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McNamara Papers

Travel brief
Nov. 6-10

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Points that Mr. McNamara might want to make to the economic ministers:

1. Express concern that Brazil's creditworthiness in the international financial markets could be threatened unless it retains its image of sound and prudent economic management. Bankers have been increasingly expressing concern regarding the continued pursuit of high growth rates in the face of the difficult international situation and Brazil's already very high levels of debt, debt service, and inflation.
2. Our often-expressed concern with Brazil's use of interest rate subsidies is no longer simply a question of resource allocation. These subsidies have taken on macroeconomic dimension -- equivalent to more than 6% of GDP -- and are a major source of monetary expansion, inflationary pressure, and a negative element in income distribution.
3. Express satisfaction that important steps are being taken to improve the public sector budgetary process -- e.g., shifting the treatment of wheat subsidies and interest and monetary correction on the public debt from the monetary budget to the Treasury budget -- and urge that this progress be continued. Of particular interest to us is work under way to prepare a 3-year investment program for the public enterprises. A Bank public sector investment mission will go to Brazil in March 1980 to draw upon this work and to attempt to integrate it into an overall macroeconomic policy framework to assure consistency with balance-of-payments objectives, the monetary budget and the Treasury budget.

The Current Situation and Prospects of Brazil -

Summary of Major Points

1. The present Government, which took office in March 1979, is committed to the steady but controlled opening of the political system, a process that is expected to culminate in the election of a civilian president in 1985.
2. The balance of payments has been under increasing pressure since 1973 as a consequence of the rising costs of imported petroleum, a series of weather-damaged harvests, and reluctance to adjust to these exogenous shocks by accepting a lower rate of economic growth. The deficit on current account will reach 4% of GDP in 1979.
3. The result has been a rapid buildup of external debt, particularly floating-rate financial credits from the private banks. Although the spreads, amortization and grace periods available to Brazil have significantly improved over this period, the situation has been exacerbated by the sharp increase of LIBOR; the net DSR will exceed 60% in 1980.
4. The above-noted exogenous factors, combined with a large public sector deficit, rapid monetary expansion, and recent large wage settlements have led to a serious acceleration of domestic inflation. Prices will rise more than 60% in 1979, the highest annual inflation since the military took power in 1964.
5. Serious institutional deficiencies and the continued reluctance to accept a reduced growth rate, particularly in the face of pressures emanating from the newly opened political system, pose significant uncertainties for the

short term. Among the most important measures needed to control inflation is a substantial reduction of the public sector deficit with particular emphasis on the massive credit subsidies which now amount to about 6% of GDP and are a major vehicle of monetary expansion.

6. Minister Delfim Netto appears to be designing an economic policy that will combat inflation and meet the fiscal and balance-of-payments problems by: (a) improving public sector investment budgeting; (b) promoting strong increases in agricultural production and (c) accelerating the devaluation of the cruzeiro in order to increase both agricultural and industrial exports. He believes that these policy lines will enable the country to maintain a satisfactory growth path and at the same time bring down the rate of inflation. In pursuing the latter objective, he is counting on good harvests in the next year or two. If these occur, Delfim intends to reduce agricultural subsidies drastically, which should reduce the public sector deficit that is now fueling inflation. It is our hope that their policies, coupled with careful demand management and restrained growth, will reduce Brazil's current vulnerability to external shocks.

7. At the same time, strong efforts must be continued to reduce the economy's dependence on imported oil through energy conservation and the substitution of domestic energy sources. To this end, major programs have been launched to expand domestic alcohol production as a substitute for gasoline and coal as a substitute for fuel oil. The economics of these programs have not been well studied, however, and overall coordination of energy policy continues to be a problem. Meanwhile, plans for hydroelectric and nuclear power development and domestic oil exploration are undergoing review. The latter two of these are currently very sensitive political issues.

5. TOPICS FOR DISCUSSION

In your meetings with Minister Rischbieter and Minister Delfim Netto scheduled for 8:00 a.m. and 9:00 a.m. respectively on November 12, all the topics listed below could be discussed. Minister Rischbieter will also be accompanying you on your visits to Curitiba, Sao Paulo, Salvador and the site of the Paraguacu Rural Development Project.

Minister Andreazza, who will be meeting you in Campina Grande and will accompany you to Recife, will also want to discuss the topic under (f) above with you.

(a) Economic Situation

You may want to raise with the Brazilian authorities our concern with respect to the macroeconomic situation.

As detailed in the Interim Program Memorandum (see Item 6), Brazil's economic situation has deteriorated over the past year. The 1979 current account deficit on the balance of payments is forecast to reach US\$8.5 billion, or 4% of GDP, at the same time that domestic inflation will probably exceed 60%, the highest rate since 1964. Real economic growth, however, will total about 7%, matching the annual average rate sustained since 1973.

The accelerating inflation amid growing fears of inflation contributed to the pressures which resulted in the resignation of Planning Minister Simonsen on August 10 and his replacement by Mr. Delfim Netto. In contrast to Simonsen's apparent willingness to risk a significant economic slowdown to bring inflation under control, Delfim is depending heavily on sharp recovery in agriculture and the accelerated expansion of exports to make a continued high rate of growth consistent with reduced inflation and improved balance of payments. Not only would a good harvest provide a measure of direct relief to both inflationary and balance-of-payments pressures, it would also provide him some political room for releasing price controls and phasing out subsidies which now account for a large portion of monetary expansion. Even if expectations of a good harvest in 1980 are realized, however, careful demand management and some restraint of economic growth will be necessary to assure the viability of the external accounts. This, in turn, requires the substantial reduction or elimination of the enormous credit subsidies being channeled through the monetary authorities and a concerted effort to improve the public sector budgetary process. In this latter regard, we place particular importance on the Planning Secretariat's present effort to formulate a three-year investment budget for the public sector enterprises and autarkies; a Bank public sector investment mission will go to Brazil in March 1980 to assist in this process (see (b) below).

(b) Investment Planning

Among the serious institutional deficiencies which have long hampered macroeconomic policy making and execution in Brazil is the lack of adequate information and budgetary control regarding the investments and financial operations of the public enterprises and autarkies. Now, in an effort to enforce consistency with the Government's short-term macroeconomic objectives as well as with longer term investment priorities, the Planning Secretariat is in the process of elaborating a 3-year consolidated investment and financial program for the federally owned enterprises and autarkies. A July mission, composed of Messrs. Holsen and Levy, reviewed the progress made and offered a number of recommendations with respect to the programming of investments and the integration of this activity with the other available instruments of macroeconomic policy making. Agreement was reached on a future work program which includes a Bank public sector investment mission scheduled for March 1980. We consider the continuation of this work of utmost importance to the improvement of Brazilian economic management as well as to the formulation of our own lending program.

(c) Electric Power and Water Supply Tariffs

The Government has committed itself under our existing loan agreements to allow our power borrowers a "legal" remuneration of 10% on "remunerable assets." In 1979 average remuneration for the sector is not likely to exceed 9%, and several of our borrowers are likely to be in default under their rate covenants for 1979. Agreement will have to be reached with the Government on tariff action which will enable our borrowers to recover in 1980 shortfalls experienced in 1979, prior to our presenting the next power loan (the CEEE distribution project) which is scheduled for Board presentation in February 1980 (see cable attached).

One of the important overall objectives of our lending for water supply and sewerage in Brazil is to ensure the financial viability of the state water companies through adequate and affordable tariffs. To attain this, a National Tariff Law, was passed in May 1978. A decree regulating that law was issued in November 1978. The legislation allows the state water companies to charge tariffs based on the cost of service, which will enable them, if they operate efficiently, to earn a rate of return of up to 12% on operational investments. The legislation provides further that by 1983, the companies must attain a position where revenues cover operating and maintenance expenses and depreciation, and provide a rate of return on operating investments, after covering these expenses, which will generate sufficient cash to cover debt service. An interim tariff increase of 36% was granted on January 1, 1979 to all state water companies except for CORSAN (Rio Grande do Sul) which received 20%. Since that time only one further tariff increase has been approved (22% for SABESP-Sao Paulo). Tariff requests for various state water companies ranging from 10-54% have been pending before the Government's Inter-Ministerial Price Council for several weeks. We understand that the price council has suspended consideration of further increases pending a review by the Government of the companies' efficiency, of their resources and of their financial requirements as a whole. Approval of these tariff request is needed for the companies to meet their cash needs, and to comply with the tariff legislation and the covenants in our loan agreements. We have expressed concern over the delays in the processing of tariff increases in 1979 to the Federal Government as well as to BNH and the state water companies. Minister Delfim Netto has been informed that we would have difficulty presenting the two loans scheduled for FY80 for water supply to our Board of Directors unless substantial compliance is first achieved under our existing loan agreements (see cable attached).

Minister Delfim should be pressed to raise the tariffs in both the electric power and water supply sectors. Unless effective tariff action is taken now it will not be possible for the Bank to continue the large amount of lending contemplated in these two sectors. For example, without water supply and power loans, the lending program in FY80 would amount to no more than \$370 million, as compared to a present target of \$668 million.

(d) Interest Rate Subsidies

This is a continuing problem and has inhibited our ability to disburse certain loans already made in the industrial and agricultural sectors and prevents us from expanding our lending program into areas where a definite role could be played by the Bank. In the case of agricultural credit, interest rates of 10 to 22% without indexing are highly negative in real terms, and we have not felt able to finance agricultural credit except to very low-income farmers. On the most used lines of industrial credit for investment purposes, government financial institutions until recently applied a ceiling of 20% to monetary correction. This fixed ceiling was recently replaced by a provision that monetary correction would amount to 70% of changes in the index applied to government bonds (the ORTN index). From time to time, Minister Simonsen informed us that this interest subsidy would be removed, but so far this has not taken place. Minister Delfim informed Mr. Mirza on October 2 that he had decided to remove this subsidy as from January 1, 1980. At the time of this meeting, however, he had not focussed on the interest rate subsidies applicable to the FINAC program which is operated by the National Development Bank (BNDE). Under this program BNDE makes loans at subsidized interest rates to Brazilian entrepreneurs, who by definition are well-to-do, to enable them to make equity investments in small and medium industries. As long as the interest rate subsidy under this program is in force, the problem still remains. It is hoped that by the time of your visit Minister Delfim has had a chance to focus on this issue and has taken steps to remove these subsidies as well. The effect on existing loans is as follows:

1) Agro-Industry Credit Project. We made two loans for this project, one in the amount of US\$54 million in 1973 and the other in the amount of US\$83 million in 1976. Because of the Government policy on subsidization of interest for such industries, an amount of US\$14.7 million had to be repaid from the first loan by the Government in 1978 as it had been erroneously disbursed at subsidized rates. We decided not to postpone the closing date of the first loan (June 30, 1979), and to cancel the uncommitted balance, totalling US\$11.7 million. No disbursements under the second loan have been made as yet. Its closing date is December 31, 1982 and its funds cannot be used unless the Government applies full monetary correction for credits made to sub-borrowers using funds from this loan.

ii) Development Banking Project. A loan of US\$85 million was made in February 1976, out of which US\$63.1 million is still undisbursed. Most of the disbursements are in respect of small lots of imported equipment for which the Government is willing to pass the exchange risk to the ultimate beneficiary. BNDE, through which this loan is channeled, asked us to permit them to blend our funds with subsidized funds with a view to accelerating disbursement of this loan. We did not agree to this proposal. In this case also, government policy of interest rate subsidization has restricted BNDE's ability to utilize this line of credit. As far as new projects are concerned, we have had discussions of a small-scale industries line of credit, but had to stop because of the Government's continuing policy of interest rate subsidization.

iii) Nutrition Research and Development Project. The credit component of our loan of US\$19 million to INAN is US\$7.2 million. No disbursements have been made so far under this component. Please see further comments below under Nutrition Research and Development Project.

