

BTI 2014 | Brazil Country Report

	scale	score	rank	trend
Status Index	1-10	8.02	# 17 of 129	
Political Transformation	1-10	8.15	# 19 of 129	➔
Economic Transformation	1-10	7.89	# 18 of 129	➔
Management Index	1-10	7.30	# 3 of 129	

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	198.7	HDI	0.730	GDP p.c.	\$	11908.9
Pop. growth ¹	% p.a.	0.9	HDI rank of 187	85	Gini Index		54.7
Life expectancy	years	73.3	UN Education Index	0.674	Poverty ³	%	10.8
Urban population	%	84.9	Gender inequality ²	0.447	Aid per capita	\$	4.1

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

During the period under review, Brazil continued its gradual transformation to democracy and a market economy with social safeguards, trends that started respectively in the mid-1980s and 1990s and deepened under the Lula da Silva presidency (2002 – 2010). Since taking office in January 2011, Dilma Rousseff has repeatedly demonstrated that her government is more than a mere extension of the Lula years. Though her government's basic strategic priorities are the same as those of her predecessor (a reduction of poverty and economic inequality, the acceleration of growth, the strengthening of democracy and regional cooperation, and the enhancement of Brazil's role as a global political and economic player), she has clearly set an individual course. In part, Rousseff has distinguished herself by acting less partisan and by showing a stronger institutional orientation than Lula. Her intolerance of government corruption and consistent refusal to cater to the Worker Party's left wing have significantly increased her popularity (though approval rates plummeted in the wake of massive protests in June 2013, after the end of the review period). All in all, Rousseff has demonstrated rather solid transformation management.

While maintaining Brazil's democratic strengths concerning political participation, such as a strong electoral regime and civil society participation (e.g., participatory budgeting), Rousseff also contributed to the strengthening of the rule of law by showing a clearer stance in the fight against corruption than did her predecessor. She showed little hesitation in forcing several ministers out of their jobs in 2012 when they were named in corruption scandals. The most important sign of Brazil's new attack on corruption was the highly publicized trial of nearly 40 politicians and businesspeople for their involvement in a vote-buying scandal uncovered in 2005. These 2012 sentences underscored the judiciary's intent to communicate clearly that politicians in Brazil cannot act with impunity. In addition, President Rousseff inaugurated a truth commission in May 2012 tasked with investigating past human rights abuses. The seven-member commission will have two years to investigate human rights crimes perpetrated between 1946 and 1988, with the primary focus on the 1964 – 1985 military era.

Concerning economic transformation, Rousseff upheld the improved institutional framework that contributed to Brazil's rise to the status of global player during the 2000s. Though the economy was severely hit by the 2008 international financial crisis, Brazil recovered faster than most other economies. Macroeconomic stability has been maintained due both to the strength of the financial system and a combination of fiscal responsibility, exchange rate flexibility and inflation targeting. In 2012, Brazil's economic policy consisted of steady adjustment to the international crisis combined with efforts to support growth and curtail inflation. By the end of the review period, the government's economic performance had produced a rather mixed picture of modest growth, stagnant per capita income, a declining trade surplus and a still-low unemployment rate.

History and Characteristics of Transformation

Democratic transformation in Brazil spanned a period of almost 20 years. The first steps toward liberalizing the authoritarian regime (1964 – 1985) were taken in 1974. In 1984, Brazil experienced the most massive political mobilization in its history, in connection with a campaign calling for the direct election of a democratic president. However, the armed forces insisted on indirect election of the first civil government since 1964. Tancredo Neves was elected president by an electoral assembly in January 1985, but died before he could take office. The office was assumed by the elected vice president, José Sarney (1985 – 1990). A new democratic constitution took effect in October 1988. The transition to democracy was completed in March 1990, when the first directly-elected democratic president, Fernando Collor de Mello, assumed office. Implicated in a corruption scandal, Collor was removed from office by the National Congress in September 1992, and Vice President Itamar Franco served out the remainder of his term. The internationally renowned sociologist Fernando Henrique Cardoso won the presidential elections in October 1994. In 1998, after the constitution was amended to allow his re-election, Cardoso became the first president in Brazilian history to be elected to a second term of office (1999 – 2002). On 27 October 2002, Luiz Inácio da Silva (popularly called "Lula"), a former union leader and Workers' Party (Partido dos Trabalhadores, PT) chairman, was elected president. Lula's inauguration in January 2003 symbolized a sociopolitical change, but was also linked to the hopes of millions of Brazilians that reforms needed to fight poverty and inequality would be implemented more systematically than in the past. In October 2006, Lula was re-elected to a second term of office (2007 – 2010). By the end of President Lula's mandate, 83% of Brazilians approved of his administration, and 55% expressed confidence in the country's government. Lula managed to ensure the nomination and election of his protégé, Dilma Rousseff, as his successor. Rousseff was elected in a runoff on 31 October 2010, and took office as Brazil's first female president in January 2011. Her government's basic strategic priorities have been the same as those of her predecessor (reduction of poverty and economic inequality, acceleration of growth, the strengthening of democracy and regional cooperation, enhancement of Brazil's role as a global political and economic player). However, Rousseff has clearly set an individual course. To date, her government is considered as

being quite successful. Recent polls put her approval rating at about 80%, ahead even of her predecessor and mentor Lula at a similar point in his term.

Brazil's transformation toward a market economy began in the 1930s with a largely insulated local market. It was guided after the end of World War II by the concept of import substitution industrialization. The developmentalist period lasted from the 1930s to the 1980s. During this time, the Brazilian government set priorities for industrialization and was a primary actor in industry. State-owned enterprises played a central role in many sectors, and the state development bank provided funding for areas deemed by government planners to be of high priority. During the 1990s, a partial reversal of the developmentalist model took place, preparing the ground for privatization and a liberalization of the economy. When President Lula took office in 2003, the government decided the state needed to resume a more active role in industrial development, while taking decisive steps to relieve poverty and reduce inequality. At the same time, the new administration followed a course of fundamental continuity with the macroeconomic policies mapped out under Cardoso. Since 2003, Brazil has experienced a period of unbroken macroeconomic stability and noticeable improvements in well-being. The government's efforts to accelerate growth and enhance the educational system have been implemented in effective reform programs. The macro foundations of the Brazilian economy have improved further, and inequality has decreased. Sound economic policies and countercyclical measures helped the country weather the recent global financial crisis with relatively minor effect. While the Lula government did not continue the privatization policies favored by its predecessors, President Rousseff's administration announced in 2012 that it was turning to the private sector to rebuild the country's outmoded infrastructure. The government granted private companies licenses to build and operate airport terminals in São Paulo and Brasília, ending a state monopoly. At the time of writing, the government also had plans to sell licenses to build 7,500 kilometers of roads and 10,000 kilometers of railways. The concessions are expected to attract up to \$50 billion in investments over the course of five years. The state of Brazil's transport infrastructure requires significant improvement, especially in light of the major sporting competitions the country will host in the coming years (the World Cup in 2014 and the Olympics in 2016).

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

The state's monopoly on the use of force is established nationwide in principle, but does not function completely. Civilian authorities generally maintain effective control of the federal security forces, but there are reports that state-level security forces have committed numerous human rights abuses such as unlawful killings, use of excessive force, beatings, abuse, and torture of detainees and inmates. Federal, state and military police often enjoy impunity in cases of torture, as in other cases of abuse. In several large cities, the state is unable to completely guarantee private and public security. There are still generalized problems related to the failure of security policies and persistent deficiencies in law enforcement. Organized crime funded by weapons and drugs trafficking is extremely powerful in several metropolitan areas, including São Paulo, Rio de Janeiro and Recife. In spite of the government's efforts to "pacify" these organizations' strongholds, success in this policy has been limited to a few areas in Rio. In January 2012, a police strike in Bahia provoked the deployment of military troops tasked with restoring security. In addition, the government has sent 25,000 troops to Brazil's borders with Paraguay and Bolivia, which have proved largely permeable for criminals.

All citizens are accorded the same civic rights, and the vast majority fundamentally acknowledge the state's constitution. Though discrimination persists, ethnic, religious and cultural minorities are not systematically excluded from political citizenship, on either a de jure or de facto basis. Some problems exist with respect to the about 600,000 undocumented people, above all in the northeast and Amazonas regions, who lack access to some basic services. Similarly, slavery-like conditions can still be found in about 300 enterprises. According to Brazil's Labor Ministry, between 1995 and 2011, nearly 41,500 workers were freed from slavery-like conditions. Migration to Brazil from neighboring countries such as Bolivia and Paraguay, and more recently also from Haiti, has increased enormously in the past few years. Conferrals of citizenship have not followed at similar rate. There are many

Question
Score

Monopoly on the
use of force

7

State identity
9

limitations to obtaining visas to Brazil as well as to gaining citizenship rights, especially for migrants without a labor contract.

The state is secular. Religious dogmas have no noteworthy influence on the country's legal order or political institutions. Nevertheless, the number of elected representatives from evangelical and Pentecostal churches has increased in the recent past. These legislators have had significant influence in the discussion of gender-related issues such as abortion, same-sex marriage and family planning in the Chamber of Deputies. Hence, an increased and organized presence of religious dogma can be seen as affecting specific decisions within Brazil.

No interference of
religious dogmas
9

The state's basic infrastructure extends to the entire territory of the country, but its operation is deficient in some respects. The state apparatus operates efficiently and professionally in some regions, while others are still characterized by clientelism and patronage, demonstrating considerable need for reform. Further problems are caused by widespread corruption and organized crime and violence. A climate of lawlessness in certain remote parts of the country and in the slums of some large cities is aggravated by a weak judiciary and an often violent police apparatus.

Basic
administration
8

2 | Political Participation

There are no essential constraints on free and fair elections.

General elections are conducted regularly on the national level, universal suffrage with secret balloting is ensured, diverse parties with varying platforms are able to run and political posts are filled according to the outcome of elections. Legal regulations provide for a fair registration procedure for all elections; candidates and parties are not discriminated against. All Brazilian citizens are allowed to compete in elections if nominated by a registered political party. Elections are regulated by Law No. 9.504/97, which is periodically adjusted so as to reduce inequalities in the electoral process caused by abuses of economic and political power. Political parties are regulated by Law No. 9606/95, which clearly establish rules for the registration and functioning of parties. The Brazilian Supreme Electoral Court enforces these rules and actively sanctions politicians and organizations that do not respect the law. Political parties operate without restriction. This is clearly demonstrated by the high number of parties registered with the Supreme Electoral Court. Candidates and parties have largely equal opportunities of access to the media and other means of communication. All adult citizens can participate in national elections. Registration and voting are compulsory. In practice, nearly all citizens of voting age are registered. There is no discrimination observable in the exercise of the right to vote.

