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Development Lending and Debt Discipline: The Political Economy of External Finance in Brazil

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ABSTRACT

This article examines Brazil's External Financing Commission (COFIEEX), a centralized body that approves all public-sector external borrowing and exemplifies efforts in middle-income democracies to reconcile fiscal restraint with the demands of strategic public investment. Drawing on original analysis of project-level data from 1980 to 2022, the study shows that COFIEEX has successfully enforced Brazil's conservative stance on external debt, maintaining public external debt below 10% of GDP through most of the past two decades. However, its capacity to act as a driver of development finance has been constrained by institutional risk aversion, rigid fiscal thresholds, and political incentives favoring highly visible infrastructure over less politically rewarding sectors such as sanitation. Despite these limitations, the article highlights COFIEEX's important role in structuring Brazil's relationships with bilateral and multilateral lenders, whose technical expertise reduces project risk and can help crowd in private investment. The Brazilian experience underscores the trade-offs inherent in centralized debt governance under fiscal orthodoxy, illustrating how institutions like COFIEEX prioritize fiscal stability even when developmental needs remain unmet. The article contributes to broader debates on global development finance, showing how institutional design and bureaucratic practice mediate the relationship between fiscal discipline and external investment in federal middle-income democracies.

1 | Can Debt Governance Drive Development?

In middle-income economies, the pursuit of fiscal stability frequently collides with the need to expand public investment in infrastructure and services. In Brazil, this tension is particularly pronounced. Since the 1980s debt crisis, the country has built a robust institutional framework to manage public debt—especially external borrowing—while grappling with a widening infrastructure gap and chronically low levels of public investment (Amann and Baer 2006; IMF 2020; Fall et al. 2024). In federal systems like Brazil's, these challenges are further magnified by concerns that subnational governments may undermine national fiscal discipline. Scholars of fiscal federalism note that federations, especially in developing contexts, are more prone than unitary systems to fiscal crises (Rodden and Wibbels 2002). To contain these risks, many countries have established centralized

oversight bodies that regulate public external borrowing, including that of subnational governments, in order to enforce national debt discipline (Ter-Minassian 2023; Wheeler 2004).

At the heart of Brazil's system lies the External Financing Commission (COFIEEX), which approves all requests for external loan financing contracted by Brazilian public entities—federal, state, or municipal—from multilateral development banks (MDBs), bilateral lenders, and other foreign sources (Decreto No. 3,502, 2000; SEAID 2024). While COFIEEX plays no role in managing domestic public debt or broader fiscal policy, it exerts considerable influence over the volume, composition, and strategic direction of external borrowing (Ministério do Planejamento e Orçamento 2024). Established in 1990 and reorganized in 2000 alongside the Fiscal Responsibility Law (FRL), COFIEEX has since operated with a dual mandate: to uphold Brazil's

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conservative stance on foreign borrowing and to allocate scarce external resources to strategically important projects (Decreto No. 9,075, 2017; Secretaria de Assuntos Internacionais 2017).

Focusing on Brazil as a paradigmatic example, this article explores the extent to which centralized public debt commissions like COFIEIX can align fiscal discipline with strategic development financing in middle-income democracies. Mazzucato (2015; Mazzucato and Macfarlane 2023) emphasizes the need for “mission-oriented” institutions capable of steering finance toward long-term societal challenges, while others stress strict debt ceilings and prudence (Chang and Grabel 2004). COFIEIX sits squarely at this crossroads, enforcing low external debt thresholds—averaging below 10% of GDP over the past two decades, far lower than many peers (World Bank 2024a, 2024c; UN, 2023) – while attempting, often with limited success, to direct external resources to socially valuable but politically underfunded sectors.

The trade-offs are evident. COFIEIX’s strict fiscal filters have at times constrained investment in sanitation and other underserved areas, even when formally prioritized (Batley and Harris 2014; Huber Pessina et al. 2022). Regional disparities also persist: while the Northeast has the greatest development needs, the Southeast continues to capture a disproportionate share of foreign-financed infrastructure.

Drawing on original analysis of project-level data from 1980 to 2022, as well as documentary evidence on COFIEIX’s evolving mandate, we argue that the commission has been highly effective at containing external debt and enforcing fiscal orthodoxy, but its developmental role has been more constrained. Legal thresholds, political incentives, and bureaucratic caution have kept its mission-oriented potential in check. However, its partnerships with MDBs, particularly when they bring technical expertise and risk mitigation, offer a pathway to enhance its contribution to strategic investment.

The article proceeds as follows. Section 2 reviews the literature on fiscal federalism, centralized debt control, and the developmental role of MDBs. Section 3 sets out the methodology, highlighting the article’s original analysis of *Painel COFIEIX*, a scarcely used public database. Section 4 examines COFIEIX’s operational role in debt approval. Section 5 explores patterns in external borrowing by sector, lender, and region. Section 6 discusses COFIEIX’s effectiveness in balancing fiscal responsibility with development goals, followed by a conclusion.

2 | Centralized Debt Governance in Middle-Income Democracies

Reconciling fiscal orthodoxy with developmental ambition has been a persistent dilemma for middle-income countries since the debt crises of the 1980s. Many governments adopted conservative macroeconomic frameworks to contain public liabilities, but these often constrained long-term investment in infrastructure and social services essential for inclusive growth (IMF 2018; Andres et al. 2022). The resulting tension between debt containment and development finance remains central to contemporary debates on state capacity and economic governance.

