. Production started of teaching materials for Elementary Education fostering the values of equality and tolerance.
- In the period 1996-2001, a total of 49 cultural events took place on themes related to black consciousness.
- Zumbi dos Palmares, a slave who led a revolt and was assassinated in 1695, was

included in a book of national heroes. The Maceió airport in the capital of Alagoas state received his name.

- In the field of justice and security, an information system was set up for the protection of the rights of the black population and the orientation of policies of promotion of the community. Police precincts were created specialized in serving the victims of racial crimes.

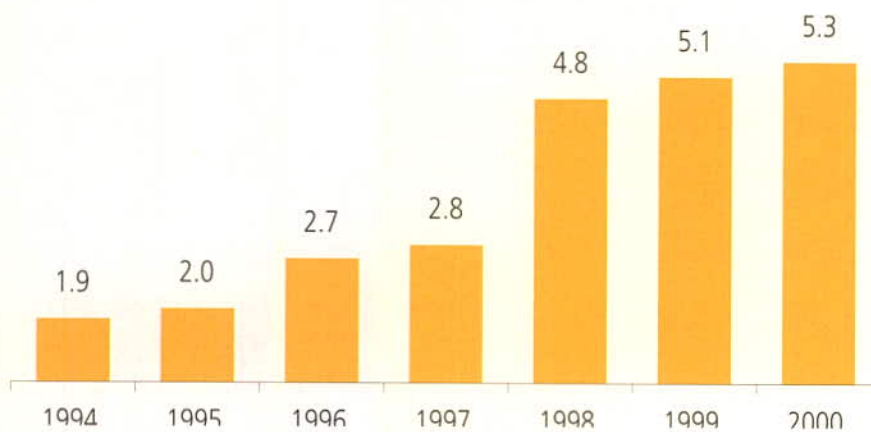
A program was created to promote appreciation of the economic, political and cultural role of black women. This program is systematizing their history and capacity and promoting interchange, ensuring the presence of black women in principal international forums. The program offered preparation courses for the 2002 World Conference to Combat Racism, sponsored by the United Nations. Preparations for this event included five pre-conference themes.

## 12. Brazil taps its tourism potential

**B**RAZIL HAS ALWAYS ENJOYED TREMENDOUS POTENTIAL AS A TOURISM DESTINATION. In 1994, however, the nation received fewer than two million foreign tourists, who spent a total of US\$1.5 billion. This is very little when compared to the figures racked up by leading countries in the world travel industry. Today, however, only a few short years later, things have changed dramatically. The Brazilian travel industry has undergone a transformation.

- In 2000, Brazil attracted five million foreign tourists, who spent a total of US\$4 billion. That still may not seem like much. But, according to the World Tourism Organization, the Brazilian tourism industry posted the highest growth of all countries in the Americas during the period 1996 to 2000.
- Putting Brazil on the international travel map took some strategic planning, which started 1995. First, a National Tourism Committee was formed. In March, 1996 this committee published its National Tourism Development Plan.
- Special legislation was adopted. Professionals were trained and a promotional program was aimed at priority markets. Meanwhile, more money was pumped into infrastructure improvements. For the first time, Brazil's travel industry could plan for the long term. Professionalism took the place of improvisation.

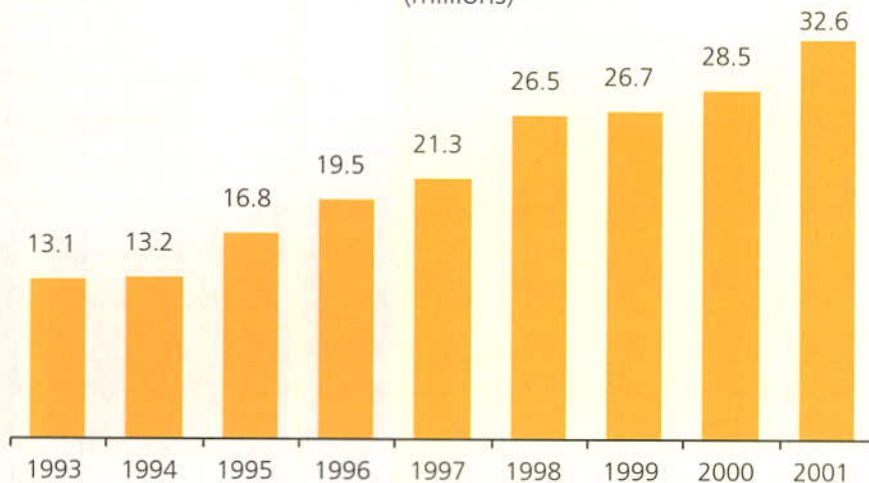
### Overseas tourists - arrivals



Source: Embratur

### Passengers on domestic flights

(millions)



Source: Embratur

- Brazil has started to develop its tourism potential in an orderly, professional manner, as the above graphs demonstrate. From 1994 to 2000, the total number of domestic air passengers rose 116% from 13.2 million to 28.5 million. Foreign tourist arrivals jumped 187% from 1.9 million to 5.3 million.

- The travel industry spread its wings. It was no longer limited to merely “the tourist trade.” The Federal Government also took a hand, helping clear the way for sector growth with public works in areas such as sanitation, highways, airports and restoration of the country’s historic legacy. Some 500,000 new professionals were trained under the Municipal Travel Development Program, using Federal Employment Fund (FAT) resources.
- Some US\$10 billion was invested in public works by federal and state governments. Projects benefited not only tourists but also permanent local residents.
- Incentives were launched to obtain more than US\$8 billion in private investments. Hundreds of new travel-related projects resulted, generating thousands of jobs in hundreds of cities and towns across the country.

### ***Tourism - major investments (1995-2000)***

Basic Infrastructure – Northeast Prodetur - 1<sup>st</sup> fase: US\$670 millions.

- Eight airports (Porto Seguro, Lençóis, Salvador, São Luís, Aracaju, Natal, Fortaleza, Recife);
- 29 highway stretches, 389 km in total;
- 17 basic sanitation projects, 362,000 people benefited;
- 5,335 hectares of environment preserved;
- 22,800 m<sup>2</sup> of historic sites restored;
- 41 public agencies trained and reorganized.

Northeast Prodetur - 2<sup>nd</sup> phase: US\$800 millions (two steps).

Amazon Basic Infrastructure: US\$212 millions (under implementation).

Pantanal Basic Infrastructure: US\$400 millions, starting 2000 (under implementation).

Prodetur South: US\$400 millions, starting 2000 (under implementation).

Brazil in Action and States: Direct funds totaling US\$10 billions, from BID negotiation, to be applied in infrastructure works.

- The upshot was that the Brazilian travel industry won large numbers of new overseas clients during the second half of the 1990s. Domestically, the industry also grew. In 2001, revenues were R\$20 billion, up from R\$13.2 billion in 1998. There were some 54 million domestic travel itineraries in 2001, up dramatically from only 16 million in 1998.
- For Brazil’s economy, travel has begun to take on a significant role in aiding the balance-of-payments, as seen below.

## Brazilian tourism and its exportation ranking participation

(In 2000)

1 <sup>st</sup>	Transport material	US\$9.4 billions
2 <sup>nd</sup>	Metalurgic products	US\$5.9 billions
3 <sup>rd</sup>	Tourism	US\$4.2 billions
4 <sup>th</sup>	Soy	US\$4.1 billions
5 <sup>th</sup>	Quimical products	US\$4.1 billions
6 <sup>th</sup>	Ore	US\$3.3 billions
7 <sup>th</sup>	Mechanical machines	US\$3.1 billions

Source: Ministry of Sports and Tourism

- Tourism expansion brought huge growth in jobs, especially in hotels and restaurants. From 1994 to 2000, total employment in the industry rose 42% from 2.6 million to 4.5 million.

## Employment in tourism activities

(thousands)

	1994	1999	Change
Lodging	551	774	+ 40%
Food	1,342	2,314	+ 72%
Travel agencies	109	125	+ 15%
Scheduled highway transportation	421	524	+ 24%
Scheduled air transportation	181	142	- 22%
Charter air transportation	15	17	+ 13%
Total	2,619	3,896	+ 49%

Source: Embratur

- There is still room to grow in areas such as ecological tourism, adventure travel, fishing and cultural tourism, not to mention congresses, conventions and incentive travel.
- Another area with potential is maritime travel, taking advantage of the big increase in ocean cruises between 1997 and 2000.

# 13. Strategic programs

## **Strategic Programs**

The 54 programs that are preparing the country for the future

01	<p><b>Every Child at School</b> (Toda Criança na Escola)</p> <p><b>Budget in 2002:</b> R\$4.5 billion</p>	<p><b>Purpose:</b> Make primary education universal; to enhance the status of the teaching profession.</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"><li>• Achieve a rate higher than 97% for school attendance among children aged seven to 14 by 2002</li><li>• Reduce to 9% by 2002 the number of children dropping out of primary education</li><li>• Provide one good-quality meal every day to 37 million children</li><li>• Distribute text books to 30 million students and 174,000 public primary schools</li></ul>
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02	<p><b>Quality Schools for Everyone</b> (Escola de Qualidade para Todos)</p> <p><b>Budget in 2002:</b> R\$81.9 million</p>	<p><b>Purpose:</b> Provide new technologies and training methods to improve the quality of primary education</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• Increase to 68% the number of children expected to complete primary education</li> <li>• Establish a further 200 centers for educational technology around the country to provide training in information technology to 1,000 teaching instructors, and thereby to 25,000 teachers working in schools</li> <li>• Instruct 10% of teachers in the public network by means of the Program for Ongoing Professional Development (Programa de Desenvolvimento Profissional Continuado)</li> </ul>
03	<p><b>Development of Secondary Education</b> (Desenvolvimento do Ensino Médio)</p> <p><b>Budget in 2002:</b> R\$554.4 million</p>	<p><b>Purpose:</b> Increase the number of places available and improve the quality of secondary education</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• Provide places for one million new pupils</li> <li>• Raise to 40% the number of young people aged 15 to 17 enrolled in secondary education</li> <li>• Make the National Secondary Education Examination (Exame Nacional do Ensino Médio) free of charge from 2001 for students in public, community, and philanthropic schools, and for those undertaking supplementary courses</li> </ul>
04	<p><b>Development of Professional Training</b> (Desenvolvimento da Educação Profissional)</p> <p><b>Budget in 2002:</b> R\$697.8 million</p>	<p><b>Purpose:</b> Increase the number of places available and improve the quality of professional training</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• Increase by 30% the number of people enrolled in professional training courses</li> <li>• Negotiate a further 88 agreements for professional training courses in schools</li> </ul>
05	<p><b>Education for Young People and Adults</b> (Educação de Jovens e Adultos)</p> <p><b>Budget in 2002:</b> R\$491.3 million</p>	<p><b>Purpose:</b> Provide education for young people and adults who did not have access to or did not complete primary education</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• Reduce the rate of illiteracy to less than 10% by 2002</li> <li>• Eradicate illiteracy among young people by 2002</li> <li>• Enroll in the program 50,000 beneficiaries of the agrarian reform program</li> </ul>

06	<p><b>Family and Child Health</b> (Saúde da Família e da Criança)</p> <p><b>Budget in 2002:</b> R\$3.2 billion</p>	<p><b>Purpose:</b> Provide greater access to basic health services and reduce the rate of infant mortality</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• Extend coverage by family health teams to 40% of the population by 2002</li> <li>• Extend coverage by community health officers to 60% of the population by 2002</li> <li>• Reduce the rate of infant mortality in the first year of life to 31 per 1,000 by 2003</li> <li>• Raise the proportion of the population covered by oral health teams to 32% in 2002</li> </ul>
07	<p><b>Respect for the Elderly and for Handicapped People</b> (Valorização do Idoso e da Pessoa Portadora de Deficiência)</p> <p><b>Budget in 2002:</b> R\$5.4 billion</p>	<p><b>Purpose:</b> Provide a minimum income and health services for the elderly, and social rehabilitation and minimum income for low-income handicapped people</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• Monthly income of one minimum wage for 620,000 elderly people in situations of social exclusion</li> <li>• Vaccinations for 14 million elderly people</li> <li>• Monthly income of one minimum wage for 1.06 million low-income handicapped people who are unable to work</li> <li>• Access to social services for 160,000 low-income handicapped people</li> </ul>
08	<p><b>Sport at School</b> (Esporte na Escola)</p> <p><b>Budget in 2002:</b> R\$96.4 million</p>	<p><b>Purpose:</b> Encourage sporting activity among students at public primary and secondary schools</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• Provide sports infrastructure for 297 schools, benefiting 470,000 pupils in the public school network</li> <li>• Establish and maintain 1,346 sports units, benefiting 1.07 million pupils</li> </ul>
09	<p><b>Eradication of Child Labor</b> (Erradicação do Trabalho Infantil)</p> <p><b>Budget in 2002:</b> R\$480.3 million</p>	<p><b>Purpose:</b> Provide school grants (Bolsa Escola) and inspection to eradicate child labor</p> <p><b>Target:</b></p> <ul style="list-style-type: none"> <li>• Eradicate child labor among 860,000 children aged seven to 14</li> </ul>

10	<p><b>Basic Sanitation</b> (Saneamento Básico)</p> <p><b>Budget in 2002:</b> R\$1.5 billion</p>	<p><b>Purpose:</b> Provide water, sewerage and garbage collection in towns of fewer than 30,000 inhabitants</p> <p><b>Target:</b></p> <ul style="list-style-type: none"> <li>• Provide three million low-income families with water, sewerage and refuse collection services</li> </ul>
11	<p><b>Sanitation is Life</b> (Saneamento é Vida)</p> <p><b>Budget in 2002:</b> R\$870.9 million</p>	<p><b>Purpose:</b> To provide water, sewerage and garbage collection in municipalities with populations of more than 75,000 inhabitants</p> <p><b>Target:</b></p> <ul style="list-style-type: none"> <li>• Provide 1.2 million families with water, sewerage and garbage collection services</li> </ul>
12	<p><b>Better Living</b> (Morar Melhor)</p> <p><b>Budget in 2002:</b> R\$520.7 million</p>	<p><b>Purpose:</b> Provide housing, basic sanitation and urban infrastructure for people earning up to three times the minimum monthly wage, in 100 municipalities with populations under 75,000</p> <p><b>Target:</b></p> <ul style="list-style-type: none"> <li>• Supply 1.8 million families with housing, urban infrastructure, water supply, sewerage and garbage collection</li> </ul>
13	<p><b>Our Neighborhood</b> (Nosso Bairro)</p> <p><b>Budget in 2002:</b> R\$649.6 million</p>	<p><b>Purpose:</b> Provide housing, sanitation and urban infrastructure for families living in situations of social exclusion</p> <p><b>Target:</b></p> <ul style="list-style-type: none"> <li>• Supply 445,000 families with urban infrastructure, habitation and basic sanitation</li> </ul>
14	<p><b>Letter of Credit</b> (Carta de Crédito)</p> <p><b>Budget in 2002:</b> R\$3.3 billion</p>	<p><b>Purpose:</b> Provide habitation for families with income up to 20 times the minimum monthly wage</p> <p><b>Target:</b></p> <ul style="list-style-type: none"> <li>• Finance purchases or improvements for 470,000 habitations</li> </ul>

15	<p><b>Development of Micro, Small and Medium Sized Companies</b> (Desenvolvimento de Micro, Pequenas e Médias Empresas)</p> <p><b>Budget in 2002:</b> R\$12.3 billion</p>	<p><b>Purpose:</b> Create and preserve jobs at micro, small and medium sized companies via technical support, training and credit.</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• 1.8 million credit operations</li> <li>• 189 arts and crafts centers</li> <li>• Train 149 instructors in management of micro, small and medium sized companies</li> <li>• Support 30 infrastructure projects for the creation of micro, small and medium sized companies</li> </ul>
16	<p><b>Professional Training for Workers</b> (Qualificação Profissional do Trabalhador)</p> <p><b>Budget in 2002:</b> R\$300 million</p>	<p><b>Purpose:</b> Provide training to increase the employability, productivity and earnings of working people</p> <p><b>Target:</b></p> <ul style="list-style-type: none"> <li>• Provide training or retraining for 12 million workers in the period 2000 to 2002</li> </ul>
17	<p><b>Family Agriculture</b> (Agricultura Familiar - Pronaf)</p> <p><b>Budget in 2002:</b> R\$4.3 billion</p>	<p><b>Purpose:</b> Develop family agriculture</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• Provide a total of 1.6 million credit contracts for farming families</li> <li>• Provide infrastructure and support services for sustainable development in 1,550 municipalities</li> </ul>
18	<p><b>Agrarian Reform</b> (Reforma Agrária)</p> <p><b>Budget in 2002:</b> R\$1.1 billion</p>	<p><b>Purpose:</b> Provide land for rural workers and consolidate the position of those families already settled</p> <p><b>Target:</b></p> <ul style="list-style-type: none"> <li>• Provide land for 200,000 families of rural workers</li> </ul>

19	<p><b>Energy for Rural Populations</b> (Energia para as Populações Rurais)</p> <p><b>Budget in 2002:</b> R\$642 million</p>	<p><b>Purpose:</b> Provide electricity for rural areas and small isolated communities</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• Install power lines in rural areas to supply one million rural properties and habitations, benefiting five million people</li> <li>• Supply alternative electrical energy sources to 16,000 isolated communities not served by conventional electricity grids</li> </ul>
20	<p><b>Development of Tourist Infrastructure in the Northeast</b> (Desenvolvimento da Infra-Estrutura Turística no Nordeste - Prodetur II)</p> <p><b>Budget in 2002:</b> R\$400.2 million</p>	<p><b>Purpose:</b> Development of tourism in the Northeast</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• Increase to 10% the participation of tourism in the GDP of the Northeast</li> <li>• Establish 13 centers for the integrated development of tourism</li> </ul>
21	<p><b>Preservation of Brazil's Historic Heritage</b> (Monumenta - Preservação do Patrimônio Histórico)</p> <p><b>Budget in 2002:</b> R\$22.1 million</p>	<p><b>Purpose:</b> Revitalization of Brazil's cultural heritage in urban centers and archeological sites</p> <p><b>Target:</b></p> <ul style="list-style-type: none"> <li>• Revitalize the main historic urban areas of 27 municipalities</li> </ul>
22	<p><b>Safety and Quality of Food</b> (Segurança e Qualidade dos Alimentos)</p> <p><b>Budget in 2002:</b> R\$88.3 million</p>	<p><b>Purpose:</b> Provide quality foodstuffs for domestic and export markets</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• Reduce by 40% the incidence of irregularities in foodstuffs and beverages</li> <li>• Reduce from 21% to 12% the incidence of irregularities found in all inspections of foodstuffs and beverages</li> <li>• Increase from 3,935 to 4,220 the number of establishments subject to sanitary inspection</li> <li>• Increase from 25 to 400 the number of establishments using the system for analysis of dangers and critical control points</li> </ul>

23	<p><b>Public Safety</b> (Segurança Pública)</p> <p><b>Budget in 2002:</b> R\$795.7 million</p>	<p><b>Purpose:</b> Reduce the incidence of violence and criminality</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• Reduce by 30% through 2003 the shortfall of places in the penitentiary system</li> <li>• Re-equip state police forces by 2002</li> <li>• Re-equip by 2003 all units of the Federal Police to fight organized crime</li> <li>• Train and equip 45,000 community leaders to combat violence, by 2002</li> <li>• Conclude implementation of the Penitentiaries Information System, connecting the country's 860 penitentiaries to the Justice Ministry</li> </ul>
24	<p><b>Urban Passenger Rail Transport</b> (Transporte Ferroviário Urbano de Passageiros)</p> <p><b>Budget in 2002:</b> R\$483.2 million</p>	<p><b>Purpose:</b> Improve the quality of life in metropolitan regions</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• Complete between 2001 and 2006 eight stretches of railroad in various states</li> <li>• Maintenance and operation of the Passenger Railway Transport System</li> </ul>
25	<p><b>Pantanal</b></p> <p><b>Budget in 2002:</b> R\$41 million</p>	<p><b>Purpose:</b> Provide sanitation, environmental preservation and stimulus for economic activities for the conservation and sustainable development of the Pantanal wetlands in Western Brazil</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• Increase to 70% the proportion of families living in the Pantanal who have basic sanitation</li> <li>• Increase from 0.6% to 4% the rate of conservation of ecosystems in the Pantanal</li> </ul>
26	<p><b>Brazilian Parks</b> (Parques do Brasil)</p> <p><b>Budget in 2002:</b> R\$132.7 million</p>	<p><b>Purpose:</b> Ensure the conservation and sustainable management of environmental protection and conservation areas</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• Prepare 44 national parks for public visitation by 2002</li> <li>• Ensure the sustainable use of an average of 12% of the area of Brazil's biomass by 2003</li> <li>• Ensure the complete protection of an average of 5% of the area of Brazil's biomass by 2003</li> </ul>

27	<p><b>Prevention and Combat of Deforestation, Clearance Burning, and Forest Fires</b> (Prevenção e Combate a Desmatamentos, Queimadas e Incêndios Florestais)</p> <p><b>Budget in 2002:</b> R\$31.6 million</p>	<p><b>Purpose:</b> Protect the nation's forests</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• Reduce by 38% the rate of deforestation in the Amazon</li> <li>• Bring under supervision 100% of the nation's forests</li> </ul>
28	<p><b>Information Society - Internet II</b> (Sociedade da Informação - Internet II)</p> <p><b>Budget in 2002:</b> R\$885 million</p>	<p><b>Purpose:</b> Promote modern information and communications infrastructure and develop goods and services in information technology and automation</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• Implement RNP2, an advanced computer network infrastructure, to support research and consolidation of new teaching methods, especially in distance learning</li> <li>• Increase by 50% private sector investment in research and development of information technology</li> <li>• Increase exports of software to R\$400 million a year</li> <li>• Increase the number of domains registered on the Internet to 350,000</li> </ul>
29	<p><b>Biotechnology and Genetic Resources - Genoma</b> (Biotecnologia e Recursos Genéticos - Genoma)</p> <p><b>Budget in 2002:</b> R\$64.5 million</p>	<p><b>Purpose:</b> Develop domestic expertise in genetic resources and in biotechnological products for industry, agriculture and health</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• Increase by 30% the number of technology-based companies</li> <li>• Increase by 30% the number of biological products and processes created in Brazil</li> <li>• Complete the genetic sequencing of one more organism via a network of 25 participating laboratories in Brazil</li> </ul>

30	<p><b>Recuperation of the São Francisco River</b> (Revitalização do São Francisco)</p> <p><b>Budget in 2002:</b> R\$45.5million</p>	<p><b>Purpose:</b> Improve environmental conditions of the River São Francisco, its tributaries and related river systems</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• Reverse the process of degradation and destruction of springs and catchment areas in the São Francisco basin</li> <li>• Reduce the rate of silting in the São Francisco river-bed</li> <li>• Preservation of water quality in the São Francisco basin</li> <li>• Implement a system of water resource management in the São Francisco basin</li> </ul>
31	<p><b>Prowater Infrastructure</b> (Proágua Infra-estrutura)</p> <p><b>Budget in 2002:</b> R\$355.5 million</p>	<p><b>Purpose:</b> Conclude the construction of dams, weirs and water mains to increase the supply of good quality water in the North East</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• Conclude the following works by 2002: Jenipapo Reservoir, Salinas Reservoir, Acauã Aqueduct, Agreste Alagoano Aqueduct, Alto Sertão Aqueduct, Cariri Aqueduct, Western Aqueduct, Jucazinho Aqueduct, Acauã Dam, Berizal Dam, Castanhão Dam, Congonhas Dam, Poço de Marruá Dam, Mucutu Dam, Pedra Redonda Dam, Santa Cruz do Apodi Dam, Umari Dam, Sertão Alagoano Canal, Pão-de-Açúcar Project - Olhos D'Água das Flores, Propertins Project, Pajeú Aqueduct System and Águas Vermelhas System</li> <li>• Complete 80% of works in the Prowater Semi-Arid Project in Rio Grande do Norte</li> <li>• Provide water supply and sewerage systems in public schools</li> </ul>
32	<p><b>Irrigation and Drainage</b> (Irrigação e Drenagem)</p> <p><b>Budget in 2002:</b> R\$155.8 million</p>	<p><b>Purpose:</b> Increase the supply of irrigated farm produce for domestic and export markets</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• Complete the following irrigation projects: Baixio do Irecê, Baixio Acaraú, Canal Serra da Batateira, Pontal Norte/Sul, Flores de Goiás, Iuiú, Jacaré - Curitiba, Luiz Alves do Araguaia, Marituba, Mesa de Pedra, Pindorama, Platôs de Guadalupe, Salangô, Salitre, Santa Terezinha, Tabuleiros de Russas, Tabuleiros Litorâneos, Três Barras and Várzeas de Sousa</li> </ul>

33	<p><b>Northern Frontier Corridor</b> (Corredor Fronteira Norte)</p> <p><b>Budget in 2002:</b> R\$157 million</p>	<p><b>Purpose:</b> Integrate Brazil with countries on its northern frontier</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• Complete the paving of highways BR-401/RR (Boa Vista to the frontier with Guyana, including the international bridge); BR-156/AP (Ferreira Gomes to Oiapoque, 453 km); BR-364/AC (Sena Madureira to Rio Liberdade) and BR-317/AC (Brasiléia to Assis Brasil)</li> <li>• Construct the following stretches of highway: BR-317/AC - Rio Branco to the Acre/Amazonas border and BR-317/AM - Boca do Acre to the Amazonas/Acre border</li> <li>• Construct the Rio Branco beltway, BR-364/AC</li> </ul>
34	<p><b>West-North Corridor</b> (Corredor Oeste-Norte)</p> <p><b>Budget in 2002:</b> R\$173.3 million</p>	<p><b>Purpose:</b> Reduce cargo transport costs in the states of Amazonas, Pará, Rondônia and Mato Grosso</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• Conclude in 2003 the paving of highways BR-230/PA (Marabá to Altamira), BR-230/AM (Humaitá to Lábrea) and BR-364 (Sapezal to Comodoro)</li> <li>• Increase the paved section of highway BR-163 (Mato Grosso border to Santarém)</li> </ul>
35	<p><b>São Francisco Corridor</b> (Corredor São Francisco)</p> <p><b>Budget in 2002:</b> R\$38.2 million</p>	<p><b>Purpose:</b> Reduce transport costs in the Northeast</p> <p><b>Target:</b></p> <ul style="list-style-type: none"> <li>• Complete the São Francisco Waterway and paving of highway BR-116/BA (Euclides da Cunha to Ibó)</li> </ul>
36	<p><b>Northeast Corridor</b> (Corredor Nordeste)</p> <p><b>Budget in 2002:</b> R\$217.9 million</p>	<p><b>Purpose:</b> Reduce transport costs in the Northeast</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• Complete through 2002 the widening of highways BR-232/PE (Recife to Caruaru) and BR-116/CE (Fortaleza to Pacajus)</li> <li>• Complete through 2003 the widening of highways BR-101/RN/PB/PE/AL/SE (Natal to the Sergipe/Bahia border) and BR-230/PB (João Pessoa to Campina Grande)</li> </ul>

37	<p><b>South West Corridor</b> (Corredor Sudoeste)</p> <p><b>Budget in 2002:</b> R\$9.2 million</p>	<p><b>Purpose:</b> Reduce transport costs in the states of Mato Grosso, Mato Grosso do Sul and Goiás</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• Complete paving highways BR-070/MT (Cáceres to the Bolivian frontier) and BR-267/MS (Jardim to Porto Murtinho)</li> <li>• Complete construction work on the Ferronorte railroad from Alto Taquari to Rondonópolis, 294 km</li> </ul>
38	<p><b>Araguaia-Tocantins Corridor</b> (Corredor Araguaia-Tocantins)</p> <p><b>Budget in 2002:</b> R\$222.9 million</p>	<p><b>Purpose:</b> Reduce the cost of cargo transport in the states of Pará, Tocantins, Maranhão, Mato Grosso and Goiás</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• Complete the following works: Araguaia-Tocantins Waterway; Ilha do Marajó Waterway; Port of Alcântara; North-South Railway (280 km section from Palmeiras do Tocantins to Açailândia); the Capim Waterway; and construction of Lock I and intermediate canal at the Tucuruí dam.</li> </ul>
39	<p><b>Widening and Flow Division of the Highway from Brasília to the São Paulo/Mato Grosso Border</b> (Duplicação da Rodovia Brasília- Divisa SP/MG)</p> <p><b>Budget in 2002:</b> R\$134.6 million</p>	<p><b>Purpose:</b> Reduce the cost of transport in the state of Goiás</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• Complete in 2002 the widening and flow division of highways BR-060/DF (Federal District to the border with Goiás), BR-060/GO (Federal District/Goiás border to the junction with the BR-153) and BR-050/MG from the Goiás/Mato Grosso border to the São Paulo/Mato Grosso border</li> <li>• Complete in 2003 the widening and flow division of highways BR-153/GO (Aparecida de Goiânia to Itumbiara) and BR-153/MG (Goiás/Mato Grosso border to the junction with the BR-365)</li> </ul>
40	<p><b>Widening and Flow Division of the Fernão Dias Highway</b> (Duplicação da Rodovia Fernão Dias)</p> <p><b>Budget in 2002:</b> R\$118.9 million</p>	<p><b>Purpose:</b> Reduce the cost of transport to stimulate economic activity along the São Paulo - Belo Horizonte corridor</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• Complete the widening and flow division of highway BR-381/SP (Minas Gerais/São Paulo border to the junction with the BR-116)</li> <li>• Complete the following works in 2002: widening and flow division of the BR-381/MG highway (São Paulo/ Minas Gerais border to Belo Horizonte); improvement of the BR-381/MG beltway around Belo Horizonte</li> </ul>

41	<p><b>Transmetropolitan Corridor</b> (Corredor Transmetropolitano)</p> <p><b>Budget in 2002:</b> R\$117.7 million</p>	<p><b>Purpose:</b> Improve the quality of life in the metropolitan region of São Paulo and reduce the cost of cargo transport in the South and South East regions</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• Complete the following works in 2002: São Paulo (Mario Covas) Beltway (Western Section); widening and flow division of BR-116/SP highway (São Paulo to the São Paulo/Paraná border)</li> <li>• Complete in 2003 the highway to the port of Sepetiba (Eastern Corridor)</li> </ul>
42	<p><b>Mercosul Corridor</b> (Corredor Mercosul)</p> <p><b>Budget in 2002:</b> R\$207.8 million</p>	<p><b>Purpose:</b> Promote physical integration of the Mercosul countries</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• Complete the following works in 2002: widening of the BR-116/PR highway (São Paulo/Paraná border to Km 42.7); widening of BR-116 highway network Curitiba/east; construction of highway link between east and west sides of Curitiba; and widening of highway BR-101/376/SC (Paraná/Santa Catarina border to Palhoça)</li> <li>• Complete the following works in 2003: 40% of the widening and flow division of highway BR-101 (Palhoça in Santa Catarina to Osório in Rio Grande do Sul); paving of the BR-282 highway (Florianópolis to the Argentine frontier); and improvements to the port of Rio Grande</li> </ul>
43	<p><b>Maintenance and Restoration of Highways</b> (Manutenção e Restauração de Rodovias)</p> <p><b>Budget in 2002:</b> R\$586.4 million</p>	<p><b>Purpose:</b> Restore good traffic conditions on federal highways</p> <p><b>Target:</b></p> <ul style="list-style-type: none"> <li>• Restore 16,000 km of federal highways</li> </ul>

45	<p><b>Supply of Petroleum and Natural Gas</b> (Oferta de Petróleo e Gás natural)</p> <p><b>Budget in 2002:</b> R\$16.5 billion (investment)</p>	<p><b>Purpose:</b> Increase domestic production of oil and natural gas</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• Average daily production of 1.49 million barrels of petroleum</li> <li>• Average daily production of 45.4 million cubic meters of natural gas</li> </ul>
46	<p><b>Gas Pipelines</b> (Gasodutos)</p> <p><b>Budget in 2002:</b> R\$590.6 million</p>	<p><b>Purpose:</b> Expand transport infrastructure for natural gas</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• Complete in 2002 the Uruguiana - Porto Alegre pipeline</li> <li>• Complete in 2003 the Urucu - Porto Velho pipeline</li> </ul>
44	<p><b>Airports</b> (Aeroportos)</p> <p><b>Budget in 2002:</b> R\$186.5 million</p>	<p><b>Purpose:</b> Increase the capacity and efficiency of Brazil's airport infrastructure</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• Complete in 2002 construction and expansion works at airports in Salvador, Recife and Porto Velho</li> <li>• Complete in 2003 construction and expansion work at the airport in Maceió</li> </ul>

47	<p><b>Thermoelectric Generation</b> (Geração Termelétrica)</p> <p><b>Budget in 2002:</b> R\$5.6 billion</p>	<p><b>Purpose:</b> Increase capacity for thermoelectric power generation by 12,083 MW</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• Complete the following power stations in 2002: UTE Bongí - Repotenciação (Pernambuco) 150 MW; UTE Camaçari - Repotenciação (Camaçari, Bahia) 300 MW; UTE Cubatão/CCBS (Cubatão, São Paulo) 440 MW; UTE Duke Energy (Pederneiras, São Paulo) 480 MW; UTE Eletrobrás (Macaé, Rio de Janeiro - backup for the Angra dos Reis nuclear power station) 500 MW; UTE Santa Cruz- Phase I (expansion) (Rio de Janeiro) 320 MW; UTE Termoalagoas (Messias, Alagoas) 120 MW; UTE Termonorte (Porto Velho, Rondônia) 345 MW; UTE Coteminas (São Gonçalo Amarante, Rio Grande do Norte) 90 MW; UTE Termo Ceará (MPX) (Pecém-Caucaia, Ceará) 270 MW; UTE Termosergipe - Phase I (Carmópolis/Jarapatuba, Sergipe) 90 MW; UTE Arjona (expansion) (Campo Grande, Mato Grosso do Sul) 80 MW; and UTE Campos (expansion) (Campos, Rio de Janeiro) 80 MW</li> </ul> <p>Complete the following power stations in 2003: UTE Araucária (Araucária, Paraná) 480 MW; UTE Arjona (Campo Grande, Mato Grosso do Sul) 120 MW; UTE REFAP (Canoas, Rio Grande do Sul) 500 MW; UTE Corumbá (Corumbá, Mato Grosso do Sul) 90 MW; UTE Eletrobolt (Seropédica, Rio de Janeiro) 350 MW; UTE FAFEN (Camaçari, Bahia) 56 MW; UTE Ibitité (Ibitité, Minas Gerais) 690 MW; UTE Juiz de Fora (Juiz de Fora, Minas Gerais) 103 MW; UTE Macaé Merchant (Macaé, Rio de Janeiro) 870 MW; UTE Piratininga (São Paulo) 600 MW; UTE Rio Gen (Seropédica, Rio de Janeiro) 500 MW; UTE Termobahia (São Francisco do Conde, Bahia) 450 MW; UTE Termopernambuco (Suape-Ipojuca, Pernambuco) 500 MW; UTE Termorio (Duque de Caxias, Rio de Janeiro) 1,036 MW; UTE Três Lagoas (Três Lagoas, Mato Grosso do Sul) 240 MW; UTE Fortaleza-Dunas (Pecém-Caucaia, Ceará) 307 MW; UTE Termoaçú (Açu, Rio Grande do Norte) 325 MW; UTE Norte Capixaba (Linhares, Espírito Santo) 250 MW; UTE Norte Fluminense (Macaé, Rio de Janeiro) 778 MW; UTE São Gonçalo (reactivation) (São Gonçalo, Rio de Janeiro) 193 MW; and UTE Termocat-arinense Norte (Joinville, Santa Catarina) 350 MW</p>
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48	<p><b>Hydroelectric Generation</b> (Geração Hidrelétrica)</p> <p><b>Budget in 2002:</b> R\$1.9 billion</p>	<p><b>Purpose:</b> Increase capacity for hydroelectric power generation by 5,643 MW in 2002 and by 2,501 MW in 2003; total capacity increase of 12,712 MW on completion of the listed power stations</p> <p><b>Targets:</b> Complete the following power stations: UHE Cana Brava (Goiás) 471.6 MW; UHE Candonga (Minas Gerais) 140 MW; UHE Dona Francisca (Rio Grande do Sul) 126 MW; UHE Funil Grande (Minas Gerais) 180 MW; UHE Guaporé (Mato Grosso) 120 MW; UHE Itá (Santa Catarina) 1,450 MW; UHE Itaipu (Paraná) 1,400 MW; UHE Itapebi (Bahia/Minas Gerais) 450 MW; UHE Itiquira I and II (Mato Grosso) 156 MW; UHE Jauru (Mato Grosso) 117.9 MW; UHE Lajeado (Tocantins) 850 MW; UHE Machadinho (Rio Grande do Sul) 1,140 MW; UHE Manso (Mato Grosso) 159 MW; UHE Ourinhos (São Paulo/Paraná) 44 MW; UHE Piraju (São Paulo) 80 MW; UHE Porto Estrela (Minas Gerais) 112 MW; UHE Porto Primavera (São Paulo) 1,814.4 MW; UHE Quebra Queixo (Santa Catarina) 120 MW; UHE Queimado (Goiás/Minas Gerais) 105 MW; UHE Santa Clara (Minas Gerais) 60 MW and UHE Tucuruí (Pará) - Stage II 4,125 MW</p>
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49	<p><b>Transmission Lines</b> (Linhas de Transmissão)</p> <p><b>Budget in 2002:</b> R\$930.4 million</p>	<p><b>Purpose:</b> Complete 7,317 km of transmission lines</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• Complete the following transmission systems in 2002: Campos Novos/Blumenau - 500 kV, 253 km (Santa Catarina); Itá/Caxias - 525 kV, 252 km (Rio Grande do Sul); Itaipu/São Paulo - 765 kV (Paraná/São Paulo); Jiparaná/Pimenta Bueno/Vilhena - 230 kV, 279 km (Rondônia); Lajeado/Miracema - 500 kV, 30 km (Tocantins) and Porto Velho/Abunã/Rio Branco - 230 kV, 494 km (Rondônia/Acre)</li> </ul> <p>Complete through 2003 the following transmission systems included in the Electrical Energy Strategic Emergency Program (Programa Estratégico Emergencial de Energia Elétrica): Cachoeira Paulista/Adrianópolis III, 500 kV, 178 km (São Paulo/Rio de Janeiro); Coxipó/Jauru - 230 kV, 360 km (Mato Grosso); Batéias-Ibiuna (Curitiba-São Paulo) 500 kV, 332 km (Paraná/São Paulo); North-South II (Samambaia/Itumbiara and Samambaia/Emborcação) - 500 kV, 280 km (Federal District/Goiás/Minas Gerais); North-South II (Imperatriz/Miracema/Serra da Mesa/Samambaia) - 500 kV, 1,278 km (Maranhão/Tocantins/Goiás/Federal District); Ouro Preto 2 - Vitória - 345 kV - 370 km (Minas Gerais/Espirito Santo); Presidente Dutra/Peritoró - 230 kV, 120 km (Maranhão); Presidente Dutra/Teresina II - 500 kV, 208 km (Maranhão/Piauí); Serra da Mesa/Bom Jesus da Lapa/Governador Mangabeira (Interconnection Sergipe/North East) - 500 kV, 1,050 km (Goiás/Bahia); Taquaruçu/Assis/Sumaré - 440 kV, 505.3 km (São Paulo); Tijuco Preto/Baixada III - 345 kV, 2,611 km (São Paulo); Tucuruí-Presidente Dutra - 500 kV, 924 km (Pará/Maranhão) and Tucuruí-Ilha do Conde (circuit 2) 500 kV, 223 km (Pará)</p>
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50	<p><b>Telecommunities</b> (Telecomunidades)</p> <p><b>Budget in 2002:</b> R\$1 billion</p>	<p><b>Purpose:</b> Provide telecommunications services in hospitals, libraries, schools and in all locations with fewer than 100 inhabitants</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• Provide 49,000 telephone links in public schools and libraries</li> <li>• Provide 72,000 telephone links in public health establishments</li> <li>• Install computers and Internet access in 13,227 public Secondary Schools</li> </ul>
51	<p><b>Decentralization of Federal Highways</b> (Descentralização de rodovias federais)</p> <p><b>Budget in 2002:</b> R\$3.9 million</p>	<p><b>Purpose:</b> Transfer sections of federal highways to private sector concessions or to state administrations</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• Carry out studies for tender procedures for new concessions, covering a total of 5,182.8 km</li> <li>• Carry out feasibility studies for concessions of sections totaling 1,102.6 km</li> <li>• Management of sections under concession from the National Highways Department (DNER) - 1,680.1 km contracted and 2,718.1 in process of tender</li> <li>• Monitoring of concession administered by state governments - 3,007.5 km contracted and 635 km in negotiation</li> </ul>
52	<p><b>Management of Transportation Policy</b> (Gestão da Política de Transportes)</p> <p><b>Budget in 2002:</b> R\$40.4 million</p>	<p><b>Purpose:</b> Planning, evaluation and control of transportation programs</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• Carry out studies for technical development of highway engineering</li> <li>• Carry out studies on environmental impact and develop highway projects</li> <li>• Carry out studies for highway planning</li> </ul>

53	<p><b>Community in Action</b> (Comunidade Ativa)</p> <p><b>Budget in 2002:</b> R\$64.9 million</p>	<p><b>Purpose:</b> Promote social development by encouraging local integrated sustainable development, coordinating government activities and acting in partnership with civil society</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• Implement local integrated sustainable development programs in 1,000 low-income localities</li> </ul>
54	<p><b>Tourism: Industry of the New Millennium</b> (Turismo: a Indústria do Novo Milênio)</p> <p><b>Budget in 2002:</b> R\$19.6 million</p>	<p><b>Purpose:</b> Increase the volume, length of stay, and spending of tourists in Brazil</p> <p><b>Targets:</b></p> <ul style="list-style-type: none"> <li>• Increase to 6.5 million the inflow of foreign tourists</li> <li>• Increase to 57 million the number of domestic tourists</li> <li>• Increase to US\$5.5 billion foreign currency earnings from tourism</li> <li>• Generate 500,000 new jobs</li> </ul>

Source: Ministry of Planning, Budget and Management

## Water and irrigated land for the Northeast

In Northeastern Brazil, the principal obstacle to development is recurrent drought. The Federal Government has launched the largest program of recent years for construction of dams, reservoirs, aqueducts, and land irrigation projects.

- Reservoir capacity has been increased by 10 billion liters, and the region has 78,000 hectares of additional irrigated agricultural land, according to numbers presented by President Fernando Henrique Cardoso during a meeting with ministers on February 6<sup>th</sup>, 2002.
- Many of the Northeast works have been completed, and an important part were due to be concluded in 2002. The various initiatives are grouped in the Proágua Program. The region of Minas Gerais state that lies within the drought polygon has been included in the program.
- The projects will help to resolve the centuries-old drama of lack of water that impacts the semi-arid region, where inadequate and/or palliative solutions have been repeated from government to government. These investments can help the Northeast reverse its age-old drama. The reservoirs so far constructed are inadequate to meet the needs of the long-suffering population.
- In the past, billion of reals of public money were spent, at best reducing the effects of the drought. Millions of lives have been lost in a region condemned to backwardness, misery and the constant loss of its inhabitants to other parts of Brazil.
- The following table shows the principal reservoirs and dams built in recent years under the Proágua Infrastructure Program, either completed or still under construction, divided state by state. These works received R\$325.9 million in 2001.

## *Dams and reservoirs inaugurated or under construction*

<b>Name</b>	<b>Situation</b>
<b>Piauí</b>	
Dam - Castelo	Conclusion: 2003
Reservoir - Jenipapo	Inaugurated 2001
Reservoir - Salinas	Inaugurated 2001
Dam - Poço Marruá	Conclusion: Dec/03
Dam - Pedra Redonda	Inaugurated 2001
Aqueduct - Garrincho	Under study
<b>Ceará</b>	
Aqueduct - Tauá	Inaugurated 1999
Aqueduct - Cascavel	Inaugurated 1999
Aqueduct - Iguatu	Conclusion: May/02
Aqueduct - São Gonçalo do Amarante/Umarituba	Conclusion: Aug/02
Dam - Castanhão	Conclusion: 2003
Aqueduct - Lima Campos/Icó	Conclusion: Aug/02
Aqueduct - Acarape	Conclusion: May/02
Aqueduct - Baturité/Aracoiaba	Conclusion: Aug/02
Aqueduct - Chaval/Barroquinha	Conclusion: Sept/02
Rio Grande Norte	
Aqueduct - Piranhas/Açu	Inaugurated 2001
Aqueduct - Potengi	Inaugurated 2001
Aqueduct - Trairi	Inaugurated 2000
Aqueduct - Sertão Central - Cabugi	Inaugurated 2000
Aqueduct - Mossoró	Inaugurated 2000
Dam - Santa Cruz do Apodi	Inaugurated 2002
Dam - Umari	Inaugurated Mar/02
Aqueduct system - Serra do Santana	Conclusion: 2003
<b>Paraíba</b>	
Dam - Acauã	Inaugurated 2002
Aqueduct - Cariri	Inaugurated April/02
Dam - Mucutu	Inaugurated 2002
Aqueduct system - Congo	Conclusion: Dec/02
Dam - Camará	Inaugurated 2001

<b>Pernambuco</b>	
Aqueduct - West	Constructed to Ouricuri
Aqueduct - Jucazinho	Conclusion: Dec/02
Aqueduct system - Afrânio - Dormentes	Conclusion: Dec/02
Aqueduct - Arcoverde	Inaugurated 2001
Aqueduct - Afogados da Ingazeira	Conclusion: Dec/02
Aqueduct - Luiz Gonzaga	Conclusion: Dec/02
<b>Alagoas</b>	
Aqueduct - Agreste Alagoano	Conclusion: Dec/02
Pão-de-Açúcar - Olhos D'Água das Flores	Conclusion: Dec/02
Aqueduct - Alto Sertão	Completed
Aqueduct - Estrela de Alagoas	Conclusion: Sept/02
<b>Sergipe</b>	
Aqueduct system - Agreste	Conclusion: Oct/02
Aqueduct system - Piauitinga	Conclusion: Dec/02
<b>Bahia</b>	
Dam - Zabumbão	Inaugurated 2000
Aqueduct - Amélia Rodrigues/Conc. Jacuípe	Inaugurated 2000
Aqueduct - Feijão - 2 <sup>nd</sup> stage	Inaugurated 2000
Aqueduct - Piritiba/Mundo Novo	Inaugurated 2000
Aqueduct system - Padrão Central	Conclusion: Sept/02
<b>Maranhão</b>	
Aqueduct - Italuís	Conclusion: 2004
<b>Minas Gerais</b>	
Dam - Congonhas	Conclusion: Dec/08
Dam - Berizal	Conclusion: 2003
System - Águas Vermelhas	Conclusion: Sept/02

Source: Ministry of National Integration

The following irrigation and drainage works were undertaken in 2001, consuming R\$210.8 million:

<b>Irrigation and drainage</b>	
Expand the supply of irrigated agricultural produce for the domestic and international markets	
R\$210,8 million (in 2001)	
Mesa de Pedra (Piauí)	
Salangô (Maranhão)	
Baixo Acaraú (Ceará)	
Jacaré-Curituba (Sergipe)	
Pindorama (AL)	
Tabuleiro de Russas (Ceará)	
Várzeas Sousa (Paraíba)	
Pão-de-Açúcar - Olhos D'Água das Flores (Alagoas)	
Marituba (Alagoas)	
Serra de Batateira (Bahia)	
Iuiú (Bahia)	
Baixio de Irecê (Bahia)	

Source: Ministry of National Integration

- The shortage of water in the Northeast led the Federal Government to seek World Bank financing of some US\$330 million for the period 1998-2002, to use in construction projects. Of this total, 81% is external and Brazil contributes 19%.
- These investments will benefit around 1.3 million people, or 260,000 families.
- There have been public initiatives to store water in reservoirs in the Northeast since the 19<sup>th</sup> Century, but only now has the federal Government adopted a policy that can effectively resolve the problem. The first major reservoir in the semi-arid Northeast was constructed during the reign of Dom Pedro II (1841-1889) and since then thousands more have been build, frequently the fruit of political cronyism and/or corruption.
- Innumerable small reservoirs were built without proper technical study by labor gangs hired under make-work programs to reduce social hardship during times of severe drought. Earth dams build under such circumstances were frequently swept away with the first heavy rains at the end of the drought. Such projects became known as "Alka-Seltzer reservoirs".

- The Northeast droughts are one of Brazil's principal problems in the area of water resources, together with river and sea pollution in and around major urban centers.
- The United Nations defines a region or country as being deficient in water when the average renewable availability is under 1,000 liters per inhabitant per year.
- According to this definition, the semi-arid Northeast region should not face the droughts that it does, given that the annual per capita water availability is around 1,500 cubic meters - comparable with that of Spain. The problem is that all the annual rainfall is concentrated into three or four months and varies greatly in volume from year to year. During the long droughts, which can last for years, the rivers dry up. It is for that reason that construction of reservoirs has been the main action aimed at allowing man to live in harmony with the recurrent droughts.



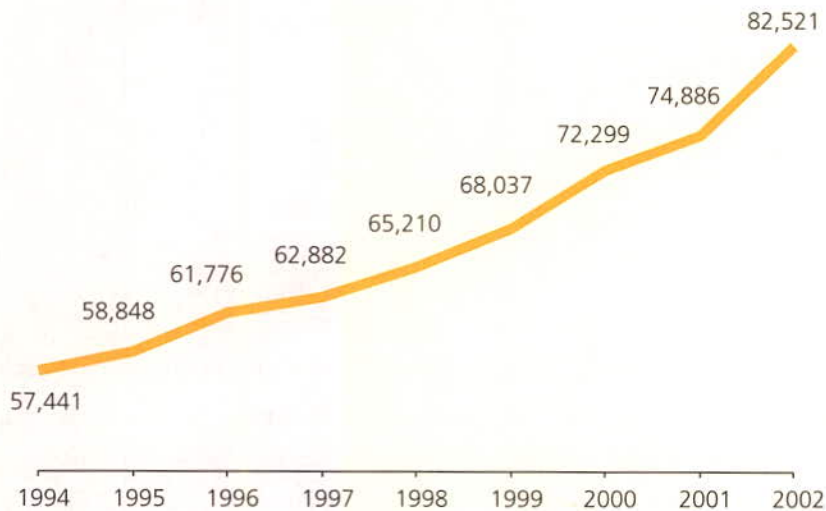
## 14. Energy: learning from the crisis

**A**T THE START OF 1995, THE BRAZILIAN ELECTRICITY SECTOR WAS NEARLY BANKRUPT, with stalled projects and a lack of investment. No less than 56 generation projects were on hold throughout the country. The predominant presence in this vital sector of the economy was the state. Tariffs were unrealistic, producing revenues insufficient to pay for and finance the expansion and improvement in the supply of energy to family consumers, and to companies. The Federal Government then started to make urgent changes with the goal of:

- Increasing the supply of energy by means of new investments, especially by the private sector;
- Increasing competition and ensuring the efficient supply of electricity;
- Improving the quality of service, with fair prices for the consumer; and
- Diversification of the sources of energy in the country, which relied heavily on hydroelectric power.

## **Electricity in Brazil** **Total installed generation capacity**

in MW, from 1994 to 2002



Source: Presidential Message to National Congress - 2002, and MME

- Installed domestic electricity generation capacity has risen from 57,441 MW in 1994 to 82,521 MW in 2002 (see figure), a jump of nearly 44%. This was a positive result, but even with the improvement, Brazilians faced the problem of rationing starting in the first half of 2001.
- The threat of devastating blackouts and the energy crisis in 2001 showed the existence of gaps and imperfections in the sector. The Energy Crisis Management Committee established measures to correct the problems and perfect the system. The country began to learn from the crisis and took lessons from the present for the future.
- In Brazil, 83.6% of all the energy consumed comes from hydroelectric generators. As a result, the worst drought in 40 years and the shortage of rainfall caused problems in the supply, which culminated in restrictions on domestic and industrial consumption.
- The current crisis resulted as well from the fact that the inter-regional generation

and transmission capacity became insufficient to attend the expansion in demand, especially after the stabilization of the currency and the strengthening of the Real.

- The need for rationing ended up serving as an alert for more careful energy use.
- The risk of an energy crisis was warded off by the extraordinary cooperation of Brazilian citizens in reducing consumption, by the acceleration of investments in generation and transmission and by the normalization of the rains after three exceptionally dry summers.
- Few times in Brazilian history were the notions of crisis and opportunity so closely tied as with the threat of crippling blackouts. Electric power investments between 2001 and 2003 look set to exceed US\$14 billion, representing a record for the sector.

## Country built 2.5 Itaipu Dams from 1995 to 2001

The electricity sector received substantial investments in the period 1995 - 2000, in the range of \$34 billion, a significant part of which came from the private sector. In all, some 16,000 MW in generation capacity was added.

- This represents the equivalent of building 2.5 power stations like the Itaipu Dam, whose current capacity is 6,300 MW on the Brazilian side.
- Alternatively, it is the equivalent of the four largest hydroelectric dams in operation: Itaipu (Brazilian side), Tucuruí, Ilha Solteira and Xingó.

### *Ranking of Brazilian hydro plants*

From 1995 to 2001, the Federal Government increased by 16,400 MW the total national generating capacity, equivalent to the four largest hydroelectric dams in the country

Power Plant	Municipalities and States	River	Capacity (kW)
1. Itaipu (parte Brasil)	Foz do Iguaçu (Paraná)	Paraná	6,300,000
2. Tucuruí	Tucuruí (Pará)	Tocantins	4,001,000
3. Ilha Solteira	Ilha Solteira (São Paulo)	Paraná	3,444,000
4. Xingó	Canindé de S. Francisco (Sergipe)	São Francisco	3,162,000
5. Paulo Afonso IV	Delmiro Gouveia (Sergipe)	São Francisco	2,462,400
6. Itumbiara	Itumbiara (Goiás)	Paranaíba	2,124,000
7. São Simão	Santa Vitória (Minas Gerais)	Parnaíba	1,710,000
8. Foz do Areia	Pinhão (Paraná)	Iguaçu	1,676,000
9. Jupia	Castilho (São Paulo)	Paraná	1,551,200
10. Itaparica	Glória (Bahia)	São Francisco	1,479,600

Source: "Brazilian Electric Energy Atlas" (Aneel)

- Of the projects which were stalled at the start of 1995, 15 were completed by 2000, adding the equivalent of 8.4 GW.
- From 1996 to 2001, there was an average annual increase in generating capacity of 2,830 MW/year, more than double that recorded between 1986 and 1995.
- The goals total installed generation capacity for 2001 and 2002 were 74,886 MW and 82,521 MW respectively. This corresponds to an increase of almost 44% over 1994.

## Hydroelectric dams built from 1995 to 2002

UF	Name	Generating capacity ( M W )			
		Total	Before 1995	Between 1995-2002*	After 2002*
PA	Tucuruí 2 <sup>nd</sup> phase	8,126.00	4,001.00	375.00	3,750
PR	Itaipu 60 HZ (Brazilian half)	7,000.00	6,300.00	700.00	
SE	Xingó	3,000.00	500.00	2,500.00	
SP	Porto Primavera	1,980.00	440.00	1,430.00	110.00
RS/SC	Itá	1,450.00		1,450.00	
GO	Serra da Mesa	1,293.00		1,293.00	
PR	Salto Caxias	1,240.00		1,240.00	
RS/SC	Machadinho	1,140.00		1,140.00	
BA	Sobradinho	1,050.00	875.00	175.00	
TO	Lajeado	902.50		902.50	
SC	Campos Novos	880.00			880.00
SP	Três Irmãos	807.50	323.00	484.50	
RS/SC	Barra Grande	690.00			690.00
SP	Taquaçuru	554.00	333.00	221.00	
MG	Nova Ponte	510.00	170.00	340.00	
GO	Cana Brava	471.60		471.60	
TO	Peixe Angical	452.00			452.00
BA	Itapebi	450.00		300.00	150.00
MG	Miranda	390.00		390.00	
GO	Corumbá	375.00		375.00	
MG	Irapé	360.00			360.00
MG	Aimorés	330.00			330.00
MG	Igarapava	210.00		210.00	
MT	Manso	210.00		210.00	
MG	Funil	180.00		60.00	120.00
MT/MS	Ponte de Pedra	176.10			176.10
MG	Guilman Amorim	140.04		140.04	
MG	Candongá	140.00			140.00
RS	Monte Claro	130.00			130.00
GO	Corumbá IV	127.00			127.00
RS	Dona Francisca	125.00		125.00	
MT	Guaporé	120.00		80.00	40.00
SC	Quebra Queixo	120.00			120.00
MT	Jauru	118.00		78.60	39.40
MG	Porto Estrela	112.00		112.00	
GO	Queimado	105.00			105.00
AP	Santo Antônio	100.00			100.00
MT	Itiquira II	95.20		95.20	

SP	Canoas I	82.50	82.50		
SP	Pirajú	80.00	80.00		
SP	Canoas II	72.00	72.00		
AP	Coaracy Nunes	67.98	40.00	27.98	
MT	Itiquira I	60.40	60.40		
MG	Sobragi	60.00	60.00		
MG/BA	Santa Clara	60.00	60.00		
SP	Santa Branca	56.05	56.05		
RJ	Rosal	55.00	55.00		
SP/PR	Ourinhos	44.00		44.00	
	Concluded before 1995	36,730.19	36,730.19		
Total		73,028.06	49,712.19	14,752.37	8,563.50

Independent Energy Producers excluded.

Source: MME - June 2002

- The “Avança Brasil” Program paid special attention to raising electrical energy capacity from projects nationwide. The forecast for the end of 2002 was for an increase of 14,350 MW.
- In the period 1995 to 2002, 14,752.4 MW of capacity was added to the hydroelectric generation complex, while another 8,563.5 MW are in construction. In 1995, there were 49,712.2 MW in operation. In eight years, the government of President Fernando Henrique Cardoso increased the hydroelectric complex by almost 30% and left a substantial increase for its successor.
- Among the new generators are Cana Brava on the Tocantins River, in the city of Minaçu, Goiás. President Cardoso inaugurated production of 157.2 MW on May 24, 2002. It was scheduled to reach 471.6 MW by July 2002, enough for a city of 1.4 million inhabitants.
- With total investment of \$420 million, the first phase of Cana Brava was built in the record time of 36 months at the request of the Federal Government because of the energy rationing. The Meridional Energy Company, a subsidiary of the Belgian/French company Tractebel, won the bid for the construction. The Brazilian Development Bank, or BNDES (Banco Nacional de Desenvolvimento Econômico e Social) financed 35% of the total. The project generated 4,000 direct jobs in the Minaçu region.