Free and fair
elections
10

Elected rulers have the effective power to govern. However, there are powerful landlords in some rural areas who have strong influence on the local judiciary and police forces, and who respond violently to attempts at agrarian reform and other legal activities. In addition, some landless groups rely on extralegal means to demand land and social benefits. Among those who hold wealth and prestige in urban areas, there are some who tend to rely on particularistic solutions to their problems.

Effective power to govern

9

The constitution guarantees the unrestricted freedoms of association and assembly, and the government generally respects these rights in practice. Nevertheless, in urban areas controlled by organized crime, association rights are constrained by the threat of violence.

Association / assembly rights

9

The freedoms of opinion and the press are unrestricted and generally respected. The national media are free from federal government pressures, but the economic pressure of government advertising and the use of regulatory power are important. The media provide vigorous reporting on controversial issues and government performance, but media ownership is highly concentrated and information is often biased in favor of private power interests. While Brazil's national media enjoy unrestricted freedom, the media in some provinces are frequently subject to violent attacks and abuses of power by local officials. In many states, there is only one local media conglomerate, in many cases controlled by a political group.

Freedom of expression

8

3 | Rule of Law

The principle of the separation of powers is explicitly contained in the 1988 constitution. The powers of the federal government are divided horizontally among the executive, the legislative and the judicial power. There are almost no restraints on the basic functions involved in the separation of powers, and mutual checks and balances are in place. The constitution makes the president accountable to the National Congress. The legislature can require any executive minister to appear personally to testify or answer written interrogatories. The National Congress has the power to legislate, but that power is not exclusive. Considerable legislative power is granted to the executive. The president has the right to issue delegated laws and provisional measures that have the force of law for a limited period. He or she may also veto legislation, and only an absolute majority vote of both houses of the National Congress can override this decision. In addition, the National Congress is not allowed to authorize programs that are not included in the annual budgetary law. This grants the executive extraordinary power to prevent the passage of legislation to which it is opposed. The judiciary checks both the legislature and the executive through the power of judicial review. On numerous occasions, the Supreme Court has abolished laws because of perceived constitutional violations. Brazil has a federal

Separation of powers

9

system of government in which governmental powers are divided among the federal government, the states and the local authorities

Independent courts usually manage to control whether government and administration act in conformity with the law. There is ample authority granted to judges to evaluate the constitutionality of the government's acts. The judiciary is institutionally well differentiated and free from unconstitutional intervention by other institutions. However, it is heavily overburdened. There are vast disparities in citizens' abilities to access legal counsel and the administration of justice, due to extreme inequalities in the resources available to citizens. In following with its Roman law tradition, Brazilian law is heavily procedural. Despite repeated attempts at reform, Brazil's legal system still operates inefficiently. Judges have used their autonomy to impede court reform and often use highly formalistic legal decisions to overturn government efforts at modernization. The judiciary, at its lower levels, is heavily influenced by local political and economic interests. Corruption within the judiciary is also a problem, and the National Justice Council has gained attention for dealing with judges that have been bribed. In 2009, the judiciary launched a new electronic proceeding system aimed at reducing the time spent on the bureaucratic aspects of ongoing judicial proceedings, with the goal of devoting greater energy to case decisions. The new system enables citizens to use each judicial court's website to gather information on judicial proceedings, decisions and precedents.

Independent
judiciary
7

The number of public servants and elected officeholders suspended or removed from office by the courts or by the government agencies responsible for oversight of the bureaucracy has increased tremendously in Brazil. The Accounts Tribunal, the Public Prosecutor and the General Comptroller's Office have become increasingly active, respected and feared by public servants at the federal level. However, problems still remain at the state and municipal levels. Fighting corruption was high on President Dilma Rousseff's agenda during her first two years in office. She showed little hesitation in forcing several ministers out of their jobs in 2012 after they were named in corruption scandals. The president has also supported new citizen initiatives aimed at giving more power to the people to hold their leaders to account. In 2010, the last year of President Lula's term, the National Congress passed a law proposed through a citizen-driven process (backed by more than 1 million signatures) called the Clean Records Law (Lei da Ficha Limpa), aimed at preventing corruption in both national and regional legislatures. Under the terms of this law, persons criminally convicted by a judicial or administrative court are ineligible to run for political office for eight consecutive years at any level. In the 2012 local elections, more than 1,000 candidates were barred because of this provision.

Prosecution of
office abuse
8

The most important sign of Brazil's new attack against corruption was the highly publicized trial of almost 40 politicians and business people for their involvement in a vote-buying scandal (the so-called Mensalão scandal) uncovered in 2005. In November 2012, the Supreme Court sentenced one of the leading politicians in the

country, former Lula Chief of Staff José Dirceu, to more than 10 years in prison for corruption. The trial formally ended in December 2012. Twenty-five defendants, including many high-ranking PT politicians, were convicted and sentenced to long prison terms. These sentences underscored the judiciary's intent to communicate clearly that politicians in Brazil cannot act with impunity. The trial has without doubt strengthened the reputation of Brazil's judiciary.

Civil rights are guaranteed, but are in some cases violated or not protected in certain parts of the country. Mechanisms and institutions to prosecute, punish and redress violations of civil rights are in place, but often prove to be ineffective. Nevertheless, the Brazilian constitution contains comprehensive guarantees for the protection of civil rights. It promises to promote the well-being of all citizens, without prejudice as to origin, race, sex, color, age or any other potential ground for discrimination. Men and women have equal rights and duties. The freedom of religion is guaranteed. However, in spite of these constitutional guarantees, violations exist in practice, particularly in rural areas and urban slums. Brazil has a very high firearms-related homicide rate. Most violent crime is related to the illegal drug trade. In many states, police groups referred to as "death squads" terrorize shantytown dwellers and intimidate human rights activists. The prison system is anarchic, overcrowded and largely unfit for human habitation. Thousands of poor Brazilians work under conditions analogous to slavery. As a consequence of violent crime, corruption, mistrust of the police and highly centralized federal legal codes, many Brazilians do not feel that they are in a position to ensure their personal safety.

Civil rights

7

In May 2012, President Rousseff, who had herself been jailed and tortured under the military dictatorship, inaugurated a truth commission to investigate rights abuses, including those committed during military rule. The commission will examine the period from 1946 to 1988, but a military-era amnesty means there will be no trials. The amnesty law, passed in 1979 and upheld in 2010 by the Supreme Court, means neither military officials accused of torture nor left-wing guerrillas accused of violence can face prosecution. The government emphasized that the motive behind the commission was not revenge or the desire to rewrite history, but an effort to establish transparency and discover the truth. The seven-member commission will have two years to investigate human rights crimes, with a primary focus on the 1964–1985 military era.

4 | Stability of Democratic Institutions

Democratic institutions operate essentially according to their allotted functions, but specific structures of interaction between key institutions do create problems of governance, and negatively affect the implementation of reforms. The 1988 constitution is characterized by a tendency toward overregulation. Consequently, nearly all major reforms require a constitutional amendment, and are therefore

Performance of
democratic
institutions

8

difficult to achieve. The electoral system produces overrepresentation of the sparsely populated and often disadvantaged northern and northeastern federal states in the Chamber of Deputies and the Federal Senate, while also leading to personalized and clientelistic election behavior, weak party loyalty, and frequent party changes in the aftermath of elections. This in turn complicates effective performance and requires the construction of ample (but nonetheless fragile) party coalitions.

The main problems regarding the functioning of democratic institutions in Brazil are at the municipal and state levels, rather than the federal level. At the municipal level, in particular in small to midsize cities, there is a growing oligopolization of power, with a few families or clans controlling mayoral offices, very little opposition or political competition, and low levels of accountability. This is a perfect breeding ground for corruption, which is indeed a severe problem in most of these municipalities.

Since 1988, several significant political reforms have been adopted. The most important reforms accomplished were the lowering the voting age from 18 to 16, the adoption of electronic voting machines as of 1996 and the institution of the Clean Records Law in 2010. However, other reforms considered essential have been discussed repeatedly without obtaining the necessary majority in the National Congress. Attempts at political reform were defeated in 2007 and 2009 in the Chamber of Deputies. In 2011, the National Congress created a Special Council for Political Reform, which in 2012 produced a report with several recommendations. A key reform proposed in the report is to end private electoral campaign financing. The current arrangement leads to an unequal competition between opposing candidates and fuels corruption. Another change advocated in the report aims to increase public participation in the legislative process by allowing the public to initiate reform proposals online. A third reform proposal refers to the adoption of mechanisms to strengthen internal democracy within political parties. By December 2012, the National Congress had not completed deliberations for any of these political reforms. In February 2013, President Dilma Rousseff announced that one of her future priorities would be to build support among lawmakers for political reform.

At the elite level, a secure democratic consensus and a solid behavioral compliance with democracy exists. All relevant political and social players accept the legitimacy and authority of democratic institutions. The political class appears ideologically much more homogeneous today than 20 years ago. The military does not play a political role. The way in which the Landless Workers Movement (Movimento dos Trabalhadores Rurais Sem Terra, MST) has pursued land redistribution and the adoption of other progressive economic and social policies in the Brazilian countryside has not always been consistent with conventional forms of liberal democratic politics. But although the MST sometimes uses extralegal means and is

criticized for its confrontational relations with governing institutions, it is not an anti-democratic organization.

