

BTI 2012 | Brazil Country Report

Status Index	1-10	8.06	# 18 of 128	
Political Transformation	1-10	8.15	# 22 of 128	➔
Economic Transformation	1-10	7.96	# 16 of 128	➔
Management Index	1-10	7.32	# 4 of 128	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	194.9	HDI	0.718	GDP p.c.	\$	11210
Pop. growth ¹	% p.a.	0.9	HDI rank of 187	84	Gini Index		53.9
Life expectancy	years	73	UN Education Index	0.663	Poverty ³	%	9.9
Urban population	%	86.5	Gender inequality ²	0.449	Aid per capita	\$	1.7

Sources: The World Bank, World Development Indicators 2011 | UNDP, Human Development Report 2011. 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 last two years of President Luiz Inacio Lula da Silva's second term of office, Brazil once again saw essentially positive developments, though it still faces some serious problems. The government has continued to combine efforts to promote economic stability with those aiming at social equity and the strengthening the country's international role.

The level of democratic consolidation and the country's level of development have not changed significantly. Brazil continues to have one of the world's highest levels of income inequality. However, the reforms initiated by the Lula administration have borne fruit. 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. Imbalances between the relatively developed southern and southeastern regions and the socioeconomically disadvantaged northern and northeastern regions have slightly lessened in recent years. The gender gap in terms of economic opportunity seems to be narrowing. Some of the most pressing problems still affecting the country are persistent deficiencies in law enforcement, clientelism, patronage, corruption, a climate of lawlessness in certain remote parts of the country and in the slums of some large cities, a weak and overburdened judiciary, and an often violent police apparatus.

Brazil became the world's fifth largest economy by the end of 2010. Basic macroeconomic data have been very positive in recent years. Brazil performed better than many other economies in the face of the global economic crisis. This impressive macroeconomic performance was due mainly to rising domestic demand, spurred above all by public policies aimed at increased spending and financing, especially for investment. In 2010, GDP grew by 7.5%, the highest such figure in 20 years. The institutional framework for market-based economic activity has also been further strengthened in recent years.

Early in its term, the Lula government faced substantial skepticism on the part of the country's traditional elites as well as of many international observers. In contrast, domestic approval rates associated with government policies have greatly increased in recent years, and international observers too have increasingly praised the government's policies. Brazil's successful application to host the FIFA World Cup 2014 and Rio de Janeiro's victorious bid to host the 2016 Summer Olympic Games were certainly at least in part a consequence of this growing international recognition of the country's impressive development during President Lula's two terms. Due to these successes and his enormous popularity, Lula managed to ensure that his chosen successor, Dilma Rousseff, was elected as Brazil's first female president in the October 2010 presidential ballot. Rousseff took office on 1 January 2011.

History and Characteristics of Transformation

Democratic transformation in Brazil spanned a period of 16 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 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 Inacio 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 not only symbolized a sociopolitical change, it 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).

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. This policy helped Brazil achieve high economic growth rates over several decades. However, it did not succeed in producing sufficient competitive pressure to maximize domestic economic efficiency, nor did it succeed in creating a fully functional banking system or in reducing the risk of balance-of-payments crises. Existing economic, social and regional disparities increased further. The economic situation in the 1980s was characterized by growing

unemployment, rapidly rising inflation rates, a large foreign debt and rising deficits in the national budget. As finance minister under President Franco and as president beginning in 1995, Fernando Henrique Cardoso instituted a stability and reform policy that yielded low inflation rates, a better-managed and more fiscally responsible government, and more consistent macroeconomic conditions. Although Lula da Silva and the PT attacked Cardoso as a neoliberal and insisted on an economic model with a stronger social component, Lula's successful 2002 campaign was founded on a platform of fundamental continuity with the macroeconomic policies mapped out by Cardoso. During Lula's tenure, growth accelerated and inflation was kept within its targets for most of the period. The country's macroeconomic situation is much better today than was the case eight years ago. Sound economic policies and countercyclical measures helped the country weather the 2009 global financial crisis with relatively minor effects. The institutional framework for market-based economic activity has also been further strengthened in recent years. 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. Key drivers of this transformation have been low inflation, consistent economic growth, well-focused social programs and a policy of real increases to the minimum wage.

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

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.

All citizens have 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.

The state is secular. Religious dogmas have no noteworthy influence on politics or law.

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.

Question

Score

Monopoly on the use of force

7

State identity

9

No interference of religious dogmas

10

Basic administration

8

2 | Political Participation

There are no constraints on free and fair elections.

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 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.

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, often controlled by political groups.

Freedom of
expression

8

3 | Rule of Law

There are almost no restraints on the basic functions involved in the separation of powers, and mutual checks and balances are in place. Some problems of governability result from the electoral system, the fragmented character of the party system and the peculiar nature of Brazilian federalism.

Separation of
powers

9

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' access to legal counsel and the administration of justice, due to extreme inequalities in resources available to citizens. The distribution and availability of information is also very uneven. 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. Over the last two decades, the level of distrust

Independent
judiciary

7

in the Brazilian judiciary has increased, and judges have been repeatedly involved in instances of corruption. Brazil has one of the world's most crowded and contentious legal systems. A strong culture of confrontation in the courts and long delays caused by rules that allow generous rights of appeal have led to a backlog of about 20 million lawsuits. Only 2% to 10% of homicides even go to trial.