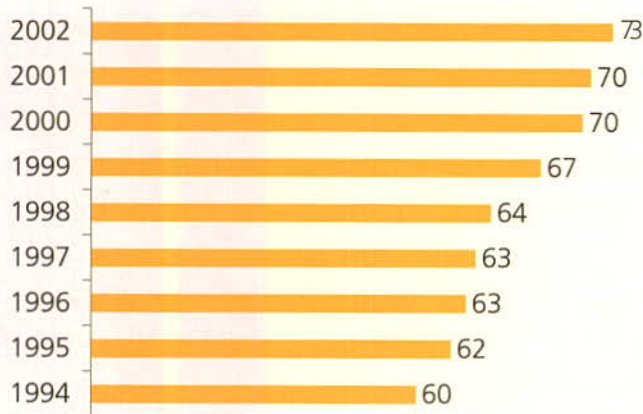
- Another notable generator project is the Luís Eduardo Magalhães (Lajeado) Dam, also on the Tocantins River between the cities of Miracema and Lajedo, in the state of Tocantins. The first generator started operating in 2001, ahead of time. The energy generated by this unit is larger than current consumption, which makes Tocantins self-sufficient in electricity.
- At its peak, the Lajeado generator was the largest construction project in Brazil. Besides creating 11,000 direct jobs and more than 20,000 indirect jobs, the installation of the power station is a model for compliance with environmental legislation.
- Another dam, the Engineer Sérgio Motta (Porto Primavera) station, will be the second largest in the state of São Paulo. Located on the Paraná River, its 10-km dam is the longest in Brazil.
- The first phase of filling the reservoir in Porto Primavera was finished in December 1998, and the second phase, in March 2001. The first three units of the generator were completed and started up in 1999. When finished, there will be 18 turbogenerators totaling 1,980 MW.
- Another notable new project was the Manso power station. This will ensure self-sufficiency in electricity for the state of Mato Grosso and regularize water flow on the Cuiabá River. Located in Chapada dos Guimarães, the power station was built in partnership with Furnas and the private consortium Proman. It has been fully operational since April 2001, with installed capacity of 210 MW.
- Among the projects from 1995 to 2002, are Tucuruí II (expansion of capacity in Pará state); Corumbá and Serra da Mesa (starting commercial operation with new equipment in Goiás state); Samuel (two more generator units in Rondônia) and Xingó (start-up of the last five generation units in Sergipe).

## Major transmission lines carry power to remote areas

The increase in the energy transmission network played a key role in bringing the benefits of electricity to remote cities and regions. In 1994, the country had 59,500 kilometers of power lines. In 2001, this amount was some 70,000 kilometers. So, between 1995 and 2001, the electricity transmission network was expanded by 10,500 kilometers, the equivalent of more than 2.5 times the distance between Oiapoque to Chuí, the extreme North and South end-points of Brazilian territory. For 2002, the forecast is to reach 71,300 km.

### Transmission system - expansion

(1,000 km)



Source: Aneel

- One of the major projects during the period was the North-South Electricity Transmission Line, which came on stream in December 1998. The North-South Line runs for 1,278 km between Imperatriz in Maranhão and Samambaia in the Federal District. The line allows energy to be switched between the North and Northeast and the other regions of the country.
- Until construction of the North-South Line, such a transfer was not possible since there was no link between the electricity systems involved. An average of 600 MW equivalent capacity was added to the national electricity system. The initiative represented an economic and social development stimulus for dozens of cities in the area of influence.
- The North-South Line also serves the power stations being built on the Tocantins River (Cana Brava, Luís Eduardo Magalhães, Peixe, Tupiratins and Serra Quebrada). The investment was R\$862 million.
- Also inaugurated in 1998, the Tramoeste Line serves an ambitious electricity project in Pará, beginning at the Tucuruí Hydroelectric Station.
- More than 600,000 residents of Pará today have reliable energy, without frequent interruption, thanks to the installation of 1,007 km of transmission lines. These benefit the populations of at least 12 cities, including Altamira, Vitória do Xingu, Rurópolis, Itaituba and Santarém, as well as 126 other localities. The lines cross the entire state. Itaituba has the tallest transmission tower, some 160 m, the equivalent of a 50-story building.

- The Guri-Boa Vista Electricity Transmission Line was an excellent experience in international partnership. Since August 2001, the international line from the Guri Hydroelectric Plant in Venezuela is supplying electricity to Boa Vista, the capital of Roraima state. The joint project between Eletronorte and Venezuela's Edelca made this possible. Boa Vista now has more reliable power and is capable of attracting more productive investment.
- The population and the businesses of the Northeast have benefited from four large systems of transmission lines, which involved direct investments of R\$1.5 billion. These are:
  - Xingó - Maceió - Recife (Alagoas/Pernambuco, with 395 km)
  - Recife - Campina Grande - Natal (Paraíba/Rio Grande do Norte, with 385 km)
  - Xingó - Aracaju - Salvador (Sergipe/Bahia, 409 km)
  - Presidente Dutra - Teresina - Sobral - Fortaleza (Piauí/Ceará, with 753 km).
- The "Avança Brasil" program designated as a priority the construction of more than 7,000 km of transmission lines, with an investment of R\$930 million in 2001 alone.

### ***Angra 2: Restarting the Project and Inauguration***

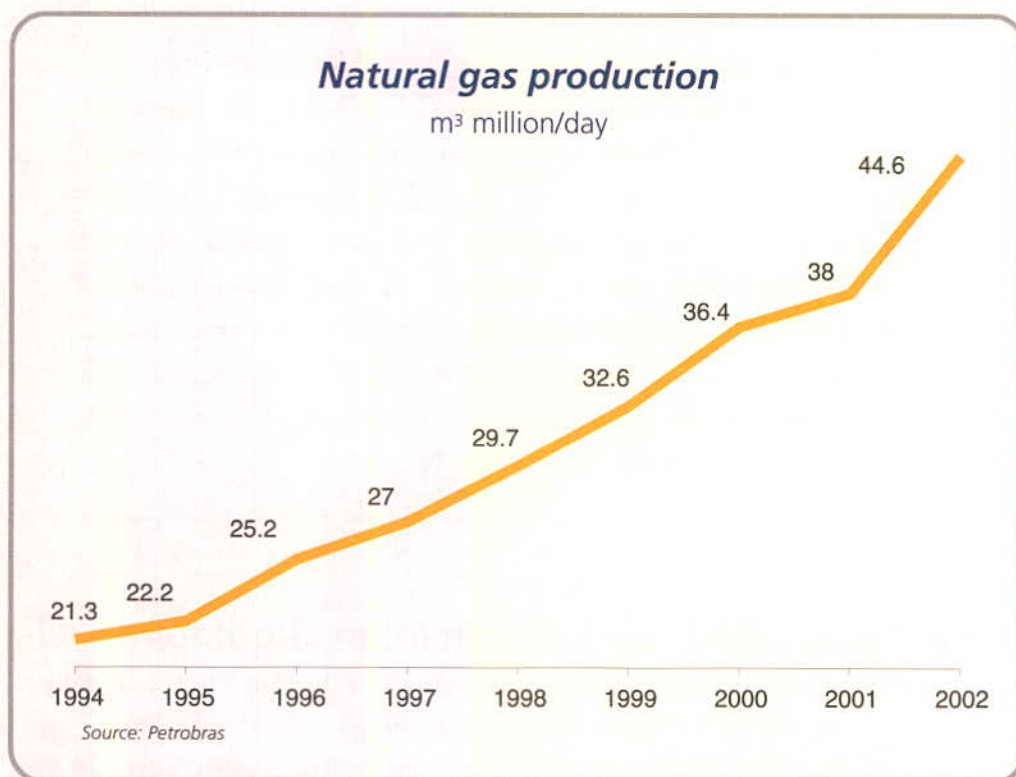
The Federal Government concluded the Angra II Power Station, which had been stalled since 1983. The history of this generator goes back to 1975, when Brazil and Germany signed a Nuclear Cooperation Agreement. In July 2001, the reactors began working and today supply more than 1,300 MW of electric energy to Rio de Janeiro State. Eletronuclear, the company responsible for overseeing the station, resulted from the merger of the nuclear power branch of state utility Furnas with Nuclen, a federal nuclear technology firm. The Angra I nuclear plant, located on Itaorna beach in the city of Angra dos Reis (Rio de Janeiro state) produces roughly 600 MW.

## **Natural gas, gathering strength as an alternative fuel**

The opening in 1999 of the Bolivia-Brazil Gas Pipeline is helping Brazil diversify its energy sources, decreasing the dependence on hydroelectric power.

- As part of this effort, Brazil's domestic production of natural gas increased 78% from 1994 to 2001, reaching a daily average of 38 million cubic meters. The estimate for 2002 is 44.6 billion cubic meters.

- Thermal power plants using natural gas are the preferred option for increasing the supply of electricity. The share of gas in the national energy matrix was 2% five years ago and should jump from present levels of 3,2% to around 10% in less than 10 years.
- In 2001, gas was discovered in the Camamú Basin (Bahia), located near Salvador, offering an excellent perspective for new gas discoveries on the continental shelf, as well as increasing the supply of gas to the Northeast region.
- Proven Brazilian natural gas reserves are estimated today at 220 billion cubic meters, and total reserves at 330 billion, which is still insufficient to supply rising demand in Brazil in the future. But the country relies on the importation of natural gas from Argentina and Bolivia to meet this demand.
- The recent discovery of a new natural gas field in the municipality of Itacoatiara, some 200 km from Manaus, is initially evaluated at 6 billion cubic meters. This discovery is a rapid alternative to reducing the cost of electricity generation in Manaus, which today uses diesel-fired thermal generators.



- Two large natural gas transportation systems are already in operation, which will enable in the short period of two years the installation of at least 18 thermal generators in the regions most affected by rationing.
- Along the Bolivia - Brazil Gas Pipeline, in the Southeast, Central-West and Southern regions of Brazil, eight new thermal power plants are being built. By 2003 these will add some 2,710 MW in capacity.
- São Paulo state is the largest beneficiary of the Bolivia - Brazil Gas Pipeline and will consume half of its available supply. With 3,157 km in length between Rio Grande in Bolivia and Porto Alegre, the network of pipelines passes through Mato Grosso do Sul and São Paulo, on its way to Rio Grande do Sul, with an investment of US\$2 billion. The project expands the energy options for industry and consumers in São Paulo. The construction required advanced engineering technology in order to pass under and over rivers, farms and highways in accord with environmental preservation norms.
- In the Northeast, a network of pipelines links the states of Ceará, Rio Grande do Norte, Paraíba, Pernambuco, Alagoas, Sergipe and Bahia. In these states, the conclusion of 10 thermal plants is projected by 2003, for a total of 2,438 MW.
- The Uruguaiiana - Porto Alegre Pipeline is part of a project to import natural gas from Argentina to meet Rio Grande do Sul's demand for fuel and supply energy to the state. When finished, it will be 615 km long, and will allow interconnection of the main natural gas basins of Brazil, Argentina, and Bolivia, as well as ensuring supplies for the South and Southeastern regions of the country. The route facilitates regional distribution, including 23 municipalities in Rio Grande do Sul within its area of influence. The first phase, operating since June 2000, supplies the 600 MW Uruguaiiana thermoelectric plant. At the other end, it connects the Triunfo Petrochemical Complex with the Bolivia - Brazil Gas Pipeline, in the municipality of Canoas.
- Exploration of gas reserves in Urucu will create new jobs and benefit the economy of the Amazon. The Urucu - Coarí Pipeline, some 280 km long, was finished in December 1998. The Coarí-Manaus pipeline is in the final phase of feasibility studies. An important petroleum producer, the Urucu oil and gas fields will supply five million cubic meters of natural gas per day to Manaus and Porto Velho, to generate 900 MW of electricity. Urucu is the second largest natural gas field in Brazil, making the Amazon self-sufficient in LPG cooking gas and an exporter of that fuel. The populations of Amazonas, Amapá, Pará and Rondônia will benefit.

- The Urucu - Porto Velho Gas Pipeline, some 500 km long, is in the process of environmental licensing. It will bring gas from the wells of Urucu to fuel the 404 MW thermal plants Termonorte I and II, which started operations in 2000 using diesel to supply rising demand for power in the Porto Velho region.

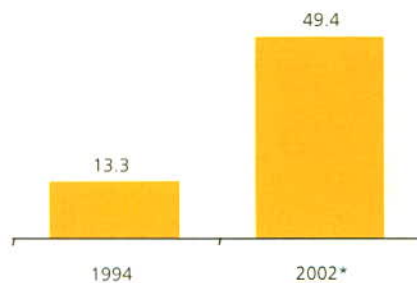
# 15. Communications revolution

## Telecommunications

**N**O SECTOR IN BRAZIL HAS GROWN MORE QUICKLY OR SEEN SUCH IMPROVEMENT in quality since 1995 as telecommunications, thanks to the audacious privatization of telecommunications companies throughout the country. As the statistics show, for Brazilians it was a change that expanded the horizons of communication. The supply of phone lines increased for everybody, but especially for the poorest levels of the population. The following graph demonstrates the high rate of growth in the number of fixed lines installed.

### *Growth in fixed lines service*

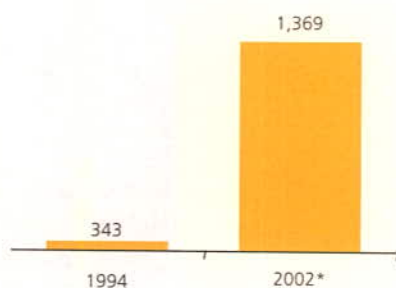
(millions of installed lines)



\* 2002 figures until August  
Source: Anatel

No less significant was the increase in the number of public telephones available for low-income communities. Complying with the terms of their concession contracts, the telephone service providers have provided a significant increase in the access to this service.

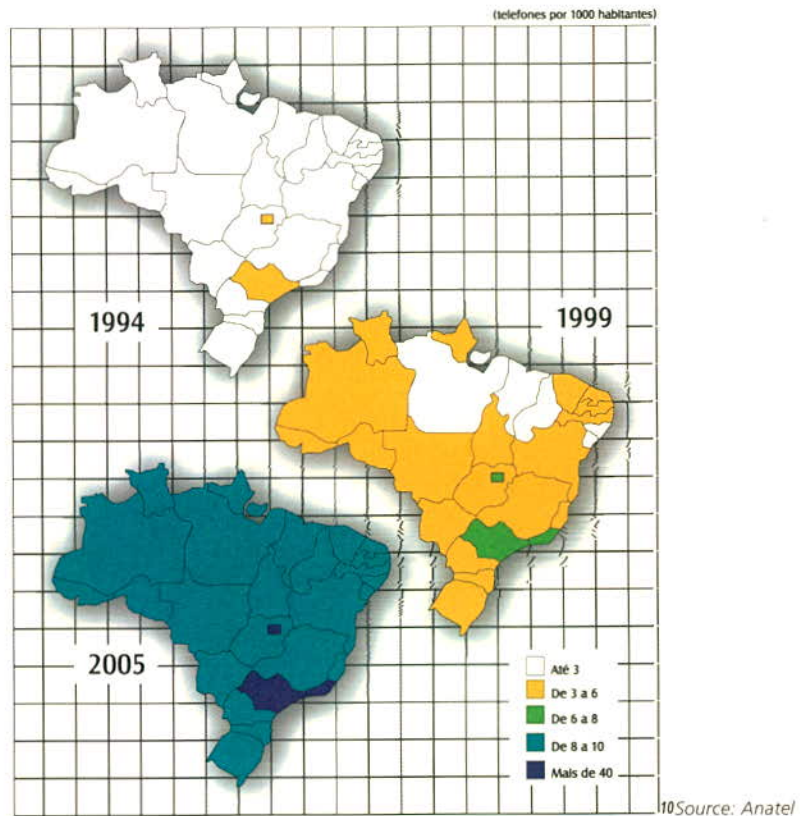
### ***Growth in public telephones***



*\* 2002 figures until August  
Source: Anatel*

## Growth in public telephone density

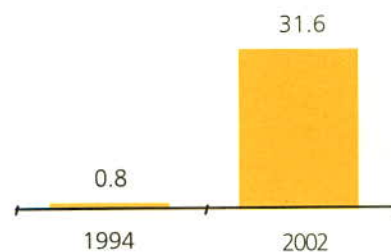
Period 1994/1999/2005



There has also been dizzying growth in mobile telephone service throughout the country, principally after the arrival of competition, as can be seen in the figure below.

## Growth in mobile telephone service

(Millions of lines)



Source: Anatel

Before the creation of Anatel, the National Telecommunications Agency, a residential telephone line cost close to R\$2,500 with no guarantee of timely delivery. Today, in most states, a line can be obtained for close to R\$50 and in some case for as little as R\$15, paid after the phone is installed. This reduction in costs opened the way for wide sections of the population, even those with low buying power, to have access to a telephone line.

The General Telecommunications Law classified public and private telecommunications services in a legal framework to enable the government to require operators of public services to meet obligations related to uniformity and continuity. In addition, Law No. 9,998 of 2000 created a specific fund called the Fund for Universalization of Telecommunications Services, or Fust (Fundo de Universalização dos Serviços de Telecomunicações). This provides funds for the goal of universalization and continuity of services.

The Fust funds are invested in programs, projects and activities which are consistent with the General Plan of Targets for Universalization of Telecommunications Service, considering among others the following objectives:

- Serving locations with less than 100 inhabitants;
- Complementing the goals established by the General Plan to serve low-income communities;
- Installation of individual access for telephony service and digital information networks, in favorable conditions, for libraries and educational and health establishments;
- Attending remote and border areas of strategic interest;
- Installation of individual access for public security services;
- Supplying individual access and interface equipment for needy disabled; and
- Installation of rural telephony.

The concept of universalization adopted in Brazil was to enable access by any person or institution of public interest to telecommunications services, independent of location or socioeconomic condition, as well as use of telecommunications services essential to the public good. The new challenge of universalization is in data transmission services, where the government is working towards making Internet universally available.

## **Broadcast transmission**

Within the area of broadcast transmission, advances in technology and the need to modernize the sector to keep pace with the socioeconomic realities of the country underlined the need for a new legal discipline for the mass communications media. Moreover, between 1989 and 1995 no concessions were awarded for new broadcast

services, which negatively impacted the public's access to information, entertainment and culture, in addition to limiting creation of jobs and industrial production within the sector.

Starting 1995, structural reform of broadcast services began, seeking to promote competitive participation between companies, the democratization of access to the concessions and the effective coverage of national territory by radio and television companies. The Program for Universalization of Broadcast Services was included in the 2000-2003 Multi-Year Plan with the goal of promoting greater development and availability of broadcast services. The overall target was to increase the index of cities with broadcast services from 22% to 50% by the end of the Multi-Year Plan.

To ensure that the authorizations and concessions were granted in a transparent way, via public bidding, Decree No. 2,108 of 1996 changed Decree No. 52,795 of 1963, and established Regulations for Broadcast Services, laying out the necessary rules for creation of competitive bidding processes based on technical specifications and price.

From 1995 to 2001, some 5,114 licenses were granted for radio, television and television retransmission. In 2001, cable and subscription TV services were made potentially available to no less than 126.2 million inhabitants, or 79.3% of the nation's population. The number of urban households with subscription television available reached 30.5 million in 2001.

## Postal services

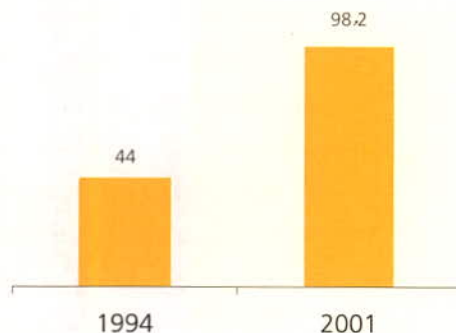
Since 1995, the Brazilian postal sector has undergone great transformation, following the global tendency toward growth in postal volume. In the case of Brazil, postal volume rose from an average of 3.8 billion objects posted per year in 1990-1994, to 6.9 billion in 1995-2000, reaching the substantial total of 9.5 billion objects in December 2001.

As of January 2001, all 5,561 municipalities in Brazil have had postal service. This was reflected in the increase in the number of objects mailed per inhabitant. In 1991, each Brazilian accounted for 23 postal mailings per year. In 2001, through December, this number increased to 54, an increase of 135%.

Sedex, the country's largest and best-known express mail service went from 44.0 million deliveries in 1994 to 98.2 million by December 2001 - an increase of 123%. The following graph shows Sedex volumes in this period.

### *Sedex (rapid delivery service) - evolution*

(million units)



Source: ECT

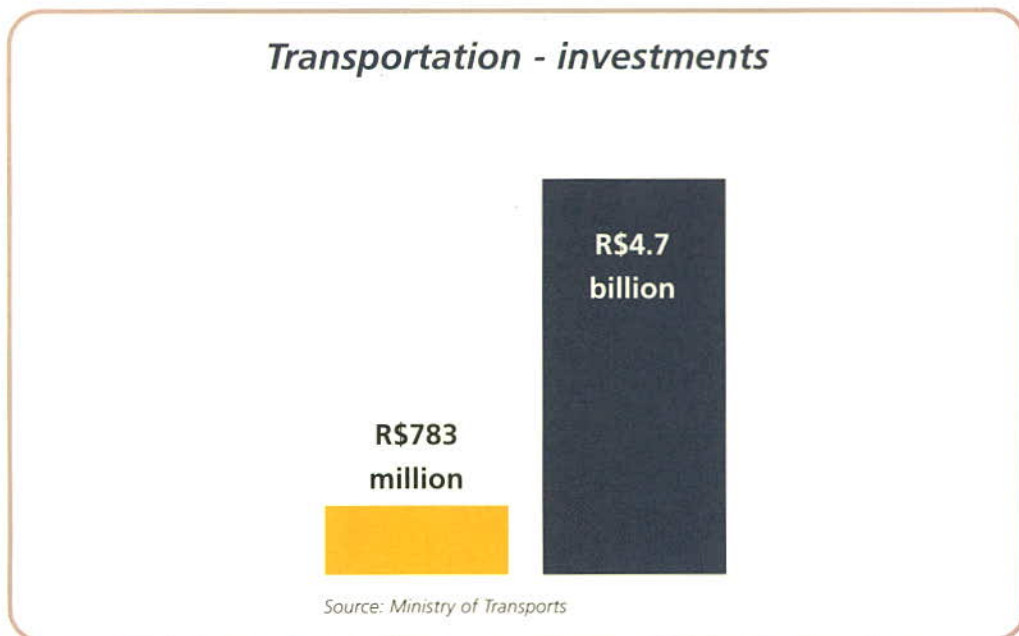
Acting as a government agency, the ECT - postal company - launched in 1995 the Friendly Postcard Project to promote breast-feeding by means of informative mailings. In 1999, the experiment reached all states in the northeast, mobilizing 3,264 letter carriers to distribute fliers to close to 315,000 families. Based on this success, the project was expanded to the North and Center-West regions, and starting October 2001, it was expanded to the entire country.

With the goal of reaching small towns that do not have banks, and considering especially the low-income populations in the rural areas, in September 2001 the process began of selecting a banking institution as a partner for the creation of the Postal Bank. Initially, the project was geared just to opening units in 1,800 small towns where there is no bank branch office. Restructured, the Postal Bank project should benefit a large portion of the 45 million Brazilian in the C, D, and E socio-economic classes who today are effectively excluded from the financial system, thus reinforcing the idea of citizenship and social inclusion.

Also, with the goal of helping expand exports by small and medium companies, the service "Easy Export Brazil - Post Office" was instituted in November 2000. This facilitates operational and customs procedures for sending packages up to 30 kilograms and a maximum value of \$10,000 to more than 200 countries. In 2001, there were some 6,745 shipments overseas using this system, for a total export value of R\$8.7 million.

## 16. Transportation: new routes to development

**S**INCE BRAZIL BEGAN ITS ERA OF GREAT HIGHWAY BUILDING IN THE 1950S, there have never been such important investments made in transportation as today. The Federal Government budget for highways, railroads, waterways and subways jumped from R\$783 million in 1994 to R\$4.7 billion in 2002.



In 1994, the situation was very grave for the Brazilian transportation sector. Traffic on highways was saturated. In many sections, the railroads were so decrepit they looked like ruins. Ports were synonymous with inefficiency. To change all of this, priority was

given to projects capable of integrating the regions and making the economy more competitive. With cheaper and more efficient transportation, Brazilian goods can find markets in other countries. And all Brazilians benefit from exports.

### **Transportation - investment by sector**

R\$ millions

	<b>1994</b>	<b>2001</b>	<b>2002 (*)</b>
Highways	315	2,310	3,020
Ports and waterways	59	285	444
Urban transportation	135	517	514
Railroads	22	71	135
Merchant navy	252	151	609
<b>Total</b>	<b>783</b>	<b>3,333</b>	<b>4,722</b>

Source: Ministry of Transportation; (\*) Prevision: Law n° 10.407/2002

## **The most important highway projects**

Brazil has started to widen and implement flow division on its main paved highways, and is paving others. These projects are priorities within the “Avança Brasil” Program. Investments have risen to R\$3 billion, from R\$315 million in 1994. Every region of the country has projects that will be decisive for the economy and social life of the cities and their residents, with benefits especially for the poorest layers of society. A list of important highway works underway by the Federal Government follows:

### **The Mercosul Highway**

This is the largest highway expansion project underway in Latin America. With close to 1,800 km of length, it links Belo Horizonte in Minas Gerais state with Osório, in Rio Grande do Sul state. It is important for the strategic integration of the Southeast and South regions of Brazil as well as with the Mercosul countries. Along the route, the following works bear mention:

- Fernão Dias Highway - This project was a long-standing demand among residents of Minas Gerais and São Paulo. Now in the final phase, the works are modernizing and expanding the capacity of the Fernão Dias Highway (BR-381). It involves the flow division and repaving of 473 km on the Minas Gerais side and 90 km on the São Paulo side, with improvements for passenger and cargo transport.
- Régis Bittencourt Highway - Flow division and repaving of the Régis Bittencourt Highway (BR-116) between São Paulo and Curitiba, one of the busiest in Brazil. The

benefits: fewer accidents, reduction of travel time between the two capitals and lower transport cost.

- Curitiba - Florianópolis Highway - The duplication of BR-101 and the modernization of BR-376 between Curitiba and Florianópolis were responsible for the organization and humanization of the traffic between the two states. The highway had frequent accidents in Serra do Mar and constant congestion. The project has reduced both the cost and risk of transportation for drivers and passengers.

### **Manaus - Venezuela Highway (BR-174)**

In 1998, the paving of 1,000 km was completed between the capital of Amazonas state and the Brazil-Venezuela border, creating an important route in the direction of the Venezuelan and Caribbean markets. It opened new prospects for the Manaus Tax Free Zone and brought Roraima state closer to the rest of the country. In 2002, the final bridges were completed, including a 700 m bridge over the Rio Branco river.

### **Pacific Highway (Acre)**

In 2001, the first 50 km of the Pacific Highway (BR-317) were opened, a project that will bring Acre state out of isolation. In all, the route from Brasília to Assis Brasil will be 110 km long and open a promising thoroughfare from Brazil to the Pacific Ocean, crossing the border into Peru. This is strategic for bringing the economies of Brazil, Peru and Bolivia closer together.

### **Trans-Amazon Highway (Pará)**

The controversial 1970s project has finally begun to be paved. The Trans-Amazon Highway is being paved starting from the border between Pará and Tocantins states, and extending to Marabá, Altamira and Rurópolis as far as Itaituba. Some 100 km are being paved from the border of the states to Marabá, and 31 km from Marabá in the direction of Altamira. Cutting a swath through the state, the highway links the Araguaia - Tocantins and Tapajós waterways at its two ends, besides crossing the rivers of Tocantins, Xingu and Tapajós. The highway is passable even in the winter rainy season, albeit in very severe conditions. The project will benefit the region's residents.

### **Highway BR-156 (Amapá)**

The paving of 428 km of Highway BR-156, between Macapá and Oiapoque in the direction of the capital of French Guyana (Cayenne), opens up a promising exportation route. Started in July 2000, some 62 km has been completed. Once finished, it will

promote the integration of Brazil with the countries in the northern region of South America, and improve ties with Suriname and Guyana. The highway is the result of an accord signed 1997 between presidents Fernando Henrique Cardoso and Jacques Chirac of France.

### **Brasília - Goiânia Highway**

Repair of 126 km of the Brasília - Goiânia highway will increase capacity, offering security and comfort to drivers and passengers. Scheduled to be complete in 2002, it will also bring economic benefits, since BR-060 carries goods such as soybeans, corn, fertilizers, fuel, construction material and other products.

### **Highway BR-070 (Mato Grosso)**

Construction of 85 km of Highway BR-070, linking Cáceres with the Bolivian border brings Mercosul trade to the interior. President Cardoso inaugurated the project in March 2002. Some R\$35.7 million was invested.

### **Highway BR-267 (Mato Grosso do Sul)**

The paving of 202 km between Jardim and Porto Murtinho on the border with Paraguay is more than 96% complete (8 km remaining). It will permit permanent highway access to the river port of Porto Murtinho, enabling the shipment of grains along the Paraguay River.

### **Highways BR-050 and BR-153 (Minas and Goiás)**

An important transportation route linking São Paulo and Goiás, passing through the Triângulo Mineiro region, is being upgraded with a series of works. One of these is the repaving and flow division of 130 km of the BR-050 between Uberaba-Uberlândia-Delta, in Minas Gerais. The other divides traffic flow along 184 km of BR-153 between the cities of Aparecida de Goiânia and Itumbiara, both in Goiás.

### **João Pessoa - Campina Grande Highway (Paraíba)**

Duplication of 66.6 km and restoration of 45.7 km of BR-230, the most important route linking the two principal developed regions of Paraíba. The goal is to reduce travel time and offer greater security. It will also benefit towns and cities along the route, including Santa Rita, Cruz do Espírito Santo, Sobrado, Caldas Brandão, Gurinhém, Juarez Távora, Ingá and Riachão do Bacamarte. About 85% of the work is completed.

## **Eastern Bypass of Curitiba (Paraná)**

Construction and improvement of the Eastern Bypass of Curitiba will link the exits to São Paulo and Florianópolis and avoid the intense traffic which passes through this urban area of the capital. It is 45 km long. Among the main impacts: an end to permanent bottlenecks in the metropolitan region, a decline in the number of accidents, and improved quality of urban life.

## **Highway BR-401 (Roraima)**

With more than 96% of the work finished, the paving of the highway linking the capital, Boa Vista, to Bonfim on the border with the Republic of Guyana, is 124 km long. An international bridge over the Itacutu River links Bonfim with Lethem on the other side. The highway will facilitate access to the plateau of the Guyanas, strengthening socio-economic ties between Brazil and this region of South America.

## **Highway BR-282 (Santa Catarina)**

Involves paving a stretch of the BR-282 highway from Florianópolis to Argentina, from Palhoça to São Miguel D'Oeste, linking the interior of Santa Catarina state to the coast. It is 667 km in length, of which more than 550 km are already paved. The initiative will facilitate trade with Argentina and stimulate exports through the ports of Itajaí, São Francisco do Sul and Imbituba. Some 37% of the work is finished. It will be the first border highway in the state, facilitating the entrance of foreign tourists.

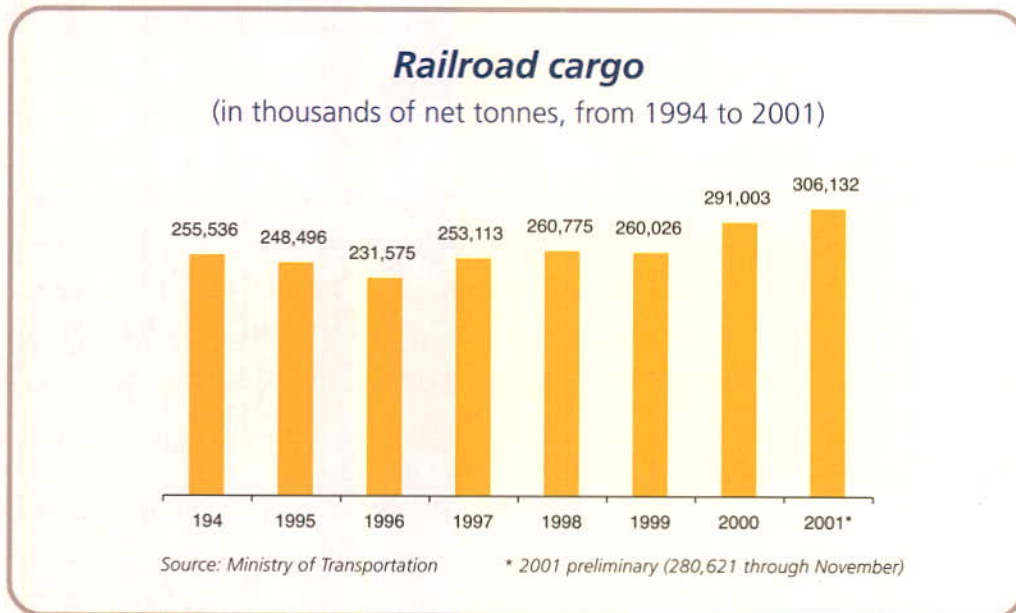
## **São Paulo Beltway - Western Section**

The 32 km Western Section of the Mário Covas Beltway was completed in the second half of 2002. The first 7.2 km stretch was opened for traffic in December 2001, linking the Anhangüera and Bandeirantes highways and Raimundo Pereira de Magalhães Avenue (formerly Old Campinas Road). In April 2002, the second stretch was opened, 7 km long, linking the Régis Bittencourt and Raposo Tavares highways. The complete project will be 161 km and link 10 highways coming into the São Paulo Metropolitan Region. It will reduce traffic by 30% and cargo transport by 42% along the "Marginal" inner beltway of the capital.

## **Railroad modernization**

After a long period of difficulties, the railroads have become important again thanks to privatization. From 1996 to 2001, cargo transport via rail increased 24%, the number of accidents fell 27%, and the average speed of the trains improved 24%. This repre-

sents a drop in freight costs and makes Brazilian products more competitive for export. Cargo transport (industrial inputs, steel products, grain, cement, and petroleum derivatives), grew from 256 million net metric tonnes in 1994 to 306 million in 2001.



A number of Federal Government initiatives have been important:

- The start of privatization, in 1996, with the concession of the Federal Railroad Network, or RFFSA (Rede Ferroviária Federal). This led to improved performance in subsequent years, plus an increase in productivity.
- Resumption in 1995 of the North-South Railroad construction, stalled six years in Maranhão, and the start of commercial operation.
- The partnership to build Ferronorte, in Mato Grosso do Sul and Mato Grosso, one of the main projects of “Avança Brasil”.

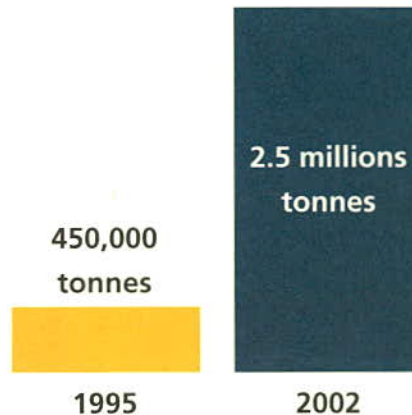
### North-South Railroad

The first part of the North-South Railroad is completed and operating in Maranhão. It has 226 km linking the cities of Estreito and Açailândia and connects with the Carajás Railroad and the Port of Itaquí. After six years of delay, the works were reactivated in 1996 following inclusion of the project in the Brazil in Action Program, and more recently, in “Avança Brasil”.

- Conclusion of the Maranhão stretch, built and run by the Valec company, has enabled fertilizer and cement companies to set up at the Imperatriz rail yard, and

agricultural firms to open at Porto Franco. The amount of cargo shipped jumped from 450,000 tonnes to 2.5 million tonnes along the North-South line.

### ***Cargo shipments on the North-South Railroad***



Source: Ministry of Transportation

- In all, the North-South line will be 2.066 km, passing through the Brazilian plains (cerrado) and bringing together the North and Northeast regions with the South and Southeast regions. Two other fronts are already open.
- The Estreito (Maranhão) and Darcinópolis (Tocantins) lines are already being built, with 42 km of extension. This will help grain shipments, as will Araguaína, the next destination for the construction works.
- A major 1.3 km bridge over the Tocantins river has the largest free span (154 meters) in South America.

### ***A backbone for Brazil***

New additions to the North-South line



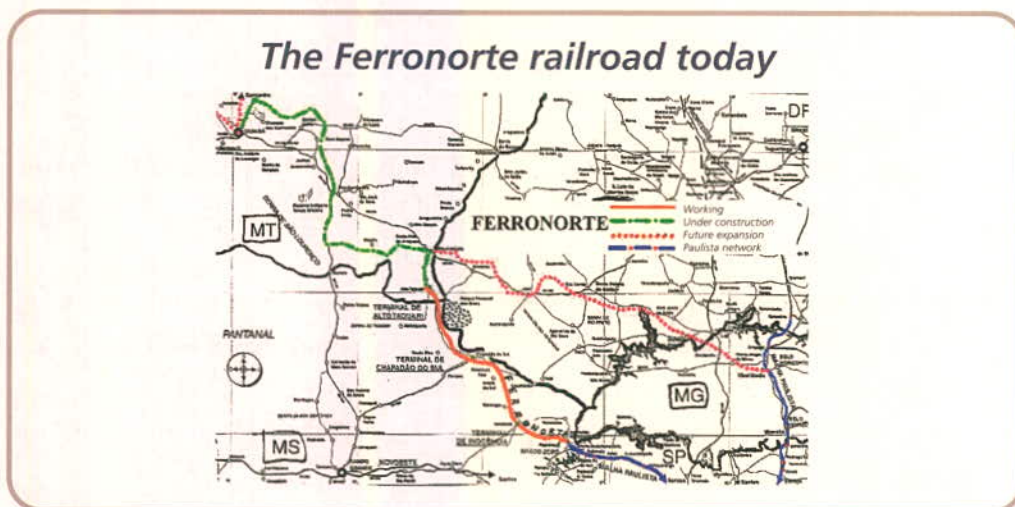
In Goiás, another stretch of the North-South Railroad was started in 2002, with construction of 41 km between Anápolis e Petrolina de Goiás.

In all, there will be 510 km in Goiás, a state that will become more competitive in the export of its agricultural products.

## Ferronorte

This is one of the main investments of the “Avança Brasil” Program in the Center-West region. The first part of the railroad is already complete, with 410 km linking Aparecida do Taboado (Mato Grosso do Sul, on the border with São Paulo) with the terminals of Chapadão do Sul (Mato Grosso do Sul) and Alto Taquari (Mato Grosso). Track has already advanced 10 km more toward Rondonópolis. This is the cheapest option for shipping farm goods from Mato Grosso do Sul, since the cargo reaches the Port of Santos with freight charges 30% below trucking cost.

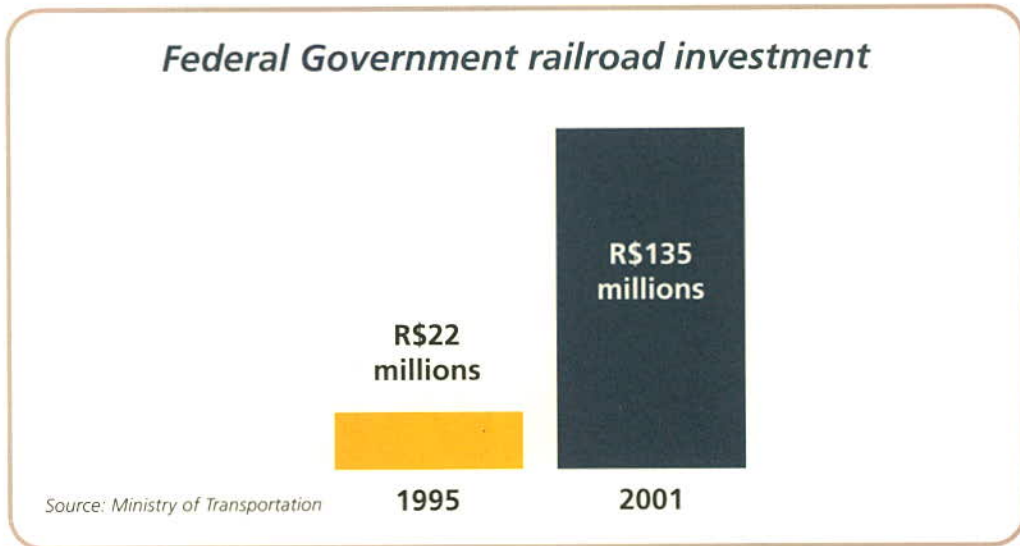
- Ferronorte will link the Center-West with the North and the Southeast of Brazil. From Alto Taquari, the next step will soon be Rondonópolis, in Mato Grosso.
- The second phase of the project, started in 1999, foresees the extension of the railroad by 290 km, linking with the BR-163 highway in Mato Grosso and completing a 1,600 km rail corridor to the port of Santos.



## Paraná River Highway-Railroad Bridge

- One of the most successful engineering feats of the Ferronorte line is the Highway-Railroad Bridge over the Paraná River, built in partnership with the Federal Government and the State of São Paulo:
- It is 2.6 km long and links Rubinéia in São Paulo with Aparecida do Taboado, on the Mato Grosso do Sul side of the river, so connecting the Ferronorte and Ferroban railroads in the direction of Santos port.
- The bridge was finished in the first half of 1998, reducing the former highway distance by 200 km.

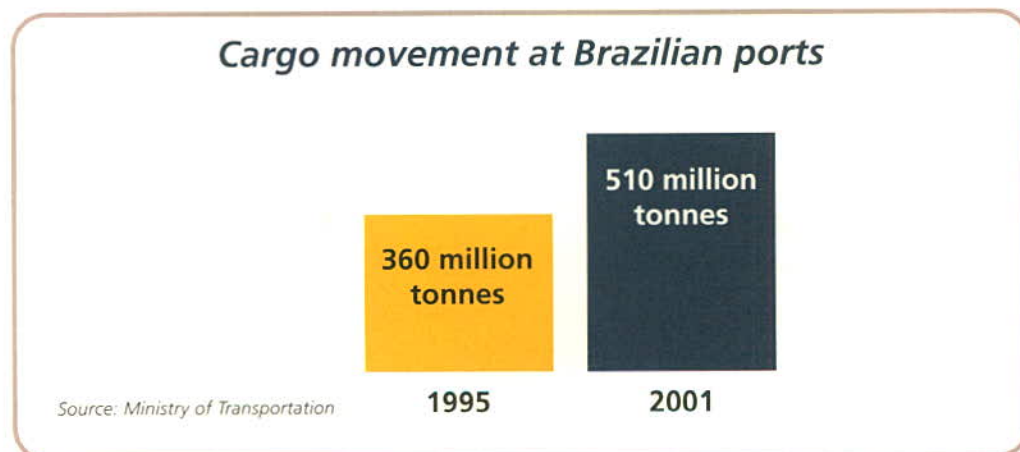
- The highway portion allows vehicle traffic between Santa Fé do Sul (São Paulo) and Aparecida do Taboado (Mato Grosso do Sul).



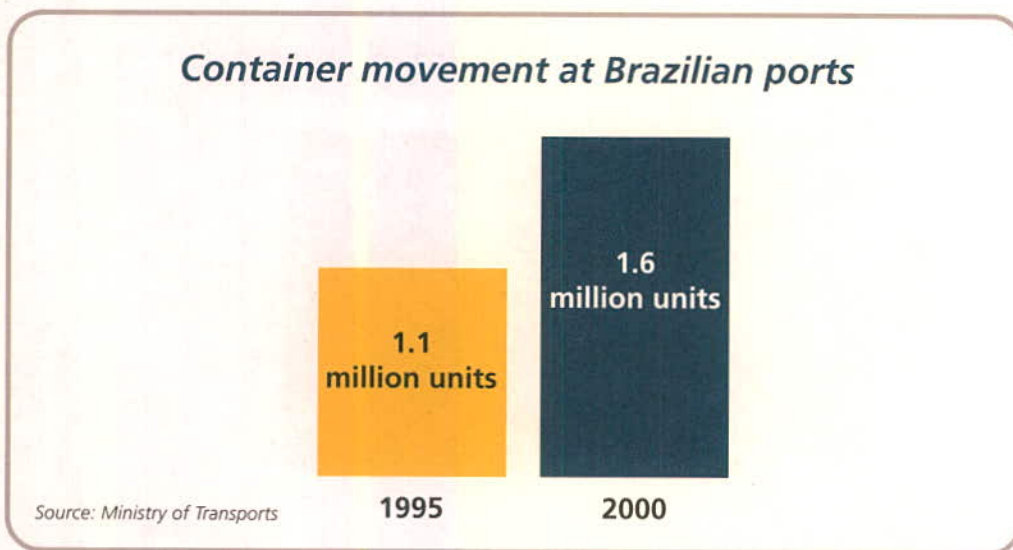
## Reopening the ports

Launched in 1996, the Port Privatization Program quickly made the sector more competitive, with private investment in port installations and equipment. Some results:

- A 100% - 200% increase in productivity thanks to new technologies and changes in the organization of the labor system.
- Fees were reduced and ports became more efficient, with less waiting time and dock time for ships.
- Total cargo movement at Brazilian ports increased substantially, from 360 million tonnes in 1994 to 510 million tonnes in 2001.



- An important indicator of port modernization is that container cargo increased 51 % to 1.6 million units from 1.1 million units in 1994.



## Principal port projects

Between 1995 and 2001, the Federal Government invested R\$1.5 billion in ports. This went mainly to expanding, repairing, and improving infrastructure, and dredging to increase draft. Main investments were:

### Sepetiba Port (Rio de Janeiro)

General modernization to allow cargo volume of 30 million tonnes per year, 10 times the previous volume, and allowing shipment of 400,000 containers, one fourth of the national total. The first step was inaugurated 1998, enabling Sepetiba to become the first large port for cargo concentration in the South Atlantic, taking advantage of a strategic geographic position to distribute goods from Asia and other areas to the Mercosul, Central America, and the United States.

### Pecém Port (Ceará)

Construction of a port at the Pecém Port Industrial Complex, with an access bridge, piers, sea-wall, loaders and unloaders. After seven years of work, commercial operations started 2001 with the most modern equipment. This will stimulate industrial activity in the Northeast, attracting investments and creating new jobs in the region, especially in the steel and petrochemical sectors.

## **Suape Port**

Complementary and improvement work at one of the main ports of the South Atlantic, responsible for linking the economies of Pernambuco and Recife with the rest of the world. Goods shipped through Suape include grains, soy oil, fuels, chemical products, and electric and electronic goods. Work underway includes construction of new docks and improved access to the existing docks, plus urban services and environmental preservation.

## **Rio Grande Port**

An important initiative within the Mercosul context. The access channel will be 310 m wide, allowing two-way navigation. Work began in May 2001 and will improve operational infrastructure at the port, which has a privileged Atlantic location and hosts some of the world's largest shipping companies. Some 16.2 km of BR-116 and 59.4 km of BR-392 were upgraded for a total of 75.6 km between the cities of Pelotas and Rio Grande, to better accommodate highway cargo to the port, in particular grains.

## **Cabedelo Port (Paraíba)**

Begun 1996, upgrading at the Port of Cabedelo has greatly improved operating conditions, benefiting exporters, importers, and general users. There has been an increase in the cargo movement and the creation of jobs. Works include repairing the 400 m dock, enlarging the 200 m dock and stock yard, improving the internal roads, dredging, electric services and the installation of equipment and accessories.

## **Grain terminal (Rondônia)**

Installation of a grains terminal in Porto Velho is making it easier and cheaper to transport soy from the Center-West via the Madeira waterway to European and US markets.

## **Brazil discovers waterways Rio Madeira Waterway (Amazônia)**

A dredging and signaling project for the Madeira river to keep it year-round navigable will produce safer and more efficient navigation along 1,056 km between Porto Velho (Rondônia) and the port of Itacoatiara, on the Amazon river. This will reduce the cost of soybeans produced in the Center-West, shipped to Europe and the rest of the world. In 2001, over one million tonnes of soy was shipped, 47% up on 1999.

## **Araguaia - Tocantins Waterway (Pará, Tocantins and Maranhão)**

The waterway will stimulate the use of a new route to export soybeans and other products from the expanding new agricultural region of the Center-West - a vital contribution to the development of the entire region. It will also enable large-scale development of natural economic resources along the banks of the Araguaia and Tocantins. Environmental licensing for the navigation markers is underway along the 2,600 km length of the Araguaia and Tocantins rivers. Investments are also being made for locks at the Lajeado and Tucuruí dams on the Tocantins to expand the waterway.

## **Tietê - Paraná Waterway**

An alternative route to facilitate, speed up and reduce the cost of shipping Brazilian products to Mercosul. With conclusion of locks at Jupiá, opened 1998, the waterway increased to 2,400 km, part of an efficient route between São Paulo and Buenos Aires. The waterway has stimulated agricultural expansion in Western Brazil, creating opportunities and good business in sectors such as tourism, agriculture and ranching.

## **Airports with greater safety and comfort Construction, expansion, and improvement in 18 capital cities**

From 1995 to 2001, the Brazilian airport network has gone through a broad-reaching modernization process involving investments of close to R\$2.3 billion to build, expand, and improve the airports in 18 capitals. The ongoing program includes a number of important cities in the interior of the states. By 2005, the total invested will reach R\$6.2 billion. In 2001 alone, the investment was R\$464 million. The 18 capitals are:

- Aracaju
- Belém
- Brasília
- Cuiabá
- Curitiba
- Fortaleza
- Manaus
- Natal
- Palmas
- Porto Alegre
- Porto Velho
- Recife
- Rio Branco
- Rio de Janeiro (Galeão and Santos Dumont)
- Salvador
- São Luís
- São Paulo (Guarulhos)
- Teresina

In general the investments are intended to:

- Improve the efficiency of air transportation, including the comfort and safety of passengers;
- Increase capacity with new terminals for passengers and cargo;
- Build aprons and runways with paving and signals, basic and mechanical infrastructure, and equipment for air traffic control;
- Bring Brazilian aviation up to international standards; and
- Promote technological modernization of airports in harmony with the environment.

Following are examples of this ample program of investments now underway:

- **Recife** - The new Gilberto Freyre International Airport (formerly Guararapes, in Recife) was scheduled to be finished in 2002. Extension of the runway was completed a year earlier and today Pernambuco has the longest landing strip in the Northeast region, at 3,305 metros. This allows greater flight autonomy for large planes and creates the possibility of new connections to Europe, the United States and the Mercosul for tourist and business travel. The passenger terminal has been designed with an efficient air conditioning system, 64 computerized service counters, and spacious boarding areas with capacity for up to 5,000 users at peak movement, with greater comfort and security.
- **Porto Alegre** - The new terminal at the Salgado Filho International Airport currently operates 170 scheduled domestic and international flights per week. It has the latest equipment to serve up to four million passengers per year with efficiency, comfort and security. It can receive up to 28 large aircraft simultaneously and serve passengers in 32 check-in counters in a climate-controlled environment. Some 2,000 jobs were created during construction. With the expansion, there are 6,000 jobs in all sorts of activities.

### *Porto Alegre International Airport - numbers*

	<b>Before</b>	<b>After</b>
Passangers/year	1.5 million	4 millions
Passenger terminal - constructed area	15,000 m <sup>2</sup>	37,600 m <sup>2</sup>
Apron capacity	12 aircraft	28 aircraft
Apron area	45,000 m <sup>2</sup>	75,000 m <sup>2</sup>
Opening	September 2001	
Invested in 2001	R\$16.4 millions	
Total investment	R\$165.1 millions	

Source: *Infraero*

- **Fortaleza** - Inaugurated 1998, the new Pinto Martins Airport consolidated the status of Ceará as an important Northeast tourism complex. Extensions were made to runways, passenger terminals, aprons and the domestic cargo terminal. The airport has direct flights to the main Brazilian capitals and cities such as Rome, Milan, Lisboa, Buenos Aires and Miami. It has passenger capacity of 3.6 million per year, with ample comfort, in four floors.
- **Palmas** - The new Palmas Airport in Tocantins is one of the most modern mid-sized fields in Brazil. Upgrading was completed in record 24 months. Palmas Airport has a 2,500 m landing strip and can handle 370,000 passengers per year. The project created 800 jobs during construction. It started operating with 600 direct employees and close to 2,000 indirect jobs. It has complete infrastructure for navigation, security and supply of airplanes. The 4 km access road links the airport to the main avenue in the capital of Tocantins.

### *Palmas International Airport - numbers*

	<b>Before</b>	<b>After</b>
Passangers/year	80,000	370,000
Passenger terminal - constructed area	650 m <sup>2</sup>	9,600 m <sup>2</sup>
Apron capacity	2 aircraft	8 aircraft
Apron area	6,800 m <sup>2</sup>	41,400 m <sup>2</sup>
Opening		October 2001
Invested in 2001		R\$31.8 million
Total investment		R\$91.4 million

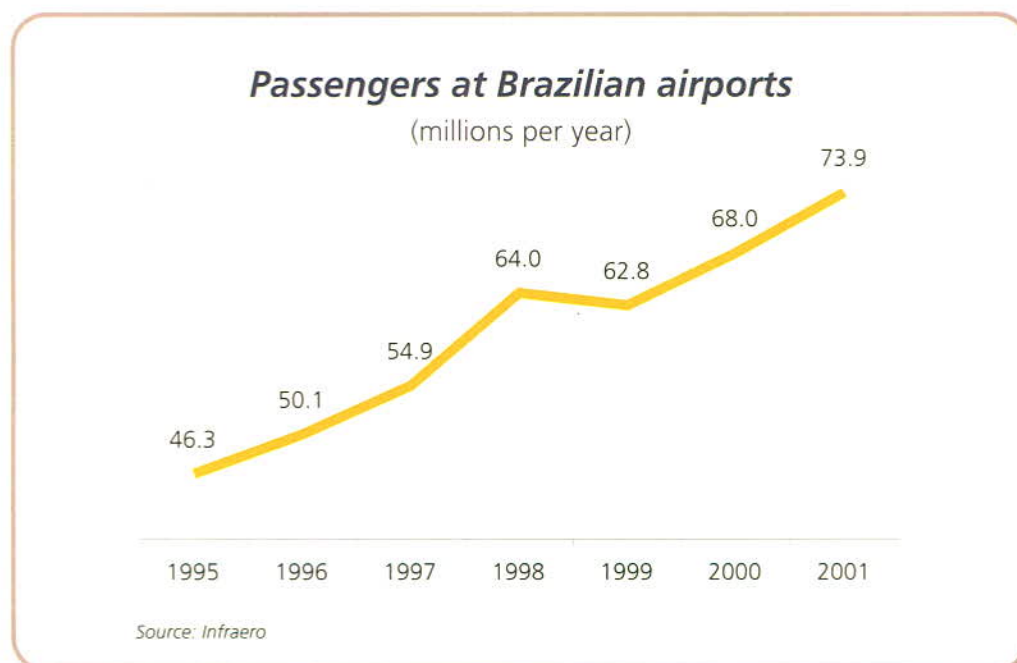
*Source: Infraero*

- **Salvador** - The first phase of the revamped Congressman Luís Eduardo Magalhães International Airport began operating in December 2000 with the delivery of two-thirds of the passenger terminal. With dozens of daily domestic and international flights, the airport is crucial to the development of Bahia as a port of entry for tourists. When finished, the airport will be able to handle six million passengers per year.
- **Natal** - Construction of the new airport terminal creates new perspectives for growth of tourism in Rio Grande do Norte state, which already has two million visitors per year, counting Brazilians and foreigners, half of them traveling by air. Improvements include larger aprons and runways, and a more efficient, comfortable passenger terminal.

- **Porto Velho** - The capital of Rondônia state is gaining an airport appropriate to handle fast regional growth. A new 6,800 m<sup>2</sup> passenger terminal is being completed to handle 600,000 passengers per year, an increase of 150%. There will be 16 check-ins, mechanized baggage handling, air-conditioned passenger areas and 25 shops. Modern equipment will offer more security to air traffic. The domestic cargo terminal and apron are being expanded.
- **Brasília** - The Juscelino Kubitschek International Airport, Brazil's third busiest, is being upgraded to improve connections with all state capitals, offering more comfort to users. Passenger and cargo terminals will be expanded, with a new runway and apron. There will be convenience stores and services, a food court, and two cinemas. The passenger terminal will measure 8,000 m<sup>2</sup> with 12 gangways, handling up to eight million passengers per year.

### Infraero handles 74 million passengers in 2001

In 2001, Brazilian airports administered by the Infraero company transported 73.9 million passengers, 34.5% up on the 46.3 million of 1995. Infraero is a government company under the Ministry of Defense. It administers and operates 65 airports and 82 navigation support stations throughout Brazil.



- In 2001, there were 2.1 million take offs and landings of foreign and domestic aircraft, representing 97% of total regular air traffic. Infraero cargo terminals handled 1.3 million tonnes.
- In recent years, Infraero has adopted a business-oriented management model established by the “Avança Brasil” Program for government companies, a style oriented toward results, increased levels of client satisfaction, careful use of public spending and attainment of government goals.

## **Brazil's best public service company, according to Exame magazine**

Infraero was recognized as an efficient and professional company by Exame Magazine's “Biggest and Best” annual review, which chose the company as the “best public service company” for 2000. Other quality indicators:

- Internationally recognized ISO 9001 certificates are now held by 11 airports. The first dates from 1996.
- Infraero performed specific research in 14 airports in 2001 to evaluate the level of satisfaction of clients and partners regarding service quality. The evaluation studied such aspects as cleanliness, state of repair, availability and quantity of equipment and comfort of the fixtures, service, courtesy, waiting time, efficiency and priority in service.
- Some of the results for level of client and partner satisfaction: Porto Alegre (99.2%); Belém (95%); Curitiba (94.5%) and Fortaleza (90.5%).
- In general, the survey showed that goals set by the Federal Government in “Avança Brasil” were exceeded - these goals were “to surpass by 2003 an index of 70% of users satisfied with the public services.”
- Of the airports administered, 35 are profitable, with Guarulhos (São Paulo's international airport) top of the list. In April 2000, when the changes in Brazilian civil aviation were begun, Infraero was attached to the Ministry of Defense. Now, for the first time in 29 years, Infraero is presided by a civilian.

## **Subways: better quality of life in the big cities Taking care of the metropolitan regions**

Of all Federal Government activities to improve quality of life in large urban centers, one of the ones with greatest impact is to build, expand or modernize the subways in five large capitals: Belo Horizonte, Recife, Fortaleza, Salvador, and Porto Alegre. In two other metropolitan regions, São Paulo and Rio de Janeiro, the Federal Government has also been active.

The subways are major projects serving millions of residents. They reduce commuting time, congestion on the streets, pollution and the level of stress among motorists and passengers, leaving more time for families to relax and enjoy themselves. For this reason the “Avança Brasil” program included the subways in two of its main activities throughout the whole country.

The Brazilian Urban Rail Company, or CBTU (Companhia Brasileira de Trens Urbanos) is building new subways in Fortaleza and Salvador, and expanding lines in Belo Horizonte and Porto Alegre. These investments total US\$1.41 billion. The Porto Alegre subway is in the midst of expansion, with the Unisinos and Train Museum stations already opened. This is an initiative by the Porto Alegre Urban Rail Company, or Tren-surb (Empresa de Trens Urbanos de Porto Alegre-RS) which is a 99% federally owned company, the other 1% in private hands.