In federal systems, the problem is intensified by the fiscal behavior of subnational governments. Scholars of fiscal federalism argue that federations are more prone to crises than unitary systems because states and municipalities combine strong electoral mandates with limited fiscal capacity (Rodden and Wibbels 2002). The risk that subnational borrowing may undermine national stability has generated enduring suspicion from central authorities. Classic work shows that fragmented borrowing creates moral hazard and weakens budget constraints (Bayoumi et al. 1995; Dafflon and Beer-Tóth 2009). In response, countries such as Argentina, Brazil, Colombia, and Mexico have developed centralized oversight mechanisms tasked with enforcing aggregate discipline and preventing crises (Ter-Minassian 2023; Wheeler 2004; Hawkins and Turner 2000).

These centralized arrangements often share two broad functions. First, they limit borrowing by conditioning access to sovereign guarantees or credit markets on fiscal performance, embodying the logic of restraint. As Chang and Grabel (2004) argue, developing countries should “enforce ceilings” on external borrowing and centralize authority over the “allocation and terms” of debt, ensuring that national macroeconomic priorities override subnational pressures. Second, many such mechanisms aspire to allocate scarce external resources to priority sectors. In this sense, these mechanisms also perform what the “mission-oriented finance” literature describes as a steering role, ensuring that resources flow toward transformative projects and national priorities (Mazzucato 2015; Mazzucato and Macfarlane 2023). According to this perspective, Multilateral Development Banks (MDBs) and State Development Banks (SDBs) are seen not just as financiers but as actors capable of addressing societal challenges. Centralized debt control arrangements in developing countries are therefore often situated at the intersection of these logics: they are mechanisms of fiscal discipline that simultaneously function as strategic planners of investment.

Brazil illustrates this broader pattern but also departs from it in a distinctive way. Like many of its peers, it has a central debt management office located in the National Treasury of the Ministry of Finance, which oversees bonds, domestic liabilities, and the overall debt profile. In addition, however, Brazil established the External Financing Commission (COFIEIX) in 1990, a separate body that was later reorganized in 2000 alongside the Fiscal Responsibility Law. COFIEIX approves all external public loans contracted from MDBs and bilateral lenders, acting both as a fiscal gatekeeper and as a filter for strategic development projects (Decreto No. 3,502, 2000; Secretaria de Assuntos Internacionais 2017). Its remit is confined to foreign loans—not bonds or other debt instruments—which gives it a sharper focus on the trade-off between debt containment and the allocation of international development finance. Moreover, COFIEIX is unusual in combining fiscal discipline and development prioritization within a single body, while also managing Brazil’s relationship with MDBs and bilateral lenders through a highly institutionalized mandate.

The operation of such debt management mechanisms demonstrates recurring trade-offs. Fiscal conservatism frequently restricts borrowing for high-need but low-return sectors. In Brazil, for instance, sanitation has long been listed as a national priority, yet it accounted for only 5.3% of approved external loans

between 2000 and 2020, as political incentives favored more visible infrastructure (Batley and Harris 2014; Huber Pessina et al. 2022). Centralization also does not guarantee equitable distribution. In several federations, including Brazil, wealthier regions with stronger fiscal capacity and administrative resources capture a disproportionate share of foreign-financed projects, while poorer regions lag behind. Institutional design is crucial: the weighting of fiscal health versus developmental criteria in project evaluation frameworks determines whether discipline or investment prevails, with the balance typically skewed toward orthodoxy. Access to international capital markets further conditions these dynamics, as graduation to upper-middle-income status reduces access to concessional finance (Milani et al. 2017) and domestic sources such as Brazil's BNDES often dwarf foreign financing in volume (Fall et al. 2024), limiting the developmental scope of centralized commissions even as they preserve macroeconomic prudence.

3 | Methodology

This article combines original quantitative analysis with institutional document review to examine how centralized oversight bodies manage the trade-off between fiscal discipline and strategic investment. The core empirical contribution is based on *Painel COFIEIX*, a public database launched in 2019 as part of Brazil's broader transparency initiatives following the 2011 Law on Access to Information. Although the database includes historical records dating back to 1949, this study focuses on the 1980–2022 period, when data coverage becomes systematic and comparable, especially after COFIEIX was formally established (1990) and later reorganized under the 2000 Fiscal Responsibility Law.

The dataset provides project-level information on all approved external loans to federal, state, and municipal entities. For each project, it records borrower type, implementation phase, sector, lender, loan value, counterpart contribution, and approval date. Projects are included here only if they are marked as being in the Execution, Repayment, or Finalized phase, thereby excluding inactive or unimplemented initiatives. The analysis distinguishes two periods: the pre-FRL era (1980–1999), which covers both the decade before COFIEIX's creation and its early years of limited authority, and the FRL era (2000–2022), during which COFIEIX functioned as a centralized fiscal and investment filter.

To trace sectoral priorities and borrowing patterns, the analysis adopts the classification developed by Huber Pessina et al. (2022), who coded COFIEIX projects into categories based on the National Classification of Economic Activities (CNAE). These categories allow disaggregation across infrastructure, economic development, fiscal restructuring, and other key areas. Projects are also grouped by borrower type (federal, state, municipal) and lender type (MDBs, bilateral agencies, others), enabling assessment of both distributional effects and lender preferences.

Documentary sources complement the quantitative data. Official COFIEIX documents, including presidential decrees, ministerial resolutions, and meeting summaries, are used to trace the commission's evolving mandate and reconstruct its

procedures for project evaluation. Particular attention is given to the 2000 reorganization following the passage of the Fiscal Responsibility Law, and to Resolution No. 1 of 2017, which introduced a formal scoring system for project appraisal (Secretaria de Assuntos Internacionais 2017). This ten-point system codified fiscal, technical, and strategic criteria, adding a redistributive dimension through the Human Development Index. In November 2024, a new resolution significantly altered the scoring framework. Because the dataset covers only through 2022, these recent changes fall outside the scope of the empirical analysis, though their implications are noted in the discussion.