As a rule, corrupt officeholders are prosecuted under established laws, but some manage to slip through political, legal or procedural loopholes. During the first six years of President Lula's mandate, there were more detentions for political corruption than in previous decades. In 2007, an estimated 2,800 people were detained, while in the first half of 2008, 1,700 people were arrested. In July 2008, the federal police arrested 24 people linked to the 2005 vote-buying scandal (the so-called *mensalão* or monthly payments scandal) involving President Lula's ruling Workers' Party. The Lula government launched several measures aimed at preventing further corruption. First, the Contraloria Geral da Republica (CGU), a central authority for the internal audit of the government apparatus, was expanded and directly subordinated to the president. Second, the federal police force was expanded, and tasked with intensifying investigations aimed at economic crime, drug trafficking and the degradation of federal property. The increased oversight provided by the CGU and federal police sent important signals that misuse of public funds and offices for private purposes would no longer be met with impunity. However, despite these initiatives, recent scandals involving corrupt politicians and successful maneuvers to escape punishment suggest a lack of significant improvements.

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, certain 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. Due to a 1979 amnesty law, violations of human rights by the Brazilian military under the authoritarian regime between 1964 and 1985 have never been prosecuted in court.

Prosecution of
office abuse

7

Civil rights

7

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

Performance of
democratic
institutions

8

In 2007, Congress rejected President Lula's proposal for political reform, which was designed to give parties more power to control their own officeholders, as well as to clarify campaign financing rules. In 2008, the government proposed a new package of long-discussed initiatives, including reforms to campaign finance rules, a proposal for closed electoral lists, measures to strengthen party loyalty and the introduction of proportional representation. In May 2009, Congress rejected the government's efforts to introduce a political reform project into the lower house. Thus, the government once again failed in the attempt to introduce political reform that would help consolidate the democratic system. Numerous efforts have run up against a recalcitrant Congress, with political parties unwilling to alter a status quo that has let small, local parties be overrepresented in parliament.

All relevant political and social players – with the possible exception of some powerful landlords – accept the legitimacy and authority of democratic institutions. Although the Landless Workers Movement (Movimento dos Trabalhadores Rurais Sem Terra, MST) sometimes uses extralegal means and is criticized for its confrontational relations with governing institutions, it is not an anti-democratic organization. The MST demands that the state play an active part in fostering a more inclusive model of development. The movement's rough attitude should be regarded in light of widespread rural poverty and ongoing violations of basic civil rights in the countryside.

Commitment to
democratic
institutions

9

5 | Political and Social Integration

The political party system is 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

Party system

6

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 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 Congress no longer changes from one week to the next.

Brazil's network of interest groups is relatively close-knit, but dominated by a few strong interests. Labor and capital associations are paramount. Despite divergences among competing umbrella organizations, trade unions are strong political actors. Following democratization there was a gradual estrangement from traditional corporatist state models. Mobilization capabilities diminished during the 1990s and the level of trade union organization is on the decline, but trade unions are still important to many sectors of workers. President Lula has co-opted many trade union leaders by awarding them government positions, and by issuing a decree which grants labor federations 10% of the compulsory labor union tax. Entrepreneurs have a national umbrella organization, with the National Confederation of Industries in São Paulo State wielding the greatest influence.

Interest groups
8

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.

Consent to democracy is increasing moderately. In 2010, 54% of respondents (as compared to 47% in 2008) agreed that democracy was preferable to any other form of government. The same year, 57% said democracy is indispensable to being a developed country. The degree of satisfaction with democracy increased from 38% (2009) to 49% (2010). By the end of President Lula's mandate, 83% approved of his administration, and 55% expressed confidence in the country's government. 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. In 2005, 338,000 private foundations and nonprofit associations were registered, collectively employing 1.7 million persons across the country. However, the level of interpersonal trust among the population is rather low (55.1 points on a 100-point scale). 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.

Social capital

7

II. Economic Transformation

6 | Level of Socioeconomic Development

In spite of many reforms and remarkable social improvements during the Lula years, 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. During the Lula administration, poverty reduction and income distribution indicators have markedly improved. The overall poverty rate fell from 34% of the population in 1995 to 12.7% in 2007. About 5.2% of the population still lives on less than \$1.25 per day. But millions of Brazilians have moved out of poverty in recent years. Income inequality has been reduced thanks to low levels of inflation and solid economic growth, targeted transfer programs, and increased labor productivity. But with a Gini coefficient of 0.55 (2007), Brazil still shows one of the world’s most unequal distributions of income.

About 45% of the country’s wealth is concentrated in the upper 10% of the income pyramid, while the lower 20% control just over 2.4%. 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. Existing developmental imbalances between these regions have somewhat lessened in recent years. With a Gender Inequality Index score of 0.596 (2008), Brazil occupies rank 73 in global comparison. The gender gap in terms of economic opportunity seems to be narrowing, but women remain at a substantial

Question
ScoreSocioeconomic
barriers

6

disadvantage. Although female students consistently show better results and higher rates of school attendance than do their male counterparts, this does not translate into better salaries or higher-skilled jobs, or into lower levels of unemployment. During the Lula administration, the share of women employed in metropolitan areas increased from 43% to 45.1% of the workforce. However, salary inequalities still persist: Brazilian women on average earn only 70% of the salaries of men.