5 | Political and Social Integration

Since redemocratization, the political party system has been characterized by a high level of fragmentation, moderate polarization, a poor social support base (with the PT as an exception) and high voter volatility. The reasons for this are partly historical, but are also connected with the electoral system. The Chamber of Deputies has an open-list system of proportional representation without a barring clause. The parties present regional lists of candidates, but voters may vote directly for individual candidates. Approximately 90% of voters in fact do so. This system makes it more difficult for national party leaderships to discipline elected representatives, and fosters a focus on personalities rather than institutions, particularly because political campaigns are planned and financed less by political parties than by candidates themselves. At the national level, most parties are organizationally weak. There is little party coordination or loyalty among congressional representatives. Until 2007, changes in party affiliation within the National Congress occurred with extreme frequency following elections, the switch usually being from opposition to governing parties, and often across ideological boundaries. The costs of party switching were minimal. In October 2007, the Supreme Court upheld an electoral court decision from February 2007, ruling that lower-house electoral mandates belonged to parties rather than to individuals. The court ordered that any officeholders switching party would lose their mandates. Some weeks later, the Supreme Court extended this requirement for party loyalty to senators, mayors, governors and even the country's president. The new situation made the political panorama more transparent, because the lineup of forces in the National Congress no longer changes from one week to the next.

During the last decade, the party system has moved in the direction of more institutionalization. Legislative electoral volatility has decreased to levels comparable to Western European democracies. Volatility in presidential elections is still higher in absolute terms, but this is true in most countries and reflects the fact that many of the main parties do not present candidates in every election. Still, presidential volatility levels have also declined over time. However, this declining tendency has not been accompanied by an increase in Brazilians' levels of satisfaction with political parties nor by greater degrees of identification with particular political parties. In terms of the legitimacy of parties, longitudinal indicators suggest that there has been little change over the past decade. Latinobarómetro data from 2011 show that both the share of respondents reporting some or a lot of trust in parties, and the share that think parties are essential to democracy has been quite stable. Only 43% think that without political parties there can be no democracy. Only 28% feel close to a party.

Party system
6

Brazil's network of interest groups is relatively close-knit, but dominated by a few strong interests. Labor and capital associations are paramount. The country's contemporary union movement was born in the struggles against the military dictatorship that ruled the country from 1965 to 1985. Following democratization there was a gradual estrangement from traditional corporatist state models. The constitution of 1988 removed the Labor Ministry's extensive powers to intervene in union affairs, but other elements of the corporatist system remained intact. All workers have to pay an annual union tax, and the power to represent all workers of a given socio-professional category in a given territory is granted to only one union. Brazilian trade unions are powerful actors. There are around 18,000 labor unions and several labor federations. The largest and most important federation, representing over 7.4 million workers in all productive areas, is the Central Única dos Trabalhadores (CUT). Entrepreneurs have a national umbrella organization. The National Confederation of Industries represents 27 industry federations in the states and Federal District with more than 1,000 associated employers unions and almost 100,000 industrial establishments. One of the most important and controversial societal organizations is the Landless Workers Movement (Movimento dos Trabalhadores Rurais Sem Terra, MST), the largest social movement in Latin America with an estimated 1.5 million members. The MST aims for land reform and land distribution.

Interest groups
8

According to the 2011 Latinobarómetro Report, only 45% of survey respondents agreed that democracy was preferable to any other form of government. About 19% responded that under some circumstances, an authoritarian government can be preferable to a democratic one; 22% said that for them it didn't matter whether Brazil had a democratic or non-democratic regime; and 58% identified reducing corruption, 45% guaranteeing social justice, 33% increasing citizen participation, and 20% increasing the transparency of the state as high-priority tasks. The degree of satisfaction with democracy (people who are "very satisfied" or "quite satisfied" with democracy), which increased from 38% in 2009 to 49% in 2010, dropped back to 37% in 2011. Government approval dropped from 86% in 2010 to 67% in 2011. Other polls showed that by mid-2012, 62% of those surveyed described the government of President Dilma Rousseff as "excellent" or "good." Rousseff's personal approval rating was even higher, with her handling of Brazil's economic slowdown and tough stance against corruption making her among the most popular democratically elected leaders in the world. Political protests do not tend to question the constitutional framework.

Approval of
democracy
8

There is a robust network of autonomous, self-organized groups and civic organizations in Brazil. Data from the Brazilian Institute of Geography and Statistics (IBGE) show that the number of NGOs is increasing. In 2010, more than 290,000 private foundations and nonprofit associations were registered, collectively employing 2.1 million persons across the country. The level of interpersonal trust

Social capital
7

among the population is rather low. In the 2011 Latinobarómetro opinion survey, only 9% of respondents considered that one could trust most people. This apparent contradiction must be explained. While mistrust in public life is widespread, there seems to be trust in associational life and horizontal social formations. Institutions are mistrusted, but Brazilians tend to trust people with whom they engage in the context of everyday life. Brazilian culture differentiates “general others” from “close others.” For Brazilians, interpersonal trust refers to face-to-face interactions and to personal contact. There are rather low levels of trust in the anonymous fellow citizen, as in institutions and the state.

II. Economic Transformation

6 | Level of Socioeconomic Development

In recent years, Brazil has achieved very rapid social progress. Thanks to low inflation and consistent economic growth, targeted transfer programs, and improvements in labor productivity due to improved schooling, income distribution indicators have dramatically improved and millions of Brazilians have moved out of poverty. Poverty has fallen markedly, from 20% in 2004 to 7% in 2009, while extreme poverty dropped from 10% to 4%. Between 2001 and 2009, the income growth rate of the poorest 10% of the population was 7% per year, while that of the richest 10% was 1.7%. This helped decrease income inequality. However, in spite of many reforms and remarkable social improvements, Brazil’s inequality levels remain among the highest in the world. Millions of people still live in poverty, while social exclusion is quantitatively and qualitatively pronounced and structurally ingrained. With a Gini coefficient of 0.54 in 2011, Brazil still shows one of the world’s most unequal distributions of income. Nevertheless, while the Gini coefficient is still extremely high, the reduction of inequality during the 2000s (in 1999 the Gini was 0.59) demonstrates that the benefits of economic growth are being more fully shared today than in the past.

Brazil exhibits a medium level of development according to key indicators, but national mean values mask the great disparities between the relatively developed southern and southeastern regions, where conditions to some extent resemble those in industrialized countries, and the socioeconomically disadvantaged northern and northeastern regions. Developmental imbalances between these regions and the south have lessened somewhat in recent years. The gender gap in terms of economic opportunity seems to be narrowing, but women remain at a substantial disadvantage. In addition, several studies have demonstrated that racial inequality is still a serious problem. Brazil is an extremely unequal country, and racism is an important element

Question
Score

Socioeconomic
barriers

6

in understanding the dynamic of this framework of inequality. The high-income population is essentially white, while most Brazilians who live in poverty are black.

Economic indicators		2009	2010	2011	2012
GDP	\$ M	1620165.2	2143035.3	2476652.2	2252664.1
GDP growth	%	-0.3	7.5	2.7	0.9
Inflation (CPI)	%	4.9	5.0	6.6	5.4
Unemployment	%	8.3	-	-	-
Foreign direct investment	% of GDP	1.9	2.5	2.9	3.4
Export growth	%	-9.1	11.5	4.5	0.5
Import growth	%	-7.6	35.8	9.7	0.2
Current account balance	\$ M	-24305.6	-47273.1	-52480.1	-54246.4
Public debt	% of GDP	66.9	65.2	64.9	68.5
External debt	\$ M	281651.1	352440.0	404317.1	-
Total debt service	\$ M	44523.1	45879.6	59069.1	-
Cash surplus or deficit	% of GDP	-3.5	-1.7	-2.6	-
Tax revenue	% of GDP	14.8	14.6	15.7	-
Government consumption	% of GDP	21.2	21.1	20.7	21.5
Public expnd. on edu.	% of GDP	5.6	5.8	-	-
Public expnd. on health	% of GDP	3.8	4.2	4.1	-
R&D expenditure	% of GDP	1.17	1.16	-	-
Military expenditure	% of GDP	1.6	1.6	1.5	1.5

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

7 | Organization of the Market and Competition

Market competition has a strong institutional framework, but the informal sector still generates more than a third of Brazil's GDP. Pricing is largely unrestricted. The use and transfer of profits is not regulated. The national currency, the real, is largely but still not fully convertible, and there has been a floating exchange rate since January

Market-based
competition
8

1999. The government generally makes no distinction between foreign and national capital. Foreign and Brazilian investors in principle receive the same treatment, but specific laws impose restrictions on foreign investment in areas such as rural property, health care, the mass media, and maritime and air transport. Organizing new investment remains a quite bureaucratic process. On average, it takes 119 days to start a business in Brazil, compared to the world average of 30 days.

The main statute governing antitrust issues in Brazil is the Competition Act of 1994. The governmental agency responsible for the enforcement of anti-cartel policy is the Administrative Council for Economic Defense (CADE), an independent federal agency linked to the Ministry of Justice. Three agencies – CADE, the Secretariat of Economic Law (SDE) within the Ministry of Justice, and the Secretariat of Economic Surveillance (SEAE) within the Ministry of Finance – together constitute the Brazilian System of Economic Defense (SBDC). While the three agencies possess independence and technical skills, the Brazilian antitrust system has some deficiencies (including uncertainty concerning the date merger notifications must be made, and slow handling of cases under analysis). Furthermore, the network of antitrust institutions has been criticized over specific decisions. The recent merger between two air travel companies, Gol and Webjet, resulted in the firing of most Webjet employees and an immediate rise in air fares across the country. Hence, when tested, CADE and other agencies have rarely ruled against big corporations. However, many practical improvements have been made in recent years. An agreement executed in 2010, for example, aims to encourage competition in the country's electric power generation, distribution, transmission and commercialization markets.

Anti-monopoly
policy
9

Brazil is an original member of and an active participant in the WTO. The country considers the multilateral trading system to be at the core of its trade regime. Essential elements of its philosophy of international insertion are regional integration, the adoption of fairer global economic and trade rules, the demand for a democratization of international decision-making bodies, the need for more flexible rules for developing countries, and the enhancement of South-South trade. Brazil is an active participant in the Aid-for-Trade process, both as recipient and as donor. Since the 1990s, Brazil has carried out a program of unilateral liberalization and also engaged in regional economic integration (through Mercosur). Some 10% of its merchandise trade takes place with Mercosur members. This is by far Brazil's most important preferential agreement in terms of value of trade. However, Brazil has retained significant vestiges of the foreign-trade policy paradigm inherited from the period of protectionist industrialization. Special exemptions and complicated registration formalities remain.