### **Government investment in subways**

(via the CBTU urban transportation company)

<b>Metropolitan Area</b>	<b>Line</b>	<b>Investment (US\$ millions)</b>	<b>Situation</b>
Belo Horizonte	São Gabriel – Vilarinho	197	Parcial operation 2002
	Minas Shopping – São Gabriel	60	Conclusion in 2001
	Ramal do Barreiro	138	Conclusion in 2004
Recife	TIP – Timbi e Recife – Cajueiro Seco	204	Conclusion in 2003
Fortaleza	1 <sup>st</sup> part		
	Vila das Flores – João Felipe	326	Conclusion in 2002
	2 <sup>nd</sup> part		
	Caucaia – João Felipe	176	Conclusion in 2005
Salvador	Lapa – Pirajá	308	Conclusion in 2003
<b>Total</b>		<b>US\$10.02 billions</b>	

Source: CBTU

All these projects include studies for restructuring the public bus system, to improve traffic circulation on the streets and reduce pollution and accidents, as well as projects to relocate those in inadequate housing, and to improve the quality of life for low income populations.

- The lower fare compared to other transport systems shows the enormous social benefit of Federal Government investments in improved subway services.
- Investments also include improving customer service, with more security, regularity, punctuality, and comfort.

**São Paulo** - The Brazilian Development Bank - BNDES has a role in developing the São Paulo subway. Since 1996, it helped finish stalled works on three lines: Santana - Tucuruvi; Clínicas - Vila Madalena; and Itaquera - Guaianazes.

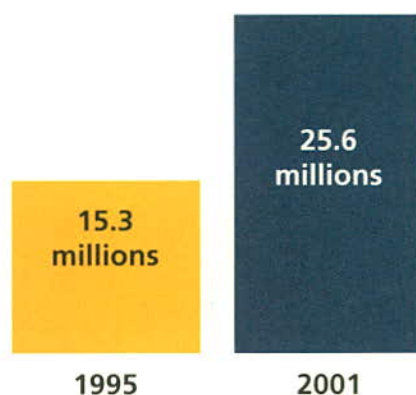
**Rio de Janeiro** - On 4<sup>th</sup> August 2002, the BNDES approved a loan of R\$221 million for completion of the Rio de Janeiro subway expansion from downtown into Copacabana. This will increase the number of passengers by 70,000 per day, close to 17% of the current number transported. By means of the “Riotrilhas” program, funds will be invested in the Arcoverde - Siqueira Campos line and in the Siqueira Campos Station. This will also allow planned upgrades to be finished in various parts of the system.



The Belo Horizonte subway is one of the largest projects in the history of the Minas Gerais state capital. Since work started in 1981, some US\$800 million has been invested, of which US\$315 million between 1995 and 2001. In January 2002, the first phase of Line 1 was completed with the opening of the new São Gabriel station. This directly benefits residents of the northern and northeastern regions of the capital.

- Currently, little of Line 1 remains to be finished: the First of May station (since April 22, 2002) and Waldomiro Lobo and Floramar stations (July 19) are already in partial operation and the Vilarinho Station was due to open September. There will be 30 km of track, with 19 stations, five terminals and transportation for 400,000 people per day, in the direction of Venda Nova, once all work is completed.
- With the three new stations in partial operation, there were already 26.5 km of rail and 18 stations, linking the western, eastern, and northern regions of the capital of Minas Gerais.
- Between 1995 and 2001, the annual number of passengers increased by almost 10 million (see chart and table).

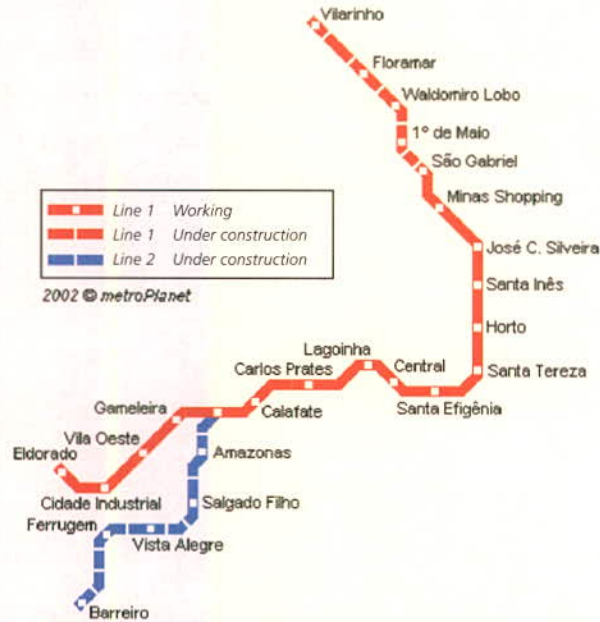
### *Belo Horizonte subway - passengers per year*



An efficient transportation arrives		
	Before: 1995	After: 2001
Passengers - annual total	15.3 millions	25.6 millions
Passengers - average per day	57,00	85,000
Complete trips	43,000	60,000

Source: Ministry of Transport

## Belo Horizonte subway



- The line being completed (São Gabriel - Vilarinho) will extend Line 1 by 7.9 km from the Minas Shopping station to Vilarinho. Construction is already 100% finished and the installation of signaling, electricity, and telecommunications are underway to allow the subway to operate with four-minute intervals between trips.
- The West Integration Terminal of the São Gabriel Station started operation in February and the East Terminal was to begin operating in August. With an integrated subway-bus ticket or transport voucher costing R\$1.15 commuters will have access to various parts of the city using the bus and subway.
- At the end of 2001, the capital of Minas Gerais received 10 new trains, increasing the fleet to 25, so ensuring greater efficiency, comfort and punctuality. At peak hours, trains arrive in five-minute intervals.
- In February, the Federal Government promised R\$86 million to complete the work up to Venda Nova, with the trains to start running in 2002.
- According to the CBTU, the next step is the Calafate - Barreiro line: six stations, 10 km of track, and two integration terminals, passing from Nova Rodoviária and the neighborhoods of Nova Gameleira, Salgado Filho, Vista Alegre and Bairro das Indústrias. About 30% of construction is complete in this project,

with priority given to vehicle and pedestrian movement, sealing the route, and land appropriations.

- After 1995, the Federal Government moved decisively to expand the Belo Horizonte Subway. The subway opened in 1986, but had fallen into a series of chronic problems with funding which eventually stalled the project.
- The Federal Government is also making other urban transportation investments in the Belo Horizonte Metropolitan Region (RMBH): R\$21 million for an Intelligent Traffic Control System in the city's central region, to enable traffic monitoring and decongestion of the area; 100% of a study for restructuring the metropolitan bus system, currently managed by the Minas Gerais Department of Roads and Highways; and 50% of the RMBH Origin and Destination Research, which will subsidize executive planning for the cities, as well as improve access by road to the subway stations; and, installation of integration terminals to consolidate the restructuring of the Belo Horizonte Municipal Transport System.
- Apart from transportation, the CBTU, in partnership with the Ministry of Culture, has set aside the Central Station, built 1922, for the Flavio Gutierrez Cultural Institute. This will restore the buildings for subsequent installation of the Museum of Skills and Trades, the so-called Labor Museum. This will be the first of its kind in the country.

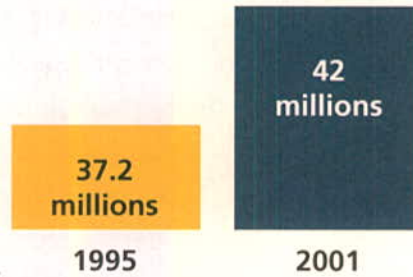
### **Recife Subway will be Brazil's second largest**

With the expansion projects now underway, the Recife Subway was scheduled to become the second largest in Brazil by the end of 2002, after São Paulo and ahead of Rio, Belo Horizonte, and Porto Alegre. To this end, the Federal Government is investing US\$204 million to build the TIP-Timbi line and modernize the Recife - Cajueiro Seco connection. The capital of Pernambuco will have a network with 39.5 km of subway, 28 stations, and ample integration with busses. In all, some 400,000 passengers will use the system every day.

- The Center Line currently carries 131,000 passengers per day between the cities of Recife and Jaboatão, with a transfer to the Bus Station, called the Integrated Passenger Terminal, or TIP (Terminal Integrado de Passageiros), with 17 stations and 20.5 km of track. With the new line, the subway will go from the TIP to the neighborhood of Timbi, in Camaragibe, with a total length of 25.2 km.
- Work is also underway to modernize the route from Recife to Cajueiro Seco, with a change from diesel trains to the electric Southern Line of the subway, with a length of 14.3 km.

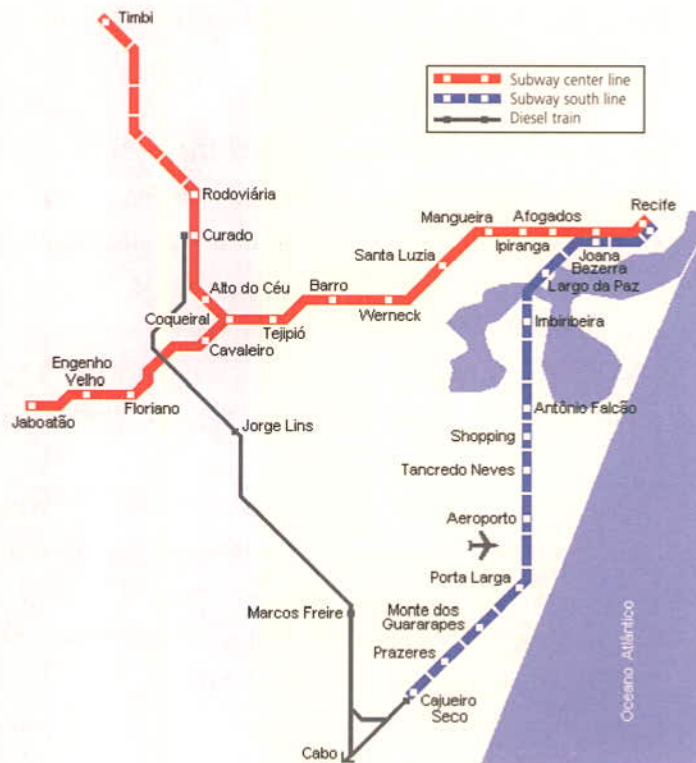
- From 1995 to 2001, the number of passengers transported on the Recife Subway grew from 37.2 million to 42 million (see graph below).

### Recife subway - passengers per year



Source: Ministry of Transport

### Recife subway

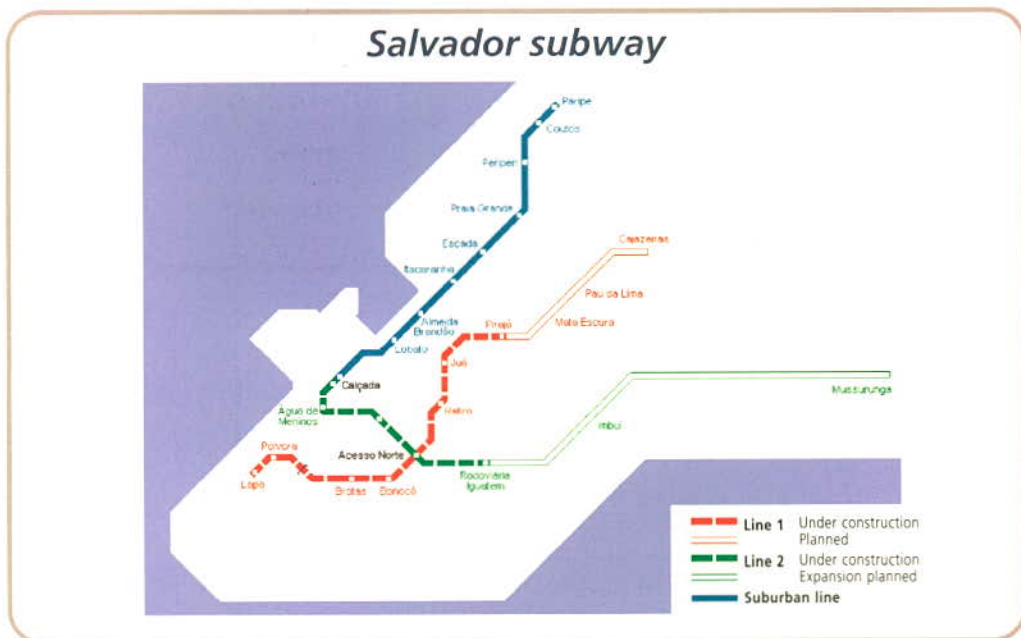


- On the Southern Line, the connection between Recife and the Porta Larga station was scheduled to be ready in 2002. Ten new stations are being built, of which five link to the bus system. The trains are air-conditioned.
- The Recife Metropolitan Region will have one of the most integrated passenger transport systems in the country. Besides the direct link with the bus station, a moving walkway will connect the subway to the Guararapes International Airport, while an overhead light rail system will link the Shopping station to the Recife Shopping Center.

### Salvador Subway: from Pirajá to Lapa in 23 minutes

The Salvador Subway upgrading will serve 200,000 passengers per day once the Lapa - Pirajá line is ready, cutting transit time between the two points to 23 minutes, compared with at least an hour by bus. Trains will depart every three minutes, ensuring speed, punctuality, and security plus the comfort of air conditioning. The work will be completed in 2003.

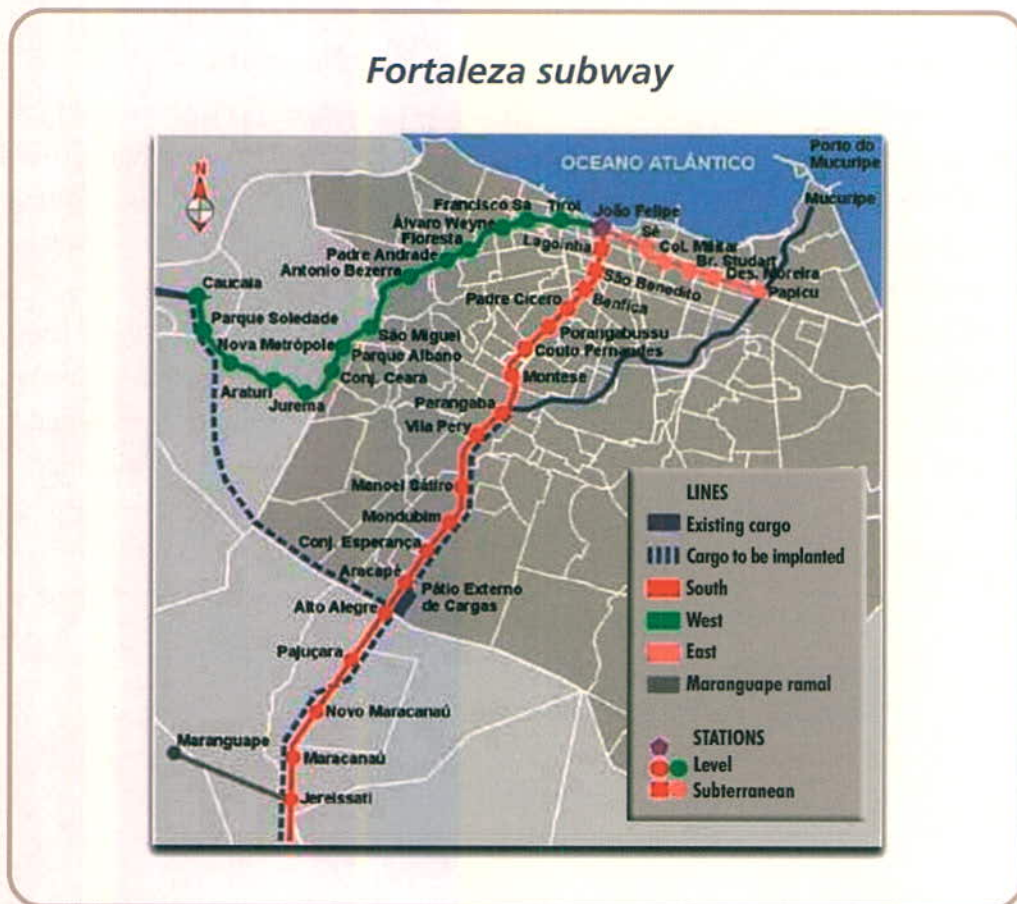
- The Salvador Subway will be one of the most modern in the Americas, with the latest technology, eight stations (Lapa, Campo da Pólvora, Brotas, Bonocô, Acesso Norte, Retiro, Juá and Pirajá), nine viaducts, four transfer stations to the bus system and a tunnel linking Lapa to Fonte Nova).
- Also as part of “Avança Brasil”, the 13.5 km urban rail line of Calçada - Paripe is being renovated.



## The Fortaleza Subway: project more than half complete

Work is underway on Line 1 of the Fortaleza Metropolitan Train, or Metrofor, which will transport 185,000 passengers per day once the Southern Line (Vila das Flores - João Felipe) is opened. Half of the work on this 24 km first stage is finished.

- The subway will ensure speed, safety, and comfort in the public transportation system, giving the low-income population access to places of employment, schools, hospitals, and leisure sites.



- Metrofor is part of an ample development project for the Fortaleza Metropolitan Region. This will have a positive impact on the cultural recuperation of important areas of Fortaleza, creating jobs and income, and stimulating tourism. It will serve as an important instrument of urban renewal and recovery of degraded areas in downtown Fortaleza.

- In the first phase, the installation of instruments will help modernize the entire public transportation system, directly benefiting the residents of Pacatuba, Maracanaú and Fortaleza municipalities.
- The Metrofor project uses the CBTU diesel train route, with the exception of the center of Fortaleza, which will have both underground and elevated lines, thereby reducing interference with urban transit.
- Cargo train movement will be separated and its route corrected with the construction of a junction that will optimize the North-South connection and the route to the Port of Mucuripe.
- The second stage of the Metrofor project will extend the modern train system from the João Felipe station to Caucaia, with 19 km of rail, later reaching the city of Maranguape.

### ***Metrofor South Line - numbers***

Passengers per day	185 thousand
Fortaleza-Maracanaú extension	24 km
Subway lines	3.8 km
Elevated lines	2.2 km
Trains - total	10
Stations planned	18
Trip time	33 minutes
Operating hours	5h to 23h

*Source: Metrofor*

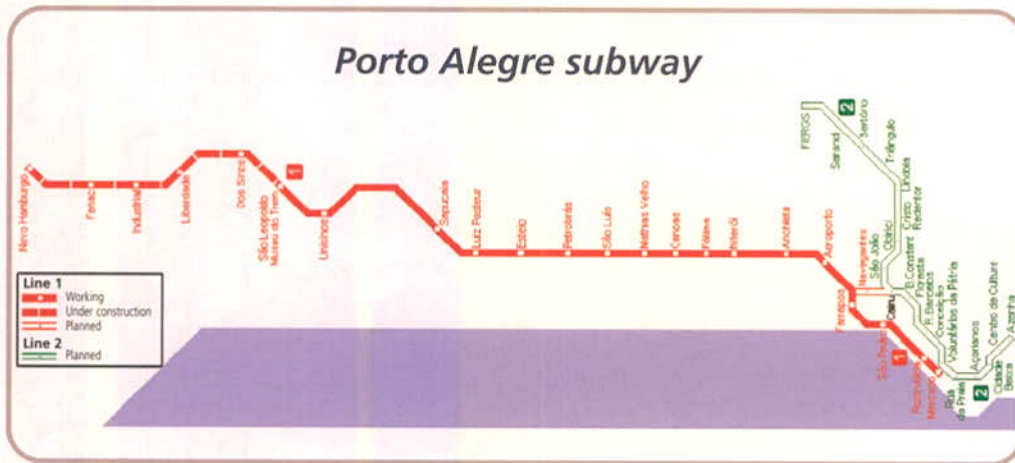
- On July 2<sup>nd</sup>, 2002, the Minister of Transportation João Henrique signed an agreement to transfer the Fortaleza Urban Train System from the Federal Government's CBTU company to the government of Ceará state. The state thus assumes the Metrofor operational assets and structure.

### **In Greater Porto Alegre, there are already 140,000 passengers per day**

The subway already extends to downtown São Leopoldo, with more than 6.3 km of rail.

- In December 1997, the 3.8 km stretch from Sapucaia do Sul to Unisinos was completed, serving 18,000 passengers per day.
- In November 2000, the line from Unisinos to São Leopoldo - Train Museum was finished, with more than 10,000 users per day.

- The next step will be Novo Hamburgo, a 9.3 km extension on an elevated twin track, with four stations currently in a process of public tender (Rio dos Sinos, Liberdade, Fenac-Industrial and Novo Hamburgo). Close to 14,000 passengers in Novo Hamburgo will use the subway each day.
- Today, the Porto Alegre subway totals 33.8 km, between the stations of Mercado and São Leopoldo, with 17 stations and 25 trains. Close to 140,000 passengers per day will use the system.



Resuming work along important routes in São Paulo Retomada de obras em trechos importantes de São Paulo.

In the middle of the last decade, projects on a number of important routes of the São Paulo Subway were stalled. Partnership with the BNDES helped get things moving with completion of several stations and lines, as well as modernization of the Operational Control Center. In all, investments totaled R\$767 million. The three major investments were:

- Northern Extension of Line 1 (Santana - Tucuruvi), some 3.5 km. Interrupted in November 1992, the work was started again in June 1996 and completed in April 1998. The investment was of some R\$125.8 million and meets a demand for 100,000 passengers per day at the Jardim São Paulo, Parada Inglesa, and Tucuruvi stations.
- Western Extension of Line 1 (Clínicas - Vila Madalena), with a length of 2.2 km and the Sumaré and Vila Madalena stations. Work was stalled since November 1992, and restarted in January 1997. The inauguration was in November 1998 meeting a demand for 100,000 passengers at an investment of R\$335.9 million.

Completion of the Eastern Extension of Line 3 (Itaquera - Guainazes), which is operating a service called Expresso Leste (Eastern Express), which connects the Guainazes and Brás stations. The route was increased by 5.7 km, passing through the Dom Bosco, José Bonifácio and Guainazes stations. The project was inaugurated in May 2000. The work had been stalled since November 1990 and restarted in September 1996 with an investment of R\$214.9 million.



## 17. Habitation: home ownership for two million families

**I**N MAY OF 2002, BRAZIL REACHED A TOTAL OF TWO MILLION FAMILIES who received a home of their own by means of the Federal Savings Bank - the Caixa Econômica Federal, or CEF - during the two administrations of President Fernando Henrique Cardoso. Since 1995, close to R\$28.02 billion was invested in housing projects, counting all of the programs available. This investment created or maintained about 2.7 million jobs. See figures following.

- The CEF is responsible for 91% of new home financing operations carried out in the country and for 79% of the value of all such loans.
- There is still much to be done in the area of habitation. This is a social problem that directly affects more than 15 million families who live in Brazilian cities and occupy dwellings classed as inadequate from the point of view of construction standards and urban infrastructure, and/or because they occupy land illegally.
- The number of permanent private households in the urban areas in 2000 was some 37.3 million units. It is estimated that about 5.4 million more units are needed, representing an urban housing deficit of about 14.5% of the existing total. This relates just to current deficit - taking into account population growth increases this demand (research from the João Pinheiro Foundation).

## Federal Government investments in housing since 1995

Program	Families	R\$ billion
<p><b>Letter of Credit - FGTS</b></p> <p>For families to buy new or used housing, projects in construction, and construction materials (program alters by income band):</p> <ul style="list-style-type: none"> <li>+ Monthly income up to R\$1,000 - new or used housing, projects in construction, reform existing property - Annual interest = TR base rate + 6%.</li> <li>+ Monthly income R\$1,000 and R\$2,000 - used housing, , buy construction materials - TR + 8.16%</li> <li>+ Monthly income R\$1,000 - R\$3,250 - new housing, projects in construction - TR + 8.16%</li> <li>+ Monthly income R\$3,250 - R\$4,500 - new housing, projects in construction - TR + 10.16%</li> </ul>	1,241,114	16.343
<p><b>Letter of Credit - CEF - FGTS - PSH</b></p> <p>For families with monthly income up to R\$1,000 to buy new or used housing, buy building plots, buy construction materials.</p>	135	0.326
<p><b>Letter of Credit - CEF</b></p> <p>Families with monthly income over R\$2,000, to buy new or used housing, buy projects in construction, commercial property, buy construction materials:</p> <ul style="list-style-type: none"> <li>+ Planned housing developments (program suspended) - Annual interest TR + 10.5%</li> <li>+ New or under construction (program suspended) - TR + 12%</li> <li>+ Construction materials - Monthly interest = INPC inflation index + 1.18% per month.</li> <li>+ Residential renovation - IGPM inflation index + 12% a year.</li> <li>+ Commercial property - IGPM + 15% a year.</li> </ul>	255,738	8.443
<p><b>Residential leasing program - PAR</b></p> <p>For families with joint earnings up to six times minimum salary and property worth up to R\$22,400 (R\$28,000 for São Paulo and Rio de Janeiro metropolitan regions)</p>	67,222	1.355
<p><b>Habitar Brazil / Live Better</b></p> <p>Donate federal government budget funds to needy communities</p>	347.763	1.464
<p><b>Pro-Moradia</b></p> <p>Use FGTS funds to restore degraded urban areas.</p>	180,326	0.873
<p><b>FAT (labor support funds)</b></p> <p>Operating as of 2002, using FAT funds for families with monthly income over R\$2,000 - to buy new or planned housing.</p> <ul style="list-style-type: none"> <li>+ Planned - yearly interest of TJLP (long-term base rate) + 4%</li> <li>+ New housing, property under construction - TJLP + 5.5%</li> </ul>	3,382	0.165
<b>TOTAL</b>	<b>2,095,680</b>	<b>28.969</b>

- The current deficit of 5.4 million units refers to:
  1. Technically inadequate habitation: 808,000
  2. Co-habitation of families: 3.3 million
  3. Depreciation: 117,000
  4. Excessive cost of rent: 1.2 million (defined as population with income of up to three minimum monthly salaries, spending more than 30% of income on rent).

#### QUOTES

From President Cardoso, 30<sup>th</sup> April, 2002, announcing the delivery of keys to the two millionth family benefited under a CEF lending program since 1995:

“In case people have forgotten, it is worth remembering that in 1995, the FGTS (worker’s fund administered by the CEF) was out of money because of poorly conducted housing programs. CEF funds were depleted. And it was with the persistent efforts of the employees of the CEF and its directors that the institution got back on its feet and Brazilians began to purchase financed homes again.”

“Today, the FGTS is alive and well, financing home purchases for families with income of up to R\$2,000. And there’s more: starting June, the CEF will pay out a correction in the FGTS decided by the judiciary. The deal we signed with the central labor unions will indemnify the holders of some 60 million accounts. A lot of money will be injected into the economy via the workers.”

“The CEF’s lines of financing were changed to benefit mainly the worker who wants to have his own home, rather than the construction firms, as was the case before.”

“Our administration created many programs. We even offer free houses to families with the lowest incomes, living in a situation of risk. This program, called Living Better (Morar Melhor) had already delivered 347,000 homes. And thanks to the housing programs we have accomplished another great fact. I am pleased to announce, on the eve of Labor Day, that these programs have generated or preserved four million jobs.”



# 18. Environment

**U**NTIL THE MIDDLE OF THE NINETIES, THE ENVIRONMENTAL QUESTION occupied a modest place on Brazil's agenda of priorities. In the administration of President Fernando Henrique Cardoso, the scenario changed. There was a substantial increase in federal funds destined for the environmental area. Between 1994 and 2002, funds set aside in the Budget Law for the Environment Ministry programs grew 4.6 times, expanding from R\$286 million to R\$1.6 billion.

The country's environmental management, especially in the past four years, has undergone profound changes involving the restructuring of the Environment Ministry and the Brazilian Institute of the Environment and Renewable Natural Resources, or Ibama (Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis). These changes are directed toward sustainable development.

Activities which demonstrate the rising importance given to this area include:

- Combating deforestation in the Amazon
- Greater protection for the forests;
- Changes in legislation to fight environmental crimes;
- Creation of the ANA, the National Water Resources Agency (Agência Nacional das Águas), a kind of "guardian of Brazilian rivers";
- Expansion of Federal Conservation Units (parks and nature reserves);
- Defense of biodiversity;
- Adoption of dialogue and cooperation with representatives of civil society in all its forms related to the environmental question;
- Detailing the Brazilian Agenda 21; and

- Restructuring of the National Environment Fund (Fundo Nacional do Meio Ambiente).

With this group of initiatives, Brazil demonstrates the results it has obtained with its Green Agenda (forests and biodiversity), Blue Agenda (water resources) and Brown Agenda (environmental quality).

Brazil was the first among the 175 signatory nations of the Agenda 21.

The Brazilian Agenda 21 is now complete, based on criteria that foster a multidisciplinary approach and long term planning. Technical areas were chosen to amply reflect the country's socio-environmental problems. The final document incorporates the thinking of Brazilian society at large about sustainable development, pointing out the course Brazil plans to follow.

## **Amazon deforestation has diminished**

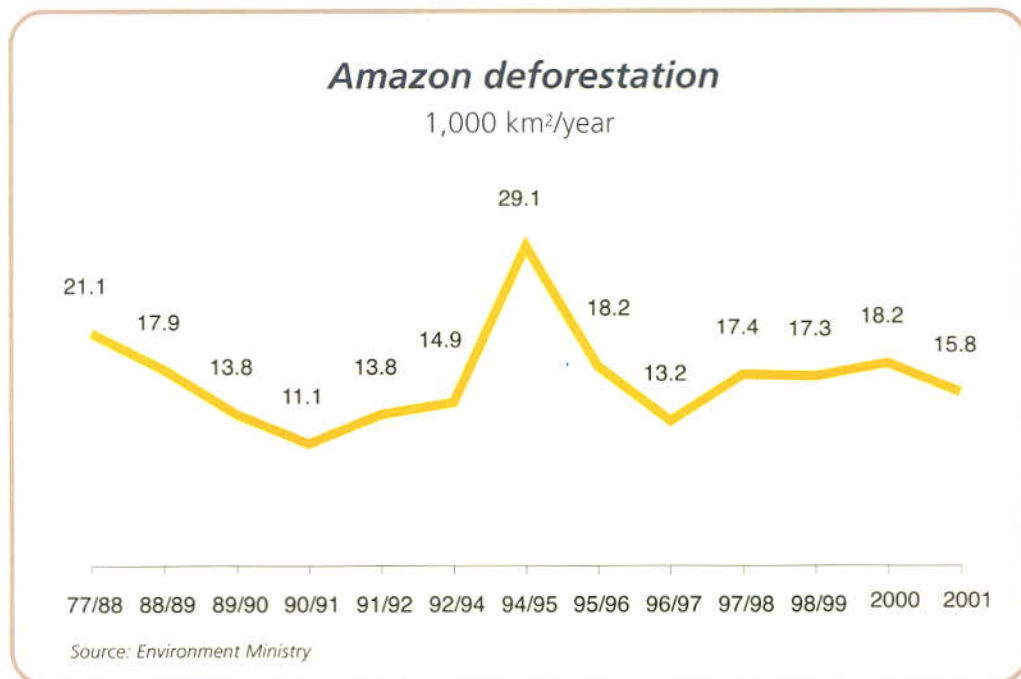
Brazil is finally confronting the deforestation of the Amazon, considered one of the planet's main environmental problems, starting with a series of initiatives taken by the Federal Government in recent years:

- Satellite images of the region, which are regularly monitored by the National Space Research Institute (Inpe - Instituto Nacional de Pesquisa Espacial) show that the area of the forest affected by deforestation fell from 18,226 km<sup>2</sup> in 2000 to 15,756 km<sup>2</sup> in 2001.
- This estimate, based in a representative sample of satellite images, represents a reduction of 13.4% from one year to the next.
- In the case of Mato Grosso and Pará states, the decline was even greater, around 20% and 38% respectively.
- One of the programs designed to promote sustainable activities is the Sustainable Amazon Program 2000-2003 (Programa Amazônia Sustentável). Close to R\$120 million has been set aside for projects to manage natural resources, train people for sustainable development, protect forests, consolidate protected areas, and support communities which depend on forest extraction, among others.

## Amazon deforestation - annual data

Period	Average rate of deforestation (km <sup>2</sup> per year)
1977/1988	21,130
1988/1989	17,860
1989/1990	13,810
1990/1991	11,130
1991/1992	13,786
1992/1994	14,896
1994/1995	29,059
1995/1996	18,161
1996/1997	13,227
1997/1998	17,383
1998/1999	17,259
2000	18,226
2001	15,756

Source: Environment Ministry



Devastation of the forest is one result of the irrational use of natural resources, and occurs when pastureland is burned for ranching activities, or by virtue of lumber extraction and mining. In the first half of the last decade, the Amazon suffered rising

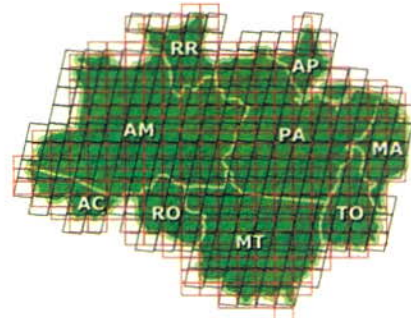
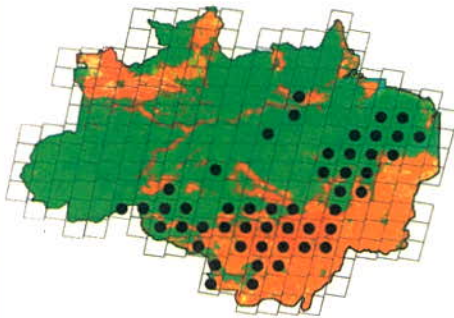
deforestation to reach a peak of 29,000 km<sup>2</sup> per year in 1994/1995 (see table and graph). The Federal Government adopted important strategies, in recent years, which produced significant advances in the annual campaigns to combat Amazon region deforestation:

- Ibama now has the latest technology to prevent forest fires, based in satellite images and data.
- There has been an increase in the capacity of the “Proarco” Amazon Forest Fire Prevention and Control Program (Programa de Prevenção e Controle de Queimadas e Incêndios Florestais na Amazônia Legal) and the “Prevfogo” Forest Fire Prevention Center (Centro Nacional de Prevenção de Incêndios Florestais), which are able to identify the areas of greatest risk by using a monitoring system, and to take decisions with the support of high technology.
- A combination of this information with the use of multi-mission helicopters allows Ibama an increased presence in the region.
- The use of satellite images and helicopters identified 43 municipalities responsible for 70% of the deforestation (of a total of 260 cases), from 1998 to 2001. These became priorities for activities to prevent and fight fires CEF.
- Proarco was created in 1998, in the aftermath of a devastating fire. During February and March, it was estimated that close to 15,000 km<sup>2</sup> had been burned in Roraima, reaching savanna and areas of open and dense forest. For several days, regional airports were closed because of smoke in the air.
- Brazil discovered it was not equipped to fight major forest fires. That led to creation of Proarco, which today can mobilize a task force of 500 firefighters in 48 hours.

## *The world's largest forest monitoring program*



The Deforestation Project, or Prodes (Projeto de Desflorestamento) is the largest initiative in the world for monitoring green areas. It is proof of the Federal Government's genuine desire to deal openly with environmental problems in the Amazon. Using satellite images, 85 specialists routinely monitor the Brazilian Amazon in the states of Acre, Amapá, Amazonas, Mato Grosso, Pará, Rondônia, Roraima, Tocantins and part of Maranhão and of Goiás. The program covers an area of five million km<sup>2</sup> - bigger than Western Europe.



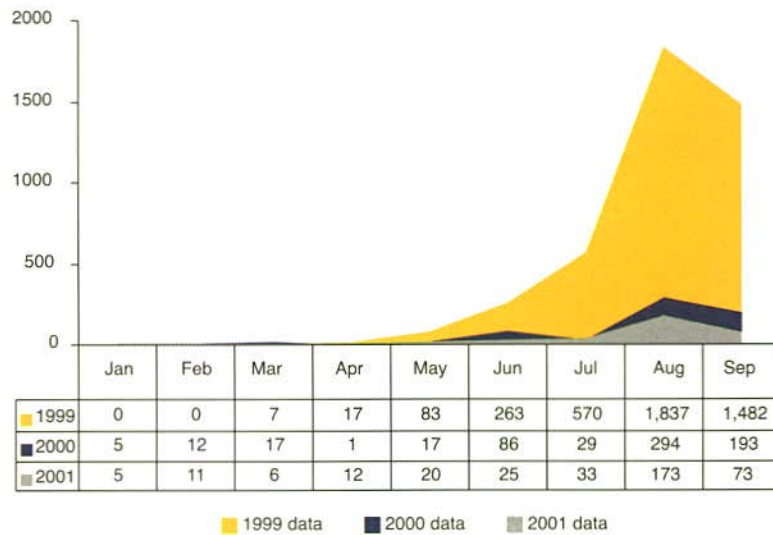
The American Landsat satellite creates 229 images on a regular basis, covering the entire Brazilian Amazon and allowing identification of areas most affected each year.

*Source: Environment Ministry*

The “Florescer” Program for Prevention of Fires and Deforestation (Prevenção e Combate a Desmatamentos, Queimadas e Incêndios Florestais) conducts a series of simultaneous, decentralized activities to reduce deforestation. It has diminished hot spots from close to 100,000 to at most 50,000 per year.

- There are three main types of Florescer activities:
  - Direct combat of blazes and forest fires
  - Prevention and recuperation of degraded areas
  - Education and training for farmers and rural communities in the use of new equipment and technologies.
- Florescer monitors fires using detailed cartography, including 1,440 maps of regions at risk. Daily monitoring of hot spots permits mapping of forest fire risk areas, establishing different levels of alert.
- Florescer is part of Proarco, which is funded by the World Bank. The goal is to prevent and combat large-scale forest fires in the Amazon.
- Proarco receives operational support from the Prevfogo Forest Fire Prevention Center.
- The principal goal of Proarco is to reduce by at least 30% accidents caused by use of fire. It finances:
  - Training of specialized organizations;
  - Distribution of fire-fighting equipment; and
  - Production of teaching materials in participating municipalities.
- In 2001, Florescer sent equipment, personnel and financial resources to fight forest fires in 16 states. It also carried out special operations to inspect flora, including Operation Cachimbo (irregular extraction of wood from Guarantã in Mato Grosso state to Novo Progresso in Pará state); Operation Amazônia Fique Legal (in nine states in the region); and the Operation to Repress Heart of Palm Extraction (Itatiaia National Park, Rio de Janeiro state).

## *Numbers of green alerts in the Amazon* (1999-2001)



Source: Environment Ministry

- Among the substantial results produced by Proarco, the highlight is the reduction by 84% in the number of green alerts from 1999 to 2000. From 2000 to 2001, there was a new decline, this time by 41%. At the same time there was a reduction of 20% in the number of yellow alerts from 2000 to 2001.

## Forest protection

Results achieved in the Amazon reveal that only now is Brazil beginning to have an effective policy for protecting its forests. Nevertheless, it is necessary to recognize the gigantic dimensions of the problems the country faces:

- Forests are not always treated in a manner compatible with the maintenance of ecological equilibrium and the principles of sustainability. The Atlantic Forest, for example, originally had 1.2 million continuous km<sup>2</sup> with notable biodiversity. Today, it is reduced to something in the range of 12% of its original area. Devastation has also advanced into the Amazon Forest, the Caatinga scrubland region and the Cerrados low-vegetation plains.
- Brazil still has the largest extension of tropical forest in the world, close to 5.5 million km<sup>2</sup>, or 65% of total Brazilian territory. The Amazon Forest, the Atlantic

Forest, the Caatinga, the Cerrados and their associated ecosystems comprise two thirds of this area. Brazil is also the world's largest producer and largest consumer of tropical wood.

- The valorization of forests as producers of environmental goods and services constitutes an appropriate way to promote sustainable development. Brazil has an undeniable vocation in this sector and has competitive advantages that could guarantee its leadership in the international market for the industry. To this end, it has extensive areas of native forest and mastery of the technology for formation of fast-growing forests.
- Elaboration of forestry policies, with their associated goals, priorities, means and institutional and community mechanisms, has been carried out in a participatory manner, collecting suggestions from Brazilian society. More than 600 institutions have participated.
- The government's Multi-Year Plan 2000-2003 assigns investments of R\$208 million for three main lines of action in the forestry sector:
  - Sustainable Forests Program (Programa Florestas Sustentáveis), to increase the supply of forest products originating from replanted areas;
- Forestry Program (Programa Florestar), to promote the sustainable use of forestry resources, reconciling the interests of commercial forestry with the need for preservation; and
  - Florescer Program (Programa Florescer) for prevention and control of deforestation, burning, and forest fires seeks to ensure the integrity of the forests, improving mechanisms for monitoring such events, anticipating major fires, illegal slash-and-burn practices and deforestation.
- The goal to overcome the deficit of forest-origin raw materials calls for replanting of 160,000 hectares/year of forest with exotic species and increasing the management of native forests by 12 million hectares/year.
- The Fire Management Project seeks reduction in fire damage in Conservation Units, in particular the national parks of Aparados da Serra, Serra Geral, Emas, Itatiaia, Brasília, Chapada dos Veadeiros, Grande Sertão Veredas and Monte Pascoal.

## Fighting environmental crime

Brazil today has environmental legislation considered among the most rigorous in the world. It is called the Environmental Crimes Law (Law No. 9,605 of 2/12/1998, regulated by Decree No. 3,179, of 9/21/1999).

- Before, the federal and state environmental agencies had their hands tied by the inefficiency of small fines for those who committed acts against the environment. The largest fine was R\$4,900, which was insufficient to discourage infractions. Now, fines range from R\$50 to R\$50 million, and the penalty can be tripled in case of repetition. Besides being held criminally responsible, companies are obliged to repair damage done to the environment.
- Besides fines, other examples of penalties are:
  - Community service;
  - Prohibition from participation in public tenders, holding contracts with public departments, or receiving fiscal incentives;
  - Payment in cash to victims;
  - House arrest; and
  - Prison terms of up to 5 years.
- Principal crimes against fauna:
  - Killing, chasing, hunting, or impeding the procreation of animals;
  - Selling, offering for sale, exporting, buying, keeping, having in captivity or confinement, using or transporting eggs, larva, or animal specimens. This also applies to products and objects originating from these animals;
  - Causing the abuse, mistreatment, wounding, mutilating, pain or cruel experiments in living creatures, including for educational or scientific purposes;
  - Causing the death of animals by pollution; and
  - Practicing predatory fishing or fishing with explosives.
- Principal crimes against flora:
  - Cutting trees, damaging or destroying permanent forest reserves;
  - Damaging Conservation Units (parks, biological reserves, ecological stations, and environmental protection areas);
  - Causing fire in forests or vegetation areas;
  - Making, selling, transporting, or releasing hot-air balloons that could cause a forest fire;
  - Extracting rocks, sand or lime from forests without authorization;
  - Cutting or making charcoal out of regulated wood; and
  - Using chainsaws in forests without license or registration.
- Other acts and initiatives considered crimes in the new legislation:
  - Causing pollution of any nature;
  - Carrying out research, prospecting or extraction of mineral resources without authorization;

- Producing, packaging, transporting or warehousing toxic products or substances if not in accord with sanitary requirements;
- Building, reforming, installing, or operating establishments or works that have the potential to pollute; and
- Spreading diseases, pests, or species which could cause harm to agriculture, ranching or to ecosystems.

## **Water becomes a strategic asset for Brazil**

Considered the most valuable natural resource of the 21st Century, water has been deemed strategic by Brazil's Federal Government. The country has the largest volume of renewable fresh water in the world. In 1997, the Waters Law (Law No. 9,433) was approved, creating the National Water Resources Program. In June 2000, the National Water Resources Agency, or ANA, was created and given responsibility for execution of this policy. The concern is not only with the quality of river waters, but also their quantity, since this is a key question for development of the semi-arid Northeast.

- ANA seeks to organize water use and discipline river use, avoiding pollution and waste and ensuring good quality water for future generations.
- Currently ANA is focused on two serious problems: the prolonged droughts, especially in the Northeast; and river pollution.
- In the case of droughts, the agency understands that living with drought depends not only on the supply of water, but also on "management of demand" (measures for prevention, economy, rules for rationing and indemnification of users).
- In the case of pollution, ANA becomes most relevant when a river basin extrapolates one state. In March 2001, an innovative program was launched to offer incentives for the construction of sewage treatment stations, with the priority for most polluted river basins.
- One of ANA's instruments is the formation of River Basin Committees wherever conflict exists over the use of the waters and in regions with very polluted rivers. So far, close to 60 River Basin Committees have been formed.

### ***Prodes - creative ways to treat sewage and clean up rivers***

One of the most innovative environmental projects in Brazil is the National Program for Reducing Pollution in Hydrographic Basins (Programa Nacional de Despoluição das Bacias Hidrográficas), or Prodes, designed to expand sewage treatment stations and reduce pollution in important rivers.

Under the supervision of ANA, the National Water Resources Agency, Prodes is being introduced in the river basins of Piracicaba, Capivari and Jundiá, in São Paulo state, and the Paraíba do Sul in Volta Redonda, Rio de Janeiro state. The program has a simple but - for Brazil - unprecedented mechanism:

- Prodes does not finance projects or equipment, rather it pays for treated sewage. In other words, it pays for the effective results that interest society;
- The Federal Government signs a contract directly with the service provider, guaranteeing a financial contribution for a determined length of time, starting once the treatment station begins operating;
- This payment represents up to 50% of the cost of the investment; and
- Seven such undertakings have been approved, of which six have been contracted. Total cost of the seven stations is some R\$34.2 million. Once they start operating, the service providers will receive R\$14 million from ANA. Another 11 projects are being contracted and 36 more are being evaluated for the program.

- The River Basin Committees are a type of “Water Parliament”, bringing together users (consumers, industries, and irrigators), public authorities (federal, state, and municipal governments) and non-governmental organizations. Wherever possible, matters are resolved locally.
- Taken as a whole, the “Our Rivers” programs involve activities designed to apply the concept of integrated management in three large hydrographic basins: São Francisco, Paraíba do Sul and Araguaia-Tocantins.
- In other basins, responsibility lies with the “Waters of Brazil” Program.

### **Expansion of parks and forest reserves**

Between 1995 and 2002, there has been substantial growth in total protected areas including parks and forest reserves. Today, there are 546 Federal Conservation Units

nationwide, totaling close to 43.2 million hectares or 5.07% of national territory. These are divided in two categories of management (Integral Protection Units and Sustainable Use Units).

- The Integral Protection group covers 445 units where the basic goal is to preserve nature, allowing only the indirect use of natural resources. These represent 40.3% of the total area of the Federal Conservation Units.
- The Sustainable Use group covers 101 units where the goal is to make nature conservation compatible with the sustainable partial use of resources. These represent 59.7% of the total area of the Federal Conservation Units.
- In both cases, establishment of the protected areas is one of the main instruments for conservation and management of biodiversity.
- Besides the federal areas, all states and the Federal District have, in large or small scale, State Conservation Units. Amazonas, for example, has 2.3 million hectares protected as Integral Protection Units and 5.9 million hectares protected as Sustainable Use Units.
- The Parks of Brazil program was created to facilitate coordination and integration of management efforts at federal, state, and municipal levels, via the National Conservation Unit System (SNUC). The goal is to protect at least 10% of each of Brazil's biomes, with an eye toward ensuring protection of biodiversity, creation of jobs and income through sustainable economic practices, and an improvement in the quality of life for the population.
- The Environment Ministry, acting via Ibama, the Institute for the Environment and Renewable Natural Resources, is implementing large "ecological corridors" to interconnect conservation units for all the ecosystems. These ecological corridors permit safe transit of fauna and flora needed for the repopulating of animals and the recovery of damaged areas.
- Of the 15 planned ecological corridors, half are in the implementation phase. These connect 247 conservation units (119 Integral Protection units and 128 Sustainable Use units). The corridors also guarantee an improvement in the genetic quality of wildlife, contributing to the preservation of species of flora and fauna in risk of extinction. The corridors represent an area of more than three million km<sup>2</sup>, involving 24 states nationwide.
- The law which created the system of National Nature Conservation Units provides for creation of consulting councils in the protected areas. Government and society participate in the process of detailing a management plan for each respective conservation unit. They also debate appropriate initiatives for socioeconomic development

of the region, for example ecotourism (where public visitation is permitted), scientific research, and environmental education.

- In 1994, Brazil had 15.4 million hectares of Integral Use federal conservation units. By 2002, the total had increased to 25.6 million hectares.
- In 2001, Ibama recognized 53 Private Reserves of Natural Importance (RPPN), a program which offers incentives for the transformation of private properties into nature reserves.
- In 2001, the Brazilian Parks Program contributed to the expansion of infrastructure for public visitation in seven parks: Aparados da Serra in Rio Grande do Sul state; Itatiaia and Serra dos Órgãos in Rio de Janeiro state; Serra do Caparaó in the states of Minas Gerais and Espírito Santo; Chapada dos Veadeiros in Goiás state; Iguaçu in Paraná state; and Brasília in the Federal District.

## In defense of biodiversity

In November of 1997, the government started building the Amazon Biotechnology Center. This is a key element of “Probem-Amazon”, the Brazilian Molecular Ecology Program for the Sustainable Use of Amazon Biodiversity (Programa Brasileiro de Ecologia Molecular para Uso Sustentável da Biodiversidade da Amazônia).

- With funds of some R\$55 million over five years, the Center is dedicated to the industrial development of biological resources that had been insufficiently exploited in the Amazon Region, mainly the following areas:
  - Germoplasm (“Physical vegetable or animal structure where microorganisms, bestowed with certain hereditary characteristics, are capable of generating a new individual, transmitting its characteristics from generation to generation”);
  - Molecular biology;
  - Phytochemistry;
  - Poisonous animals;
  - Insect-insect and insect-plant interaction.
- Probem-Amazon foresees participation of traditional local communities, especially indigenous communities and others who live by forest extraction, via contracts for collecting and identifying regional fauna and flora. It will also rely on support from government institutions and domestic and foreign NGOs, facilitating the collaboration of domestic and foreign researchers.
- Created 1995, the Brazilian Biodiversity Fund, or Funbio (Fundo Brasileiro para a

Biodiversidade) is a not-for-profit civil entity. It was created to meet a demand for an agile, transparent, and lasting mechanism to secure resources for priority projects for conservation and the use of Brazil's biodiversity, working in cooperation with government efforts.

- Recent initiatives taken by the Federal Government are in harmony with the defense of Brazil's genetic natural wealth and the repression of biopiracy.

## **Greater control of environmental quality**

Four principal initiatives within the "Brown Agenda" seek to maintain and improve the quality of the environment: Environmental Quality; Brazil Plays Clean; Sustainable Fishing Resources; and Ecological-Economic Zoning.

Investments set aside for these programs total R\$378 million in the period 2000-2003.

- Brazil Plays Clean seeks to reduce the production of solid waste, increase recycling and the reuse of garbage, and ensure its environmentally adequate disposal. It supports the activities of organizing trash collection, treatment, and final disposal of solid residues. This includes training of specialists and municipal directors in the implementation of the Integrated Plan for Solid Urban Waste Management and the operation of landfills. The program has already benefited 99 municipalities, home to 24 million people.

In the area of Environmental Education, the National Policy of Environmental Education and the National Program of Environmental Education were established. The program has trained close to 20,000 people nationwide including state and municipal specialists, members of NGOs and teachers. Inter-institutional committees were created in all the states, and five environmental education complexes were established. The "Protectors of Life" program mobilized more than 5,000 young people around the country.

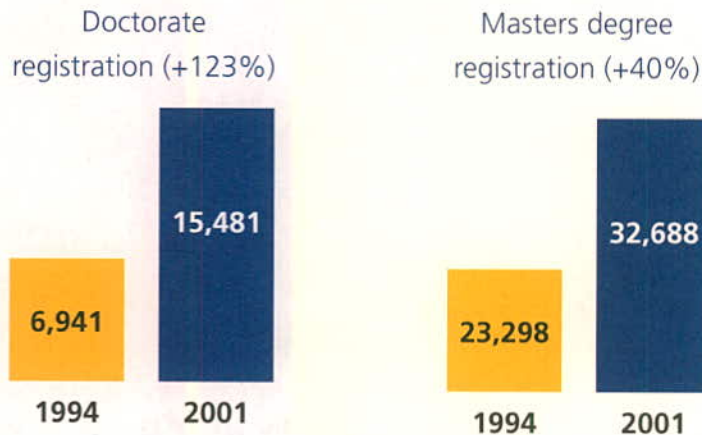
# 19. Science and technology for development

## Master's and doctorates - quality and quantity

**S**CIENCE AND TECHNOLOGY HAVE NEVER BEFORE RECEIVED SUCH INCENTIVES IN BRAZIL. The government has actively encouraged the use of applied scientific knowledge for the purpose of social and economic development. Two basic concepts have guided the government's drive. One is that knowledge should play a central role in the advancement of progress and public welfare. The other is that innovation is key to economic and business development.

- At the beginning of the 1990s, Brazil conferred roughly 1,000 doctorates per year. Today, that figure has risen to 6,300, putting Brazil in the same class as South Korea, Canada, Italy and Switzerland. Meanwhile, Brazil has also increased its output of scientific research, reaching a level above the world average.
- Graduate-level education has improved in terms of both quantity of courses offered and quality and control of curriculum. More and more students are signing up for, and completing, graduate courses at both the master's and the doctoral levels, as the following graph shows.

## *Many more post-graduate students at federal institutions*



Source: MEC/Capes

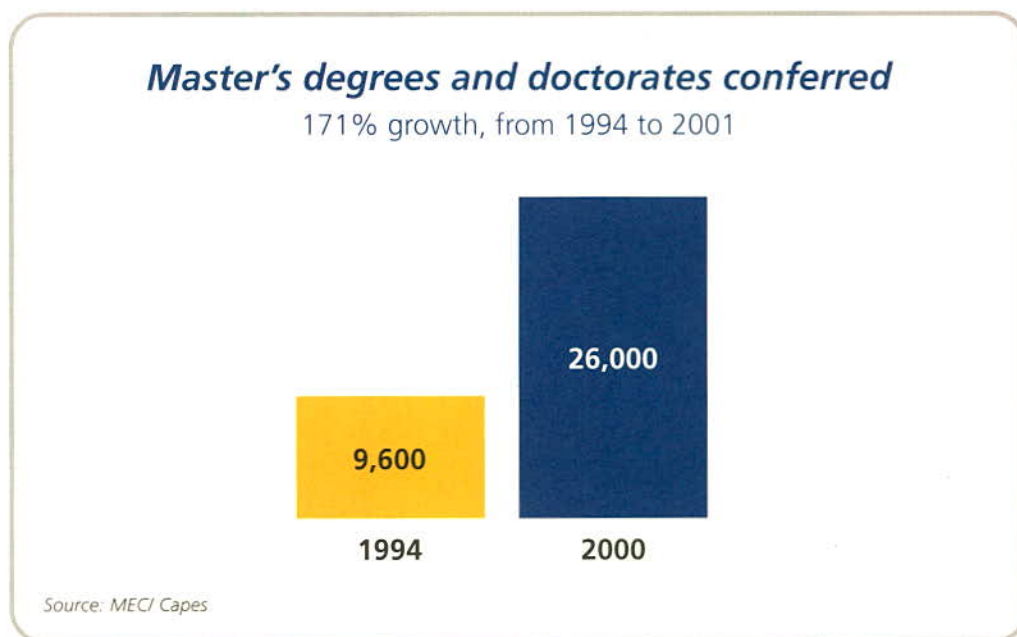
### *Post-graduate registration*

Institutions - Total		
	Master's degree	Doctorate
Before: 1994	40,000	17,400
After: 2001	64,900	35,000
Increase of	62%	102%
Federal institutions only		
	Master's degree	Doctorate
Before: 1994	23,300	6,900
After: 2001	32,700	15,500
Increase of	40%	123%

Source: MEC/Capes

- In 1994, some 40,027 students were enrolled in master's programs. By 2001, that figure had risen 62% to 64,906.
- During the same period, the number of doctoral candidates doubled.
- Expansion among federal universities was especially significant. Master's degree candidates rose 40% from 23,298 in 1994 to 32,688 in 2001. At the doctoral level, the increase was a stunning 123% from 6,941 in 1994 to 15,481 in 2001.

- It is also worth mentioning the increase in the number of post-graduate degrees actually conferred. Some 26,000 master's and doctoral degrees were conferred in 2001, up 170% from the figure of 9,600 in 1994. Federal institutions made a major contribution, with 10,500 master's degrees conferred in 2001 and 2,500 doctorates. In relation to 1994, the figures represent an increase of 146% at the master's level and 213% for doctorates.



## Scientific output spells international respect for Brazilian researchers

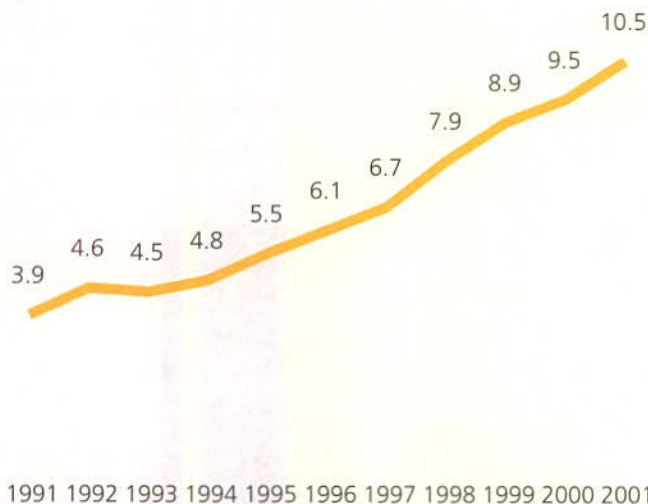
In 2001, Brazil produced 1.4% of all the articles published by international scientific journals, placing the country 18<sup>th</sup> in the global ranking. Not only have Brazilian researchers unlocked the secrets of international scientific publishing, they have also gaining ever increasing levels of recognition among international scientific circles.

- The number of articles published by Brazilian researchers in international scientific journals increased 118% between 1994 and 2001. The presence of Brazilian authors in such journals rose from 0.76% to 1.44%.

## ***Papers published in scientific journals by Brazilian researchers***

(thousands per year)

Increase of 118% from 1994 to 2001



Source: Ministry of Science and Technology

- The rise of Brazilian participation in the world of international scientific research has been well mapped by the Institute of Scientific Information. In 1985, Brazil accounted for 0.48% of world scientific research with some 2,300 articles published. By 1994, those figures had risen to 0.76% and 4,800, respectively. In 2001, Brazil occupied 18th place in the world scientific research ranking. With 10,500 articles published, Brazil's share of such research was 1.44%.
- The Ministry of Science and Technology is very active in this area, especially through two of its most important development agencies, the National Science and Technology Development Board (CNPq) and the Fund for Development of Scientific Projects and Studies (Finep). The latter has enjoyed especially robust growth. Another entity involved in the effort to encourage scientific studies is the Postgraduate Education Coordinating Committee (Capes) which is part of the University Training Enhancement Foundation. All these institutions have increased their cooperation with state-level foundations for research support.