(e) Nutrition Research and Development Project

The Bank made a loan of \$19 million on October 1, 1976 to finance a project to strengthen, over a four-year period, the capability of Brazil to upgrade the nutritional standards of the population particularly the most vulnerable groups -- preschool children and pregnant and lactating women of low-income families. So far only \$1.8 million of this loan has been disbursed.

After extensive discussions with the previous Government we reached an agreement with it that the National Food and Nutrition Institute (INAN), the implementing agency for the project, would be set up as a foundation (a) to enable it to attract qualified staff at higher salaries and (b) to enable it to act independently.

The Government had also decided to cancel the industrial credit component amounting to \$7.2 million. Finally, it had been agreed that the project would be re-designed to meet Brazil's current needs. Together, it was hoped that these actions would significantly improve the implementation of the project. We had also prepared an "Interim Progress Report", for our Board of Directors, on the project reflecting the above understandings (copy attached). This paper had been submitted to the Government for comment before circulation to our Board. Before the Government could act on any of the above, Minister Simonsen resigned and his place was taken by Minister Delfim Netto. Since then no action has been taken by the Government as the new team needed time to come to grips with its new responsibilities.

On October 2, 1979 Minister Delfim informed Mr. Mirza that (a) he does not agree with the establishment of a foundation for INAN; (b) he does not agree with the cancellation of the credit component of this project and (c) he needed more time to comment on the Interim Progress Report. Although Minister Delfim agrees in principle with the Bank that the salaries of INAN's staff should be increased sufficiently to enable it to attract competent staff and that it should be given sufficient autonomy to operate effectively, he does not think that this can be accomplished with the creation of a foundation. At the time of the above meeting, Minister Delfim had not crystallized his thoughts but promised to focus on the issues involved after his aides had returned from the Bank's Annual Meeting in Belgrade. This question can now be usefully raised with him again as the matter has become very critical not only because of the effect it has on our project but also because the morale of INAN's staff has sunk so low that it is unable to operate effectively. On the credit component, as explained in (d) above, as long as subsidized interest rates under the FINAC program continue, the component cannot be activated.

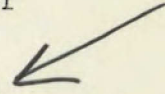
It will also be useful to know when we may expect Minister Delfim's comments on the "Interim Progress Report" so that we may circulate it to our Board of Directors.

(f) SUDENE - POLONORDESTE

The government has announced that rural development programs for the Northeast will be given high priority in the coming years and that the development agency for this region (SUDENE) will be appreciably strengthened in order to prepare and administer the program. A June 1979 Bank mission led by Mr. van der Meer discussed these matters with the Ministers of Interior, Agriculture, Planning, and Transport. The Ministers informed the mission that the Bank's detailed views on how rural development efforts could be made more effective in the future would be welcomed, and requested that the Bank prepare a proposal in this regard. This proposal was submitted to the government in August. Inter alia, it recommends an organizational restructuring of, and short- and medium-term work program for, SUDENE; and a strengthening of the Bank's Recife office.

On September 28, 1979 Minister Delfim wrote to you responding to our proposal. A detailed briefing on this important aspect of our relations with Brazil is attached. Both Ministers Delfim Netto and Andreazza would probably wish to discuss their ideas further with you, Minister Andreazza in particular, who will be accompanying you on your visits to Paraiba and Recife, will probably take the opportunity to discuss the Government's intentions in regard to the development of the Northeast quite extensively with you.

We should inform both Ministers that the Bank welcomes the Government's determination to expand the rural development effort in the Northeast and to take firm measures to strengthen SUDENE. We should inform them that as a response to the actions the Government plans to take, the Bank is ready to make a major financial contribution to Northeast development, and strengthen our technical assistance (including the Recife office).



(g) Participation in Sixth IDA Replenishment

As you will recall, at your meeting with Minister Rischbieter at the Annual Meeting, you urged that Brazil contribute more to the Sixth IDA Replenishment than the US\$25 million that we are now expecting from Argentina and Mexico. Attached is a copy of a letter that Mr. Knapp has addressed to Minister Rischbieter on this subject, which I understand you have approved. The final decision from Brazil is therefore needed soon.

(h) Participation in CGIAR

Brazil is not yet a donor member of the CGIAR. It was, until recently, one of the two elected members representing Latin America. These are currently Costa Rica and Peru. There has been considerable contact between Brazilian scientists and those working at the CGIAR centers, particularly CIAT (Centro Internacional de Agricultura Tropical) based near Cali in Colombia. CIAT is active in Brazil, and has three scientists working on forage crops and beef production based in Brasilia. Brazilian cooperation is also under way with ICRISAT in the dry Northeast, with IITA in the humid and sub-humid areas and with CIMMYT on wheat. Until recently, a Brazilian scientist, Dr. Blumenschein of EMBRAPA, was one of the most active members of the CGIAR's Technical Advisory Committee.

Brazil stands to gain much from the research supported by the CGIAR. A prime example is CIAT's work on forages, which should help to open up large areas of acid soils in central Brazil to cattle raising. EMBRAPA has received many new strains of wheat from CIMMYT, in its effort to achieve self-sufficiency in wheat. On the other hand, the CGIAR system would benefit from greater contact with the impressive expertise in agricultural research which Brazil is building up.

It is the CGIAR's policy to broaden its membership, particularly through the participation of selected major developing countries as donors. Among these, the Philippines and India are expected to become donor members in the near future. You will recall that you recently wrote to the President of Mexico on the same subject, whose response has been encouraging.

Prior to the 1978 elections there were some preliminary discussions at the working level between the CGIAR Secretariat and EMBRAPA, the Brazilian Government Enterprise for Agricultural Research, about Brazil becoming a donor member. However, the chief contact on this matter at EMBRAPA, Dr. Blumenschein, has, under the new Government, been moved from Brasilia to a regional research station. A fresh start with the new Government is now needed, and the prospect of Mexico's becoming a donor member will help.

The recommended 1980 core budgets of the CGIAR centers total about \$127 million, requiring net funding by the Group of just under \$120 million. At its meeting October 31 to November 1 the Group will be considering a five-year plan calling for an annual increase in resources of about 10% in real terms or a doubling of resources in current terms by 1984. Hence Brazil's participation in the Group as a continuing donor member would be welcomed for its financial as well as its substantive contribution. No amount has been discussed. In writing to the President of Mexico you said -- "In the case of Mexico and other developing countries, I would think that a contribution in the range of \$500,000 to \$1,000,000 annually would be appropriate, but this is open to discussion." Given that Brazil's GNP is about double Mexico's and its GNP per capita around 30% more, an initial contribution of at least \$1 million would be appropriate and considering Brazil's rapidly increasing GNP this would properly increase substantially each year thereafter. A contribution for CY1980 would be welcome, but it would be more realistic to aim at CY1981. A letter from Mr. Baum to Minister Delfim Netto, inviting Brazil to become a donor member of CGIAR, together with its enclosures is attached.

The Bank has lent Brazil \$100 million for agricultural research (Loan No. 1249-BR) which indicates the importance both the Bank and Brazil attach to research to provide the technology for agricultural development.

In your meeting with Governor Maluf of Sao Paulo and subsequently with Minister Resende in Brasilia, the following topic could usefully be discussed:

(i) Third Railway Project (FEPASA)

FEPASA's financial position has worsened during the first quarter of 1979 as compared to the same period of 1978; compared to the results for the whole year of 1978 the financial decline during the first quarter of 1979 shows a disturbing trend. Working and operating ratios, without considering normalization payments, were 193 and 247 by the end of the first quarter of 1979. The appraisal targets were 96 and 119 respectively. If these payments had been made by the State Government, the ratios would be 135 and 173 respectively as against agreed objectives of 86 and 107. The main reasons for this deterioration are (i) the inordinately high financial working expenses and (ii) the fact that tariffs could not be increased at the same rate as the increase in operating costs because of the competitive situation of the railway.

Because the State Government has not made available about Cr\$5.1 billion in 1979 Cr\$ during the last four years FEPASA has had to obtain short term loans. These have resulted in FEPASA's financial expenses increasing by 80% (in real terms) during the first quarter of 1979 as compared to the same period of 1978. These expenses, represent 27% of FEPASA's total working expenses, mainly salaries and maintenance expenses for those services which should have been covered by normalization payments and other legal Government contributions such as salaries and pensions to Government employees (ex-railway personnel) which are still on FEPASA's payroll. Without these financial working expenses FEPASA's working and operating ratios, would have been 141 and 196 (without normalization payments); 98 and 137 (with normalization payments) respectively.

The serious deterioration in FEPASA's financial position was recently discussed with the State Secretaries of Planning and of Finance. As far as normalization payments are concerned the Bank expects FEPASA to operate within agreed annual targets for these payments that take into account efficient operation of the railways. This, however, will not change FEPASA's problem of being burdened by heavy financial charges until the state government either assumes the short-term loans contracted by FEPASA to finance its recent operations in the absence of adequate state government contributions, or funds are being made available to it (with the support of the state) to cover their servicing. In addition,

the state Government would have to provide the funds needed to finance FEPASA's ongoing investment program. The Secretary of Planning feels that the funds needed by FEPASA next year cannot be found in the FY80 budget but agreed to review this matter again with the Governor with a view to determine how the funding can be provided. The Secretary of Finance undertook to determine how the financial burden on FEPASA's operations can be relieved and promised to give his reaction to the Bank after he had had a chance to review the situation further upon his return from the Bank's Annual Meeting in Belgrade. Both Secretaries, however, agreed that the size of FEPASA's investment plan would have to be reduced and that FEPASA would be asked to implement the minimum plan, namely, the items to be completed under the redefined Bank project. In your meeting with Governor Maluf you may wish to reiterate to him the gravity of this problem and to inform him that we expect the next Bank mission scheduled for early December 1979, to reach agreement with the authorities concerned on a viable investment and financing plan for at least 1980 and 1981 (including normalization payments), as well as on the scope of the Bank-financed project (as part of FEPASA's investment plan). If we fail to reach agreement on such a package, suspension would have to be considered.

We have just learned that the Federal Government has decided to regulate railway freight tariffs again (they had been deregulated as of January 1978). We have also learned that all railway freight tariffs and suburban passenger fares have been frozen as of October 10, 1979. As a consequence FEPASA's financial position is expected to worsen.

The Federal Governments action will also have a detrimental effect on RFFSA's financial position see (j) below and may affect the suburban rail project in Porto Alegre for which we are planning a loan in FY80.

Minister Resende will most probably brief you on the following two topics and Governor Ney Braga of Curitiba may wish to discuss (k) with you.

(j) Ferrovias do Aco (RFFSA)

We are now reviewing a study undertaken by GEIPOT on the basis of which a judgment will be made as to whether we can make a loan to RFFSA (the federal railway enterprise) to finance its expansion program, of which the largest element is the Ferrovias do Aco, an expensive new line from Minas Gerais to Rio and Sao Paulo. If Ferrovias do Aco is economically justified, and other steps are taken to improve RFFSA's financial position, we propose to proceed with a large new loan. The traffic forecasts (which appear to be very optimistic) and other questions related to the justification of the Ferrovias do Aco are being reviewed by a special mission that will return to Washington on November 2.