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	1365982.7	1652632.2	1594489.7	2087889.6
GDP growth	%	6.1	5.2	-0.6	7.5
Inflation (CPI)	%	3.6	5.7	4.9	5.0
Unemployment	%	8.1	7.1	8.3	-
Foreign direct investment	% of GDP	2.5	2.7	1.6	2.3
Export growth	%	6.2	0.5	-10.2	11.5
Import growth	%	19.9	15.4	-11.5	36.2
Current account balance	\$ mn.	1550.8	-28192.0	-24302.3	-47364.7
Public debt	% of GDP	65.2	70.7	67.9	66.1
External debt	\$ mn.	237605.2	262151.3	276909.8	346978.1
Total debt service	\$ mn.	54935.5	56460.1	44589.9	45806.3
Cash surplus or deficit	% of GDP	-1.9	-1.2	-3.5	-
Tax revenue	% of GDP	16.8	16.7	15.6	-
Government consumption	% of GDP	20.3	20.2	21.8	21.2
Public expnd. on edu.	% of GDP	5.1	-	-	-
Public expnd. on health	% of GDP	8.4	8.4	9.0	-
R&D expenditure	% of GDP	1.10	-	-	-
Military expenditure	% of GDP	1.5	1.5	1.6	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

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 convertibility of the national currency, the real, is guaranteed, and there has been a floating exchange rate since January 1999. The country's recent macroeconomic development has been impressive. The fiscal outlook, debt situation and financial sector's health are much better than they were eight years ago. The government has consolidated the country's commitment to fiscal responsibility. In April 2008, Brazil was awarded an investment-grade debt rating by one of the two main U.S. credit rating agencies. This opened the door for a massive inflow of foreign investment, as it allowed certain investment and pension funds to legally invest in Brazil and in Brazilian bonds. A commitment to maintaining a primary surplus, improving debt management and reducing the debt-to-GDP ratio has helped significantly reduce the vulnerability of public finances to adverse shocks. Exports and reserves are at record high levels, and inflation rates and overall country risk levels at record lows. Critical areas in which reforms are needed to ensure the future sustainability of economic growth include the high level of taxation, the low quality of public spending, relatively inflexible labor institutions and legislation, and high interest rates.

Market-based
competition
8

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). 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. Since the 1990s, the country has implemented a number of important trade policy changes. It 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. However, Brazil has retained significant vestiges of the foreign-trade policy paradigm inherited from the period of protectionist

Liberalization of
foreign trade
7

industrialization. Special exemptions and complicated registration formalities remain. In recent years, the country 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 11.5% in January 2008. Brazil is also 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. 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 the region. 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, but credit is still very expensive, especially for individuals and small enterprises. 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. While Brazil today has a dynamic and growing financial sector, the challenge is to develop still greater competitiveness and efficiency and more effective risk management practices, while maintaining stability.

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. The Lula government's policies of fiscal management and inflation targeting were well managed and well entrenched, providing a solid anchor to the economy. External vulnerability has been substantially reduced, reserves are today at record high levels, and inflation and country risk at record lows. Inflation fell from 12.5% in 2002 to 5.7% in 2005 and 4.5% in 2007. The annual rate in 2010 was 5.9%. Since 1999, Brazil has followed an inflation-targeting framework for monetary policy and a floating exchange rate regime. The Brazilian real appreciated by over 60% in nominal terms between 2004 and mid-2008. Foreign exchange regulations have been liberalized, but without allowing full convertibility to the real.

Anti-inflation /
forex policy

10

Brazil has followed a consistent stability policy supported in part by institutional self-constraints. The 2000 Fiscal Responsibility Act (Lei de Responsabilidade Fiscal, LRF) subjected all levels of public administration to criteria of transparency and coordination, and made them responsible for their fiscal performance. It set guidelines for primary surplus generation and debt limits, and limited salary increases for civil servants. When taking office in 2003, Lula's administration faced a crisis of investor confidence, but disciplined fiscal and monetary management and prudent macroeconomic policies paved the way for steady economic progress and the preservation of stability. Macroeconomic management has been exemplary, external vulnerability has been substantially reduced and economic stability has been consolidated. The improvement of debt management, along with reduction of the debt-to-GDP ratio, has helped reduce the vulnerability of public finances to adverse shocks. The fiscal deficit in 2010 was 3.3% of GDP. The primary fiscal surplus reported for 2010 was 2.8% of GDP. 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. Macroeconomic stability has been able to be maintained due both to the strength of the financial system and a combination of fiscal responsibility, exchange rate flexibility and inflation targeting. Fiscal consolidation at the state level has also contributed to a stronger macroeconomic situation. The country's international reserves have grown considerably since 2004. The outstanding external debt has been reduced from 30.3% (2004) to 11.1% (2010) of GDP, while the total debt service ratio fell from 66.6% (2004) to 42.8% (2010).