## More scholarships mean more opportunities for researchers

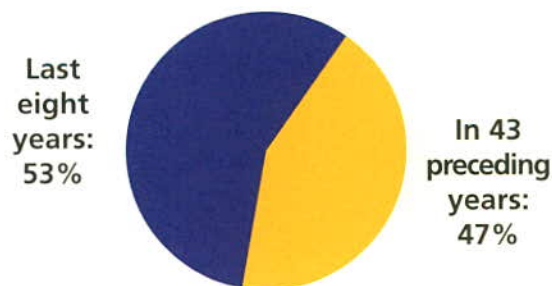
Brazil has been able to educate more researchers in recent years due largely to scholarships granted by CNPq and Capes. In 2001, a total of nearly 31,000 scholarships were extended to master's degree and doctoral candidates. With additional scholarships from state institutions included, that figure rises to 37,000. CNPq, meanwhile, offers additional scholarships and grants that include initial research grants, scholarships for certification and qualification programs, full-scale research studies, business technology development programs and many others. Altogether, CNPq extended 45,000 scholarships and grants in 2001.

- In the case of CNPq, the average disbursement per researcher was R\$24,300 in 2001 (not including research grants themselves). Total disbursements were R\$450 million.
- Although the total number of master's degree scholarships has diminished slightly in recent years, the number of doctoral scholarships increased to 14,000 in 2001.

Grants for research training have risen significantly due to the efforts of CNPq and Capes. In 2000, 30,000 such scholarships were granted. When scholarships from entities at the state level are included, the figure rises to 60,000.

### ***CNPq grants - evolution***

Between 1951 and 1993, in 43 years, 325,597 scholarships were granted. In the eight-year period 1994-2001 the CNPq granted 373,203 scholarships, or 47,606 more than in the preceding 43 years.



Source: CNPQ

## More money means more research in science and technology

There has been a real revolution: with the creation of 14 separate funds to finance scientific and technological development, beginning in 1999, Brazil has achieved not

only stable funding sources for research, but also a whole new management model. Some characteristics:

- A management style based on consensus and transparency. Funds are managed by broad-based steering committees made up of government, regulatory, scientific community and business representatives. Broad committee membership assures objectivity, efficiency and follow-through in awarding of grants and scholarships.
- Stable sources of funding. Funding is provided by non-fiscal sources that are designated by law. Stable funding means managers of scientific and technological research can plan for the long term.
- Incentives for technological innovation. Investments in science and technology are directed toward possible future applications in the private sector, thus providing Brazil's economy with a source for product and manufacturing innovation.
- Regional decentralization. At least 30% of all grants and scholarships must be directed towards the North, Northeast and Center-West.

Health, bio-technology, agriculture and aeronautics funds, created 2001, will begin operations in 2002 with an appropriation of R\$166 million.

### **Sectorial funds**

Budget law + funds (in R\$ million)

Aeronautical fund	21.7
Agribusiness fund	50.5
Biotecnology fund	21.7
Computer fund	40.0
Gas and oil fund	193.9
Hydro resources fund	28.3
Health fund	50.5
Telecommunication fund <sup>(1)</sup>	200.4
Transport fund	7.9
Energy fund	71.4
Space fund	5.4
Mineral fund	3.2
Infrastrucuture fund	159.7
Green and Yellow fund	192.0
<b>Total</b>	<b>1,046.6</b>

(1) Funtell is under the Communication Ministry budget.

Source: Science and Technology Ministry

## The search for excellence in the creation of federal institutes

Results of an independent, blue-ribbon committee of 72 specialists (the Tundisi Commission) led the Ministry of Science and Technology to formulate a new, long-term policy, based on clear mission goals, for its 23 Research Units.

With a renewed emphasis on goals and results, the ministry instituted a new management model in 2001 based on contracts with its research units. Under the new model, the units were transformed into semi-autonomous corporations with goals set out within management agreements.

Taking its cue from the Tundisi study, the ministry presented a proposal for the 2003 budget to create three new units. Technical details are currently being worked out. The new units would focus on nano-technology, bio-technology and bio-diversity in the Amazon.

Another important advance was creation of the Management and Strategic Studies Center (CGEE), a semi-autonomous corporation. The center's mandate focuses on promotion of high-level studies and research projects in the area of science and technology as well as the relationship between technology and productive businesses. The center will also examine and evaluate the impact of technological change on Brazil's economy and society and strategies designed to manage that change. The center is responsible for disseminating information about technology and change to Brazilian society at large. It is also responsible for encouraging and guiding a dialog involving government, science, hi-tech industries and productive businesses.

## “Groups of Excellence” and the scientific-technological vanguard

The government's Millennium Institutes Program maintains 17 study groups to accompany developments in vanguard technologies worldwide. With World Bank assistance, the program enjoys a budget of R\$90 million for the period 2001-2003.

The networks include research groups and centers from all over the country. The only criterion is excellence. Participants use the Internet to pore over data and trends in areas such as health, education, agriculture, new materials, new manufacturing techniques, genetics and nano-technology.

New networks will be created in the near future to consolidate research in areas such as human adaptation to semi-arid environments, sustainable development in the Amazon and development issues in coastal areas and oceans.

Having created 14 Special Development Funds, the CNPq has, more recently, focused on rebuilding its budget. In 2003, however, the board will once again enjoy substantial funding for development projects. Three major initiatives will be the main focus. One is the Millennium Institutes Program. Another is the PRONEX Program. The third is support funding for basic research. The total budget for the three programs will be R\$86 million.

## Science and technology for regional development

For the first time in Brazilian history, the nation has a policy designed to employ science and technology in specific initiatives to reduce inequalities and promote comparative advantages on a regional basis. Dialog and cooperation are the watchwords as the government coordinates efforts of state and federal agencies, the private sector, think tanks and universities.

A new program called Technology Platforms has emerged from this process. The program consolidates the advances made by 115 local initiatives throughout the country. Among success stories are a gypsum development project in Pernambuco, a plan to develop the decorative stones industry in Espírito Santo, a generic medications manufacturing program in Goiás, development of industries ranging from cashew nuts to software in Ceará, and a data processing park in Rio de Janeiro.

Meanwhile, a Regional Action Agenda has been developed using initiatives and innovations from many different sources. These include the Special Development Funds and a long list of private sector groups such as the Data Processing Society and associations in areas including bio-technology, post-graduate scientific research, technology training, human resources and international cooperation.

The Special Development Funds have helped decentralize scientific study in Brazil by moving away from the traditional South-Southeast axis. The Special Fund for Petroleum, for example, recently put out its first call for proposals on how to retain human resources in country. Such efforts come under the general title of Incentive Programs for Maintenance of Human Resources, or PROSET. Total funding of R\$3 million was made available in 2002 to finance the winning proposals. The object of the program is to keep highly trained and highly qualified personnel in Brazil to work on critical problems in the areas of petroleum and natural gas. Candidates for incentives will work in the North, Northeast and Center-West regions of the country.

The regional aspects of both CNPq and Finep activities are being restudied and redesigned in order to stimulate more research and relocate resources in the North, Northeast and Center-West. The Ministry of Science and Technology has been tireless

in stimulating debate at the state level in efforts to redesign strategies and refocus resources in a more geographically balanced manner. Today, as a consequence, two entities play an important role in allocation of Brazil's scientific resources. They are the Association of State Science and Technology Secretaries and the Research Support Foundations Forum. Such efforts have produced many important results, including redefinition of science and technology indicators and methodology.

- In the Northeast, the spirit of technological cooperation and financial support has taken strong root. In order to stimulate and apply research and produce competitive advantages for the region, the Northeast Development Bank has created a Science and Technology Development Fund (FUNDECI). The fund has already approved 955 projects and supplied them with US\$60.3 million in funding.

## Brazil at the frontiers of knowledge

Brazilian scientific research has attained world-class status. In many areas, such as bio-technology and genetics, it is in the vanguard. A major advance was discovery, by Sao Paulo researchers, of the genetic sequence of the xilella fastidiosa bacteria. Many other important advances should be noted:

- **The Brazilian National Genome Network.** Led by hundreds of researchers at 25 laboratories in 15 states, the network was able to complete the genetic sequence for chromobacterium violaceum, the first living organism in the tropics to have its genome completely deciphered.
- **Regional Brazilian Genome Networks.** Eight different networks operate in different parts of the country, working to decipher genomes of organisms that present aspects of economic or social interest to local populations. Among organisms studied are ones responsible for fixing of nitrogen levels in soil, an area of key interest to agriculture, as well as germs responsible for diseases such as schistosoma, Chagas Disease and leishmaniosis.
- **The Eucalyptus Genome Project.** The world's leading paper and pulp producer, Brazil is also the leader in research into the eucalyptus genome. The project embraces 12 companies, seven universities and the Embrapa research unit in search of the answer.

## Genome Project - national network



Source: Science and Technology Ministry

The 25 laboratories within The Brazilian National Genome Network offer the foundation for scientists nationwide to conduct their research.

## Technology and innovation

Scientific and technological research has become a key tool for the development of the private sector. The goal is greater technological density, aggregation of value and innovation in Brazil.

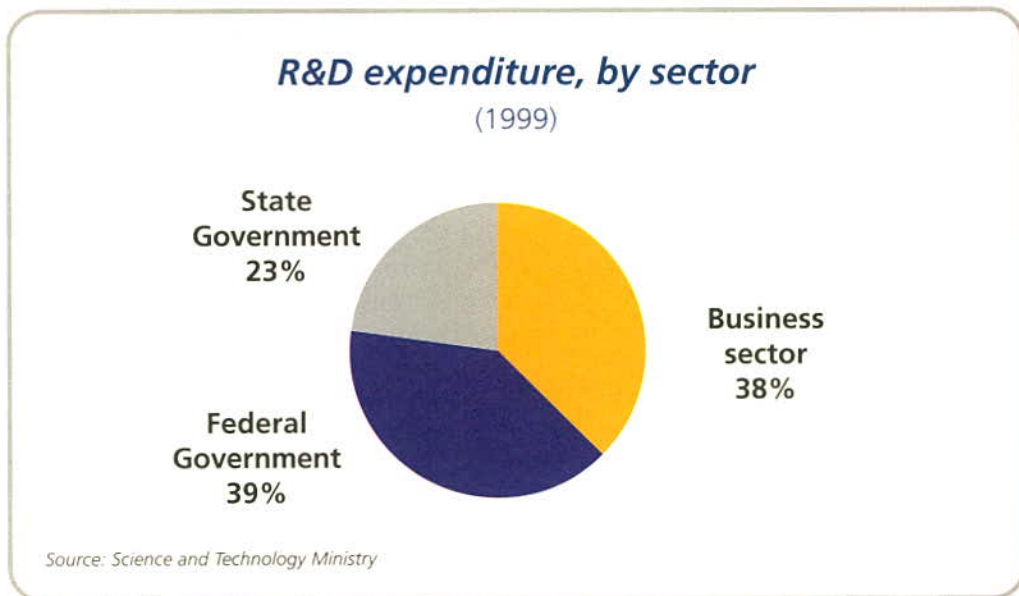
In this regard, private companies in Brazil have never had so many different mechanisms and incentives for investment in technology.

- Low interest rates via interest rate equalization programs.
- Access to risk capital and support services.
- Subsidies for companies that contribute to technological development of industry and agriculture.
- Tax benefits for companies that make investments in technological research and development. Such investments can be taken as deductions against corporate income tax and the corporate income tax surcharge.

- Companies double their income tax deduction for technological advances that result in patent awards either in Brazil or abroad.

Meanwhile, a bill currently under review by Congress should result in adoption of a broad Innovation Law in Brazil. The law will represent a major advance for science and technology.

The Innovation Law will offer incentives and guidance for universities, research institutes, individual researchers, private companies and government agencies to develop all the instruments necessary in pursuit of technological innovation.



The objective is to offer support mechanisms for technology and innovation. These include:

- The National Corporation Incubator. Currently, there are 150 such institutions operating nationwide.
- Project Innovation. This program offers incentives for risk capital investments in small and medium-sized companies. The Risk Capital Portal already has 600 registered members. The negotiation service known as The Venture Forum includes more than 1,000 corporate members.
- The Export Technology Support Program (Progex). This program operates in conjunction with the Sao Paulo Technological Research Institute (IPT) and the Small Business Support Service (Sebrae).
- The National Software Export Program (Softex). Initiated by the government, this program now counts with critical private sector support. There are more than 1,000

registered companies operating through 19 regional branches and 18 Softex Genesis centers in 12 states.

## Quality and competition

The government has invested in product and services improvements in efforts to make Brazilian exports more competitive in overseas markets. The main arena for such developments, in collaboration with the private sector, has been the “Competitive Brazil” Movement.

Starting in 2000, the government has acted to consolidate and extend its network of technological support services as offered to private businesses. It has done this in conjunction with the Development Ministry’s Basic Industrial and Technological Services Program for Innovation and Competition (TIB).

Over the last two years, with the aid of the Green and Yellow Fund, significant funding has been made available to laboratories and research centers for studies in the following areas:

- Weights and measures.
- Norms for standards compliance.
- Management technologies.
- Intellectual property.
- Design.

## Elimination of digital inequalities

The program known as The Information Society enjoys a total budget of R\$3.4 billion through 2004. The program’s task is to bring Internet knowledge and usage up to a new plateau throughout the country. The objective is to get the greatest possible number of Brazilians online using the new information and communications technologies. Key characteristics.

- The new Data Processing Law will assure decentralization of investments by favoring less-developed regions of the country for research and development funds.
- The National Research Network (RNP) has already signed up members at 326 teaching and research institutions throughout Brazil.
- In 2001, The RNP2 project successfully linked its infrastructure with that of the National Science Foundation in the United States to create the Internet2 Project. A new link, this time to Europe via Portugal, is now in the experimental stage.
- The Electronic Government project, coordinated directly by the Domestic Affairs Office of the President of Brazil, has already succeeded in putting 72% of all govern-

ment social and economic programs online. The effort not only makes life easier for the average citizen, it also makes public administration more transparent. During the first half of 2002, the Federal Data Processing Service (Serpro) initiated a program inviting ordinary citizens to learn how to use the Internet, for free, at Serpro branches all over the nation.

- The Universal Access Program is a project involving many different government agencies in efforts to erase virtually all impediments to universal Internet access throughout Brazil. Among agencies involved are The Postal Bank, the Federal Savings Bank, the Electronic Government Services and Assistance Group (GESAC), and The Integrated Amazon Surveillance System (Sipam).
- Many smaller-scale initiatives can serve as models. The Youth Network is one. Another is the Information and Business Tele-centers, a program sponsored by the Permanent Forum for the Advancement of Small- and Medium-sized Companies. These programs not only create the infrastructure necessary to bring the digital world to all Brazilians, they also create a social atmosphere conducive to training in and utilization of the new technologies.
- Another sign of the government's concern over the important question of digital inequality was the creation of Digital Inclusion Workshops. These events bring together experts from all over the country to discuss better ways of getting Brazilians online.
- From the Digital Inclusion Workshops a white paper has emerged offering systematic solutions for the problem of digital inclusion. The white paper was considered so useful that a number of non-governmental organizations have adopted it as a basic policy tool. It has also been translated into English and Spanish for use overseas.

## **Brazil's growing presence in international science and technology**

Brazil is recognized today as a major player on the international science scene. This recognition has made it possible for Brazil to increase its interaction with scientific and technological research bodies overseas while boosting all forms of cooperation.

In the last few years, a great number of government-to-government accords have been signed in the area of science and technology. These include the following countries:

Germany	Argentina	Australia	Chile	China
Korea	Cuba	Slovenia	Spain	France
India	Mozambique	New Zealand	Russia	Ukraine

Today, Brazil has negotiated partnerships with countries at every stage of development. Such partnerships cover wide areas of interest ranging from industrial development to environmental studies to space science and even the so-called frontiers of science such as genetic engineering, cybernetics and nano-technology.

- Brazil has developed a number of formal partnerships with overseas entities such as the European Space Agency. It has signed the Kyoto Accord.
- For the first time in 18 years, a U.S. science and technology delegation visited Brazil with the objective of signing new cooperation accords. Nine U.S. development agencies were represented.
- During the last two years, a total of 25 accords were signed for international science and technology cooperation with Cuba, the United States, France, Argentina, Mozambique, Italy, China and Korea.

## **Nuclear development**

### **Nuclear applications in medicine: production of radioisotopes**

Radioisotopes and radio-pharmaceuticals have been produced by the National Nuclear Energy Board (CNEN) and distributed to over 300 hospitals, clinics and laboratories practicing nuclear medicine nationwide. The biggest client is the National Health Service itself, through its member hospitals. Patients needing diagnostic and similar services are the ultimate beneficiaries.

## New products - 1995-2001

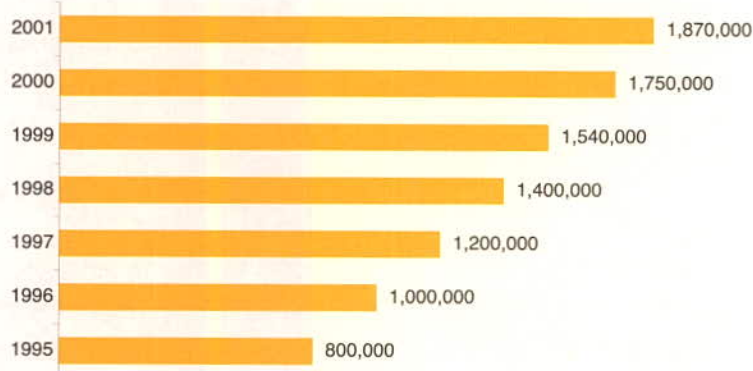
Year	Product	Purpose
1995	Samarium-153 EDTM	Pain relief - bone metastasis
	Reactive composite ECD to mark with 99m Tc	Studies of the brain
1996	Thallium-201 chloride	Cardiac diagnosis
1997	FDG - Fluorine-18	Cardiac and cancer diagnosis
1998	Iodine-131 capsules	Thyroid therapy
	Threads of Iridium-192	Brachial therapy for tumor treatment
1999	Sodium iodide with ultra-pure Iodine-123 obtained by KIPROS process	Diagnosis in thyroid illnesses
2000	Experimental production of first seeds of Iodine-125	Brachial therapy for treatment of prostate cancer.
2001	Sodium iodide and MIBG with ultra-pure Iodine-123 produced from Xenon	Diagnosis in thyroid illnesses

Source: Science and Technology Ministry / CNEN

Since the beginning of 1995, the government has given a high priority to production of radioisotopes and radio-pharmaceuticals. It has increased the variety of products available. It has closely followed development of new techniques. And it has reduced the country's dependence on imported raw materials while diversifying centers of domestic production. Such a strategy has made it possible to consistently increase the production and distribution of the products used in nuclear medicine.

From 1995 to 2001, the production of radioisotopes and radio-pharmaceuticals rose by 134%. The number of diagnostic procedures rose concomitantly from 800,000 to 1.87 million during the same period. In the last few years, the annual increase in output of radioisotopes and radio-pharmaceuticals has been about 10%. In 2002, some 2.1 million patients will be aided by nuclear medicine. Overall, the increase in output of radioisotopes and radio-pharmaceuticals should total some 160% for the period 1995 through 2002.

### *Medical procedure using radioisotopes*



Source: Science and Technology Ministry/ CNEN

### **The nuclear fuel cycle**

The nuclear fuel production cycle in Brazil encompasses six distinct technological and industrial operations: mining, conversion, enrichment, re-conversion, manufacture of rods and assembly of fuel elements. The Nuclear Industries of Brazil Corp. (INB S.A.), linked to the Science and Technology Ministry, is responsible for the mining and enrichment of uranium. At a later stage, it assembles and delivers nuclear fuel rods to Brazil's nuclear reactors.

In 1994, Brazil opened a new uranium mine, six times more productive than the original one. Meanwhile, it refurbished its re-conversion and rod manufacturing facilities and modernized the fuel rod assembly plant to produce rods faster than before. The national content index for the entire fuel-component production cycle rose from 20% to 60%. The index will rise to 80% by 2007 when a new partnership, this time with the Naval Research Center of Sao Paulo, comes on stream. The partnership will result in creation of a new isotope enrichment plant using ultra-centrifuge technology. Economies of scale will be gained at the new plant, making Brazil one of a select group of countries able to enrich uranium on an industrial scale using sophisticated technology. The technology, aside from helping the balance-of-payments, will also produce benefits in other sectors of the economy.

Studies by the INB of Brazil's uranium potential are currently underway and could yield important results in the near term. It is possible that Brazil could gain greater international visibility in this area and rise from sixth to third place among countries controlling uranium reserves. This will become clearer when current studies are consolidated.

## The Brazilian space program

In 1996, Brazilian National Space Program (PNAE) budgets and goals were approved for the period 1996-2005. The program is coordinated by the Brazilian Space Agency (AEB). A long-term goal of the PNAE is to guarantee the supply, from domestic sources, of the raw materials and components needed to administer the program. Ancillary goals include training and development of domestic industries, a search for wider applications in the domestic economy of space-program technologies and the fostering of greater public awareness of and interest in space exploration and Brazil's role in it. The government takes as its main premise the concept that space technologies are strategic and will contribute to the overall, long-term development of the nation. Such a philosophy has guided the development of the Brazilian Space Program over the last eight years. Significant achievements:

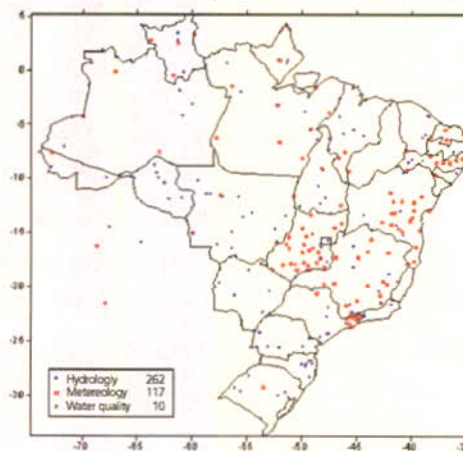
- Brazil, today, makes ample use of space technologies. Telecommunications and environmental monitoring, as in the case of Amazon deforestation, are important examples. Other areas include land use, mapping, mineral resources, agriculture, national security, urban planning, oceanic monitoring and many others. The list of clients using remote sensors and remote imaging grows continually.
- Meanwhile, the nation has been persistent in developing a capacity for building and launching its own satellites for various purposes. In 1998, the National Space Research Agency (INPE), in partnership with private enterprise, launched the SCD-2 experimental probe and, with the Chinese government, the CBERS-1 satellite, designed to undertake land use studies. Work on another land-use satellite, the CBERS-2, has now been completed and it will be launched at the beginning of 2003. A small Franco-Brazilian satellite, the FBM, and another small-scale research satellite, the SSR-1, are under development.
- The Brazilian-Chinese partnership in space is a prime example of scientific cooperation between developing countries. Because of its success, negotiations are now underway to extend it. Two more satellites are in the planning stage. They will be more sophisticated than their predecessors and broader in their applications.
- Brazil's space success led to an invitation by the United States to join it and 14 other industrialized countries in construction of the International Space Station. By accepting this invitation, Brazil will be able to utilize the facilities of the new space station for wide-ranging research. Among other things, the program brings with it the opportunity to train the first Brazilian astronaut under the aegis of NASA.
- Meanwhile, Brazil has also succeeded at developing and testing its own class of rockets. The program was coordinated by the Air Force's Aerospace Technology Center in conjunction with private enterprise. Rocket research has gone hand in

hand with a number of other scientific experiments. International attention, in particular, has been given to Brazilian experiments in micro-gravity environments.

- Research conducted by the Air Force and its private partners has led to development of the VLS Brazilian rocket probe. The probe is now undergoing certification testing. Test flights were conducted in 1997 and 1999. A third prototype is now in development. Successful conclusion of the project will place Brazil among a select group of countries able to develop and launch their own satellites.
- Brazil has greatly expanded its research facilities in the fields of rocket and satellite science. One important new institution is the Satellite Testing and Integration Laboratory (LIT), a division of the INPE. The laboratory serves the needs not only of Brazil's space program but also of a long list of private business clients. Since 1997, the laboratory has aided its clients in developing satellites and then launching them from the government-controlled launch site at Alcântara. Such activities have helped make the base self-supporting. Located on the Northeastern coast near the Equator, Alcântara enjoys a uniquely advantageous geographical position for rocket launches.
- The availability of the SCD-1, the SCD-2 and the CBERS-1 satellites has made it possible to create a National Data Collection System based on some 500 remote data collection platforms (PCDs) located throughout Brazil and in some neighboring countries. Weather forecasting services and hydroelectric generating administration today depend to a great extent on the data collected by the PCDs. Some 72 private companies, government agencies and universities are clients of the system, which is used to monitor weather, plus oceanographic and atmospheric conditions.

### ***Nacional Data Collection System***

Location of collection points for meteorological, hidrological and water quality data – December, 2001

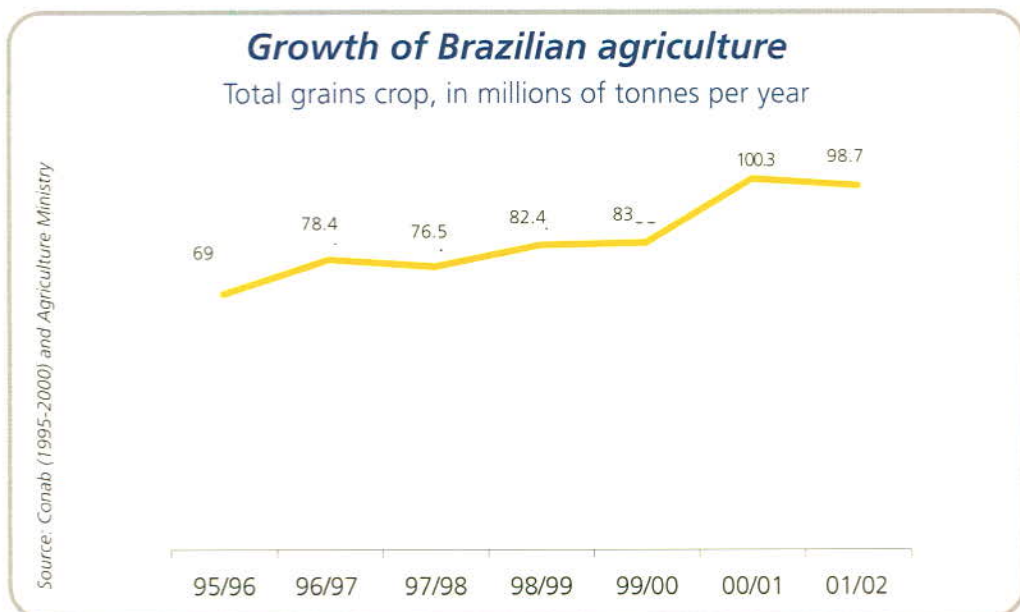


Source: Science and Technology Ministry/Inpe

## 20. Agriculture: another crop of good news

### Grain and oilseeds set new records

**T**HE BRAZILIAN 2000-01 GRAIN AND OILSEEDS CROP BROKE ALL RECORDS AT SLIGHTLY more than 100.3 million metric tonnes. According to a government forecast issued in May 2002, the 2001-02 crop would be 98.5 million tonnes (figures include soybeans, rice, black beans, corn, wheat, seed cotton, peanuts, oats, barley, hops, sunflower seed, linseed and sorghum.) Adverse weather conditions in some producing states caused a rollback from the February forecast of 100.5 million tonnes.



- The record came partly because of higher yields and partly because of expanded acreage. Both yields and acreage have been the object of sustained Federal Government attention since 1995.
- Brazilian farmers have benefited from techniques, including new seed types and inputs, developed specifically for Brazil's unique geography and climate by the Brazilian Agricultural Research Company (Embrapa). Acreage expansion has been encouraged, particularly in the vast region of savannas known as the Cerrado. Soybeans have emerged as the leader, with expansion into states such as Piauí and Maranhão after consolidation in western Bahia.

### *Grains and oilseeds crop - growth*

	1995/1996	2001/2002	Growth
Barley	225	303	35%
Beans	1,942	3,010	55%
Castor oil plant	237	121	-
Corn	29,937	36,016	20%
Cotton	2,127	1,270	-
Oats	196	449	129%
Peanut	139	186	34%
Rice	8,433	11,023	31%
Rye	7.5	13	76%
Sorgo	313	1,064	240%
Soy	22,282	41,116	85%
Sunflower*	15.8	79	397%
Wheat	3,198	3,821	19%
<b>Total</b>	<b>69,036</b>	<b>98,480</b>	<b>43%</b>
<b>Millions of tonnes</b>	<b>69</b>	<b>98.5</b>	<b>43%</b>

(\*) data from 1997/1998

Source: Conab/Agriculture Ministry

The 2001-02 crop represents an increase of 43% over the 1995-96 level, as the table above demonstrates.

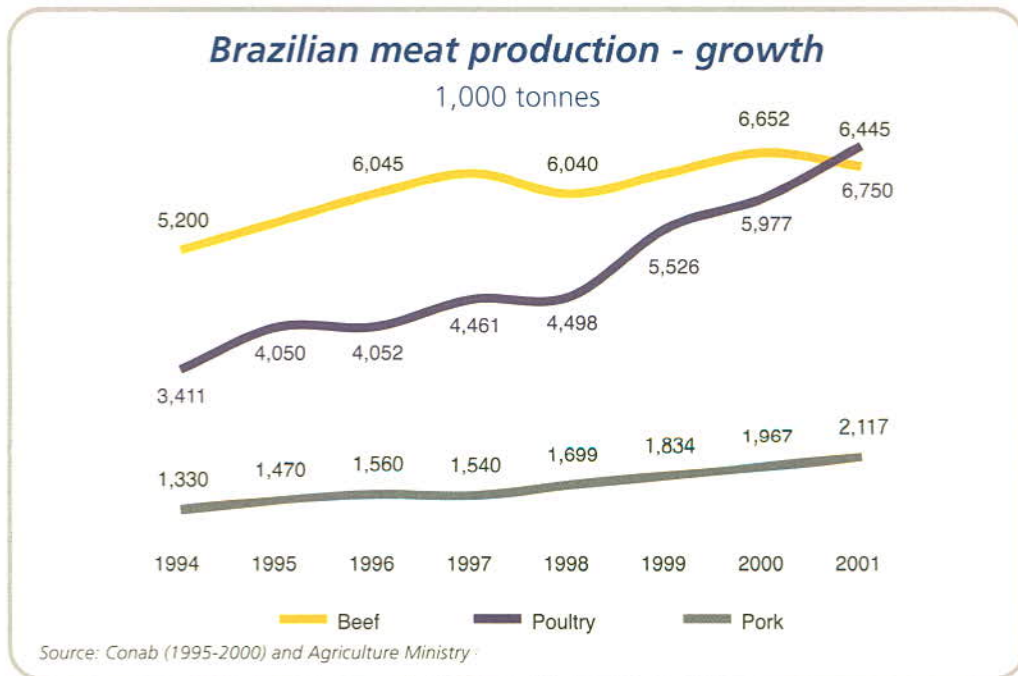
- The 98.5 million tonne crop was grown on an area of 39.6 million hectares, an area 5.6% larger than in 1995-96.
- Soybeans are the leader within the grain and oilseeds group. The crop was more than 41 million tonnes, representing growth of 7% in relation to the 38.4 million tonnes of the previous year. Expansion was a spectacular 85% compared to the first year of the Fernando Henrique Cardoso administration.

- Other important advances were registered by wheat (with the biggest acreage in 10 years, some 1.9 million hectares), rice (forecast at 11 million tonnes) and black beans (with a crop forecast at three million tonnes).

## Brazilian meat conquers new markets worldwide

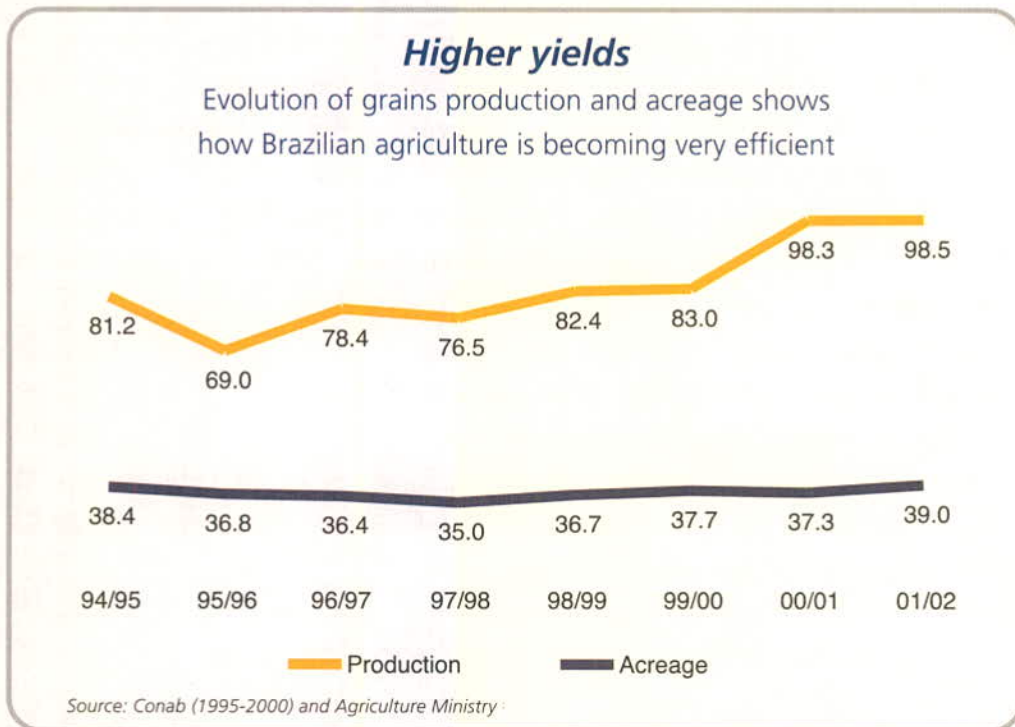
In the cover story of its 753rd edition, “Exame” business magazine shows how Brazilian farmers, ranchers and meatpackers have pushed the nation’s meat exports forward despite a decidedly unfavorable international market. The industry’s performance was called “spectacular” in the teeth of a worldwide recession, the Argentine crisis, terrorist attacks against the United States and a war in Afghanistan. Passages from the story:

- “Record yields from Brazilian farms and pastures, important productivity gains from new technologies in processing and packaging, the successful search for new markets and an unprecedented export drive mark the success formula of Brazilian agribusiness in recent years.”
- “Meat exports have piled up record after record, starting with poultry, which has become the star attraction of Brazil’s overall export drive.”
- “Brazil has never exported at this pace before.”
- “Brazilian pork has become an international consumer favorite. Markets such as Russia, which had shied away from Brazilian pork, are now avid consumers. Beef has also turned in a brilliant export performance.”



## Research investment lies behind yield gains

A continuous gain in yields, part of the overall modernization of the Brazilian farm, is one of the main reasons for the growth of Brazilian agriculture. Brazilian farmers have been able to produce more and more grain year after year on the same acreage. The following graph shows how grain output has risen by leaps and bounds, year after year, while acreage increases only gradually.



- Embrapa's research, technological development and technology transfer activities have allowed Brazil to become the most competitive agricultural producer in the tropics.
- Embrapa is one of the leading research institutions of its kind in the world today. The government-controlled organ is deeply rooted in Brazilian agriculture, with research centers and laboratories in 37 different localities.
- Embrapa intensified its operations during the present administration. As of the end of 2001, there were 19 separate research programs on stream. The programs administered 711 different projects and 2,718 sub-projects, a rise of 52% over 1995.
- From 1995 to 2001, Embrapa made available dozens of new seed types for rice, black beans, soybeans, wheat and cotton. The new seeds make it possible for farmers to boost yields in a variety of different soil types found in different regions of Brazil.

## Embrapa - new seed types available

Product	New seed types 1995-2001	% seed market 1999-2000
Beans	02	39%
Corn	19	21%
Cotton	19	43%
Rice (irrigated fields)	06	34%
Rice (non-irrigated fields)	06	96%
Soy	30	51%
Wheat	20	29%
Total	102	Average = 41%

Source: Presidential message to the National Congress - 2002

New techniques developed by Embrapa, often in partnership with other institutions, have changed the face of Brazilian agriculture.

- Meat and dairy output has risen exponentially.
- Despite widespread skepticism, the huge region of savannas known as the Cerrado has been brought into production with spectacular success and now accounts for 40% of the nation's grain output.
- New biological control techniques have made it possible to tame dozens of diseases and pests.
- The semi-arid Northeast has begun production of fruits for export.
- Even apples have become a Brazilian product.
- Special soybean seeds were developed to meet Brazilian conditions.

## Growth in average yields

(in kg/hectare)

Summer harvest	Before: 1994/1995	After: 2000/2001	Growth
Beans	573	688	20%
Corn	2,622	3,135	20%
Cotton	1,249	2,865	129%
Peanuts	1,497	1,921	28%
Rice	2,633	3,197	21%
Soy	2,221	2,720	22%
Wheat(*)	1,474	1,855	26%
Comparative average	2,115	2,611	23%

(\*) Winter harvest

Source: CONAB / Agriculture Ministry

## QUOTES

On the occasion of the 29th anniversary of Embrapa, President Fernando Henrique Cardoso made the following remarks:

**"Embrapa is a milestone in development of Brazilian agricultural technology and production. There is, perhaps, no other place in the world where so many highly trained specialists come together in the same place. Where else would one find so many master's degrees and PhDs, with so many of them from overseas, and all of them dedicated to agriculture?"**

**"The revolution in Brazilian agriculture would not have been possible without Embrapa. The increase in yields, for example, has been spectacular. We have gone from 50 million tonnes of grain a year to a hundred million tonnes thanks to these advances."**

**"The future of Brazilian agriculture lies in the Cerrado. The shift in agricultural development from the South to the Center-West continues. But it is only possible because of Embrapa. Without Embrapa, the lands of the Cerrado would still be undeveloped."**

**"To perform this great labor, it was necessary to develop new planting techniques, new seed types and seedlings. In other words, an entire sophisticated technology had to evolve. Today, we can say that, because of the efforts of Embrapa, Brazil is destined to become the bread basket of the world."**

## High agricultural production promotes economic stability

Farming and agribusiness have grown faster than the overall economy for a number of years, to the point where they now make a major contribution to the nation's economic stability.

- In 2000, farming and ranching accounted for 7.6% of Brazil's Gross Domestic Product. This amounted to some R\$86 billion, according to the National Confederation of Agriculture (CNA).

- Considering the broader definition of agribusiness (cultivating, harvesting, processing and marketing of grain and protein products, including mechanical and raw materials inputs), that figure rises to 27% of Brazilian GDP, or some R\$306.9 billion.
- Agribusiness employs 24% of the Brazilian workforce nationwide.

### **Brazilian agricultural output - growth 2001/2000**

(in kg/hectare)

	<b>Value</b>	<b>2001/2000 growth</b>
Agriculture	R\$54.54 billions	+ 8.65
Cattle raising	R\$44.86 billions	+ 0.33%
Agriculture and cattle raising	R\$99.40 billions	+ 4.73%

Source: Agriculture Confederation of Brazil (CNA) and São Paulo University Applied Economics Research (CEPEA - USP)

- In 2001, the nation's domestic agricultural product - agricultural GDP - grew 4.7% over the previous year, the biggest gain since 1998, to reach R\$99.4 billion, according to figures from the CNA and the University of Sao Paulo Center for Advanced and Applied Economic Research (Cepea-USP).

### **A world leader in agricultural production**

Brazil is highly placed in world commodity production rankings

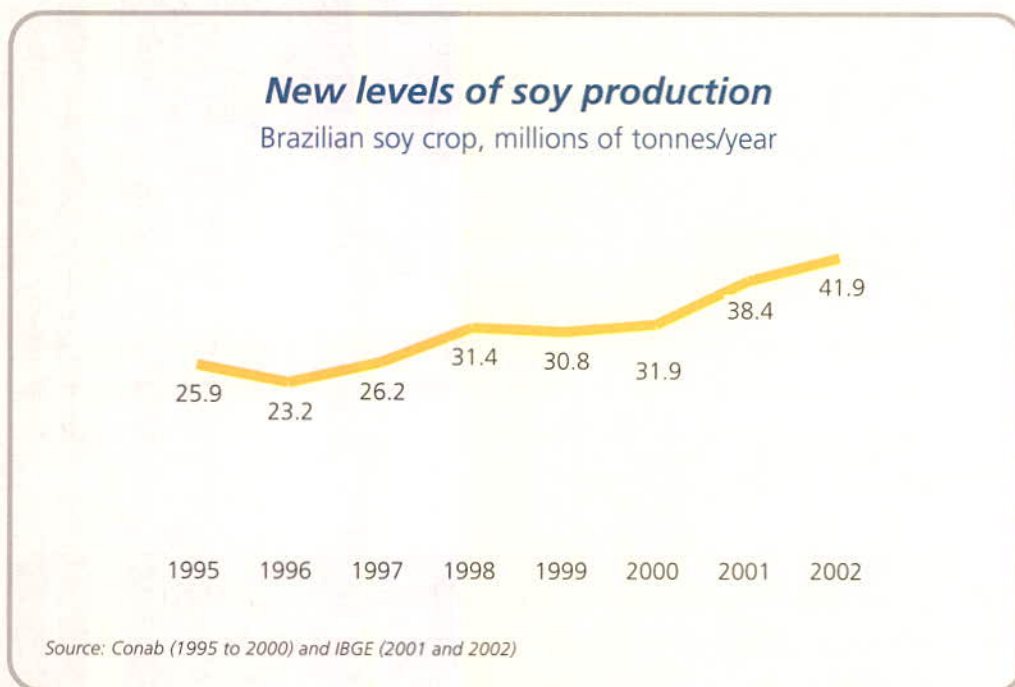
<b>Product</b>	<b>Brazil's position</b>
Coffee	1 <sup>st</sup>
Corn	2 <sup>nd</sup>
Fruits	3 <sup>rd</sup>
Meat - Bovine	2 <sup>nd</sup>
Meat - Poultry	2 <sup>nd</sup>
Oranges	1 <sup>st</sup>
Soy	2 <sup>nd</sup>
Sugar cane	1 <sup>st</sup>

Source: SPAIMA (Agriculture in numbers) and Conab

- The underpinning for agriculture in much of today's world, especially among industrialized countries, is heavy government subsidies. Brazil, however, has emerged as a leader in various areas. The country is first in sugarcane, frozen concentrated orange juice and coffee, second in soybeans, beef, poultry and corn, and third in production of fruits (see table).

## Soybeans top 40 million tonnes per year

According to figures from the Brazilian Institute for Geography and Statistics (IBGE), soybean output in 2002 will hit a new high of some 42 million metric tonnes, a 9.1% increase over the previous year. The spectacular rise in soybean production is a direct result of Federal Government policies.



- According to the Ministry of Development, Industry and Foreign Trade, the growth of soybean exports since late April 2002 is one of the main reasons for the huge increase of Brazil's foreign trade surplus. In April alone, Brazil racked up a trade surplus of US\$481 million, the biggest for that month since 1995.

### More soy beans to boost the trade balance

	2001 realized	2002 forecast	
Production (tonnes)	38.4 millions	41.9 millions	+ 9.1%
Area (hectares)	13.9 millions	15.8 millions	+ 13.7%
Major producers: Mato Grosso, Paraná and Rio Grande do Sul			
Major importers: Holland, Spain, Germany, France, Iran and China			

Source: Agriculture Production Data Collection, 29/05/2002; Conab

Following are extracts from a special report on soybeans published by “O Estado de S. Paulo” newspaper on May 30, 2001:

#### BRAZILIAN SOYBEAN YIELDS HIGHEST IN WORLD

“Yields for Brazilian soybean farmers in the 2000-01 crop year were higher than those registered by U.S. and Argentine growers and are now the highest in the world, according to the U.S. Department of Agriculture. For each hectare of land planted with soybean seeds, Brazilian farmers harvested on average 2,600 kilograms of soybeans. In the U.S., the comparable figure was 2,594 kilograms while in Argentina it was 2,524.”

“According to the Brazilian Oilseeds Association (Abiove), yields in the state of Mato Grosso were the highest in the nation, reaching 3,000 kilograms per hectare.”

“Among factors cited for this astonishing result are new seed types. Such seeds, which promote higher yields, are one way Brazil is currently fighting back against U.S. subsidies.”

#### RECORD FORWARD SALES OF SOYBEANS

“Brazilian farmers also racked up an all time record for forward sales of soybeans. As of a week ago, 35% of the crop had been sold, even though planting will begin only a month from now. Forward sales are typically pegged to the U.S. dollar. In some areas, such as Mato Grosso, more than half the crop has already been sold.”

“The lion’s share of forward sales (some 70% to 80%) is earmarked for export. This is why such sales are often dubbed ‘soja verde,’ or ‘green soybeans,’ because of the dollars they earn.”

“Export sales have served as a spur for Brazilian farmers who, more and more, are learning to copy the strategies of their international competitors. Traditionally, Brazilian farmers harvested their soybeans first and then sold them. Now, they are learning to finance the crop through forward sales.”

“The use of such techniques has become widespread and shows an increasingly professional class of farmers. Forward sales, for example, are especially common in the newly opened cerrado region, where farmers are more open to innovation, training and modern business practices.”

### ***Debt renegotiation for 300,000 farmers was a major spur***

In the years immediately following adoption of the Real Plan, the Federal Government played a crucial role in renegotiation of debts held by small, medium-sized and large growers. In 1995, Brazilian farmers faced a major crisis, as noted in the chapter on agricultural economics in Bolivar Lamounier's and Rubens Figueiredo's book "The Cardoso Era: An Evaluation".

- The farm crisis actually dated back to 1988 in the wake of the failed Cruzado (anti-inflation) Plan.
- Galloping inflation had made economic planning for farmers virtually impossible. The situation was so difficult to administer that President Itamar Franco (1992-94) had nine successive ministers of agriculture.
- In 1995, fully 30.4% of farmers were technically bankrupt. The farm economy was paralyzed.
- Farmers were starved for credit as they prepared to sow the 1995-96 grain and oilseeds crop.

The new government gave its highest priority to alleviating the farm crisis. Its first act was to re-negotiate loans of up to R\$200,000 per farmer using a system of government-guaranteed collateral. Interest on the new loans was equal to the variation in minimum-guaranteed farm prices plus 3% per annum. The government made available some R\$7 billion for the program, which benefited 300,000 farmers.

In the second stage of the program, the government allowed re-negotiation of debts over R\$200,000. This became known as The Special Assets Reorganization Program (PISA). Recently, a more refined set of rules for debts already under negotiation or about to come under negotiation was introduced. In this way, the government reduced one element of the so-called Brazil Cost, i.e., the high cost of farm credit (as noted in the presidential document entitled "The Real Plan: Four Years of Change", published in 1998).

## IBGE forecasts

On May 29, 2002, the IBGE released its forecast for the 2002 grain and oilseeds crop. Production of all grains, oilseeds and legumes would reach 99.34 million metric tonnes, a rise of 0.81% over the 2001 crop (which totaled 98.54 million tonnes). The forecast was based on the IBGE's systematic April survey of farm production plans. The IBGE survey covers a slightly different list of products from that used by the Agriculture Ministry, quoted at the start of this chapter, and produced a slightly lower figure. In any case, the news was good for Brazil.

### *Harvest heads for 100 million tonnes*

IBGE predicts 99.4 millions tonnes to 2002

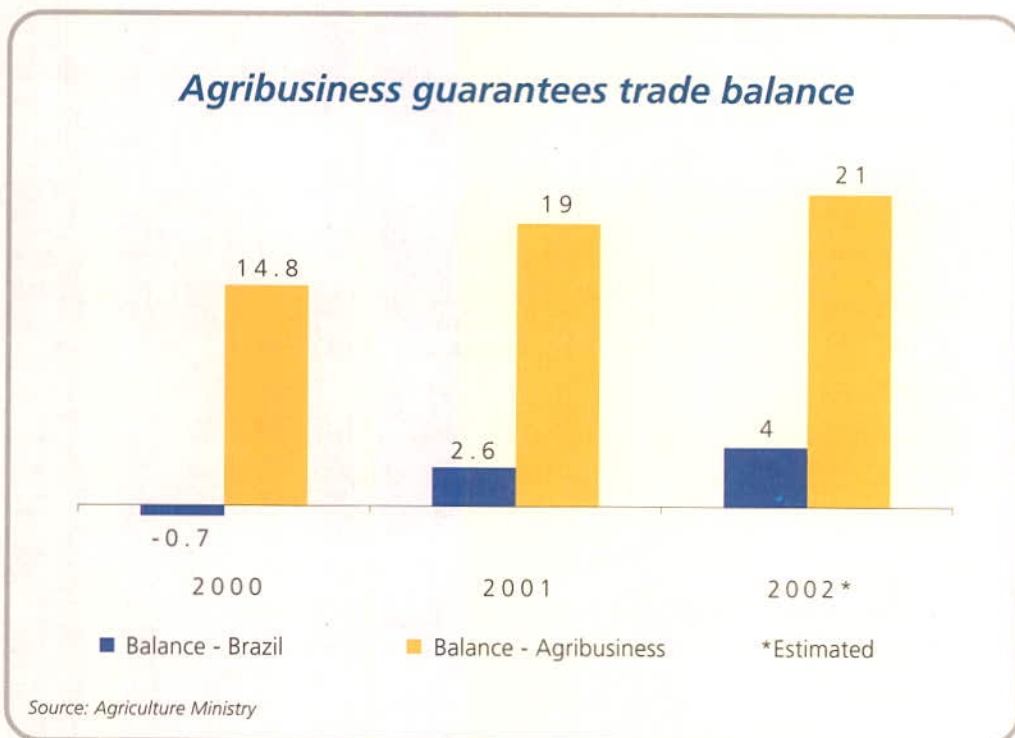
	2001 realized	2002 forecast	Variation %
Beans (whole) 1 <sup>st</sup> crop	1,203,079	1,699,333	41.25
Beans (whole) 2 <sup>nd</sup> crop	914,962	1,200,852	31.25
Beans (whole) 3 <sup>rd</sup> crop	318,315	263,063	-17.36
Cocoa (pod)	184,275	189,160	2.65
Cassava	22,479,371	22,888,450	1.82
Coffee (bean)	1,918,232	2,113,866	10.2
Corn (grain) 1 <sup>st</sup> crop	35,100,398	29,579,678	-15.73
Corn (grain) 2 <sup>nd</sup> crop	6,338,768	6,882,135	8.57
Cotton seed	2,640,128	2,291,912	-13.19
English Potato 1 <sup>st</sup> crop	1,356,056	1,420,773	4.77
English Potato 2 <sup>nd</sup> crop	908,172	862,000	-5.08
English Potato 1 <sup>st</sup> crop	523,154	440,455	-15.81
Onion	1,030,668	1,059,521	2.8
Oranges	16,843,620	18,546,065	10.11
Rice (husk)	10,195,420	10,453,037	2.53
Soy (beans)	37,683,083	41,922,605	11.25
Sugar cane	345,941,492	360,645,572	4.25
Wheat	3,260,834	3,872,739	18.77

Source: Agriculture Production Data Collection, 05/29/2002; Conab

## Brazil relies on agriculture for trade surplus

In its 1,754th edition, dated June 5, 2002, "Veja" magazine published an article entitled "The farm sector once again staves off crisis for Brazil" in its Business and Economics section. The article noted that Brazil's 2001 foreign trade surplus of US\$2.7 billion came largely from agricultural commodities exports. Quotes from the story:

- “The release last week of Brazil’s Gross Domestic Product figures for the first quarter showed, once again, how the country’s economy was saved by its farm producers. Agricultural output advanced 4.3% over the same quarter a year ago. The IBGE showed the overall economy shrinking by 0.73% for the same period.”



- “Historically inefficient and dependent on government subsidies, agriculture is traditionally associated with the most outdated of practices in Brazil. In recent years, however, agriculture has produced a spectacular turn-about.”
- “There was a time when overseas sales of soybeans, frozen concentrated orange juice and corn seemed to face insurmountable obstacles, especially in comparison with the export of manufactured goods and most especially when it came to markets in industrialized countries. Today that has all changed. Capital intensive, high-tech, export-oriented businesses have taken charge of Brazilian agriculture.”
- “For every dollar spent on imported inputs, Brazilian farmers earn eight in export of agricultural commodities. The result is that, last year, Brazil obtained a US\$2.7 billion trade surplus. The credit belongs entirely to the farm sector.”
- “Taken separately, the farm sector accumulated a trade surplus in 2001 of US\$19 billion. All other sectors of the Brazilian economy, taken together, ran a deficit of

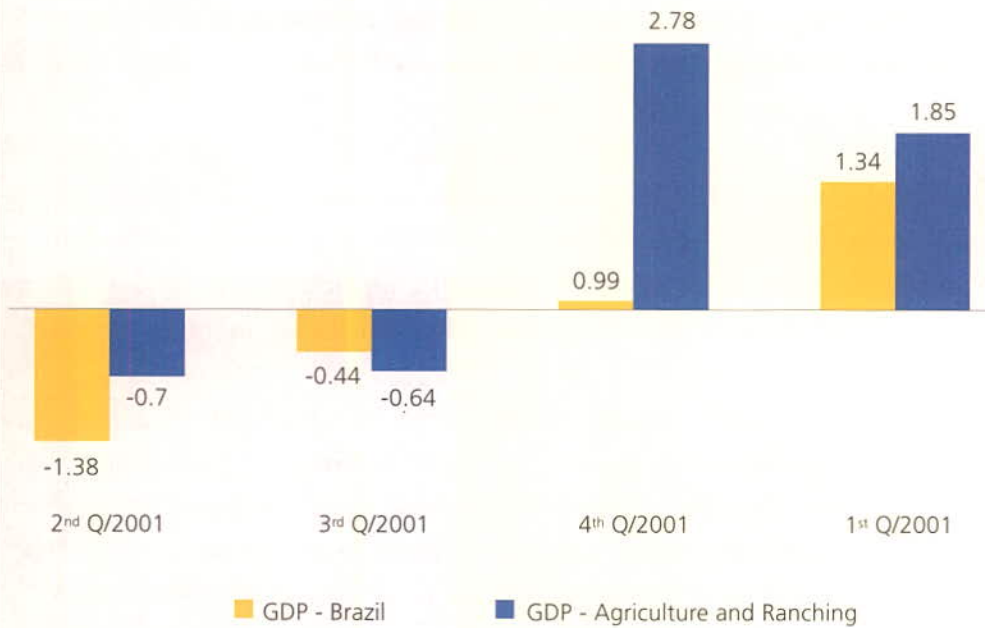
US\$16.3 billion in their overseas transactions. In other words, if Brazil were a purely agricultural economy, it would be able to produce a trade surplus even bigger than that of one of Europe's most dynamic exporters, Belgium, which managed a surplus of only US\$11 billion."

- "The fact is that Brazilian farmers modernized their operations faster than their counterparts in the manufacturing industries located around Brazil's big cities."
- "The old image of the tradition-bound Brazilian farmer has been replaced by that of a well-informed businessman, one who uses modern techniques to cultivate his land and husband his cattle."
- "Agribusiness has finally taken its place as the guiding star of Brazilian farming...It's a broad definition. It includes the manufacturer of tractors and the maker of fertilizers and pesticides; it embraces every kind of farm activity, from sowing of seeds to harvesting and processing of crops, from discovery of better packaging materials for export products to construction of climate-controlled grain elevators. It means research. It means farming. And it means business."
- "There are several keys to understanding the spectacular growth of Brazilian agribusiness. One is the huge increase in yields. Cotton, for example, shows double the per-hectare yield of a decade ago. From a net importer of cotton, Brazil, last year, became a net exporter. Overall, Brazil has racked up an average 70% rise in yields over the past 10 years. The key to boosting yields, in turn, is investment in hi-tech inputs."
- "Today, Brazil is the third largest consumer in the world of fertilizers and chemical agents for agriculture. Virtually all of the major multinational manufacturers have set up plants in Brazil. Brazilian farmers have become more and more savvy, creating a culture of global awareness. This has given Brazilian agribusiness access to export markets, international credit instruments and insurance and other services."
- "Because of this new, broader, cultural awareness, Brazilian agribusiness has been successful in export markets despite a hostile environment. While U.S. and European governments flood their agricultural markets with subsidies, Brazilian farmers have had to go it largely alone. The European countries, for example, subsidize their farmers to the tune of a fabulous US\$1 billion a day."
- "The fact that Brazilian farmers have been able to win market share against highly subsidized competitors is cause for considerable pride as well as hope for the Brazilian economy. Brazil is going to need, more than ever, battalions of its best export warriors."

## QUOTE

I once asked a French farmer friend why he planted soybeans instead of some other crop enjoying a natural advantage. This is what he told me: 'I plant soybeans, but I harvest subsidies.' - Valentino Rizzioli, vice president for Latin America of the CNH Global tractor-manufacturing corporation, quoted in "Veja" news magazine, edition number 1,754.

### *Agriculture - powering the Brazilian economy*



Source: IBGE

## Moderfrota: technology to beat international competitors

One of the pillars of success for Brazilian agriculture in recent years has been the government's Tractor, Farm Implement and Harvester Modernization Program (Moderfrota). The program is based on special credit financing provided by the Brazilian Development Bank (BNDES), with interest-equalization costs borne by the Federal Treasury. The program has helped farmers nationwide to mechanize their operations. All credit institutions recognized by the BNDES are able to participate in the program.

- Under the Moderfrota program, growers with annual farm income up to R\$250,000 are eligible for loans at annual interest of 8.75%. For those with higher annual farm income, the interest charge is 10.75%. Terms vary from six to eight years.
- Through such programs, Brazilian farmers are better able to confront tough competition in international commodities markets. Use of latest-generation farm equipment has given Brazilian growers an important edge in the battle for higher yields.

### *Moderfrota - government funds for modernization*

Year	R\$ millions
2000	1,036
2001	1,700
2002 (January to October)	2,039
<b>Total</b>	<b>4,775</b>

Source: MAPA

- From its inception in March of 2000 through May of 2002, the program has received R\$3.75 billion in government funds for distribution to growers as loans. In July, 2002 another R\$1 billion was earmarked for the program as part of the 2002-03 government farm program.