(k) Ferrovias da Soja (RFFSA)

The Government intends to make major railway improvements and to extend the line serving the hinterland of the port of Paranagua. This major investment should cater to the large transport needs for soybean and other agricultural products. It is estimated to cost about US\$1 billion and entails (a) a new line between Curitiba and Paranagua; and (b) major realignments between Ponta and Cascavel. This cost is based on narrow gauge and diesel traction. However, due to the new Program of Energy Mobilization adopted by the Federal Government (September 17, 1979), GEIPOT is also considering the alternative of electrifying these lines and converting them to broad gauge. The project has been under discussion with the Bank for some years. Many studies have been prepared, including the final engineering for the two new lines. However, a full economic and market study is still unavailable. The Government and RFFSA have hired consultants to review the engineering studies made five years ago in order to update and optimize the project. The economic justification study is presently being prepared by GEIPOT and it is estimated that it will be ready for the Bank's review by January/February 1980. The Bank's ability to finance this project depends in part on our ability to reach agreement on the issues raised in (h).

i.3

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: November 2, 1979

FROM: Nicolas Ardito Barletta *NB*SUBJECT: BRAZIL - Interim Program Memorandum

1. As you know, and with Mr. Stern's agreement, we felt unable this year to prepare a full country program paper for Brazil, because of the major changes in the government and the lack of definition of the new government's priorities. However, as promised in my memorandum of June 29 to Mr. Stern (copy attached), we have prepared an interim memorandum, which brings up to date our assessment of the economic situation, the status of the lending program, and the main sector issues we face. I am transmitting that memorandum herewith.

2. Unless I am advised to the contrary, we shall proceed with the lending program set forth in the interim memorandum. However, because the new government's policies are still evolving, and because of aggravated short-term inflation, balance of payments and energy problems, the lending program is particularly tentative, and will probably have to be modified in many respects as we go along.

Attachment

cc: Messrs. Stern
Chenery
ul Haq
Gabriel, PAB
van der Meer, LCP
Lerdau, LC2
Pfeffermann, LCNVP
Skillings, LC2
Levy, LC2

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CONFIDENTIAL
DISCUSSION DRAFT
November 2, 1979

Brazil - Interim Program Memorandum

I. Introduction

1. This memorandum provides our current assessment of Brazil's economic situation and prospects, outlines the proposed lending and economic work programs, and describes the principal issues affecting our relationship. It is being submitted in lieu of a 1979 CPP, which was postponed in accordance with the June 29 memorandum from Mr. Lerdaun to Mr. Stern.

2. The Figueiredo Government, which took office on March 15, has been grappling during its first six months with the short-term problems of accelerating inflation and deteriorating balance of payments, while attempting to clarify its longer-term economic priorities in the face of the changes occurring in world energy prices and the domestic political process. The formal vehicles for this process of policy formulation are the 1980 fiscal and monetary budgets, a 1980-82 investment program for the public enterprises and autarkies, and the Third National Development Plan (1980-85). With these planning and budgeting activities now approaching completion, we will be able to go forward with the long-delayed public sector investment mission, now scheduled for March 1980 (see below), and prepare a full CPP for review during 1980. The lending program proposed here will be thoroughly reevaluated at that time.

II. The Political Situation

3. President Joao Baptista de Figueiredo is the fifth in the line of army generals who have led Brazil since the 1964 revolution. Pledged to progress toward democratic government, he has worked hard to project a warm, relaxed and informal image in dramatic contrast to the austere aloofness of his predecessor. Prior to his departure from office, President Geisel repealed the extraordinary powers assumed by the government in 1968 Institutional Act No. 5. Press censorship has been virtually eliminated, and open discussion is permitted not only of current public issues but also of the repressive excesses of the past. The opening of the political system is reflected also in the generally conciliatory approach taken toward recent labor strikes, the renewed political organization of students, and the return to Brazil and restoration of political rights of many former political leaders and intellectuals exiled or disenfranchised after 1964. 1/

4. Considerable public attention and debate are now focused on the speed and detail of institutional change as democratization progresses. Although the process by which the next president will be chosen, presumably

1/ The amnesty signed into law by President Figueiredo in August does not apply to persons charged with having been involved in terrorist activities.

in 1985, has not yet been defined. The general expectation is that he will be a civilian indirectly elected by vote of Congress. In the meantime, it is evident that economic policy makers will enjoy less insulation from popular pressures than in the past.

III. The Current Economic Situation

5. a. External payments. Increased petroleum prices, a second consecutive year of poor harvest resulting from bad weather, and the sharp rise of LIBOR have contributed to an unforeseen deterioration of Brazil's balance of payments in 1979. The cost of fuel imports alone will have increased about US\$2 billion, or 48% over the level of 1978. Despite the continued rapid growth of manufactured exports -- up 37% in nominal terms through the first seven months -- the merchandise trade deficit will thus rise to about US\$2.5 billion, as compared to a \$1.0 billion deficit in 1978. Similarly, although the spreads charged to Brazil have generally declined, the jump in LIBOR will contribute to raising gross interest payments due abroad from US\$3.3 billion in 1978 to some \$4.3 billion in 1979. Consequently, the deficit on current account will grow from US\$5.9 billion to around \$8.5 billion, or from 3 to 4% of GDP.

6. With amortization payments totalling about US\$5.8 billion, external capital requirements in 1979 amount to \$14.3 billion. Of this amount, approximately US\$3.0 billion will be covered by reserve drawdowns, and another \$1.0 billion will be provided by net direct foreign investments. Gross and net foreign borrowings in 1979, including bond issues, will therefore total about US\$10.3 billion and \$4.5 billion, respectively, compared to \$13.7 billion and \$8.5 billion in 1978. No difficulties have been encountered or are anticipated in attracting the necessary credits. Indeed, powerful disincentives to private sector borrowings abroad were introduced in April 1979 to slow the inflow of financial capital, and these remain in force. At the same time, the improvement noted last year in spreads and maturities available to Brazil has been sustained in 1979.

7. The expected drawdown will bring international reserves to US\$8.9 billion at the end of 1979, or equivalent to about 5-1/2 months of goods and nonfactor service imports. Gross M< debt will have risen to just above US\$48 billion, or 24% of GDP. The net debt service ratio in 1979 will reach almost 60%, as compared to 56% in 1979.

8. b. Domestic economic activity. Rapid monetary expansion, a large public sector deficit despite cutbacks of investment, large wage settlements in the unionized sectors of the economy, and the continued expansion of manufactured exports have contributed to the steady growth of aggregate demand in 1979. Industrial production through the first semester was up 9% over the same period a year earlier. By mid-year, however, some slowdown was becoming evident, particularly in the capital goods and consumer durables industries, in response to reduced orders from the public sector and tightening credit in the narrow unregulated money market. Agricultural output was again severely affected by a combination of droughts, floods and frost but will show some recovery from the similarly depressed levels of 1978. Overall, GDP growth is expected to match the 7% annual average rate of growth sustained since 1973.

9. High demand, the poor harvest, and increased fuel costs are reflected in accelerating inflation, which is now projected to exceed 60% by year end, the highest rate since 1964. Measures introduced in April to slow the pace of price rise had only temporary success, and the monthly inflation rate was again trending upwards by July. This deterioration, along with growing fears of recession, led to the pressures which resulted in Planning Minister Simonsen's resignation on August 10. Three days later he was replaced by Antonio Delfim Netto, who, as Finance Minister under Presidents Costa e Silva and Medici, was credited with engineering the "economic miracle" of 1967-73.

IV. Macro-Economic Policies and Prospects

10. The Figueiredo Government has identified as its three top economic priorities the accelerated development of agriculture, reduction of the economy's dependence on imported petroleum, and the control of inflation. Reduction of the current account deficit in the balance of payments is also stated as a major short-term objective typically coupled with inflation control.

11. These priorities have not changed with the change in Planning Ministers, but the approach to, and rhetoric of, their attainment has been altered. In his pronouncements and policy efforts, Mr. Simonsen had given strong emphasis to the immediate need to reduce inflation and appeared willing to risk a significant slowdown in growth in order to achieve it. Moreover, lacking full de facto authority over the policies and activities of the public sector, the measures he was able to take were seen to impose a disproportionate burden on limited segments of the economy. Delfim Netto also stresses the importance of the inflation and balance-of-payments objectives but views them as parallel to the achievement of the others, as well as with continued overall growth.

12. Most importantly, Delfim Netto is depending on the recovery of agriculture and the accelerated expansion of exports to make the inflation and balance-of-payments objectives consistent with sustained growth. To assure the agricultural recovery, he has insisted on the retention of credit incentives, at least through the current crop year, substantially raised minimum price supports, and simplified farmer access to the various incentive programs. In support of his export strategy, he has accelerated the gradual real devaluation of the cruzeiro begun by Simonsen and is applying "moral suasion" on local manufacturers, including multinational enterprises, to intensify their export efforts. 1/ At the same time, Delfim is continuing the efforts begun by his predecessor to rationalize public sector activities and bring them under control, while eliminating some of the distortions to the economy introduced by selective government interventions in recent years. In this latter regard, he foresees a period of "corrective" inflation as public enterprise tariffs are adjusted, specific price controls are relaxed, subsidies are reduced or eliminated, and minidevaluations are accelerated.

1/ Improved incentives may also be offered to direct foreign investment, both to encourage new investment and to induce multi-nationals to convert the debts of subsidiaries into equity.

13. Early weather and planting reports suggest that, with the exception of coffee which has been set back by this year's frost, hopes for a good harvest in 1980 may be justified. This would provide a measure of direct relief to both inflationary and balance-of-payments pressures and would give Delfim some leverage for phasing out the subsidies which now account for a large portion of monetary expansion and the de facto public sector deficit. ^{1/} Brazil's creditworthiness, however, cannot be made to depend on the year-to-year generosity of nature. Important improvements must be made in the tools and institutions of economic management if Brazil is to continue to cope successfully with the more difficult external trade environment as well as the pressures emanating from the opening political system.

14. Macroeconomic policy making and execution in Brazil has long been hampered by serious institutional deficiencies, including inadequate information and budgetary controls available to the central economic authorities regarding the investments and financial operations of the public enterprises and autarkies, the extensive earmarking of Treasury revenues, the proliferation of extrabudgetary funds and credit lines, and the development banking activities of the Central Bank along with the money-creating powers of the Bank of Brazil. As a consequence of these deficiencies, the Treasury budget has little significance either as a regulator of aggregate demand or as a vehicle for realizing the government's investment priorities. At the same time, with most credit flowing through administered programs at fixed nominal interest rates, traditional monetary policy affects only a very narrow range of borrowers and economic activities. Meanwhile, the huge credit subsidies implicit in this system are contributing to inflationary pressures while distorting both resource allocation and the distribution of income.

15. A number of steps toward the necessary institutional reforms have been taken over the past year or are now in progress. Among the measures already introduced are the tightening of controls over the external borrowing of public sector agencies via the Commission on External Borrowing; the creation of a parallel Commission on Internal Borrowing to exercise similar control in the domestic financial market; the diversion of approximately half the tax revenues formerly earmarked in favor of public enterprises to a National Development Fund administered by the Planning Secretariat (SEPLAN); the similar diversion of state enterprise income taxes and dividend payments, which previously had been added automatically to the capital of the enterprises; the shifting of a number of government activities -- e.g., subsidies on wheat and interest on debt -- from the Monetary Budget to the Treasury Budget, where they will be subject to open public review; and the introduction of a computerized project monitoring system now being applied on a pilot basis to some 1,500 public sector projects. SEPLAN is currently preparing a consolidated investment and financial program for the federally-owned enterprises and autarkies covering the period 1980-82. It is in these institutions that the

^{1/} Since these subsidies are channeled through the monetary system, they do not appear in the fiscal budget. It is estimated that interest rate subsidies were equivalent to almost 6% of GDP in 1978; about 60% of these subsidies were targetted to the agricultural sector.

bulk of public sector investment occurs, and the economic authorities are determined that their activities be made consistent with both macroeconomic constraints and national development priorities. Also under review is a decree which would eliminate the development banking responsibilities of the Central Bank, leaving it to concentrate on its monetary control functions, while subjecting the Bank of Brazil to the same rules and controls as are generally applied to commercial banks -- i.e., requiring that it capture additional resources from the public rather than obtaining them by money creation.

