

BTI 2016 | Brazil Country Report

Status Index	1-10	7.60	# 19 of 129	
Political Transformation	1-10	8.05	# 19 of 129	➔
Economic Transformation	1-10	7.14	# 26 of 129	⬇️
Management Index	1-10	6.76	# 14 of 129	
	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. 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	206.1	HDI	0.744	GDP p.c., PPP \$	15838.0
Pop. growth ¹	% p.a.	0.9	HDI rank of 187	79	Gini Index	52.9
Life expectancy	years	73.9	UN Education Index	0.661	Poverty ³	% 9.1
Urban population	%	85.4	Gender inequality ²	0.441	Aid per capita	\$ 5.6

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

Executive Summary

The period under review has been a difficult one for Brazil. Within the Status Index, the performance of democracy indicators has changed little since the last report, though there has been more change in the performance of market economy indicators. However, there has been a substantial deterioration in the composite indicators that form the Management Index.

Since 2003, Brazil has experienced a period of rapid social development with millions of Brazilians lifted out of poverty. This development has been driven by government reforms, affirmative action measures and progressive social policies. However, levels of inequality in Brazil remain among the highest in the world and large inequalities remain in access to public services. Macroeconomic stability has seriously weakened over the last two years after several robust years. Economic growth rates at the end of 2014 were estimated to be only 0.2%, the lowest rate of growth since 2009. Industrial production contracted by 3.2% in 2014 and industrial employment declined by 3.2%. Investment activity and consumer confidence also declined. One of the few positive developments was the continued low level of unemployment. However, the government has found it increasingly difficult to keep inflation under control. For 2014, inflation reached 6.4%. In January 2015, the key interest rate increased to 12.25%, the highest level since mid-2011. In 2014, the Brazilian real weakened by nearly 13% and the country registered its first annual trade deficit in more than a decade. Foreign direct investment (FDI) totaled \$64 billion in 2013, equivalent to 3.6% of GDP, though Brazil continued to account for about one-third of all FDI flows into Latin America. In 2013, deforestation increased by 29%, a reversal of an eight year trend of declining year-on-year deforestation rates. This increase continued in 2014.

Since June 2013, large-scale demonstrations have taken place in many cities, indicative of increasing public discontent with public services (e.g. infrastructure, transport, education) and dissatisfaction with the political system. In 2013, public survey responses indicated that the degree of satisfaction among the public with democracy has fallen to 26%, while public approval of

government fell to 56%. In January 2015, President Rousseff began her second term as president. However, her approval ratings in January 2015 were her lowest since she first became president in January 2011. Similarly, in January 2015, only 23% of survey respondents evaluated the management of the PT-led government as excellent or good, while 44% of respondents considered it bad or terrible. The gigantic corruption scandal around Petrobras, which became public in 2014, remains unresolved. It is clear that the scandal reaches far beyond Petrobras and includes many of the country's largest construction companies. The economic consequences of the scandal have been substantial. However, the scandal has demonstrated that, though unable to prevent corruption, Brazil's anti-corruption institutions are at least capable of uncovering and investigating corruption.

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 Inacio da Silva (popularly called “Lula”), a former union leader and Workers' Party (Partido dos Trabalhadores, PT) chairman, was elected president. In October 2006, Lula was re-elected to a second term of office (2007 – 2010). 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. Despite an increasingly difficult economic situation and growing popular discontent, in October 2014 Rousseff was re-elected for a second term. She received 51.65% of the votes, while the oppositional candidate, Aécio Neves, won 48.69%. This was the narrowest victory by a candidate in the seven presidential elections Brazil has held since the 1980s.

Brazil's transformation toward a market economy was guided after the end of World War II by the concept of import substitution industrialization. The developmentalist period lasted until 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. Until 2012, Brazil experienced a period of unbroken macroeconomic stability and noticeable improvements in well-being. Sound economic policies and countercyclical measures helped the country weather the 2008 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. At the beginning of President Rousseff's second term in 2015, Brazil was in a severe economic crisis and amidst one of the largest corruption scandals in its history. However, that there was a scandal is also evidence of effectiveness of state institutions. In 30 years of democracy, Brazil has weathered many political and economic crises, and repeatedly demonstrated an ability to learn and adapt.

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. The so-called Triple Frontier, between Argentina, Paraguay and Brazil, serves as a transnational hub of organized crime, including illegal drugs smuggling, sex trafficking and money laundering.

All citizens are accorded the same civic rights, and the vast majority fundamentally acknowledge the state's constitution. Although a large number of people continue to encounter major difficulties in exercising their basic rights, ethnic, religious and cultural minorities are not systematically excluded from political citizenship, on either a de jure or de facto basis. 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. In 2009, Brazil issued a law allowing immigrants, who were in an irregular migratory situation and had entered the country before 1 February 2009, to request provisional residency.

Question
Score

Monopoly on the
use of force

7

State identity

9

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 administrative structures of the state provide most basic public services throughout the country, but their operation is to some extent deficient. 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

The 2014 Brazilian elections were the largest in Brazilian history. No major concerns were raised about entire process and many parties won various distinct offices, demonstrating the vitality of political competition. There were only episodic allegations of electoral crimes and no episodes of violence.

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

In response to the unexpected escalation of protest movements during the 2013 Federation Cup, President Rousseff emphasized that the protests were legitimate, and that protesters had the right to question, criticize, propose and demand change, and to defend their ideas with passion. Nevertheless, the protests provoked responses from some federal lawmakers that limited rights to freedom of expression and peaceful assembly. They proposed draconian laws on “terrorism” and “disorder”. Eventually, the relevant legislative proposal did not make it into law.

The constitutional guarantees of freedom of expression are strong. Generally speaking, the freedoms of opinion and the press are unrestricted and respected. However, violence against journalists, impunity and judicial censorship (government requests to remove online content) often compromise these guarantees. The national media are free from federal government pressures. However, 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

In May 2012, a new freedom of information law came into effect. The law guarantees public access to documents from all branches of government and to information about private entities that receive public funding. There are no major restrictions on internet freedom. In April 2014, the Marco Civil da Internet – a kind of Internet Bill of Rights – entered into force. It included advanced regulations concerning privacy protection and net neutrality.