Liberalization of
foreign trade
7

In recent years, Brazil has continued with the gradual modernization and streamlining of its trade regime, while also increasing average tariff protection. The simple average applied most favored nation (MFN) tariff rose from 10.4% in January 2004 to 11.6%

in 2011. The country's average bound tariff in the WTO is significantly higher, at 31.4%. The highest rate of 35% applies to 4% of all tariff lines, including textiles, clothing and motor vehicles. Brazil is an active user of anti-dumping measures. A number of financing, insurance and guarantee programs are aimed at promoting exports. The country's Export Financing Program (PROEX) aims at providing access to credit for companies that would otherwise have difficulties obtaining it. Legislation allows for the application of an export tax of 30%, which can be decreased or increased up to 150%. Taxes may in principle be applied to all exports, but in practice are levied on only a few products.

Brazil has one of the most developed and sophisticated financial sectors in Latin America. The country's banking system and capital markets are well differentiated, internationally competitive and aligned with international standards. There is also a functioning system of banking supervision. Capital markets are open to domestic and foreign capital. The financial sector is sophisticated and systemic risk is low. Access to banking services for the poor has increased, and loan availability for private households has been substantially extended in recent years. The increase of domestic credit, especially bank lending to the private sector, was itself a function of recent reforms. As a result, between 2003 and 2012 Brazil experienced a considerable increase in lending to the private sector, rising from 24% to 47% of GDP. Nominal and real interest rates continue to be very high by international standards. However, the country's solid economic growth, a booming labor market and a moderate decline in interest rates have made borrowing more affordable for consumers and businesses. Banks wholly or partially owned by the state originate more bank credit than do the national private-sector banks. The ratio of bank lending to GDP remains low (25% of GDP) compared to other countries. A significant portion of the country's financial activities are dedicated to financing the public sector through bonds.

Brazil's external solvency and liquidity positions remain strong, while the external vulnerability of the financial sector is low. The country has been experiencing sizeable capital inflows over the past decade. Foreign-exchange reserves accounted for \$365 billion in 2012. Reliance on foreign funding is rather low. Reserve requirements are higher than in other emerging economies. The Brazilian economy was severely hit by the 2008 international financial crisis. But although deep, the impact of the crisis did not last for a long time. GDP growth experienced a quick recovery, showing that the health of the Brazilian economy was good. The banking system performed very well during the crisis. A solid supervisory regulation helped significantly in avoiding a systemic banking system crisis. The Brazilian government's response to the international crisis involved providing protection to financial markets and support to credit, as well as the full operation of automatic stabilizers and fiscal stimulus policies.

Banking system

9

8 | Currency and Price Stability

Inflation and foreign-exchange policies are synchronized with other economic policy goals, and are institutionalized in a largely independent central bank. The Central Bank of Brazil is an autonomous federal institution that forms part of the organizational structure of the Ministry of Finance. Since 1999, Brazil has followed an inflation-targeting framework for monetary policy and a floating exchange rate regime. Foreign exchange regulations have been liberalized, but without allowing full convertibility to the real.

Anti-inflation /
forex policy
10

In 2012, Brazil's economic policy consisted of a steady adjustment to the international crisis, combined with efforts to support growth and curtail inflation. Inflation fell from 6.5% in 2011 to 5.8% in 2012, but this was still above the government's target. A stronger decline in inflation was prevented by an upturn in prices for agricultural products and food services. Domestic fuel price stability and lower prices for automobiles eased upward pressure on inflation. In January 2013, the government resorted to unusual measures to limit the rising cost of living. The mayors of both São Paulo and Rio de Janeiro were asked to hold off on planned rate rises for public transportation, a key factor in the official inflation index.

Since 2011, monetary policy has been marked by an interest rate trend reversal. In the first half of 2011, the central bank had raised the Special System of Clearance and Custody (SELIC) interest rate from 10.75% to 12.5%, with a view to curbing inflationary pressures. Later in the year the bank started to cut the rate. After repeated reductions, the rate arrived at 7.25% at the end of 2012, the lowest level since 2003. In January 2013, the central bank opted to hold the benchmark SELIC interest rate at this record low.

The Brazilian currency (the real) has appreciated steadily in recent years, initially to a rate of close to 1.50 reals to the dollar. With the deepening crisis in Europe, the real developed more volatility and saw multiple small devaluations. In 2011, the nominal exchange rate surpassed 1.90 reals per dollar. Exchange-rate policy during the year 2012 was directed toward consolidating a higher exchange rate of around 2.00 reals to the dollar. The currency depreciated gradually alongside the fall in the base rate after August 2011. Until the end of 2012, the dollar exchange rate fluctuated between 2.00 and 2.09 reals.

Brazil has followed a consistent stability policy supported in part by institutional self-constraints. The 2000 Fiscal Responsibility Act subjected all levels of public administration to criteria of transparency and coordination, and made them responsible for their individual fiscal performances. It set guidelines for primary surplus generation and debt limits, and limited salary increases for civil servants. During the last decade, disciplined fiscal and monetary management and prudent

Macrostability
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macroeconomic policies paved the way for steady economic progress and the preservation of stability. Brazil recovered from the global financial crisis earlier and faster than most other economies. The country's strong macroeconomic framework and the government's quick policy responses were critical in containing the negative effects of the crisis.

In 2012, the government deployed an active fiscal policy to stimulate short-term demand and promote structural change. With income growth rather modest and the government spending measures deployed to support economic growth and social protection, Brazil was not able to meet its primary surplus target of 3.1% of GDP. The primary fiscal surplus reported for 2012 was 2.4% of GDP, well below the 3.5% registered in 2011. However, the nominal fiscal deficit remained close to 2.5% of GDP. During the last decade, the government's public debt management strategy has been quite successful. Floating-rate and exchange-rate bonds have been replaced by fixed-rate and inflation-linked bonds, and the average maturity of bonds has been lengthened. Gross debt decreased from 62% of GDP in 2002 to 54% in 2011. Net debt declined from 60% of GDP in 2002 to 36% in 2011. Even after boosting spending in 2012, the government was able to cut its debt burden to a new low of 35.1% of GDP. The country's public debt will probably fall to 33.2% of GDP in 2013. Brazil is a net creditor in foreign currency of \$89 billion, due to its \$377 billion in international reserves.

9 | Private Property

Property rights are secure in Brazil. Private property rights are well defined and property acquisition is adequately regulated. Real estate registration is well-developed and safe. Foreigners can purchase land and property. There are few restrictions on converting or transferring funds associated with a foreign investment. Foreign investors are allowed to remit dividends, capital and gains. Contracts are considered secure. While once criticized for lax intellectual property (IP) rights protection, Brazil has been stepping up implementation and enforcement of international IP rules in recent years. The country is a signatory to the General Agreement on Tariffs and Trade (GATT) Uruguay Round Accords, including the Trade-Related Aspects of Intellectual Property Agreement. Brazil is also a signatory of the Berne Convention for the Protection of Literary and Artistic Works, the Patent Cooperation Treaty, the International Convention for the Protection of New Varieties of Plants (UPOV) and the Paris Convention for the Protection of Industrial Property. In 2004, the Lula administration established a National Council to Combat Piracy and Crimes against Intellectual Property, an equal partnership between the government and private sector. In most respects, Brazil's Industrial Property Law meets the international standards regarding patent and trademark protection. However, the law permits the grant of a compulsory license if a patent owner has failed to manufacture

Property rights
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the patented invention locally in Brazil within three years of patent issuance. One compulsory license was issued on an HIV/AIDS medication in 2007. The decision allowed Brazil to import or manufacture generic versions of the drug. Patent processing is still very slow: The average time a patent spends awaiting approval is eight years.

For decades, state-owned corporations dominated nearly all economic sectors in Brazil. Privatization was initiated by President Collor and comprehensively pursued by President Cardoso on the basis of several constitutional amendments. State monopolies in key sectors of the Brazilian economy such as energy and telecommunications were abolished, while other sectors were radically liberalized. Privatization has generally followed market principles and is well advanced in many areas, including the raw materials industries, the transport and energy sectors, and telecommunications. Regulation of liberalized economic sectors was arranged through framework legislation and in many cases assigned to newly established authorities that enjoy technical, financial and administrative autonomy. The Lula government did not continue the privatization policies favored by its predecessors, as Lula advocated an active management role for the state in achieving both economic growth and social justice. Accordingly, no further sales of public enterprises were carried out under Lula.

In 2012, the Rousseff government announced it was turning to the private sector to rebuild the country's outmoded infrastructure. The government granted private companies licenses to build and operate airport terminals in São Paulo and Brasília, ending a state monopoly. As of the time of writing, the government had also announced plans to sell licenses to build 7,500 kilometers of roads and 10,000 kilometers of railways. The concessions are expected to attract up to \$50 billion in investments in five years. A government company will buy the railway capacity back from contractors. Highway builders will operate the roads, charging tolls. Later in 2012, the government unveiled plans to privatize major airports and ports. The licenses are rather radical and quite controversial in Brazil. With the privatization announcements and the decision to open the country's infrastructure to private management, President Rousseff has abandoned a traditional policy of her Workers' Party. She has also adopted an industry-backed agenda to cut costs for business. Rousseff herself defended the plans, saying that they will differ from earlier privatizations during the 1990s. The system of concessions is being developed to strengthen the state's regulatory powers to ensure quality, end monopolies and ensure the lowest possible shipping rates.

Private enterprise

9

10 | Welfare Regime

Social welfare networks to compensate for old age, illness, unemployment and disability are somewhat developed, but do not cover all risks for all strata of the population. Over the past decade, Brazil has carried out significant reforms to expand the coverage, quality and efficiency of its health system and strengthen its safety net. Nevertheless, significant portions of the population still lead an existence on the margins of poverty and hunger. The 1988 constitution created a social security system comprising public systems covering health insurance, social insurance and various social assistance programs. The institutional design foreseen in the constitution became a reality in the 1990s, and as a consequence strongly changed the design and operational structures of Brazil's social protection programs. Total health care spending accounted for 9.0% of GDP in Brazil in 2010. Brazil ranks below the OECD average in terms of health expenditure per capita. Public funding sources accounted for 47% of health spending. Life expectancy at birth in Brazil has increased by more than 18 years since 1960 to reach 73.1 years in 2010.