16. This latter reform could go a long way toward reducing the role of credit subsidies in the economy, or at least forcing their explicit treatment as fiscal transfers through the ordinary budgetary process. The government recognizes the growing problems that subsidies have created for economic policy and, perhaps in an effort to prepare the political ground, has itself been calling increasing public attention to them. Removing these benefits from the vested interests that now enjoy them will not be easy. Nevertheless, it is our expectation that the level of credit subsidization will be reduced significantly over the next year or two, the speed and extent of reduction depending, for both political and economic reasons, on the growth of agricultural output and exports.

17. Accomplishment of the institutional reforms described in paras. 15-16 would greatly facilitate short- and medium-term management of the economy. To a great extent, both inflationary pressures and balance-of-payment problems are the result of a failure properly to manage aggregate demand. Formulation and execution of a comprehensive public investment budget would greatly improve the authorities' ability to manage demand, and at the same time would help ensure that investment resources are channeled into their most efficient uses. Major reductions in subsidies to the agriculture sector would contribute to the same goals. Their removal would drastically reduce the public sector deficit and the establishment of positive interest rates for agriculture would improve the allocation of investment resources. In turn, the reestablishment of control over aggregate demand would greatly facilitate management of the balance of payments -- reinforcing the government's flexible exchange rate policy and strong export promotion effort.

V. Creditworthiness

18. The great sensitivity of Brazil's balance of payments to petroleum prices and LIBOR rates has been evidenced in 1979 and continues to make projections subject to a wide range of error. At the same time, the substantial buildup of external debt since 1973 has greatly increased the economy's vulnerability to external shocks. While the Brazilian economy, despite the deterioration that has occurred since, retains the underlying strength and resiliency described in our creditworthiness analysis of last February, ^{1/} and relatively modest reductions of the rate of growth would enable the economy to adjust to a considerable deterioration in the external environment, the quality of economic management continues to pose uncertainty. That uncertainty has been heightened by the recent change in Planning Ministers and by the new Minister's apparent decision to opt once again for a high rate of sustained growth in the hope that good weather and a consequently bountiful harvest will bring rapid growth into consistency with declining inflation and an improved balance of payments.

^{1/} Memo from Mr. Barletta to Mr. Stern of February 22, 1979.

19. The projections utilized here are based on somewhat more pessimistic assumptions than those in the earlier creditworthiness paper. Specifically, we have taken account of the higher-than-expected petroleum price increases of 1979 and have assumed continued increases in the real price of oil. A higher LIBOR is also assumed throughout the projection. Finally, the entire projection period is negatively affected by the larger current account deficit of 1979 and the additional borrowing required to finance it. As a consequence, we now judge the GDP growth rates assumed in the base projections of that earlier paper, 1/ other things being equal, to be overly ambitious from the point of view of the strains placed on the balance of payments. The resulting combination of high debt service ratio (DSR) and increasing share of petroleum in total imports would leave the economy highly vulnerable to external events. Moreover, financing the current account deficits, debt service and a modest reserve growth would require net disbursements of medium- and long-term borrowings rising at an average annual of about 12.5% a rate that significantly exceeds the projections of such disbursements to all LDCs made for purposes of the third World Development Report.

20. Our present Base Run, summarized in Attachment V, assumes a steady GDP growth rate slightly above 6% from 1980-85. The projection retains certain other assumptions of the earlier run, however. The most important of these are that: (i) agricultural imports and exports will resume their pre-1978 trend by 1980; (ii) important substitution will continue in the intermediate goods sectors; and (iii) the growth of manufactured exports will slow to 18% in real terms in 1980 and to 12% thereafter. 2/ The Base Run assumes that petroleum imports will grow more rapidly than GDP (an elasticity of 1.085), and that the import coverage of reserves will be allowed to decline gradually from the present high level.

21. Two additional projections were run testing the sensitivity of the creditworthiness indicators to the success of measures to reduce the elasticity of petroleum imports relative to GDP. The results of all four projections are summarized in Table I.

V. Creditworthiness

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- 1/ The creditworthiness paper assumed that GDP growth would average 6% from 1978-80, accelerating through the early 1980s to reach 8.9% by 1984.
 - 2/ These export assumptions are apparently more conservative than those of Minister Delfim, who has set a total export target of US\$40 billion by 1984. If an annual inflation rate of 10% were assumed, this would imply an annual average rate of growth of real exports of about 12%.

Table I

Run	GDP growth rate (%)	Petroleum import elasticity	Current account deficit, 1985 (% GDP)	Gross M< debt, 1985 (% GDP)	Net DSR, 1985	Average annual growth rate of net M< disbursements, 1979-85 (%)
I (Base)	6	1.085	3.0	26.1	53.9	6.2
II	6	0.500	1.7	22.5	49.7	-2.1
III	7-9	1.085	4.0	26.6	58.8	12.5
IV	7-9	0.500	2.4	22.2	52.6	4.3

22. Under the Base Run assumptions, the resource gap would decline steadily from US\$3.8 billion in 1979 to \$2.3 billion by 1985, the merchandise trade balance turning positive in the outer year. The net DSR would decline slowly over the period, as would the ratio of the current account deficit to GDP. The nominal level of M< disbursements required would grow only about 6% per year, on average, over the period. Less satisfactory, however, would be the rise of petroleum to 43% of total imports as compared to an estimated 36% in 1979.

23. An even greater improvement in the projections would potentially result from successful efforts to conserve energy or substitute domestic energy resources for imported petroleum. A longer gestation period is undoubtedly required, however, before results of this magnitude could be achieved.

24. A more buoyant international economy, an easing of LIBOR, or a falling real price of petroleum would all help to improve the above projections. These variables could just as easily move in the opposite direction, however. Unless strong measures are taken to reduce the economy's dependence on imported oil, and/or exports can be expanded at a rate considerably faster than foreseen here, Brazil's balance of payments will remain precariously vulnerable. Important efforts are being made to substitute domestic energy resources for petroleum (see paras. 88-97 below), but major results are probably several years away. Thus, although the political pressures for rapid growth are likely to be strong during the current transition to elective government, the prudent economic course is one of restrained growth and careful demand management. Although there does not appear to be an immediate threat to Brazil's ability and willingness to service its external debt obligations, the economy will require close monitoring over the next several years, and it is clear that macroeconomic policy will be a central element of our continuing dialogue with the Brazilian authorities.

VI. Poverty and Income Distribution

25. The distribution of income and its relation to economic growth remain topics of active public discussion in Brazil. Assertions regarding levels and trends of poverty and inequality in Brazil are necessarily tentative, however, inasmuch as the data are limited and often unreliable. The great size and diversity of the Brazilian economy and the high degree of economic mobility further complicate interpretation of the fragmentary information available. With these caveats, a recent study of the evidence leads us to conclude that: (i) the great majority of Brazilians, including the poor, shared in the economic growth since 1960 through substantial increases in real income; (ii) relative income distribution changes cannot be measured accurately over time, but there is evidence to suggest that the incomes of the poor improved considerably over the very high growth years since 1970, especially in the rural areas; and (iii) income growth notwithstanding, poverty remains widespread and -- in spite of its special concentration in northeastern rural areas -- is not confined to any single region or occupational group.

26. The basis for current estimates of poverty and income distribution is the 1974-75 National Household Budget and Nutrition Survey (ENDEF), the first such exercise to achieve national coverage. ENDEF data bear out the common impression that the degree of inequality is high: the national income share of the poorest 40% of families is about 9%. ENDEF also shows the extent and distribution of absolute poverty: taking as the poverty line two Rio/Sao Paulo minimum wages per family (about US\$260 per capita), 27% of all families fall below this standard. Of these families, 61% are in rural areas, and another 28% reside in small towns. Put a different way, 42% of rural families, 24% of small town families, and 10% of urban families are poor. Geographically, 54% of poor families live in the Northeast (where 52% of families are poor), though the region comprises only one-third of the country's population. The remaining poor families are scattered throughout the country, predominantly in rural areas. The occupational characteristics of the poor center around landless farm laborers, small farmers, and unskilled industrial labor, but the incidence of poverty is not limited to a single group or sector.

27. Related to the observed income trends has been an important movement of labor out of agriculture and the poorer rural areas of the Northeast. The proportion of the population classified as rural fell from 55% in 1960 to 40% in 1975; yet the cities managed to absorb these immigrants without excessive growth of the lower-income categories. The migrants generally improved their economic status by moving from a low-income sector to cities where incomes are higher and there is scope for upward mobility. On the other hand, because of the rapid inflow of labor from the rural areas, average wages for unskilled urban labor did not increase significantly until the 1970's. More recently, a sharp rise can be detected in the real wages of daily rural laborers, suggesting an emerging labor scarcity in the rural areas. Between 1970 and 1977 their real wages went up by 100% in the State of Sao Paulo and by 61% for the country as a whole. With the exception of Sao Paulo, the rural wage increase was greatest in the Northeast, where absolute wage levels are the

lowest. During that period Brazilian average per capita income went up by 57%. Thus, many of Brazil's poorest families experienced both an absolute and relative improvement in their daily earnings through a combination of geographical and occupational mobility and rising wage rates for unskilled occupations.

28. The new development plan reportedly gives equal emphasis to growth and income distribution objectives and stresses that a viable and legitimate policy for achieving the latter depends on the exercise of broad democratic freedoms, including free wage bargaining. A crucial element in the improvement of income distribution, moreover, is the steady expansion of employment opportunities; hence, the continued concern for maintaining a rapid rate of economic growth.

29. Under a new wage policy, to go into effect in November 1979 if approved by Congress, all wages contracts are to be adjusted semi-annually as a function of changes in the cost-of-living (COL) and the size of the individual's wage or salary. The adjustment factor will be tapered from 1.1 times the increase in the COL for workers earning less than three minimum wages to 0.5 for earnings above 20 minimum wages. 1/ The determination of additional wage increments derived from increased productivity is left to collective bargaining. Although intended to narrow remuneration differentials, the new policy seems unlikely to have that effect. Inasmuch as skilled workers are in inelastic supply, the legal adjustment factor is not likely to retard their nominal earnings growth or prevent the maintenance of traditional wage differentials. The new formula may thus serve only to fuel cost-push inflation and slow the growth of job opportunities at the lower-skill levels.

30. In the past decade, the Brazilian Government has given greater emphasis to investments in basic public services and to initiating programs to alleviate material deprivation among the poor and increase their productivity. Progress in basic education coverage since the early 1950s has been apparent in all regions. This is particularly striking in the Southeast, where rates approaching universal coverage now exist. The Northeast has lagged behind all other regions but there, again, the enrollment rate increased from 34% in 1955 to 67% in 1974, while absolute enrollment went up from 1.3 million to 4.5 million. For Brazil as a whole, the enrollment rate went up from 54% to 85% while enrollment increased from 6.2 million to 18.6 million during the same 1955-74 period. The population in basic education age (7-14 years) grew at a rate of 3.4% per year from 11.5 million in 1955 to 21.7 million in 1974. Despite this effort, educational opportunities still remain limited, especially in rural areas, and are related to the social and economic status of the client population (see paras. 39 to 40 below). A massive literacy program (MOBRAL) has been undertaken in an effort to compensate for serious lags in the provision of basic education in the past especially in rural areas.