4 | COFIEIX's Operational Role: Centralized Oversight and Project Prioritization

COFIEIX was created by presidential decree in 1990 during the Collor administration, as Brazil emerged from the turbulence of the 1980s debt crisis. Initially conceived as a broker of opportunities, it identified projects that could be financed by multilateral and bilateral institutions (Decreto No. 99,241, 1990). At this stage, the commission had no formal fiscal oversight role. This changed in 2000, when the Fiscal Responsibility Law (FRL) under President Fernando Henrique Cardoso redefined its mandate. A new decree tasked COFIEIX with vetting all public-sector foreign loans and establishing the annual ceiling for external borrowing (Decreto No. 3,502, 2000). From that point, COFIEIX became the centralized institution responsible not only for evaluating proposals but also for determining which projects would receive Treasury-backed guarantees. These guarantees allowed Brazilian entities to access international loans at interest rates typically between 3% and 5%, compared to market rates of 7%–10% (Ministério do Planejamento e Orçamento 2024; Kessler 2022).

The approval process begins with a project submission by a public entity—federal, state, or municipal—which COFIEIX evaluates. If approved, the proposal is forwarded to the National Treasury, which determines whether a sovereign guarantee will be granted before moving to the Federal Senate for authorization. Senate approval is generally procedural, while Treasury guarantees constitute the decisive fiscal filter. Although loans without guarantees are possible, they remain rare and usually involve bilateral lenders willing to assume higher risk, such as the French Development Agency (Jalles d'Orey 2020).

COFIEIX's authority expanded further in 2017 with Decree No. 9,075, which gave the commission formal responsibility for defining strategic sectors eligible for external financing. Resolution No. 1, issued that same year by the Ministry of Planning's Secretariat of International Affairs, codified the project evaluation framework through a ten-point scoring system. This reform consolidated COFIEIX's dual role as both fiscal gatekeeper and strategic planner (Secretaria de Assuntos Internacionais 2017).

Under the scoring system, projects were assessed across five weighted criteria. The first two, each worth up to two points, measured fiscal health: "Payment Capacity," based on the Treasury's tax score for the entity, and "Trajectory and Debt Level," based on debt-to-revenue ratios. The third criterion, "Program/Project Analysis," also worth two points, evaluates

feasibility and implementation capacity through fifteen technical sub-questions. Together, these criteria reflected concern with fiscal prudence and project viability. The fourth criterion, “Sector Priority,” carried the greatest weight, up to three points. Each year, COFIEIX defines priority sectors; in 2017 and 2019, sanitation and research and innovation were given top scores (COFIEIX 2019; Jalles d’Orey 2020). Finally, one point was assigned based on the Human Development Index of the area served, rewarding proposals in lower-HDI regions and adding a redistributive element.

This system, in place from 2017 to 2024, structured Brazil’s approach to external borrowing. It linked fiscal filters and project feasibility to national development priorities, while introducing a modest equity dimension. By 2024, reforms further adjusted the weighting of criteria, strengthening the mission-oriented component of the framework. Although these changes fall outside the timeframe of our dataset, they highlight COFIEIX’s ongoing evolution into one of Latin America’s most institutionalized mechanisms for coordinating foreign borrowing. We briefly assess the 2024 reforms in the Discussion section.

5 | Data Analysis

To assess COFIEIX’s approach to balancing fiscal orthodoxy and strategic investment, this section analyzes all external financing aggregated under *Painel COFIEIX* between 1980 and 2022, supplemented by data from the World Bank, IMF, and the Central Bank of Brazil. We begin by identifying broad trends in annual loan approvals contextualized within changing macroeconomic and political conditions. We then disaggregate the data by lender type (MDBs, foreign SDBs, bilateral agencies, commercial banks), borrower (federal, state, municipal), and sector. The period begins in 1980 to allow for comparison across distinct institutional regimes: the pre-FRL period of ad hoc borrowing, and the FRL era marked by COFIEIX’s fiscally orthodox reorganization and strategic planning role. The selected timeframe captures both Brazil’s transition to democracy and the evolution of its external debt strategy, while enabling comparison across presidential administrations.

Annual external debt approvals (based on COFIEIX signature date) reveal several key trends. Foreign borrowing was minimal throughout the 1980s, largely suspended due to the debt crisis. Volumes increased during the 1990s but remained at modest levels amid the decade’s macroeconomic reforms and stabilization programs, peaking in 1999 as the country experienced a financial crisis on the back of the Plano Real stabilization efforts (De Paula and Alves 2000). Foreign borrowing by the Brazilian government fell sharply in 2000 and remained subdued until 2008. Although external financing rose between 2008 and 2015, COFIEIX capped public external debt accumulation at relatively low levels, even amid strong economic growth in the late 2000s and early 2010s. The 2014 economic crisis triggered sharp reductions in COFIEIX’s debt ceilings, pushing external financing from 2016 onward below 2000–2008 levels (see Figure 1; Painel COFIEIX, 2024). The dramatic decline in 2016 also reflected political instability during the Rousseff impeachment, while Temer’s interim government sought to signal fiscal responsibility by passing a constitutional spending cap (Holland 2019).

Annual Public External Financing

2024 USD (adjusted for inflation)



FIGURE 1 | Annual public external financing (1980–2022). Data Source: COFIEIX, IMF, 2024b; World Bank, 2024c.