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

Separation of
powers

9

The judiciary is largely independent, institutionally differentiated and free from unconstitutional intervention from other institutions. 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. In spite of these positive features, the efficiency of the judicial system is partially restricted by limited capacity and corruption. Three structural problems undermine the effectiveness of the judicial system: slow and inefficient decision-making, a lack of transparency and unequal access to justice. The judicature 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, the legal system still operates inefficiently. 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.

Independent
judiciary

7

Widespread corruption remains a deep problem within society and politics. Political impunity has historically been deeply ingrained in the country, but the number of public servants and elected officeholders suspended or removed from office by the courts or by government agencies responsible for oversight of the bureaucracy has increased tremendously in recent years. 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.

Prosecution of
office abuse

8

Fighting corruption was high on President Rousseff's agenda during her first term in office. She showed little hesitation in forcing ministers out of their jobs after they were named in corruption scandals. The government also launched the Access to Information Act (Lei de Acesso à Informação), passed a new anti-money laundering law and published the wages of approximately 700,000 civil servants through a new Transparency Portal.

An important sign of Brazil's ambition to fight 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 several high-level politicians, businessmen and bankers, including former Lula Chief of Staff José Dirceu, to long prison terms for corruption and money laundering. These sentences underscored the judiciary's intent to communicate clearly that politicians in Brazil cannot act with impunity. For many commentators, the trial was a watershed moment and proof of the progress that Brazil's judiciary has made. In November 2013, those who had been convicted started turning themselves in to police and serving their prison sentences.

In 2014, the Clean Records Law (Lei da Ficha Limpa), which aimed to prevent corruption in both national and regional legislatures, was for the first time applied to a national election. Passed in 2010, the law classifies those who have been convicted of corruption, mismanagement of public funds or electoral violations as ineligible for public office for at least eight years. In the 2014 general elections, more than 500 candidates were deemed ineligible by the Federal Prosecutor's Office due to the Clean Records Law. Many other would-be candidates did not even run because they knew they would be barred by the law.

In 2014, a corruption scandal of enormous dimensions unsettled Brazil. Paulo Roberto Costa, a former senior director at the state oil company Petrobras, confirmed the existence of a kickback scheme at the company. Dozens of people have been arrested and various politicians have been implicated. In addition to Petrobras, several of Brazil's largest construction companies are alleged to have been involved. During the inauguration speech for her second term in office on 1 January 2015, President Rousseff acknowledged the problems at Petrobras, and expressed her determination to fight the company's "internal predators" and "external enemies." Fear of choosing cabinet members with ties to the scandal even delayed the president's appointments for her new cabinet.

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.

Already in 2010, an Inter-American Court of Human Rights ruling made recommendations about the demilitarization of Brazil’s military police, the strengthening of public defenders, improvements to the prison system, and the introduction of legislation codifying crimes against humanity and enforced disappearance.

4 | Stability of Democratic Institutions

Governing Brazil is a complex challenge, not only because of the size, complexity and heterogeneity of the country, but also because the 1988 constitution is characterized by a tendency toward over-regulation. It also gives great weight to the separation of powers between the executive and legislative branches, the cooperation between federal, state and local governments as well as the representativeness of the legislative chambers. Since the return of democracy, no party has achieved an absolute majority in Congress. This means that all governments have been formed of coalitions of parties. Given the large number of parties represented in parliament, these coalitions are often composed of more than a dozen parties. Contrary to the warnings of some political scientists that this would be ungovernable, Brazil’s democratic institutions operate essentially according to their allotted functions. This system of “Coalition Presidentialism” has permitted the implementation of far-reaching reforms in many economic, political and social areas. In this respect, the performance of the political system is far more responsive than critics thought possible. However, negotiation processes between the executive and legislative branches, which are often held in secret, produces corruption. 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

Civil rights

7

Performance of
democratic
institutions

8

to mid-sized 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.

The need for political reform has long been discussed, particularly in relation to the electoral system and campaign financing. However, reform proposals failed to secure the necessary majorities to be passed and met strong resistance from those who benefited from the existing system. One step ahead have been the Supreme Electoral Tribunal rulings that limit the previously frequent party changes of senators and deputies in the aftermath of elections. During the 2014 election campaign, President Rousseff spoke again about the need to reform campaign financing. However, given that the number of parties represented in the lower house increased from 22 (2011-2014) to 28 (2015-2018), it will be hard to find agreement on 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 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.

Commitment to
democratic
institutions
9

5 | Political and Social Integration

Since re-democratization, 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

Party system
6

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.

Over the last decade, the party system has become increasingly stable. Despite an increase in the number of parties represented in the legislature, the overall results of legislative elections have become less volatile. Recent studies indicate that voters' identification with specific parties is comparable to party identification among voters in several European countries. The Brazilian party system is more functional than its reputation would suggest. The political landscape is increasingly defined in relation to two centers of gravity. There is a left-wing, state-oriented center around the PT and a more conservative, economically liberal center around the PSDB. However, in terms of the legitimacy of parties, longitudinal indicators suggest that there has been little change over the past decade. Latinobarómetro data from 2013 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 34% think that democracy could work without political parties.

Brazil's network of interest groups is relatively close-knit reflecting most social interests, 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.

Interest groups
8

Brazil is still one of the countries with the lowest support for democracy in Latin America, though approval rates have been rising since 2006. According to the 2013 Latinobarómetro Report, 49% of survey respondents agreed that democracy was preferable to any other form of government. Asked whether democracy, in spite of its problems, is still the best of all possible political systems, 81% of the respondents agreed that it was. Support for an authoritarian regime under some circumstances reached 19%, compared to 25% in 2000. Meanwhile, 34% said that democracy could work without political parties and without congress. The degree of satisfaction with democracy (people who are “very satisfied” or “quite satisfied” with democracy), which had increased from 38% in 2009 to 49% in 2010, dropped back to 37% in 2011 and 26% in 2013. Government approval dropped from 86% in 2010 to 56% in 2013. In January 2015, President Rousseff approval ratings dropped to their lowest point since she took office in January 2011. According to Datafolha, in January 2015 only 23% of respondents evaluated the management of the PT government as excellent or good, while 44% considered it bad or terrible. This was a significant drop from December 2014, when 42% of respondents felt their government was excellent or good and only 24% said that it was poor or very poor.

Approval of
democracy
7

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 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.