### *Moderfrota - impact on agricultural machinery industry*

Tractors, harvesters and others - sales and production

Year	Internal market sales	Foreign market sales	Production
1999	24,043	4,207	28,221
2000	30,536	5,270	35,501
2001	35,152	8,246	44,339
2002 (January to October)	36,770	8,786	44,279

Source: MAPA; Anfavea

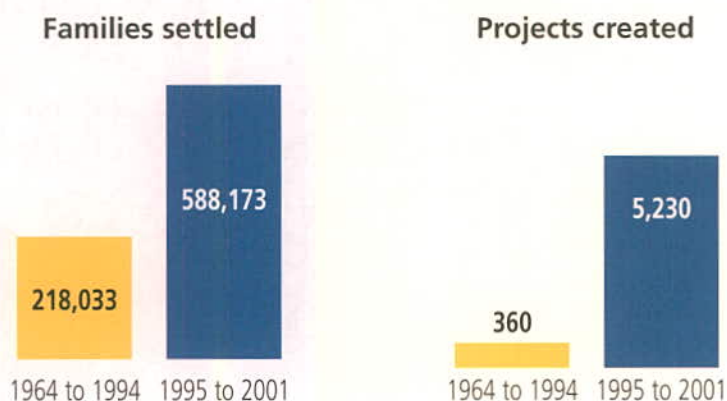
- According to figures from the National Association of Motor Vehicle Manufacturers (Anfavea), Moderfrota has played an important role in the expansion of farm equipment sales.
- In 1999, farm equipment sales nationwide reached 24,043 units. In 2000, the year the government announced the program, sales of tractors, harvesters, land-graders and cultivators rose to 30,536 units, an increase of 27% against the previous year, according to Anfavea.
- In 2001, domestic sales of farm equipment hit 35,252 units, an increase of another 15.4%. From January to May of 2002, a total of 14,716 units were sold domestically, a rise of 20.9% over the same period the year before, when sales were 12,174.
- In addition to modernization of the nation's farm equipment, Moderfrota is also helping make the equipment-manufacturing industry more competitive overseas. Exports of tractors and harvesters, for example, went from US\$38 million in 1999 to US\$145 million in 2001. Last year, the industry exported 8,246 units, up from only 5,270 in 2000. From January to May of 2002, the industry shipped 4,100 units of heavy farm equipment, up 17% from 3,484 for the same period a year before.
- According to the BNDES, Moderfrota so far has underwritten a total of 82,000 loans through 28 recognized financial institutions. In 2001 alone, there were 11,833 such operations. From January through May of 2002, 14,211 loans were granted, demonstrating a spectacular growth in demand for such aid.
- The success of the program has served as an incentive for fresh investments from the manufacturers of farm equipment, especially tractors. This means that Brazilian buyers are finding more modern, sophisticated models on the market. It also represents a boost for exports.

## 21. In seven years, more families settled than in previous three decades

**B**RAZIL IS CONDUCTING THE LARGEST AGRARIAN REFORM PROGRAM IN THE WORLD. The depressing legacy of centuries of large landholdings began to change in 1995, thanks to a series of initiatives by the Federal Government.

- In seven years, from 1995 to 2001, more than 588,000 families were settled on plots of land and 5,639 settlement projects were created. That was more than two and a half times the total number of families settled in the 30 years prior to 1995.
- In this period, nearly 20 million hectares of land were obtained for redistribution. Half came from punitive expropriations for failure to comply with the social function of property as detailed in the Federal Constitution. More came through acquisitions and land credit programs, such as the Land Voucher (Cédula da Terra) and the Land Bank (Banco da Terra).
- Investments during the period were R\$13.2 billion, the largest amount ever budgeted for an Agrarian Reform Program.

## The largest agrarian reform program in the world



Source: Ministry of Agrarian Development

- To support the installation of resettled families and assure the basic infrastructure for the productive structuring of the settlement projects, the Federal Government distributed R\$642.7 million in credits (food, start-up, habitation) and R\$937.2 million for construction of water supply, building and recuperation of roads and installation of electric power, among other projects.
- Since 2000, families settled under agrarian reform have received benefits from the Workers' Guarantee Fund (Fundo de Garantia por Tempo de Serviço - FGTS) for the construction of 70,000 homes, an investment of nearly R\$70 million.

### Agrarian reform - investments 1995 - 2001

Action	Total
Ministry of Agrarian Development (MDA) budget	R\$15,597,156,688*
Land acquisition	19,737,421 ha.
Settlement projects created	5,639
Families settled	588,173**
Installation credits (food, start-up and housing)	R\$642,762,120
Infrastructure (water supply, roads, electric line)	R\$937,269,613

\* Includes MDA budget for 2002.

\*\* Includes families supported via the Land Bank between 1999 and 2000.

Source: MDA/Incra

Social justice is coming to the countryside along two paths that run side by side: the Agrarian Reform Program and the Family Agriculture Program.

- Agrarian Reform is carried out by the Federal Government in a fully democratic manner, without violating or infringing due process of law.
- Workers are gaining access to land on a scale unparalleled in any democratic country. And family agriculture is receiving equally unprecedented support. These two efforts are part of the New Rural World Program (Programa Novo Mundo Rural), which is introducing a new concept of rural development: sustainable social and economic development, on the local and regional levels, through deconcentration of the production base and revitalization of economic, social, political and cultural life in rural areas.
- The results of agrarian reform actions (in all spheres of government), coupled with those for the repression of land fraud, are providing a better distribution of land. This can be seen in the decline of the Gini index (the principal indicator of land-holding concentration), which improved Brazil's position among the nations of the Americas in greatest concentration of land (from 5th to 12th place).

## *Families settled 1995 - 2001, by program and state*

State	INCRA <sup>1</sup>	Land Bank	Total
AC	25,699	-	25,699
AL	5,062	455	5,517
AM	19,575	-	19,575
AP	7,010	-	7,010
BA	25,015	1,830	26,845
CE	26,075	1,698	27,773
DF	9,042	-	9,042
ES	2,858	462	3,320
GO	6,329	2,247	8,576
MA	56,814	1,765	58,579
MG	8,755	2,665	11,420
MS	11,834	2,654	14,488
MT	70,523	1,201	71,724
PA	77,362	-	77,362
PB	11,422	732	12,154
PE	13,341	1,621	14,962
PI	14,203	978	15,181
PR	15,277	1,276	16,553
RJ	4,254	403	4,657
RN	17,109	302	17,411
RO	26,606	-	26,606
RR	10,718	-	10,718
RS	8,938	8,920	17,858
SC	3,566	4,128	7,694
SE	5,782	511	6,293
SP	8,522	3,847	12,369
TO	22,472	293	22,765
<b>TOTAL</b>	<b>514,163</b>	<b>37,988</b>	<b>552,151</b>

(1) Disappropriation, acquisition, public lands, vacancies in established projects.

Obs: A further 36,022 families can be added to these numbers in respect of Ownership Certificates awarded by INCRA between 1995-2001, making a grand total of 588,173 families settled on land in the period.

## Pronaf: R\$14.5 billion in credit for family farmers

For the first time in the nation's history, family farmers have had real access to bank credit. Between 1995 and 2001, Pronaf (Programa Nacional de Fortalecimento da Agricultura Familiar) made available more than R\$14.5 billion for this important segment of Brazilian agriculture.

- In this period, some 4.6 million loan contracts were processed under the various Pronaf credit lines. It has become one of the principal programs in the area of rural development, generating jobs and income in rural areas.
- This form of rural credit is also benefiting the economy of small and mid-sized towns in the interior of Brazil. At least 70% of the municipalities served by Pronaf have fewer than 20,000 inhabitants.

### *Family agriculture - credit growth*

Year	Contracts	Value (R\$)
1995	32,000	93,000,000
1996	332,928	649,795,000
1997	496,550	1,637,440,000
1998	709,906	1,814,922,000
1999	822,771	1,955,496,709
2000	969,727	2,188,655,116
2001	909,802	2,151,068,063
<b>Total</b>	<b>4,273,584</b>	<b>10,490,376,889</b>

Source: MDA, Family Agriculture Secretariat

Among the principal characteristics of Pronaf, the following deserve special mention:

- Pronaf beneficiaries include settlers of the Agrarian Reform Program; farmers served by the Land Bank; family farmers in general, including descendants of former runaway slave communities, rural day-workers and Indians; cooperatives and production associations of family farmers.
- Credits can be used for support activities (financing of farming and non-farming activities) and investment (financing for the implantation, expansion and modernization of production infrastructure as well as farming or non-farming services in the rural establishment or in nearby rural community areas).
- The form of credit grant can be individual, collective (when awarded to a group of producers for a collective purpose) or group (when awarded to a group of producers for individual purposes).

- Pronaf offers various lines of access to credit, suited to the varying profile of beneficiaries. Terms of access and payment are highly favorable to family farmers:

### **Family Agriculture Program - Pronaf - terms and conditions of main credit lines**

Activity	Line	Limits	Repayment	Interest	Discounts
Working capital	Group "C"	Minimum of R\$500; maximum R\$2,000 per borrower, in one single operation per harvest.	Up to 2 years, depending on the cycle of the investment	4%	R\$200 per borrower in each operation, on final payment or in case of early repayment.
	Group "D"	Maximum of R\$5,000 per borrower, in one single operation per harvest.	Up to 2 years, depending on the cycle of the investment	4%	-
Investment	Group "A"	Projects for initial set-up:+ One or two operation each between R\$4,000 and R\$9,500, less any loan made for working capital.+ Total value of credit can reach R\$12,000 when necessary, or R\$13,000 to cover technical support.	Up to 10 years, including following maximum grace terms:+ 5 years when technically necessary+ 3 years in other cases.	1.15%	40% of principle at each amortization or final settlement; 45% when borrower is receiving technical support.
	Group "B"	Up to 3 loans of R\$500, consecutive and non-cumulative.	Up to 1 year including up to 6 months grace.	1%	40% in each amortization payment.
Investment	Group "C"	+ Individual - minimum R\$1,500, maximum R\$4,000 per operation, rising to R\$6,000 where justified;+ Collective or group - R\$40,000, respecting individual limits per borrower.	Up to 8 years, including following grace periods:+ 5 years, when justified;+ 3 years, all other cases.	4%	+ Bonus of 25% of interest due on each payment within date;+ Discount of R\$700 per borrower, divided evenly among amortization payments.
	Group "D"	+ Individual - minimum R\$15,000, rising to R\$18,000 where justified;+ Collective or group - R\$75,000, respecting individual limits per borrower.	Up to 8 years, including following grace periods:+ 5 years, when justified;+ 3 years, all other cases.	4%	+ Bonus of 25% of interest due on each payment within date
	Collective	Collective or group - R\$200,000, respecting individual limit of R\$5,000 per borrower.	Up to 8 years, including up to 3 years grace	4%	+ Bonus of 25% of interest due on each payment within date
	Adhesion	+ Individual - maximum R\$15,000 per operation+ Collective or group - R\$600,000, respecting individual limits per borrower.	Up to 8 years, including up to 3 years grace	4%	+ Bonus of 25% of interest due on each payment within date
	Forestry	+ Group C individual: up to R\$4,000+ Group D individual: up to R\$6,000	Up to 12 years, including up to 8 years grace	4%	+ Bonus of 25% of interest due on each payment within date

## Land Bank serves some 38,000 families

Since 1998, expropriation is no longer the only means for small farmers to gain access to land. A new law created the Land Bank, which finances not only land but also the basic infrastructure for rural workers who wish to become landowners. Thus, it became easier to keep workers on the land, with the best conditions of access to credit and financing.

- By May of 2002, the number of families served by the Land Bank was 37,988:

<b>Land Bank - families served and money invested, by region</b>			
<b>Region</b>	<b>Municipalities</b>	<b>Families served</b>	<b>Investment (R\$ millions)</b>
South	1,071	14,324	292.8
Southeast	162	7,377	86.2
Centerwest	63	6,102	82
Northeast	298	9,892	122.7
North	8	293	3.6
<b>Total</b>	<b>1,548</b>	<b>37,988</b>	<b>587.4</b>

Source: MDA, Land Bank Secretariat

- Recently, the Managing Council of the Land Bank approved the release of R\$124.5 million for land purchase and investment in basic infrastructure for 8,000 new beneficiaries in 13 states. Another 8,000 farmers await conclusion of the process of acquisition of rural property. Thus, the Land Bank will soon serve a total of 55,000 families.
- By the rules of the Land Bank, each family receives, on average, R\$18,000 to finance the purchase of land and construct basic infrastructure. Repayment can be made in up to 20 years, with a three-year grace period, at a fixed interest rate of 4% a year (with no adjustment for inflation).
- Land Bank services are available to all Brazilians with proven experience of at least five years in rural activity and organized in cooperatives, associations or rural condominiums.

## Land credit and repression of rural poverty

The Land Credit and Repression of Rural Poverty Project (Projeto de Crédito Fundiário e Combate à Pobreza Rural) is an initiative of the Federal Government that complements other agrarian reform programs. Seeking to reduce rural poverty, the government, in partnership with the World Bank, will finance the land purchase and

support community action, through the increase of income for landless workers or small landowners.

- With a total cost of US\$400 million, the three year project aims to benefit 50,000 families in all Northeast and Southern states plus two states in the Southeast (Minas Gerais and Espírito Santo). The World Bank will lend US\$200 million, over 15 years, with five years grace.
- This project allows the agrarian reform program to incorporate productive properties and areas of less than 15 fiscal modules.
- The Land Credit project was discussed with organized groups within society prior to its implementation. It is participatory in nature and involves community groups, state and municipal governments and the National Confederation of Agricultural Workers (Confederação Nacional dos Trabalhadores na Agricultura - Contag).

## Training and technical assistance for settlers and family farmers

Year	Northeast	Southeast	South	Total
2001	8,000	1,000	1,000	10,000
2002	16,000	2,000	2,000	20,000
2003	12,000	1,500	1,500	15,000
2004	4,000	500	500	5,000
<b>Total</b>	<b>40,000</b>	<b>5,000</b>	<b>5,000</b>	<b>50,000</b>

In recent years, the Ministry of Agrarian Development and the National Agrarian Reform Agency (Incra - Instituto Nacional de Colonização e Reforma Agrária) have had two concerns: to obtain land of quality appropriate for the viable development of rural activities; and to provide farmers with the support necessary for their business to prosper. To this end, various measures were adopted:

- **Training and technical assistance** - Between 1996 and 2001, the Federal Government invested a total of R\$145 million in basic training for resettled families, support for training projects and hiring of technical assistance teams, in addition to various activities developed in partnership with states and municipalities.
- **Support for commercialization** - Seeking to assure greater agility in the production process and to professionalize the activities of family farmers and settlers, the Federal Government, in conjunction with social organizations and movements, NGOs and state and municipal governments, has fostered the creation of Regional Commercialization Agencies (Agências Regionais de Comercialização - Arco's). To date, 35 agencies have

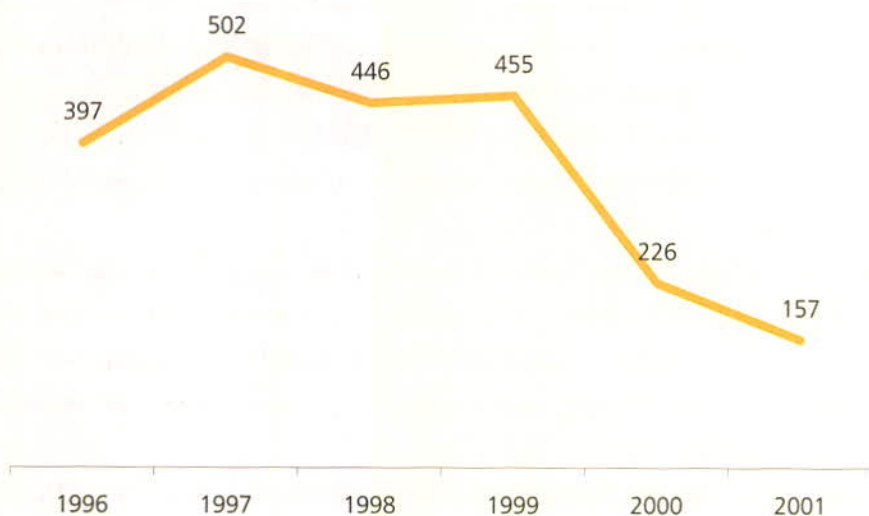
been created, serving some 350,000 farming families and 191,000 agrarian reform settlers in 624 municipalities nationwide.

- **Youth and adult education** - Creation of the National Program of Agrarian Reform Education (Programa Nacional de Educação da Reforma Agrária - Pronera).
- **Development of ecological awareness**, in particular:
- Changes in the process of creating and implanting agrarian reform settlement projects, introducing the environmental component in its social and economic structure.
- Incentives for the sustainable use of natural resources, with the development of Pronaf to increase the offer of credit for financing environmentally oriented activities such as forest cultivation, fish breeding, non-industrial fishing, ecotourism, organic farming, wildlife breeding and management, reforestation and forest management.
- Destination of lands acquired by the Union and those derived from repression of land fraud for the creation of Environmental Conservation Units.
- **Infrastructure construction** - To support agrarian reform and the development and consolidation of settlement projects, the Ministry of Agrarian Development has signed partnerships with various ministries to provide settlers with infrastructure:
  - Power in the Country (Luz no Campo - Ministry of Mines and Energy/Eletróbrás);
  - Country Telephones (Telefonia Rural - Ministry of Communications/Anatel);
  - Cisterns (Cisternas - Ministry of the Environment/ANA);
  - Schoolfund (Fundescola - Ministry of Education and Culture);
  - Aseptic Tanks (Fossas Assépticas - Ministry of Health/Funasa); and
  - Sport in School (Esporte na Escola - Ministry of Sports and Tourism).

## Less rural violence

The results of investments in agrarian reform and the support given to family agriculture are directly reflected in the reduction of conflicts in rural areas. As the graphs show, there has been a substantial decline in the number of rural workers killed as a result of land disputes, and land invasions have fallen sharply across Brazil.

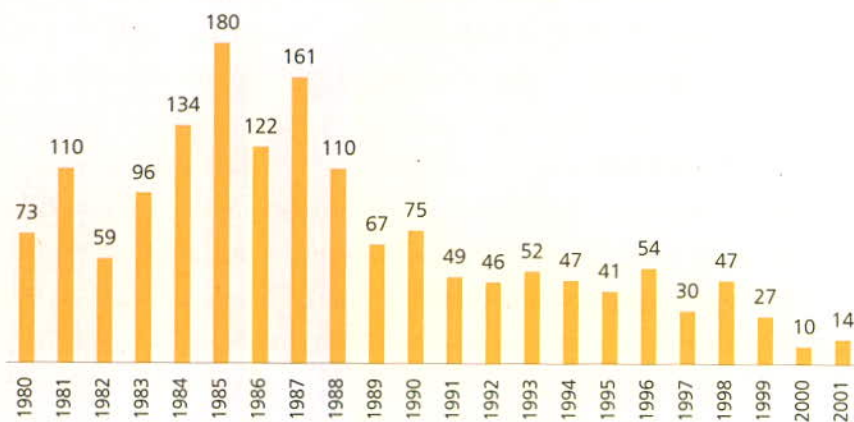
### Land invasion falling



Source: MDA

### Decline in rural violence

(agricultural workers - violent deaths/year)



Source: MDA

- Even with the reduction of violence, the Federal Government is not satisfied, because it believes that the goal of a land reform program must always be to avert any type of rural violence. It has thus been emphasizing action to prevent rural conflicts, such as the creation of state-level Agrarian Ombudsman Offices (Ouvidorias Agrárias) and a Committee for the Monitoring and Solution of Conflicts (Comitê de Acompanhamento e Solução de Conflitos).
- Expansion and reinforcement of dialogue with agrarian worker movements and representative bodies.
- Creation of the Program for Direct Access to Land (Programa de Acesso Direto à Terra), which gives any interested person the right to apply for a parcel of land. Application is made at any of more than 10,000 post offices across Brazil, thus eliminating intermediaries and making the selection of beneficiaries more transparent.

## **A blow against overpayment for land**

Thanks to a more modern and effective judicial posture, the government saved R\$655 million in the past five years in payment of “precatórios” (a legal instrument by which the government pledges to pay debts resulting from court decisions, in the case of land reform normally to former owners who suffered expropriation). The reduction was 56% in the period 1997 to 2001. Prior to 1997, the expenditure with debt payments was as much as three times the amount budgeted by Incra. That period was marked by the scandals over “supercompensation” paid to many rural landowners.

- In 1997, savings reached 60% (R\$467 million) and continued to evolve, reaching 85% (R\$115 million) in 2000. Last year, savings were 43% (R\$15.2 million).
- The expressive savings in debt payments is a result of measures adopted by Incra, starting 1997, such as the restructuring of the District Attorney’s Office (Procuradoria Jurídica), hiring more attorneys, hiring legal accountants, changes in agrarian legislation and effective action in contesting legal rulings against Incra.
- The fragility of government appeals was the principal reason that led Incra to be sentenced to pay compensations.

## Resolving a problem that began five centuries ago

### *Savings in debt payments*

(see explanation in text above)

Year	Value (R\$ millions)	Decline
1997	467	60%
1998	16	17%
1999	41	34%
2000	115	85%
2001	15	43%
<b>Total</b>	<b>655</b>	<b>56%</b>

Source: MDA, INCRA

This chapter has shown how Brazil is resolving the land ownership problem. This is a problem that dates back to 1530, with the creation of the hereditary captaincies and the system of “sesmarias” (large landholdings distributed by the Portuguese Crown to anyone willing to cultivate them and to receive in exchange one-sixth of the production). Consider the following dates:

- In 1966, the military government launched the first National Plan for Agrarian Reform, but it was never put into practice.
- In 1970, Incra was created to promote settlement in the Amazon. Large groups of Northeast migrants were encouraged to occupy land along the Transamazon highway, and businesses received tax incentives for large farming and ranching projects. The experiment was not successful.
- In 1985, with the restoration of democracy in Brazil, a new National Agrarian Reform Plan was launched with the utopian goal of setting aside 43 million hectares for the settlement of 1.4 million families by 1989. To this end the government created Mirad, a special cabinet ministry to promote agrarian reform (Ministério Extraordinário para o Desenvolvimento e a Reforma Agrária). Four years later, the results achieved were far more modest: 83,000 families settled on little more than 4.5 million hectares.
- In 1995, with an ample majority in Congress and sensitive to the growing pressure of society, President Fernando Henrique Cardoso decided to make agrarian reform one of the priorities of his government, with a pledge to settle 280,000 families in four years.
- In 1996, the Special Ministry for Land Policy (Ministério Extraordinário de Política Fundiária) was created, incorporating Incra. Since then, agrarian reform has accelerated sharply and the original goals were quickly surpassed.

## Repression of land fraud

The goal of carrying out agrarian reform to benefit thousands of landless rural workers and promote better distribution of land presupposes a determined and intense repression of land fraud - the fraudulent appropriation of deeds to areas of land that, in many cases, don't even exist. The principal actions to combat land fraud were the following:

- In December 1999, the Ministry of Agrarian Development announced it was annulling the property title of 3,065 rural holdings totaling 93 million hectares, the majority of which showed signs of fraud.
- All owners of areas of 10,000 hectares or more were summoned by Incra to prove the legitimacy of their documentation.
- The Congress set up a parliamentary inquiry to investigate charges of land fraud.
- In July 2000, a review showed that 62 million hectares were still irregular, and their registry in Incra was canceled.
- In June 2001, the Ministry of Agrarian Development ordered a review of the registry of rural properties between 5,000 and 9,999 hectares.
- More than 40 million hectares had their property registries canceled or frozen by courts, due to proof of fraud, by July of 2001.
- By mid-July 2001, more than 430 registries were definitively removed from the National System of Rural Registration.
- The states of Amazonas, Pará, Amapá and Acre have the highest rate of land fraud.

### Repression of land fraud

State	Title deeds canceled or sub-judice- Ha.
Amazonas	47,682,125.0
Acre	765,211.9
Amapá	1,397,691.3
Pará	11,450,749.5
<b>Total</b>	<b>61,295,777.7</b>

Source: MDA

In 2001, Congress created the Public System of Land Registry (Sistema Público de Registro de Terras), an initiative of the Ministry of Agrarian Development to unify data from various bodies responsible for the certification of land ownership and to make regional deed and title registrations more transparent.



## 22. Development and foreign trade

**B**RAZIL'S FOREIGN TRADE POLICY HAS PASSED THROUGH TWO DISTINCT PHASES IN the last eight years. In phase one, the government promoted a broad opening of the domestic market to imports. In phase two, the emphasis shifted to exports.

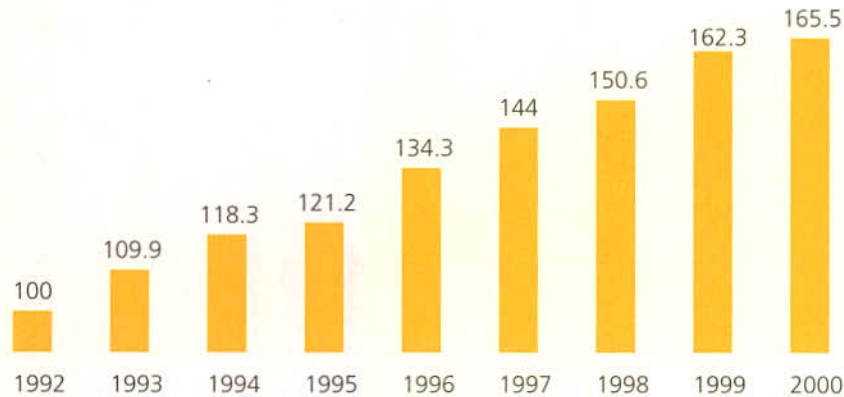
Loosening of restrictions against imports was a major factor in control of inflation and, as a consequence, the success of the 1994 Real Plan. Competition from imports stimulated greater efficiency among Brazilian manufacturers and helped keep domestic prices steady. In 1993, Brazil's average import tariff was 16.5%. By 1995, when the Mercosul Common Tariff (TEC) policy came into effect, it had fallen to 12.4%. Today, it is 11.8%.

The "shock" of sudden competition caused by the reduction of tariffs served not only to control inflation; it also stimulated productivity gains. Brazilian manufacturers had to modernize their products and assembly lines in order to compete with imports. Because of this, Brazilian industries registered average productivity gains of 6.5% per year between 1992 and 2000 (see table). A number of Brazilian industries have become so competitive that they are now major exporters.

## **Industrial productivity**

(hourly)

Average annual growth in period: 6.5%



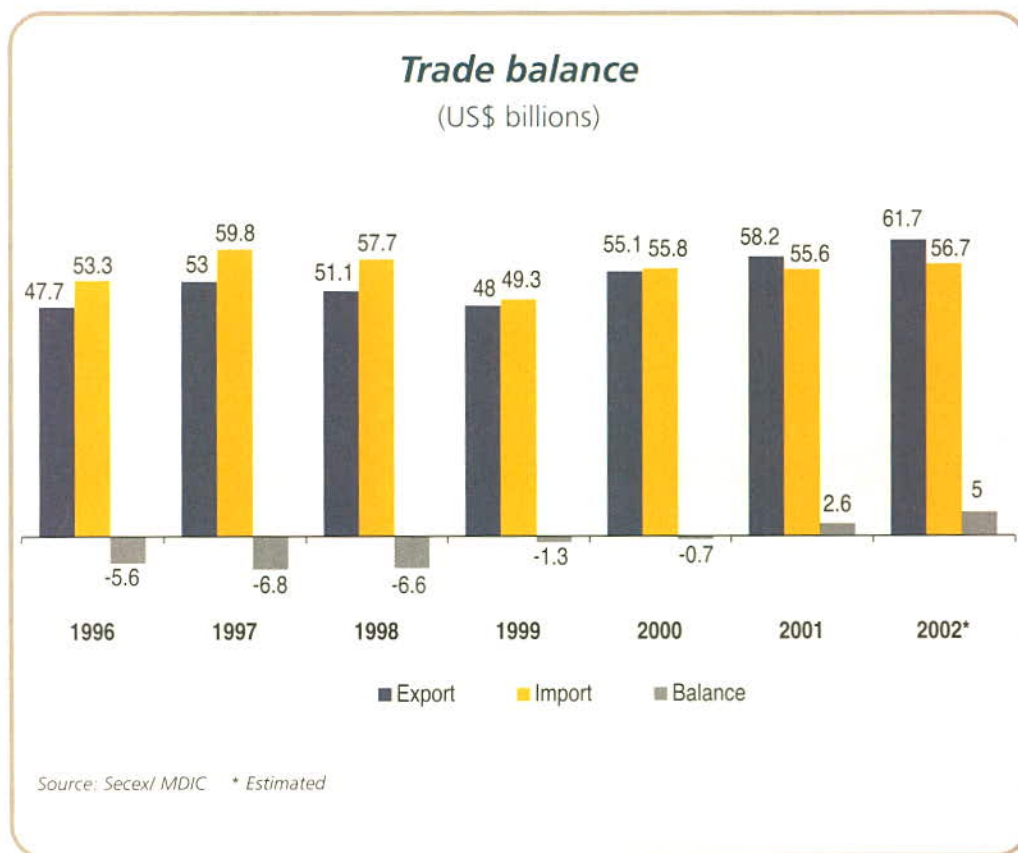
Source: Central Bank

The opening of Brazil's economy to imports also helped stimulate Foreign Direct Investment (FDI) inflows. Through the privatization process alone, more than US\$100 billion in FDI flowed into the country. In fact, during the last few years, Brazil became the world's second-top FDI destination among developing countries, exceeded only by China.

The first phase of Brazil's global integration was characterized by increased imports and expanded foreign investment. Today, the emphasis has shifted gradually to exports and to the globalization of Brazilian corporations. Imports and foreign investment still play an important role, but now Brazil must export more to close its balance-of-payments gap, reduce risk premiums and interest rates and generate a new cycle of growth.

Meanwhile, the increased presence of Brazilian companies overseas has served to expand export opportunities, add aggregate value to Brazilian products and boost revenues, profits and wages.

The biggest challenge Brazil faces at the start of the 21<sup>st</sup> Century is competition. But increasingly, Brazil is ready for the challenge, as recent trade figures show.



Brazil is not merely interested in exporting more; it is interested in exporting better. This means adding value. It means becoming more competitive. The foundation for any such policy must be based, first of all, on sound economic policies. It must also seek a firm foundation in rational industry-by-industry programs designed to boost quality, incorporate new technologies and improve manufacturing techniques, marketing and distribution. In short, it must do everything to assure constantly increasing aggregate value for Brazilian products and services seeking overseas markets.

Four pillars sustain a twin strategy of aggressive export promotion and industrial modernization:

- Reduction of manufacturing and exporting costs;
- Removal of barriers to export products;
- Aggressive promotion of Brazilian products and services in overseas markets; and
- A modern industrial policy.

These four pillars are discussed below.

## *Reduction of costs*

The first step to reducing costs for exporters is to boost availability of export financing. The next steps are reduction of taxes that affect export products and elimination of needless bureaucracy. In this regard, the government has taken a number of measures. One is the Proex credit program. Another is elimination of the PIS/Cofins tax on export products. Yet another is simplification of both import and export procedures through the Siscomex system. These are explained below.

### **Financing: Proex, BNDES credits and export insurance**

The Special Export Financing Program (Proex), pre- and post-shipment credit lines supplied by the Brazilian Development Bank (BNDES) and the creation, in 1997, of the Brazilian Export Credit Insurance Corporation (SBCE) all represent important advances for Brazilian exporters seeking to place their products in overseas markets.

Proex helps Brazilian companies become more competitive in the marketing of their products and services by allowing them to offer buyers credits at competitive international rates. From 1999 to 2001, Proex distributed some US\$2.4 billion in such credits under two separate titles, one for direct financing and another for interest rate equalization.

One result of such policies has been the growth of exports by small and medium-sized companies. Such companies were responsible for 27.5% of Proex loans under the direct financing title during the period 1999 to 2001.

The Brazilian Export Credit Insurance Corp. (SBCE) was created in 1997 as a publicly traded company. The SBCE is backed by the Export Guarantee Fund (FGE), a strategic instrument designed to boost overall Brazilian exports by specifically aiding small and medium-sized companies. Such companies were often denied access to international markets due to lack of insurance.

From 1998 to 2001, 125 insurance policies were written. Coverage totaled US\$390 million, providing leverage for export shipments worth US\$450 million. The SBCE, during the period, collected R\$38.9 million in premiums and paid out R\$1.2 million in claims.

The export coverage ceiling, meanwhile, was raised from 85% to 90% for commercial risks and from 90% to 95% for political risks and Acts of God.

The BNDES offers two export credit types to its clients: pre-shipment and post-shipment credits. Both credit types are aimed at facilitating and expanding export of mainly manufactured products, especially capital goods, as well as long-cycle projects such as overseas construction and engineering services.

The two credit programs together accounted for the staggering total of US\$7.7 billion in loans for overseas services and capital goods exports from 1999 through 2001.

The BNDES has also developed an innovative credit line designed to aid in the globalization of Brazilian companies wishing to develop overseas projects, investments or exports. Such credits can be used to support underwriting of shares when share offerings aid in the export of goods and services, the placement of fixed investments overseas or the expansion of capital as part of overseas development.

Export financing accounts for fully 25% of the BNDES loan portfolio, or more than US\$3 billion in 2001.

The role of the Bank of Brazil should be given special emphasis as the government's partner in the promotion and leveraging of Brazilian exports. The bank extends invaluable aid to exporters via Foreign Exchange Forwarding Contracts (ACCs) and Foreign Exchange Delivery Contracts (ACEs).

During the period 1999 to 2001, the Bank of Brazil made available a grand total of US\$15 billion in ACCs and ACEs, accounting for about 20% of total market credit extended in support of Brazilian exporters.

## **Tax reform**

The government has ordered a number of changes in taxation rules and practices in order to reduce exporter costs. Among them is abatement of the ICMS sales tax for export products and alterations in the manner of calculating the PIS social welfare tax and the Cofins corporate profit tax in order to eliminate duplication of charges during the production cycle. The cycle is defined as including everything from raw materials and energy costs during production, through to packaging and transport charges at time of shipment. The maximum abatement available to exporters under the incentives program is 18.25%, covering the entire productive cycle.

The government is now pushing Congress for further cuts in PIS and Cofins charges during the export production cycle.

## **Eliminating bureaucracy**

### **The Foreign Trade Management Committee (Gecex)**

In 2001, members of The Foreign Trade Coordinating Committee (Camex) received some good news: in addition to its consultative functions, the group would now have real executive authority as well, and be known as the Foreign Trade Management Committee (Gecex).

The purpose of the move was to promote greater coordination of export incentive policies among a gamut of government agencies. It also allows quicker and surer decisions to be made in key areas such as taxation, financing, infrastructure and bureaucratic formalities.

Among its new attributes, Gecex will take joint responsibility for tourism promotion with the Ministry of Tourism.

Camex has already taken a number of important decisions in various areas. Here are the highlights for 2002.

- Elimination of certain taxes on investments in the areas of capital goods, data processing and telecommunications.
- Approval of legislation permitting sale of domestically produced goods at Duty Free shops in airports and other duty-free zones.
- Implementation of the Special Program for Export of Services (PEE-Serviços) aimed at encouraging Brazilian companies to sell engineering and other services abroad. The service sector accounted for 60% of Brazilian GDP in 1999 and 74% of FDI.
- Improvements in services aimed at foreign tourists, including streamlining of immigration procedures at gateways and training of Federal Police officers dealing with tourists and travel-related issues at airports.
- A 10% increase in Proex export finance loan availability, or R\$98 million, in July and August of 2002.
- Approval of streamlined rules for drawback import of animals and animal products destined for resale overseas.
- Approval of customs nomenclature that formally defines cachaça (sugar-cane rum) as a sugarcane aguardente of Brazilian origin. The measure gives Brazilian producers of cachaça trademark protection overseas.
- More aggressive legal defense of Brazilian products and services suffering losses because of unfair trade practices in other countries.

## Sicomex

Implementation of the Integrated Foreign Trade Management System (Sicomex), in 1993, made it possible for the Brazilian government to use, for the first time, up-to-date data processing technology in foreign trade. The consequence of this important development was the elimination of a great deal of paperwork, the streamlining of costs and the integration of various governmental services in the all-important field of foreign trade.

Siscomex was initially used only for exports. It was extended to imports in 1997. In 2001, Siscomex incorporated yet another feature, the Electronic Drawback System (temporary imports conditioned on eventual resale overseas).

In 1998, Secex, in partnership with the Brazilian Central Bank (Bacen), developed and introduced the Simplified Export Registration (RES) procedure for export operations up to US\$10,000. The registration can be used in conjunction with a similarly simplified foreign exchange declaration, also developed in partnership with the Central Bank. Still later, the Brazilian Tax Authority developed its own simplified electronic customs registrar while the Post Office made things even easier with its Easy Export (Exporte-Fácil) service.

In 1999, the Siscomex export service was remodeled and updated. The enabling legislation was changed and the data processing architecture was redesigned for information access and trade promotion as well as bureaucratic formalities.

The close coordination of policies between Secex and the Brazilian Tax Authority made it possible, in 1999, for Brazil to adopt the Simplified Import Registration (LSI) and, for customs purposes, the Simplified Import Declaration (DSI) and the Simplified Export Declaration (DSE). With these advances, nearly all trade transactions and customs declarations came under the aegis of electronic systems.

Since its inception, Siscomex has brought about a revolution in the way Brazilian foreign trade is managed. Mountains of paperwork needed to obtain import and export authorizations were swept aside. Customs processing of merchandise and foreign exchange transactions were simplified. The effort has produced major savings for everyone involved in foreign trade.

Currently, some 90% of all trade operations are registered automatically, with about 85% of all private companies engaged in international trade linked directly to the Siscomex system.

Advantages of Siscomex:

- Siscomex saves money. The system emits, delivers and copies receipts automatically. Follow-through is easy and cheap.
- Siscomex saves time. Processing and authorization are automated. Paperwork requirements involving various government agencies are all addressed at the same time.
- Siscomex is easily accessible and widely available. Users can access the system from their own computers or they can use the system at any of thousands of government offices, banks and other points nationwide.
- Siscomex cuts down on redundancies. Users provide basic information about themselves and their operations just once. The information becomes immediately avail-

able to all relevant government agencies and for all future trade transactions. A total of 11 customs agencies, in the case of exports, and 15, in the case of imports, enjoy access to Siscomex files. These include: the National Petroleum Agency, the Foreign Ministry Immigration Service, the Federal Police, the Army Procurement Bureau, the National Forestry Institute, the Central Bank, the National Energy Council, the Export Finance Agency, the Amazon Duty Free Authority, the National Mining Research Agency, the Postal Service and many others, in addition to authorized banks and transportation companies.

- Siscomex means automatic licensing. Import licenses under the Electronic Drawback system are granted instantly and automatically to those holding registered concessions. The only stipulation is maintenance of a minimum bank balance compatible with projected import costs.
- Siscomex guarantees permanent monitoring. Because of the breadth of its database and its ability to cross-reference information, the Siscomex system is easily able to spot damaging irregularities in trade transactions. Intervention is swift. Recent examples include government moves to control imports of steel products and cotton.

## **Simplification of export procedures**

The Ministry of Development has acted systematically to reduce export paperwork through rules simplification and administrative monitoring. The goal is to make Brazilian exports more competitive. A few examples:

- Expansion of the list of products eligible for export on consignment and lengthening of the consignment term. Authorization for exporters using the mechanism to obtain credit through Foreign Exchange Forwarding Contracts (ACCs).
- Flexible rules for remittance of hard currencies against overseas administrative costs. These may include warehousing, freight, taxes at country of destination, maintenance services, inspections etc.
- Establishment of a cost-free Certificate of Origin for small operators.
- Simplification of analysis procedures and concession of income tax waivers for the conduct of overseas marketing research related to Brazilian export products. Similarly, overseas remittances for payments related to fairs, expositions and other such events have been greatly streamlined. Such payments may include rental costs, maintenance and advertising for Brazilian products.
- Closer monitoring and more precise criteria in evaluating Brazilian export performance under the Hilton Quota for beef shipments.

- Reduction in the list of exports subject to sales registration paperwork and imports subject to purchase registration formalities.
- Substantial reduction in the list of products subject to export standardization rules.

## The Electronic Drawback Option

The Electronic Drawback Option provides for automatic processing of drawback import requests. It greatly reduces the need for manual follow-through while, at the same time, enhances monitoring and security functions.

The Electronic Drawback mechanism has produced significant financial and operational savings for all who use it. The system has eliminated much of the previous paperwork. Official analysis, authorization and follow-up procedures have been largely automated. Electronic Drawback brings with it the added advantage of working 24 hours a day, seven days a week.

A number of measures have contributed to the reduction of paperwork necessary to secure the importation of raw materials and components used for resale abroad of finished products.

- Previously, five separate documents were needed to effect a drawback importation. These ranged from a basic concession request to exhibits outlining various features of the proposed transaction. A minimum of 24 copies were emitted for each proposal, although that figure could easily rise depending on the nature of the raw material or component being imported and the destination of the finished-product export.
- With the coming of the Electronic Drawback option, however, a single Siscomex registration generates virtually all of the information necessary to bring the request to term. Government agencies and exporters alike can easily monitor the transaction once it is authorized.

The Electronic Drawback Option can even be accessed via the Internet as one of the services available through The Exporters' Portal. It is contributing to the expansion of Brazilian exports, a key government goal.

## Foreign trade information sources

The Ministry of Development has made enormous efforts to facilitate availability of information about foreign trade, including regular release of rules changes, procedures and statistics.

In 1998, the Foreign Trade Information Network (Nucex) was established. Nucex collects, organizes and disseminates information about foreign trade. It also makes information about procedures and trade licensing available to a wide public. Such

information covers everything from fair trade laws to financing and insurance for exporters to non-tariff barriers and world trade conditions.

## **The Exporters' Portal ([www.portaldoexportador.gov.br](http://www.portaldoexportador.gov.br))**

The Brazilian government's Exporters' Portal, launched Nov 28, 2001, offers all the information an exporter needs and all in one place. Exporters gain electronic access to legislation, procedures, statistics, official agencies, trade associations, foreign trade agreements, trade fair and exhibition calendars and research. All told, there are 400 links to trade-related sites.

Importantly, the portal is interactive. A section called "Learning How to Export" offers users step-by-step instruction in government formalities involved in the development of export sales. An e-mail service allows users to obtain direct assistance from government agencies. Users praise the system for its thoroughness and speed. Some 155,000 requests have been answered through the system so far.

## *Reduction of trade barriers*

Brazil is highly competitive in a number of areas. However, the country often faces barriers in efforts to expand its overseas sales, as noted in the tables overleaf.

Given these circumstances, it is essential for Brazil to make its presence felt as actively and aggressively as possible in all ongoing trade negotiations in the world today. In this way, Brazil can push to reduce trade barriers and guarantee access to world markets for its products and services. Special importance should be given to Mercosul, the South American bloc, talks with the European Union, talks about the Free Trade Area of the Americas (FTAA) and to agreements with Mexico and Chile.

## United States of America - barriers to Brazilian exports

Product	Barrier	Comments
Orange juice	Tariff	• Tariff <i>ad valorem</i> equivalent to 63%
Ethanol	Subsidy	• Excise duty of 50%. • Domestic producers exempt from excise duty
Sugar	Tariff quota	• Extra-quota tariff between 140% and 170% <i>ad valorem</i>
Tobacco leaf	Domestic producers receive support	• 75% percent of tobacco leaf used in production must be local • Up to 108.2% <i>ad valorem</i> intra-quota tariff equivalent. Extra-quota tariff up to 350% • Emergency support programs for North-American producers: US\$129 millions
Beef	No sanitary agreement	• Different sanitary verification processes. No mutual recognition of areas free from or with low incidence of diseases
Textiles	Quotas, high tariffs and others measures	• <i>Ad valorem</i> tariffs of 38%. Subsidies to local production equivalent to 150% of international market prices
Metals and iron alloys	Anti-dumping measures, compensatory rights and safeguards	• Variable surcharges from 6% to 142%

Sources: Barriers to Brazilian Exports (Secex, 2001). Brazilian potential gains in agriculture (CAMEX, 2001)

## Japan - barriers to Brazilian exports

Product	Barrier	Comments
Sugar	Scaled tariffs	• Variable <i>ad valorem</i> quotas, from 118.03% to 344.72%
Tropical fruits	Sanitary and phytosanitary measures	• Importation banned under allegations of incidence of Mediterranean Fruit Fly, Codling moth and other pests.
Footwear	High tariffs	• Tariff: 30% or ¥4,300 per pair, whichever is greater
Bovine leather	Tariff quota	• Intraquota importation has tariff range of 6.8% to 9%; extraquota 30%
Soy	Scaled tariffs	• Soybean tariff 0%; soy oil tariff ¥20.7 per kilo

Sources: Barriers to Brazilian Exports (Secex, 2001) European Tariffs: EU/WTO Consolidated List

## European Union - barriers to Brazilian exports

Product	Barrier	Comments
Beef	Sanitary and phytosanitary measures, high tariffs, tariff quotas, subsidies, internal support, CMO*.	<ul style="list-style-type: none"> <li>• Tariff <i>ad valorem</i> equivalent to 114.52%</li> <li>• Export subsidy consolidated in CMO* in 2000: €1.26 billion</li> <li>• Internal aid from CMO* in 2000: €4.73 billion</li> </ul>
Poultry meat	High tariffs, tariff quotes, subsidies, internal aid, CMO.	<ul style="list-style-type: none"> <li>• Tariff <i>ad valorem</i> equivalent to 46.25%</li> <li>• Export subsidy consolidated in CMO* in 2000: €1.26 billion</li> <li>• Internal CMO* support for producers of pork, eggs and poultry in 2000: €236 millions</li> </ul>
Sugar	Tariff quote, subsidies, exemption conceived to other countries, internal aid, CMO.	<ul style="list-style-type: none"> <li>• Tariff <i>ad valorem</i> equivalent to 66.39%</li> <li>• Export subsidy consolidated in CMO* in 2000: €497 millions</li> <li>• Internal aid from CMO* in 2000: €1.87 billion</li> </ul>
Tobacco leaf	Tariffs, internal aid, CMO.	<ul style="list-style-type: none"> <li>• Variable tariffs, from 3% to 32%</li> <li>• Internal aid from CMO* in 2000: €978 millions</li> </ul>

Sources: *Barriers to Brazilian Exports (Secex, 2001)* European Tariffs: *EUIWTO Consolidated List*

\*CMO – Common Market Organizations – specific sectorial policies financed by the European Agricultural Guarantee Fund, which also finances the CAP - Common Agricultural Policy.

## Access to consumer markets

### FTAA

When it comes to hemispheric trade, Brazil is now taking part, along with its Mercosul partners, in the 34-country initiative known as the Free Trade Area of the Americas (FTAA). Negotiations are due to finish in 2005. FTAA is a huge undertaking with profound implications for the future of Brazilian trade. For this reason, the negotiations have been the object of close coordination between the Brazilian government and private sector. FTAA negotiations involve a number of separate working groups. So-called “offers” (tariff plateaus and exemptions) must be made by a number of these groups (consumer goods, services, investments and government procurement) between Dec 15, 2002 and Feb 15, 2003.

### The European Union

Concomitantly, Mercosul has developed talks with the European Union with the aim of creating a transatlantic free trade zone. The negotiations are regarded as a critical commercial and political initiative. Conclusion of the EU talks will coincide with the wrap-up of FTAA negotiations and the current round of World Trade Organi-

zation talks in 2005. So far, “offers” in the EU talks have been made on a preliminary basis only. Both sides are now in the process of ironing out common positions. Negotiations on both sides are being conducted in collaboration with private sector representatives.

## Chile

As a result of ongoing negotiations between Brazil and Chile, a Complementary Economic Agreement was signed between that country and the Mercosul bloc. The agreement provides for preferential treatment in trade between Chile and the Mercosul countries. From the Brazilian viewpoint, the accord expands quotas and cuts tariffs on a number of products of interest to Brazilian exporters. These include pork, poultry, soluble coffee, automobiles, light trucks, trucks, buses, motor chassis and autoparts. Chemicals and soft drinks were also benefited.

## Mexico

- Motor Vehicles - Under the aegis of an existing Brazil-Mexico Trade Accord, the two countries have agreed to adopt preferences in bilateral trade for automobiles, light trucks, trucks and chassis. Under the deal, Brazil can export up to 140,000 motor vehicles at a residual tariff of only 1.1% during the first year. Beginning in the second year, the tariff falls to zero and the quota rises gradually until free trade status is attained after five years.
- Autoparts - Autoparts enjoy a reciprocal preference equal to 100% that started July 1, 2002. There are no quotas, but products must meet minimum regional-content requirements.
- Other products - A total of 800 other products are the object of preferential treatment under the agreement, so far, with virtually all products in bilateral trade on the table. The list of 800 includes 151 agricultural commodities, including soybeans and peppers, and 641 industrial products, including machinery. Total trade covered by the 800 products is some US\$250 million annually. The system of preferences includes tariff cuts ranging from 20% to 100%. The agreement remains in force until it is substituted by a broad Brazil-Mexico Free Trade Accord.

## The Andean Pact - ongoing talks

- Negotiations aimed at a Mercosul-Andean Pact Free Trade Agreement resumed in April, 2001. Officials expected talks to conclude by the end of 2002.
- The Mercosul “offer” in the talks covers 6,000 products responsible for 95% of regional trade.

- The Andean Pact proposal comes with an exemption list of 1,058 items under the Latin American Integration and Development Association nomenclature worth some US\$328 million in Brazil/Andean trade, or about 20.66% of the total.

## **Cuba**

With Cuba's acceptance into the Latin American Integration and Development Association, a new Brazil-Cuba Complementary Economic Accord (number 43) was signed. Negotiations completed in November of 2000 resulting in signature of The First Complementary Protocol, implemented in January, 2001, which set in motion a new set of preferential trade practices. At the same time, existing preferences were bumped up to 100%. The first industries to enjoy benefits were electronic goods, steel, capital goods, automobiles and autoparts, textiles, agricultural commodities such as poultry, soybeans, sugar, beef and pork and personal care products and cosmetics.

## **Access to services markets**

### **International negotiations**

Currently, Brazil is engaged in negotiations covering access to services markets through Mercosul, the FTAA, the EU and the WTO. Through the General Agreement on Trade and Services (the WTO's GATS accord), the Brazilian Development Ministry is now seeking market share in areas of traditional interest to Brazilian services providers such as the U.S. the EU and Japan. New markets are also included. These range from China, India and Korea to Canada, Australia and Mexico. Brazil's government is interested in opening these markets to both traditional and non-traditional Brazilian services exports. These range widely, from data processing, postal and courier services to audiovisual, construction and engineering services. They also cover architecture, city planning, landscaping and ancillary engineering services as well as traditional travel, tourism and service distribution professions.

Meanwhile, the Development Ministry has been researching the issue of trade barriers as they affect both goods and services. In 2001, it published its first compilation, called External Barriers Against Brazilian Exports in the United States, Japan and the European Union. The study, which is now being extended to cover other countries, is an invaluable tool for both government and private sector negotiators working on various fronts to open markets for Brazilian exporters by removing such barriers.

In addition to the GATS, Brazil is also a signatory of the Montevideo Protocol, which regulates services trade within the Mercosul group. Services also occupy a crucial role in talks at the FTAA and at the WTO.

## The Special Export Program for Services

In order to boost Brazilian services exports, the National Foreign Trade Committee on June 28, 2002 launched the Special Export Program for Services (PEE-Services). Government and private sector representatives are seeking, under the program, to develop a sector-specific approach in efforts to boost services exports. The program will focus on a number of sub-groups and will invite broad participation by the private sector in efforts to open more foreign markets to Brazilian services exporters.

## *Aggressive export promotion*

With the basic objective of opening markets to Brazilian products and services and acting within the principles of effective salesmanship, the Brazilian government has taken a number of initiatives. These include creation of APEX, the development of a generic Brazil Trademark, the Priority Goods in Priority Markets program and enhanced scope for trade missions.

## The Export Promotion Agency (APEX)

APEX (The Export Promotion Agency) was created by a presidential order in November, 1997 and began operations in April, 1998. Since then, it has developed trade promotion activities of many kinds in conjunction with private sector groups such as trade and regional business associations, the government's own Small Business Administration (Sebrae) and organizations representing small-scale exporters, among others. APEX is subordinated to the National Foreign Trade Committee and to the Ministry of Development.

So far, APEX has authorized 277 projects involving expenditures of R\$466.7 million, of which nearly half (R\$209.2 million, or 44.84%) came from private sources.

Of the 277 APEX projects, 90 have been completed. They are distributed as follows:

Year	Projects	Total value	%	Apex value	%
2002	27	10,808,187.24	53.83	4,990,669.01	46.17
2001	26	10,782,182.04	51.50	5,229,103.04	48.50
2000	15	9,828,019.85	58.31	4,097,582.06	41.69
1999	16	17,043,967.62	54.39	7,772,986.37	45.61
1998	6	3,867,083.23	59.82	1,553,944.53	40.18
<b>Total</b>	<b>90</b>	<b>52,329,524.13</b>		<b>23,644,285.01</b>	

Currently, APEX is executing 157 projects involving expenditures of R\$352.3 million, of which APEX itself is providing R\$157.6 million, or 44.7%.

Projects often involve small companies operating in sectors ranging from agricultural commodities to hi-tech industries and services. Traditional exports are a strong presence. These may include everything from footwear to textiles and furniture, among others. In all cases, however, the main APEX focus is on increased aggregate value.

Since its inception, APEX and the Brazilian companies working through it have participated in more than 800 trade fairs in Brazil and overseas. The agency has also organized literally hundreds of overseas trade missions as well as hosting trade missions, fairs and other events on Brazilian soil.

APEX is interested in seeing more new companies exporting. It also aims at a wider export "net" around Brazil. APEX-backed projects involving 6,000 companies are present in 400 different localities throughout the country.

In evaluating export performance, it is interesting to note that companies aided by APEX increased their overseas sales by 13.9% from 2000 to 2001, at a time when overall Brazilian exports expanded by 5.7%.

## The Brazil Trademark

The object of this program is to use the concept of a Brazil Trademark as a tool for expansion of Brazilian goods and services exports. One approach is to recast the image of Brazilian products abroad. Another is to present Brazilian products in the light of enhanced quality, especially in the case of products showing high degrees of aggregate value and which face extremely competitive market conditions.

Although Brazil is seen in a positive light overseas, the country still needs to project an enhanced image of quality, efficiency and reliability in order to guarantee a place for its products in world markets.

The Ministry of Development, Industry and Foreign Trade, through a process of open tenders, has contracted independent marketing companies to define and implement the program, which currently targets 10 countries seen as high priority.

The program will redouble its efforts throughout 2003. Initiatives will include advertising campaigns, missions involving opinion makers, overseas training programs, participation in international events related to trade, product insertion campaigns in Brazilian television programs broadcast overseas and periodic evaluation of the program's overall effectiveness, among others.

The government kicked off the program in typical style with a seminar on July 3, 2002 entitled Foreign Trade and the Brazil Trademark. The seminar debated in the

broadest possible terms the foundations and scope of the program. It involved the Development Ministry itself as well as the Foreign Relations Ministry, the Tourism and Sports Ministry and the Export Promotion Agency. The seminar brought together government officials, outside experts, private sector representatives and the press. It helped create widespread public perceptions about the importance of foreign trade in national development.

## Trade missions

Another part of Brazil's spreading export drive is a long list of trade missions to important target markets (Russia, Ukraine, China, India, South Korea and Mexico). The effort boosts both exports and investments in these critical markets through contacts with top officials and business leaders. Combating protectionist barriers is a key theme. Seminars and fairs often coincide with such missions. The effect is to boost the reputation of Brazilian goods and services for quality and exporters for reliability.

Brazilian trade missions overseas, led by the Development Ministry, are part of sustained efforts to win new markets and widen existing ones. Improving distribution networks for Brazilian products is another important goal.

President Fernando Henrique Cardoso, for example, led a mission to Russia in January, 2002, accompanied by 68 business leaders representing a variety of sectors. Later, a mission of business leaders from Sao Paulo organized a separate trip under the aegis of the Sao Paulo Industry Federation (Fiesp). The Fiesp group closed export deals worth US\$38.5 million during the mission.

A mission to China with 120 businessmen clinched a new deal, long in negotiation, between the Chinese government and Brazil's Embraer aircraft manufacturer for sale of the ERJ-145 model. Other export deals closed during the mission covered buses, software and agribusiness equipment.

A mission to India was also highly successful and gave rise to a promising initial agreement on sharing ethyl alcohol technology, know-how and raw materials. Other agreements included bilateral trade finance accords between banks operating in the two markets and a bilateral investment agreement. In addition, a government-to-government accord paved the way for Embraer sales of aircraft to the Indian Defense Ministry.

## A key program: Priority Goods in Priority Markets

The table below shows Brazilian export promotion efforts for goods tagged as high priorities in high-priority markets.

Under the program, Brazilian companies obtain government support for participation, in whole or in part, in fairs, trade shows and other events. These have included the Automechanika Show in Germany, for example. The program also promotes research, for example a study of the textile and fashion market in Japan. Data banks relating to the priority markets will quickly become an important tool for exporters. The program uses independent consultants, promotes events, workshops and lectures and sponsors government-private sector trade missions. A highly successful recent event sponsored under the program was a cachaça-sampling demonstration at the Brazilian Embassy in London.

Products/Countries	USA	United Kingdom	Germany	Japan	India	China	Mexico
1. Food	X		X	X	X		X
*Fruits	X	X	X	X			
*Special coffee	X	X	X	X			
* Sugar cane brandy	X	X	X	X			
2. Meat	X	X	X	X		X	
3. Shoes/leather	X	X	X				X
*Shoes machine components						X	X
4. Furniture	X	X		X			X
5. Textiles/clothes	X	X	X				X
6. Cosmetics	X		X	X			
7. Ceramic tiles	X		X	X	X		X
8. Autoparts	X		X				X
9. Machines	X					X	X
10. Tourism	X	X	X	X			

## *A modern industrial policy*

The government's industrial policy aims at promoting the competitive substitution of imports, especially where high degrees of aggregate value are involved. Such products often become important export items later. In order to expand its approach, the government is reaching out to small and medium-scale producers through sponsorship of training events at the Brazilian Development Bank and the Manaus Duty Free Zone, among others. Such events carry the generic title of The Competitiveness Forum.

## The Competitiveness Forum

The Development Ministry is aware that foreign trade enhancement depends on a lot more than just tax and foreign exchange policies. A great deal can also be done in areas such as product development and training. The Competitiveness Forum was created as an instrument for active implementation of the government's industrial policy. It focuses on competitive edge and aggregate value in the productive cycle.

A total of eight forums have been created: Construction and Engineering, Textiles and Fashion, Plastics, Electronic Goods, Woodwork and Furniture, Leather and Footwear, Air Transportation and Tourism and Travel.

The goal of the forums is to open a dialog between the government and the private sector. Based on the insights garnered, both sides can develop positive, high-impact solutions designed to make Brazilian products more competitive in world markets. The entire productive cycle is examined at each forum. Policies are devised to improve production, based on objectives such as job-creation and income enhancement. Regional development is another priority. So are technology transfer, quality-control and productivity and innovation. The end result should always be more effective substitution of imports and enhancement of exports.

At each forum, participants work out common positions on issues relating to trade bottlenecks. Consensus solutions are devised involving both the private sector and the government. Finally, a Competition Contract is developed, spelling out rights and responsibilities of both sides. Generally, the private sector pledges to attain certain export goals while the government agrees to take actions designed to resolve bottlenecks. Independent auditors are contracted by private sector participants to monitor compliance on both sides. Among chief accomplishments of the forums are:

- Woodwork and Furniture. An increase in the export base from 120 companies billing R\$996 million in 1998 to 357 companies billing R\$1.98 billion in 2001.
- Electronic Goods. Approval, in January of 2001, of a new Data Processing Law designed to stimulate production of hi-tech equipment for use in government research and development. Some 189 government portals, over a period of three years, will employ the equipment and its applications under the Basic Productive Processing (PPB) program. The program is a major element of the government's industrial policy and will help boost aggregate value of Brazilian products through utilization of domestically manufactured parts, components and applications. Regional benefits will also result.
- Leather and Footwear. Tariff reductions in import of machinery and equipment, paving the way for a broad modernization of the industry.