Brazilian External Debt (Public vs. Private)

2024 USD (adjusted for inflation)

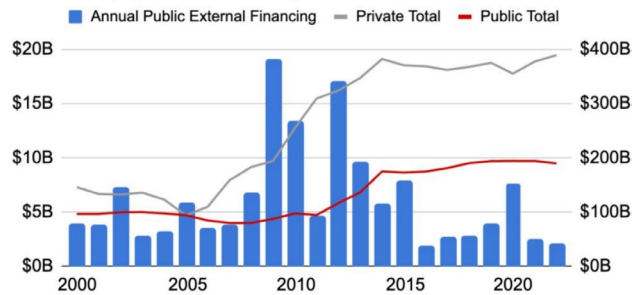


FIGURE 2 | Brazilian external debt: public vs. private (2000–2022). Data Source: COFIEIX, World Bank, 2024a, 2024b.

The turn of the century marked a decisive change in Brazil’s fiscal and macroeconomic framework. Under the Cardoso administration, inflation targeting and a flexible exchange rate regime stabilized the economy (Holland 2019). Soon after, the 2000 Fiscal Responsibility Law imposed stricter debt limits, particularly on subnational governments. Improved fiscal management was accompanied by export-led growth, allowing Brazil to achieve investment-grade status in 2008, even as the global financial crisis unfolded. Borrowing expanded from 2008 to 2015, shaped by countercyclical policies in the aftermath of the global downturn (Holland 2019) and the approaching conclusion of the Millennium Development Goals (MDGs), which encouraged donor campaigns to increase financing (Huber Pessina et al. 2022). The period also included Brazil’s four largest loans—three for Defense and one for Fiscal Equilibrium—which inflated totals and contributed to the spike in approvals. More broadly, the expansion coincided with the peak of Brazil’s commodity boom and a gradual weakening of the FRL’s effectiveness under political and economic pressures (Bonomo et al. 2021; IMF 2020). Growth slowed after 2012, when fiscal deficits widened, and ceilings were tightened once again.

Despite its increase between 2008 and 2014, public external debt remained low relative to domestic public debt and to rapidly expanding private external borrowing (Figures 2 and 3). COFIEIX’s rigorous oversight helped shield external accounts from the broader debt crisis that emerged in 2014, with the commission’s bureaucratic control largely succeeding where the FRL’s effectiveness diminished (IMF 2020). Yet this discipline came at a

Brazil's Public Debt as % of GDP

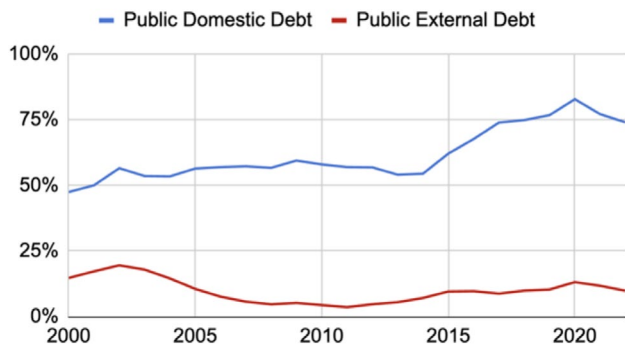


FIGURE 3 | Brazil's public debt as a percentage of GDP (2000–2022). Data Source: IMF, 2024a, 2024b; World Bank, 2024a, 2024b.

Annual External Financing by Lender

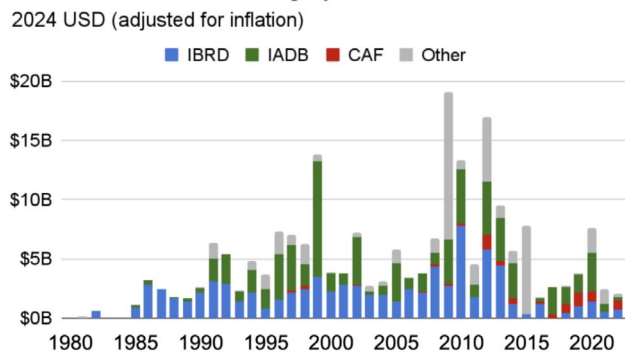


FIGURE 4 | Annual external financing by lender (1980–2022). Data Source: COFIEIX, IMF.

cost: much externally financed investment was forgone in order to maintain fiscal orthodoxy and low debt levels.

While borrowing volumes have fluctuated with macroeconomic cycles, the composition of Brazil's external lenders has remained relatively stable, as both national and subnational governments have consistently favored a small set of multilateral partners. Since the 1980s, the IBRD (World Bank) and the Inter-American Development Bank (IDB) have accounted for the majority of public external financing, providing 39% and 35% of total loan volume, respectively, between 1980 and 2022 (COFIEIX). Although Brazil collaborated with 22 lenders over this period, its reliance on these two MDBs is pronounced. However, the IBRD's share of loan volume has steadily declined from 45% (1980–2000) to 23% (2016–2022), a trend clearly observed in Figures 4 and 5. Meanwhile, CAF (Corporación Andina de Fomento) has emerged as a growing partner, providing 17% of external financing since 2016 (COFIEIX).

Brazil has also played a central role in establishing the New Development Bank (NDB) with its BRICS partners. The NDB allocated \$6.1 billion to Brazil for 21 projects between 2015 and 2023, though most remain in negotiation and thus do not appear in the COFIEIX dataset (NDB, 2023). Brazil's influence within the institution was underscored by the appointment of Marcos Troyjo and later, former President Dilma Rousseff as NDB presidents (NDB, 2024).