1/ The adjustment factors are marginal rather than average rates -- i.e., a worker earning four minimum wages would have his adjustment calculated as 1.1 times the change in the COL times three minimum wages, plus 1.0 times the change in the COL times one minimum wage.

31. In 1970 only 75% of all housing was classified as durable. During the 1970's, however, the government has taken steps to assist the poor through improved access to housing financing. A new system of interest subsidies, a sites and services program, and a program for financing of construction materials for low-income borrowers have been created. Provision of residential services such as water supply and sanitary waste disposal has progressed rapidly in recent years. Nevertheless, because of long-standing deficiencies, Brazil in this regard still lags behind other countries in its per capita income class. By last year contracts had been concluded which, once implemented, would provide over 70% of the population with adequate water supplies. Arrangements for sewerage have proceeded more slowly. Overall, progress in water supply and sanitation has been proportionately greatest in those regions (Northeast and Frontier) and areas (rural) with the greatest initial deficiencies.

32. Assuring an adequate supply of food at affordable prices has been an ongoing concern of policymakers in postwar Brazil, although until recently there was no explicit nutrition policy. The National Nutrition Program (PRONAN) is the most important new effort to attack poverty-related malnutrition. The program attempts to alleviate malnutrition in the near term, by providing food supplements directly to needy groups, and to improve the long-term viability of small-scale food production in Brazil's poorer regions. It still is too early to assess PRONAN's effectiveness.

33. During the 1970's the number of workers covered by national health insurance went from 55% to over 70% of the urban labor force. Most recently, access to the social security health system was extended in cases of emergency to the urban population not normally covered, and free medical care was made available to all urban persons over 70 years of age. In the rural areas, health coverage is still very limited, particularly in the Northeast where nearly 5 million persons live in municipalities without resident physicians. Nevertheless, the government has made efforts to expand rural health coverage, notably through the creation of health "miniposts," some of which are included in the Bank's rural development projects. Under another program initiated in 1973, the government is distributing medical drugs free of charge to the urban poor; in 1977 some US\$50 million worth of free drugs were distributed.

34. Another significant policy measure of the 1970s has been the creation of FUNRURAL, the Rural Workers' Welfare Fund, which provides a range of benefits paralleling those of the urban social security system. By 1973 FUNRURAL had reached about 1.25 million persons, virtually the entire rural population over 65 years of age. The Fund is financed out of taxes, and total benefits are equivalent to about 0.7% of GDP. As noted earlier, the urban old are now automatically eligible for social security health care; they also are entitled to a monthly income supplement. These policies represent a serious effort paralleled in few developing countries to ensure a minimum of financial security to a particularly vulnerable group of poor persons.

VII. Long-Term Prospects

35. Looking beyond the balance-of-payments constraint to which much of this paper is devoted, what are the growth prospects of Brazil in the decade ahead? What qualitative and quantitative changes can be expected? What constraints are likely to be felt most acutely?

36. Brazil's population has increased from 3 million in 1800 to nearly 125 million today. The recent Human Resources Report notes that the growth of population has come down from its peak of 3 percent p.a. during the 1950's to a somewhat lower rate during the 1960's. Recent analyses of the 1960 and 1970 Population Census carried out in Brazil after our report was issued suggest that the drop may have been more pronounced. The decline in the growth rate is expected to continue during the remainder of this century, but the likelihood is that the population of Brazil will continue to grow during the twenty-first century and reach no less than 2.5 times its current size. Moreover, the urban population is growing about 70% faster than the population as whole.

37. Of all the developing countries in the world, Brazil is one of the best endowed to accommodate a population of this size. The food-producing potential of Brazil is enormous. At present only about five percent of Brazil's arable land is under cultivation, and a multiple of this can be brought into production if ecological management is rational. Brazil's mineral resources are also vast and offer excellent prospects for export and internal industrialization. If it were not for the country's very high degree of dependence on petroleum and the poor hydrocarbons endowment discovered to date, Brazil would continue to be one of the most promising performers in the world, and there would be no difficulty in absorbing its growing labor force.

38. Brazil's energy policies and prospects are reviewed below. There is no question that structural changes involving heavy investments are needed to overcome the shortage of domestic petroleum, barring unforeseen large-scale petroleum finds in Brazil. These structural changes will take time and will, like urbanization, divert investible funds from other uses, thus probably slowing down the rate of growth of the economy somewhat during the gestation period.

39. Educational dualism remains one of the fundamental weaknesses of the country. Because of historical factors education "caught on" in the Center-South regions, which have by now high rates of literacy. In the Northeast and in rural areas in most of the country education leaves much to be desired. By 1970 the proportion of the working age population having completed at least 12 years of schooling was about 10 percent, up from 4 percent in 1950. Extrapolating this rate would carry the proportion to about 28 percent in 2000. The historical trends are too slow if the objective of a predominantly skilled work force is to be achieved within the next few decades. The rural population of Brazil has been growing very little if at all during the past decade and much of the social improvements that have taken place (education, health, water and sewerage, etc.) have occurred in the cities. As the cities absorbed

an increasing proportion of the total population, social infrastructure has improved a lot. Future progress can be expected through further rural-urban migration but improvements in the rural areas are essential also. A special problem is that, although responsibility for primary education belongs to the municipalities, many of them lack the financial resources to meet its recurrent cost.

40. The recent income distribution report on Brazil suggests very strongly that occupation and skill are a fundamental determinant of income and therefore of income distribution. Until now there has been a massive shift out of low-productivity agricultural into higher productivity urban jobs, which has, especially during the boom period of the early 1970's, raised the incomes of the poor at about the same rate as that of the average of the population. The continuation of this process hinges essentially on two factors: (a) the human capital formation effort required to upgrade productivity, and (b) demand for new skilled manpower, which is overwhelmingly a function of the rate of economic growth.

41. A better school system would contribute to the first factor. As regards the second, it is often asked: what is the minimum rate of growth of GDP that will absorb the additions to the labor force? In an economy where open unemployment is not a viable alternative for many, it is difficult to give a precise answer to that question. If Brazil's growth rate slowed down considerably, there would probably be much open urban unemployment. But this has not happened in recent experience. What is more likely to happen is that the mechanism that has pulled millions of people out of agriculture and into urban jobs would operate more slowly. Thus a larger proportion of the working force than would be the case with faster growth would remain "stuck" in agriculture and this would in all likelihood worsen the distribution of income by slowing down upward mobility. Of course, agricultural performance would also play a role in this process: even if overall growth declines as a result of the constraints outlined in this paper, the effect on the poor would be considerably lessened to the extent that agriculture prospers. But the likely effect of a slowdown would be inimical to the social objectives towards which Brazil has made such impressive strides during the 1970's.

42. Ultimately, the pace of economic development is a political issue. Here there is a clear conflict between the political liberalization that has taken place (including the virtual elimination of press censorship and a tolerant attitude of the Government toward strikes) and the discipline required of an adjustment process to the country's balance-of-payments constraints. Until now the conflict has been masked by additional external borrowing and an acceleration of inflation which makes it easier to blur the gains and losses of various social groups. Furthermore, there is a fundamental difference between the "miracle" of the 1970's and the present predicament of policy-makers. The corrective measures taken during the late 1960's which set the stage for the "miracle" were designed to eliminate most of the distortions introduced during a period of populist euphoria; they consisted in the restoration of realistic prices for foreign exchange, public utilities and

transport, combined with fiscal austerity and a substantial tax reform, as well as positive interest rates and strong savings incentives. Most of these measures hurt the public at large in the short run.

43. Today the economic reforms that are called for may involve more potent political opposition than the reforms of the late 1960's. The two major areas where radical measures need to be taken in the short run are (a) interest rates subsidies and (b) the expenditure and financing programs of state enterprises. The first will hurt very specific and powerful groups, and the second will run against the considerable power of strong public enterprises, such as Petrobras, that have acquired a large measure of de facto autonomy from the Government. How the needed reforms are to be reconciled with further political liberalization is an open question.

44. Taking a longer historical view, however, one is left with a strong sense of confidence when looking at Brazil. The country has gone through agonizing crises (such as the enormous overproduction of coffee and the resulting collapse of the market during the 1930's), through booms and busts (for example the rubber boom), through world wars and through political crises that in other countries would have broken the back of the economy. Throughout these conflicts two things have emerged that distinguish Brazil from most other countries in the world: one is the virtual absence of violence so characteristic of other parts of the developing world, and the other is a sense of self-confidence, of "manifest destiny" which has always characterized the Brazilian's view of themselves and is intimately tied to the tremendous dynamism that can be felt even by the casual visitor. Therefore, even though it is not possible to forecast very precisely how Brazil will overcome the dual challenge of rising energy costs and political liberalization, a longer view suggests that solutions will emerge. As the case of alcohol for automobiles, these solutions may not at first seem economically rational, Brazil has always taken big gambles. But many of these gambles have proven to be right, historically.

VIII. Economic and Sector Work Program

45. The economic and sector work program for FY79 suffered some delay and disruption as a consequence of the change of Government. In particular, the new Government requested that we postpone the planned public sector investment mission until they had had more time to order their own ideas and priorities. Nevertheless, work was completed on a five-volume special report examining human resources in Brazil, another analyzing the most recent available data on income distribution, a study of the capital goods industry, a review of foreign trade policies, and an economic memorandum. A study was also undertaken of the Brazilian financial market, with particular attention to subsidized credit programs. This report will be completed during FY80.

46. The program for FY80 focuses on several of the major policy areas now confronting the Figueiredo Government. Included are an overall review of policies affecting the agricultural sector -- e.g., price controls, price stabilization programs, credit, taxes and subsidies, export and import controls,

exchange rate -- an analysis of Brazil's future energy demands and alternative sources of supply, the economic prospects and needs of the Northwest region, and the rescheduled public sector investment survey. Depending upon the progress of the ongoing discussions between the government and the Bank regarding expanded collaborative efforts in the Northeast, a mission could be mounted in FY80 to study recent developments in the rural Northeast.

47. In the future, further work will need to be done on public sector revenue and expenditure policies, with particular attention to their impacts on the regional and interpersonal distributions of income. A special study is planned of the status and future of state and local finances in Brazil, an area which is crucial to future development efforts, particularly in education and health. The completion and processing of the 1980 census will provide new information regarding poverty, income distribution, employment and the implications of Brazil's large internal migration. In this regard, more analysis is required toward the formulation of an appropriate strategy for urban development. A series of studies is also anticipated to evaluate past, and contribute to the design of future, development efforts in the Northeast as part of the proposed collaborative program. The implications of the energy sector study should be extended to an analysis of transport sector development. Finally, in view of the short-term economic uncertainties, we intend to intensify our monitoring of the macroeconomy with the preparation of biannual economic memoranda and (alternating) updating BTOR's.