- Textiles and Fashion. Brazilian Development Bank (BNDES) loans worth some US\$1.5 billion (originally from the Inter-American Development Bank) distributed to small and medium-sized companies for importation of equipment and technology.

## Aggregate value

The challenge of achieving international levels of competition at every stage of the productive cycle is, in essence, the problem of aggregating value. This means not only guaranteeing the quality of the product as it is presented to buyers at the end of the productive cycle, it also involves innovation, quality-control and effective marketing all through the manufacturing process. The question for a country like Brazil is not just how to export more, but also how to export better, i.e., in a way that boosts margins, jobs and income.

Coffee will serve as a test case in combining government and private sector efforts aimed at aggregating value to an already important export product. The Competitive Forum for coffee, created in 2002, will examine and discuss the relationships between the different industry segments at each stage in the productive cycle with the aim of improving Brazil's competitive edge at every level.

A key question, already raised by forum participants, is taxation. Exporters of coffee beans pay no ICMS sales tax. Exporters of soluble coffee do. In principle, they should be able to recover taxes paid on such exports but, in practice, they have found ICMS recovery to be extremely difficult. The result, from the standpoint of industrial policy, is upside-down. Brazil, in effect, grants tax abatements to exporters of a raw materials but penalizes an industry that takes that raw material and aggregates value to it. Many companies have simply given up on exporting soluble coffee in the face of mountains of unpaid ICMS tax recovery forms. Even worse is the fact that Brazilian coffee growers earn a margin of only 8% to 10% on their export shipments. Three or four multinational trading companies plus roasters and wholesale distributors appropriate the rest. The government, however, has already stepped in to aid exporters. The APEX program, for example, has sponsored a gourmet coffee export project, as well as buyers' fairs, in efforts to bypass the middlemen and get the Brazilian product directly into the hands of overseas supermarkets.

Another area that has merited special attention at each step of the productive chain is plastics and plastic products. Private sector companies themselves have created a special Industry Standards Organization (ONS) governing technical characteristics of products such as plastic bags, disposable cups, industrial receptacles and packaging for fruits and vegetables.

In the area of construction and engineering, the industry is aiming at 100% conformity with ambitious technical standards by the end of 2002. To date, the industry has achieved 90% conformity for key building materials.

In the area of leather goods, the government has pushed its aggregate value strategy by means of an export tax on wet blue. By keeping wet blue in Brazil, tanneries have been obliged to focus on production of semi- and finished-goods rather than raw materials exports. The government has worked assiduously to develop the domestic leather goods industry by means of a leather classification system and loans for working capital so that Brazilian tanneries can compete with their international counterparts.

### **The Brazilian Design Program**

Efforts to improve the design of Brazilian products, as a factor differentiating them from competitors, have focused mainly on training. An introductory course lasts three days, while the hands-on follow-up takes 10 months. The emphasis is on the entire productive cycle for products such as coffee, leather, footwear, woodwork and furniture, textiles, and fashion. Inherently, the products sold in a globalized marketplace end up seeming quite similar to one another. For that reason, it is desirable to create a specific “look” and “feel” to differentiate Brazilian products from the rest, making them more attractive to foreign buyers.

Created in 1995, under the umbrella of the Development Ministry, the Brazilian Design Program (PBD) has labored to create just such a Brazilian “look” in order to aggregate value to the nation’s exports and strengthen the image of the Brazil Trade-mark in world markets. Its goals are:

- To encourage industrial and technological modernization through design.
- To boost quality and productivity.
- To make Brazilian products more competitive.

The main focus of the program is to broaden the use of Brazilian designs to embrace virtually all industries. A subsidiary focus is to deepen the dialog between production executives and design professionals. In 2002, the Design and Fashion Task Force was created as part of the Leather and Footwear Forum. The objective is to broaden the appeal of Brazilian footwear in overseas markets through better design while knocking out competitors who merely copy successful designs.

Since its inception, the PBD has used a series of Design Workshops as an instrument for dissemination of information and ideas about design. The Development Ministry manages the workshops in conjunction with the Small Business Administration (Sebrae) and the government’s Vocational Training Service (Senai). So far, the workshops

have benefited 150 small and medium-sized companies in 15 industrial parks. The companies are active in the areas of furniture-making, fashion, footwear and jewelry. The workshops focus on redesign of existing products as well as development of original designs. Other aspects include design applications, technical assistance and maintenance, creation of prototypes, product testing, and productivity.

Other tools include:

- Distribution of CD-ROMs developed at the Design Trends workshops already conducted at 15 industrial parks plus 35 original CD-ROMs for a total collection of 50.
- Implantation of Design Support Groups at 12 industrial parks specializing in furniture-making.
- Promotion by the Amazon Duty Free Authority (Suframa) of Amazon Tropical Design, a show featuring furniture, home decorations and jewels made from residual jungle materials. The exhibit has already shown at the Brazilian Embassy in Italy and will soon travel to other locations in that country.

The Development Ministry and APEX have opened the way for more Brazilian designers to take part in international competitions and shows, part of an effort to build a reputation for excellence for Brazilian-made products. Over the last few years, the number of awards won by Brazilian companies for design has increased significantly. In 2000, Brazilians won nine such awards. In 2001, the number rose to 25.

Here are a few examples showing the success of the strategy.

- In 2001, Itaotec won in one of the 15 IF Design categories (IF Design is one of the most important competitions of its kind in the world). The award (in the category for Communications and Entertainment) honored the company's Internet access terminal.
- When it comes to motor vehicles, Brazil's Marcopolo has won various international awards for the design of its bus chassis. Such awards have helped the company sell its products in South and Central America, Europe, Africa and Asia.
- Brazilian makers of gems and jewels have been winning more and more design awards every year. Brazilian jewelry, as a result, has become an international benchmark for quality.
- When it comes to fashion, certain Brazilian products such as bikinis and lingerie have already won a guaranteed place on overseas store shelves. A number of designs have helped give prominence to the Brazil Trademark in this area. These include Flor Brasil, Salinas, De Millus and others.
- Brazilian furniture is also more and more evident overseas, including in demanding markets such as the U.S. (34% of Brazilian exports) and the UK (4%). The industry,

which exported only US\$25 million in 1990, achieved a 20-fold increase by 2000 to US\$500 million.

Perhaps the most interesting example pointing up the importance of design in the productive chain is that of the Aladdin thermos bottle, winner of the 1996 Ecodesign Brasil award. Investments in design reduced the volume of material used in manufacture of the Aladdin by one-third. Only three distinct parts were needed in order to assemble the product, bringing significant assembly line savings. The manufacturer was able to cut the price of the thermos bottle to half that of its nearest competitor, producing a major increase in market share.

## **The Brazilian Development Bank (BNDES)**

The BNDES broke all records for financing of productive enterprises in 2001, releasing loans totaling R\$25.6 billion, a rise of 11% over the previous-year level of R\$23.0 billion. The bank loaned money to 144,000 clients, a rise of 37% from the year 2000. Small and medium-sized companies borrowed R\$5.8 billion, 31% more than in 2000. Altogether, the BNDES made more loans than the World Bank and double the loans of the Inter-American Development Bank. Of total BNDES loans, export credits accounted for 23%.

The investments implied by these lending activities helped create 4.1 million jobs (directly or indirectly through the multiplier effect). Considering that BNDES loans typically account for 55% of a given project investment, the bank's 2001 lending activity effectively leveraged a grand total of some R\$45 billion in investments. The following breakdown shows the disbursement of BNDES loan money:

- Industry = R\$13.2 billion (up 26% from 2000),
- Infrastructure = R\$7.5 billion,
- Agribusiness = R\$2.7 billion,
- Trade and services = R\$1.5 billion,
- Education and health = R\$325 million,
- Secondary market = R\$462 million (purchase of shares on the stock exchange).

## Financing exports

(In US\$ billions)

Programs	1998	1999	2000	2001
Brazil - exports	51.1	48	55	58.2
Disbursements BNDES-EXIM	2.1	2.1	3.1	2.6
Support - percentage	4.1%	4.4%	5.6%	4.5%
BNDES - percentage funds	12.7%	19.2%	24.5%	23.9%

Source: BNDES

## Types of export financing

(In US\$ millions)

Programs	1998	1999	2000	2001
Pre-shipment	346	302	810	410
Special pre-shipment	642	638	474	559
Post-shipment	1,077	1,160	1,176	1,633
TOTAL	2,065	2,100	3,060	2,602

Source: BNDES

The BNDES has played a crucial role in the restructuring of Brazilian industry, in the advance of import substitution, in the development of exports, in support of small- and medium-sized companies and in the building of much needed infrastructure.

In 2001, the BNDES made loans totaling R\$6 billion to finance exports. The BNDES' role has helped greatly to diversify Brazil's list of export products as well as the universe of borrowers. Small and medium-sized companies have enjoyed special benefits, including benefits from innovative programs such as loan consortiums.

### Brazilian exporters: Small, smaller, smallest

Over the last eight years, the government has made special efforts to encourage exports by small-scale enterprises. The effort is based on an inter-ministerial approach and includes specially designed policies, strategies, legislation, programs and projects. It also counts with important support from the private sector.

Since 1998, the government has been working to develop regulations aimed specifically at encouraging small companies to get into the export field. The goals of such policies are many:

- Expansion of jobs and income,
- Building of export potential,

- Strengthening of the productive cycle at all stages,
- Development of regional and local comparative advantage,
- Regional and international integration.

Through this effort, the Executive Branch of the Federal Government has sought to comply with Article 179 of the Federal Constitution, which provides for differential treatment for small- and medium-sized enterprises. The Constitution enshrines a mandate for simplified treatment for such enterprises in the fields of public administration, taxation and social security, application of the labor code, credit and business development.

In the field of taxation and social security, Congress passed The Integrated Taxation and Payroll Deduction Act for Small-scale and Micro-scale Enterprises (the so-called Simplification Act) in 1996. The act provides for the following:

- Reduction in tax brackets for small- and micro-scale enterprises.
- Unification of baselines for calculation of tax brackets.
- Unification of payroll deductions and other collection mechanisms for the following federal levies: Corporate Income Tax, Welfare Deduction over Net Profits, Profit Sharing Deduction, Industrial Production Tax, and Employer Social Security Deduction.

Companies meeting criteria, and duly registered, under the Simplification Act enjoy exemptions from certain levies. These include dues to government-controlled social service entities (Sesc, Sesi, Senac and Sebrae), employee training fees and the employer portion of union dues. Such companies, however, must pay all other federal sales, value added, financial transaction and other taxes.

Rules established under the Simplification Act also apply to state and local levies when governments at those levels agree.

One important innovation of the Simplification Act is the inclusion of social security deductions using a special formula. Under the act, small-scale and micro-scale companies pay their portion of the social security levy as a fixed deduction over total billing rather than total payroll. Thus, under the formula, adding employees does not increase the employer's tax liability, a factor tending to encourage job creation.

Under an enabling act passed on Oct 24, 2000, the Tax Simplification Regime is extended to all enterprises operating in the areas of day-care, pre-school and primary education.

Another critical step for small-scale companies was passage by Congress of the Small Business Code on Oct 5, 1999, with additional rules mandated by executive order on May 19, 2000. The code provides for systematic changes in the way government treats small businesses when it comes to public administration, labor practices, welfare and retirement, credit and business development.

In many cases, businesses have been able to realize significant cost reductions be-

cause of the simplified procedures under the act.

- The act eliminates the need for presentation of court records in businesses where police clearance is required. A signed statement by owners or managers of a business is sufficient in such cases.
- A lawyer's signature is no longer necessary on company by-laws and official acts and contracts.

The Simplification Act provides for adoption of mechanisms to facilitate authorizations and other paperwork for small- and medium-sized companies active in the export field.

A useful arena for discussion of specific issues is the Permanent Forum for Small- and Micro-scale Businesses, set up by the Development Ministry on Nov 8, 2000. Business leaders and government officials use the forum to thrash out questions of specific interest to small- and micro-scale companies, adopting and then monitoring government-administered solutions.

The forum brings together 48 government agencies and 47 trade associations as well as the government-managed social services entities (Sebrae, Senac, Senai, Senat and others). The forum maintains six standing committees: Legal and Bureaucratic Procedures, Investment and Finance, Entrepreneurial Training and Opportunities, Technology, Foreign Trade and International Integration, and Data Processing.

A number of proposals originally raised at the forum are now being implemented by the government. One such proposal, for Internet dissemination of business information, has begun operating as a pilot program. The first Business and Information Telecenter is now operating in the state of Piauí. Later this year, it will be extended to other states throughout the country as part of an effort to make accessing of digital business information into a household practice.

## The Brazil Entrepreneur Program

In 1999, as part of an effort to make small and medium-sized businesses viable over the long term, the Brazil Entrepreneur Program (PBE) was inaugurated. The program aims at incorporating small- and micro-scale businesses into the formal economy.

The PBE has contributed significantly to income growth and to the maintenance and creation of jobs. It has also helped cut down on business failures among small- and micro-scale enterprises, one of the chief problems faced by such companies.

Results achieved between October, 1999 and May, 2000 are eloquent:

- Training for 5.8 million would-be entrepreneurs.
- Authorization of 3.9 million credit operations.
- Total budget allocation of R\$27.5 billion.

The PBE was able to expand its credit and insurance operations via integration with other government loan agencies. From October 2000 through May 2002, the PBE closed 411,000 transactions worth some R\$6.5 billion. Support came from a number of other programs. These included The Collateral Fund for Small- and Micro-scale Enterprises (Fampe, basically the credit arm of the Small Business Administration), The Fund for Business Promotion and Competition (FGPC, controlled by the BNDES), The Collateral Fund for Jobs and Income Creation (Funproger, part of the Worker Assistance Fund, or FAT), and the Insurance and Credit Fund of the Federal Savings Bank (CEF).

In its second year, the PBE introduced a number of new mechanisms in efforts to boost exports by small- and micro-scale companies. One such mechanism was a round of 12 Special Negotiating Sessions between Brazilian exporters and potential clients sponsored by the Bank of Brazil. Another was introduction by the Postal Service of its Easy-Export (Exporté-Fácil) facility, a fast-delivery service for Brazilian exports worth up to R\$10,000. Small-size exporters are able to use the service for packages weighing up to 30 kilograms. By filling in a single form, easily obtained at 12,000 post office branches, exporters are able to speed small packages on their way.

## **A program for development of small and medium-sized companies**

The chief aim of the Development Program for Micro-, Small- and Medium-sized Enterprises, part of the broad initiative known as *Avança Brasil* (Forward Brazil), is to strengthen small-scale companies as a way to maintain and generate jobs and income. The program's main goals through 2002 were as follows:

- a) To offer at least 1.8 million credit-packages to micro-, small- and medium-sized companies. In the event, through March 2002, the BNDES, the Bank of Brazil and the Federal Savings Bank delivered 3.4 million such packages involving some R\$34 billion, thus exceeding the goal by 88.9%.
- b) To create 189 handicrafts centers nationwide. The goal is linked directly to that of the Brazilian Handicrafts Program. The latter engages in training, organization, management and quality-control and productivity activities in conjunction with branches in all 26 states and the Federal District as part of efforts to encourage handicraft artisans. Through December of 2001, a total of 108 handicrafts centers (mainly co-ops or associations) had been established in the 26 states and the Federal District. The main focus is on training of artisans and technicians. In addition, the program aided 16 handicraft infrastructure projects.

The Development Ministry obtained, and donated, 27 trucks, one for each state and the Federal District, for transport of handicraft production. In addition, a book, "Art of Brazilian Artisan", was published in Portuguese, English and Spanish and distributed to buyers, both at home and overseas, interested in Brazilian handicrafts.

Since the year 2000, the government has also promoted an annual round of fairs and events under its Room for Brazil Program, designed to display Brazilian handicrafts to potential buyers.

## **Suframa: the Manaus Duty Free Zone Authority**

In northern Brazil, residents can count on the Manaus Duty Free Authority (Suframa) as a powerful instrument for regional development. In 2002, Suframa celebrated its 35th birthday. Based on the success of the Manaus Industrial Park (PIM), the economy of the state of Amazonas grew faster than that of any other state during the decade of the 1990s, or some 122% from 1990 to 1999. That performance helped boost the Amazon Basin in general, whose economy expanded by 55% during the same period.

The state of Amapá, for example, saw its economy grow by 56%, the second fastest growth rate in the region. Other success stories were Rondônia at 41%, Roraima with 40%, Tocantins at 36%, and Acre posting 34%.

Based on its success as a model for development, the Manaus Duty Free Zone, in more recent years, has been transformed into an export platform. Among other things, this has helped the region balance its international accounts.

From 1997 to 2000, Amazonas exports grew at impressive annual rates of 34.4%, 37.5%, 61.4% and 79.9%, much higher than those posted by the country as a whole. Amazonas exports jumped from US\$193.5 million in 1997 to US\$851.2 million in 2001.

- Exports grew by 340% during the period.
- The state increased its share of Brazilian exports from 0.4% in 1997 to 1.5% in 2001 to become the 11th largest exporting state in the country.

The growth in exports has helped Amazonas reduce its trade deficit. This is critically important since manufacturing activities at the Manaus Industrial Park depend on imported raw materials and components. From 1997 to 2001, the trade deficit fell from the record figure of US\$4.2 billion to US\$2.5 billion.

Imports fell significantly, from US\$4.4 billion in 1997 to US\$3.3 billion in 2001.

In order to boost shipments from the Amazon Basin, the government has given a high priority to the following export products:

- Two-wheeled vehicles (bicycles and motorcycles). In the case of motorcycles, the

main client base is to be found in the European Union. The Manaus Duty Free Zone can produce up to one million motorcycles per year. Assembly plants are being retooled to produce motorcycles with emissions levels in conformity with standards set by the EU and other potential clients.

- Consumer electronics goods (TV sets, DVD players, stereos etc.). Potential customers include The Andean Pact and Mercosul countries, the Caribbean Basin and even Mexico. Parallel, international talks are ongoing.
- General electronics goods (telecommunications and data processing components). Cellular telephone exports are already significant, having risen from only US\$3 million in 2000 to US\$146 million in 2001. The chief markets are the U.S. (82% of sales, or US\$120 million), Chile and Argentina.
- Fruits, juices and concentrates for soft drinks. These have become exports of ever increasing importance in recent years.



## 23. Foreign policy under President Fernando Henrique Cardoso

**D**URING THE PAST EIGHT YEARS, THE BRAZILIAN GOVERNMENT'S FOREIGN policy has been designed to support national efforts towards economic modernization, social transformation and political maturity.

This aim has been achieved by recognizing the possibilities opened to Brazil by changes under way at the global level, such as integration of markets, technological advance, transnationalization of the production chain, the growth of trade and financial flows and the universalization of values such as democracy, human rights, and sustainable development.

Efforts have been made to expand Brazil's presence in the global economy, based on strengthening the Mercosul customs union, a commitment to integration within South America, support for a style of globalization that is receptive to the interests of the developing world, active participation in the definition of new rules for international trade, and the fight to achieve greater access for Brazilian products in industrialized markets.

At the political level, there has been a renewal of Brazil's vocation for democracy, peace, and international cooperation. The country has contributed to the consolidation of democracy and respect for human rights in South America. It took a decisive role in solving the dispute between Ecuador and Peru; it provided support for the pacification, reconstruction and independence of East Timor; it promoted further cooperation with African countries, especially the Portuguese-speaking nations; it strengthened its commitments in the environmental area; and it played an important role in strengthening international cooperation in the fight against the trade in illegal drugs.

Diplomacy at the presidential level has been an essential instrument in promoting the country's interests. The President of the Republic consolidated Brazil's position among influential international circles, contributing to a heightening of the country's credibility, to an increase in its weight in international dialogue, and to strengthening its role in dealing with the great international issues of today.

The President led the government and the people of Brazil in their response to the crisis provoked by the terrorist attacks against the United States on September 11<sup>th</sup>, 2001. He made the world aware of Brazil's repudiation of terrorism, of the country's solidarity with the victims of the attacks, and of the importance of international cooperation in the fight against terrorism. In a speech of wide-reaching repercussion in the French National Assembly and in pronouncements at the United Nations, as well as in letters to various world leaders, President Cardoso underscored the importance of seeing the crisis as an opportunity to improve the standards that guide relations between nation states. He defended the idea of a new contract between states which, in the light of the ethics of solidarity, would promote security and democracy, human rights, sustainable development, and a correction of the current imbalances in international finance and trade.

Throughout his term of government, the president made several important international visits, including Germany, Spain, the United States, France, Italy, Japan, Portugal and the United Kingdom, as well as the other members of Mercosul, other neighboring countries and to states of particular interest whether by reason of their size, potential or special links with Brazil, such as South Africa, Angola, Canada, China, Korea, Cuba, India, Indonesia, Mexico, the Netherlands, Russia and East Timor. The emphasis of each visit varied according to particularities of the relationship: with members of the G7/8, the emphasis was on economics and trade and, especially in the case of Germany, on cooperation in environmental matters; with Mediterranean Europe, on participation in the privatization program; with Portugal, on investment, the Community of Portuguese-Speaking Nations (Comunidade dos Países de Língua Portuguesa – CPLP) and the celebrations to mark five centuries since the discovery of Brazil; with China, on cooperation in advanced technology; with India, on cooperation in the area of health; with South Africa, on politics and bilateral trade; with Angola, on the peace process and cooperation on development.

The Government's success in enhancing Brazil's status in the global sphere and in strengthening bilateral ties was demonstrated by the volume of international meetings hosted in recent years by Brazil. These included the Summit Meeting for Latin America, the Caribbean and the European Union; the Meeting of Presidents of South America;

the Meeting of the Governors of the Inter-American Development Bank and Inter-American Investment Corporation; the Meeting of the Community of Portuguese-Speaking Nations; and the biannual Meetings of the Mercosul Council; as well as the flow of official visits to Brazil by numerous Heads of State and of Government, which contributed greatly to the level of direct dialogue between world leaders.

If they were important in the sense of demonstrating the breadth of the country's interests, these presidential meetings also produced multiplying effects of great significance for the maintenance and strengthening of various partnerships, by stimulating participation in the process by civil societies, business communities, social movements, non-governmental organizations, scientific communities and universities. It is in this way that relationships have taken on their own dynamic, thanks to the perception of possibilities for dialogue and cooperation not only between governments, but also by sectors directly interested in the issues concerned, side by side, and in different areas: from investment to trade, from political agreements to defense of the environment, from respect for democracy to the promotion of peace, and from cooperation on development to the promotion of human rights.

The result has been an involvement of Brazil in international affairs that is intense, diversified and of great social coherence. The tonic, inevitably, has been reciprocity. As an example, consider economic relations. The increase in foreign direct investment in Brazil went hand in hand with Brazil's increasing participation in overseas markets. The counterpart to the confidence of foreign investors in the solidity of Brazil's economy has been the increasing competitiveness of Brazilian companies.

Hard as it may be to assess the results of foreign policy, given that the time needed for diplomacy to bear fruit is generally more elastic than activities carried out at home, but there is no doubt that Brazil's situation at the international level today is qualitatively different from its situation at the beginning of the 1990s. This is evidenced not only in terms of the significant increase in foreign direct investment in Brazil and in the dialogue between Brazil and its neighbors and the great world powers, but also, and primarily, in the affirmation of Brazil's international position as a country with a stable economy, with solid economic and social indices, committed to the well-being of its people and in full possession of democratic freedoms.

## **Brazil and globalization**

The Government's attitude towards globalization, from the start, has been one of critical realism. Globalization has been seen as a fact of present day reality, but not as something that imposes inexorable responses or options on nation states. It has always

been understood that the way in which a state reacts to the transnationalization of productive processes and of commercial and financial flows is a matter of national choice.

Brazil's choice has been to take advantage of the opportunities offered by globalization in terms of modernization of its productive base and expansion of its export capacity, without ignoring the risk that the imbalances involved, which are far from few, may result in a worsening of the inequality that exists between rich countries and the developing world. Brazil has profited from globalization in the form of generation of wealth and jobs, without relinquishing hope of correcting its perverse effects, as much in the commercial as in the financial area.

The basis of Brazilian strategy has been the fact that Brazil is one of the few developing countries in a position to be both a beneficiary and a critic of globalization. Brazil has a productive and technological base able to attract productive investment and to absorb technical progress. On the other hand, from 1994 to 2002 it has also shown itself capable of sustainable growth, of modernizing the state and of pursuing balanced and consistent public policies, in a way that has earned the respect and attention of those global players with the greatest influence on the evolution of the world economy, which is known by all to be in perpetual change.

What is certain is that Brazil has assured itself of a positive position in the globalized economy, at the same time as it has expressed fundamental criticism of the "deficit of governance" in the international economy, reflected in the persistence of commercial protectionism among the wealthiest countries, and of financial turbulence and speculative shocks.

## **Mercosul**

The eight years of the government of President Fernando Henrique Cardoso correspond with a period of consolidation and deepening of Mercosul, along the lines laid down in the Ouro Preto Summit of 1994. The institutional structure required by the process of integration was implemented, involving not only the economic and trade elements resulting directly from the Treaty of Asuncion, but also cooperation in the areas of politics, education, culture, society, justice and security.

In terms of economic integration, the free trade area was brought to completion, the common external tariff was implemented with a few temporary exceptions, and advances were made towards the definition of other common trade policies needed for the completion of the customs union. The Mercosul Administrative Secretariat was established and, more recently, discussions began for its transformation into a Technical Secretariat, within the budgetary restraints prevalent in the countries of the region

and maintaining the realistic spirit in which the bloc was conceived. The complaints settlement system laid down in the Protocols of Brasília and Ouro Preto was put into practice. Brazil's National Congress is studying the Protocol of Montevideo, which establishes mechanisms for the gradual liberalization of trade in services within the bloc. Efforts towards macroeconomic coordination were also initiated, and these continue to be a priority for the union.

The total value of trade within the bloc, which was about US\$5 billion in 1991, reached more than US\$20 billion in 1998, an increase of the order of 400% in seven years. However, successive crises in Russia, Asia and recently in Argentina have had a significant recessive impact in the region, with a consequent reduction in trade: in 2001, intra-regional trade was worth US\$12.6 billion. The level of foreign direct investment in the bloc, which was worth just US\$6.5 billion in 1994, jumped to US\$28 billion in 1998, reached a record of US\$55.8 billion in 1999 and was US\$44.8 billion in 2000. Equally important is the recent trend toward intra-regional investment, with significant investment flows from Brazil to the rest of Mercosul and from Argentina to Brazil.

In accordance with the principle of open regionalism, Mercosul maintained contacts or carried out trade negotiations with a number of countries, signing free-trade agreements with Chile and Bolivia (which became associate members), and a fixed preferences trade agreement with Mexico. Mercosul is in negotiations with the European Union and the Andean Community, as well as participating as a bloc in negotiations for the Free Trade Area of the Americas. Other important negotiations under way concern a preferential trade agreement between Mercosul and South Africa, to be constructed in the context of a Framework Agreement for the creation of a free trade area.

Progress of the Mercosul agreements has been helped by the strengthening of Brazil's strategic relationship with Argentina. With the personal involvement of the President of the Republic, the Brazilian Government has been able to develop a dialogue with Buenos Aires guided by an understanding of the importance of the partnership between the two countries. Brazil has followed closely the evolution of the situation in Argentina, especially the events which led to the end of the convertibility plan at the beginning of 2002. It has supported, with determination, efforts to secure the economic recovery of its neighbor, seeking to provide the conditions necessary for the strengthening of Mercosul. Bilateral trade has been extended, along with integration of energy systems and road links. Consultations between the Armed Forces were institutionalized, including the instigation of joint exercises. Cooperation on nuclear matters was widely recognized, especially in the light of the tensions seen on the Indian subcontinent.

## Continental Integration

Inspired by the success of Mercosul, the Brazilian Government sponsored a meeting in Brasília between South American Heads of State, to discuss the possibility of creating a cohesive and integrated economic area across the region. The results could not have been more positive. A strategy was agreed for the development of integrated infrastructure, and projects were identified in the areas of energy, transport and telecommunications, some of which are already being implemented, such as the partnership between Brazil and Bolivia on the production and transportation of natural gas, the energy integration program between Brazil and Venezuela, and the expansion of road links between Brazil, the Andean countries, and Argentina. Agreement was also reached on the importance of further cooperation in science and technology, above all in areas that reinforce participation of the region's countries in the international research community. To this end, a fund was created to help develop research and technological training. The initiative has progressed and there have been several ministerial-level meetings to carry it forward, and priorities have been established for development across South America. Financial institutions such as the Inter-American Development Bank, the CAF (Corporación Andina de Fomento) and FONPLATA (Fondo Financiero para el Desarrollo de la Cuenca del Plata) are fully involved in these efforts. At the second South American Summit in Guayaquil, in July 2002, the presidents confirmed the priority given to IIRSA, the Initiative for Integration of Infrastructure in the South American Region (Iniciativa para la Integración de la Infraestructura Regional Sudamericana).

Also at the Brasília Summit, the Heads of State agreed that the formation of a free trade area in the hemisphere should contribute to the equitable and sustainable development of the Americas as a whole. It was in this spirit that Brazil took part in the III Summit of the Americas, in Quebec. The Brazilian delegation made it clear at that time that the Free Trade Area of the Americas (FTAA) would be welcome to the extent that it achieved objectives such as access to more dynamic markets, common rules on anti-dumping, reduction of non-tariff barriers, elimination of protectionism in health regulations, and correction of the imbalances existing in the trade in agricultural products. Brazil made it clear that steps such as these are indispensable if the initiative is to constitute an instrument of economic progress and social well-being, not merely for some, but for all the countries of the hemisphere.

It is worth remembering that continental integration is already supported by the Association for Latin American Integration (Associação Latino-Americana de Integração – ALADI), created by the Treaty of Montevideo of 1980, and of which Brazil is a founder member. ADADI institutionalizes the preferential trade agreements reached

between its members: Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela. Since the Mercosul customs union and its common external tariff came into effect on 1 January 1991, Brazil's activities in ALADI have concentrated on renegotiating pre-existent bilateral accords with the Association's other members, as well as reaching free trade agreements with countries in the region in the format of 4+1, in which Mercosul participates as a single entity, with its own judicial existence. Independently of the FTAA agenda, ALADI should have its own agenda, which will lead in the medium term to the establishment of a Latin American common market, an objective laid down in the Treaty of Montevideo. During a visit to the ALADI headquarters on 20 August 2002, President Fernando Henrique Cardoso argued that this objective should be reached within four years.

Mercosul and the Andean Community (Colombia, Venezuela, Ecuador, Peru and Bolivia) are negotiating the creation of a free trade area within the framework of ALADI. Trade liberalization between the two sub-regional groups constitutes part of Brazil's agenda for South America. Despite the efforts and disposition of Mercosul, negotiations have not progressed at the desired speed. In an effort to accelerate an agreement, Brazil, at the head of the pro tempore Presidency of Mercosul, is attempting to conclude a treaty during 2002. To this end, a high level mission was sent to the Andean capitals in August 2002, with the objective of seeking a formula to allow a number of impasses in key elements of the talks to be overcome. Three negotiating meetings were scheduled, to be carried out by November 2002, which would allow the conclusion of the Accord and its signing at the next Mercosul Summit, to take place in Brasília on 4 and 5 December 2002.

It is important to remember the signing in Brasília, on 3 July 2002, of the Brazil-Mexico Accord on Economic Complementation, which establishes reciprocal preferences for about 800 tariffs, of which 80% concern the industrial sector. During the Buenos Aires Summit, which took place in July 2002, a Framework Agreement was signed which sets the terms for the negotiation of a free trade agreement between Mercosul and Mexico, as well as an Automotive Agreement between Mercosul and Mexico, which aims to increase access for automotive products to the Mexican market and advance towards free trade between the two parties in this sector.

## Trade relations

If concern for equity in trade relations directs the Brazilian Government's position in talks on integration in the hemisphere, it is also the keystone for the country's activities at the World Trade Organization (WTO). Since the conclusion of the Uruguay

Round, in which Brazil was an active participant, the country has been insisting that the WTO should as soon as possible meet its commitment to fill the principal gap left over from the earlier round, that is, to ensure the liberalization of markets in agricultural products, including the elimination of subsidies and other distortions. For the Brazilian Government, the proper treatment of agricultural questions in the next round of trade negotiations is fundamental to ensure that the multilateral trade system achieves a balance between the obligations of developed nations and those demanded of the developing world.

The Fourth WTO Ministerial Conference, which took place in Doha in November 2001, had positive results for Brazil. The ministerial declaration adopted at the Conference underlines the commitment of member countries to using the WTO as a forum for the elaboration of global rules on trade liberalization. The declaration establishes a full program of negotiations, which meets the interests of Brazil by including areas such as agriculture, antidumping, and export subsidies.

Brazil's role was decisive in the adoption of another important declaration, on intellectual property and public health, which supported the Brazilian position that the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) should not be imposed on national policies concerning public health, such as the fight against AIDS and other epidemics. The declaration supports the rights of members of the WTO to protect public health and promote access to medicines for their populations. It is estimated that, since it began in 1996, distribution by the Federal Government of the anti-AIDS cocktail has benefited 20,000 patients per year. The maintenance of this program was assured by Brazil at Doha.

With respect to the Foreign Ministry's efforts in trade talks to ensure effective access for Brazilian products to their principal markets, in addition to all that has been done as regards agriculture, mention should be made of the important examples of steel products and textiles. In the latter case, the Brazilian government reached a Memorandum of Understanding with the European Union under which the EU undertakes to suspend the application of quantitative restrictions on the import of some categories of Brazilian textiles and apparel. Under the terms of this Memorandum, the EU's obligations for trade liberalization under the Agreement on Textiles and Apparel, reached in the ambit of the WTO, were brought forward in Brazil's case by about two and a half years. This means that Brazilian products in these categories have full and unfettered access to the EU market. On the question of steel products, Brazil has acted in a determined manner with regard to the import restrictions imposed by the United States. High-level consultations with the US Government were carried out before the measures were announced,

including collaboration of the private sector, with the aim of excluding Brazilian products from the restrictions. As a result, special quotas were granted to Brazil. It is also worth mentioning the constructive participation of Brazil in discussion on the global steel industry in the ambit of the Steel Committee of the OECD.

In the area of biodiversity, Brazil has also played an active role in negotiations at the WTO, with the objective of fighting bio-piracy. In order that patents may be granted for products and processes based on traditional knowledge or genetic resources of indigenous peoples, there should be a sharing of benefits, prior consent, and proper information on the country of origin. Together with other biologically diverse countries, Brazil calls for the reform of Article 27.3 (b) of the TRIPS, which applies to exceptions in the granting of patents, in order to bring it into line with the Convention on Biological Diversity, which ensures sovereignty for States over their biological resources.

The defense of Brazil's commercial interests in multinational forums is not only expressed in ongoing negotiations, but also through questioning protectionist measures implemented against Brazilian products, in the ambit of the complaints settlement mechanisms at the WTO. For a country like Brazil, which is fully aware of the various norms of international trade, the number of disputes in which it is involved is above all an indication of the growing competitiveness of Brazilian companies, which are occupying market segments previously dominated by competitors from the industrialized world.

Brazil is one of the countries that most has recourse to the complaints settlement mechanisms at the WTO. Since 1995, it has taken part as a plaintiff in 17 disputes, involving gasoline, aircraft, instant coffee, chicken, textiles, and steel products, among others. Recently, Brazil called for consultations with the USA and the European Union, respectively, on subsidies for cotton and sugar; both cases are expected to have wide-ranging repercussions at the global level. We have been called to account in eight disputes, related to aircraft, desiccated coconut, automobiles and patents, among others. We have achieved very satisfactory results, both as plaintiff and defendant.

## Trade promotion

Since 1994, operations for trade promotion have accelerated on all continents, with the participation of the diplomatic network and the Secoms (commercial sectors) at Brazilian Embassies. The mission to attract foreign investment has also been reinforced. More than 40 business missions, promoting the "Brazil brand" were organized during the period, reaching a wide range of regions and countries including Asia, especially China, Southeast Asia, Southern Africa, Europe (especially Eastern Europe) and Latin America.

In the area of trade promotion, one of the positive results worth mentioning of efforts to improve electronic government was the creation of Braziltradenet (BTN). After three years in operation, BTN has registered more than 500,000 accesses and has more than 50,000 registered importers. The following services are currently being implemented:

- a) free e-mail for Brazilian exporters;
- b) distance training and conferences in the areas of trade promotion and how to attract investments;
- c) virtual showroom for exhibiting Brazilian products;
- d) simplified models of Internet sites for the free use of small businesses, which would otherwise not be able to afford the cost of a provider; and
- e) the creation of a mirror site in Europe, following the example already created in the USA.

## **Towards a new financial architecture**

Just as it is alert to the imbalances of international trade, Brazil has been equally critical of the sometimes irrational behavior of international capital. On more than a few occasions the President of the Republic himself has drawn attention to the problem. His first mandate had hardly begun when the President, during a visit to the Economic Commission for Latin America, condemned the volatility of financial flows and the costs this imposes on developing countries. In a meeting with other social democratic leaders in Florence in November 1999, he denounced the fact that financial speculation may deprive states of funds that are indispensable for the implementation of public policy. On more than one occasion he addressed the G-7/8 on the need to update the international financial architecture so as to improve the transparency and predictability of capital flows.

## **Global governance**

In a more wide-reaching criticism, the President of the Republic has warned that the emergence of the globalized economy has not been accompanied by the creation of satisfactory mechanisms of governance, not to mention mechanisms of government, thereby creating a deficit in citizenship. National communities are increasingly affected by events in other parts of the world, but the instruments that exist for participation at the international level are still insufficient. It is therefore important that states should cooperate in order to avoid a reduction in the possibilities for the exercise of citizenship. This presupposes the preservation of the ability of governments to meet fundamental demands for well-being, employment and social development.

## The global problem of drugs and transnational organized crime

In awareness of the fact that the problems of drugs and transnational organized crime, in all their manifestations, affect the political, economic, social, family and cultural structures of Brazil, the Government has developed activities to combat these evils which afflict Brazilian society and all societies on a global scale. International cooperation is an essential element in this war without frontiers, at both the multilateral and the bilateral level. We start from the principle of shared responsibility among countries which produce, consume and are used in the transit of drugs. This demands strategies that place equal emphasis on the questions of supply and of demand.

In the ambit of the United Nations and the Organization of American States, Brazil has become a member of important conventions dealing with the traffic of drugs and related crimes, with the trade in base chemicals and weapons, with money laundering, with corruption, terrorism, organized crime, and with the traffic of migrants and other people, especially women and children destined for prostitution. The Brazilian Government has improved its domestic legislation to make it more compatible with its international obligations. Also of note is Brazil's participation in the Multilateral Evaluation Mechanism set up by the Inter-American Drug Abuse Control Commission, under which the countries of the hemisphere carry out mutual evaluations on progress on the problem of drugs and related crimes. As well as dealing with these matters in forums such as Mercosul and the European Union, Brazil maintains profitable bilateral understandings with many countries, under which it develops specific activities for cooperation and exchange of intelligence data.

## *Bilateral relations*

### **Brazil and the Americas**

The region of the Americas, especially South America, is a central priority for Brazilian foreign policy, and it has received attention on Brazil's external agenda in accordance with its singular position. The critical problems of some South American countries have been followed with attention by the Foreign Ministry, which emphasizes support by Brazil for democratic institutions and for the political and economic stability of all its neighbors.

Brazil has cooperated with the process of recovery in Argentina, where the political and economic situation has been one of the central concerns of Brazilian foreign

policy in 2002. Projects such as the São Borja-Santo Tomé Bridge, inaugurated in 1997, and the gas pipeline which carries Argentine gas to the thermoelectric power station at Uruguaiana in Rio Grande do Sul, inaugurated in 2001, are the physical signs of a process of integration between the two societies which has become increasingly intense. During 2002 there was frequent contact with the new authorities in Buenos Aires. Both President Eduardo Duhalde and Foreign Minister Carlos Ruckauf were received in Brasília by the President of the Republic and took part in meetings with the Brazilian Foreign Minister and the ministers of Finance; Agriculture, Fisheries and Foods; and Development, Industry and Foreign Trade. These meetings allowed a detailed analysis of the prospects for recovery in Argentina and for Brazil's collaboration towards that end.

As for the Andean countries, the Colombian peace process has always received the dedicated support of the Brazilian Government, which has sought to offer, among other things, technical cooperation for Colombian agricultural projects designed to substitute coca plantations.

In line with a cherished tradition of supporting the peaceful and negotiated solution of controversy, reflected in regional accords and in the Constitution itself, Brazil provided mediation, with the direct involvement of the President of the Republic, in the territorial dispute between Peru and Ecuador, which had lasted for decades and which threatened regional peace and security.

Together with the government of President Alejandro Toledo of Peru there has been progressive development toward a climate of greater confidence, with the reaffirmation of the spirit of cooperation which always characterized our bilateral relations. Various projects of common interest are in prospect, among them improvements to road links.

Venezuela continues to be a priority partner, and 2001 saw the long-awaited conclusion of the project to connect electricity supplies with the north of Brazil. Brazilian companies have taken part in significant infrastructure projects in Venezuela. Brazil has also sought to cooperate in reducing the intensity of the internal conflicts which have threatened Venezuela's institutional integrity.

Paraguay is another neighbor to have received special attention from Brazil in recent years. A center for professional teaching and training was set up in the region of Ciudad del Este, under the charge of the Brazilian Cooperation Agency, to support the transformation of Paraguay's economy and promote a fuller involvement in Mercosul's productive chain. Of equal importance were advances in the regularization of Brazilians resident in Paraguay and the establishment of integrated frontier controls. The binational project at Itaipu, whose financial health was secured by the renegotiation of the debt

owed by Itaipu Binacional to Eletrobrás, was especially important in the context of the Brazilian energy crisis.

Bilateral relations with Uruguay have been characterized by frequent and constructive dialogue, with emphasis on border issues concerning integration of energy and other physical infrastructure. In this context, in April this year a New Agenda for Border Cooperation was established. The integration of highways between the two countries includes the question of the Southern Cone Highway Axis and the amplification of facilities between Buenos Aires and São Paulo, with alternative routes crossing Uruguayan territory. This includes the construction of a bridge from Buenos Aires to Colônia.

The construction of the Brazil-Bolivia gas pipeline, with the resultant stimulus for projects in the energy area, has been reflected in a corresponding intensification of political relations between the two countries. As a result, an increasingly promising partnership has been developed with Bolivia.

The expectation is that Brazil will have an increasing presence in Central America and the Caribbean, stimulated among other things by successive visits by Brazilian authorities to the region. Political dialogue between Brazil and Cuba has developed to levels of greater fluidity and confidence, which has been demonstrated, on this and on other occasions, by the realization of the first Meeting on the Mechanism for Political Consultation, in March 2001, which was consolidated by the visit of Brazil's Foreign Minister to Havana in September 2002.

As for Mexico, although the intensity of its relations with Brazil is still at a level below that to be expected of the two biggest economies in Latin America, the new political environment in force in Mexico will help to develop the potential for dialogue and cooperation, underlined by the visit of the Mexican Head of State to Brasília in July 2002.

The ambit of inter-American relations also includes bilateral relations with the United States, which in recent years have been elevated to a new level of understanding and mutual respect. Largely due to the high level of understanding between President Fernando Henrique Cardoso and presidents Bill Clinton and George W. Bush, the US Government has come to recognize both the importance of Brazil's participation in matters of regional and global importance, and the relevance of Mercosul as a bloc in efforts toward hemispheric integration. The presence of contentious trade issues on the bilateral agenda is now seen as the natural result of the interaction of two dynamic and complex economies.

## Brazil and Europe

In the past eight years, Brazilian diplomatic activity in relation to the countries of Europe has generated important results, contributing in a significant way to Brazil's presence on the international stage. Many initiatives in the areas of politics, economics and culture were implemented both at the level of relations with individual countries of the continent – where Brazil has encountered some of its most traditional and productive individual partnerships – and at the level of interaction with the European Union.

Especially at the economic level, Europe continues to be one of Brazil's most important partners, responsible for almost a third of Brazilian foreign trade (against 15% for Mercosul and 20% for the USA) and for investments in Brazil, representing about 50% of the total (against 30% for the USA). During the past year, Brazil exported to the European market (from Lisbon to Vladivostok) goods worth about US\$17 billion, and imported approximately the same amount.

Private capital from countries such as Germany, Italy, the United Kingdom and France contributed decisively to the industrialization of Brazil. During the most recent wave of European investment, the participation of Spain and Portugal stands out in the telecommunications, energy and financial sectors. This flow was continued in 2002, and it is estimated that European countries were responsible for half the direct foreign investment received by Brazil in the first six months of the year. Today, the total stock of European investment in Brazil has reached approximately US\$95 billion, of which the 15 countries of the European Union contributed some US\$90 billion.

Brazil's relations with Europe, beyond what they represent in the economic and commercial areas, are also essential from the political and strategic point of view. Nothing is more important for Brazil on the international level than to seek to contribute to the establishment of balanced relations. This objective has been pursued steadfastly within Europe since the times of bipolarity during the Cold War and, with the same justification, continues in the context of globalization.

In the midst of all the complexities of relations between Brazil and Europe, it has been possible to reach satisfactory results on all levels: in purely bilateral relations with each of the 15 members of the EU; in relations with the EU as a whole; in relations between Mercosul and the EU (which in recent years has been the focus of the greater part of our attention); in relations between the Rio Group and the EU; and in relations between Latin American and the Caribbean and the EU (in the forum established by the Summit that took place in Rio de Janeiro in June 1999).

## Brazil and Africa

There are two components to Brazil's relations with Africa: bilateral relations and multilateral relations, the latter orientated by Brazil's presence in the Community of Portuguese-Speaking Countries (Comunidade dos Países de Língua Portuguesa – CPLP).

On the bilateral level, special attention has been given to the Portuguese-speaking African countries (Angola, Cabo Verde, Guiné-Bissau, Mozambique and São Tomé and Príncipe), as well as a select group of countries in the north of Africa and the sub-Saharan region. It is, above all, with the Portuguese-speaking countries in Africa that Brazil has developed the most expressive part of its agenda for international cooperation with developing nations.

Brazil's relations with the countries of North and West Africa have become more dynamic, above all as a result of prospects in the economic area, thanks to relations with some petroleum-producing countries (Nigeria, Gabon) and to the resumption of conversations with countries, such as Senegal, which play an important role in regional integration blocs, such as the Economic Community of West African States (ECOWAS). It should be noted that, precisely because of petroleum, the west coast of Africa has frequently been cited as a dynamic pole in the continent's economy, with a significant flow of investment to the region.

From Algeria, for example, Brazil imports petroleum and derivatives in annual values superior to US\$1 billion, and is seeking to secure exports to Algeria of the same value. With Libya, a process of reapproximation is under way as much on the political level, with talks at foreign ministry level, as on the economic and trade level, also including services. In Nigeria, Petrobras has installed an office in Lagos.

## Community of Portuguese-Speaking Countries

The Community of Portuguese-Speaking Countries (Comunidade dos Países de Língua Portuguesa – CPLP), which now counts East Timor among its members, is held in high regard by public opinion in Brazil. In 2000, Brazil took over the Executive Secretariat of the Community, with the aim of spreading the study of the Portuguese language, deepening political links between the members and renewing cooperation for development. Particular emphasis has been given to cooperation in the prevention and treatment of AIDS.

Since 31 July 2002, the President of Brazil has presided the Conference of Heads of State and of Government of the Community of Portuguese-Speaking Countries. The Brazilian presidency will continue until July 2004. Also during this period, the Brazilian

Foreign Minister will occupy the presidency of the Council of Ministers of the CPLP. Both positions presuppose the orientation and coordination, by Brazil, of all activities of the CPLP, principally those of a political nature.

The CPLP's vocation is to promote cooperation for development between its member states, and the promotion and diffusion of the Portuguese language. The CPLP is also a forum for political and diplomatic integration with ramifications across four continents. The recent Conference of Heads of States and of Government held in Brasília clearly demonstrated how intra-community approximation can be extended to multiple themes in accordance with the interests of member countries. In Brasília, the Heads of State and of Government of the CPLP gave special emphasis to the discussion of themes related to development and to the relationship between peace and development, and committed themselves in name of the common good to seek to work closely together on community positions concerning themes of great importance in the areas of international trade and economics, such as, for example, access to markets, external debt, financial flows, and public support for development.

## **The Middle East**

The importance of the Middle East for Brazil reflects both the international significance of the region, in that it contains the world's biggest oil reserves, and the special human connection of our country with the area, in virtue of the considerable participation of Arab and Jewish communities in the Brazilian population. There are important possibilities for increasing exchange with the countries of the region, which represent a substantial consumer market and have shown themselves to be favorably disposed towards the development of relations with Brazil.

Of particular international importance in the Middle East is the conflict between Arabs and Israelis and the weight of countries such as Iran, Egypt, Saudi Arabia and Israel. The values and hopes of Brazilian society are expressed in the Foreign Ministry's position in favor of peace and international cooperation, as shown in its support for all initiatives designed to secure a just and lasting peace in the region, through the establishment of an independent, democratic and economically viable Palestinian State. It is worth mentioning in this context Brazil's support for the Arab Peace Initiative approved by the Arab League Summit in Beirut in March 2002.

The vocation in Brazilian society for tolerance, and its acceptance of diversity and cultural differences in the context of a policy of respect for human rights, led to our prudent support for the idea of a "dialogue between civilizations", proposed by President Khatami of Iran.

## Asia and Oceania

Asia and Oceania – for their geopolitical importance and for the vigor of their economies – have emerged as among the most promising areas of Brazilian diplomatic activity. They have demanded increasing attention from the Foreign Ministry.

Brazil's diplomatic relations with the region date from a little more than a century ago (the Treaty of Friendship, Trade and Navigation with Japan, in 1895, and with China, 20 years later). Brazil's profile in the region is solid and consistent. It has close relationships with countries such as China, Japan, India and Korea. Relations are becoming closer with the countries of ASEAN and with Australia and New Zealand. Relations with East Timor hold a place of particular importance for Brazilian diplomacy. We are home to significant populations originating in Japan, China and Korea. The third biggest overseas Brazilian community is in Japan. Our economic and trade relations are intense and varied.

The intensification of relations between Brazil and the Asian countries in recent years reflects not only the inherent characteristics of globalization – particularly the increase in trade flows – but also the appetite for new areas of activity in Brazilian foreign policy. The Brazilian Government's new posture in relation to Asia and Oceania was also demonstrated in 2001 by the selection of three countries in the region – Japan, India and China – as preferential markets for Brazilian trade promotion.

In the ambit of the Meetings of South American Presidents, a plan of action was outlined under which one priority is the construction of physical infrastructure on the continent, with emphasis on connections between the Atlantic and Pacific ports. The completion of corridors between the two oceans will allow the integration of vast areas of the interior of South America with the international economy. The expansion of trade with Asia and Oceania will be furthered by an increasing supply of competitive South American products and, on the other hand, will help supply the volume of traffic necessary to make such investments economically viable.

A number of important visits occurred in recent years. Visits to Brazil were made by, among others, the President of China, the Prime Minister of New Zealand, the Australian Foreign Minister, and the President of East Timor.

On the Brazilian side, President Fernando Henrique Cardoso visited China, Japan, India, Malaysia, South Korea, East Timor and Indonesia. In March 2001, Brazil established diplomatic relations with North Korea, in a gesture very much welcomed by the two Koreas. In May 2002, the Foreign Minister visited Japan and took part in independence ceremonies in East Timor.

Another important theme on the Asian agenda was the conflict in East Timor, which was followed with concern by Brazilian society. Brazil was energetic in supporting the right of the Timorese people to self-determination, supplied troops to the United Nations contingent and has helped in the construction of the new state, especially in the areas of education and technical support.

## *Technical cooperation and cultural activities*

### **Technical support supplied by Brazil**

The past eight years have witnessed an increase in technical cooperation carried out by Brazil in partnership with developing countries, and a broadening of its sphere of action. In parallel with bilateral activities, and in virtue of the wide recognition of the increasing capabilities of Brazilian institutions, there has been an intensification of three-way cooperation in which Brazil works together with international organizations and bodies from other countries.

Acting as an auxiliary branch of foreign policy, the technical cooperation offered by Brazil has been aimed primarily at countries in Latin American and the Caribbean and in Africa. The most intense area of activity has been with Mercosul, with the African Countries with Portuguese as their Official Language (Países Africanos de Língua Oficial Portuguesa – PALOPs) and with the CPLP, which includes East Timor.

With its main focus on the economic and social development of its partners, and with the aim of ensuring the greatest benefit from the technical cooperation it offers, Brazil has given priority to longer-term projects and programs and has avoided short-term, specific activities. Technical cooperation has been most active in the areas of health (17%), agriculture (18%), professional training (6%), and the environment (15%). The geographical breakdown of such activities is as follows: South America, 53%; Central American and the Caribbean, 32%; Africa, 11%; Asia, Oceania and East Europe, 4%.

Each year, through its Graduate and Post-Graduate Student Exchange Programs (Programas de Estudantes-Convênio de Graduação – PEC-G – e de Pós-Graduação – PEC-PG), Brazil offers places in Brazilian universities to students from those developing countries with which it maintains cultural or educational cooperation agreements. These are an important instrument of Educational Cooperation with Latin America, the Caribbean and Africa – especially with the PALOPs – as they contribute to the

education and training of these countries' future professionals and, consequently, to their national development. In fact, the PECs were conceived so that students, once they have completed their courses, return regularly to their country of origin, where they may spread the knowledge they have acquired and strengthen the image of Brazil.

## **Bilateral technical cooperation received**

Technical cooperation received from other countries may be seen as a mechanism for the advancement of structural change, as its aim is to transfer technology and know-how which contribute to the economic and social development of Brazil. In the past eight years, the demand for technical cooperation has become greater, and the methods and techniques required more sophisticated, in order to meet the current needs and level of development of Brazilian institutions. The main Technical Cooperation Programs now underway were established with the governments of Japan, Germany, France, the United Kingdom, Canada, Italy, the United States, Spain and the Netherlands (in descending order of financial resources involved).

On average, the partner governments destined during the period an annual amount of US\$100 million, brought to Brazil via consulting services, training, and donation of equipment.

These funds were used to support an average of 200 projects and activities each year from 1995 to 2002, concentrated in projects related to the environment (41%), agriculture (20%), health (11%), industrial development (11%), social projects (11%) and other areas, such as energy, transport and public administration (6%).

## **Multilateral technical cooperation received**

Between 1995 and 2002, the Foreign Ministry coordinated the development of programs and projects for technical cooperation within the United Nations, the Inter-American system and other foreign multinational organizations. These programs and projects contributed to the transfer of knowledge, technology, and experience to federal, state and municipal government institutions, as well as to the productive sector and to organized civil society.

The projects developed in partnership with international organisms enabled Brazil to increase the efficiency and efficacy of government, for example in the successful setting up of the network for prevention and treatment of STD/AIDS, in the implementation of Agenda 21, in the consolidation of the reform of fundamental education, in the structure of new federal regulatory agencies, in the optimization of the use of electrical energy, in the dissemination of local integrated programs for sustainable

development, and in the elaboration of innovative public policies for combating social inequalities.

## **Overseas cultural activities**

The Foreign Ministry's cultural policy is focused on disseminating the Portuguese language and Brazilian culture. Its main instruments are the Center for Brazilian Studies, cultural institutes, lectureships, professorships, and schools and courses in Portuguese around the world. There is great demand for the teaching of Portuguese across the globe.

The cultural aspect of the Foreign Ministry's work also includes the job of disseminating information on Brazilian foreign policy outside Brazil, as well as information on the various aspects of Brazil's activities overseas (human rights, environment, the democratic process, social advances, etc.). To this end, the ministry produces and distributes informative materials and radio broadcasts, and organizes visits for foreign opinion formers (journalists, academics, artists, business people, politicians).

## **Assistance to Brazilians overseas**

Finally, mention must be made – not least because they are the symbol of diplomacy at the service of the citizen – of policies to protect Brazilians overseas. The strong flow of migration during the 1980s resulted in a significant increase in the number of Brazilians living overseas, concentrated principally in the United States, Paraguay, and Japan. Add to this those Brazilians in transit overseas (tourists, business people, students) and we arrive at a total of about four and a half million Brazilian citizens who may find themselves in need of assistance. This demands an active consular service, as well as placing it among the priorities of Brazilian foreign policy. The response has been the modernization and expansion of the consular network and the identification of new and efficient means of serving those nationals who live or are temporarily based in foreign countries, such as the itinerant consuls and the Citizens' Councils.

## **Speaking the universal language of democracy**

The conclusion to be drawn from a survey of Brazil's foreign policy is that Brazil's position in the world today is much better than it was eight years ago. We must invest more in the choices made, incorporating whatever changes become necessary, to enable them to evolve. This applies to almost all the principal lines of foreign policy, from Mercosul to the creation of a South American entity, from democracy to the international protection of human rights, from cooperation with Portuguese-speaking Africa to policies that support Brazilians overseas.

But what is most important is that the way has been shown towards a consistent and lasting international presence, and that this should be constructed on the basis of conditions at home, and not in a vacuum. There was a time when, from offices set in ivory towers, grand visions were devised that were supposedly appropriate for Brazil, labeled with titles such as the diplomacy of concentric circles, responsible pragmatism, and so on. They were in general cohesive programs, well worked out, but conceived without reference to the concerns of society and, for that reason, of little relevance. That time has gone. Democracy has brought with it the possibility of a new language, one that is not imposed but constructed, which accepts no slogans other than the national interest, defined through the exchange of ideas, through institutional channels, with the participation of society.

It is certainly no easy job to pursue a diplomacy shorn of titles, especially when the world is in a state of permanent change. News happens in real time, creating new facts and perceptions, destroying currencies, changing governments.

How to project national interests in such a volatile scenario? Or, to quote Minister Celso Lafer, how does one transform internal necessities into external possibilities? There are no ready answers. One can only note that the answer does not lie in retraction, in withdrawal, or in the dream of autarchy. The challenge must be faced, the challenge of a globalization with no defined face, which at times sends out disturbing signals, such as speculative shocks, but which also holds out the possibility of generating wealth.

Brazil has not been fearful. It has risen to the challenge, with the resources at its disposal, measured with realism. Some have proposed that Brazil should turn the tables, break its contracts, seek profound changes in the international financial architecture. We do not have the power to do that. Nobody does, especially in the developing world. And the time of revolutionary maneuvers on the international stage has gone. No country of any importance is willing to join in a boycott of the IMF or of the WTO. From China to India, by way of South Africa, all countries with any weight in the developing world want what Brazil wants: a more balanced dialogue with the developed world, to the full power of our potential, which is always growing.

Brazil's potential has evolved thanks to the competence and determination of its people, of its workers, of its business people, of its public men and women, of its artists, intellectuals, students, journalists, activists, and of its citizens in general. The signs of change are too obvious to be ignored: a stable currency, the return to growth, balanced current accounts, lower unemployment, increased competitiveness, growing exports, reduction of poverty, more children at school, expansion of public health, lower infant mortality, an unprecedented number of rural families settled on their own land, in-

creasing household income, systematic adoption by companies of environmental impact reports and human rights programs, with attention focused on children, women, blacks and other vulnerable sections of society. The world has taken note of these advances, even more quickly than some at home. The result has been the continuous improvement of our international image. There is no effect without cause. The international profile of Brazil has improved simply because the country itself has changed for the better. This is the ultimate key to a successful foreign policy.

