

London School of Economics

### **Developing Management Systems to Implement Priority Projects: The Case of “Brazil in Action”(A)**

Brazil in Action emerged on the scene in a year and a half after Fernando Henrique Cardoso's inauguration as president in January 1995. As revealed publicly in August 1996, the program designated 42 priority presidential projects, all with development overtones. About half were infrastructure projects, including major highways, port facilities, waterway transport systems, railroads, long-distance electrical transmission lines, and an international gas pipeline. The rest were major initiatives in the policy fields of health, education, housing, and sanitation. These various projects were grouped together, identified personally with the president, and publicized under the common banner of the Brazil in Action program.

This program represented a mid-point correction in the substance and style Cardoso's presidency. Until this point, the president's policy agenda was widely perceived as extending little beyond maintaining the hard-won macroeconomic stability that had been ushered in with the so-called Real Plan, introduced in 1994 while Cardoso was minister of finance in the government of Itamar Franco. Polls showed that the electorate expected that the country would finally move forward under the new president, after a long hiatus of severe economic and political difficulties. In the words of a government pollster, “Brazilians expected the new government to address the desire that Brazil develop, that it forges ahead, and that it no longer stagnates or worse, as had been the case before Fernando Henrique became president.” Brazil in Action thus represented a modest but visible shift towards a developmental policy agenda.

The program also represented a shift in the government's administrative processes. Until this point, the central coordinating agencies were only involved in major projects through performing planning, budgeting, and financial management functions. In 1995, during the first several months of the Cardoso presidency, the Ministry of Planning coordinated the formulation of a four-year plan for public investment and spending, in accord with constitutional requirements. That plan was comprehensive, including hundreds more projects than later selected for Brazil in Action. The budget secretariat of the same ministry coordinated the annual spending plan, which earmarked funds for the Federal share of infrastructure projects and social programs. The treasury secretariat of the ministry of finance decided when, if ever, to disburse funds for projects as for the rest of Federal activities. While these roles and responsibilities were not disrupted by Brazil in Action, the program deepened the involvement of central coordinating agencies, as well as the presidential staff, in the process of managing projects.

The outcome of this episode is difficult to sum up in a few lines. Suffice it to say at this point that the center of government – especially the ministry of planning – became capable of overseeing the implementation of a large number of major presidential priority projects. Underneath this capability was a functioning management system, built around project management principles, and augmented by subtle changes in budget execution

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procedures. Reflecting this capability, a large fraction of the priority projects were concluded according to plan. The president was delighted with the political dividends he derived from the program, which became the principal symbol of his first term of office. Finally, the episode set the stage for two further major efforts to improve public management, broadly defined. It did so, in part, by changing beliefs about the limiting factors on government performance in Brazil. Looking back on this episode in the light of the subsequent initiatives, a veteran senior official in the planning ministry observed: “I think that by implementing principles of management, Brazil in Action showed that the lack of results in the public sector, in large measure, does not stem from the lack of resources, but rather from the lack of management.”

### **Origins of Brazil in Action**

The conception, design, and launching of Brazil in Action was a result of several independent influences coming together at the same time. During his first year as president, Cardoso gave much thought to basic issues about the role of the state. These issues arose because successive governments had abandoned the strategy of import substituting industrialization in favor of trade liberalization, reduced subsidization of selected industries, and selective privatization. Many of the most intensively used instruments of microeconomic policy – such as tax breaks and credit subsidies – had been discarded. Yet, Brazil remained a country with prodigious social needs and regional inequalities. For many, these conditions seemed to call for a national project of development. Such a project had been completely off the agenda while the overriding concern of politicians and technocrats was to reestablish macroeconomic stability. With inflation suddenly coming under control in the run up to Cardoso’s election in October 1994, the big questions about the state and development resurfaced.