The Lula administration decided to promote a new social agenda integrating non-contributive social protection policies for the poor and vulnerable population. The government launched several high-priority social initiatives, including efforts to eradicate hunger (Fome Zero), create youth employment (Primeiro Emprego), and unify conditional cash transfer programs to enhance effectiveness in reducing poverty (Bolsa Família). The Bolsa Família program turned out to be one of the most important strategic axes for the integration of policies and actions within the Brazilian social protection network. Bolsa Família coverage expanded from 3.6 million families in 2003 to 13.3 million households nationwide in 2011. About 90% of the program's benefits go to families in the poorest two quintiles, and 68% go to those in the poorest quintile. The government also implemented an ambitious reform of the social security system. These programs have helped the country make remarkable gains in reducing inequality over the last eight years, making the poorest Brazilians better off and less vulnerable. The nationwide dissemination of social assistance programs that are easily accessible and represent high-priority public sector investments has also played a role in bringing the state closer to the citizens. For instance, the Growth Acceleration Program (Programa de Aceleração do Crescimento, PAC), in addition to improving local infrastructure, also encompasses the creation of public facilities such as libraries, schools, medical centers, social assistance units and police forces.

After taking office in 2011, President Rousseff launched a new federal program aimed at wiping out extreme poverty in Brazil. The aim of the Brazil Without Destitution (Brasil Sem Miséria) scheme is to expand other health and education programs, while directing more money to Brazil's poorest regions. By the end of

Social safety nets

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2012, the program had added 2.8 million extremely poor people to a new, single list of potential welfare recipients. In February 2013, Rousseff raised monthly stipends for the remaining 2.5 million people known to be living below the poverty line to 70 reais (\$35) a month. More than 48 million Brazilians, or one-quarter of the population, are currently registered for social programs that will cost the federal government 24 billion reais in 2013.

Brazilian society is markedly heterogeneous. Although compensation programs for those disadvantaged by extreme social disparities do exist, they are insufficient. A legal code approved in August 2001 made women equal to men under the law. However, women still face a reality marked by inequality in both the domestic sphere and in professional life. In education, the gaps between men and women have narrowed, and women on average possess higher educational attainments, a fact often attributed to more disciplined study habits. The visibility of women in public life, the media and politics is increasing, in large part thanks to the activities of numerous women's organizations. The gender gap in terms of economic opportunity is also narrowing, but women remain at a substantial disadvantage.

While women made up less than 15% of the officials in President Lula's executive-branch government, President Rousseff is not only the first female head of state of Brazil, but has also appointed women to many of her government's most important posts, including chief of staff, planning minister and minister of institutional relations. Altogether, women make up a third of her cabinet. In 1995, Brazil imposed quotas on political parties, requiring that 20% of candidates be women. That has since been raised to 30%. However, the largely voluntary quotas have not been very effective. In spite of the quota system, just 9% of parliamentarians in 2009 were women. The 2010 election of Dilma Rousseff does seem to have provided a general stimulus to female participation. Female participation in municipal elections rose 85% between the 2008 and 2012 elections. In the first round of voting in 2012, 621 women were elected as mayors, up from 504 in 2008 and 187 in 1996.

While the law prohibits racial discrimination, equality of opportunity in this regard is severely constrained. The PT administration's social investment initiatives seem to have had only a limited effect on the country's historically marginalized communities of African or indigenous descent. There are approximately 90 million Afro-Brazilians. They continue to represent a large percentage of the country's poor, and only a small percentage of the professional and managerial middle and upper classes. Most urban Afro-Brazilian women still work mainly as cleaners, laundry workers, maids or nannies. Only 15% of "white" women work as domestic workers, compared to 40% of Afro-Brazilian women. A sizeable education gap continues to be a major constraint to any rapid change. In 2012, the Rousseff government enacted a new affirmative action law, requiring public universities to reserve half of their admission slots for poor students from the nation's public schools, while vastly increasing the number of university students of African descent across the country. Also in 2012,

Equal opportunity

7

the Supreme Court upheld the racial quotas enacted in 2004 by the University of Brasília, which reserved 20% of its admission slots for black or mixed-race students. Many other Brazilian universities, both public and private, have also adopted their own affirmative action policies in recent years.

According to the 2010 census, there are about 817,000 indigenous people living in Brazil, or 0.42% of the total population. Brazil has signed the Universal Declaration of Human Rights; the International Covenant on Civil and Political Rights; the International Covenant on Economic, Social and Cultural Rights; ILO Convention 169; and the U.N. Declaration on the Rights of Indigenous Peoples. Human rights monitors often report confrontations over land ownership or resource exploitation rights. Due to limited state presence in remote areas, authorities are often unable to provide the required protection. Critics have blamed the Rousseff administration for failing to comply with international agreements on the rights of indigenous peoples, for example by pushing forward with the construction of hydroelectric power stations on indigenous lands, such as the Belo Monte station, and by generally turning a blind eye to indigenous issues.

11 | Economic Performance

While Brazil's GDP grew by 7.5% in 2010 and by at least by 2.7% in 2011, the country's economy grew very modestly in 2012, by only 0.9%. Per capita income was virtually stagnant, with a 0.1% variation, amounting to BRL 22,400 per person. Experts attributed the low growth to the impacts of the international crisis on the country's productive sectors and investment, especially manufacturing. While the consumer sector continued to boom, industrial production contracted by 2.7% in 2012, led by a 12% fall in capital goods. The trade surplus in 2012 was only \$19.4 billion, the lowest such surplus in a decade and down 34.7% in a year-on-year comparison. Exports amounted to \$242.6 billion, down 5.3% year-on-year, while imports totaled \$223.1 billion, down 1.5%. Economists forecast a 4.5% drop in overall 2012 investments in the expansion of plants, equipment purchase and government infrastructure projects. Companies and the government invested the equivalent of \$18.1% of the GDP, representing a second year of decline. The growth slowdown did not result in an increase in unemployment, however. In October 2012, the unemployment rate stood at 5.3% – the first time in recent history that the annual average has fallen under 6%. That enabled family consumption to continue expanding, although at a slower pace than in previous years.

Inflation fell from 6.5% in 2011 to 5.8% in 2012, although this remained above the government's target. A stronger fall in inflation was prevented by an upturn in prices for agricultural products and food services. Fiscal policy was directed toward implementation of growth and stimulus measures. For the 12 months to October 2012, the primary fiscal surplus stood at 2.4% of GDP, well below the 3.5%

Output strength
8

registered in the same period of 2011. Tax revenue, including from payroll taxes, rose by just 0.7% in real terms during 2012 (2011: 5.6%). Federal government expenditure increased by 22%; among the major contributing factors were social security benefits and wages. The current account deficit reached 2.4% of GDP in December 2012. Brazil was the fourth-biggest recipient of FDI in 2012, taking in \$65.3 billion, behind only the United States, China and Hong Kong.

12 | Sustainability

Brazil has the world's largest tropical forest reserves, the widest biodiversity and the most substantial flows of fresh water. It also has the largest underground reservoir of fresh water. The country has shown mixed success in dealing with deforestation and other major environmental challenges. Ecologically sustainable development is an issue in some sectors of the economy, but often tends to be subordinated to economic growth targets. One of the greatest challenges is the achievement of sustainable development of the Amazon Basin. The boom in the Brazilian agribusiness industry is pushing agricultural frontiers toward the Amazon region, with a significant environmental impact. Other factors contributing to deforestation include mining, oil and gas projects in the Amazon basin.

In recent years, Brazil has developed many of the legal and institutional instruments necessary to reconcile development and environmental protection, including water management, forest protection and biodiversity regulations. The country ranks third worldwide in terms of annual greenhouse gas emissions, accounting for 8% of the world's total. In 2009, Brazil committed itself to reducing these emissions by 39% by 2020. Brazilians have fought deforestation on several fronts, including the adoption of strict laws on maintaining forest cover and the implementation of better enforcement measures. They have enlisted the help of international scientists to track forest cover by satellite and detect illegal cutting deep in the jungle. They have also pioneered programs through which landowners can be paid to keep their trees standing in order to diminish the financial incentive for much of the illegal logging.

The 2012 Environmental Performance Index states that Brazil is one of 12 countries examined in the report where reductions in forest clearing have occurred. Brazil is the world's second-largest producer of ethanol, and is the largest ethanol exporter. However, environmental and social impacts associated with ethanol production are important challenges to biofuel production in Brazil. Among the most important issues are atmospheric pollution from the burning of sugarcane for harvesting, degradation of soils and aquatic systems, and the exploitation of cane cutters. The expansion of sugarcane crops to areas presently cultivated for soybeans also represents an environmental threat, because it may increase deforestation pressure associated with soybean crops in the Amazon region. Hydroelectric power plants, which produce about 90% of the country's electrical energy, also have environmental

Environmental
policy
7

impacts. The construction of new hydroelectric power plants requires the construction of dams and the flooding of large areas, thus altering the ecosystem. The proposed construction of the Belo Monte dam in the state of Pará, for instance, would create one of the world's largest hydroelectric dam complexes. While the government argues that construction of the plant is important for development and will create jobs, environmental activists and indigenous groups say the construction of dams in the Amazon tropical forest areas will displace tens of thousands of people.

Reports on the environmental impact of investments and constructions are required by law in Brazil and have been very effectively employed to curb developmental projects around the country. The public prosecutor's office is also a very rigid watchdog on environmental issues, and has been very active in contesting enterprises, both private and public, that may cause environmental hazard in their operations.

A few years ago, Brazil still had a fairly cost-ineffective education system, plagued by poor achievement and inequitable outcomes. During the last decade, the country has considerably increased its investment in education, from 4% of gross domestic product (GDP) in 2000 to 5.5% of GDP in 2009. Public spending on education increased from 10.5% of total public expenditure in 2000 to 16.8% in 2009. Spending has also become more equitable, through measures such as the provision of additional federal funds to poorer states. The Bolsa Família program, covering more than 12 million families, includes stipends for children aged between 15 and 17, encouraging higher enrollment rates and attendance levels in secondary schools.

One of the key problems in Brazilian education is the quality of its 1.5 million teachers. In many areas of the country, teachers have no more than a secondary school education. However, increases in teacher salaries since the introduction of the fund for primary education administration in the 1990s have made teaching more attractive. In 2006, the program was renewed by the National Congress, expanding its focus to early childhood education and out-of-school youth and adult education. In 2006, 11 years of schooling became mandatory. In May 2007, the government launched an ambitious education development plan (PED) that aims to redress Brazil's longstanding education deficit within 15 years. The plan establishes a results-based education system for the first time in Brazil's history. Schools have to achieve targets set by the government in order to receive more resources. In support of this program, the government introduced a basic education development index to measure the quality of education in state schools. The PED is also aimed at high schools and continuing education.