## 24. Defense

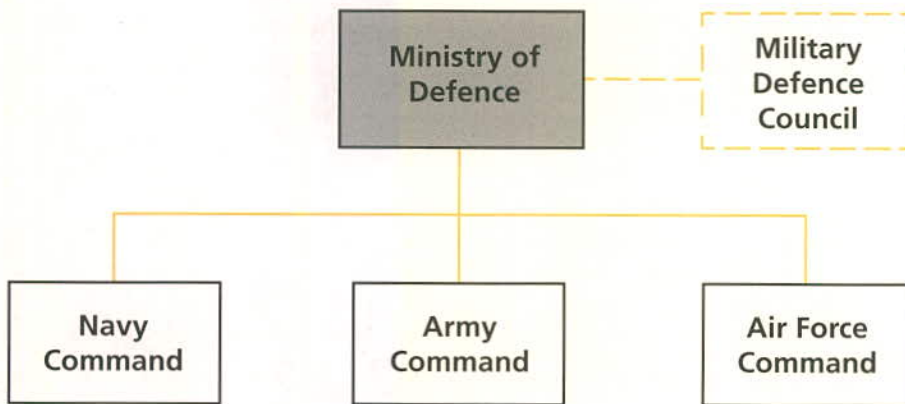
### Integration of the Armed forces within the Ministry of Defense

**I**N RECENT DECADES, IT BECAME APPARENT THAT BRAZIL NEEDED ONE SINGLE BODY to integrate the three Armed Forces, with the role of coordinating and planning operations and to prepare solutions for issues in the area of defense. In 1995, studies began for changes in the Brazilian defense structure. Until then, Brazil was one of a minority of countries that had not adopted a more modern model with a ministry to integrate and direct the defense of the country.

The main initiatives of the Federal Government were:

- In 1996, for the first time in Brazilian history, the basics of National Defense Policy were defined. This was an important step in the evolution of national strategic thinking, in both political and military terms (details below).
- In 1999, the Ministry of Defense was created with an integrated structure for the Navy, Army, and Air Force.
- The former ministries of the three Armed Forces were transformed into the commands of the Navy, Army and Air Force. The former High Command of the Armed Forces was converted into the Military Defense Council.

### *New defence structure*



Source: Ministry of Defence

- The new ministry became the central body for national defense policy, with a more agile and modern structure.
- The budgets of the Armed Forces were consolidated into one, with greater transparency and administrative rationality, as well concentrating efforts to obtain better results in the area of defense.
- The Brazilian Armed Forces have taken part in peacekeeping operations coordinated by the United Nations in Cyprus, El Salvador, Yugoslavia, Guatemala, Angola, East Timor and Croatia, as well as maintaining a significant presence in the Ecuador-Peru Military Observers Mission.
- Brazilian forces have been present in Timor since 1998. From May 2001 Brazil has had the responsibility of occupying the role of Chief of Military Observers in the UN Transition Administration for Timor.
- These operations involved the participation of close to 5,000 Brazilians.
- In May 2002, for the first time in Brazilian military history, the three Armed Forces conducted a joint exercise, Operation Tapuru, in the Amazon region, with the participation of close to 4,500 soldiers, sailors and airmen.
- Restructuring began in the Superior War School, or ESG (Escola Superior de Guerra), with a revision of the course curriculum. With the new mission to form high level advisors, the ESG will be a center of excellence in political and strategic studies for regular and advanced work in the area of defense.

- Efforts were intensified to modernize and re-equip the Brazilian Armed Forces. The modernization of the Air Force (purchase and renovation of equipment and aircraft) requires funds in the range of US\$3.35 billion. The purchase of the aircraft carrier “São Paulo” and the modernization of various naval craft and aircraft are important steps in re-outfitting the Navy. The Brazilian Army received close to 70% of its planned aviation, principally Cougar helicopters, destined for service in the Amazon region.

## **Northern Frontier and Sipam/Sivam: protection for the Amazon Region**

Within the priority of protecting the Amazon, the Federal Government gave two large projects to the Ministry of Defense: the Northern Frontier Program (Calha Norte) and the Protection and Surveillance Systems of the Amazon (Sipam/Sivam).

### **Northern Frontier Program**

- This program is of fundamental importance to ensure the sovereignty and territorial integrity of the region along Brazil’s northern frontier in the Amazon region, and was revamped in the 1995-2002 administration.
- Created 1985, the Northern Frontier program focuses on a strip of border close to 6,700 km long in four states to the north of the Solimões and Amazon rivers. This sparsely populated area corresponds to 14% of national territory and is home to 25% of Brazil’s indigenous population.
- A number of measures and activities were implemented to attack the most serious problems in the area, in particular those of a socioeconomic nature which impact local populations.
- New military units were created to control and protect national borders, intensifying government presence in the region. Also, a center for training in combined military operations was set up.
- The Northern Frontier program will thus increase military presence in the region, while offering improved quality of life to local residents.

### **Sivam/Sipam**

- The Sivam Project, or Integrated Amazon Surveillance System, consists of a network of 25 radar units, which will guarantee the safety of air traffic in the entire Amazon region. Equipment is a mix of primary two-dimensional radar, autonomous secondary radar, and portable three-dimensional radar and will cover all Amazon air routes.

- The equipment is ultra-modern, with tele-command and tele-supervision capacity. It will change the face of the Amazon with respect to the control and surveillance of air space.
- It is worth emphasizing the great mobility of the portable radar. While the portable radar currently used by the Air Force requires various C-130 Hercules aircraft to move location, the mobile Sivam radar will be moved using only two of these planes.
- Tests began May 22, 2002, in Manaus on the Sivam aircraft that will monitor Amazon air space. The first R99A (aerial surveillance aircraft) performed experimental flights. The tests exposed the aircraft and radar to the Amazon climate, in particular heat and humidity. Testing also included the remote sensing R99B aircraft, responsible for the largest qualitative leap in wide-area monitoring and incorporating the most modern technology available in environmental surveillance.
- Sivam will work strictly with Sipam (the Amazon Protection System).
- Sivam uses technical and operational infrastructure to collect, process, and disseminate data, while Sipam makes the connection between a number of federal, state, and municipal bodies that have activities in the Amazon. The goal is to integrate, evaluate, and disseminate intelligence, allowing coordinated activities among the government bodies in the region to improve results.
- A number of government bodies operate in the region in an isolated manner, sometimes duplicating tasks. Now, the information obtained by each government agency in the Amazon will be collected, analyzed, and integrated to form a large database, which all agencies will share.
- Installation of Sivam allows radar coverage of the entire Brazilian air space. To this end, satellite and meteorological communications will be included in the Flight Protection System. Investments total \$1.3 billion and represent the government's largest undertaking in the region so far.
- Sivam is not just control of air space. It includes a complex system of sensors for data acquisition, processing, visualization and diffusion. This will allow various government agencies to operate, via Sipam, in activities such as:
  - Environmental protection;
  - Control of land occupation and use;
  - Borders surveillance;
  - Prevention and control of endemic and epidemic diseases;
  - Civil defense;
  - Identification and repression of crime, particularly drug trafficking and contraband;
  - Protection of indigenous lands;

- Support for control of river transportation; and
- Support for research into sustainable development of the region.

## **Sovereignty and preservation of territorial integrity**

National Defense Policy goals are essentially to guarantee national sovereignty by protecting territorial integrity, national wealth and interests. These goals require the following directives:

- Contribute actively to the construction of an international order based on the State of Law, which provides universal and regional peace and the sustainable development of humanity;
- Increasingly participate in relevant international decision-making processes;
- Improve and increase Brazil's capacity for negotiation in the international scenario;
- Promote Brazil's position in favor of global disarmament linked to dismantling of nuclear arsenals and other weapons of mass destruction, via a process of multilateral accords;
- Participate in peacekeeping operations in accord with national interests, and contribute effectively and actively to the strengthening, expansion, and solidification of national integration;
- Maintain a climate of peace and cooperation along national borders and promote solidarity in Latin America and in South Atlantic region;
- Intensify interchange with Armed Forces of friendly nations, maintaining the participation of the Armed Forces in subsidiary activities which promote national integration and civil defense leading to the socioeconomic development of the country, in harmony with its vital constitutional purpose;
- Protect the Brazilian Amazon, with the support of all society and with the best use of military presence;
- Prioritize activities for development and vitalization of the frontier region, with priority for the North and Centerwest and maximum priority for the Northern Frontier region covered by Sivam;
- Improve the command, control, and intelligence capacity of all bodies involved in national defense, creating conditions that facilitate decision-making in peace and situations of conflict;
- Improve systems for surveillance, control, and defense of borders, of the waters of the continental shelf that come under Brazilian jurisdiction and of Brazilian air space, as well as maritime and air traffic;
- Guarantee sufficient and continuous resources for the Armed Forces and others

- involved in national defense to maintain effective conditions of readiness;
- Seek a level of scientific research, technological development and production capacity that minimize Brazil's foreign dependence on strategic defense resources;
  - Promote scientific knowledge of the Antarctic region and participate actively in decisions regarding its future;
  - Improve the mobilization system to meet the country's requirements when compelled to engage in armed conflict;

Inform and clarify public opinion in order to create and maintain a positive attitude towards national defense, encouraging citizenship and patriotism.

## 25. Economic policy to reduce social inequality

**T**HE EIGHT YEARS OF THE ANTI-INFLATION REAL PLAN (PLANO REAL) HAVE changed Brazil. The country still faces immense challenges, but it is in a much better condition to face them. With the help of the entire population, the federal government has built a solid economy and developed effective social programs, directed chiefly at the poor.

- The Real Plan was the instrument that made it possible to provide benefits for millions and millions of Brazilians. In short, Brazil has entered an era of stabilization, growth and distribution of income, leaving behind the vicious cycle of recession, inflation and concentration of wealth.
- The first form of reducing social exclusion consisted of achieving economic stabilization, ending four decades of coexistence with inflation. In June of 1994, before it was controlled by the Real Plan, inflation was running at 47% a month - the equivalent of over 10,000% a year. In 2001, the monthly average was just 0.6% a month, with the year-long total measured by the IPCA index, compiled by the IBGE Geography and Statistics Institute, coming in at 7.67%. The federal government successfully dismantled the carousel of inflation, stopped meddling in the economy as if it were some kind of “superbusinessman”, restructured the financial system and consolidated fiscal changes. Now, public accounts must balance - the Brazilian State is not allowed to spend more than it takes in. Stabilization helped to distribute income and improve living conditions for the population.
- The second form of reducing social exclusion was economic growth, with the increase of production and jobs. An important driving force was the increase in purchasing power of salaried workers at the start of the Real Plan. Average economic

growth between 1995 and 2001 was roughly 2.9% of GDP, higher than in the previous six years, when it averaged roughly 0.6% of GDP. This occurred even though the country faced three serious international economic crises, coming from Mexico, Asia and Russia.

The third form of reducing social exclusion was based on direct investments in a series of successful programs in areas such as education, health, agrarian reform and reduction of poverty, among others (described in detail in the book “The Cardoso Era”).

## **Foundations for a new type of development**

The model of industrialization that Brazil followed since the 1930s became known as “import substitution” and was based on State protection, in particular by closing the domestic market to foreign competition. It was able to drive the development of the country for nearly 50 years, but it also had important limitations:

First, it benefited only a small part of Brazilians.

Second, it favored the formation of monopolies and, to protect national businesses from foreign competition, resulted in them becoming less competitive, with inferior quality of products and services.

As a result, the country was incapable of financing the investments necessary for a new cycle of development. It was necessary to find a way to democratize the benefits of development and, at the same time, link the Brazilian economy with the dynamics of the international economy.

To attain these objectives, starting 1995 the federal government followed an agenda of reforms whose principal topics are listed below.

## ***Eight years of changes in the economy (1995-2002)***

### **Policy guidelines that defined Federal Government actions in the task of building the basis for a new form of development**

Preserve and expand the victories obtained under the Real Plan, keeping up the fight against the culture and causes of inflation.

A permanent commitment to monetary stability.

Adopt a program to restructure the financial system.

Consolidation and advance in the process of privatizing state companies.

End state monopoly in various sectors.

Open the economy to foreign competition.

Stimulate competition to expand access to goods and services at a lower price and better quality, democratizing the benefits of development.

Transparency and reliability in public accounts.

Organize public finances, put federal, state and municipal finances on a more solid footing.

Construct a federative pact to combine the benefits of decentralization with the over-riding need for fiscal responsibility at all levels of government.

Restructure state debts to allow states to reorganize their finances, pay their bills and increase investments, above all in the social area.

Transform the federal budget from a work of fiction into a key tool for planning and for representing the choices of Brazilian society among competing priorities.

Clean up the finances of state banks.

Recognition by the National Treasury of debts that were previously hidden by public debt statistics.

A major fiscal adjustment (the Fiscal Stability Plan), the basis for the agreement with the IMF, which allowed Brazil to receive financial aid of US\$41 billion.

Law for Fiscal Responsibility to cement the decision in favor of rationality and prudence in the administration of public money. Approved by Congress in 2000, the Law heralded a new era in Brazil public finances.

Substitute a foreign exchange system using narrow bands with one based on free floating.

Reduce the cost of financing for companies (new Company Law; BNDES encouragement for companies to use capital markets to capitalize; regulation of private pension systems).

Rationalization of public expenditure, so that governments and city halls can reduce operating costs and expand social expenditure.

Recommence using instruments for planning and financing development.

Adopt regional development policies based on the National Regions for Integration and Development of the Avanço Brasil program.

More efficient support for foreign trade.

Support for micro, small and medium companies.

Investment in the training of researchers as part of an ample restructuring of science and technology.

## From 1993 to 2001, GDP grew an average of 3.3% a year

The 1980s were considered a “lost decade” for the Brazilian economy – a period of difficulties that seemed endless. From 1981 to 1992, GDP per capita decreased 0.5% a year, on the average. Then came the contrast: in 2001, the Brazilian economy completed nine years of continuous growth. From 1993 to 2000, GDP per capita increased 1.9% a year on average.

- From 1993, when the first measures were taken in preparation for the Real Plan, through 2000, Brazilian GDP grew on average 3.3% a year, less than the population desired but more than twice the average growth of the previous 12 years. Accumulated growth was 30%.
- In addition, growth of the Brazilian economy was far more regular. Despite the internal limitations and the external crises, there was not a single year of GDP decline from 1993, although growth was small in 1998 and 1999. Of the 12 previous years, five had a decline in GDP.

### *Brazilian GDP - 1995-2001*

	R\$ millions	Real annual variation
1995	646,192	4.22 %
1996	778,887	2.66 %
1997	870,743	3.27 %
1998	914,188	0.13 %
1999	963,869	0.81 %
2000	1,086,700	4.36 %
2001 (*)	1,184,769	1.51 %

(\*) Preliminary results

Source: IBGE, Directorate of Research, National Accounts Department

## Brazilian GDP per capita - 1995-2001

Year	GDP		Resident Population (1,000)	GDP per capita	
	R\$ millions	Real annual variation		R\$	Real annual variation
1995	646,192	4.22 %	159,016	4,064	2.75 %
1996	778,887	2.66 %	161,247	4,830	1.24 %
1997	870,743	3.27 %	163,471	5,327	1.87 %
1998	914,188	0.13 %	165,688	5,518	-1.21 %
1999	963,869	0.81 %	167,910	5,740	-0.52 %
2000	1,086,700	4.36 %	170,143	6,387	2.99 %
2001*	1,184,769	1.51 %	172,386	6,873	0.19 %

(\*) Preliminary results

Source: IBGE, Directorate of Research, National Accounts Department

Following are IBGE statistics institute (Instituto Brasileiro de Geografia e Estatística) calculations of GDP and per capita income for 2001:

- GDP - R\$1.18 trillion, which represented real growth of 1.51% in relation to the year 2000.
- Real per capita income up 0.19% from R\$6,387 to R\$6,873.

## Brazilian GDP by quarters

(R\$ millions)

2000 Accumulated	2001 Quarterly				2001 Accumulated
	I	II	III	IV	
1,086,700	276,042	292,068	299,438	317,221	1,184,769

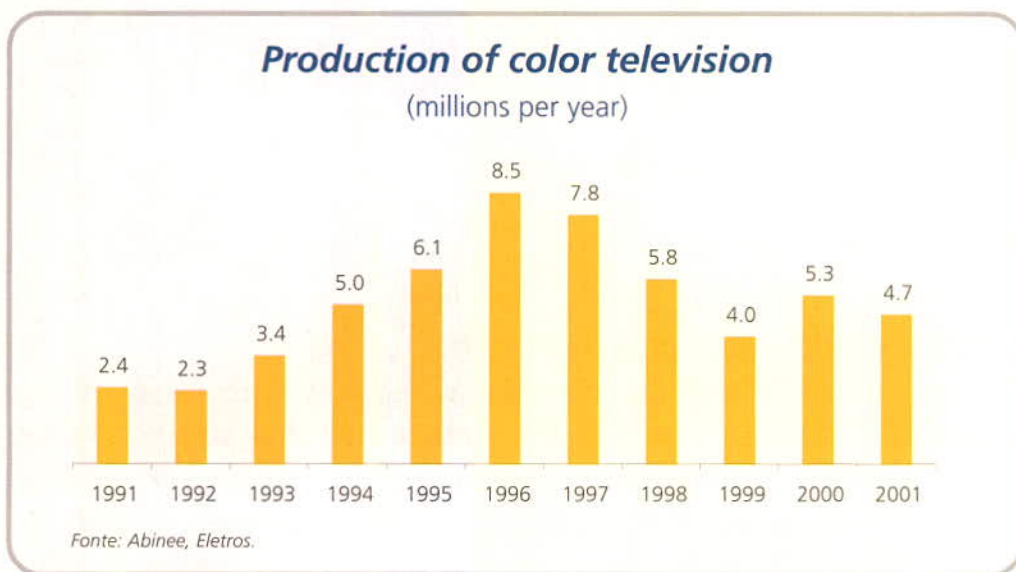
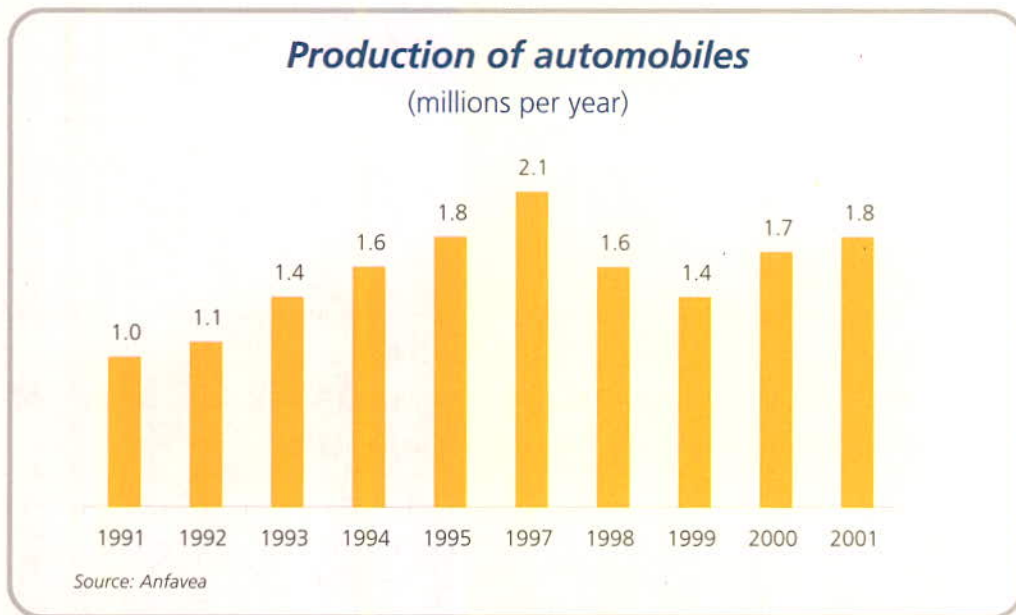
(\*) Preliminary results

Source: IBGE, Research management, National Account Department

## Industry recovers its dynamism

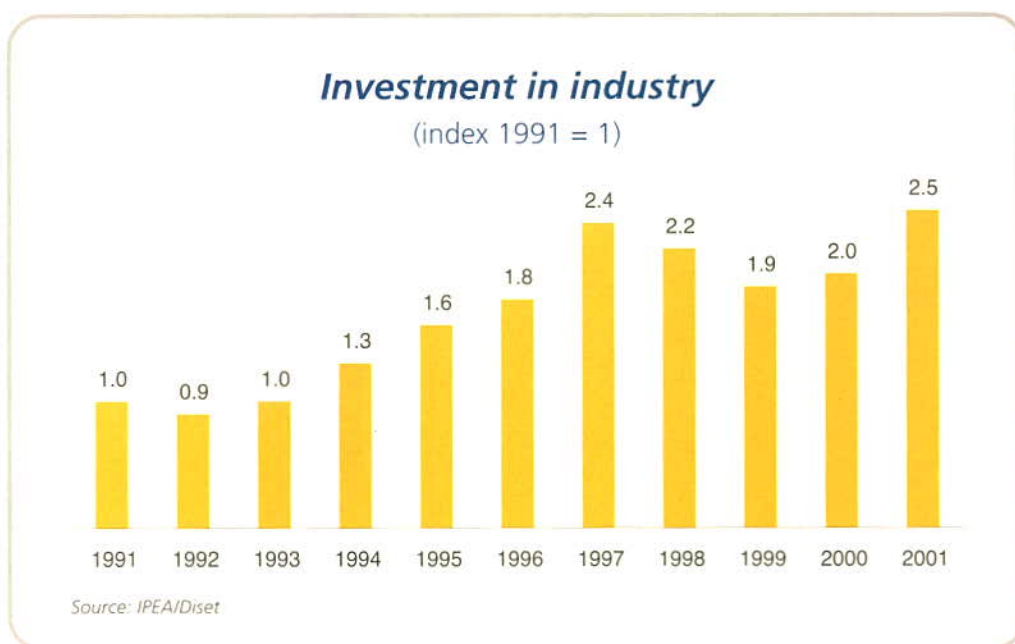
Beginning 1993, Brazilian industry started recovering its dynamism, with average expansion of 3.1% a year. Before, from 1981 to 1992, the industrial sector had contracted, with an average annual decline in production of 0.14%. Contrary to the view that opening the economy to imports would be detrimental, industry was the sector that showed the most expressive recovery. For the population, this had a practical impact:

- Lower food costs and the renewed access to credit drove up consumption of durables, such as color TVs. There was a clear change in the volume of production and consumption. From 1991-1993 to 1994-2000, the average annual production of automobiles rose 46%, while production of color TVs grew 124%.
- At the start of the 1990s, the production of cars was a little above one million units per year. After the Real Plan, there were consistent jumps, reaching a record of 2.1 million vehicles in 1997.



A similar process occurred with color TVs, a consumers' dream that became increasingly possible for countless families.

- In 1992, 2.3 million color TVs were produced. After the Real Plan, annual production rose to 8.5 million, nearly four times greater. Despite a decline in the following years, production remained at much higher levels than before.
- In both cases, the popular demand was met basically by Brazilian industry. Companies increased production and diversified, without fearing the competition from imports of cars and electronic appliances.
- Some types of products had a sharp decline in prices.

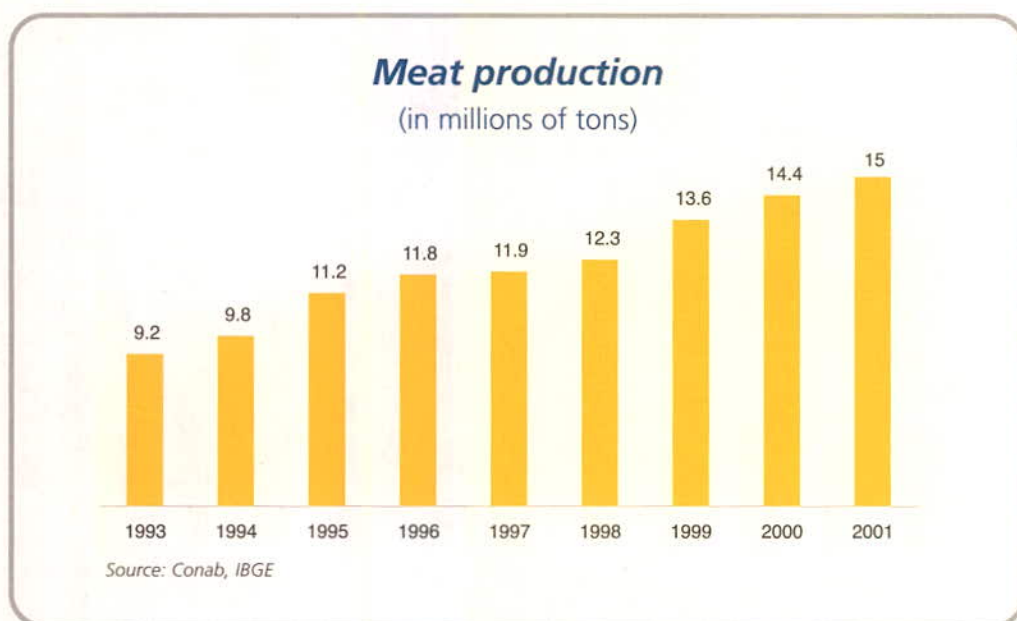


- There was a generalized improvement in quality, as well as a technological modernization of goods, in line with the best in the world.
- The resumption of investments in the industrial sector was remarkable. The average for investments between 1995 and 2000 presented an expansion of 87% over the average from 1991 to 1994, as shown in the graphic above.

## Farm sector surges forward twice in seven years

The farm sector also quickened its pace of growth, from 2.6% to 3% a year. This contributed strongly to the stabilization of prices, the generation of hard currency and the expansion of the economy.

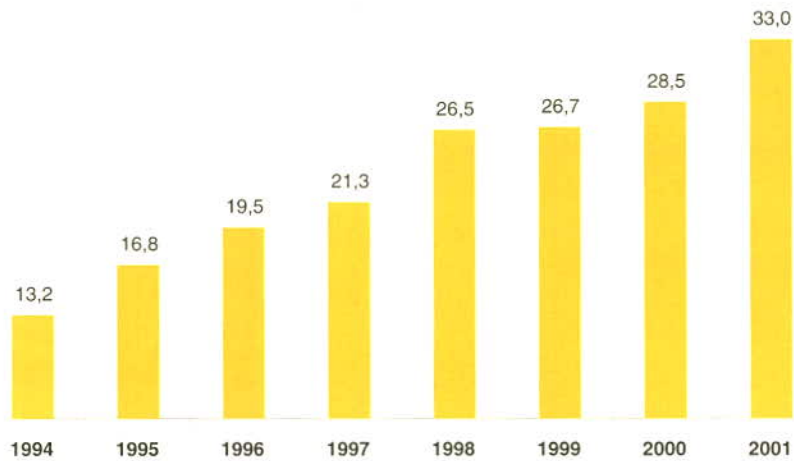
- The production of grains and oilseeds has risen sharply at two moments since 1993.
- The 1994/1995 harvest, the first after the Real Plan, surpassed the mark of 80 million tonnes.
- Estimates for the 2001/2002 harvest indicated it should reach 98.5 million tons, a record for the fourth consecutive year. For 2003, expectations are to finally pass the symbolic mark of 100 million tonnes. Growth in relation to 1992/1993 was 46%.
- Driven equally by the expansion of consumption among Brazilians and by exports, the production of beef, pork and poultry increased 68% from 1993 to 2001. The country established a place among the world's foremost suppliers.



## Services sector: the success of organized tourism

The best example that modernization has reached the services sector comes from tourism. Finally, Brazil has begun to take advantage of its enormous potential in this area in a professional and organized manner. From 1994 to 2000, passengers on domestic flights increased 116%, from 13.2 million to 28.5 million. Foreign tourists jumped 187%, from 1.9 million to 5.3 million.

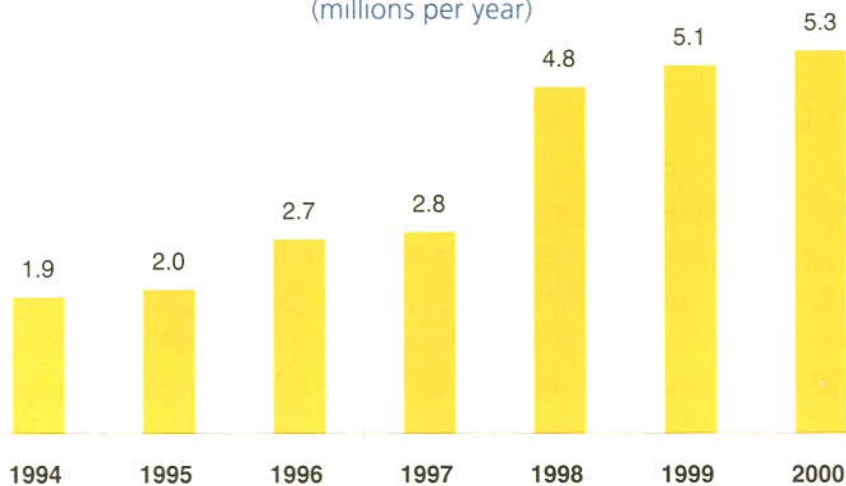
### Passengers on domestic flights



Source: Embratur

### Entrance of foreign tourist

(millions per year)



Source: Embratur

- Expansion of tourism led to a sharp increase in the number of jobs, principally in activities linked to food and lodging. From 1994 to 1999, the estimated number of employees in the sector rose 42%, from 2.6 million to 3.7 million people.

## Employment in tourism activities

(thousands)

	1994	1999	Change
Lodging	551	769	+ 40%
Food	1,342	2,181	+ 63%
Travel agencies	109	127	+ 17%
Scheduled highway transportation	421	531	+ 26%
Scheduled air transportation	181	11	- 39%
Charter air transportation	15	8	- 45 %
<b>Total</b>	<b>2,619</b>	<b>3,728</b>	<b>+ 42%</b>

Source: Embratur

## Only China attracted more investments than Brazil

Since 1996, only China has surpassed Brazil as the principal recipient of foreign direct investment among emerging nations. From US\$1.3 billion in 1993, FDI jumped to US\$33 billion in 2000 (see graph below). In 2001, despite all the external difficulties and the energy crisis, FDI reached US\$22.6 billion.

- Beginning with the Real Plan, the annual influx of foreign direct investments grew strongly. The annual average from 1994 to 2001 was 13 times greater than at the start of the decade. Up to 1993, FDI stayed away from Brazil, as they did throughout the 1980s, with a little more than US\$1 billion a year entering the country
- Foreign investments have played an important role in the modernization of the country's productive structure, whether through the purchase of existing companies or with new start-ups.

In contrast to the situation when the economy was closed, this new phase has brought Brazil world-class technologies of products and processes. In some sectors, research and development activities are being transferred.

## 26. Brazil reaches a new level of global market share

**R**ELECTING THE GREATER INTEGRATION OF THE COUNTRY WITH THE WORLD economy, the flow of Brazilian goods to overseas grew substantially since 1994. At the start of the 1990s, the sum of Brazilian exports and imports was less than US\$60 billion. Between 1995 and 2001, this grew to US\$106 billion per year on average.

- In 1992, the Brazilian economy was still closed, on the sidelines of international trade expansion. Between 1995 and 2001, the combined flow of imports and exports was almost twice that registered at the start of the 1990s. At the end of this period, the trade balance began to show a surplus.
- Since 1993, the expansion of foreign trade was stimulated mainly by imports, leading to the formation of trade deficits starting 1995.
- After the adoption of a floating exchange rate in January 1999 there was a pronounced change in this trend. From a deficit of US\$6.6 billion in 1998, Brazil moved to a situation close to equilibrium in 2000 with GDP growth of 4.5%.
- In 2001, Brazil had a trade surplus of US\$2.6 billion and GDP growth estimated at 2%.
- The fear that Brazilian industry would stop modernizing proved groundless. There is evidence that exports of technology-intensive products grew as a proportion of total exports. A study showed that in 2000, technology-intensive exports were 145% above the level of 1991, representing stronger growth than for items intensive in labor, natural resources or capital.

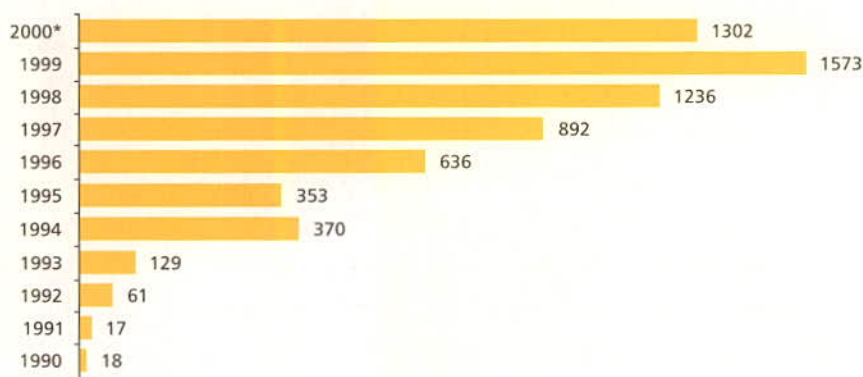
## Racing to overcome backward technology

The environment created by a combination of market opening, economic stability and privatization resulted in a substantial and continuous increase in labor productivity in the Brazilian economy. Average labor productivity fell 0.8% per year in 1991 and 1992, but grew 2.5% per year from 1993 to 1999.

- At the start of the 1990s, the productivity indices were stalled at the same levels as the previous decade. This increased the gap between Brazil and the countries leading the global scientific and technological revolution.
- In recent years, Brazil began to pull back its technology lag. Productivity indices improved faster than the average of industrialized countries.
- ISO 9000 certification is a good measure of Brazil's leap in productivity and quality. The number of certificates obtained annually increased more than 80-fold since the start of the 1990s.

### ISO 9000 certification

(certificates granted per year)



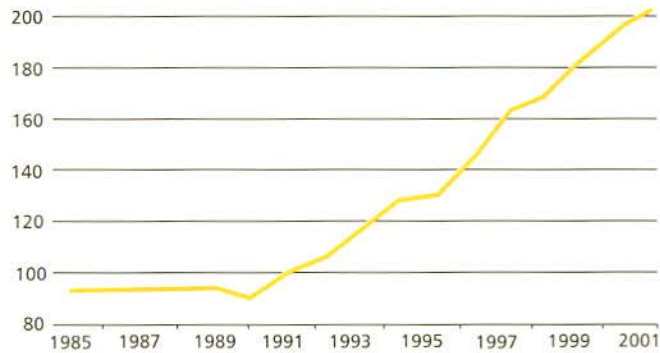
Source: ABTN/ Inmetro (\* until November 14)

Advances arising from the incorporation of technology are especially noticeable in assembly industries, where the physical productivity of labor more than doubled since the beginning of the decade.

- There were also striking gains in productivity in agriculture. Growth in grains production in the 1990s came practically without expansion in planted area. This implies an increase of some 69% in the productivity of cultivated area.

## Labor productivity in manufacturing industry

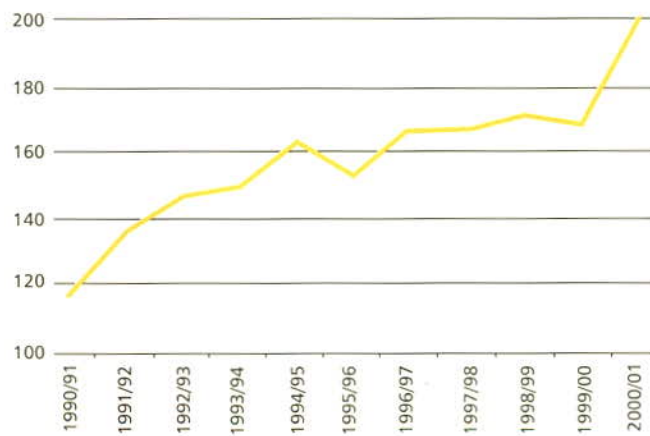
(Physical output - index 1991=100)



Source: IBGE, Industrial Monthly Research. Data until April 2001.

## Grain productivity by cultivated area

(Index 1980/1981 = 100)



Source: Conab

Created by SPE/IMF



## 27. The truth about the origin of Brazil's public debt

**T**HE INCREASE OF FEDERAL GOVERNMENT DEBT HAS BEEN THE SUBJECT OF frequent criticism since the beginning of the Real Plan. The reason is clear: in June 1994, the Federal Government's Internal Debt (corresponding to the issue of domestic bonds) stood at R\$60.7 billion; by December 2001, it had reached R\$624.1 billion.

- Put like this, in plain figures and with no further explanation, the numbers have a negative impact and may create the false impression that the debt grew as a result of poor management of public finances. However, exactly the opposite occurred.
- The chart on the following page shows that the greater part of the increase in the Internal Debt relates to the R\$297.7 billion used to clean up the finances of states and municipalities. This accounts for 52.9% of the increase, and as such was its main cause.

## Federal internal debt - evolution

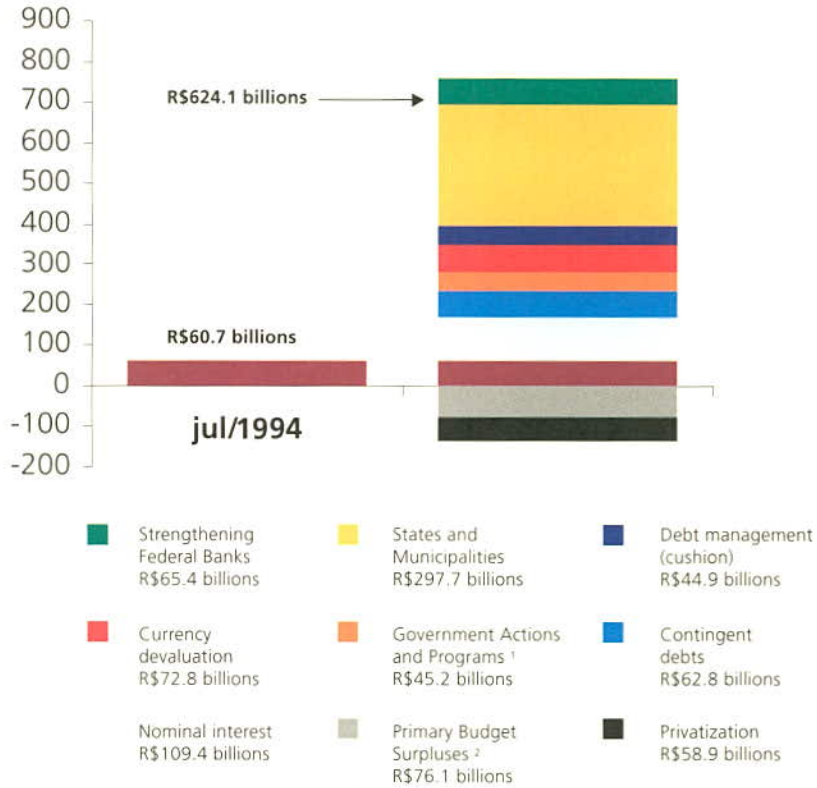
	R\$ billions	%
Value in July 1994	60.7	-
Value in December 2001	624.1	-
Variation	+ 563.4	928.0%
<b>Growth factors</b>		
1. Cleaning up state and municipal accounts	297.7	52.9%
2. Strengthening federal banks	65.4	11.6%
3. Recognition of public debt "skeletons"	62.8	19.4%
4. Nominal interest	109.4	19.4%
5. Currency devaluation	72.8	8.0%
6. Government programs and actions <sup>2</sup>	45.2	12.9%
7. Debt management ("cushion")	44.9	8.0%
<b>Total 1</b>	<b>698.8</b>	<b>132.2%</b>
<b>Reduce factors</b>		
8. Primary Budget Surpluses	76.1	
9. Privatization	58.9	
<b>Total 2</b>	<b>135.0</b>	
<b>Difference between 1 and 2</b>	<b>563.8</b>	
<sup>1</sup> Bank debt not included (around R\$1.5 billions in December 2001)		
<sup>2</sup> Government Actions and Programs just financed by issue bonds		

Source: National Treasury Secretariat

- The Federal Government's assumption of the debts of 25 states, including the Federal District, was part of a financial reorganization without parallel in the history of the Brazilian Federation. The governors committed to a rigorous program to balance income and spending, avoiding expenditure in excess of their receipts (the so-called "fiscal adjustment"). This was very important for the stability of the currency and of the economy, helping prevent a return of rampant inflation.
- The chart also shows that, for every 100 reals of Internal Debt increase, no less than 75 reals relate to the first three factors: cleaning up state and municipal finances; strengthening the public-sector federal banks; and recognizing the "skeletons in the closet" of public finances. In other words, most of the growth is accounted for by the Federal Government's initiative to assume or recognize debts that already existed in other areas of government.
- Although they are often cited as the biggest villains of the Internal Debt, interest rates and the impact of the exchange rate explain only a relatively small part of its increase (19.4%).

## Federal internal debt - factors causing variation

(R\$ billions)



Current values, actualized by their respective factors of remuneration  
 Privatization and Primary Surplus: values actualized by TMS  
 Does not include bank debt (around R\$1.5 billion in December 2001)

1 - Includes only government actions and programs financed via emission of bonds.  
 2 - Fiscal funds used to reduce public debt (sources 100 and 129)

Source: Central Bank and National Treasury

## Cleaning up state and municipal accounts

- The numbers: R\$297.7 billion (or 52.9% of the total increase).
- During the 1980s and first half of the 1990s, state and municipal accounts went through a period of constant crisis, to the extent that they posed a threat to the governability of the states and municipalities. With the advent of the Real Plan and economic stability, this reality could no longer be ignored.

- The Federal Government set up a number of programs to allow states and municipalities to solve their financial difficulties. Little by little, these programs became the principal factor in the expansion of the federal Internal Debt. This process included the support provided for the reorganization and/or privatization of banks owned by individual states.
- In this way, the states, the country and the population all benefited:
  - States were able to restructure their debts over 30 years. These debts had become unpayable and were renegotiated under very favorable conditions. The states make monthly payments to the Federal Government ranging from 11% to 13% of their net income.
  - Brazil gained the support of the states in the consolidation of its fiscal adjustment and in the balancing of public accounts.
  - All Brazilians gained from one more factor in the consolidation of economic stability.
- Given its success with the states, the Federal Government decided adopt a similar program for municipal debt. This program has already benefited 180 municipalities in 17 states, including nine state capitals.
- Together with the Program for Support and Fiscal Adjustment of States (Programa de Apoio ao Ajuste Fiscal dos Estados), there was also a far-reaching initiative to restructure the state-owned banks, which were in very poor financial health.
- In fact, the difficulties faced by the state governments and by their banks were essentially one and the same thing. From the beginning of the 1980s, state banks had been used to finance cash-flow problems of state governments, or to support political interests of those governments, especially during elections. Several state banks were near to failure. The house of cards became clear - and came tumbling down - in the light of the stability generated by the Real Plan.
- The Federal Government attacked the problem at its root. It launched the Program for the Reduction of the Participation of the Public State Sector in Banking Activities (Programa de Redução da Participação do Setor Público Estadual na Atividade Bancária - Proes). To gain access to Proes financing, the states had to chose between cleaning up their banks, privatizing them, or transforming them into development agencies.
- Proes was taken up by 21 states. Through the end of 2001, it had the following results: 10 state banks were declared extinct or put into extra-judicial liquidation; five were cleaned up; eight were privatized; six were federalized for subsequent privatization; and 16 were transformed into development agencies (no longer able to accept deposits from the public).

## Strengthening federal banks

- The numbers: R\$65.4 billion (or 11.6% of the total increase).
- The program for strengthening federal banks began with R\$25.5 billion for capitalization of Banco do Brasil, in 1996. Additional funds were made available in 2001 for Caixa Econômica Federal (the federal savings bank), Banco do Nordeste and Banco da Amazônia, totaling R\$39.9 billion.
- As with the program for states and municipalities, the program to strengthen federal banks dealt with problems that originated under previous administrations. It also established conditions to ensure that the same problems would not arise again.
- One of the central objectives was to put an end to the “easy credit spree” - granting loans at prices well below market rates or that were most unlikely to be repaid, always repassing the cost to the federal banks. Another target were the substantial subsidies granted in the areas of sanitation, habitation, agriculture, small and medium sized producers, and finance for regional development programs.

## Recognition of public debt “skeletons”

- The numbers: R\$62.4 billion (or 11.1% of the total increase).
- Various sources of public debt, which until then had not been recognized as such, were brought into the open: the so-called “skeletons in the cupboard”. By bringing them into the open, the Federal Government made a substantial contribution to the transparency and credibility of public accounts, even though this certainly helped to enlarge the numbers involved.
- Principal “skeletons” were:
  - **Housing** - The Fund for Compensation of Earnings Variations (Fundo de Compensação das Variações Salariais - FCVS). Created at the start of the 1980s to cover outstanding balances at the end of contracts to finance house purchases. With rapid inflation and greater and greater mismatch between repayments and the amount owed, a gigantic debt built up for which there was no budgetary allowance.
  - **Shipping** - Superintendency for Promotion of the Merchant Marine (Superintendência de Incentivo à Marinha Mercante - Sunamam). One of the most significant debts left behind by public-sector companies. During the 1980s it accumulated mounting debts. When it was extinguished its debt was over R\$6 billion (in December 2001 prices).

- **Federal Rail Network** - Part of the public-sector companies' debts. When the six rail networks were privatized between 1997 and 1998, the government inherited a debt of R\$2 billion.
- Its initiative in recognizing these "skeletons" is part of a set of measures that recently earned the Brazilian government a kind of ISO 9000 certificate of quality in public finance.

## Nominal interest rates and currency devaluation

- The numbers:
  - Nominal interest rates: R\$109.4 billion (or 19.4% of the total increase).
  - Currency devaluation: R\$72.8 billion (or 12.9% of the total increase).
- Taken as isolated elements, interest rates and foreign exchange explain only a relatively small part of the expansion of public debt during the period.

## Government programs

- The numbers: R\$45.2 billion (or 8% of the total increase).
- Various government programs and activities led to the issuance of bonds, such as: the Kandir Law; the Export Finance Program (Programa de Financiamento às Exportações - Proex); the restructuring of farm debts; and the Land Reform program.
- The objective was to supply basic assistance to activities such as export promotion and support for agriculture and Land Reform, fundamental to the economic and social development of Brazil.
- Values involved: Kandir Law (R\$24 billion); Land Reform (R\$5 billion); Proex (R\$4.5 billion); others (R\$11.3 billion).
- Kandir Law (R\$24 billion) - Reimbursement of states for income lost under Complementary Law No. 8796, known as the Kandir Law. This put an end to incidence of the ICMS state sales tax on exports of raw materials and semi-manufactured goods, and allowed for ICMS credits on the purchase of capital goods, as a means of lowering investment costs. It was one of the most important steps so far taken in the process of tax reform.
- Proex (R\$4.5 billion) - The principal credit line under the Export Finance Program (Programa de Financiamentos às Exportações - Proex) allowed banks to use their own resources to offer export finance at favorable rates. To this end, the Treasury issues bonds to cover the difference between the banks' deposit rates and their lending rates under Proex. Between 1994 and 2001, the volume of this program's assets grew from R\$91.9 million to R\$2.2 billion, a more than twenty-fold increase.

- Restructuring farm debts (R\$6.1 billion) - Benefited more than 700,000 farmers and 700 cooperatives, through the issue of Treasury bonds. This initiative was fundamental in solving the credit crisis in the farming sector in the middle of the Nineties, and paved the way for the extraordinary performance that Brazilian agriculture has achieved, with record harvests year after year. At the time, farmers had accumulated debts which were becoming unpayable and which presented a threat to the well-being of Brazilian agriculture.
- Land Reform (R\$5 billion) - Land Debt Securities (Títulos da Dívida Agrária - TDAs) were issued to finance the expropriation of unproductive lands. This was done under the Land Reform Program (Programa de Reforma Agrária) which, between 1995 and 2001, provided land for more families than had been settled during the preceding 30 years.

### **The “cushion” of funds for debt management**

- The numbers: R\$44.9 billion (or 8% of the total increase)
- This last factor concerns management of the public debt, of which the main element relates to the issue of excess securities, that is, those securities issued over and above the current financing needs of the Federal Government.
- This was done for reasons of prudent management and allowed the formation of a “cushion” of funds to facilitate management of the debt during periods of high volatility.

## *Internal debt evolution – determinate reasons*

	Historic value	Updated value R\$ billions in 2001
Fiscal adjustment	157.1	297.7
States and municipalities - debt rollover	157.1	297.7
Strengthening federal banks	45.1	65.4
Bank of Brazil capitalization	8.0	25.5
Federal banks reorganization	37.1	39.9
Debt management		44.9
Contingent debts*	41.1	62.8
- FCVS	10.8	14.6
- Sunamam	2.7	6.2
- RFFSA	1.3	2.2
- Others	26.3	39.8
Government programs *	28.4	45.2
- Kandir law	15.3	24.0
- Others	6.6	11.3
- Land reform	3.2	5.4
- Proex	3.3	4.5
Foreign exchange impact		72.8
Primary result **		(76.1)
Privatization:	(40.2)	(58.9)
- Energy	(0.9)	(1.7)
- Mining	(1.7)	(4.2)
- Chemical and Petrochemical	(8.8)	(10.5)
- Financial Sector	(7.3)	(8.7)
- Steel and cement		(1.4)
- Telecommunications	(21.1)	(30.5)
- Transportation	(0.0)	(0.3)
- Others	(0.3)	(1.5)
Nominal interest		109.4

Source: National Treasury Secretariat

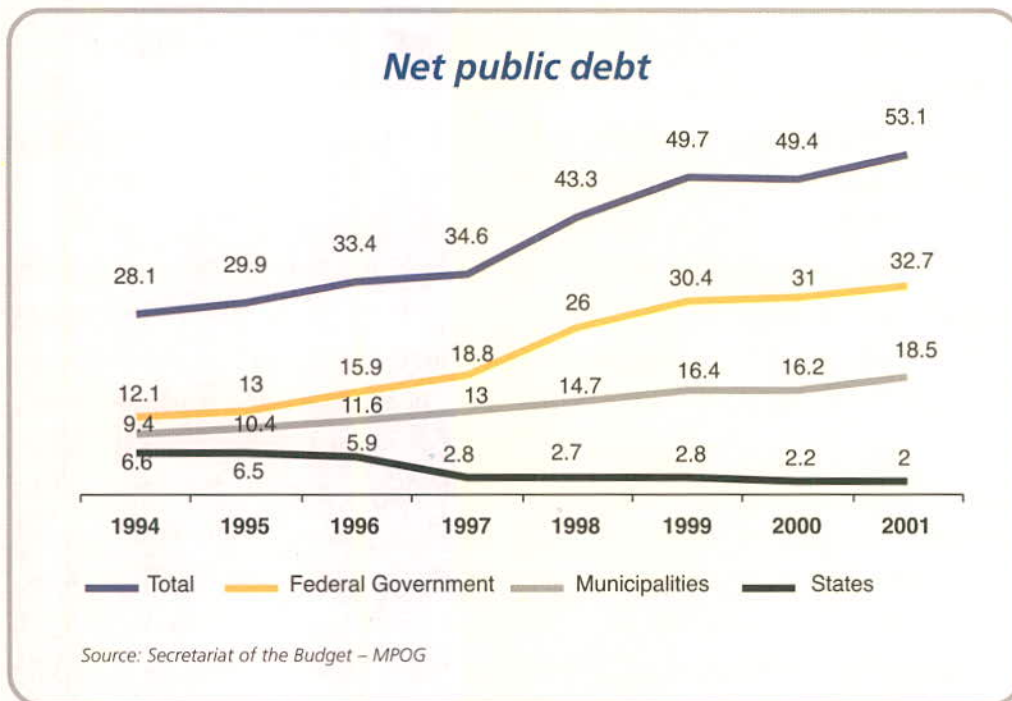
## Debt reduction via privatization and primary budget surpluses

In analyzing the evolution of the public debt, two factors stand out as contributing to its reduction: privatization and primary budget surpluses, together responsible for R\$135 billion. These helped minimize the total debt expansion.

- Privatization yielded R\$58.9 billion, responsible for a 10% reduction in the increase in public debt, as the proceeds were used to retire securities issued by the Federal Government. In addition, the positive impact of privatizing a public-sector company is increased by the transfer to the private sector of any debts held by the company.
- The same is true of state and municipal debts. Between 1995 and 2001, during the privatization of assets at all levels of the Federation, debts equal to some US\$18 billion were transferred to the private sector.
- The primary budget surpluses accumulated in particular since 1999 contributed R\$76.1 billion to the retirement of public debt, reducing its increase by 13% and helping to keep it under control. From the last quarter of 1998, and for 14 consecutive quarters, the Federal Government (Treasury, Central Bank, welfare system and federal public companies) has consistently met its targets for primary budget surpluses.
- From a primary surplus of zero during the period 1995 to 1998, the Federal Government subsequently produced primary surpluses of between 2% and 3% of GDP.
- States and municipalities were equally involved in this effort. They have increasingly contributed to the fiscal adjustment of the entire public sector, enabling the government to meet targets laid down in the Program for Fiscal Stability (Programa de Estabilidade Fiscal).

## The trend towards public debt stability

While it is true that the level of public debt increased rapidly between 1994 and 1998, since then we can observe a trend towards stability, as the graph illustrates.



Behind this change lies a new fiscal framework, the basis of which was laid down during the first administration (1995-9) and which was consolidated in the second, as follows:

- Structural fiscal reform, principally of the National Social Security Institute (INSS) and in particular, among other factors, through the introduction of the so-called “welfare factor” (a mechanism to help adjust individual state pensions to contributions)
- Institutional reforms, such as the financial restructuring of states and municipalities;
- Adoption of fiscal policies based on multi-year targets for primary surpluses and of a set of measures, in addition to those mentioned above, necessary to meeting these targets;
- Approval of the Fiscal Responsibility Law (Lei de Responsabilidade Fiscal - LRF), which establishes the discipline required for good management of public finances, for all areas of government:
- The LRF includes mechanisms which, while not absolutely preventing repetition of the problems encountered at the start of the government, make it very difficult for such problems to occur again.
- The Law prohibits expenditure for periods greater than one year to be undertaken without the provision of a permanent source of funding - whether via spending cuts or increased revenues - and sets proportional spending limits on payroll, pensions, other personnel benefits, and indebtedness.

- The LRF also prohibits one entity of the Federation financing another. This reinforces the definitive nature of the restructuring of state and municipal debts undertaken during this government and commits all concerned to responsible management of their accounts.
- The LRF also includes barriers to creation of new “skeletons”.
- Finally, the LRF institutionalizes the policy of setting primary budget surplus targets.

In this institutional context, and bearing in mind the profile developed over the past eight years, the debt of the Federal Government is perfectly manageable. For it to continue to be so, it is essential that the country continue to fulfill the precepts of fiscal responsibility and carries out the structural reforms needed to further increase the solidity and transparency of public accounts, and the competitiveness of the Brazilian economy.

## **The level of foreign debt remained stable**

So far, we have dealt only with the “internal” part of the public debt. There is another very important part, which is the Federal Government’s External Debt. This has remained practically stable. It progressed from US\$75.7 billion in December 1994 to US\$83.9 billion in September 2001.

- The External Debt of the entire public sector reduced, falling from US\$94.5 billion in December 1994 to US\$92.8 billion in December 2001.
- The Public Sector External Debt, which in the early 1980s represented the equivalent of about 25% of GDP, today represents a little more than 10% of GDP.
- Most important: the average maturity of this debt today is of between 8 and 9 years.



## 28. Privatization has improved public services

**I**N 1995, WITH THE START OF THE NEW GOVERNMENT, GREATER PRIORITY WAS GIVEN to privatization. A new phase began in which important public services were transferred from the State to the private sector in the areas of telecommunications, transportation, and electricity. Among the objectives were to benefit the population, especially the poor, through the increase in the supply of and improvement in these services. Regional banks were also privatized, helping to modernize service in branch offices throughout the country.

- For the population, without doubt privatization had the largest impact in telecommunications. Starting 1998, this permitted an explosion in the supply of fixed and mobile telephones (see Chapter 15 - communications).
- For a long time, the Federal Government had not made funds available for the modernization of many of the telecommunications companies under its control. The lack of investments allowed severe bottlenecks to accumulate in telecommunications, in transportation and in electricity supply.
- Alongside the reorganization of public finances, privatization allowed a return to investment in these sectors, although in electricity and transportation this has been below the level needed. The expansion of supply and the increase in the efficiency of the infrastructure has helped all users – individuals and companies. With the introduction of private competition in these sectors, there have been clear gains in the efficiency of the economy, impossible under the former monopolistic regime.
- The revenue generated by the privatization was eight times greater in 1995-2000 than in 1991-1994. Approximately one third of the total revenue from privatization during the period came from programs carried out by individual states, supported

in various ways by the Federal Government. In the period 1991-1994, privatization was worth \$11.9 billion, rising to \$91.5 billion in the period 1995-2001 (see table).

### *Privatization - balance*

Annual results by program, 1991 to 2001, in US\$ millions

Year	Nacional Privatization Program (PND)	StateTelecommunications	Total result
1991	1,988	-	1,988
1992	3,383	-	3,383
1993	4,188	-	4,188
1994	2,315	-	2,315
1991-1994	11,874	-	11,874
1995	1,628	-	1,628
1996	4,749	1,770	6,519
1997	7,824	15,116	22,940
1998	2,737	10,857	13,594
1999	133	3,886	4,019
2000	7,670	3,070	10,740
2001	1,089	-	1,089
2002	1,975	-	1,975
1995-2002	27,805	34,699	62,504
<b>Total</b>	<b>39,679</b>	<b>34,699</b>	<b>74,378</b>

Transferred debts included; 2002 data: until April 27

Source: BNDES

- The federal and state privatization programs are included among the structural reforms carried out in recent years. There are a number of reasons why privatization has been important for the structural reform of the public sector and modernization of the economy:
- In the first place, companies were sold that were deficient, unproductive, and gobbled up public funds. Between 1991 and 2000, the transfer of funds from the Treasury to state companies dependent on such funds to cover their expenses fell from 1.24% to 0.005% of the GDP.
- Second, privatization contributed to an orderly solution to the indebtedness of the states.
- In the third place, the privatization process allowed an increase in social spending, without harming economic growth. Together with the state companies, the private sector assumed the responsibility for future investments, which were no longer viable with public funds. This left the federal and state governments free to concentrate investments in areas where the government cannot be absent: in social programs.