Social capital
6

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

Socioeconomic
barriers

6

Brazil exhibits a moderate to high level of human development according to key indicators. The country's HDI score for 2013 was 0.744 with Brazil ranked 79 out of 187 countries. In recent years, Brazil has achieved very rapid social progress. Thanks to 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 6.8% in 2012, 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%. The reduction in economic inequality during the 2000s demonstrates that the benefits of economic growth are being shared more widely today than in the past.

However, in spite of many reforms and remarkable social improvements, Brazil's inequality levels remain among the highest in the world and millions of people still live in poverty. Social exclusion is still pronounced and to some degree structurally ingrained. With a Gini coefficient of 52.7 in 2012, Brazil still shows one of the world's most unequal distributions of income. When discounted for inequality, the HDI falls to 0.542, a loss of 27%. In addition, national average measures as the HDI mask the great disparities between Brazil's relatively developed southern and southeastern regions, where conditions to some extent resemble those in industrialized countries, and the socioeconomically disadvantaged northern and northeastern regions, though imbalances 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 2013, Brazil had a Gender Inequality Index value of 0.441 and ranked 85 out of 149 countries. 51.9% of adult women have reached at least a secondary level of education compared to only 49% of their male counterparts, but female participation in the labor market is 59.5% compared to 80.9% for men. In addition, several studies have demonstrated that racial inequality is still a serious problem, and racism is an important element in understanding the overall framework of inequality. The high-income population is essentially white, while most Brazilians who live in poverty are black.

Economic indicators		2005	2010	2013	2014
GDP	\$ M	892106.8	2209399.7	2392094.5	2346118.2
GDP growth	%	3.1	7.6	2.7	0.1
Inflation (CPI)	%	6.9	5.0	6.2	6.3
Unemployment	%	9.3	7.9	5.9	-
Foreign direct investment	% of GDP	1.7	2.4	3.4	4.1
Export growth	%	9.6	11.7	2.1	-1.1
Import growth	%	7.5	33.6	7.5	-1.0
Current account balance	\$ M	13984.7	-47273.1	-81108.3	-103981.0
Public debt	% of GDP	68.5	63.0	62.2	65.2
External debt	\$ M	188364.5	352363.5	482469.8	-
Total debt service	\$ M	62905.8	45879.6	83318.2	-
Cash surplus or deficit	% of GDP	-3.6	-1.6	-	-
Tax revenue	% of GDP	16.5	14.2	-	-
Government consumption	% of GDP	18.7	19.0	19.6	20.2
Public expnd. on education	% of GDP	4.5	5.8	-	-
Public expnd. on health	% of GDP	3.5	4.2	4.7	-
R&D expenditure	% of GDP	0.97	1.16	-	-
Military expenditure	% of GDP	1.5	1.5	1.4	1.3

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

7 | Organization of the Market and Competition

Market competition has a strong institutional framework, but the informal sector remains significant. While some authors estimate the informal economy to reach more than 40% of the country's GDP, a paper presented by the UNDP in 2012 estimates that the informal sector represents only 15% to 20% of its GDP. According to a 2012 ILO study, the share of persons in informal employment in non-agricultural activities was 24.3% (20.1% of female workforce and 27.7% of male workforce). Pricing is largely unrestricted, but the government has controlled some important prices, such as electricity, fuel and transport tariffs. The use and transfer of profits is not regulated. The national currency, the real, is only partially convertible.

Market-based
competition

7

Brazil is open to and encourages foreign direct investment. 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. Some state-owned enterprises such as Petrobras are conceded preferential terms. Organizing new investment remains a quite bureaucratic process. According to the World Bank's Doing Business Report 2015, Brazil ranked 167 out of 189 economies for starting a new business. On average, it takes 83.6 days to start a business in Brazil.

In December 2011, President Rousseff sanctioned a new law amending several sections of the Antitrust Law and introducing significant changes to the Antitrust System. In particular, the new law restructured the antitrust authorities, introduced a new merger review process with more powers, a tighter definition of anticompetitive practices and stronger penalties. Antitrust concerns had long been seen as a domestic issue. However, the government introduced tighter regulation, bringing the country in line with antitrust practices in the United States and Europe, after multinationals became increasingly involved in Brazil. Merger review controls changed significantly with the new Antitrust Law. Proposed mergers must first be approved by the Administrative Economic Defense Council (Conselho Administrativo de Defesa Econômica - CADE). This change makes it easier for the regulator to collect information, because the parties involved have a vested interest in speeding up the approval process. One of the most significant changes in antitrust regulation has been CADE's greater efforts to consult with the courts. While before the agency's decisions were often overturned in the courts, the new strategy means that companies find it harder to appeal CADE's decisions. In 2013, CADE attracted attention by ordering Telefónica to reduce its market share to its pre-2010 level. The agency has also been investigating an alleged cartel in São Paulo's metro network involving Siemens and other global engineering companies. American Airlines and Alitalia were fined for operating an air cargo cartel between 2003 and 2005.

Anti-monopoly
policy

9

Brazil is an original member of the WTO and one of the organization's most active participants. The country considers the multilateral trading system to be at the core of its trade regime. Brazil aims to strengthen regional economic integration. As a founding member of the Southern Common Market (Mercosur), it has subscribed to preferential trade agreements with various Latin American countries. Together with its Mercosur partners, it reached preferential trade agreements with India and Israel. 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 taken steps to simplify and modernize its customs procedures, and 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 11.5% in 2008 to 11.7% in 2012. The country's average bound tariff in the WTO rates are between 0% and 55% for agricultural products, and 0% to 35% for non-agricultural products. Imports are also subject to a number of internal taxes. Brazil is an active user of anti-dumping measures. In mid-2012, there were 83 anti-dumping active measures. Most technical regulations concerning trade are based on international standards. A number of financing, insurance and guarantee programs are aimed to enhance the competitiveness of export-oriented companies. The country's Export Financing Program (PROEX) aims at providing access to credit for companies that would otherwise have difficulties obtaining it. The BNDES-EXIM program is a scheme of export credits to promote exports with local value added. 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. Since 2011, Brazil has increased its use of the tax system to provide advantages to domestic industries, sheltering them from foreign competition. This is mainly done through a tax regime that grants selective exemptions or reductions to taxes on domestic goods.