Annual External Financing (%) by Lender

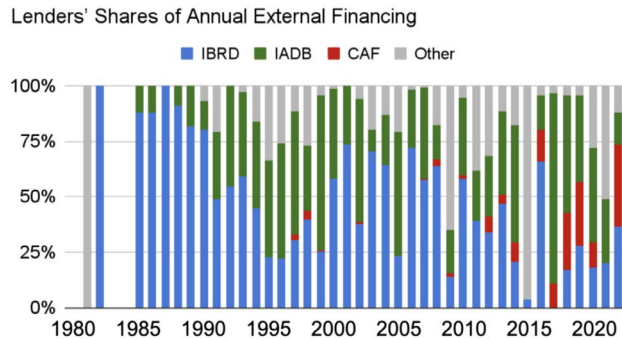


FIGURE 5 | Annual external financing (%) by lender (1980–2022). Data Source: COFIEIX, IMF.

TABLE 1 | New public external financing by level of government.

Period	Federal (%)	State (%)	Municipal (%)
1980–1989	81	19	0
1990–1999	65	31	4
2000–2009	68	28	4
2010–2022	30	59	12

Data Source: COFIEIX.

MDBs offer more than concessional financing. Their technical expertise and project oversight capacity can improve project outcomes and reduce risk for other investors. The World Bank, for example, has increasingly positioned itself as a global “knowledge bank” for development (Stone 2003). Such country-specific expertise and institutional relationships help explain Brazil's preference for IBRD and IDB partnerships. Brazil's concentration of partnerships is striking in the context of the global “proliferation” of development banks—approximately one new MDB every three years since 1945 (Kellerman 2019). As Ocampo has emphasized, the strength of development finance lies in a “dense system” of multilateral institutions, where global and regional banks complement one another (ECLAC 2023). In this vein, CAF has carved out a niche catalyzing financing for large infrastructure projects, exemplifying Prada's (2012) argument that subregional banks can quickly “catch up” to global peers.

The distribution of external loans across levels of government further illustrates COFIEIX's strategic role. Since 1980, state and federal entities have received the vast majority of financing (Tables 1 and 2), accounting for 94% of all loans, while municipalities captured just 6%. The federal government dominated borrowing in the early 2000s, but states surged ahead between 2008 and 2014. Over the full period (1980–2022), states completed the most externally financed projects (392), followed by the federal government (243) and municipalities (154). Federal projects were, unsurprisingly, larger in value, while municipalities tended to rely on smaller-scale borrowing.

After 2016, municipalities represented a significantly larger share of external financing—not because their borrowing increased, but because COFIEIX consistently reduced annual

TABLE 2 | Largest government borrowers, 2000–2020 (> \$1B).

Government entity	Approved external financing ^a
Federative Republic of Brazil	\$32.7B
State of São Paulo	\$9.0B
BNDES	\$7.9B
State of Rio de Janeiro	\$4.6B
State of Minas Gerais	\$4.1B
State of Bahia	\$3.4B
State of Ceará	\$3.3B
State of Pernambuco	\$2.5B
São Paulo State Sanitation Company (SABESP)	\$2.4B
State of Rio Grande do Sul	\$2.3B
State of Santa Catarina	\$1.4B
Municipality of Rio de Janeiro	\$1.4B
State of Amazonas	\$1.3B
State of Paraná	\$1.0B
Other states (<\$1B)	\$7.5B
Other municipalities (<\$1B)	\$6.5B
All other entities (public Banks, SOEs) (<\$1B)	\$4.6B
Total	\$95.9B

Data Source: COFIEIX.

^aBased on original loan amounts, not adjusted for inflation.

Accumulated External Financing by Level of Government

2024 USD (adjusted for inflation)

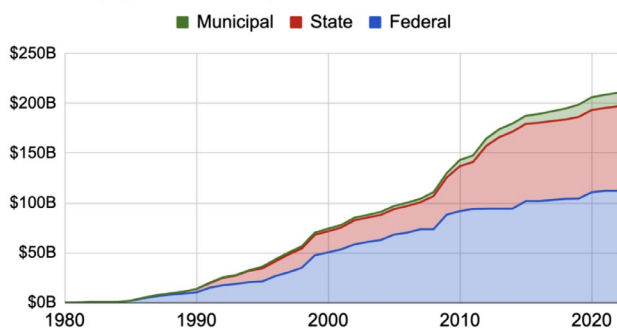


FIGURE 6 | Accumulated external financing by level of government (1980–2022). Data Source: COFIEIX.

ceilings for federal and state loans following the 2014 crisis (see Figure 6). Huber Pessina et al. (2022) argue this reflected the influence of the Sustainable Development Goals (SDGs), which emphasized “localization” of MDB lending (p. 269). This explanation is particularly convincing for municipalities (note the steep increase in the number of Municipality projects after 2014 in Figure 7), though state-level borrowing had already expanded from 2008.

Municipal borrowing has historically been limited in Brazil. A 2011 World Bank study noted that the federal government discouraged IBRD lending to municipalities except under special circumstances—such as simultaneous crises across multiple municipalities, the presence of significant externalities, or when a project would generate its own revenues (World Bank 2011, 28). The federal stance that MDB loans should be avoided when domestic sources were available, such as funds from the Ministry of Cities, almost certainly extended beyond the IBRD. More recently, however, the SDGs’ focus on subnational engagement appears to be encouraging greater MDB involvement with municipalities.

Regional patterns in subnational borrowing reveal persistent disparities. Between 2000 and 2020, 46% of all subnational external debt went to the Southeast, followed by the Northeast (27%), South (13%), North (8%), and Center-West (5%). While this roughly reflects population distribution, the Southeast received about five percentage points more than its demographic share (Instituto Brasileiro de Geografia e Estatística 2022). By contrast, the Northeast—despite facing higher poverty and wider infrastructure gaps—did not benefit from any such “premium.” This disparity is even more pronounced in external funding for infrastructure (Table 3).