Cardoso wrestled with these questions in frequent dialogue with long-standing confidants, whose ties dated back to the president’s earlier career as an internationally prominent sociologist and a left-of-center public intellectual. By the end of 1995, Cardoso had reached closure: While priority would be given to stability, Brazil’s public sector needed to use its limited resources effectively to compensate for the shortcomings of market processes. These limitations were most convincing, he concluded, in infrastructure provision as well as health, education, and sanitation. Cardoso was strongly disposed to pursue an activist public policy in these areas, but was equally disinclined to fashion a national developmental project of the sort symbolized by the five-year National Development Plans of the 1970s and early 1980s. He was later known to say, “We have a national project, but it is a national project for a new reality. A deterministic national project was possible in the past, in a closed economy where the state was the principal investor, captured the country’s savings, and implemented its plan. That is no longer possible in a climate of stability, fiscal discipline, and international financial interdependence. Today, the national project is more a national *process* of development than a national project.”

During his first year in office, Cardoso enjoyed great popularity, with approval ratings exceeding 60 percent. Sustaining such a favorable position in public opinion was not taken for granted, however. None of the recent, democratically elected presidents had left office with much of their popularity in tact. To gain some insight into how to sustain presidential popularity, the president’s team cast back more than 35 years to the time of Juscelino Kubitschek, who served as president from 1955-60.

President Kubitschek was best remembered for transferring the Federal capital from Rio de Janeiro to the newly constructed planned city of Brasília in 1961. However, Brasília was only the capstone of a numerous projects, many of them involving infrastructure. As a presidential leader, Kubitschek was admired for his success in communicating with the mass public. A particularly effective message was that his government's efforts, including the construction of Brasília, were unified in a *Plano de Metas* (Plan of Goals). The idea caught on. In a book of memoirs, a finance minister under Kubitschek recalled a fishing trip during which the owner of a shop he visited made a point of showing him a notebook on which the phrase "Plano de Metas" was written in pencil across the cover. The shop owner told the former finance minister, "The president made a *Plano de Metas* for Brazil, and I made a *plan de metas* for my shop."

Kubitschek's *Plano de Metas* provided an important starting point for Cardoso's team as they sought to work out a governing strategy. The historical analogy led to the idea that Cardoso needed to be personally identified with development projects. Fernando Henrique would have to be seen visiting ongoing or completed projects, just as Juscelino had done, at that time usually traveling by car. The historical analogy also led to the idea that the current president's priorities should fall under a common, catchy name.

The historical analogy with the late 1950s and early 1960s was considered far from perfect, however. To carry out his projects, including Brasília, Kubitschek had bypassed the regular ministries of the Federal government. In effect, a parallel universe of non-ministerial bodies was established. These arrangements were broadly labeled "indirect administration." However, that model of public management had become discredited by the time the country's democratic elites wrote the 1988 Constitution. The archipelago of non-ministerial bodies had subsequently been reorganized, putting many of them out of existence. In general terms, the Cardoso entourage did not wish to challenge the constitutional bias in favor of direct administration. Indeed, circumventing the ministerial bureaucracy would have been blatantly inconsistent with his government's well-publicized "managerial reform of the state apparatus." The challenge for his government was therefore to carry out something like the *Plano de Metas* through the structures and people of the Federal bureaucracy.

### **Designing Brazil in Action**

The idea that Cardoso should become identified with a development agenda built around implementing priority projects took shape early in the president's second year in office. This idea coalesced after the political heavyweight, José Serra, resigned as minister of planning in June 1996 to run for mayor of São Paulo. Serra was succeeded by Antonio Kandir, who at the time was representing São Paulo in the lower house of Congress. Before entering electoral politics, Kandir had achieved distinction as a macroeconomic researcher and a sometime policy-maker. His ties to the president extended back to the 1970s, when Kandir worked within Cardoso's research institute, CEBRAP, on the economics of inflation. As the incoming planning minister with responsibility for the budget, Kandir's mandate included keeping the lid on Federal spending. However, his mandate did not stop there. As Kandir later recalled, "When Fernando Henrique invited me to serve as planning minister, he asked that I move forward all the projects that were in operation, and he told me that I was welcome to make new proposals."