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. Banking infrastructure is strong and there is a functioning system of banking supervision. Capital markets are open to domestic and foreign capital. The banking sector is dominated by domestic financial institutions, with public banks having a significant share. Meanwhile, international investors have important roles in the capital and derivatives markets. In 2012, Brazil's financial sector was subjected to the IMF and the World Bank Financial Sector Assessment Program (FSAP). The FSAP asserted in 2012 that since 2002 the country's financial system had grown in size, diversification and sophistication. Financial sector assets doubled, while securities and derivatives markets expanded. Due to appropriate policy responses and built-in

Banking system

9

financial-system buffers, the country managed to get through the global crisis remarkably well. Although systemic risk is currently low, the Brazilian financial system operates in a challenging environment.

Macroeconomic stability, increased transparency and new financial services for low-income customers increased the number of individuals using services provided by financial institutions by 31% between 2007 and 2012 to a total of 121million individuals. The credit to GDP ratio rose from 25% in 2003 to more than 50% in 2012. This partially corrected the insufficient medium and long-term private credit supply to SMEs. Brazil's bank capital to assets ratio was 9.3% in 2013. Bank nonperforming loans amounted to 2.9% in 2014. Brazil's external solvency and liquidity positions remain strong, while the external vulnerability of the financial sector is low. The country has been experiencing sizable capital inflows over the past decade. Reserve requirements are higher than in other emerging economies.

8 | Currency and Price Stability

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. Responsibility for the formulation and conduct of monetary policy lies with the National Monetary Council (CMN), which is responsible for coordinating monetary and fiscal policies. The CMN sets annual inflation targets and monetary policy goals. Inflation and foreign exchange policies are synchronized with other economic policy goals and are institutionalized by the Central Bank of Brazil (BCB). The BCB is a largely independent federal institution under the organizational chart of the Ministry of Finance.

Over the last few years, annual inflation targets and the tolerance intervals remained stable at a target rate of 4.5% with a tolerance of +/-2 percentage points. However, the government found it increasingly difficult to keep inflation within this tolerance margin. After reaching 5.9% in 2013, the inflation rate ended 2014 at 6.4%, narrowly within the tolerance margin. The challenge has been the government's control over some very important prices, including electrical rates, fuel prices and transport tariffs. Administered price inflation in 2013 was only 1.2%, which meant that inflation at least remained within the tolerance margin. Since 2014, the government has been trying to readjust these prices. The BCB calculates that the administered prices will increase by about 10% in 2015. Therefore, it is likely that inflation in 2015 will exceed the higher tolerance limit, as it did in January 2015. For 2015, some analysts are predicting inflation of 7% or more.

Since 2011, monetary policy has been marked by repeated interest rate trend reversals. After repeated reductions, it arrived at 7.25% at the end of 2012, the lowest level since 1986. Since March 2013, the BCB began to raise the rate continuously, reaching 12.25% in January 2015.

Anti-inflation /
forex policy

8

In the aftermath of the international financial crisis, the Brazilian currency (the real) had started to appreciate vis-à-vis the dollar. Between 2009 and 2011, the real appreciated by some 20% in nominal terms against the dollar, arriving to a rate of close to 1.50 reals to the dollar. Since then, with the deepening crisis in Europe, the real has become more volatile with multiple devaluations. In 2013, the currency lost 13% vis-à-vis the dollar, continuing this trend throughout 2014. In early 2015, the dollar exchange rate fluctuated between 2.8 and 2.9 reals.

Since the Cardoso era, Brazil has mostly followed a consistent stability policy supported in part by institutional self-constraints, but during the last two years performance weakened significantly. According to the IMF, the macroeconomic policies from mid-2013 through December 2014 lacked consistency and undermined credibility. 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. Disciplined fiscal and monetary management and prudent macroeconomic policies paved the way for steady economic progress and the preservation of stability.

Since 2012, however, slowing revenue and growing real expenditure put Brazil's macroeconomic stability under pressure. The country's primary surplus before interest payments was 1.9% of GDP, thus missing the 2.3% target which had been reduced from about 3.1% at the start of 2012. In 2014, the primary fiscal balance plummeted to -0.6% of GDP. Government consumption was 22% of GDP in 2013, up from 21.3% in 2012 and the highest percentage since 2004. The government's policies also impaired its credibility among investors with Standard & Poor's and Moody's both downgrading Brazil's rating during 2014.

In 2014, Brazil's current accounts registered a record deficit of \$90.95 billion, well above the 2013 deficit of \$81.1 billion. The 2014 deficit was equivalent to 4.2% of GDP. The trade balance deficit and the increase in remittance of profits have especially contributed to this increase. During the last decade, the government's public debt management strategy has been quite successful. 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. Public debt in 2013 was equivalent to 34.3% of GDP, down from 36% in 2012. In 2014, however, gross and net public debt increased to 71% and 37% of GDP. The country's international reserves are still high, totaling \$374 billion in December 2014.

9 | Private Property

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. In 2014, registering property took an average of 32 days and 14 procedures.

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 the patented invention locally in Brazil within three years of patent issuance. Patent processing is still very slow: The average time a patent spends awaiting approval is eight years.

The government of President Rousseff included considerations of intellectual property in its Plano Brasil Maior, which includes measures such as tax relief on investments, an increase in the availability of credit and improvements to the regulatory framework for innovation. By investing in the consolidation of the intellectual property system, the government aims to contribute to the expansion of investments in R&D by providing a maximum of legal certainty for inventors.

For decades, state-owned corporations dominated nearly all economic sectors in Brazil. In the 1990s and early 2000s, the Brazilian government privatized state-owned enterprises across a broad spectrum of industries, including mining, steel, aeronautics, banking, energy, and electricity generation and distribution. The government maintains partial control over some previously state-owned enterprises, including energy giant Petrobras and power utility Eletrobras. According to the 2010 "pre-salt" legislation, Petrobras enjoys sole operator status for the development of all new oil discoveries. Although foreign firms are still anticipated to play a role in the pre-salt oil fields. Regulation of liberalized economic sectors was arranged through

Property rights
9

Private enterprise
8

framework legislation and in many cases assigned to newly established authorities that enjoy technical, financial and administrative autonomy.