Limiting our scope to projects considered *Economic/Financial Development*, the Northeast stands out, receiving 47% of public foreign debt between 2000 and 2020, compared to 31% for the Southeast (Table 4). Other regions trailed far behind (COFIEIX; Huber Pessina et al. 2022). This distribution better reflects the “mission-oriented” (Mazzucato 2023) development role of MDBs and COFIEIX in channeling the bulk of external development financing to Brazil’s most impoverished region. The strategic direction of funds is performed simultaneously with COFIEIX’s enforcement of debt ceilings, a function recommended by Chang and Grabel (2004).

However, further analysis of sectoral allocations shows the limits of strategic prioritization. Of the fourteen CNAE categories, just four dominate: *Infrastructure/Transportation/Housing*, *Economic/Financial Development*, *Fiscal Equilibrium* (often debt restructuring), and *Defense*. The *Defense* category consists of only three loans, one of which—Swedish fighter jets—was unusually large and financed by an export bank (note *Defense* category in Figure 8). *Fiscal Equilibrium* loans absorbed an average of 14% of public external financing in the early twenty-first century but declined after 2014, as the SDGs shifted donor and government focus to sectors such as environmental management and public administration reform (Huber Pessina et al. 2022).

Sanitation provides the clearest example of institutional limits. Despite being repeatedly designated as a priority in COFIEIX resolutions (Secretaria de Assuntos Internacionais 2017; COFIEIX 2019), sanitation received only 5.3% of external loans (USD 4.9 billion) between 2000 and 2020. Political incentives favored visible projects such as roads, while sanitation’s technical complexity made projects harder to design and implement (Batley and Harris 2014). COFIEIX’s prioritization framework granted such projects scoring advantages, but these were often insufficient to counter entrenched

Annual External Financing by Level of Government

Annual USD Value (left), Annual Project Count (right)

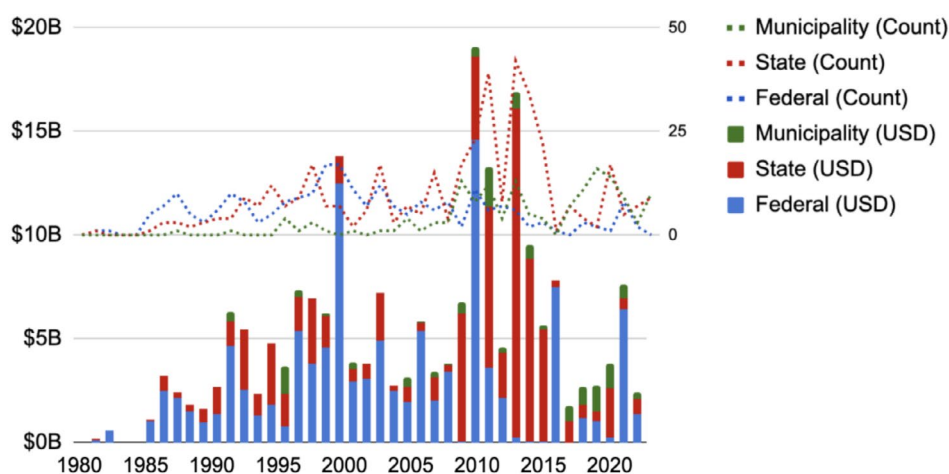


FIGURE 7 | Annual external financing by government level (1980–2022).

TABLE 3 | External funding by region (2000–2020): Infrastructure/transportation/housing.

Region	External financing (\$B)	Percentage (%)
Center-West	0.8	4
North	0.8	4
Northeast	2.6	13
South	2.0	10
Southeast	13.7	69
Total	20.0	100

Data Source: COFIEX, CNAE categorizations from Huber Pessina et al. (2022).

TABLE 4 | External funding by region (2000–2020): Economic/financial development.

Region	External financing (\$B)	Percentage (%)
Center-West	0.1	1
North	1.0	11
Northeast	4.2	47
South	0.8	9
Southeast	2.8	31
Total	8.9	100

Data Source: COFIEX, CNAE categorizations from Huber Pessina et al. (2022).

political logics. As Boex and Edwards (2014) note, sanitation projects are particularly vulnerable to underfunding because they yield limited political returns compared to more visible infrastructure.

Although evidence suggests a sustained emphasis on infrastructure, the prioritization has remained selective. Rural

development projects not tied directly to productivity gains, along with other non-priority categories, remain underfunded (Jalles d'Orey 2020). Sectoral outcomes thus reflect not only COFIEX's scoring system but also the interplay of political incentives, lender agendas, and macroeconomic constraints.

6 | Discussion

Throughout the FRL period, COFIEX has consistently prioritized external debt containment over expanding strategic public investment. Despite a favorable macroeconomic climate, including around 2010 when GDP growth reached 7.5%, COFIEX-approved external borrowing remained modest (World Bank, 2024). Debt ceilings and project-level fiscal screening helped shield external accounts from volatility that hit many middle-income peers in the global financial crisis and its aftermath (Holland 2019; IMF 2020). As the FRL's effectiveness weakened in the 2010s, COFIEX's oversight continued to enforce fiscal orthodoxy in external borrowing, adhering to low debt thresholds and strict project vetting. Between 2008 and 2014, even as Brazil gained investment-grade status and expanded partnerships, public external debt stayed below 10% of GDP, far lower than that of many peers (World Bank, 2024; Fall et al. 2024). This conservatism has proved resilient, cementing COFIEX's gatekeeper role over external borrowing.