48. A tentative work schedule and indicated manpower requirements are given in Attachment VI.

IX. Recent Lending Experience

49. Bank lending to Brazil reached \$705 million in FY78, dropped to \$674 million in FY79, and is unlikely to exceed \$700 million in FY80. This plateau has resulted principally from delays and changes in the lending program stemming from the change in government in March 1979 and the change in the minister responsible for the planning secretariat (SEPLAN) in August. The Country Programs Review of September 20, 1978, approved lending of \$800 million for FY79 and \$865 million in FY80. The principal delays were in lending for agricultural credit project was interrupted for many months by indecision and shifts in responsibility within the government -- and northeast education where project preparation was also interrupted by government changes. The first integrated urban development project was (and still is) delayed by indecision following management changes in the Banco Nacional de Habitacao (BNH). The Sao Paulo pollution control project has been delayed by a political dispute, one of the prices of increased democratization.

50. One favorable development is a much more systematic concern in SEPLAN, regarding the obligations assumed or to be assumed by the government to provide counterpart funding for projects financed by the Bank. Only now is SEPLAN making a systematic inventory of counterpart obligations already incurred or to be incurred for projects in the pipeline. This has occurred in part because of a new determination to compress the public sector deficit, and

there are indications that SEPLAN will, at least as long as the present serious fiscal problems persist, be more restrictive than in the past about accepting new counterpart obligations for the federal government. This, in turn, may mean that some projects will be delayed or even eliminated from the lending program.

51. Loan disbursements have lagged behind new commitments. They were \$202 million in FY76, \$267 million in FY77, \$252 million in FY78 and \$295 million in FY79. There are various reasons for the lag: problems with counterpart funding; competition from subsidized credit; delays in getting new-style projects started; as well as the more common delays involving large construction projects with long lead times. We are continuing to make concerted efforts to cut down these disbursement lags.

X. Modified Lending Program

52. There will be compelling reasons, once the present transitional problems are surpassed -- including, it is assumed, the present serious fiscal problems -- for the Bank's lending program in Brazil to return to the upward curve projected previously. Attachments I-IV set out a proposed revision of the lending program that would follow this scenario. A reasonable economic growth path of 6% per annum will require Brazil to continue to import capital on a large scale. The Bank's resources are especially useful because they can be directed toward sectors in which other external sources of capital are not interested, can act as a catalyst in attracting other capital, can provide institution building support, and can enable the Bank to emphasize in concrete terms its concern that Brazil give high priority to programs and projects that will ensure broader distribution of the benefits of growth to the large pocket of poverty in the Northeast and in other parts of Brazil. Lending with these objectives justify the Bank in continuing a large program even though Brazil is gradually moving up the income scale. A further justification lies in the close, confidential dialogue between the Bank and Brazil's economic ministers, which has persisted throughout the recent governmental changes, and is in contrast to the rather distant relationship between Brazil and the IMF.

53. The proposed lending program would involve a sharp upturn in lending in FY81 as shown in the following table, which compares the program approved in September 1978 with that proposed now:

Program approved
 Fiscal Year in 1978 New proposal
 (US\$ million)

1978 (actual)	705	705
1979	800	
1979 (actual)		674
1980	865	668
1981	925	1,160
1982	990	1,175
1983	1,070	1,205
1984	1,170	1,280
1985		1,320
1979-83	4,650	4,882
1980-84	5,020	5,488
1981-85	5,020	6,140

54. The FY80-84 program, \$5,488 million is 9% more than that approved a year ago (no more than the rate of inflation). It represents 11.7% of the total Bank lending program approved by the review group last April, but less than the \$6,154 million "norm" for Brazil established by P&B. A larger program could be proposed if it were acceptable from the point of view of portfolio diversity. The shorter than average maturities to Brazil ensure that its share of the Bank's total portfolio could not exceed 10% by 1990 with the program proposed here. The program proposed for FY81-85 is \$6,140 million, 11% more than that for FY80-84, again a situation of little or no growth in real terms.

55. If Brazil were to delay in resolving its present fiscal problems, it might prove difficult to expand the lending program as much or as sharply as foreseen above. The government might have difficulty in providing counter-part financing for an expanded program. If inflation and large balance-of-payments deficits and high debt-service ratios persist, it would be untimely for the Bank to issue an apparent "signal" of confidence that would be inferred from a sudden expansion of lending. The short-term economic situation will be followed closely to avoid such an event. But any major cutbacks would similarly have to be considered, inter alia in the context of the signals they would provide to other creditors.

56. Another element of uncertainty arising from the increasing rate of inflation is future government policies with respect to public utility tariffs. In the past four months, both the electric power and the water supply sectors have been denied the full increases they needed to keep up with inflation. Should this policy be continued (despite ministerial assurances to the Bank that it would not be) it would very much impair the Bank's ability to lend in three sectors (which account for 12% and 11% respectively of the proposed FY81-85 lending program), and would result in actual total lending falling short of the program by a large margin.

57. The lending program for FY81-85 contains 52 projects, seven fewer than in last year's program, (\$118 million compared to \$85 million last year). This would reflect a major increase in average loan size, accomplished in large part through the proposed transition from small (and complicated) micro-regional rural development projects in the Northeast to a sector approach with a few large loans (see paragraph 64 below). After a transitional period, this means that the Brazilian lending program can be executed with somewhat fewer staff resources than at present. However, there are two transitional problems. On the project side, the move to the sectoral approach in Northeast rural development will call for a major effort--with additional staff--to help the Brazilians build the institutional capacity to prepare, appraise and follow-up individual sub-regional projects (as described in Mr. Ardito Barletta's memorandum of August 24, 1979 to Mr. McNamara). On the programs side, there will be a "bunching" of 13 projects in FY81, some of these projects delayed from FY79 and FY80 because of the governmental changes. To accomplish this, an additional 1-1/2 person-years of loan officer work will be needed temporarily. A similar bunching of projects (five) occurs in the Agricultural Projects Division responsible for Brazilian projects. It is not yet clear whether the regional staff can be reallocated in this way in FY80 or whether additional resources can be obtained for FY81.

XI. Lending Strategy

58. There appears to be no reason to modify the four principal objectives that the Bank has sought to attain in its Brazilian lending in the past few years, namely:

- (a) to support projects which would help increase productivity and incomes of the lowest income segments of the population, broaden the economic opportunities open to those groups and alleviate poverty;
- (b) to help Brazil ease the foreign exchange constraint on its development by supporting projects designed to increase Brazil's export capacity, and, where economical, to substitute domestic production for imports;
- (c) to support projects that are associated with important institutional improvements or sector policy reforms, in order, inter alia, to help maximize public savings and ensure that they are used economically; and
- (d) to provide external resource transfers where other external financing is not available on reasonable terms, or where it is more likely to be forthcoming in conjunction with Bank participation.

59. However, the renewed tightening of the external constraints requires that we attach increased priorities to (b). The sectoral composition of the proposed FY81-85 program, compared to that of the approved FY80-84 program, is shown in Attachment II and may be summarized as follows:

	Per cent of Lending	
	Approved 1980-84	Proposed 1981-85
Assistance to low income groups	57	61
Support of institutional and policy reform	21	17
Support export promotion and import substitution	11	16
Complementary financing	11	6
TOTAL	100	100

60. The emphasis among these objectives would be slightly modified, however. An effort would be made to bring this share of projects designed principally to help low-income groups up to 60% of the total lending program. At this level it should remain at a plateau. There are many reasons for the Bank to continue to lend in more traditional sectors. Many institution-building and policy reform objectives remain to be accomplished. The Bank also has an important role in helping Brazil to expand exports and substitute for imports (including in the non-petroleum energy sector). There will be many occasions when the Bank can associate itself with other lenders acting as a catalyst in helping Brazil tap other sources of funds on favorable terms. Finally, it is clearly the Brazilian government's strong wish that we remain in the traditional sectors of electric power and transportation, and our overall relationship is more comfortable and our economic dialogue more effective if we accede to the government's wish and continue some new lending in those sectors.

61. As described in the next section, our lending in agriculture is programmed to increase from 21% to 28% of the total lending program. This is based on the expectation that the government will take energetic steps to reorganize SUDENE so that it can become the channel for long regional rural development loans. If the government failed to do this, we would have to make more loans in traditional sectors such as those now shown in the reserve category in order to achieve the proposed volume of lending. On the other hand, it might be possible to increase the share of agriculture in the program if the government follows its expressed intention of phasing out agricultural credit subsidies (see para. 16 above).

Agriculture

	1980-84	1981-95
	<u>Approved</u>	<u>Proposed</u>
No. of loans	16	16
Amount (\$ million)	1,070	1,725
% of lending	21	28

(two reserve projects, \$85 million, FY82, and FY83)

62. For many years the government has been trying to achieve a steady increase in agricultural output both to meet an increasing share of the growing domestic requirements for food and fiber, and to raise exports. Over 1967-74 the agricultural sector performed well in meeting these objectives, with output growing at 5.7% annually despite adverse weather conditions in three of the seven years. With the exception of 1977, when agricultural output rose by 9.6%, the growth performance of the sector has subsequently fallen below the 1967-74 average. However, in May 1979 the new government adopted a number of measures in the areas of rural credit, minimum prices, and rural land taxation which are intended to stimulate agricultural production over the next few years.

63. Another major objective in regard to the agricultural sector has been to raise the productivity and incomes of the rural poor and to broaden their access to physical and social infrastructure. One important program which exemplifies the pursuit of this objective is POLONORDESTE. This program, established in 1974, seeks to assist low-income farmers in the Northeast through the preparation and implementation of integrated rural development projects in selected micro-regions. We have so far approved six loans under POLONORDESTE (Rio Grande do Norte, Ceara, Paraiba, Bahia, Sergipe and Pernambuco). Work on these complex projects is proceeding with encouraging results although they have had various administrative and funding problems, many of which have been associated with changes in staff following the advent of new administrations at both state and federal levels earlier this year. We propose to continue to support POLONORDESTE by financing additional such projects in these and other states.

64. While it has long been our hope to lend for rural development in the Northeast on a broad regional scale, the regional development agency (SUDENE) has until now not provided sufficiently strong institutional base. However, the new government has expressed its intention to strengthen SUDENE and has solicited, and received, from the Bank a number of proposals in this regard. These proposals, now under review by the Government, include, inter alia, measures to improve the staffing, budgeting and overall program administration and coordination capacities of SUDENE. These actions would be followed by the strengthening of the Bank's Recife office. On the assumption that concrete steps will be taken in these areas in the near future, we have proposed two regional loans (Northeast Rural Development I and II) totalling US\$450 million, for FY82 and FY84.

65. The new government has requested Bank participation in the preparation and financing of rural development projects in the Northwest and Amazon regions. To this end, we have scheduled two loans totalling US\$180 million for FY81 to help finance the integrated development of the Northwest-- a first (US\$100 million) for the reconstruction and paving of the Cuiaba-Porto Velho highway, and a second (US\$80 million) for rural development in the highway's area of influence. 1/ A third loan of US\$100 million for Northwest agricultural development is proposed for FY84. In addition, we propose a US\$40 million loan for rural development (possibly incorporating smallholder production of oil palm) in the Amazon for FY83.

66. In our dialogue with the government on overall and sector policies, we continue to be critical of the policy of highly negative interest rates for agricultural credit. 2/ Nevertheless, all of the integrated rural development projects referred to above have included agricultural credit components with heavily subsidized interest rates. Additionally, we are scheduling for FY81 a loan of US\$135 million for a small farmer credit project for the whole of the Northeast and a second loan of US\$200 for FY84. Minister Delfim Netto has indicated to the Bank, and has made similar statements publicly, that contingent upon good harvests he intends to free most agricultural prices and begin to phase out credit subsidies in 1980. Unless these intentions are carried out, the proposed loans would also finance heavily subsidized interest rates. As in the rural development projects assisted by the Bank, however, safeguards would be built into the credit projects to ensure that the benefits are clearly directed to the small farmers.