From the start of the Cardoso presidency, the ministry's planning secretariat had been brimming with ideas, many of them concerned with crafting a suitable form of development planning within the Federal government. The secretary of planning was Mauro Marcondes, a senior career official on loan from the National Bank for Economic and Social Development (BNDES), the federal government's 50-year-old instrument of economic policy implementation and principal source of domestic long-term credit. A chemist and economist by education, Marcondes's specific background within BNDES included infrastructure development and strategic planning. At the ministry of planning, he and his staff were dissatisfied with conventional thinking about how to perform the planning role at the center of government. According to Marcondes, "When I became planning secretary, I already had a vision that the secretariat should not just conduct studies. It had to be a secretariat that took a position on important issues, proposed actions, and interacted vigorously with the sectoral ministries."

In pursuing this idea, Marcondes's assembled team decided to identify actions that could have a dramatic impact on production and development on a regional scale. Such actions would include big infrastructure projects, such as developing major inland waterways for transport purposes in several regions of the country. Many of these projects had been featured in the campaign manifesto on which Cardoso had run for the presidency. The secretariat also wanted to articulate a planning philosophy that was coherent with its substantive emphasis on infrastructure as well as responsive to widespread skepticism about national planning.

Within a few months of Cardoso's inauguration in January 1994, Marcondes's secretariat had settled on the idea of planning "axes of national development and integration." The axes idea was already gaining ground in elite circles and in BNDES, thanks to the steady efforts of its highly visible progenitor, Eliezer Batista, former president of the innovative state-owned mining and logistics company, Companhia Vale do Rio Doce (CVRD), who had served as secretary of strategic issues in the government of Fernando Collor. An axis of development was a variation on Batista's initial concept of forging transport corridors between inland locations of economic activity and major ports. This concept became broader at the hands of a senior member of the planning secretariat, Ariel Pares, who wished to give national planning a strong territorial dimension, as in France, where he had studied for five years. This approach, as it developed, was politically advantageous, as well, since it did not conjure up the specter of sectoral economic planning, akin to Brazil's National Development Plans of the 1970s. Even so, enthusiasm for the embryonic axes approach to planning apparently did not extend to the planning minister, José Serra.

On the heels of this reflective period, the planning secretariat turned its full attention to preparing the government's proposed multi-year expenditure (or investment) plan for 1996-1999. Under terms of the 1988 Constitution, Article 165, the president was obliged to submit such a plan (known as the *Plan Pluri-annual* or *PPA*) to Congress, where it would be debated and voted upon. The intense process of formulating the PPA involved more than 350 people from across government. The proposed goals and actions were initially formulated by groups of technical specialists, advisers, and managers who worked in the sectoral ministries. These inputs were then vetted by cross-ministerial working groups, convened by the planning secretariat, whose task included selecting out goals and actions that would have a significant policy impact from those that would play a supporting role. The result was an articulation of the government's major guidelines. As a consequence of giving priority to forming

consensus on main goals and actions from a whole-of-government perspective, the planning secretariat did not formulate an outline of the Federal budget for the coming four years, as some in Congress had expected. Instead, the official version of the *PPA*, sent to the Congress, identified goals and actions to deal with public policy problems, without reference to expenditure levels or the ministries responsible. The *PPA* also identified “strategic investments” – not necessarily to be funded by the Federal budget. These strategic investments were grouped according to axes of national development and integration, despite Serra’s lack of enthusiasm for the underlying idea. “If we hadn’t had this critical mass of reflection and had not begun to view planning from a territorial point of view,” according to Marcondes, “we would not have done the *PPA* in the way we did.”