Despite this institutional strength, COFIEX's influence over development has been constrained by the limited scale of external borrowing under its remit. While central to authorizing foreign loans, public external debt remains marginal for infrastructure and other strategic finance. Between 2000 and 2020, COFIEX-approved projects represented only a fraction of national investment. By contrast, domestic sources such as the National Development Bank (BNDES) accounted for 54% of infrastructure financing in 2022 (Fall et al. 2024). Even during countercyclical spending and expansive development policy, concessional or low-interest loans through COFIEX were carefully calibrated to avoid undermining macroeconomic stability. External financing, while sometimes

Accumulated External Financing by Top Sectors 2024 USD (adjusted for inflation)

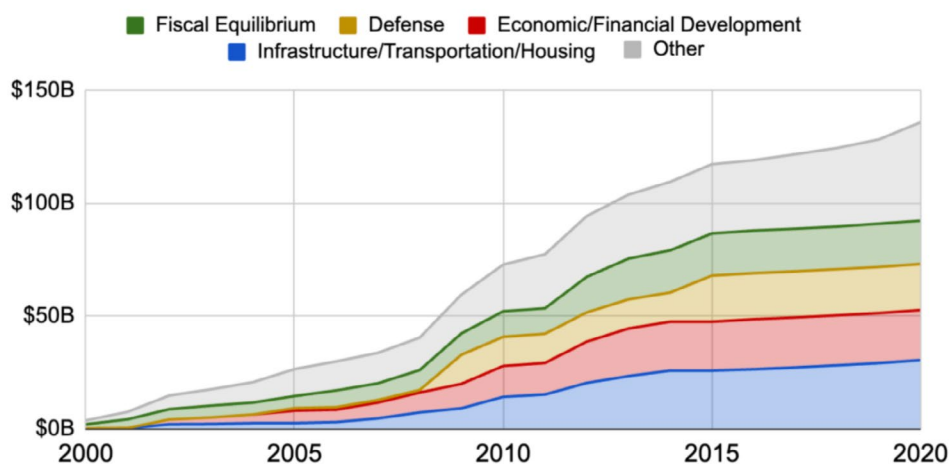


FIGURE 8 | Accumulated external financing by top sectors (2000–2020). Data Source: COFIEIX, CNAE categorizations from Huber Pessina et al. (2022).

high-impact, has had limited capacity to shape development at scale. COFIEIX’s strategic function, therefore, lies less in volume than in screening and prioritizing fiscally sound, development-oriented projects.

Constraints on scale have been compounded by asymmetries in distribution across regions and sectors. From 2000 to 2020, the Southeast received 46% of subnational external loans, while the Northeast—despite higher poverty and infrastructure deficits—captured only 27%. These patterns are only partly explained by population or fiscal capacity. They also reflect entrenched inequalities in political leverage, administrative readiness, and project design capabilities that favor wealthier states. Sectoral distortions are similar. Although sanitation has repeatedly been identified as a COFIEIX priority, it received only 5.3% of loans between 2000 and 2020, totaling USD 4.9 billion. Political incentives shape this underinvestment: leaders tend to favor visible infrastructure such as roads, which generate quicker electoral returns, while sanitation is harder to communicate and slower to deliver (Batley and Harris 2014; Boex and Edwards 2014).

Until recently, COFIEIX’s scoring framework did little to correct long-standing territorial imbalances. Although formally operating since 1990, an explicit HDI criterion was only added in 2017, more than three decades after Brazil’s external debt crisis reshaped public investment strategy (Decreto No. 9,075, 2017; Secretaria de Assuntos Internacionais 2017). Even then, the weight assigned to HDI was minimal: under the ten-point system, only one point was allocated to human development outcomes, while fiscal and technical criteria dominated. This structure systematically favored proposals from wealthier regions with stronger public accounts and more robust bureaucratic capacity. Lower-HDI regions, especially in the North and Northeast, rarely saw their disadvantage offset. The absence of a redistributive mechanism meant COFIEIX’s equity goals were subordinated to fiscal prudence. Its “mission-oriented” mandate was reduced to symbolic compliance, as the single HDI point was insufficient to influence the distribution of approvals.

The 2024 normative resolution represents the most significant reform to COFIEIX’s project evaluation criteria since the introduction of the original scoring framework in 2017. Officially adopted in November 2024, it created two distinct scoring systems: one for subnational borrowers, with a maximum of fifteen points, and one for federal entities, retaining a ten-point ceiling (COFIEIX 2024). Most notably, the weight of the HDI criterion for state and municipal proposals doubled from one to two points, and the “strategic adequacy” category now carries up to ten points, with projects assessed against a comprehensive set of priorities derived from the Plano Plurianual 2024–2027, the federal government’s medium-term planning instrument. These changes signal growing institutional awareness of the need to address regional inequalities and align project selection more closely with national development goals. Since the reform was enacted after the period covered by our dataset (1980–2022), its impact on the distribution of external financing cannot yet be assessed. Nonetheless, the revised criteria represent a meaningful recalibration of COFIEIX’s operational logic, with potential to enhance its developmental reach over time.

The expansion of the HDI criterion is a welcome shift, but its redistributive potential will depend on how it interacts with other scoring components. HDI now accounts for just over 13% of the total score for subnational entities, while strategic adequacy alone accounts for up to 67%. Although this creates opportunities to direct financing toward sectors such as education, health, and climate resilience—often aligned with regional deprivation—it does not guarantee geographic redistribution. Better-resourced states may continue to dominate by producing technically stronger proposals with more robust fiscal credentials. To strengthen COFIEIX’s redistributive function, further adjustments may be needed, including increasing the weight assigned to HDI, prioritizing low-HDI proposals in the event of scoring ties, or earmarking a share of financing for underserved regions. Without such measures, the HDI component—despite recent improvements—risks remaining symbolically important but procedurally marginal.

