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Economic Committee Papers - Brazil - Economic Mission 1971 - Terms of Reference
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OFFICE MEMORANDUM

Terms
Country file
4/26

TO: Mr. Roger P. Hipskind

FROM: Gunter K. Wiese

SUBJECT: BRAZIL - ECONOMIC MISSION (1971) - TERMS OF REFERENCE

DATE: April 6, 1971

1. On or about April 12, 1971 you will proceed to Brazil as chief of an economic mission consisting, besides yourself of Messrs. Abbate, Fletcher, Hesse (consultant) and Miss Primo (secretary). In the main, the mission will be responsible for updating the information contained in the last economic report on Brazil (WH-203a, January 22, 1971). You will spend four to five weeks in Brazil, at the completion of which you will return to Washington and prepare a brief back-to-office report which should be available in draft prior to the outset of the forthcoming CIAP Brazil review scheduled for May 24, 1971. The first draft of the economic report to be prepared by the mission should be finished by July 19, 1971.

2. One of the principal reasons for limiting the scope of your mission largely to an updating of the previous economic report is the fact that neither the forthcoming Brazilian pluriannual economic development and investment program nor the processed data from the 1970 Brazilian demographic and economic census will be available until late in 1971. Nevertheless, you should proceed to gather relevant current information enabling you to reappraise the growth forecast and creditworthiness assessment contained in the last economic report, as follows:

(a) Public Investment and its Financing: You should investigate actual and estimated performance in 1970 and 1971, respectively, on the basis of data available from centralized sources such as the Ministries of Finance and Planning and the Getulio Vargas Foundation, and assess any policy changes which may have taken place;

(b) Financial Intermediation: Besides examining the monetary accounts, interest rates and regulation of the banking system you should investigate the development of non-bank financial intermediation and its impact on Brazil's savings propensity;

(c) Balance of Payments and External Debt: Respective data should be brought up to date; in addition, you should investigate the possibility that either relevant government policies (e.g., tariff reform, fiscal incentives, exchange rate, debt policy) or other developments (e.g., coffee rust, external prices, ICA status) may have altered the balance of payments prospects outlined in the last economic report;

(d) Incomes Policy and Income Distribution: In addition to identifying current wage policy you should investigate trends in real wage rates and employment levels, the redistributive impact of government tax, spending and other policies and indirect indicators of income levels such as internal demand for durable consumer goods; you should also investigate the level and trends in profits and other property incomes;

April 6, 1971

(e) Industrial Sector: Besides obtaining data on production trends you should identify and assess current government policies regarding industrial development (e.g., tariff reform, fiscal incentives, the new industrial modernization fund) and obtain information on the operating programs of the major official financial intermediaries (e.g., Bank of Brazil, BNDE, BNH, BNB, CAIXA ECONOMICA) dealing with the sector. Prof. Hesse will do a special study on the perspective for Brazilian manufactured exports;

(f) Agricultural Sector: Work on this sector will parallel that on the industrial sector; you should pay special attention to government pricing policies and their impact on the internal terms of trade of the agricultural sector. In coffee, you will investigate the movements in producer prices and their effects on investment, as well as the coffee credit policy and its effects. You will also put together the available information on coffee stocks and their quality and on expected level of production;

(g) Inflation: The investigations outlined above should assist in assessing the prospects for reducing inflation to a 10 percent annual level by the end of the current Brazilian administration (1974) as promised by Finance Minister, Delfim Netto;

(h) Other Sectorial Developments: For information on recent significant developments transpiring in other sectors of the economy (e.g., education, urban development, power, transport, iron ore) which may be included in the economic report you will rely on data already available to the Bank as the result of its operations and on information readily available in Brazil; and

(i) Trends in Regional Development: The mission should put together the available material on regional development, with special emphasis on the Northeast vs the rest of Brazil.

3. There follows a schedule showing the preliminary distribution by mission member of work to be performed during the economic mission:

(i) Francesco Abbate: Respective government policies and recent trends and significant developments in the industrial and agricultural sectors (other than coffee); national accounts estimates for 1969 and 1970; price series; wage rates; profit levels; employment trends; trends in regional development;

(ii) Richard Fletcher: Balance of payments data for 1969 and 1970; estimates for 1971; external debt contracted as of end 1970; exchange and trade regulations; medium-term export and import prospects (in collaboration with Messrs. Abbate and Hesse) and external capital requirements (in collaboration with Mr. Hipskind); coffee economics;

April 6, 1971

(iii) Helmut Hesse: Special study of recent behavior and future prospects of Brazilian manufactured exports, with special emphasis on exchange rate policy, fiscal and financial incentives, credit availability, external markets and profitability of export sales both in absolute terms and relative to sales to the internal market; and

(iv) Roger Hipskind: Public sector investment and its financing; financial intermediation, (including stock exchange), investors returns and the price of credit; availability and sources of credit; sectorial developments other than industry and agriculture; and (in collaboration with Mr. Abbate) prospects for reducing inflation.

4. Although appropriate numerical data have already been requested of the Government, the logistical problem posed by acceleration of the Government's move to Brasilia makes difficult the specification of a timetable for mission activity. Nevertheless, at least in the case of Messrs. Hipskind, Abbate and Fletcher, basic statistical data should be obtained by the end of the first two weeks of mission work (April 24, 1971) while explanatory information regarding relevant government policies, important recent developments etc., should be assembled by May 8, 1971, leaving the final week of the mission free for filling in the gaps in information as well as for preparing a preliminary draft of the back-to-the office report.

Cleared and c.c.: Messrs. Avramovic
Husain
c.c.: Messrs. Abbate
Fletcher
Hesse
Ross

Chenery/Henderson
Adler
Owen
Wapenhans
Wiese
Lerdau

RPHipskind:jab