Macrostability
10

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 in Brazil. 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. Major progress has been made in the form of a newly comprehensive and modernized IP protection law, and in improved enforcement of obligations under the Trade-Related Aspects of Intellectual Property Rights agreement. In 2004, the Lula administration established a National Council to Combat Piracy and Crimes against Intellectual Property, an equal partnership between government representatives and private sector representatives. The number of patents granted annually has declined since 2003, from 4,725 in 2003 to 1,855 in 2007. Patent processing is still very slow: The average time a patent spends

Property rights
9

awaiting approval is seven years. 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.

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 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 has not continued 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. The Lula government enacted its Public-Private Partnership (PPP) Law in December 2004, designed to attract private investment to supplement public infrastructural expenditures that are limited by tax or budgetary constraints. Since 2008, a program to support the development of small-scale PPP models has been executed by the Brazilian Institute of Municipal Administration. In 2010, several PPP projects were underway or under preparation at the federal and the state levels.

Private enterprise
8

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. During this time, infant mortality fell by more than a third, maternal health improved and mortality due to infectious diseases decreased substantially. Nevertheless, significant portions of the population still lead an existence on the margins of poverty and hunger. The Lula administration 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 coverage of Bolsa Família expanded from 3.6 million families in 2003 to 11.1 million families (about 45 million people, or 25% of the Brazilian population) in June 2006. The number of beneficiary families was expected to reach 12.9 million by the end of 2010. 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

Social safety nets
7

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. Total health spending accounted for 8.4% of GDP in Brazil in 2008. Public funding sources accounted for 56% of health spending.

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. But women still face a reality marked by inequality in both the domestic sphere and in professional life. Violence against women and children, forced child prostitution, and child labor persist. In education, the gaps between men and women have narrowed, and women on average possess higher educational attainments, 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 still remain at a substantial disadvantage. Women made up less than 15% of the officials in President Lula's executive-branch government. In spite of the introduction of a quota system, just 9% of parliamentarians in 2009 were women.

While the law prohibits racial discrimination, equality of opportunity in this regard is severely constrained. The Lula 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. The government has initiated several affirmative action measures to correct these inequalities, including programs in place at nearly 20 public universities. There are about 460,000 indigenous people living on indigenous lands and an additional 100,000 to 190,000 in other areas, including urban areas. The 1988 constitution obliged the federal government to demarcate all indigenous areas by the year 1993. However, even at the end of 2009, legal registration continued to be a difficult undertaking. 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.

Equal opportunity

7

11 | Economic Performance

Brazil has become the fifth largest economy in the world, with a GDP of around \$2.2 trillion by the end of 2010. Basic macroeconomic data have been very positive in recent years. The impressive macroeconomic performance displayed in recent years was due mainly to rising domestic demand spurred above all by public policies aimed at increasing spending and credit, especially for investment purposes. In 2010, Brazil's GDP grew by 7.5%, the highest such increase since 1986. Exports increased by 11.5% in 2010 and imports by 36.2%. The investment rate in 2010 was 18.4% of GDP, while the savings rate reached 16.5% of GDP. Industrial employment grew 3.4% in 2010, the highest rate since 2002. In 2010, Brazilian agricultural industry grew by 4.7%, reversing the decline (-4.8%) recorded in the previous year. The 2010 unemployment rate was estimated at 6.8%, significantly lower than the 8.1% rate registered in 2009 and the 12.4% rate of 2003. The employed population numbered 22.0 million in 2010, 3.5% larger than that of 2009 (21.3 million), as a result of the creation of 743,000 jobs. This was the largest annual increase since the 3.4% growth registered between 2007 and 2008. The official inflation index closed 2010 at 5.9%, the highest level since 2004, when it reached 7.6%. Fiscal policy remained expansionary in 2010, although some countercyclical measures were dropped. For the 12 months to September, the primary fiscal surplus stood at 2.9% of GDP. Tax revenue, including from payroll taxes, rose by 13% in real terms during the period from January to September 2010 compared with the same period in 2009. Federal government spending increased by 12% in real terms; among the major contributing factors were social security benefits and wages. Investment during the first three quarters of 2010 increased by 25.6% as compared to the same period in 2009. The overall investment rate for 2010 was expected to recover from the low of 16.7% of GDP reached in 2009, and return to the levels seen in 2008 when it reached 19.1% of GDP. The current account deficit reached nearly 2.4% of GDP in October 2010. Ample liquidity in the global economy enabled Brazil to finance this deficit primarily through \$21.78 billion in net foreign direct investment income and \$61.27 billion in portfolio investments.

Output strength
9

12 | Sustainability

Brazil has the world's largest reserves of tropical forest, 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

Environmental
policy
7

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. Huge tracts of land are being cleared of their original forest to make way for soya farms. Other factors contributing to deforestation include mining, oil and gas projects in the Amazon basin. In May 2008, then-Environment Minister Marina Silva resigned after six years in office. Silva strongly disagreed with some of the government's infrastructure projects for the Amazon region.

In recent years, Brazil has developed many of the legal and institutional instruments necessary for reconciling development and environmental protection, including water management, forest protection and biodiversity regulations. Brazil ranks third worldwide in terms of annual greenhouse gas emissions, which represent 8% of the world's total. In 2009, Brazil committed itself to reduce these emissions by 39% by 2020. In December 2010, President Lula announced that the rate of deforestation in the Amazon had dropped to about 2,500 square miles a year, about half of what it was two years ago and a third of what it was in 2000. 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.