The 2024 resolution also introduces a stronger emphasis on climate and environmental priorities, a fitting shift under the new Workers' Party (PT) government. COFIEIX now awards 1 point to projects fully directed toward “limiting deforestation” or “addressing the climate emergency” (COFIEIX 2024). It also establishes sublimits for subnational projects in seven environmental categories, earmarking sovereign guarantees to increase the likelihood of external financing. Unused guarantees revert to the general subnational sublimit at the year's final meeting, preserving flexibility. However, as with the HDI criterion, the low point allocation may limit the effect on financing distribution.

The case of sanitation illustrates the limits of COFIEIX's capacity to steer investment toward socially necessary but politically underprioritized sectors. Despite being formally listed as a strategic priority in multiple resolutions, sanitation projects received only 5.3% of external loans between 2000 and 2020, a disproportionately small share given Brazil's sanitation infrastructure deficit. Even under the previous scoring system, such projects qualified for maximum points in the strategic priority category, but this rarely compensated for their low political visibility and technical complexity. The 2024 resolution offers a possible remedy. By allowing up to 10 points for strategic alignment, COFIEIX can differentiate among the priorities outlined in the Plano Plurianual 2024–2027, including sanitation, environmental protection, and social equity (COFIEIX 2024). If applied intentionally, this framework could strengthen incentives for sanitation, aligning evaluation with the mission-oriented approach advocated by Mazzucato and Macfarlane (2023), in which public finance actively shapes development trajectories rather than responding passively to political demand.

COFIEIX's potential to enhance its developmental role lies not only in selecting high-priority projects but also in amplifying the “crowding-in” effect of multilateral and bilateral financing. Basilio (2014) argues that engaging the private sector is the main way MDBs contribute to development, a view echoed by BNDES (2018). Although COFIEIX oversees modest volumes, its control over project selection allows it to direct external resources toward initiatives likely to attract complementary investment. Mazzucato (2023, 8) emphasizes that MDBs can “stimulate a multiplier effect by crowding in private sector investment.” While some authors question the link between multilateral lending and private flows (Rodrik 1996), MDBs operate on the premise that their capital and oversight reduce project risk. As Wagner et al. (2014, 22) note, greater MDB participation can improve investor confidence and broaden access to external finance. COFIEIX is well-positioned to leverage this role, especially by scoring projects higher when MDB involvement is likely to catalyze private capital.

This dynamic, however, remains constrained by Brazil's restrictive stance on sovereign guarantees. Private creditors rarely lend without them, and the federal government has shown limited willingness to expand exposure. A Fitch Ratings (2019) report, for example, stated that loans from international banks are unlikely to fill infrastructure gaps under current guarantee rules. COFIEIX can help address this bottleneck by favoring blended finance arrangements that reduce reliance on Treasury-backed guarantees. Donors and MDBs could support through partial

guarantees, concessional insurance, or first-loss structures. COFIEIX could also incorporate crowding-in potential into its scoring system, prioritizing projects that are both fiscally sound and catalytic for private investment. As Basilio (2014) warns, MDBs must avoid “crowding out” private actors by dominating the financing space. Yet empirical studies consistently show a positive relationship between public and private investment (Erenburg 1993; Erenburg and Wohar 1995; Erden and Holcombe 2006). Expanding COFIEIX's role in mobilizing private capital would thus strengthen its contribution to closing Brazil's infrastructure gap without undermining fiscal discipline.

7 | Conclusion

If public funding alone cannot fix Brazil's dire infrastructure problems, then the relatively small amount of approved external financing is certainly incapable of closing the gap, assuming Brazil continues its orthodox approach to foreign debt. Ultimately, the primary factors necessary to address low public investment lie outside the sphere of external financing. However, the limited foreign debt that COFIEIX allows the government to borrow can have an outsized impact. Used strategically, foreign debt remains the most effective and impactful funding available relative to the value of the initial loan. This outsized impact is due to the expertise and low interest rates offered by MDBs and bilateral lenders. Utilized strategically, these lenders are capable of lowering project risk profiles and crowding in private investment.

Brazil's COFIEIX is a highly influential commission of the Brazilian government, simultaneously pursuing objectives of both fiscal responsibility and strategic, development-oriented investment. While recent innovations in project scoring and sublimit have improved COFIEIX's ability to strategically direct external financing toward priority sectors, key shortcomings remain. In its fiscal orthodoxy capacity, it has been largely successful, serving as an important case study in the operation of a centralized external debt control body. However, this success in the realm of fiscal responsibility, due to the government's relatively high risk aversion with respect to foreign debt, seems to have limited the commission's capacity for highly impactful, strategic use of MDB and other foreign financing. Finding a sustainable balance between its competing mandates is more than just a technocratic affair: it is a question of political economy and values, requiring political judgment with respect to national priorities and potential trade-offs. Future research may examine other countries' centralized debt body arrangements—or lack thereof, in the case of countries with a decentralized approach and greater regional fiscal autonomy—and how their competing mandates are either reconciled or distributed across various government bodies. In addition, further analysis of *Painel COFIEIX* data, which remains understudied in the literature, combined with broader economic data promises to provide deeper insight into Brazil's utilization of external financing.

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Conflicts of Interest

The authors declare no conflicts of interest.

Data Availability Statement

The data underlying this article are publicly available from the Brazilian Ministry of Planning's *Painel COFIEIX* database (<http://painel-cofiex.economia.gov.br/painel-cofiex>) and from supplementary sources cited in the text.

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