67. Our strategy for lending in the agricultural sector for FY81-85, while continuing to support functional activities on a national or macro-regional level, such as agricultural research and extension, and rural credit in the Northeast, would also provide greater support for overall rural development efforts in the Northeast. Virtually the entire program would be directed at the rural poor. Moreover, taking into account the substantial institutional development of the state planning and executing agencies which has occurred over the past few years (or is expected to occur in the near future), Bank financing of rural development in the Northeast would become increasingly oriented toward the statewide (as in the case of Ceara II) and macroregional (as in the case of the proposed regional loans) approaches. Our proposed agricultural lending in support of the Northwest Integrated Development Program, while on a much smaller scale than envisaged for the Northeast, would be yet another example of the trend toward the macroregional approach to rural development.

1/ As part of the preparation effort for these proposed loans, we have included a Northwest Region Economic Survey in our FY80 economic work program.

2/ A study of the Brazilian capital markets, currently being prepared in the Bank, includes an evaluation of the agricultural credit system and will serve as a basis for further discussion with the government on the subsidized interest issue.

Nutrition, Health and Population

	1980-84	1981-95
	<u>Approved</u>	<u>Proposed</u>
<u>No. of loans</u>	1	1
<u>Amount (\$ million)</u>	70	50
<u>% of lending</u>	1	1

(two reserve projects, \$70 million, FY81, and 83)

68. Recent studies in the Bank and by others have found clear evidence of widespread malnutrition and poor health conditions in Brazil, particularly among the more disadvantaged segments of the population. The Brazil Human Resources Special Report (Report No. 2604-BR of July 13, 1979), for example, found that in 1975 only about one-third of the Brazilian population consumed diets with an adequate calorie content, and that only 42% of all children under 18 years of age could be considered well-nourished. In regard to health, this same report found that the infant mortality rate in Brazil for 1970 (110 per 1,000 live births) was nearly twice as high as the analogous rate for countries at similar per capita GNP levels (55.6 per 1,000 live births), and that the incidence of disease and access to medical care varied markedly between regions, income levels, and urban and rural areas.

69. Though the government has long been cognizant of the health and nutritional problems outlined above, it has only in the mid-1970s inaugurated major remedial programs specifically directed at the poor. In the nutrition area, the most important of these has been the National Nutrition Program (PRONAN), which seeks to alleviate malnutrition through the distribution of food supplements directly to "biologically vulnerable" target groups, that is, pregnant and lactating women and preschool-aged children from low-income families. In regard to health, the most promising new government initiative has been the program for health and sanitation actions in the Northeast (PIASS); a program which would extend primary health care to the most needy in rural areas. As yet, the government has done relatively little to promote family planning, although a recent national maternal and child health plan includes a modest (US\$3.3 million) component to deal with cases of "high risk" pregnancies.

70. To date, Bank activity in the nutrition and health sectors has been modest, and non-existent in the area of family planning. We are currently providing support to PRONAN through the US\$19 million loan, signed in October 1976, for the Nutrition Research and Development Project, and are also helping finance the health components of a number of integrated rural development projects. Our FY81-85 lending program remains modest in these sectors and proposes to help finance, aside from the health components of several additional integrated rural development projects in the Northeast, only one (unidentified) health project (US\$50 million) in FY85. We have also included a loan of US\$20 million in support of a Sao Paulo state health services project

in the FY81 reserve category. Another potential area of Bank activity would be a loan in support of PIASS. While such health sector loans would be new to us, several factors indicate that helping finance the Sao Paulo and PIASS programs would be logical. Among these factors are: (i) the critical effects on productivity and welfare, both in the periphery of large urban areas and in the rural sector, of the fragmentary health services now available to the poor; (ii) the experience accumulated in the Bank with the preparation and implementation of health components of integrated development projects in the Northeast; (iii) the evaluation of the PIASS system completed as part of the Human Resources Report; and (iv) the decisions on lending in the health sector made by the Board in July 1979, which incorporates an approach similar to that being followed by PIASS.

71. The federal government agreed with Sao Paulo state's request to the Bank only on the understanding that it would not include a family planning component. Our impression is that many members of the new government would like to promote family planning but wish to avoid political embarrassment that might be created by the participation of an international agency. We have deleted from our lending program a second loan for nutrition, principally because of the weakness of the National Nutrition Institute (INAN) and the consequent slow progress of our first project in this sector. ^{1/} Given current government policies, it is unlikely that we will be able to include a family planning project in our program in the near future. However, we intend to monitor developments in this area closely, and should there be a change of policy, we would recommend such a project.

Education

	1980-84	1981-85
	<u>Approved</u>	<u>Proposed</u>
No. of loans	5	3
Amount (\$ million)	230	320
% of lending	5	5

(one reserve project, \$75 million, FY82)

72. Brazil's capacity for sustained economic growth in all major sectors is constrained by the low educational attainment of the population, resulting in relatively low mobility of labor, and the serious shortage of trained workers in industry, commerce and agriculture. At the same time, serious regional imbalances in the quality of education offered and in the numbers of school age children enrolled hinder efforts to decentralize economic growth away from the Southeast region. Similar imbalances exist also between the urban centers and the rural areas in the poor regions of the north, the center, and especially, the Northeast. These poor regions

^{1/} A progress report on the first nutrition loan, now being reviewed by the Government, will be distributed to the Board shortly.

lack the physical infrastructure, the qualified teachers and the administrative capacity to provide their population with adequate educational opportunities. In addition, municipal financing is insufficient to cover the expansion of the existing educational services, even when it is supplemented with transfers from the state and federal governments. Solutions to these problems involve: (i) upgrading and expanding formal education at state and local levels, (ii) coordinating and expanding non-formal vocational training programs on a nationwide basis, (iii) reforming school curricula as enunciated in the 1971 education reform law, and (iv) providing direct assistance to the municipalities.

73. Although the government realizes the magnitude and seriousness of the problems in the education sector, and most responsible officials would agree with the remedies that have been identified, remedial measures have not been assigned top priority in government policies. As a result, we have not yet been able to give education the important place in our lending program which it deserves.

74. The proposed FY80 loan in support of the Northeast rural education project, though modest in size, is significant in that it would be the first specifically directed at Brazil's rural population on a macroregional basis. While we are presently helping finance the education and training components of six integrated rural development projects in the northeastern states (and intend to finance such components in others now under preparation), as yet only a small proportion of the regional population has been reached. Moreover, such a piecemeal approach has done relatively little to promote comprehensive, region-wide measures needed to alleviate the fundamental problems of the Northeast's rural education system. In order to make a more effective contribution, we had originally envisaged a loan of US\$80-100 million in support of basic rural education programs in all nine northeastern states. However, the government's unwillingness to commit sufficient counterpart funds necessitated a scaling down of the project's size and content (though not in its geographical scope), and a consequent reduction in our own participation. We intend to continue to express our concern to the government over what we perceive to be a lack of commitment on its part to improving educational opportunities in rural areas, and it is hoped that at least one of the unidentified projects can be devoted to this end. Other promising areas for future Bank activity in the education sector include further assistance to the government in the implementation of the 1971 education reform, which was one of the objectives of the second education project (Loan 1007), and a follow-up vocational training project.

Urban Development

	1980-84	1981-85
	Approved	Proposed
Number of loans	8	7
Amount (\$ million)	860	975
% of lending	17	16

75. Brazil's urban population has nearly quadrupled during the period 1950-1980 from about 13 million to 50 million, an annual increase of above

5.5%. It is expected to slow somewhat, but still be on the order of 4.5% during the next decade. Growth has been rapid in the medium-sized and large cities. Poverty is prevalent in Brazilian cities. Families in poverty (according to Bank guidelines) range from 55% in the southern cities (e.g. Curitiba) to 77% in Recife in the Northeast.

76. Brazil's first enunciation of an urban strategy was contained in the Second National Development Plan (II PND) for the period 1975-1979, and is still in the process of being put into operation. The strategy is based on the central proposition that recent urbanization trends have introduced serious distortions in urban structure and spatial organization. These changes have exacerbated problems of poverty, underdevelopment and severe infrastructural deficiencies in Brazil's urban centers. The II PND also calls for policies to improve the structure and efficiency of the urban system, and to prevent further concentration of population. Recent policy statements emphasize the need to address the urban poverty issue.

77. The institutional set-up in the urban sector is quite complex. Recently efforts have been made to concentrate urban policy in the Ministry of Interior. The National Council on Urban Development (CNDU) is responsible for the coordination of national urban development policy, and the preparation of annual and multi-annual investment programs. CNDU is also responsible for the coordination of the medium-sized cities program. CNDU is an interministerial agency chaired by the Minister of the Interior. The Brazilian Transport Corporation, an agency of the Ministry of Transport, is responsible for urban transport projects. The National Housing Bank (BNH), also under the Ministry of Interior, is responsible for the water supply and sewerage program as well as low-cost housing programs.

78. Bank involvement in the urban sector is focussed on (a) improving the living conditions and increasing the incomes of the urban poor through the provision of services and employment opportunities to the urban poor; (b) strengthening of institutions at the federal, state, and municipal levels to attain these objectives; (c) saving energy by assisting the development of urban mass transport. The Bank is involving itself in programs providing services to the urban poor at affordable prices including low-cost housing, water supply and waste disposal facilities, and adequate means of transportation. The Bank also supports the medium-sized cities program to create employment opportunities as well as to provide services. The vocational training project is training persons who will be able to take advantage of the newly created employment opportunities. Each of the Bank's loans in these sub-sectors provides for the institutional strengthening of the relevant agency(ies), many of which are new and have limited experience with urban development projects involving the poor.

79. In order to gain further knowledge of the urban sector and to review the Bank's role in the sector in Brazil an urban sector mission has been included in the economic work program (see paras. 45-48).

Water Supply and Sewerage

	1980-84	1981-85
	<u>Approved</u>	<u>Proposed</u>
Number of loans	5	4
Amount (\$ million)	635	645
% of lending	13	11

80. The Bank's lending for water supply and sewerage helps to improve the living conditions, including the health, of the low-income population in both urban centers and small communities. The Bank's strategy supports provision of adequate services to as many persons as possible for the least cost, with special emphasis on the poor. It is this group, in the main, which does not yet have access to adequate supplies of clean water and waste disposal at affordable prices. Despite the progress made under Brazil's innovative National Sanitation Plan (PLANASA) launched in 1971, less than 75% of the urban population have adequate water supplies, and only 35% have access to adequate sewerage facilities. To ensure that these services are provided to the poor at affordable prices the Bank has supported a system of water and sewerage tariff cross-subsidization between the rich and the poor which has been adopted by the government. The strategy also calls for recovery of the investment and operating costs of water supply networks and contribution to the expansion of these networks, and reduction of unaccounted-for water through adequate metering and efficient water use programs. To bring water and waste disposal to the very poor the Bank supports applied research in Brazil using low cost techniques.

81. The strategy also calls for the institutional strengthening of various state water companies, especially in the Northeast as well as of the National Housing Bank (BNH) which is responsible for the implementation of PLANASA. The strengthening of BNH will permit it to undertake a more active role in project appraisal and supervision, which should enable the Bank to start lending for water supply and sewerage in FY82.

Development Finance Companies

	1980-84	1981-85
	<u>Approved</u>	<u>Proposed</u>
No. of loans	4	3 /a
Amount (\$ million)	210	255
% of lending	4	4

/a All pollution control.