With the *PPA* complete, Marcondes began to think about the role that the secretariat could play in implementing the strategic investments. One idea was to construct a database of projects. The task was to compile information about all current and possible future investment projects, with a view to helping to select ones that would be implemented. The information system developed at the hands of secretariat staff members, who were on loan from the state-owned commercial bank, the *Banco do Brasil*, which had embarked on introducing information technology into its managerial and operational activities years earlier. Marcondes also began to work towards the concept of “a collection of projects that would have a management system, monitoring, and prioritization within the budget, so that they would be implemented by the end of the president’s term.” He failed to sell the idea to Serra. When Serra left the ministry to run for mayor of São Paulo in June 1996, Marcondes shared the same thoughts with his successor. “Kandir picked up the idea,” he later observed.

Kandir entered office convinced that the government would face political difficulties if it continued to be perceived as entirely preoccupied with short-term macroeconomic concerns. Substantively, he became committed to addressing infrastructure problems, because of their symbolic importance and potential impact on development. His immediate agenda included the practical concern of implementing projects in a timely and efficient manner. On his first day as minister of planning he asked for status reports on the projects that were supposed to be in operation, given their inclusion in the multi-year plan. The information served up the next day struck him as patchy, out of date, and obtained from dubious sources. Kandir’s summary assessment was that the ministry possessed a “mountain of totally useless data.” What they needed, he asserted, was up-to-date information, provided by individuals with project responsibility, on a selection of important undertakings.

It was common knowledge that getting projects done on time in Brazil was immensely difficult. Many projects required consistent action by more than one line ministry, one or more state-owned enterprises, one or more state governments, private firms, and the treasury secretariat of the finance ministry. Coordination was not necessarily spontaneous. In terms of information flows, the bureaucracy operated in a compartmentalized manner. Officials’ principal loyalties attached to their ministries. Ministers, meanwhile, did not necessarily form a cohesive government, since they were drawn from different parties.

The government’s fiscal predicament was another well-known source of difficulty. Annual budgets operated as a ceiling on spending, but were rarely executed as authorized. The level and timing of disbursements depended on such volatile variables as the level of tax receipts, interest rates, and fiscal targets. Uncertainty about disbursements, brought on by such factors, exacerbated the coordination problems and tended to cause delays. In Kandir’s



words, “The resources available for the public sector were not so much scarce as extremely variable. What’s really troublesome for a project is not to have certainty that it is going to progress through all of its stages. This lack of confidence was the source of many problems in implementing projects.” This situation reinforced Kandir’s inclination to give special administrative status to the Brazil in Action projects. The president would have to say that *his* priority projects would not suffer from budget cutbacks. In sum, Kandir settled on the view that three conditions were necessary for implementing projects: “To have money guaranteed, mechanisms of communication, and people who thought about their projects 24 hours a day.”

As planning minister, Kandir shared responsibility for coordinating ministerial activities with the Minister-Chief of the Civil House (*Casa Civil*) of the Presidency of the Republic, Clóvis Carvalho. Carvalho and Kandir easily found common cause in fashioning a way to move the priority projects forward expeditiously. They were both from São Paulo, educated as engineers, had long been active in the Brazilian Social Democratic Party (PSDB), and had working experience in both government and the private sector. Known informally as a kind of prime minister, Carvalho had set up a system of cabinet committees, in such areas as economic policy and infrastructure, to achieve some alignment among government ministers, many of whom belonged to Cardoso’s broad center-right governing coalition but not to the PSDB.

Carvalho was also deeply involved with the managerial reform of the state apparatus, an initiative being vigorously pursued by the minister for federal administration and reform of the state, Luiz Carlos Bresser Pereira (Gaetani 2004). On this issue, Carvalho was of two minds. On the one hand, he favored a managerially oriented public administration; on the other hand, he did not think that Bresser Pereira’s proposed structural changes would lead directly to results-oriented public management practice. Complementary changes in people and processes were, in his vision, required. From where Carvalho sat, Kandir’s effort could be made to dovetail with Bresser’s managerial reform. Indeed, he thought that specific efforts were needed to foster on results-oriented management in practice.