The World Bank's Doing Business Report 2015 ranked Brazil 120 out of 189 countries overall. Foreign and domestic private entities are allowed to establish, own and dispose of business enterprises. Tax regulations do not differentiate between foreign and domestic firms. Foreign individuals or foreign-owned companies can purchase property in Brazil. Foreign investment in domestic airline companies is restricted to a maximum of 20%. The previous 49% limit on foreign ownership of cable TV companies was removed in September 2011. While the Lula government did not continue the privatization policies favored by its predecessors, the Rousseff government started an ambitious \$240 billion Logistics Investment Program (PIL) to draw in private capital and managerial expertise to upgrade the nation's physical infrastructure. The PIL includes projects in roads, ports, airports, energy and urban mobility.

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 two decades, 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. Total health spending accounted for 9.3% of GDP in 2012. Brazil ranks below the OECD average in terms of health expenditure per capita, with spending of \$1,109 in 2012, compared with an OECD average of \$3,484. Public funding sources accounted for 46% of health spending.

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 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. From 2003 to 2012, Bolsa Família coverage expanded from 16.2 million to 57.8 million people. Coverage increased from below 9% in 2003 to nearly 29% of the population in 2012. 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 2012, the program had added 2.8 million extremely poor people to a new, single list of potential welfare recipients. In March 2013, the last Bolsa Família Brazilian beneficiaries to be living in extreme poverty crossed the poverty threshold. Twenty-two million people have moved out of extreme poverty since the launch of the program.

Social safety nets

7

In spite of progressive social policies and affirmative action measures, equality of opportunity is still only partially achieved. Women are equal to men under the law. In education, the gaps between men and women have narrowed, and women on average possess higher educational attainments. Women's rights have expanded in the home, the work place and in land ownership. In 2014, women comprised 46.1% of the work force and earned about 74.2% of the income earned by men, up from 70.8% in 2003. Brazil imposed quotas on political parties, requiring that 30% of candidates be women. In 2014, 2,057 women ran for congress (30.45% of congress candidates) and 4,880 for state legislators (30.04% of state legislator candidates). However, women won a mere 51 of the 513 seats in the federal lower house and 11 out of 81 in the senate. Among a total of 171 candidates for Brazil's 27 state governorships, only 17 were women and only one woman was elected governor. While President Rousseff's cabinet, during her first term, featured a record number of female ministers (a total of 10, comprising 26% of cabinet members), less than half a dozen women are part of President Rousseff's second term cabinet.

Equal opportunity
7

While the law prohibits racial discrimination, the PT administration's social investment initiatives seem to have had only a limited impact 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. A sizable 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, 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. In 2014, black or brown workers earned, on the average, 58.0% of the earnings of white workers, up from 48.4% in 2003.

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 and by generally turning a blind eye to indigenous issues.

11 | Economic Performance

Brazil ended 2014 with disappointing economic growth rate estimated at only 0.2%, the lowest economic growth rate for the country since 2009. Industrial production contracted by 3.2% in 2014, while industrial employment decreased 3.2%. Investment activity and consumer confidence also declined. Inflation in 2014 was 6.4%, above the target rate of 4.5%, but below the higher tolerance limit of 6.5%. Brazil's reais weakened nearly 13% in 2014. The unemployment rate in the fourth quarter of 2014 was estimated at 6.5%. Over 2014, the unemployment rate stayed at 6.8%, down from 7.1% in 2013 and 7.4% in 2012.

Brazil registered its first annual trade deficit in more than a decade for 2014, ending the year with a deficit of \$3.93 billion, compared to a surplus of \$2.5 billion in 2013, already its smallest surplus in nearly a decade. The value of manufactured goods exported in 2014 fell nearly 14% from 2013. Worker productivity is low and many factory owners, content to supply the local market, have had little incentive to invest. Gross capital formation amounted to 18% of GDP in 2012/2013, down from 20% in 2010/2011. Foreign direct investment (FDI) totaled \$64 billion in 2013, or 3.6% of GDP, up from 3.4% in 2012 and 2.9% in 2011. In 2013, tax revenue added up to 23.5% of GDP. Deducting the inflation for 2013, the real growth in tax revenue from 2012 to 2013 was 4.08%. From January to October 2014, tax collection showed a growth of 6.75% compared to 2013. In 2014, Brazil was not able to achieve the target for the primary surplus of 1.9% of GDP. In the first nine months of 2014, central government revenue grew 7.2% from a year earlier, while spending increased 13.2%. The spending growth was largely due to a higher public investment, which expanded 34.1% in the year through to September compared to the same period in 2013, to 62.4 billion reais.

12 | Sustainability

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. Nevertheless, it has shown only 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

Output strength
6

Environmental
policy
6

projects. The country ranks third worldwide in terms of annual greenhouse gas emissions, accounting for 8% of the world's total. About 75% of Brazil's emissions come from rainforest clearing, as vegetation burns and felled trees rot. After enhancing law enforcement in 2008, deforestation actually slowed, hitting its lowest recorded level in the period between August 2010 and July 2011. In 2012, President Rousseff signed into law a review of Brazil's forest code. The review had been pushed in congress by agribusinesses for years. Critics say that the new code weakens many significant forest protection measures. In 2013, deforestation rose by 29% after eight years of progress in slowing the rate of tree clearance. The negative trend has continued in 2014. Critics complain that under Rousseff the government has put a lower priority on the environment and built alliances with powerful agribusiness groups.

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. The expansion of sugarcane crops to areas presently cultivated for soybeans represents a further threat because it may increase deforestation pressure associated with soybean crops in the Amazon region.

Brazil gets 46% of its energy and 89% of its electricity from renewables, of which the bulk comes from large-scale hydropower plants. The construction of new hydroelectric power plants requires the construction of dams and the flooding of large areas, thus altering the ecosystem. Shortly after taking office, President Rousseff authorized the construction of the highly controversial Belo Monte dam, a project which had first been proposed in the 1980s. While the government argues that 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. The government is combining its strategy of hydropower expansion in the Amazon with an increased reliance on fossil fuels. In its ten-year national plan, the Ministry of Mines and Energy expects more than 70% of energy investments to go into fossil fuels, much of it for offshore drilling, and only 9.2% of it for renewables. Not only are renewable sources like wind, solar and biofuels still marginal, but between 2008 and 2013, Brazil's investment in renewables fell from \$12 billion to \$3 billion.