In recent years, Brazil has seen impressive gains catching up from very low levels of performance. Enrollment rates in early childhood and primary education rose from 21% in 2005 to 32% in 2010. Improvements have also been seen in secondary education attainment rates; as of 2009, 53% of 25- to 34-year-olds had graduated from upper secondary education. Brazil's average Program for International Student

Education policy /
R&D
7

Assessment (PISA) scores have improved in all subjects measured over the last decade. However, not all government funds are invested in a sustainable manner. For instance, a tenth of all the spending goes to students repeating grades; Brazil's first-grade repetition rate is one of the world's highest (28%, according to the World Bank). Job offers are available all over Brazil, but there is a shortage of qualified personnel to fill the vacancies.

Brazil's emerging economy has some leading firms and is excellent in some high technology fields. A few universities undertake high-quality research. This performance, however, does not spill over to the economy as a whole. Research output is still low compared to OECD countries both in terms of articles published in leading international scientific journals and patents and trademarks. In 2008, Brazil's gross expenditure on research and development was 1.08% of GDP, above other major Latin American economies, but below the OECD average. In 2011, the government adopted the so-called Greater Brazil Plan 2011 – 2014, which gives innovation a central role and includes proposals for significant changes in legal frameworks. The most important objectives are to close the technological gap with developed economies, to support Brazil's leadership in the nature-related knowledge economy and to strengthen the internationalization of the national research system. The Science without Frontiers (Ciência sem Fronteiras) program supports the mobility of national students and seeks to attract young and internationally recognized researchers by providing funding to engage in research projects abroad.

Transformation Management

I. Level of Difficulty

Structural constraints on governance range from moderate to high. Brazil is not a poor country; nonetheless, serious socioeconomic inequalities divide population groups and regions. The country exhibits an average level of development and educational standards. It is an ethnically heterogeneous and highly secular society. Poverty, inequality and significant regional disparities continue to present major challenges to the country's future development.

Structural
constraints

5

Between 2000 and 2010, the illiteracy rate dropped four percentage points to 9.6%, which means 14.6 million Brazilians are unable to read or write. Child mortality has fallen, maternal health has improved, and efforts to combat HIV/AIDS, malaria and other diseases all have steadily strengthened. Brazil's AIDS program has had a significant impact both on attenuating the epidemic and on improving the quality of life for people living with HIV/AIDS. A major challenge to development is urban violence, the incidence of which has increased alarmingly, affecting the population's security and quality of life. Brazil's economic growth potential is limited by the so-called Brazil cost (*custo Brasil*). This refers to the increased operational costs associated with doing business in Brazil, making Brazilian goods more expensive than those produced elsewhere. Brazil's transportation infrastructure, including airports, roads, rail and ports, requires significant improvement, especially in light of the major sporting competitions the country will host in the years to come (the World Cup in 2014 and the Olympics in 2016).

Brazil has moderate to strong traditions of civil society. Historically, political and social participation was a habit of the elites, while the inclusion of significant portions of the population was not deemed a high priority. This has changed somewhat since the final years of the military regime and the early years of civilian government. The country's civil society has become increasingly organized and influential. It consists of NGOs, community-based organizations, social movements and professional associations. There is a strong group of religious associations that participate in self-help activities and in helping the urban poor organize to claim public goods. There is also a group of associations strongly connected with the state in the implementation of public policies. This group has deep links with the left political tradition in Brazil and strong ties with the Workers Party. There has been a change in the focus of civil

Civil society
traditions

3

society participation during the last three decades. While civil society during the eighties was basically concerned with autonomy, the democratization of public policies and the establishment of forms of public control over the state, from the mid-nineties on, it became concerned with participation in various areas of public policy and with joining the state in the implementation of participatory forms of public deliberation. Critics argue that in recent years, civil activism has been limited to rather small portions of the population, and particularly professional activists.

There are no irreconcilable ethnic, religious or social clashes in Brazil, but there are extreme social and regional disparities. Social life in Brazil is characterized by the largely peaceful manner in which a multiplicity of ethnic groups lives together. However, several studies have demonstrated that racial inequality is still a serious problem. Brazil is an extremely unequal country, and racism is an important element in understanding the dynamic of this framework of inequality. The high-income population is essentially white, while most Brazilians who live in poverty are black.

The main source of violence in Brazil is criminal rather than political. There is a high rate of criminal activity in major cities, where 25% of the population is believed to live in favelas or shantytowns. New studies show that violence is no longer purely an urban phenomenon, but has spread to the countryside in recent years. The number of homicides in rural areas has increased considerably in the past decade. Meanwhile, the number of homicides in large cities has not declined. An imbalance in land distribution leads to episodic violence in rural areas, a particular problem in the Amazon. In spite of some experiments with innovative policies to reduce crime and violence in major cities, the PT administrations have not yet found a way to systematically reduce the endemic violence afflicting Brazilian society.

Conflict intensity
3

II. Management Performance

14 | Steering Capability

The successive Workers Party (PT) administrations (President Lula 2003 – 2010; President Rousseff since 2011) have been committed to the goals of constitutional democracy and a socially responsible market economy. Their policies have given these goals priority over short-term expediency. The role of external influence has been modest. The government's strategic priorities have included fighting poverty and improving educational levels. The government has committed itself to tight fiscal policy, inflation targeting and the honoring of debt contracts. At the same time, it has promised far-reaching improvements to the general public welfare, which have been carried out in the form of several high-priority social initiatives, including efforts to

Question
Score

Prioritization
9

eradicate hunger, create youth employment and unify conditional cash transfer programs so as to enhance effectiveness in reducing poverty. Indeed, Brazil has experienced noticeable improvements in well-being since 2003. During President Lula's second term in office, efforts were made to accelerate economic growth, enhance the educational system and curtail the widespread incidents of violence plaguing the country.

President Dilma Rousseff has carried forward the course adopted by her predecessor. Herself a technocrat who had never before occupied elective office, Rousseff was elected thanks to the support of her political mentor and predecessor. Once in office, she was able to successfully manage the ruling multiparty coalition. She assembled an inner cabinet of moderate, competent and well-regarded advisors to run the government. Rousseff has proven to be driven by pragmatism. She declared war on government corruption; as a result, several cabinet members left their seats in 2011 and 2012, and criminal investigations of numerous lawmakers were initiated. The government's strategic priorities – fighting poverty, maintaining macroeconomic stability, fostering growth, enhancing women's rights and speeding up the country's preparations for the 2014 World Cup and the 2016 Olympic Games – correspond perfectly with the normative framework of the BTI in terms of striving for democracy and a market economy. However, long-term planning in the form of a government program to be implemented throughout the administration is not strongly pronounced. The government's long-term plan, the Plano Plurianual (PPA), which is valid for a period of four years and should guide the government's formulation of the annual budgetary law (LOA), is never really followed. Long-term plans are often put on hold in favor of short-term pressures and short-term policy implementation.

The PT governments of President Lula (2003 – 2010) and President Rousseff (since 2011) have been committed to democracy, economic stability and social justice. Their strategic priorities were to reduce poverty and economic inequality, accelerate growth, and enhance the country's role as a global political and economic player. This strategy, though liberal in orientation, has placed great emphasis on the positive contribution that an active and strategically oriented state can make in the search for national development. Since taking office as Brazil's first female president in January 2011, Rousseff has been able to demonstrate that her government would not be merely an extension of the Lula years, but would in fact set its own course. The president has acted in a less partisan and more institutionally oriented manner than did Lula. Confident of her technical expertise, she has acted decisively on difficult issues and has sometimes surprised both supporters and opponents. Within a short period of time, she was able to gain credibility within the industry and business communities. Her intolerance of government corruption and consistent refusal to cater to the Worker Party's left wing have helped bolster her popularity.

Rousseff has launched several government programs in key political areas, including a program called Brasil Maior aimed at strengthening the productivity and

Implementation
8

competitiveness of Brazilian industry; a program called Science without Borders (Ciência sem Fronteiras), which aims to expose Brazil's best students and researchers to a competitive and challenging environment by sending them to study at the most prestigious universities in the world; and a new national poverty alleviation plan called Brazil Without Misery (Brasil Sem Miséria), which aims to eradicate extreme poverty by 2014. Although economic growth rates were low in Rousseff's first two years in office, policies allowed for continued growth in consumption and employment, mostly in the service sector. This might explain the exceptionally high public approval the president enjoys, which positions her well as a candidate for re-election in October 2014.

Over the years – especially after Dilma Rousseff's movement to the Casa Civil as chief of staff in 2005, and during her presidency – the government has invested strongly in increasing its monitoring capacity with respect to its key policy programs. The Bolsa Família program in the Ministry of Social Development is an example of how a public policy can be effectively monitored, with very positive effects for the population and government alike. The same is true of the Minha Casa Minha Vida program. The Subchefia de Articulação e Monitoramento within the Office of the President has become increasingly influential in the functioning of the government under Rousseff's administration, reflecting the seriousness attributed by the government to the implementation and monitoring of certain programs. Obviously, this situation varies by program and ministry, and hence the overall capability of the government and its ministries varies. But, in general, the government shows considerable concern over the quality of public policy.

The government demonstrates a pronounced ability to engage in complex learning. It often, if not in every case, acts flexibly and replaces failed policies with innovative ones. The PT governments have promoted a new state activism that embraces innovation in governance in two respects. On the one hand, innovation as an end is encouraged, particularly in industrial policy. On the other hand, innovation characterizes the means by which policies are implemented. This new kind of state activism features partnerships between the government and the private sector that seek to improve capacities on both sides. The PT government's successful efforts to reduce poverty and inequality while maintaining macroeconomic stability and fostering growth were made possible in large part by learning processes within the administration concerning the functioning of the international economic system. Notwithstanding these successes, a recent OECD report contained a number of recommendations, including that Brazil broaden efforts to adopt a whole-of-government approach to regulatory quality at the highest political level; improve coordination between ministries, agencies, regulatory institutions and the various levels of government; put in place a system to assess the economic and social impact of new laws; consolidate regulatory authorities' autonomy and statutory environment

Policy learning

8

in order to strengthen their powers and resources; and reinforce the strategic framework for planning and decision-making in regulated sectors.