Brazil is the second largest producer of ethanol, and is the largest ethanol exporter in the world. 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 the areas presently cultivated for soybeans also represent 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 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.

A few years ago, Brazil still had a fairly cost-ineffective education system, plagued by poor achievement and inequitable outcomes. During the last decade, Brazil has increased its investment in education, from 4% of GDP in 2000 to 5.2% of GDP in 2009. Spending has become more equitable, through measures such as the provision of additional federal funds to poorer states. The federal government and some state governments have tried to enhance the quality of education. In 2004, the Lula administration merged the Bolsa Escola program and a number of conditional cash transfers for health and nutrition into the new Bolsa Família program, increasing the total amount of funding available. The number of families participating in the program has now grown to more than 12 million. Bolsa Família added 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, President Lula launched an ambitious education development plan (PED), which aims to redress Brazil's long-standing 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, setting aside \$500 million for the PED in 2007 and a further \$3 billion for the 2008 – 2010 period. The PED is also aimed at high schools and continuing education. In 2008, Brazil spent 1.13% of GDP on research and development.

Education policy /
R&D

7

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. An assessment of the Lula government yields a very positive balance in terms of the struggle against poverty and inequality. Nevertheless, inequality is still a long way from acceptable levels. Brazil's poverty continues to be largely rural, and extreme poverty is concentrated in the largely semi-arid northeastern region of the country. Beginning in 2001, the income inequality index value (the Gini coefficient) began a precipitous decline, falling from 0.60 in 2002 to 0.55 in 2008. Nevertheless, poverty, inequality and significant regional disparities continue to present major challenges to the country's future development. The illiteracy rate for persons over 15 years of age was 10% in 2008. The rate of illiteracy is much higher in the black population than in the white population group. 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. In spite of government efforts to resolve the problem, positive results have been slow in forthcoming.

Structural
constraints
5

Brazil has moderate to strong traditions of civil society. The country's vibrant and increasingly influential civil society 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 tradition in Brazil and strong ties with the Workers Party. There has been a change in the focus of civil society participation during the last three decades. While civil society during the eighties was basically concerned with autonomy, democratization of public policies and the establishment

Civil society
traditions
3

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.

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 in Brazil, 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. The Lula administration has not found a way to systematically reduce the endemic violence afflicting Brazilian society.

Conflict intensity

3

II. Management Performance

14 | Steering Capability

The Lula administration was committed to the goals of constitutional democracy and a socially responsible market economy. Its policies gave these goals priority over short-term expediency. The role of external influence was modest. Brazil does not depend on foreign aid; net official development assistance (ODA) receipts in 2009 (\$338 million) were very small in relation to the country's gross national income (GNI). The government's strategic priorities included fighting poverty and improving educational levels. President Lula was elected to his first term of office in October 2002 on a platform that emphasized increased social equity and faster growth. The government committed itself to tight fiscal policy, inflation targeting and the honoring of debt contracts. At the same time, it promised far-reaching improvements to the general public welfare, which were then carried out in the form of several high-priority social initiatives, including efforts to eradicate hunger, create youth employment and unify conditional cash transfer programs in order to

Question
Score

Prioritization

9

enhance effectiveness in reducing poverty. Indeed, Brazil has experienced noticeable improvements in well-being during the past eight years. The first Lula administration managed to combine mature macroeconomic management with policies aimed at enhancing social equity. The economy experienced steady albeit moderate growth between 2003 and 2006. In October 2006, President Lula was elected to a second four-year term. He promised faster economic growth, more efforts to enhance the educational system and strong action against the widespread incidents of violence plaguing the country. The government's efforts to accelerate growth and to enhance the educational system were implemented in effective reform programs. The macro foundations of the Brazilian economy improved further and inequality decreased. The Lula government showed an impressive strategic capacity to prioritize and organize its policy measures. Brazil also addressed the effects of the recent global economic crisis successfully. While the country's GDP contracted slightly in 2009, the economy recommenced growth in 2010, with an annual growth rate of 7.5%, the highest in more than 20 years. The activities of regulatory agencies in key sectors and a greater reliance on competition have helped Brazil's economic performance in recent years. Regulatory agencies have played an important role in improving standards of service, notably in the private health insurance sector.

The Lula government was committed to democracy, economic stability and social justice. Its 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, placed great emphasis on the positive contribution that an active and strategically oriented state can make in the search for national development. Not all intended reforms could be implemented, though Lula skillfully managed his 11-party ruling coalition in Congress. The government's problems with effective implementation of its reform policy were in part due to conflicting interests and policy goals inside the ruling coalition, and in part a consequence of formidable institutional barriers to reform, as well as a fragmented political party system of. But even so, the government's declared objectives were able to be realized to a high degree. Eight years after having been elected amid serious doubts as to his ability to keep Brazil on a path toward sustainable development, Lula left office having anchored the country solidly in the club of emerging powers. Millions of Brazilians have been pulled out of poverty during Lula's two terms, and Brazil now plays an important role on the world stage. Other major achievements include Brazil's nomination as organizer of the soccer World Cup 2014 and Rio's selection to host the Olympic Games in 2016. In addition, Lula managed to ensure the nomination and election of his protégé, Dilma Rousseff, as his successor.