During the last 15 years, Brazil has considerably increased its investment in education, from 3.5% of GDP in 2000 to 6.1% of GDP in 2011. Public spending on education increased from 10.5% of total public expenditure in 2000 to 19% in 2011. Spending has also become more equitable, through measures such as the provision of additional federal funds to poorer states. In recent years, Brazil has experienced impressive developments in education, especially concerning enrollment rates. The average number of years spent in education for adults aged 25 years or over increased from 6.4 in 2004 to 7.7 in 2013. During the same period, the proportion of the

population aged between 25 and 34 years that had achieved a tertiary education doubled from 8.1% to 15.2% of the respective population.

However, the most pressing educational problems related to the quality of teaching. This is demonstrated by the 2012 PISA study in which Brazil's primary education results were particularly dismal. The mean score of Brazilian students in mathematics, science and problem-solving were among the lowest of any participating country. The disparity in resources between socioeconomically advantaged and disadvantaged schools was one of the largest of any participating country. The mass demonstrations between 2013 and 2014 were partially a reaction to the miserable failings of the education system.

Against this background, a new educational law was finally passed after several years of discussions. In June 2014, Congress approved a National Education Plan, which will gradually increase educational expenditure to 10% of GDP. In order to finance this increase, 75% of profits from oil will be allocated for educational purposes. Twenty goals have been set for 2024, including the eradication of illiteracy; an increase in the number of spaces available in childcare facilities, high schools, professional education entities, and public universities; the provision of universal school care for children between four and five years old; and the availability of full-time schooling for at least 25% of middle-school students. Critics however point out that the problems cannot be solved solely by more money.

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 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. Gross expenditure on research and development between 2012 and 2014 was equivalent to 1.3% of GDP.

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. Although around 40 million people have overcome poverty since 2003 and extreme poverty has almost been eradicated, inequality and significant regional disparities continue to present major challenges. Close to 13 million people out of a total population of 201.5 million are unable to read or write. Illiteracy is an acute problem especially in the impoverished northeastern region, where 16.6% of the population aged 15 and over are unable to read. Furthermore, functional illiteracy continues to be a major problem throughout Brazil. 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.

Structural
constraints

5

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

Civil society
traditions

3

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, 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. In recent years, civil society has undergone a significant transformation. In 2013 and 2014, a wave of unanticipated public protests reflected a society shaped by new technologies, new ways of organizing, and people's newfound confidence in expressing their concerns and claiming their rights. Meanwhile, changes in international and domestic funding for civil society organizations over the last 10 years has increased instability and restructured the sector. Critics argue that in recent years, civil activism has been limited to rather small portions of the population, and particularly professional activists. In contrast, the OECD's Better Life Index states that there is a moderate sense of community and high levels of civic participation in Brazil. 90% of people believe that they know someone they could rely on in time of need.

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, racial inequality is still a serious problem. Brazil continues to be 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. Violence is no longer purely an urban phenomenon, but has spread to the countryside in recent years. 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 strongly 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 government's strategic priorities – fighting poverty and inequality, enhancing education, modernizing and enlarging the country's basic physical infrastructure, maintaining macroeconomic stability and promoting economic growth – largely correspond to the normative framework of the BTI. Overall, the government has striven to promote democracy and a market economy in Brazil. Yet, the role of the state in the economy is larger than liberal economists would recommend.

Beyond these general guidelines, Brazilian governments are obliged to present a mid-term plan (Plano Plurianual, PPA), which should guide the government's formulation of the annual budgetary law. These plans have increasingly become more strategic since the late 1980s. Theoretically, PPAs are accompanied by monitoring and evaluation measures, including evidence-based policy-making and regulatory impact assessments, but these remain underdeveloped or are undermined by a lack of coordination. The coordination of PPAs lies with a strategic planning unit close to the president. Rousseff's PPA for her first term, labeled the "More Brazil" plan, was for the period 2012-2015. It aimed to promote economic development, equality and participation. The plan also served as an umbrella for existing or newly created programs, such as the Growth Acceleration Program or Brazil Without Misery. However, these guidelines are occasionally put on hold due to short-term pressures or short-term policy implementation. As an example, the government has formulated tight fiscal policy objectives and inflation targets, but has not consistently been able to achieve these goals. Four successive years of low economic growth, disastrous manipulation of fiscal numbers, persistent inflationary pressure and excessive government intervention have reduced public confidence in the government.

In addition, frictions within the governing coalition have exacerbated issues in developing a coherent policy platform. During her first two years in office, Rousseff was able to successfully manage the governing coalition. She assembled an inner cabinet of moderate, competent and well-regarded advisors to run the government and proved herself 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. Nevertheless, as the economic situation has become increasingly difficult from 2013, Rousseff's economic approach became more dogmatic and her openness to advice from others decreased.

Question
Score

Prioritization

8

The government of President Rousseff has been committed to democracy, economic stability and social justice. Its strategic priorities were to further reduce poverty and economic inequality, enhance education, improve the country's basic infrastructure, and maintain economic growth and stability. The government was only partly able to implement its strategic priorities. During her first two years as president, Rousseff, a former career technocrat, showed unexpected leadership qualities. She launched several government programs in key political areas, including Bigger Brazil (Brasil Maior) aimed at strengthening the productivity and competitiveness of Brazilian industry; 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 Brazil Without Misery (Brasil Sem Miséria), which aimed to eradicate extreme poverty by 2014. The president dealt effectively with congress. She managed to negotiate differences within the governing coalition without making major concessions on public spending, which could threaten economic stability. She won congressional approval of an amendment that gave the executive more say in the allocation of the federal budget. She also managed to pass the so-called forest code, a controversial piece of environmental legislation. Rousseff distanced Brazil from her predecessor's accommodating policies on Iran, particularly on human rights. Rousseff also promoted human rights and government transparency, securing a new law on access to information, which opened official records to public inspection, and created a truth commission to investigate human rights violations that took place during the 1964-85 military dictatorship. The government was less successful in reducing urban violence and the general lack of security. Brazil's homicide rate stagnated at 22.7 murders per 100,000 inhabitants. The government had great difficulties achieving its economic policy objectives. However, unemployment has dropped to historically low levels, real wages have increased, domestic and foreign investment has expanded, and the country's physical infrastructure has been improved. Yet, the government repeatedly failed to meet its economic growth and inflation targets. It suffered a serious loss of credibility as a consequence of manipulation of fiscal accounting by the finance ministry. The president ended her first term in office with an economy on the verge of recession and low unemployment rates one of the few positive aspects in an otherwise bleak outlook.