In preparing to head the ministry, Kandir tapped into his extensive professional network, asking José Paulo Silveira to serve as his secretary for state-owned enterprises. Kandir came to know Silveira in the early 1990s when he had been secretary of economic policy in the government of Fernando Collor. At the time, Silveira was directing a massive Brazilian Program of Quality and Productivity that involved thousands of firms trying to adapt to the country’s rapid trade liberalization. In this role, Silveira widened his reputation as a highly skilled leader of major project-like undertakings, previously earned while employed by the state-owned oil major. During his long career at Petrobrás, Silveira had reengineered the company’s procurement systems, directed the research and development department when the company was studying how to drill offshore at unprecedented depths, and headed the strategic planning unit when the state-owned enterprise was preparing for the end of its legal monopoly in the upstream domestic petroleum sector. As head of the Brazilian Program of Quality and Productivity, Silveira made an impression on Kandir for what the minister considered “his clarity of vision, from the point of view of the planning process – his organized thinking.... Perhaps because of our common engineering background, I immediately felt a strong identity with Silveira.” Contact between Kandir and Silveira continued after both left government, in connection with Cecrisa, a firm in the ceramics industry, where Kandir served as a non-executive director and Silveira as director of development.

Silveira demurred on the offer to be secretary of state-owned enterprises. Meanwhile, he participated informally in discussions over project selection for what was to become Brazil in Action. According to a close observer, Silveira found himself in immediate agreement with the view that planning should involve selecting strategic projects and also strategic management within government itself. In this context, Silveira pressed the argument that the government needed to introduce a genuine managerial process in order to achieve project results. More specifically, he argued that:

Each project should be organized according to the principles of project management. Each should have a stated purpose, objectives, physical programming, and financial programming. Each project should have a manager, an explicitly identified individual. The ministry of planning should monitor these projects. And, finally, this model would have to be seen as the president's program and not that of the ministry of planning. Otherwise the structure of power would not permit it to operate.

As it happened, Mauro Marcondes accepted a position at the Inter-American Development Bank in Washington, D.C., within weeks of Kandir's arrival at the planning ministry in June 1996. Revising his initial offer, Kandir asked Silveira to succeed Marcondes, with specific responsibility for creating a management system for the presidential priority projects. He replied, "Now you're talking about something that really interests me." Like Clóvis Carvalho, Silveira was attracted to "the fantastic challenge" of "transforming a bureaucratic style of management into a managerial style oriented to results, that is, to introduce entrepreneurship into the public administration." He thought project management principles could be applied across the entire Federal government, making Brazil in Action a pilot experience. Silveira accepted Kandir's offer.

During the June-September period, events moved quickly. At the end of June, Kandir, joined by Silveira, presented the proposed program to the president during a low-profile session at Cardoso's home in São Paulo. As presented, the program would consist of no more than 50 presidential priority projects to be administered through a system of project management. These projects would be the president's projects, not just projects of the government. About half would be infrastructure projects, with the other half social programs. Priority infrastructure projects would be ones that promised a significant economic impact, while satisfying political sensitivities concerning geographic distribution. Once selected, priority projects would be sheltered from budgetary cutbacks, barring a major fiscal crisis. The presidency's media and social communications operation would seek to position the program in the public mind as a concerted effort by the president to direct the action of government to develop the country in tangible ways. Administratively, each project would be headed by a project manager, a conceptually new role within the ministerial bureaucracy. The role of project managers would include not only monitoring the status of projects, but also taking the initiative in removing foreseeable obstacles impeding their on-time completion. Project managers would report regularly on project status and issues requiring attention and resolution. The ministry of planning would closely monitor projects on behalf of the president. If its executives failed to resolve coordination problems, they would be able to elevate them to the presidency – to Clóvis Carvalho at *Casa Civil*, in the first instance. As Kandir recalled, "the president liked the project." By the end of the meeting, Kandir had received the president's go-ahead to proceed.