The Lula government repeatedly demonstrated its learning ability, and reacted flexibly to new challenges. Though faced with a "revolution of expectations" from

Implementation
8

Policy learning
8

a considerable proportion of Brazilian society with regard to reducing poverty and inequality, its policies proved to be based on the “art of the possible.” This was due in large part to the leading executive officials’ learning processes with regard to the functioning of the international economic system. The PT-led administration adopted macroeconomic policies that largely continued those of President Cardoso’s government. At the same time, it successfully pursued its goals of reducing poverty and inequality while preserving stability. However, further modernization in some of Brazil’s core infrastructure, including energy, communication and transportation, would help to increase investment and improve service quality for citizens. A 2008 OECD report recommended 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 in order to strengthen their powers and resources; and reinforce the strategic framework for planning and decision-making in regulated sectors.

The Lula government can be compared and contrasted strongly with other recent left-wing experiences in the region, particularly with the left-populist government of President Hugo Chávez in Venezuela. Learning processes have also occurred with respect to building and maintaining an 11-party coalition. Certainly the substantial political and ideological differences within the ruling coalition and the institutional barriers to reform have impeded rapid implementation of several long-discussed reform projects. But if flexibility refers to political actors’ ability to accurately appraise their own political leeway, and to recognize and utilize the developmental opportunities inherent within a given political situation, then it must be said that the Lula government chose its tools and strategies very carefully and successfully.

15 | Resource Efficiency

The Lula administration used most available resources efficiently. Disciplined fiscal and monetary management enabled economic progress. The government 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. With respect to revenues, the law mandates the withholding of discretionary federal transfers to states and municipalities that do not collect their own taxes effectively. The FRL requires that governments match

Efficient use of
assets

8

any permanent spending decisions with a corresponding increase in permanent revenues or a reduction in other permanent spending items. The FRL also weakens the power of governors to influence national policies, since it gives states more responsibility for their own fiscal problems, reducing their ability to hold the federal government hostage on fiscal grounds.

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. Other municipalities seem to prefer less process-oriented and more results-oriented measures of administrative modernization. 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 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 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 his powers of budgetary appropriation to obtain political support for his 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 Lula government had only limited success in coordinating conflicting objectives and interests. Intragovernmental frictions remained significant. After being re-elected to his second term in 2006, President Lula tried to form a broad government coalition in order to guarantee the passage of government-proposed legislation through Congress. He partly achieved this goal, building an 11-party ruling coalition. He received support for his strategy from his own Workers' Party (PT), and subsequently won the alliance of the catch-all Brazilian Democratic Movement Party (Partido do Movimento Democrático Brasileiro, PMDB) and other minor parties. The PMDB is the largest party in the lower chamber of Congress, as well as in the Senate. Officially, it supported the government, but some sectors within the PMDB also opposed Lula. The PMDB does not have a unified ideology; its members are mostly positioned on the right of the political spectrum, and therefore hold positions conflicting with those of the left-wing PT. The successful formation of a broad but very heterogeneous ruling alliance, as well as President Lula's close cooperation with governors from all political parties, ensured that some important reforms could be passed during his second term in office. But the price for these successes was high, as coalition members had to be compensated with posts inside the government and the public administration. As an opposition party, the PT had repeatedly criticized the traditional spoils system of Brazilian politics, but once in power it acted in the same manner as its predecessors. With the goal of attaining a congressional majority, it established a clientelist policy grounded in the mutual exchange of favors.

Policy
coordination
7

Brazil has a strong legal anti-corruption framework, but implementation and effective enforcement remain a problem, above all at the state level. Most integrity mechanisms are in place and are actively supported by the government. The Fiscal Responsibility Act subjects all levels of public administration to scrutiny based on how well they fulfill the criteria of transparency and discipline. The act makes each 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

Anti-corruption
policy
7

physically harmed. Citizens have a right of access to government information and basic government records. Whether access to information is effective depends on 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. Citizens can access this information. 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 public procurement officials. All public procurements are widely advertised. The government is required to publicly announce the results of procurement decisions.

16 | Consensus-Building

All major political actors agree on the need to strengthen democracy, though they disagree on which path should be taken to reach this goal. Portions of the ruling Workers' Party (PT), as well as its allies in civil society, advocate a more direct model of democracy. There are also conflicting positions as to the relevance of the market economy. While government officials have followed a market oriented course, a considerable portion of the PT was critical of the Lula administration for pursuing these policies in opposition to the party's original social-justice-focused ideology.

Consensus on goals
9

While there are no clearly anti-democratic veto powers in Brazil, powerful landlords in some rural areas effectively own the local judiciary and police, and they respond violently to attempts at agrarian reform. Brazil's largest landless association, the Landless Workers' Movement (MST), has in recent years employed increasingly radical rhetoric and behavior. MST leaders have made it clear that, for them, land reform is not simply about the resettlement of peasants, but is rather a tool for wide-ranging social revolution. In early 2009, the Lula government came under heavy criticism after a wave of MST land invasions left four security guards dead in the northeastern state of Pernambuco. While conflict between the government and the MST has been on the rise, landless-citizen movements have long been linked to the ruling PT, and since President Lula came to power in 2002 they have been eligible for federal funds.