For several years the Brazilian government has engaged in competency management as part of a strategy to strengthen the capacity of the public service. The government has undertaken considerable efforts to strengthen human resources capacities in the public service by increasing entry-level skills and emphasizing continuous training. This includes skills-enhancement plans for employees, learning networks, and the introduction of modern methods of learning and development. The administration established a System for Institutional Organization and Innovation of the Federal Government, which is aimed at building collaborative networks to improve public management, developing quality standards, reducing operational costs, and securing the continuity of the processes of institutional organization and innovation.

Brazilian governments have not only proved capable of learning from past experiences by means of effective monitoring and evaluation, they have also promoted international knowledge exchange and cooperation. Brazil is a strong and active partner of international organizations including the OECD and the World Bank, values the opportunity to discuss major policy issues and challenges in a multilateral context, and has shown it can learn from the experiences of countries facing similar challenges.

15 | Resource Efficiency

The PT governments have made efficient use of most available human, financial and organizational resources. Disciplined fiscal and monetary management has enabled economic progress. The government has met or exceeded its annual primary fiscal surplus targets. Debt and external vulnerabilities have been substantially reduced. Much progress has been made in strengthening the institutional framework for public debt management. The Fiscal Responsibility Law (FRL) approved in 2000 imposed order and accountability on spending by the states through a general framework of budgetary planning, execution and reporting that is applicable to all levels of government. The institutionalized commitment to fiscal sustainability did not endanger public sector innovation; on the contrary, it helped foster participatory budgeting by improving transparency.

It is difficult to make general statements about the quality of administration in the country's 5,560 municipalities, given the sometimes very significant differences between them. Some municipalities have introduced a participatory budgeting procedure that allows civic organizations substantial opportunity for input in budget preparation and oversight. This process has also strengthened social learning by stimulating the creation of civic associations. Participatory budgeting has resulted in important changes in the priorities followed by municipal government, thus helping

Efficient use of
assets

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to place citizens' preferences at the forefront of local policies. However, clientelist patterns between administration and citizens have prevailed in a considerable proportion of the municipalities.

In theory, multiyear plans, yearly budget guidelines and the budget itself are all discussed and approved by the National Congress. In practice, the legislative branch is often sidestepped, since the constitution allows for the automatic spending of a share of the previous year's budget if the National Congress has not approved the budget. Although the executive cannot perform unauthorized expenditures, a problem stems from the fact that the budget is not compulsory. This allows the executive to avoid fulfillment of the budget in its entirety, a tactic used politically to co-opt parliamentary support. Furthermore, deputies usually propose individual amendments to the executive's budget proposal. The approval of these amendments provides the opportunity for the president to use her powers of budgetary appropriation to obtain political support for her agenda from the members of the legislature and thus keep the coalition together, even in the context of a highly fragmented party system.

Regulations require the civil service to be impartial, independent and fairly managed. Most appointees are hired through public examinations. In some areas, civil servants must be hired according to criteria of professional evaluation. In other areas, civil service positions are not regulated. Positions of responsibility are often filled by political appointees. In the federal sphere alone there are more than 23,000 such positions. The appointment of those is largely driven by political considerations, such as the imperative of holding together the legislative coalition.

International observers often criticize the high level of taxation and low quality of public spending in Brazil. They emphasize that the high tax burden provides strong disincentives to private investment, formal sector employment and economic growth. The quality of government spending also suffers from suboptimal public sector management, weaknesses in planning and budgeting, and rigid institutional arrangements (including inflexible labor legislation and complicated procedures for registering businesses). Brazil's public expenditures total more than 40% of GDP, while the composition of public spending has shifted toward government consumption and social security, and away from public investment.

The government struggles to coordinate conflicting objectives, but not always successfully. Intragovernmental friction remains significant. President Lula had formed a broad government coalition in order to guarantee the passage of government-proposed legislation through the National Congress. He received support for his strategy from his own Workers' Party (PT), and subsequently secured an alliance with the catch-all Brazilian Democratic Movement Party (Partido do Movimento Democrático Brasileiro, PMDB) and other minor parties. The formation of a broad but very heterogeneous ruling alliance ensured that some important

reforms could be passed, but the price for these successes was high, as coalition members had to be compensated with posts inside the government and the public administration. In the 2010 election, the coalition supporting Dilma Rousseff obtained the majority of seats in both houses of the legislature. However, Rousseff faced similar difficulties in governing in the National Congress. The ideological spectrum of Rousseff's seven-party coalition is very similar to that of Lula's, spanning from left-wing to right-wing parties. Rousseff allocated around 46% of cabinet positions to the PT and 37% to the PMDB. Notwithstanding the nominally comfortable majority of the ruling coalition, the president has had difficulty ensuring congressional support for her proposals. Supposed allies have disobeyed Rousseff, weakening or delaying governmental policy priorities.

Under Dilma Rousseff as chief of staff (*chefe da Casa Civil*), the government increased its ability to coordinate the actions of ministers through the active involvement of the Office of the President, especially the chief of staff and the secretary of institutional relations. The structure is mostly hierarchic-bureaucratic, a style that still prevails today, with the chief of staff playing a significant role in centralizing decision-making within the presidency despite cabinet participation in the policymaking process. The coalitional nature of Brazilian presidentialism, however, does pose obstacles for the formulation of transversal policies among distinct ministries, and increases the need for central coordination.

Brazil has a strong legal anti-corruption framework, but implementation and effective enforcement remain a problem, especially at the state level. Most integrity mechanisms are in place and are actively supported by the government. However, despite a formally well-functioning business environment, corruption and bribery are still obstacles to doing business in Brazil. Corruption scandals are frequent. Authorities frequently have to conduct corruption investigations involving politicians from both opposition and government coalition parties. The Fiscal Responsibility Law makes each government level responsible for its own fiscal performance, and helps to check corrupt behavior. Regulations govern private contributions to political parties. Individuals can donate up to 10% of their declared income to candidates, while firms can donate up to 2% of their annual revenue to candidates. Donations to parties are not limited. All contributions are made public after the elections. Beginning in 2006, candidates were required to disclose donations received, but without identifying the donors. There are no limits on total political party expenditures. Candidates must declare how much they will spend in an election, but this amount may be adjusted.

The media is able to report on corruption and has increased its coverage of corruption in recent years. Brazilian voters are increasingly aware of and educated about corruption. No journalists investigating corruption have been imprisoned or physically harmed. Citizens have a right of access to government information and basic government records. Whether this access to information is effective depends on

Anti-corruption
policy

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the institution. Federal organizations either respond quickly or state that the information does not exist. In states and municipalities, most organizations do not respond. Civil society organizations focused on anti-corruption issues are highly active in political councils at the legislative and executive levels. The judiciary can review the actions of the executive and the legislative branches. The heads of state and government, ministerial-level officials, and members of the national legislature are required to file a regular asset disclosure form. Disclosure forms are published in the Official Gazette. There are regulations governing gifts and hospitality offered to members of the executive branch. There are no anti-corruption policy restrictions preventing heads of state and government or ministers from entering the private sector after leaving the government. There are regulations addressing conflicts of interest for officials engaged in public procurement. All public procurements are widely advertised. The government is required to publicly announce the results of procurement decisions.

The Office of the Comptroller General (CGU), created in 2003, is a central body of internal control in the federal executive branch. To promote transparency and prevent corruption, it undertakes inspections and audits of municipalities and states and carries out awareness-raising campaigns aimed at the private sector. Brazil is a founding member of the Open Government Partnership, a new multilateral initiative launched in September 2011 that aims to secure concrete commitments from governments to promote transparency, empower citizens, fight corruption and harness new technologies to strengthen governance.

16 | Consensus-Building

All major political actors agree on the general goals of development and transformation. Improving political democracy, reducing poverty, maintaining macroeconomic stability, fostering growth, enhancing women's rights and increasing Brazil's role as an international and global actor are all objectives that none of the relevant political parties or social actors would oppose. Of course there are conflicting political positions with regard to questions such as the appropriate degree of market-economic regulation, size of state interventionism or magnitude of social welfare. Nevertheless, the broad consensus on general objectives has assured the country remarkable policy continuity since the 1990s. The Lula government preserved a great deal of its predecessor's policies, including inflation control and openness to foreign investment, while changing others by adopting state-activist initiatives including an active industrial policy and a massive poverty-fighting program. President Rousseff too has maintained Lula's priorities; but even if opposition candidate José Serra had won the presidential race in 2010, there would not have been a major policy shift.

Consensus on goals
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There are no relevant anti-democratic veto actors in today's Brazil. Neither the military, influential economic actors nor other significant groups stand in opposition to the country's democratic constitution. Powerful landlords in some rural areas still effectively own the local judiciary and police and respond violently to attempts at agrarian reform, but do not represent an important threat to the fundamental democratic order. The Landless Workers' Movement (MST), while sometimes employing radical rhetoric and behavior, is not an anti-democratic actor.

Anti-democratic
actors
9

Buoyed by remarkable economic and social progress in the last decade, Brazil's political leadership has been able to depolarize cleavage-based conflicts to a notable degree. By raising more than 20 million people out of poverty since 2003, building a stable economy and promoting social equality, the government has not only prevented society from falling apart along the lines of structural conflicts, but has even managed to boost social integration. A new affirmative action law containing social quotas, signed in August 2012 and set to be completely implemented within four years, will almost certainly contribute to more race-based equality and an opening of traditional elite bastions within Brazil's educational system to all citizens. The law forces the country's public universities to assign spots according to the racial makeup of each of the 26 states and the capital. Lawmakers and educators expect the number of black students to multiply within the next few years.

Cleavage /
conflict
management
8

Participation by civil society, including the involvement of various councils and committees at the regional, state and municipal levels, is seen as important for developing effective public policy. The participation of organized civil society groups in Brazilian politics has intensified since the 1980s, when the process of redemocratization commenced after more than 20 years of military dictatorship. Since that time, several types of arrangements between the state and civil society organizations have evolved with respect to the implementation and co-management of public policies, particularly those of social character. An important element in enabling the participation of civil society in the political process has been the introduction of participatory budgeting in many Brazilian cities. This form of local participation allows citizens to present their demands and priorities for civic improvement, thus influencing through discussions and negotiations the budget allocations made by their municipalities. Introduced first in Porto Alegre in 1989, participatory budgeting has since that time been introduced in many Brazilian municipalities. The largest participatory experiences held in Brazil during the Lula administration were the National Public Policy Conferences, consisting of spheres of deliberation and participation aimed at providing guidelines for the formulation of public policy at the federal level. Organized according to policy area and issue, they involved allowed representatives from both government and civil society to interact on an equitable basis. A wide range of public policy areas was covered by the conferences, including health care, minorities, promotion of racial equality, sustainable rural development, public security, education, culture and human rights.