Brazilian governments have proven 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. It also values the opportunity to discuss major policy issues and challenges in a multilateral context, and has shown that it is able to learn from the experiences of countries facing similar challenges. 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

Implementation
7

Policy learning
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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.

During her first term in office, President Rousseff's government demonstrated a general ability to learn, but its flexibility was limited. Despite a sluggish economy and many calls for tax reform, the government maintained its chosen path up to the 2014 elections. But, shortly after re-election, Rousseff demonstrated that she had understood the necessity for reforms. The formation of a new economically literate cabinet is clear evidence that she has learned from her first term, and has prioritized the consolidation of public finances and private sector confidence.

15 | Resource Efficiency

The government makes efficient use of most available human, financial and organizational resources, but fiscal and monetary management has worsened in recent years. 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. In 2014, Brazil's fiscal account was especially bad. The country's investment grade had been downgraded to the lowest possible investment grade ranking. Furthermore, Brazil had a nominal deficit in 2014 of over 6.5% of GDP. The performance of Brazil's economy was the worst of any emerging economy. Brazil had a primary deficit of 0.4% of GDP in 2014, the first primary deficit in nearly two decades. As a consequence, the exchange rate of the real reached its weakest point in the last ten years, worse than during the 2008/2009 financial crisis. Brazil's government debt is equal to 100% of GDP when indirect forms of debt are included, such as debts from pension schemes, and guarantees for state-owned companies and banks. Direct public debt was 57% of GDP in 2014, while indirect debt (i.e. guarantees for state-owned companies) was 26.3% of GDP and implied government support for banks was 15.1% of GDP.

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

Efficient use of
assets

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preparation and oversight. Participatory budgeting has resulted in important changes in the priorities followed by municipal government, thus helping to place citizens' preferences at the forefront of local policies. However, clientelistic patterns between administration and citizens have prevailed in a considerable proportion of the municipalities.

In theory, multi-year 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.

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.

Observers often criticize the high level of taxation and low quality of public spending in Brazil. 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. In the 2010 election, the governing coalition obtained the majority of seats in both houses of the legislature. The formation of a broad and very heterogeneous governing coalition ensured that important reforms could be passed, but important positions within the government and public administration had to be conceded to junior coalition parties to secure their support. The ideological spectrum of Rousseff's coalition ranged from left-wing to right-wing parties. The president allocated around 46% of cabinet positions to the PT and 37% to the catch-all Brazilian Democratic Movement Party (PMDB). Notwithstanding the nominally comfortable majority of the ruling coalition, the president has had difficulty ensuring congressional support for her proposals.

Policy
coordination
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Supposed allies have disobeyed Rousseff, weakening or delaying governmental policy priorities.

During the year 2014, conflicts between Rousseff's PT and the main coalition partner, the PMDB, increased. Many within the PMDB became increasingly dissatisfied with the role the PMDB was given within the government. They believed that the PMDB enjoyed much less influence on government policy than it was entitled to due to its share of the votes and parliamentary seats. In March 2014, demonstrating her independence, President Rousseff replaced outgoing ministers with politically affiliated technocrats, rather than the political designates demanded by the restive congressional bench of the PMDB. At the outset of Rousseff's second term in office, relations between the PT and PMDB were very strained.

Policy coordination inside the cabinet has more a hierarchic-bureaucratic character, with the chief of staff playing a significant role in centralizing decision-making within the presidency despite cabinet participation in the policy-making process. The coalition 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. As the Petrobras scandal demonstrated, the institutions are at least capable of uncovering and investigating corruption.

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

Anti-corruption
policy
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basic government records. Whether this 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. 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 consolidating democracy as a strategic, long-term goal of transformation. This includes the pursuit of a more equal and inclusive Brazil and establishing the country as an important actor in Latin American and global politics.

Consensus on goals

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All major political actors agree on the general goals of development and transformation. Reducing poverty, maintaining macroeconomic stability and fostering growth 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 (2003-2010) 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

has maintained Lula's priorities. During the 2014 election campaign, ideological differences between the two major political camps became evident. While the governing PT promised to continue its prioritization of social inclusion and interventionist economic policies, the opposition PSDB announced a series of public spending cuts, pro-business policies and tax reforms. However, after the elections, it became apparent that President Rousseff had changed course herself adopting a more economically liberal policy approach based on a fiscal adjustment program. In this respect, the government's economic policies at the beginning of Rousseff's second term do not differ greatly from the policies advocated by the PSDB and opposition presidential candidate Aécio Neves.

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. In some rural areas, powerful landlords still exert strong influence on 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

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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 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

Cleavage /
conflict
management

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The disturbing regional division of the country has begun to express itself in recent election results. While the government's policies are increasingly less favorably perceived in the southeastern states, the economic powerhouse of the country, the much poorer northeastern states continued to support President Rousseff and her party, the PT. This rich-poor divide was also a hallmark of the 2014 election campaigns and was further exacerbated by the presidential candidates' rhetoric.

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 (re)democratization. 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

Civil society
participation

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their demands and priorities for civic improvement, thus influencing through discussions and negotiations the budget allocations made by their municipalities.

Further new examples of civil society participation are 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 and involving representatives from both government and civil society. A wide range of public policy areas are covered by the conferences, including health care, 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 were broader, wider-ranging, more inclusive and more frequent, though their reputation has eroded somewhat in the past few years. As yet, there are no studies on the efficacy of the implementation of legislative proposals compiled with the participation of civil society organizations. However, the public protests since 2013 indicate that the established mechanisms for public participation in the policy-making process are insufficient.

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. 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 the period of military rule between 1964 and 1985. In December 2014, the National Truth Commission (Comissão Nacional da Verdade, CNV) presented its final report, after two years spent investigating thousands of cases of torture, extrajudicial killings, enforced disappearances and other violations. The CNV found that during the period of military rule a state apparatus of repression existed. This apparatus of repression was sustained by several governments, and was devised by the highest levels of the armed forces and executive branch. Unlike many of its South American neighbors, Brazil has not prosecuted those accused of human

Reconciliation

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rights violations during the period of military rule. A military-era 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 be prosecuted. In spite of this legal restriction, many human rights activists were hoping that the CNV's final report might pave the way to break the cycle of impunity, which contributes to fight the present cycle of violence.