Anti-democratic
actors
8

The government has been able to prevent an escalation of social and racial conflicts within Brazilian society, which is still characterized by extreme social and regional disparities. During the period under review, it had considerable success in reducing poverty and social inequities.

Cleavage /
conflict
management
8

The participation of 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 started 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. The Lula administration conducted a process of consultation throughout the country, involving more than 2,000 civil society organizations representing labor, women's groups, environmentalists, consumer forums, indigenous peoples, Afro-Brazilians, the landless movement, religious communities and the handicapped. It also created and convened popular national councils and forums focusing on various aspects of the government's policies. President Lula opted to hold dialogue and negotiate directly with the Landless Workers' Movement (MST), with the National Conference of Bishops and with the Brazilian Association of NGOs. The largest participatory experiences held in Brazil during the Lula administration were the National Public Policy Conferences, consisting of spheres of deliberation and participation designed to provide guidelines for the formulation of public policy at the federal level. Organized according to policy areas and issues, they involved the participation of representatives from both government and civil society, interacting on a basis of equality. A wide range of public policy areas was covered by the conferences, including health, minorities, promotion of racial equality, sustainable rural development, public security, education, culture and human rights. In comparison to earlier such experiences, the post-2003 national conferences became broader, wider-ranging, more inclusive and more frequent. To date there are no studies on the effective implementation of legislative proposals compiled with the participation of civil society organizations. Altogether, the Lula administration has been much more responsive to the pleas of social movements than were previous governments. Nevertheless, some supporters were disappointed by the politics of the government, because they had hoped for more radical economic and social reforms. In spite of various conflicts, the government always managed to maintain dialogue with social movements.

Civil society
participation
9

Brazil's military regime, which governed the country from 1964 to 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

Reconciliation
8

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. This body aims to recover the files that are still held by the military and that are essential to throw light on the crimes committed during the de facto regime. The idea of a truth commission caused splits in the cabinet of President Lula and led senior military figures to threaten resignation. Lula set up a working group of representatives from the justice, homeland affairs and human rights departments, the military, and civil society. The idea of a truth commission did not gain traction until the end of 2010, but soon after taking office, Brazil's new government signaled its intention to press ahead with a truth commission to investigate abuses by the country's former military dictatorship.

17 | International Cooperation

Political forces have applied international assistance directly to the intended target of the support, and have demonstrated their adaptability. In many areas, the Lula administration's reform policies were consistent with the programs of such international organizations as the World Bank, the UNDP and the Inter-American Development Bank, and were often implemented in close cooperation with these organizations. Conversely, international development organizations such as the World Bank appreciated the close collaboration with the Lula administration and conceded that it was guided by a vision of a more equitable, sustainable and competitive Brazil. Brazil has also successfully sought intensified south-south development cooperation.

Effective use of
support
10

International organizations, other states, foreign investors and international NGOs likewise consider the Brazilian government to be a credible and reliable partner. International organizations as well as consulting agencies have praised the government's budget discipline and its policies of market-based reform. President Lula took a leading role in seeking greater participation for countries such as Brazil, China, India and South Africa in multilateral bodies including the IMF and the G-

Credibility
10

20, which was established in 1999 to strengthen the international financial architecture and foster sustainable economic growth and development. Lula was the first Latin American president to meet incoming U.S. President Barack Obama. The Obama administration has repeatedly demonstrated that it sees Brazil as its main strategic partner in Latin America.

The Lula administration made active and often successful efforts to establish and deepen as many cooperative international relationships as possible. Relations with neighboring states are constructive but some tension has emerged in recent years, particularly in the area of commercial disputes. Relations with Ecuador were affected after a Brazilian construction company was expelled from that country in 2008. The terms of new oil concessions for the state-owned Brazilian oil company Petrobras in Ecuador also led to heightened tension. Relations with Bolivia have become more complicated following the Morales government's nationalization of the Bolivian gas industry. Bolivia provides Brazil with up to half of its natural gas supplies, and there has been considerable conflict over the issue of gas contracts over the last several years. However, President Lula has repeatedly been closely involved in regional diplomatic efforts to bring about peaceful, negotiated settlements to the various political crises in Bolivia. Relations with Paraguay were complicated in 2008 after Paraguay's Fernando Lugo made it clear that he wanted to renegotiate the treaties concerning the huge binational Itaipú hydroelectric project, in order to achieve higher prices from Brazil for power supply. Relations with Venezuela are good and trade links are growing, despite some obvious rivalries between President Lula and President Chávez over regional leadership.