Civil society
participation
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In comparison to earlier such experiences, the post-2003 national conferences were broader, wider-ranging, more inclusive and more frequent. As yet there are no studies on the efficacy of the implementation of legislative proposals compiled with the participation of civil society organizations.

Brazil's military regime (1964 – 1985) left behind fewer victims than did the dictatorships in neighboring countries. It is thought that more than 400 dissidents and guerrillas were killed during the dictatorship, and more than 160 “disappeared.” Thousands were tortured, jailed or exiled. Brazil eased away from military rule without a final settling of accounts. A law issued in 1979 provided amnesty to military and political officials who committed political or electoral crimes from 1961 to 1979. The armed forces never apologized, nor did the government investigate their crimes or imprison the generals responsible. The armed forces have gradually accepted democratic rule, but no process of national reconciliation has taken place. In December 2005, the Lula government released files on dissidents drawn up during the dictatorship, which contained secret documents, photographs, films and pamphlets from the intelligence service. In August 2007, the government released a 500-page report that outlined the fate of political opponents who were disappeared during the dictatorship. In December 2009, the executive developed a bill to create a National Truth Commission (Comissão Nacional da Verdade) to investigate human rights violations committed during the military dictatorship. Finally, in May 2012, a truth commission tasked with examining human rights abuses in the 1946 – 1988 period, with a focus on the military dictatorship (1964 – 1988), started its work. President Rousseff, herself jailed and tortured during the military dictatorship, emphasized at the commission's inauguration that the motive behind the initiative was not revenge, hate or the desire to rewrite history. The seven-member commission has two years to investigate human rights crimes committed both by the state and left-wing guerrillas, but a military-era amnesty ensures there will be no trials.

Reconciliation
8

17 | International Cooperation

The Brazilian government actively uses the support of international partners to implement a long-term strategy of development. It has repeatedly demonstrated its ability to learn from international know-how, adapt external advice to domestic realities and integrate international assistance into a consistent, long-term strategy of development. The country's political forces have applied international assistance directly to the intended target of the support. In many areas, the PT governments' reform policies are consistent with the programs of such international organizations as the World Bank, the UNDP and the Inter-American Development Bank, and they have often been implemented in close cooperation with these organizations. Conversely, international development organizations such as the World Bank appreciate the close collaboration with the Brazilian government, and concede that it

Effective use of
support
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is guided by a vision of a more equitable, sustainable and competitive future. Brazil has also successfully sought intensified South-South development cooperation.

International organizations, other states, foreign investors and international NGOs all consider the Brazilian government to be a credible and reliable partner. International organizations as well as consulting agencies have praised Brazil's budget discipline and its market-based reform policies. While attracting increasing attention because of its domestic economic and social achievements, Brazil also seeks to project its image at a global level and increase its impact in international relations. In recent years, the country has consolidated its global presence in debates on a wide range of issues, has participated in the sharing of best practices and has increasingly engaged in cooperation with less advanced countries.

Credibility
10

The Brazilian government actively and successfully builds and expands cooperative neighborly and international relationships. The country's regional policy is pragmatic and interest-driven. During the last decade, Brazil has increasingly been able to influence Latin America's political and economic trajectory with mechanisms of soft power. As a regional power, the country has promoted and significantly determined the course of regional political cooperation and economic integration. However, Brazil rejects involvement in any form of regional institutionalization that might restrict its autonomy. Brazil's attitude toward its neighbors combines bilateral and multilateral strategies. Bilateral ties with neighboring countries through technical and financial cooperation have been increasingly important in recent years. An important actor in this context is the Brazilian Development Bank (BNDES). BNDES has at its disposal a total budget that exceeds that of the Inter-American Development Bank. Over the last decade, it has financed many infrastructure projects in other South American countries.

Regional
cooperation
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An important element of Brazil's regional policy has been and remains the bilateral relationship with Argentina. Beginning in the 1980s, the two countries resolved their traditional rivalry and signed several bilateral agreements. In 1997, they agreed to elevate the bilateral relationship to a strategic partnership, including a commitment to an annual leaders' meeting and a strategic dialogue. The two countries have since worked together on common regional infrastructure projects. Nevertheless, bilateral relations have become more difficult over the course of the last decade. Argentina's efforts to reindustrialize its country have repeatedly clashed with the growing imports of manufactured goods from Brazil. Argentina does not wholeheartedly support Brazil's ambitions for regional leadership and an expanded global presence. While the bilateral economic partnership has been affected by growing trade-related problems since the beginning of President Rousseff's term, both governments have sought to maintain close political cooperation. Apart from Argentina, the smaller Mercosur members Paraguay and Uruguay are concerned with the trade asymmetries within the bloc. While Mercosur was initially oriented primarily toward economic integration, its objectives have recently taken on a more social and political

dimension. For Brazil, Mercosur still has some political and diplomatic worth, but the bloc's importance for the country is clearly lower today than when Mercosur was founded.

Another dimension of Brazil's regional strategy concerns cooperation and integration within South America. In 2000, Brazil launched the South American Summits; in 2004, it stimulated the establishment of a South American Community of Nations (CNS); in 2007, the CNS was renamed as the Union of South American Nations (UNASUR), and in May 2008, UNASUR was transformed into a new regional organization. UNASUR has become a centerpiece of Brazilian regional diplomacy. Being strictly intergovernmental in nature and thus assuring Brazil's autonomy, UNASUR has institutionalized various regional cooperation processes such as the South American Defense Council, energy and infrastructure integration, political dialogue, and South American financial mechanisms.

While South America is Brazil's foreign policy priority, the country is also showing growing interest in Latin America as a whole, including Central America and the Caribbean, the traditional sphere of influence of the United States. In 2004, Brazil assumed the military command of the U.N. mission in Haiti. In 2011, Brazil supported the transformation of the Grupo de Rio (Rio Group) regional dialogue forum into the Community of Latin American and Caribbean States (CELAC). CELAC provides a basis for Latin American political cooperation that includes Mexico and Cuba and excludes the United States. As such, it is an instrument of regional autonomy from the United States and competes with the U.S.-biased Inter-American System based on the Organization of American States (OAS).

On the whole, President Rousseff has continued the general lines of President Lula's foreign policies. However, while the Lula government was characterized by a very active presidential diplomacy, an enthusiastic engagement in regional cooperation, and strong relationships with the region's more radical left-wing governments, President Rousseff has assumed a more cautious leadership role in the region. Unlike Lula, Rousseff did not travel much in her first two years as president, and is believed to be more pragmatic in her foreign policy. The priority accorded to regional affairs is demonstrated by the fact that nearly half her travels abroad were made to Latin American countries in 2012.

Strategic Outlook

After two years in office, President Dilma Rousseff demonstrates rather solid transformation management. Though her approval rates plummeted in the wake of massive protests in June 2013 (after the end of the review period) she still seems quite well-positioned as a candidate for re-election in October 2014. However, Rousseff faces various challenges if her government is to fulfill its objectives of further poverty reduction, macroeconomic stability and growth. Brazil's economic growth potential is limited by the so-called *custo Brasil*. This refers to the increased operational costs associated with doing business in Brazil, making Brazilian goods more expensive than those produced in other countries. An important constraint on growth is a low savings and investment rate. Total investment in Brazil has averaged less than 20% of GDP. Public and infrastructure investment has typically been less than 2% of GDP, while Latin American neighbors such as Colombia (5.8%) and Chile (6.2%), as well as other BRIC countries such as India (5.6%) and China (7.3%) invest significantly more in this sector. Brazil's transportation infrastructure requires significant improvement, especially in light of the major sporting competitions that the country will host in the coming years (the World Cup in 2014 and the Olympics in 2016). This includes the airports, roads, rail system and ports. Brazil transport infrastructure development has lagged for many years, and overcoming infrastructure shortcomings is today indispensable to raising potential growth rates. The president's announcements that the government will partner with the private sector to rebuild the country's outmoded infrastructure should be put into practice as soon as possible.

Critical areas in which reforms are needed to ensure the future sustainability of economic growth include the high level of taxation, the modest quality of public spending, relatively inflexible labor institutions and legislation, and high interest rates. The quality of government spending in Brazil is undermined by suboptimal public sector management, weaknesses in planning and budgeting, and rigid institutional arrangements. Brazil's public expenditures total more than 40% of GDP, while the composition of public spending has shifted toward government consumption and social security, away from public investment. Brazil should broaden efforts to adopt a whole-of-government approach to regulatory quality up to the highest political level; improve coordination between ministries, agencies, regulatory institutions and the various levels of government; put in place a system to assess the economic and social impact of new laws; consolidate regulatory authorities' autonomy and statutory foundations in order to strengthen their powers and resources; and reinforce the strategic framework for planning and decision-making in regulated sectors.

The Greater Brazil Plan adopted in 2011 gives innovation a central role and includes proposals for significant changes in legal frameworks. The most important objectives are to close the technological gap with developed economies, support Brazil's leadership in the nature-related knowledge economy, and strengthen the internationalization of the national research system. Such efforts will be extremely important in order to reduce the country's strong dependence on

commodity exports and increase its production of higher-value-added manufactured goods and services.

Over the course of the last two decades, Brazil has repeatedly discussed political reforms considered essential for a further strengthening of the democratic system. As yet, the reforms have not obtained the necessary congressional majority for passage. In 2011, the National Congress created a Special Council for Political Reform, which in 2012 produced a report containing several recommendations. A key reform proposed in the report is to end private electoral campaign financing. The current arrangement leads to an unequal competition between opposing candidates and fuels corruption. Another change advocated in the report aims to increase public participation in the legislative process by allowing the public to initiate reform proposals online. A third proposal refers to the adoption of mechanisms to strengthen internal democracy within political parties. By the end of December 2012, the National Congress had not completed deliberations for any of these political reforms. In February 2013, President Rousseff announced that one of her future priorities would be to build support among lawmakers for political reform. Hopefully, the president will put these intentions into effect.