17 | International Cooperation

The Brazilian government actively, though not always effectively, uses the support of international partners to implement its long-term strategy for development as outlined in the governments' mid-term plans. The most recent plan was Rousseff's "More Brazil" plan for 2012 to 2015. The country's political forces have applied multilateral and bilateral assistance directly to the intended target of the support, the main areas today being environment, education, health and renewable energy. 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 is guided by a vision of a more equitable, sustainable and competitive future. However, especially during the period under review, the Rousseff government also showed some policy inconsistencies, particularly concerning macroeconomic policies.

Effective use of support

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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 pursuit of social inclusion and macroeconomic stability. 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

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However, during the period under review, Brazil's credibility has been slightly undermined by the government's economic policies, the Petrobras scandal and the government's reactions to citizens' protests.

The Brazilian government actively and successfully builds and expands cooperative neighborly and international relationships. The country's regional policy is pragmatic and interest-driven. Since the 1990s, 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. 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. Brazil maintains good relations with all its neighbors, and is very interested in expanding and deepening bilateral cooperation.

Regional
cooperation
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Brazilian foreign policy is characterized by its preference for cooperative strategies, even with difficult partners such as Venezuela and Argentina. Brazil played an important role in launching the Southern Common Market (Mercosur) in 1991, the Union of South American Nations (UNASUR) in 2008, and the Community of Latin American and Caribbean States (CELAC) in 2011. In 2004, Brazil assumed the command of the U.N. mission in Haiti. Despite many regional initiatives, Brazil is not a dominant leader within South or Latin America politics. This is due to the tension within Brazilian foreign policy to balance its neighbors' desires for an active and constructive Brazil with their fears of Brazilian hegemony. Furthermore, Brazil rejects involvement in any form of regional institutionalization that might restrict its autonomy. Brazilian leadership in South America is also complicated by the divergent development strategies promoted by different countries. For example, while Chile, Peru and Colombia seek to promote bi- and multilateral free trade agreements, and are increasingly oriented towards Asia-Pacific, countries like Venezuela, Bolivia and Ecuador are extremely critical of neoliberal globalization and prefer state concentrated development strategies. In contrast, Brazil occupies an intermediate position. However, this Brazilian model is not accepted by any of its neighbors. The protection of its national industry remains a key goal of Brazilian foreign and trade policy. Brazil has the largest and most diversified economy in South America. The country's enormous domestic market is highly protected from foreign competition.

The Brazilian Development Bank (BNDES) has become an important player in the regional context. 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 physical infrastructure projects in other South American countries. However, the funds provided by BNDES are almost exclusively reserved for Brazilian companies. Thus the bank is not an instrument of regional convergence policy, but rather a tool to strengthen the Brazilian economy's leading role in South America. Unlike the Cardoso and Lula administrations, the government of President Rousseff has not engaged with new regional activities. Although it has largely continued the course of the Lula government, an increasing leadership vacuum in Latin American politics

emerged during Rousseff's first term in office. An inward looking president by temperament, especially when compared to her globetrotting and charismatic predecessor Lula, Rousseff's policy approach was highly selective. Her government focused nearly exclusively on issues related to regional stability and global economic policies that affected Brazilian interests.

Strategic Outlook

Brazil is currently in a difficult economic situation, which will require structural readjustment. The government has appointed an economic team to develop a clear strategic economic policy approach. Structural economic reforms and strong leadership are required to restore investor confidence and prevent the further deterioration of key economic indicators. However, the task before the government is very daunting. The new Finance Minister Joaquim Levy has set a primary surplus target of 1.2% of GDP for 2015. This will be an extremely difficult task, given that any surplus will be difficult to achieve. As the performance of key fiscal and industrial indicators in 2014 have been worse than projected, the depth of the necessary fiscal readjustment process might also be far deeper.

It is very important that the government present a strategy for regaining future economic growth. A key issue that this strategy needs to address is physical infrastructure. Public investment in physical infrastructure has typically been less than 2% of GDP. In particular, the national transportation infrastructure requires significant improvement, especially given that the 2016 Olympics will be hosted in Rio de Janeiro. The development of transportation infrastructure has lagged for many years and overcoming such shortcomings will be indispensable in driving future economic growth. The sustainability of future economic growth will also depend significantly on reforming the complicated tax system and a reducing the level of taxation.

The implications of the Petrobras scandal will continue to deeply effect Brazil's economic, financial and political structures. To overcome this scandal, there needs to be a radical restructuring of the company's board as well as the broader business sector, though this does not necessarily require privatization. However, the large size of the company represents a systemic risk to the entire economy. A possible structural reform of the company could involve giving individual units within the company greater autonomy and access to private capital.

Brazil's economic growth potential remains limited by the so-called *Custo Brasil*. In other words, the increased operational costs associated with doing business in Brazil. These higher operational costs make Brazilian goods more expensive than equivalent goods produced in other countries. Other significant constraints on economic growth include low savings and investment rates, the modest quality of public expenditure, inflexible labor institutions and legislation, and high interest rates. The quality of public expenditure is undermined by poor public sector management, weaknesses in planning and budgeting, and rigid institutional arrangements. Total public expenditure exceeded 40% of GDP in 2014. During the period under review, public spending has shifted toward government consumption and social security, and away from public investment. To improve public administration the government should adopt a joined-up approach to regulation, which engages the highest political institutions; improves coordination between ministries, agencies, regulatory institutions and the various levels of government; establishes an impact assessment system to monitor and evaluate new legislation; consolidates regulatory authorities'

autonomy and statutory functions, while increasing their powers and resources; and reinforces the strategic framework for regulatory planning and decision-making.

The government should continue to invest in education and health. While President Rousseff has announced a further significant increase in education spending, it is very important to ensure that spending improves the quality of education services. Recent international studies clearly demonstrate that more money does not automatically lead to better results.

For President Rousseff and her government, it is crucial that over the next two years they address the corruption scandals and build effective alliances within congress, if they are to win back public approval.