- In the fourth place, privatization made it possible to generate extraordinary revenue which helped reduce the Internal Public Debt. Recent estimates from the National Treasury Secretariat indicate that the amount of net public debt today would be 8 percentage points greater without privatization revenue.
- Between 1990 and 2000, the number of federal companies fell from 186 to 99, even including 12 state financial institutions and eight state electricity utilities federalized with the goal of cleaning up their books for subsequent privatization. During the same period, the total spending of state companies fell from 13.6% to 7.5% of GDP.
- The 10 largest foreign investors in Brazil from 1991 to 2002 were, in descending order: the United States, Spain, Portugal, Italy, Chile, Belgium, England, Canada, Sweden, and France.
- One of the most important reforms underway in Brazil, the privatization program included the sale of public service companies belonging to the federal, state, and municipal governments, as well as the granting of concessions to the private sector. The State stopped being a producer of goods and services and became a regulator of public service concessions by means of new regulatory agencies created for each sector. The Brazilian Development Bank, or BNDES (Banco Nacional de Desenvolvimento Econômico e Social) was at the forefront of the process.
- In July 1998, a Federal Government “telecom auction” sold 12 regional companies created within the former state-run Telebrás System. Companies were split into fixed, long distance and mobile service suppliers. Auction proceeds reached R\$22 billion.
- Starting 1995, other examples of the privatization process include the sales of the Vale do Rio Doce mining company; the Santos and Sepetiba port container terminals; the Federal Railroad Network; energy companies such as those of São Paulo and Minas Gerais; and various state banks.

## Privatization agenda 2001-2002

Companies and share-holdings included in the National Privatization Program (PND)

### Electricity

#### Distribution

- Cia. Energética do Piauí S/A – CEPISA
- Centrais Elétricas de Rondônia S/A – CERON
- Centrais Elétricas do Estado do Acre – ELETROACRE
- Cia. Energética de Alagoas – CEAL

#### Generators

- Centrais Elétricas S/A – FURNAS
- Centrais Elétricas do Norte S/A – ELETRONORTE (Tucuruí)
- Cia. Hidrelétrica do São Francisco – CHESF (Xingó)

#### Concessions

- Eight hydro-power dam locations
- Construction, operation and maintenance of eight transmission lines

### Regional banks

- Banco do Estado de Santa Catarina S/A – BESC
- Banco do Estado do Piauí S/A – BEP
- Banco do Estado do Ceará – BEC
- Banco do Estado do Maranhão – BEM

### Others

- Cia. de Entrepósitos e Armazéns Gerais do Estado de São Paulo (São Paulo depots and warehousing) – CEAGESP
- Cia. de Armazéns e Silos do Estado de Minas Gerais (Minas Gerais warehousing + silos) – CASEMG
- Centrais de Abastecimento de Minas Gerais S/A (Minas Gerais wholesale markets) – CEASA/MG
- Instituto de Resseguros do Brasil S/A (Brazilian reinsurance institute) – IRB
- Patrimônio Imobiliário da União (Federal real estate) – SPU
- Federal highways
- Concession of subway transport services (Line 3)

## 2. State Companies

### Water and Waste Water

- Empresa Bahiana de Águas e Saneamento – EMBASA
- Cia. Pernambucana de Saneamento – COMPESA
- Cia. de Águas e Esgoto do Rio Grande do Norte – CAERN
- Cia. Espírito-santense de Saneamento – CESAN

### Telecommunications

- Personal Mobile Telephony Concessions
- Band C
- Band E – Regions 2 and 3

Source: BNDES

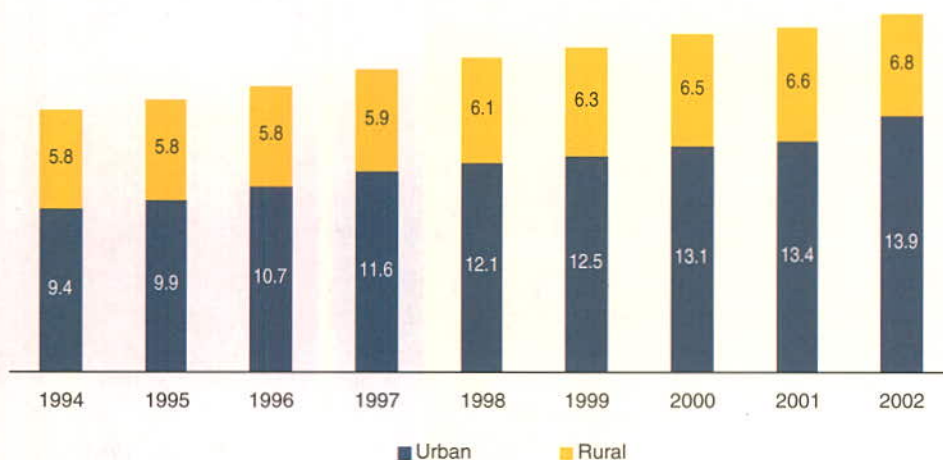
## 29. Social Security and welfare - 70 million people benefited in 2001

**I**N 2001, SOCIAL SECURITY REACHED A RECORD OF 20 MILLION BENEFITS PAID PER month. According to data from the Brazilian Institute of Geography and Statistics (IBGE), for each direct recipient there are 2.5 other people who benefit indirectly, so in fact the impact of Social Security payments reached 70 million people. In 2002, the number of people directly benefited reached 20.8 million even before year-end.

- The 2001 level represented 41.2% of the Brazilian population, in other words, for each 10 Brazilians, four benefited directly or indirectly by Social Security.
- To accomplish this, some R\$75.3 billion was spent, or about 6.34% of GDP, reflecting an increase in the quantity and the average value of benefits paid. This percentage was 4.87% in 1994.
- The size of the system makes Social Security one of the pillars Brazilian social stability. It represents a transfer of funds to the population that helps reduce poverty, principally in rural areas.
- The growth in quantity is due in part to the substantial increase in the number of benefits paid to rural workers in the family economies.
- With 6.8 million beneficiaries each year, rural Social Security is the largest program to transfer income in the country.
- In 1994, the number of monthly benefits paid by Social Security was 15.2 million, being 9.4 million in urban areas and 5.8 million in rural areas. In 2002, the number was 20.8 million, of which 14.0 million were in urban areas and 6.8 million (estimated year-end total) in rural areas. In other words, between 1994 and 2002, there was an increase by 36.8% (see graph below).

## Social Security - number of beneficiaries

(1994-2002)



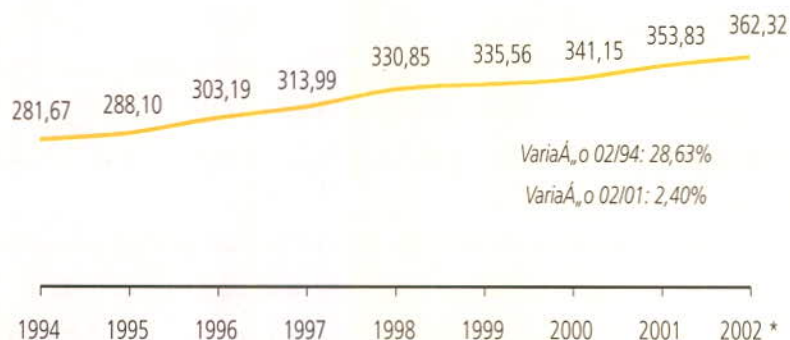
Social Security Official Statistics Report  
Created by MPASI Social Security Secretary  
Source: Social Security Statistic Yearbook

## Retirees receive more each month

Between 1994 and 2002, the average real value of the benefits paid by Social Security grew 28.9%, going from R\$266.95 to R\$343.02. This increase was due to a combination of the stability of the Real with a policy of benefit readjustments above inflation.

## Social Security benefits - growth of average value

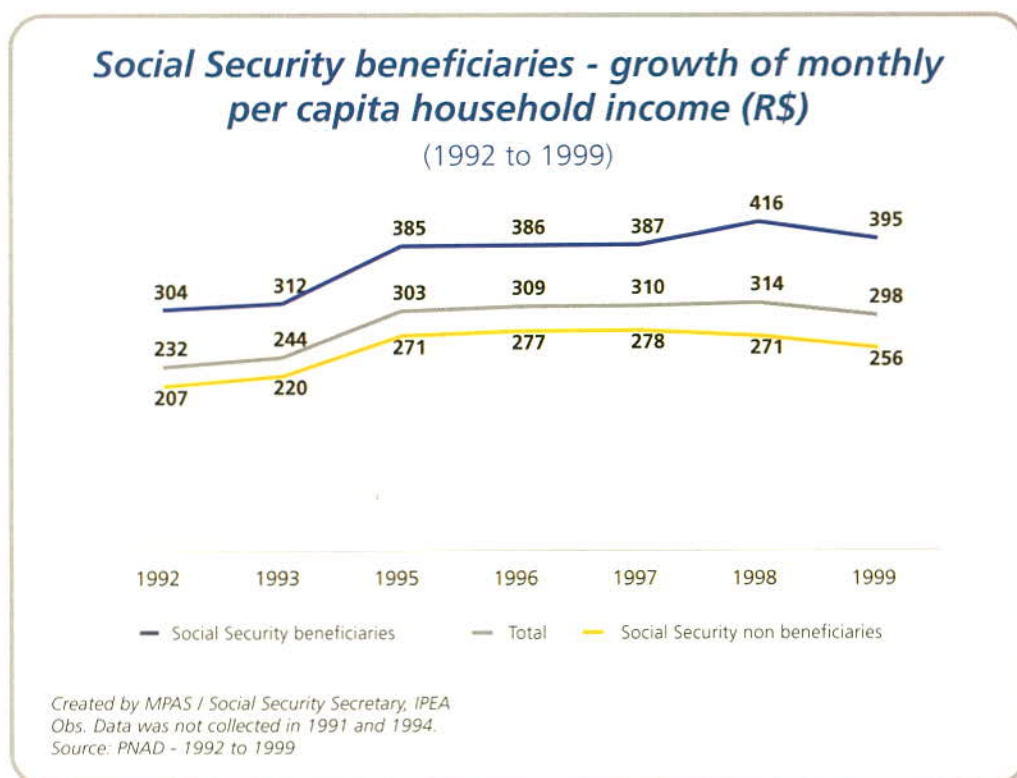
(1994-2002, R\$)



Source: Social Security Statistic Yearbook, AEPS; Social Security Official Statistics Report  
Created by MPASI Social Security Secretary  
Obs. Average value of average benefit, each year. Adjusted by INPC, 2002 august.

## Household income of retirees is greater

In Brazilian households that receive Social Security benefits, the average per capita income grew the most. This increase was 30% between 1992 and 1999, while the average per capita income in households without benefits rose 23%. In the households that receive Social Security benefits, the income is one third greater than the national average and more than 50% greater than that of households without benefits.



## Expansion of social security helps reduce poverty

The expansion of Social Security is helping to reduce poverty. Without social security payments, the poor population would increase from 34% to 45.3% of the total. In other words, the number of impoverished people would increase from 54.5 million to 72.6 million.

- Social Security spending was responsible for the reduction of 11.3 percentage points in the levels of poverty in 1999.
- Without Social Security, there would be 18.1 million additional poor people.
- The degree of poverty among the elderly is substantially smaller than the young population. If there were no retiree and pension benefits, poverty among the elderly would be three times greater.

In summary:

Along with the stable economy, the expansion in the Social Security system was fundamental to reducing poverty in Brazil over the last decade. The expansion of retirement benefits can be seen both in the quantity and average value of benefits paid. This demonstrates that the Federal Government is concerned with protecting the elderly.

### **Poverty and Social Security**

In 1999, considering poverty line at R\$98.00

	<b>People (1999)</b>	<b>Total %</b>
Total population	160.0 millions	100.0
Poor	54.5 millions	34.0
Poor if Social Security was not available	72.6 millions	45.3
Difference	18.1 millions	11.3

Source: PNAD, 1999

## **Payments represent 20% of family income in the Northeast dry-lands**

Retirement benefits and pensions paid by Social Security are more important where Brazil is poorer, such as in the Northeast drylands. There, they represent 19.6% of the family income. In other areas of the Northeast, they account for 11.4%, and in the rest of Brazil, 9.7%.

- In the Northeast drylands, for every person formally employed by the private sector, an average of 2.52 people receive benefits from the INSS, the National Institute of Social Security.
- While in all of Brazil the funds paid by the INSS are equivalent, on average, to roughly one fourth of the total formal wages in the private sector, in the Northeast drylands, they surpass formal private-sector wages by 32.8%.

## Retirement benefits and pensions where Brazil is poorest

Comparison between Northeast drought area,  
Northeast non-drought area and Brazil (1997)

Area	INSS retirement benefits and pensions		
	Ratio of INSS beneficiaries per employee of private sector**	As % of total private-sector wages**	As % of families' monetary income
Northeast drought area*	2.52	132.8	19.6
Northeast non-drought area	0.73	28.7	11.4
Northeast	1.13	43.8	14.0
Brazil	0.67	23.6	9.7

\* Northeast drought area = geographic region formed by 1,122 Northeast municipalities under critical situation

\*\* formal employment only

Source: IPEA / MPAS

## Impacts for the small cities in the rural areas

- Social Security drives the cities. In six out of 10 Brazilian cities, the income from Social Security is greater than the Municipal Participation Funds, or FPM (Fundo de Participação dos Municípios) - tax revenue transferred by the federal government to each town or city, proportional to its size.
- Families with elderly members have 15% more income than families without.
- The elderly contribute R\$67 of every R\$100 earned by their families.
- The largest share of elderly income comes from Social Security.
- The smaller the income, the greater the importance of Social Security.
- Social Security plays an important role in the transfer of income from urban to rural areas.
- The social improvements in rural areas are intimately associated with the expansion of Social Security, which helps families living in a subsistence economy, revitalizing local commerce, helping cottage industry, reducing migration from rural areas to large cities and ensuring an income between harvests.

## The importance of rural benefits

	Northeast	South
INSS retirement benefits and pensions as % of total income of recipient	71.2%	41.5%
Recipient in charge of productive rural establishment	43.0%	48.0%
Recipient using INSS benefits to finance productive rural establishment	44.7%	51.5%

Source: IPEA / MPAS

## Social Security reform

Based on the Constitutional Amendment No. 20 of 1998, Social Security reform has brought substantial changes to the system, seeking to correct distortions and prepare the system for the future, taking into account the new demographic trends of the Brazilian population and labor market. Criteria for the concession of benefits were changed, bringing in the concept of “time of contribution” rather than “time of service”.

- Only the retirees for time of service (15% of the total) were affected by the Constitutional Amendment. Proportional retirement benefits were abolished.
- Special retirement benefits were restricted to specific functions that carry risks to health and/or physical safety of the beneficiary, plus teachers, judges, and other categories.
- Other benefits, such as death benefits and general assistance, were maintained according to the previous requisites.
- The rules for calculating the benefits also were eliminated from the constitutional text. This allows an increase in the time of contribution counted to calculate the value of the benefits.
- Maternity benefits, previously restricted to workers, were made available to all women.
- A “Social Security Factor” was created which takes into account the time of contribution, age and life expectancy of the insured at the time of retirement. This established a principle of fairness, rewarding those who worked for longer periods of time and discouraging early retirement.
- The Social Security Crime Law (Law number 9,983 of 2000) was brought into force.
- A number of measures were introduced to expand coverage of the system.

## **The revolution in Social Security management**

### **Automatic recognition of rights**

Law No. 10,843, ratified on January 8, 2002, provided for the so-called “automatic recognition of rights”, that is, instead of the beneficiary needing to prove the time and value of contributions, this became the responsibility of the Social Security system using its records starting July 1994. This is possible due to the National Database of Social Information, or CNIS (Cadastro Nacional de Informações Sociais), which consolidates information from 1976, collected from a wide range of Federal Government databases, especially those dealing with employment and remuneration, supplied regularly by the employers. This law represented the first great step toward the automatic granting of rights. For this process to be concluded, there is a new challenge in the form of a bill underway that extends automatic recognition to 1976.

### **Modernization of Social Security offices**

The modernization of the Social Security service network allowed the integration of a single locale for all aspects of service related to benefits, from collection to legal offices. The focus on activities directed toward beneficiaries, the expansion of office hours, an emphasis on information and prior orientation of the users, the reduction in customer service time, the elimination of unnecessary requirements, staff training and decentralization of operational procedures for medical evaluation all highlight the modernization of the service network.

There are now 418 agencies up and running in the country, covering every state, and the forecast for the end of 2002 was to have in operation a total of 461 agencies. Some 303 of these agencies now rely on a modern system of waiting line management, which divides clients according to their needs, as well as attendance by appointment. Some of these agencies are located in areas where people tend to circulate, such as subway stations, shopping centers, and large supermarkets.

### **Creation of a General Review Board**

This functions within the INSS to speed up procedures, change conduct when service is inadequate, suggest changes which could reduce the time it takes to provide service, and eliminate unnecessary demands and repetitive procedures. Of the total number of cases brought before the Review Board close to 80% are resolved. In the last 12 months, some 97,651 occurrences were registered. At the new agencies, the citizen can comment on the service provided by means of a telephone installed for this purpose.

## **Institution of the “Prevmóvel” service**

These are mobile Social Security service units that increase the number of areas served with an emphasis on reaching remote areas. There are currently 73 mobile units in operation. Prevmóvel adapts to the characteristics of each region. Thus, in the Northern Region, where the main form of transportation is via rivers, four boats are used. In the other regions of the country 69 utility vehicles are adapted and outfitted with microcomputers and telecommunications, which provide the entire range of services, offered in partnership with city halls, associations, labor unions and others. From January 2000 to September 2002, Prevmóvel performed 2,557,959 consultations.

## **Implementation of Prevfácil**

These are self-service kiosks the Social Security Offices and in other public spaces such as city hall offices, associations and labor unions.

Currently, there are 1,147 self-service terminals in operation. By means of these terminals, citizens can solicit the list of documents needed to claim benefits, consult data regarding their employment history, sign up for social security, request status of debits, among other services. The kiosks represent close to 17% of the attendance in the new offices.

## **Installation of Prevfone (0800 78 0191)**

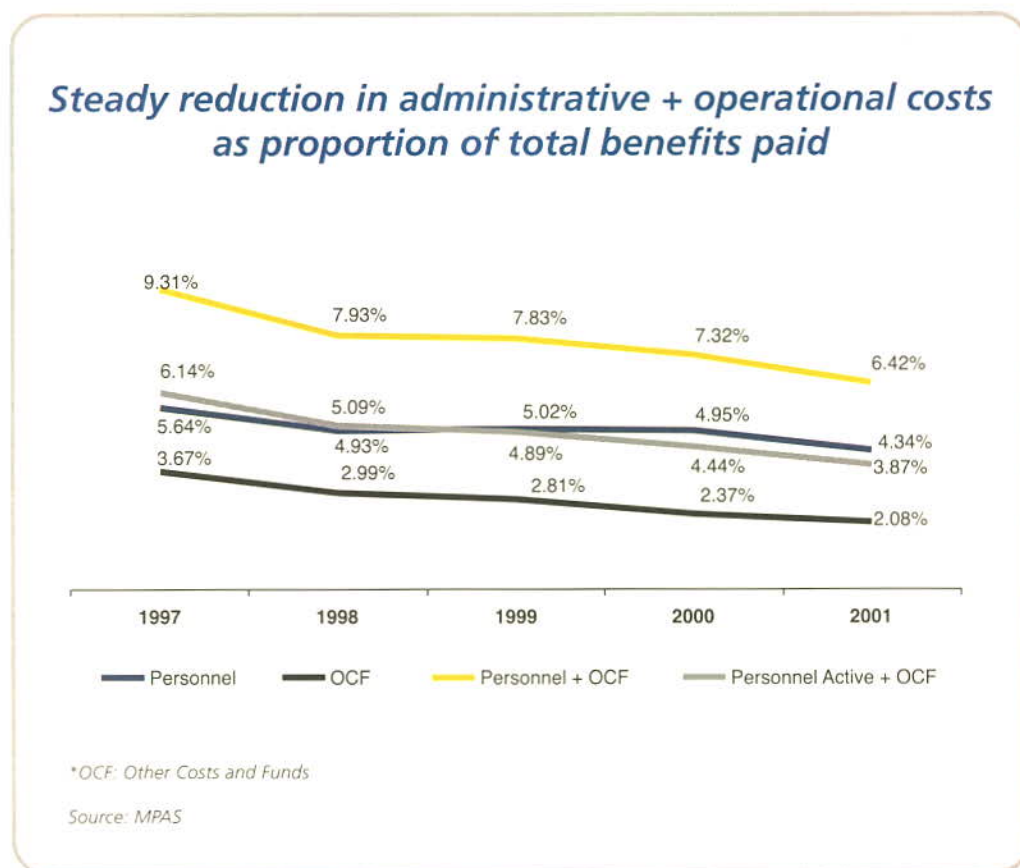
This is a direct toll free channel of communication between the Social Security system and the Brazilian population. Besides orientation and information Prevfone offers innumerable services, ranging from signing up for the Social Security General Regime to setting an appointment for service at one of the new agencies.

## **Creation of Prevnet**

Social Security is present on the Internet, offering users and companies innumerable services via its site – [www.previdenciasocial.gov.br](http://www.previdenciasocial.gov.br). Services include emitting status of debit certificates (CNDs), information about government bonds used to pay social security debts, consultations on term payments, calculating contributions and restitution, emitting guides, calculating benefits, information about the process of granting and revising benefits, determining time of contribution, solicitation of maternity benefits, and others.

## Efficiency and productivity gains

From 1997 to 2001, significant gains have been made in the efficiency and productivity of the Social Security administrative system. The costs of personnel (active and retired workers) and overheads have dropped in relation to the benefits paid, going from 9.31% (1997) to 6.42% (2001).



## Professional management

All INSS managers are now selected via an internal testing process, thus offering continuity to the professional development of directors and giving greater value to the public workers. This wards off political interference in the choice, since nominees are chosen on the basis of strictly technical criteria.



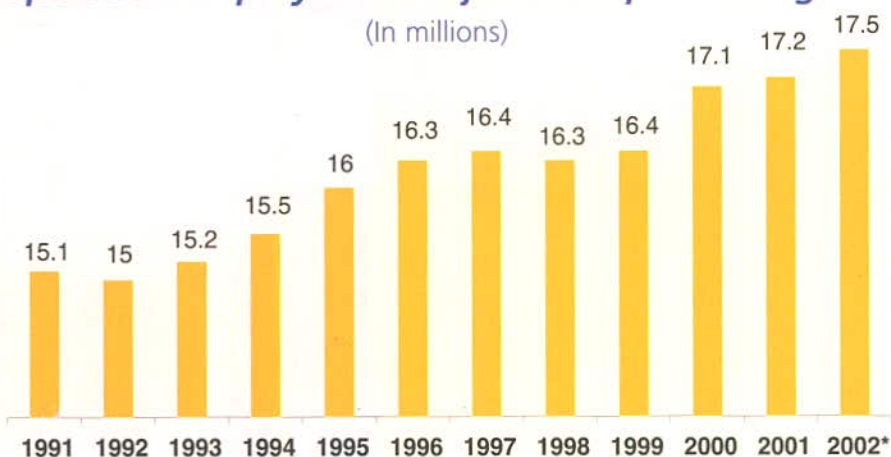
## 30. The challenge of expanding employment

**W**HILE MANY BRAZILIANS CONTINUE TO BE TROUBLED WITH THE PROBLEM of finding work, the employed population in the six main metropolitan regions rose by an average of 1.6% per year from June 1994 to June 2001. This represents the creation of 1.8 million new jobs. This expansion was smaller than desirable, but even so it was in line with the growth of the Economically Active Population - EAP during the period. The evolution of jobs went through three phases during this time.

- In the first phase, up to October 1996, there was an increase of 1.36 million people in the employed population, a growth of 3% per year.
- In the second, between October 1996 and April 1999, under the effect of external crises and the devaluation of the Real, there was a loss of 567,000 jobs.
- In the third phase, which began in the middle of 1999, the effects of the foreign crises and the devaluation of the Real were surpassed, and the job market showed much better performance, with a rate of growth on average of 5.0% per year.
- In August of 2000, a record of new 928,000 jobs was achieved, created during a period of 12 months. From that point onward, employment has held practically stable, fluctuating only due to seasonal factors.

## Population employed in major metropolitan regions

(In millions)



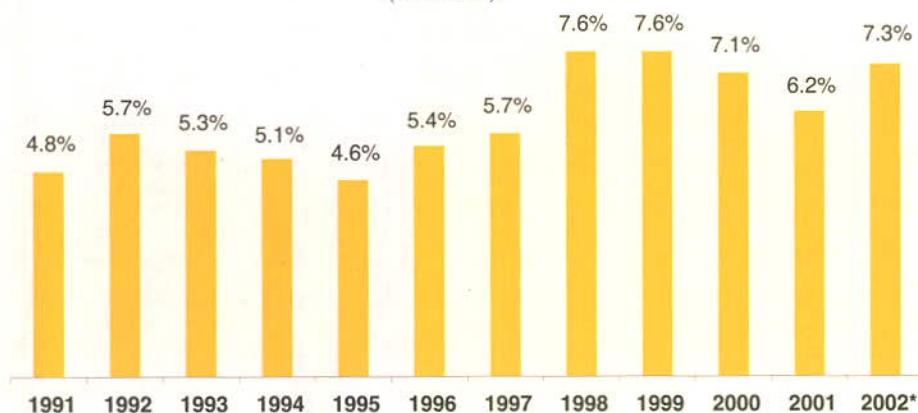
Source: IBGE, Monthly Employment Research.

\* 1st semester

- The rate of unemployment in 2001 was the smallest of the past four years: 6.2%.
- Between the first and the second phase described above (1996 to 1999), the rate of unemployment increased two percentage points, from 5% to 7% of the EAP, with heavy social costs. In the most recent phase, starting from the middle of 1999, unemployment has fallen back to levels close to 6%. This is good news, but of course there is still more to be done in this area.

## Unemployment rate

(1991-2002)



Source: IBGE, Monthly Employment Research.

\* 1st semester

- The National Household Survey Research (PNAD/IBGE) shows that there have been important changes in the distribution of jobs by sector within the economy, in particular a migration from industry to services. The industrial sector has moved from the metropolitan region to the interior and from the Southeast to the South and Centerwest, indicating a process of geographic decentralization in economic activity.
- A very positive change took place in the levels of education of the working population, as shown in the figures below. From 1991 to 2001, workers with nine or more years of schooling increased their participation in the EAP by 17 percentage points, from 35% to 52%. At the same time, the participation of workers with up to four years of school fell 16 points, from 39% to 23%. This suggests that the increase of Brazil's economic productivity did not result only from the arrival of more modern machines and process, but also from a substantial improvement in worker qualification.

## Formal employment recovers

Since 1995, there has been a recovery in the number of jobs with official labor cards, the so-called "formal market". The evolution during the three different periods was:

- From 1995 to 1999 - a reduction in job loss.
- Starting April 1999 - the number of jobs created began systematically to surpass the number of jobs shut down.
- From 2000 to 2001 - the balance of jobs created in the formal employment market reached respectively 657,000 and 591,000 jobs.
- Data from August 2002 consolidates this trajectory. There was an increase of close to 78,000 formal jobs in this month alone.
- With the performance in August 2002, the balance of jobs created in the formal economy - jobs with signed labor cards - accumulated along the year reached 820,000. This was 3.9% up on December 2001.
- In the previous 12 months, generation of new jobs totaled almost 718,000, reflecting an expansion of 3.4% in formal employment.
- From January 2000 to August 2002, there was a net increase of two million new jobs in the formal labor market.

### *How labor market data is compiled*

- The Labor Ministry carefully follows the job market by means of data and statistical information generated by Caged and the Monthly Employment Survey (PME - Pesquisa Mensal de Emprego, of the Brazilian Statistics and Geography Institute, the IBGE).
- Caged is a database of the formal job market in all states. It allows monthly tracking of the formal job market. All companies must inform Caged of hirings and firings each month.
- The PME takes into account both the formal and informal labor markets (essentially, workers with or without signed labor cards). The PME is realized by monthly sampling in the six largest metropolitan regions, covering 25% of the labor force.
- The recovery in formal employment was confirmed by the PME.

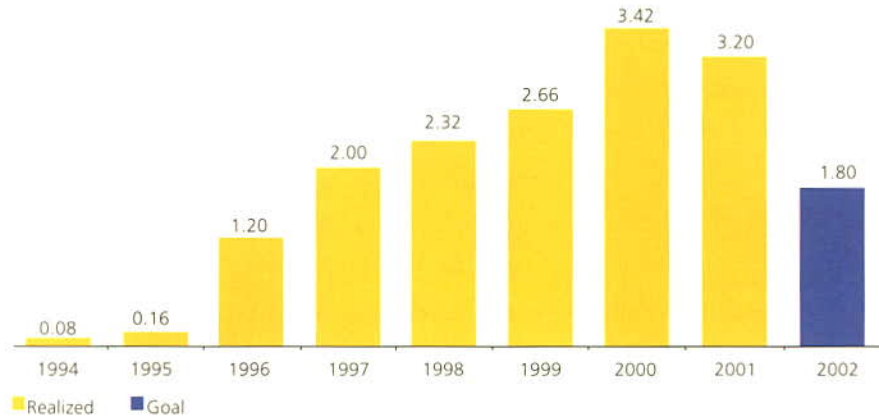
## **Planfor improves qualifications for 16.7 million workers**

Integration of the Brazilian economy with the global economy had repercussions in the labor market and required important changes in the agencies that regulate labor relations. With funds from the Workers Support Fund, or FAT (Fundo de Amparo ao Trabalhador), the Federal Government has developed activities to bolster the job market, and to protect and help workers.

- One of the most important is Planfor, the National Labor Qualification Plan, which aims to ensure the integration of the job market, promoting employability, productivity, and income.
- Planfor is carried out by entities specialized in professional qualification, in partnership with employer associations, central labor unions, and state governments.
- From 1995 to 2001, Planfor trained or retrained 14.9 million workers nationwide, with investments of some R\$2.3 billion from FAT.
- In 2002, the program was scheduled to reach 1.8 million more workers with investments of R\$300 million. By the end of the year, there will be a total of 16.7 million people qualified, representing investment of R\$3 billion since 1995.

## Workers trained by Planfor

(Millions of workers trained/retrained, per year)



Source: MTE/Planfor

- Since 1995, Planfor has concentrated activities in the most vulnerable layers of the population, in other words, people who have less access to other opportunities for training because of poverty, poor schooling, and/or discrimination in the labor market.
- The program is an instrument to break the vicious circle of discrimination and social exclusion in the labor market. Therefore, it gives priority to people who are unemployed or precariously employed. These fit into four categories:
  - Unemployed, especially recipients of unemployment benefits.
  - People in danger of permanent or long-term unemployment, caused by factors such as restructuring of production, economic crises, or climatic phenomena.
  - Small and micro-producers, both rural and urban.
  - Workers in the informal sector (self-employed and cooperatives).
- The first group, the unemployed, is the absolute priority. Of a total of 9.3 million people trained or retrained between 1999 and 2001, no less than 57% (5.3 million) were in this category, including beneficiaries of unemployment benefits.
- Planfor has reached 4,300 municipalities, or some 78% of the total of 5,547 municipalities in Brazil.

## Planfor - municipalities served

(1996-2001)

	1996	1997	1998	1999	2000	2001
Municipalities						
a) national total	5,502	5,507	5,507	5,507	5,547	5,547
b) served	2,614	3,843	4,729	3,990	4,824	4,300
b / a	48%	70%	78%	72%	87%	78%
Community Solidarity						
a) selected	1,111	1,370	1,370	1,370	1,370	1,370
b) served by Planfor	629	1,076	1,076	1,007	1,180	1,100
b / a	57%	68%	78%	74%	86%	80%

Source: MTE

- The Community Solidarity program (see chapter 5) selected 1,370 municipalities as priority, because of their high incidence of poverty and social exclusion. Of these, Planfor reached 1,180, or 86% in 2000.
- There is also integration between Planfor and other Federal Government social programs. In the area of Human Rights, for example, there is support for implantation of the Volunteer Civil Service for young men and women of 18 years. This initiative unites professional qualification with higher levels of schooling, instruction in citizenship and provision of community services, plus a support grant for all participants.
- Between 1998 and 2001, more than 39,000 youths took part in the Volunteer Social Service program of Planfor. In 2002, another 12,000 were being incorporated in other states.

## Unemployment benefits expand reach 25%

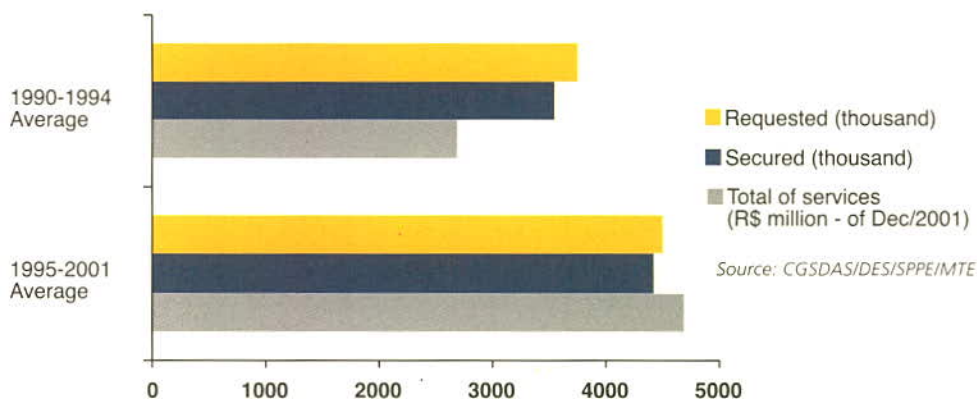
In order to support workers fired without just cause, unemployment benefits have reached a larger number of people. Entitlement requires holding a formal job for at least six months prior to dismissal. The beneficiary receives between three and five monthly payments, according to the number of months worked in the previous three years.

- Between 1995 and 2001, the yearly average of workers receiving benefits was 4.4 million, 25% up on the period 1990-94, when the annual average was 3.5 million.
- The total annual average value of benefits paid rose 75% from R\$2.7 billion in 1990-94 to R\$4.7 billion in 1995-2001.
- The average value of individual benefits rose 19% over the same periods, from R\$205 to R\$243.
- Since 1992, unemployment benefits have been given to traditional fishermen during the closed season when fishing is prohibited by IBAMA, Brazil's environmental protec-

tion agency. In 2001, unemployment benefits were introduced for domestic servants enrolled in the FGTS labor benefits fund and dismissed without just cause.

### Worker gains with formal unemployment benefits

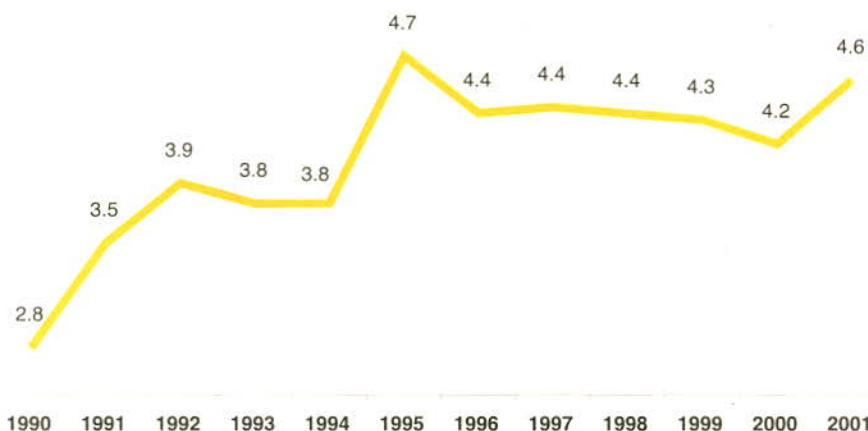
	Before: 1990-1994 (Annual average)	After: 1995-2001 (Annual average)	Variation (%)
Receiving benefit (annual)	3.5 millions	4.4 millions	+ 25%
Total benefits (annual)	R\$2.7 billions	R\$4.7 billions	+ 75%
Real average benefit	R\$205	R\$243	+ 19%



- In 2001, close to 4.6 million workers were benefited, with disbursements of R\$5 billion. For 2002, disbursements were expected to reach R\$5.5 billion.

### Unemployment benefits - recipients

Millions per year, 1990 to 2001



Source: Ministry of Labor and Employment

- The increase in the number of beneficiaries reflects an increase in the number of people with labor cards who were fired. Also, the criteria for benefits became more flexible in the second half of 1990, with a reduction in length of employment needed for entitlement.
- Throughout the 1990s, according to the National Household Sample Survey (PNAD/IBGE), unemployment benefits helped to maintain, on average, a little more than one third of the salaried income of a private sector worker, dismissed without just cause from formal employment.
- In 2001, unemployment benefits were extended to domestic servants, who represent 7.4% of the job force, or 5.3 million workers.

## Salary bonuses reach 5.9 million people

Another labor assistance initiative, the government salary bonus, is reaching a larger number of poorer Brazilians: 5.9 million received the benefits in 2001 nationwide. This was 23% greater than the average for 1990-94 (some 4.4 million).

- The salary bonus represents an average increase of 5% earned during the year, a significant complement. In the month in when the bonus is paid, the impact on income can be up to 70% and functions as an additional monthly salary.
- The average proportion of workers receiving the bonus increased from 71% in 1990-94 to 82% in 1995-2001.
- In 2001, R\$978 million in bonuses was paid from the FAT workers support fund (Fundo de Amparo ao Trabalhador).
- The forecast was that 5.8 million workers would receive the bonus in 2002, at a cost of R\$1 billion.
- The salary bonus is equivalent to annual payment of one minimum salary to every worker in the public or private sector who has been signed up in the PIS-Pasep program for more than five years, among other requirements.

### Workers receiving salary bonus

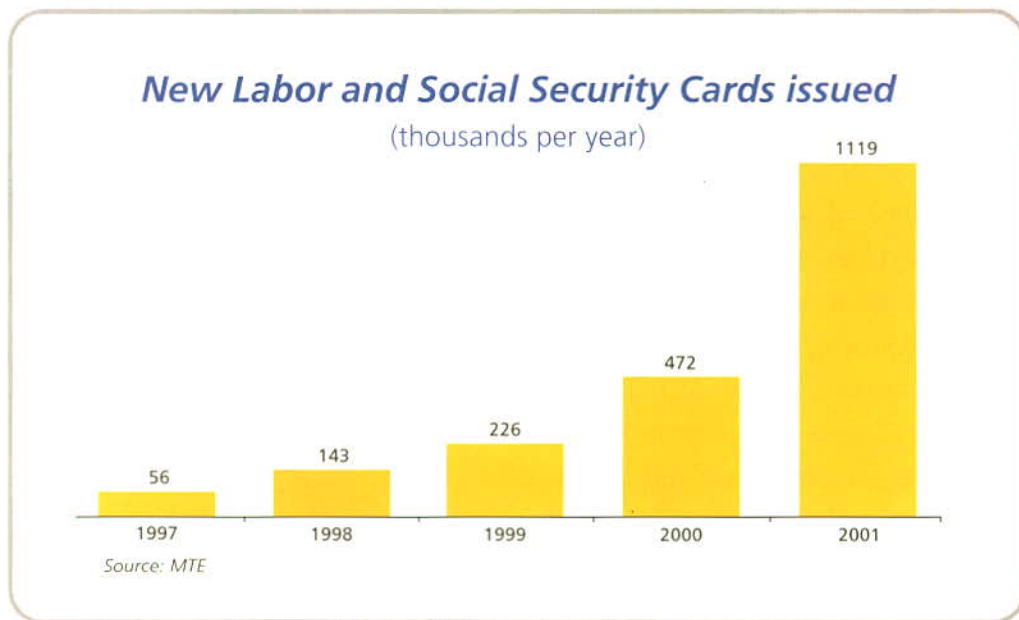
	Before: 1990-1994	After: 1995-2001	Variation
Workers receiving bonus	4.4 millions	5.4 millions	+ 23 %
Recipients as % of potential total	71%	82 %	+ 15 %

Source: MTE

## New labor card is more secure

The Labor and Social Security Card, an indispensable document for the worker, has a new look. Today, it has a number of security features that make it more difficult to cheat the system of unemployment, FGTS, and social security benefits.

- The new document identifies the holder by means of the PIS-Pasep number, a photograph, signature, and fingerprint.
- Implementation began in 1997 and is making strides throughout the country. The entire Southern Region, the states of Amapá and Sergipe, and a good portion of the capitals of other states are already using the new card.
- The forecast for 2002 was for three million cards to be issued. From 1997 to 2001, close to 1.8 million were issued.



## More jobs and income - the urban and rural Proger

The job and employment creation program Proger (Programa de Geração de Emprego e Renda) started functioning in 1995, and has gained ground as one of the main government instruments for job and income creation and to improve the lives of workers. It functions by granting credits, under special conditions, for financing productive activities in the formal and informal sectors of the economy, in urban and rural areas. These activities are directed toward job and income creation. They integrate and complement other public initiatives in the area of employment, for example professional training/retraining and labor mediation.

Credit operations use the Banco do Brasil, the Banco do Nordeste do Brasil, the Caixa Econômica Federal, and the Brazilian Development Bank as lenders. Loans are tied to technical and managerial training programs, professional qualification, technical assistance, and monitoring the undertakings that receive the funds.

From 1995 through 2001, Proger has invested approximately R\$6.9 billion via 860,000 individual loans.

### *Proger - R\$6.9 billion since 1995*

	1995	1996	1997	1998	1999	2000	2001	Total
Operations - total	81,545	161,691	114,382	102,689	83,931	203,787	111,625	859,650
Invested								
(R\$ thousands)	623,796	1,382,158	1,231,479	910,603	778,425	1,080,539	878,444	6,885,444

Source: MTE/PROGER

Proger estimates for 2002 were investments of R\$1.6 billion, with the realization of close to 134,000 credit operations.

A recent evaluation of the Urban Proger, carried out by the Ministry of Labor, analysed the behavior of direct formal employment in some 30,000 small and micro-companies that received Proger funds, and showed the following positive results:

- a) Each credit operation directly generated 1.22 formal sector jobs, at an average cost of R\$19,724 per job created (the survey considered only businesses which report to Caged). Considering jobs created indirectly and the resulting income created, the estimate is that there were nine jobs created per credit operation, or one job for every R\$2.668.62 applied through the program.
- b) There was sustainability in the direct jobs created with the labor cards. More than three years after the credit was disbursed, not only did created jobs continue, but new jobs were still being created.
- c) Small and micro-companies supported via Urban PROGER saw an increase of 34.8% in the rate of generation of direct employment in the six months after receiving credit, compared to the six months previous. The same companies showed an increase of 18.1% in the total number of direct jobs with labor cards, following the credit.

While the small and micro companies in all Brazil increased formal employment by 2.64% in 1998, a sample of those financed by Urban Proger in January 1998 had an increase of 29.91% in the number of direct jobs with labor cards in the same period.

## 31. Security

**T**HE EFFECTIVE INVOLVEMENT OF THE UNION, SIDE BY SIDE WITH THE STATES, in the fight against crime and violence has been one of the Federal Government's core activities since the beginning. In March 1995, Law No. 9,017 established controls and inspection for products and chemicals which could be used for production of cocaine and other drugs that cause physical or mental dependence. Another important initiative was the emergency plan to repress crime in Rio de Janeiro in 1996. That same year, the government reopened the National Police Academy and renewed efforts to repress drugs and organized crime throughout the country. It obtained substantial results in drug seizures and closure of clandestine laboratories used in drug processing. Highlights of public security activities:

### Infoseg

- In 1995 the National Justice and Public Safety Information System (Infoseg) was created as a fundamental instrument for repression of crime in general and organized crime in particular.
- Infoseg is a national database of federal and state criminal information, arrest warrants, prison population, firearms, drivers, and stolen vehicles. It can be electronically accessed throughout the country by authorities involved in public safety.
- In 2001, the system received technology upgrades with investments of R\$1.3 million.

### Conportos

- Also in 1995, Brazil became a member of the United Nations Drug Commission. Among other functions, this acts against money laundering. The same year, the

National Public Security Commission for Ports, Terminals, and Navigable Routes (Conportos) was created to improve, implement, and supervise the system of repressing illegal activity in these areas.

## Federal Police activities

The Federal Police Department developed the following projects to help fight crime:

- Creation of the Federal Police in the Amazon program (Pró-Amazônia), designed to control borders, prevent and combat narcotics trafficking, contraband, crimes against the goods, services and interests of the Union, the political and social order, and the natural environment.
- Expansion and Modernization of the Operational Units in the Technical-Scientific Segment of the Federal Police (Promotec) - this program has the goal of increasing and fine-tuning the presence of the Federal Police in national territory not covered by Pró-Amazônia, and to promote the modernization of the technical-operational segment of the Federal Police Department.
- Modernization of the National Police Academy.
- Technical Integration of Criminal Information Project.

Wide-ranging operations were carried out in a joint effort of the Federal Police, the Federal Highway Police, state police force and the Armed Forces. Highlights:

- Operation Impact, developed in the state of Maranhão during the period of July-August 1996, culminated in the recovery of stolen cars, apprehension of firearms of various calibers, seizure of great quantities of drugs and enforcement of arrest warrants.
- Operation Alagoas, started in 1998.
- Port Operations - Fechada North, Centopeia, Southern Pará, Mandacaru and Porto Belo, which focus on illicit acts and deadly crimes.

## National Public Security Plan

A new level of Federal Government participation was achieved with the June 2000 launch of the National Public Security Plan (PNSP), which promotes the articulation of different federal, state, and municipal agencies as well as private entities and society in the effort to fight crime.

- The National Public Security Fund was created with R\$1.3 billion in federal funds for the period 2000-02.
- These funds are directed as a priority to the Citizen's Safety Program (outfitting and training state police, ostensible policing, implantation of a system of police observation and community police).

- Investments of R\$252 million in 2000 and R\$397 million in 2001 were made in the acquisition of firearms, ammunition, vehicles, equipment and communications, as well as the expansion, reform, and construction of police and prison installations, and police training.
- Both the Federal Police Modernization Program and the Citizen's Safety Program are included in the Federal Government's strategic planning to ensure that funds are budgeted. This is a pointer to the government's priority in confronting violence and criminality.

### **Penitentiary Program**

- The Penitentiary System Reform Program illustrates the Federal Government's contribution to reducing the shortage of prison capacity. It seeks to promote the reintegration of the prisoner with society by means of job training for convicts and a wide range of social assistance programs for the prisoner on release from the prison system.
- Prison capacity was expanded by 34,756 places during 1995 to 2000, and 25,504 in 2001.
- In the period 1995-2001, some R\$699 million was invested to improve the prison system. Of this, R\$258.1 million was invested in 2001 alone.
- In 1995, the Criminal Processing Board was created and operated throughout the country, applying the newly-published Minimal Rules for Treatment of Prisoners in Brazil, a policy in harmony with the United Nations' determination on prevention of crime and the treatment of delinquents.

### **Security on streets and highways**

- The new Brazilian Traffic Code, which took effect 1995, became a tool to make traffic more humane and encourage civility among motorists and pedestrians.
- Since 1999, the National Registry of Motor Vehicles (Renavam) and the National Registry of Driver Licenses (Renach) link all 27 states. At the end of 2001, Renach included 21.5 million drivers in its database.

### **Carnival and summer vacations**

- In partnership with states, starting 1996 the government set up special operations for Carnival (normally February) and for the summer months to intensify oversight and reduce the number of accidents on highways.
- This produced a constant and significant decrease in the number of highway automobile accidents and victims.
- The Federal Highway Police also intensified repression of other types of crime. Since

1999, these activities have resulted in the apprehension of important quantities of illicit drugs, cigarettes, and firearms and the recovery of stolen vehicles.

## Fighting organized crime

- The Federal Government has sent to Congress bills on money laundering, repression of organized crime and a National Arms Control System that seeks to limit carrying firearms and control their importation.
- One of the main fronts to combat organized crime, including narcotics trafficking, is the prevention and repression of money laundering. Initiatives taken since 1998, when Brazil signed the Vienna Convention, placed Brazil in the international forefront in this area.
- Law No. 9,613 took effect 1998, updating domestic legislation in accord with international commitments in relation to money laundering. The new law:
- Defined criminal activities such as money laundering, terrorism, contraband and trafficking of arms, ammunition, or material for their production, extortion by means of kidnapping, crimes against public administration, including corruption, crimes against the domestic financial system, organized crime, and narcotics trafficking;
- Obligated banks and other firms which have been used to launder money to identify and maintain an updated database of clients; to register all transactions which exceed specific limits; and to communicate suspicious transactions or transaction attempts;
- Created the Financial Activities Control Council (Coaf) as a Financial Intelligence Unit along the lines defined by the Egmont Group, which links similar entities in 53 countries, and which Brazil joined in 1999;
- Linked Coaf to public entities that have a relevant role in suppressing money laundering, including the Federal Police, the Central Bank, the Internal Revenue Service, the Brazilian Intelligence Agency, the Ministry of Foreign Relations, the National Public Finance Attorney's Office, the Brazilian Securities and Exchange Commission, and the Private Insurance Superintendent's Office.
- Intense publicity about the new law and the council's activities have stimulated banks and companies to become more involved in the repression of money laundering.
- The number of suspicious operations reported to Coaf increased from 824 in 1999 to 6,654 in 2000.
- Every report is analyzed with the collaboration when necessary of entities linked to the council. Indications of crime are then reported to the appropriate police and judicial authorities.

- Brazil participates actively via Coaf and the Ministry of Foreign Relations in international and regional mechanisms for the cooperative effort to combat money laundering.

## Operation Mandacaru

The Institutional Security Office of the President of the Republic, or GSI (Gabinete de Segurança Institucional da Presidência da República), acting via the National Anti-drugs Secretariat (SENAD), coordinated Operation Mandacaru in Pernambuco state, in the area called the Marijuana Polygon.

- The goal was to reestablish a state of normality in public security, which had been affected by close to 30 years of activity by major drug-traffickers and farm workers growing the lucrative crop of marijuana.
- Repression alone is not sufficient, so in tandem with Operation Mandacaru the Northeast Development Bank (Banco do Nordeste) developed a series of socio-economic activities called Project Moxotó-Pajeú.
- The sustainable development project now underway encourages farmers to substitute their marijuana crops with other activities, such as the creation of sheep and goat herds, fishing, and cultivation of fruit trees and other agricultural products suited to the region.
- The success of Project Moxotó-Pajeú depended on the simultaneous repression activities. Without Operation Mandacaru, the funds invested would have been diverted to marijuana cultivation.
- Operation Mandacaru cost close to R\$7 million and included the participation for 2,000 men who received important support from the Armed Forces. Its first phase ran November, 1999 through January, 2000, when it handed over to the security organs of the individual states.
- The increase of inspections in the area by the Federal Revenue Service resulted in the application of fines and legal processes that reached the value of R\$16.2 million.
- After more than three years of activity Project Moxotó-Pajeú has invested some R\$116 million in financing productive activities, providing more than 29,000 opportunities for training.
- It is projected that in 2003 there will be a growth of 250% in irrigated fruit cultivation, compared to 1999, 210% in the production of meats, and 500% in fishing. The results are associated with Operation Mandacaru, which created the conditions for the success of Project Moxotó-Pajeú, characterized by the presence of public authorities in an area long abandoned.
- The results of Operation Mandacaru should not be evaluated solely by numbers,

such as the number of marijuana plants eradicated or traffickers put in jail, but also by the social changes introduced in the region, which has been experiencing progressive improvement not just in security but also in the socioeconomic situation.

### ***Violence Prevention Plan***

One of the contributions of the Institutional Security Office of the President of the Republic was the Violence Prevention Plan, or PIAPS (Plano de Prevenção da Violência). This is an initiative directed toward management in Public Security, which began in 2001.

- Taking into account the indicators of violence, seven metropolitan regions were prioritized: São Paulo, Rio de Janeiro, Fortaleza, Cuiabá, Recife, Vitória, the Federal District and outlying cities. These include 121 cities with a population of 37 million people. The funds invested correspond to R\$336 million.
- Instead of creating programs, the PIAPS seeks to articulate activities in various levels, so that public policy existing today at the federal, state, or municipal levels can be realized in an efficient way.
- The projects do not rely on their own budget to be viable. The funds used come from 49 federal programs, selected from *Avança Brasil* (the strategic government plan) as adequate for the primary prevention of urban violence, and managed by 13 Ministries which are part of the Plan.
- Partnerships were encouraged in all spheres of government, with entities of the Executive, Judicial, and Legislative branches, private companies and the Third Sector.
- Some examples of the federal programs in the different ministries: Every Child in School; Open Book; Fiscal Strengthening of States and Cities; Repression of Violence Against Women; Quality in Public Service; Repression of Sexual Abuse and Exploitation of Children and Adolescents; Eradication of Child Labor; Prevention, Control and Assistance for Carriers of Sexually Transmitted Diseases and Aids; Health and Family; Sport Solidarity; Municipal Tourism; Environmental Education; Generation of Jobs and Income; Living Better; Uniformity of Telecommunications Services; Active Community, and others.

## Brazilian Intelligence Agency (Abin)

Law No. 9,883 of December 7, 1999 created the Brazilian Intelligence Agency, or Abin (Agência Brasileira de Inteligência), and instituted the Brazilian Intelligence System (Sisbin). With this, the government showed its concern in establishing the necessary safeguards to guarantee the conduct of intelligence activities in the country in a plainly democratic context.

The Law, approved by the National Congress after more than three years of careful analysis, instituted the most important and modern safeguards and external controls of Intelligence activities by the Legislative Branch. Moreover, the National Intelligence Policy, established by the president of the Republic, is subject to suggestions from the Congress, which also approves the budget of Abin and the nomination of its director general. The Federal Accounting Court controls of the Agency's expenses. Also relevant is transparency in recruiting intelligence analysts through public tests. Besides these safeguards, the Agency's employees value ethics.

### *Abin activities and programs*

1. The Brazilian Intelligence System (Sisbin) integrates the planning and execution of intelligence activity in the country, in order to advise the President of the Republic about issues of national interest. It is responsible for obtaining and analyzing data and information, producing and disseminating intelligence needed in the decision-making process, especially as regards the security of society and of the State, as well as classified issues.

Sisbin is still being regulated, but it likely to bring together the following government departments: the Presidential Chief of Staff, the Institutional Security Office, the Brazilian Intelligence Agency (Abin); the Justice Ministry; the Defense Ministry; the Foreign Relations Ministry; the Finance Ministry; the Labor Ministry; the Health Ministry; the Welfare Ministry; the Science and Technology Ministry; the Environment Ministry; and the Ministry of National Integration. In the future the States will be able to join, by means of specific modifications and agreements.

With the regulation of Sisbin, the activity of Brazilian State Intelligence will acquire the necessary scope demanded by the importance of the country in international and regional contexts. The system will offer the necessary intelligence for the decision-making process, with the timeliness, pertinence, and quality needed by the government.

2. Brazil has been participating actively in regional initiatives and international forums that deal with the issue of terrorism. It signed the 12 United Nations accords and the resolution to prevent and suppress financing of terrorist acts, in 2001, adopting preventative measures against extremist activity.

The Brazilian Congress in recent years has given priority to the ratification of these international instruments against terrorism. Additionally, 10 conventions were promulgated and already form part of the Brazilian legal system. Abin participates in government efforts to update and adjust Brazilian legislation related to combating terrorism.

The Agency advises the Brazilian government on its participation in the Interamerican Committee to Fight Terrorism (CICTE), created under the aegis of the Organization of American States to standardize and unify legal measures related to the issue. On June 3, 2002, the General Assembly of the OAS approved the Interamerican Convention against Terrorism, and Brazil was one of the first signatories.

Within Mercosul, Abin is a member of the Permanent Work Group on Terrorism, or GTP (Grupo de Trabalho Permanente sobre Terrorismo). It also attends meetings of the Tripartite Command of the Triple Frontier, whose purpose is to coordinate the operational activities of police intelligence to combat all forms of organized crime in that region.

The Agency develops systematic intelligence operations, exchanges information with foreign intelligence services and conducts joint activities with bordering countries. After September 11, 2001 there was an increase in these activities, with inquiry and investigation into all tips about suspect individuals or groups; intensification of control measures for foreigners; realization of integrated operations among Brazilian security entities at the three levels of government; and institution of a federal task force.

3. To implement the Public Security Intelligence Subsystem, or Sisp (Subsistema de Inteligência de Segurança Pública), five technical committees were created with the effective participation of Abin in all of them, chiefly in the committee dealing with "Types of Communication to Circulate Intelligence Produced in the Scope of Sisp".

In regard to the work developed by this Committee, the Agency's activities were fundamental to the implementation of a protected network, which enables secure communication.

By means of the Intelligence School, or Esint (Escola de Inteligência), the members of Sisp are offering courses in different states for specialization in intelligence. In 2001, there were eight courses offered on the Introduction to Intelligence Activities. In 2002, one course was offered, and three more are planned.

4. Abin is part of the Financial Activities Control Council (Coaf) of the Finance Ministry, which is Brazil's Financial Intelligence Unit. This activity is of fundamental importance to strengthen the activities that seek to neutralize organized crime, particularly money laundering.

Among the members of Coaf, Abin has been one of the main collaborators, contributing not only with tactical and strategic information about financial crimes in Brazil, with an emphasis on money laundering, but also in the composition of Brazilian delegations in international forums on the theme. In this sense, the Agency is part of the Brazilian delegations in events of the Financial Action Group on Money Laundering, of the Financial Action Task Force on Money Laundering (Gafi/FATF) and the South American Financial Action Group Against Money Laundering, or Gafisud (Grupo de Ação Financeira da América do Sul Contra a Lavagem de Dinheiro).

The Abin/Coaf partnership is also evidenced by means of collaboration in courses not only for employees of the two groups, but also for training public and private sector personnel about financial crimes and money laundering.

5. The National Intelligence Protection Program developed by Abin was created as a result of the rise of Brazil as an emerging power in the globalized world, where the search for commercial and technological leadership causes countries to compete for markets, making Brazil a potential target for international espionage, which could provoke substantial damage to the national economy.

The central objective is the formation of a security mindset and for the recommendation of protective measures that could minimize detected vulnerabilities.

## Exchange rates

This book shows some values in Brazilian currency, *reais*, and others in US dollars. As indicated in the main text, some values are historic, others represent a current value. As an aid to readers, the following table offers historic values of Brazilian currency against the US dollar since 1990. Figures 1990-2001 are yearly averages, while 2002 shows monthly averages. Note that Brazilian currency changed from the Cruzado Novo to the Cruzeiro 16 March 1990; and to the Cruzeiro Real 01 August 1993. It has been the Real since 01 July 1994. Source: Brazilian Central Bank.

### Exchange rate - 1990 - 2001

Year	Average value of US\$1.00	Currency
1990	80.2358	Cr\$ - Cruzeiro
1991	409.2515	Cr\$ - Cruzeiro
1992	4552.6692	Cr\$ - Cruzeiro
1993	100.3792	CR\$ - Cruzeiro Real
1994	0.6425	R\$ - REAL
1995	0.9178	R\$ - REAL
1996	1.0052	R\$ - REAL
1997	1.0787	R\$ - REAL
1998	1.1649	R\$ - REAL
1999	1.8158	R\$ - REAL
2000	1.8296	R\$ - REAL
2001	2.3522	R\$ - REAL

### Exchange rate - 2002

Month	Average value of US\$1.00 in reais
January	2.3779
February	2.4196
March	2.3466
April	2.3204
May	2.4804
June	2.7140
July	2.9346
August	3.1101
September	3.3420
October	3.8059
November	n.a.
December	n.a.

## Units:

Unless otherwise stated, this book uses Metric tonnes (1,000 kilos).

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Additional copies of this publication may be requested to:  
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**MINISTRY  
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OF THE REPUBLIC**

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GOVERNMENT**