President Lula has consistently strengthened Brazil's role as a regional power in South America by means of an active foreign policy. Under U.N. command and supervision, the government committed military forces to Haiti to assist efforts to stem violence there. Brazil resumed a leading role in the Friends of Venezuela initiative, created to search for a peaceful solution of the country's internal conflicts. In 2009, Brazil was one of the first countries to condemn the military coup against Honduran President Zelaya. The Lula government led the Southern Cone region in declaring Zelaya's removal a coup d'état and refusing to recognize the subsequently elected government led by Porfirio Lobo. While the United States at first also described the Honduran crisis as a coup d'état, the Obama government later recognized the outcome of the 29 November elections. In contrast, Brazil insisted that the region send a strong message that breaks in the constitutional order would not be tolerated. However, subsequent developments showed that Brazil's firm stance against the new Honduran government was not shared by all Latin American countries. By mid-2010, all Central American countries apart from Nicaragua, plus Chile, Colombia, Mexico and Peru had recognized the Lobo

government. Nevertheless, through the end of the Lula government, Brazil blocked any attempt to lift the suspension on Honduras' Organization of American States membership.

Brazil actively stimulated the establishment of a South American Community of Nations (CNS) in December 2004. 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. In March 2009, representatives from the Unasur member countries set up a South American Defense Council. The council will meet on a regular basis to discuss defense issues. It is not intended to become a joint military organization, but rather will be a platform for cooperation. This is in line with Lula's vision, while Venezuelan President Chávez wanted to broaden the council's scope to become a South American version of the North Atlantic Treaty Organization.

The future of the formerly successful Mercosur trading bloc is far from clear. Relations between the five member states of Argentina, Brazil, Paraguay, Uruguay and Venezuela have become troubled for various reasons. Trade between the two main Mercosur partners, Argentina and Brazil, has generated considerable conflict, prompting calls for protectionist measures by businesses on both sides. The smaller members, Paraguay and Uruguay, are concerned by trade asymmetries within the bloc. Venezuela's President Chávez has repeatedly made it clear that he wants to "rid Mercosur of neoliberalism" and push for political integration. While high political costs will probably prevent Mercosur from breaking apart, there seems to be little political will to overcome Mercosur's continuing crisis. 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 20 years ago.

Strategic Outlook

Brazil's new president, Dilma Rousseff, took office on 1 January 2011, after winning the runoff election against São Paulo governor Jose Serra in November 2010. Rousseff, an energy minister and chief of staff in President Lula's cabinet, is Brazil's first female president. In the 1970s, she spent three years in the guerrilla underground, and another three in jail. Her victory represented an endorsement of the achievements of President Lula's two terms in office: in particular, of job creation and government social programs that moved nearly 30 million people into the lower middle class. The Workers' Party (PT) and its allies hold 383 out of 513 seats in the lower house and 60 out of 81 Senate seats. The ruling bloc thus has the necessary quorum to promote important reforms and even to prevent the formation of parliamentary committees of inquiry, which have been used to delay work in both legislative houses.

The new president must prove she is able to hold together a coalition of 10 political parties that span the ideological spectrum, and which share a voracious appetite for government jobs and public resources. She must also find a way to cohabit with the PT's largest and main political ally, the Brazilian Democratic Movement Party (PMDB). The PMDB has the largest number of governors, mayors and senators, and is second only to the PT in terms of lower house representatives. Rousseff assembled a cabinet that largely represents continuity, with an inner cabinet of moderate and competent advisors to run the government. The new president will have to deal with high expectations inside her coalition and with the more radical reform expectations within her party. She will face the challenge of either acting moderately as did her mentor Lula, or of going ahead with reforms long demanded by the radicals in her party against the background of a rather conservative Brazil.

Although it was not a defining element of her campaign, Rousseff said in her victory speech that she would work to advance gender equity. Brutally tortured while in jail in the early 1970s for her participation in the armed resistance against the military government, she is unlikely to compromise in the defense of human rights. The biggest challenge facing the new government will be to continue reducing the gap between rich and poor. To retain the momentum set by Lula and turn Brazil from a developing into a developed economy, it will be important to retain macroeconomic stability. The new government should continue with efforts to encourage political participation by Brazil's vibrant civil society and grassroots groups, which are at the forefront of the fight for a fairer society.

Brazil should try to reduce its dependence on commodity exports and increase its production of higher-value-added manufactured goods and services. To achieve this, the quality of public education will have to improve and the country's infrastructure – especially ports, roads, railways and airports – will have to be successfully modernized. A sizeable racial education gap continues to be a major constraint to any rapid change. Rousseff has promised to take some of the money earned from offshore oil reserves and invest it in education, with measures aimed at

paying teachers more and raising overall standards. The government should also pass necessary structural reforms (taxes, pensions, labor laws and infrastructure) and diminish the regulatory burden that hampers business activities. The governments of President Cardoso and President Lula made significant improvements in health care, sanitation, water supply and transportation, but much more can be done.

Critical areas where 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 police and the prison system require urgent reforms. Only by addressing the current impunity for torture and ill-treatment by state officials will it be possible to resolve the public security crisis.

Brazil has become a major international power. The country has intensified its relations with its neighbors, taken an active stance in mediating conflicts in Latin America and generated many new ideas for regional cooperation. In the future, Brazil should participate more in bearing the costs of regional cooperation and integration. This would make it easier for neighbors to accept Brazilian leadership in South America.

Last but not least, an important task of the new government will be to prepare Brazil to host major international events: the Rio Plus 20 global environmental summit in 2012, the FIFA World Cup in 2014 and the Summer Olympics in 2016. Consequently, international attention will be on Brazil as the country experiments with innovative policies to reduce crime and violence in major cities.