(one reserve project, \$30 million, FY81)

82. The availability of funds for industrial finance from BNDE and other official institutions at highly subsidized interest rates has so far severely limited the usefulness of several existing Bank loans, and has made it impractical to consider new DFC projects of the conventional type. The new Minister of Planning has told us that the government does not intend to continue this subsidization after January 1, 1980. If that is the case, our partially-committed loan to BNDE for small- and medium-sized industries and our loan for agro-industry financed through the Central Bank may be utilized more rapidly. It may then also be possible to prepare a loan for very small industries which has been discussed for some time, but which we are carrying in the reserve category because of the interest rate problem.

83. However, there is a special type of DFC operation for which some interest rate subsidization seems justified, namely, credit for industries installing air and water pollution control equipment. Pollution is a serious and growing problem in Brazil's industrial centers -- Sao Paulo, Rio de Janeiro and Belo Horizonte especially. Three loans for financing industrial clean-up equipment and process changes are included in the program, in addition to the loan for pollution control in Sao Paulo scheduled in FY80.

Industry and Mining

	1980-84	1981-85
	<u>Approved</u>	<u>Proposed</u>
No. of loans	5	4
Amount (\$ million)	450	500
% of lending	9	8

(two reserve projects, \$45 million, FY81)

84. An effort will be made to concentrate the industrial lending program in a new area, namely, chemical industries producing non-conventional sources of energy. In the past two years Brazil has become one of the world leaders in the use of alcohol for automobile fuel (see paragraph 90 below), and developmental work is also proceeding on the gasification of coal. Two loans for industries producing fuel alcohol and one for coal gasification are included in the program. However, for the time being these projects must be regarded as tentative. As part of the energy sector study referred to below, we hope to become more thoroughly familiar with the economics of the alcohol program--up to now the cost of providing fuel alcohol has been much higher than that of producing gasoline from petroleum, and alcohol has been produced and marketed only with the support of heavy government subsidies, including interest rate subsidies. The government plans to reduce the latter, but whether the Bank can proceed to finance the sector at least will remain uncertain until the economic justification has been established and until interest rate policy has been clarified. The coal gasification project is also tentative and our lending will depend on confirming both technical feasibility and economic justification, both of which are now uncertain.

85. Bank assistance has also been requested for coal mining. Brazil's coal reserves, located in the South, are of poor quality and some of them are expensive to extract. The Bank could play a useful role in helping Brazil develop a rational coal utilization policy, and also assist in institution-building. The Candiota coal project, carried as a reserve project in FY81, may be a suitable vehicle for the Bank to become involved in the sector.

86. The only other mining project in the program is the large Carajas iron ore project in the North--which has the potential of providing up to 50 million tons of high grade ore for export with corresponding benefit to the balance of payments. Capital investment required for the project is large--at least \$3 billion-- because of the need to build rail and port facilities. The project has been held up so far by uncertainties about the future world market for iron ore, as well as by the enormous capital requirements. The major purpose of Bank lending for the project would be catalytic in mobilizing the needed funds.

87. The Bank has been asked to help finance an expansion of the large Jari pulp and paper project in the North, by making a small loan that would be applied to the construction of a hydroelectric plant needed to run the proposed newsprint mill. The project would make a major contribution to the balance of payments. The Bank's role would again be catalytic, helping to mobilize other external capital. However, the project is controversial within Brazil, because it has been promoted and controlled by a single foreign investor, Mr. Daniel K. Ludwig. Necessary government permissions have not yet been granted. Consideration of whether the Bank ought to participate can only take place once the final shape of the project is known, and for this reason it is carried as a reserve project.

Energy

	<u>1980-84</u>	<u>1981-85</u>
	<u>Approved</u>	<u>Proposed</u>
<u>No. of loans</u>	9	8
<u>Amount (\$ million)</u>	860	980
<u>% of lending</u>	17	16

(two reserve projects, \$160 million, FY82, and 83)

88. Over the past decade, energy consumption (excluding traditional sources such as firewood) grew 10% per annum, or slightly faster than GDP. Should this trend continue, modern source energy requirements in 1985 will be roughly 138 million tons of petroleum equivalent (equal to 2.7 million barrels of oil per day). An additional 8 million tons of non-energy (petrochemical) demand for oil is predicted. Meanwhile, few large nations in the world are so apparently deficient in fossil fuels as Brazil. PETROBRAS, the state petroleum monopoly, is currently producing only 8 million tons of oil and 0.5 million tons equivalent of natural gas annually, about 18% of total consumption.

Since 1970, the share of petroleum imports has climbed from 10% to about 38% of total merchandise imports; oil imports currently average 1 million bpd. The dependence of economic growth on oil imports and the impact both on the balance of payments and on domestic prices have become central problems of economic management.

89. After the latest round of OPEC price increases in June 1979 President Figueiredo established the National Energy Commission to coordinate the study and formulation of policies leading to the reduction of Brazil's dependence on foreign oil. The Commission has had difficulty, however, in establishing its jurisdiction as policymaker and spokesman over the many state agencies and enterprises active in the sector. Among the immediate measures taken have been a sharp upward adjustment of domestic fuel prices, the weekend closing of gasoline stations, an increase in the annual tax on automobiles, reduced fuel oil allocations to a number of industries, the introduction of credit subsidies for conversion of industry to domestic fuel sources, and the opening to private oil companies of new areas for exploration under risk contracts. A number of longer-term policy initiatives have been announced--e.g. a massive expansion of alcohol production and the substitution of coal for fuel oil in industry--but there is no clear idea at this point of their technical or economic feasibilities, and a coherent strategy has not yet emerged.

90. Current plans call for expanding the annual production of sugar alcohol from 3.5 billion liters in 1979 to 10.7 billion by 1985; this would be sufficient to supply 20% of projected automotive fuel requirements in the outer year. Meanwhile, automobile manufacturers have agreed to begin large-scale production of pure alcohol-driven cars; 250,000 such vehicles are to be produced in 1980 with annual increments of 50,000 vehicles in the subsequent years. In another industry agreement, the cement industry, which accounts for about 20% of fuel oil consumption, is to shift entirely to domestic coal use according to a schedule to be completed by 1984.

91. These and other alternatives under review--including coal gasification, oil shale development, the hydroelectric potential of the Amazon region, intensified domestic oil exploration and the nuclear program--all require very large investments, and their relative economic merits have yet to be demonstrated. The implications for Brazil's heavily truck-dependent transport sector and the realignment of industry also requires study. A series of Bank missions over the next several months will attempt to evaluate Brazil's energy alternatives and provide the basis for our future dialogue with the government in this sector.

92. The proposed lending program, in addition to possible loans for fuel alcohol production and coal gasification described in the section on industry above (paragraph 84), would include a loan for a gas pipeline (\$150 million) and six loans for electric power (\$750 million). Combined lending for energy-related projects of all types would amount to \$1250 million, or 20% of the total lending program. In addition, there are three possible electric power

loans carried as reserve projects. These could be brought into the firm program in order to maintain the total volume of Bank lending if other projects slipped.

93. The gas pipeline project would transport natural gas from the Bolivia border to the industrial Southeast. The project is tentative until Bolivia's gas reserves are proven. IDA is actively considering an engineering credit to Bolivia whose object would be to finance the studies needed to confirm the gas reserves.

94. The further development of Brazil's hydroelectric potential will require a sustained annual level of investment of about \$4-5 billion over the next five years in generation, transmission and distribution works. The Bank can continue to play an important role in support of the Government's energy policy by providing a portion of this requirement. The main rationale for our lending for power is to enable us to maintain a policy dialogue on sector issues, in the economic, financial, and technical areas. Because of the high professional level of our counterparts, this dialogue has been very fruitful and, we believe, has had a significant impact on government policies for the sector. For example, in connection with Loan No. 1300-BR (Northeast Power Distribution Project), the government undertook to carry out, under terms of reference satisfactory to the Bank, a major study on the structure of electricity rates in Brazil. The government also agreed to carry out a study on a general regulation of systems or extensions, which would select which systems extensions should be executed among those requested by interested groups. In addition, the government undertook to carry out, under terms of reference satisfactory to the Bank, a study on the adoption of lower cost standards (compatible with safety requirements) for distribution facilities in low density areas, with a view to increasing service in such areas. Under the South-Southeast Distribution Project (Loan No. 1538-BR), the focus of the tariff study was broadened to include a study on the adequacy of tariff levels, and a financial forecast for the sector to 1985. In addition, we became aware in the course of the preparation of this project, that sector planning methods needed improvement, and as a result of our advice on this subject, the government has undertaken to prepare a new long-term master plan for power development for the whole of Brazil to the year 2000. The marginal cost tariff study and the financial plan for the sector have now been presented to the Bank by the regulatory agency, DNAEE. An intensive dialogue on the implications of the study is underway.

95. Power sector tariffs have been declining in real terms over the last several years, and a number of our borrowers are unlikely to achieve in 1979 a remuneration of 10% on remunerable investment as provided in the Brazilian legislation and in the various loan covenants. In recent months, the sector has not been allowed to increase tariffs enough to keep pace with inflation. Our lending program is of course postulated on the expectation that this situation will be remedied.

96. In addition, the Bank's continued presence in the electric power sector will encourage and support least-cost investment decisions; help

strengthen the management and planning of power companies, particularly the smaller ones which are involved in distribution; expand electricity connections to lower-income groups; assist the government in the review and development of overall energy policies and investment programs; and help, through co-financing, to mobilize additional external capital.

97. Lending for electric power in FY80-84 would decrease from approximately 17% of total lending approved in the current approved program to about 14% in the proposed FY81-85 program. The corresponding figures for 1969-73, 1974-78 and 1979-83 (as proposed in the current CPP) were 26.1%, 23%, and 15% respectively.

Transportation

	1980-84 <u>Approved</u>	1981-85 <u>Proposed</u>
No. of loans	6	6
Amount (\$ million)	635	690
% of lending	13	11

(one reserve project, \$100 million, FY82)

98. Brazil's current transport policies have two principal objectives: to reduce the energy consumption of the country's transport system, and to make possible the evacuation and marketing of agricultural products from newly formed parts of the country. In addition the country is attempting to put its financially and operationally weak railway system on a sounder footing.

99. Improvement in railway transport is intended on a large part as an energy-saving measure. It would be feasible for the Bank to support this effort by continuing a moderate lending program in the sector, and a further loan for the federal railways-RFFSA is included in the proposed lending program. Whether in part the Bank will be able to make that loan is very uncertain, however. RFFSA needs to pursue a more vigorous policy of eliminating uneconomic loans and services. It is in extremely poor financial condition, partly because of lags in tariff adjustment and partly because of excessive debt burdens. Finally, RFFSA is undertaking a costly new investment in the "Ferrovia do Aco" (steel railway) from Belo Horizonte to Sao Paulo, whose economic justification, as compared to upgrading the existing central line, is still uncertain. If the Bank were able to make another loan to RFFSA, its institution-building role could be substantial. The government would also like the Bank to finance a rail line from western Parana -- the area where production of soybeans is expanding (as in neighboring Paraguay) to the port of Paragana. This would involve partly the construction of new line and partly the reconstruction of an obsolete, high-cost line. A loan for this project is carried as a reserve project for FY82—but could not be made in the absence of major institutional reforms in RFFSA. A further loan to the Sao Paulo railway, FEPASA, is scheduled for FY84, but this is dependent upon major improvement in FEPASA's finances.

100. Four highway loans are contemplated, two of them to facilitate agricultural development. There would be a third secondary and feeder road loan through BNDE, the other would be to reconstruct the present extremely poor connection between Cuiaba (Mato Grosso) and Porto Velho (Rondonia), an area of explosive inward migration by small farmers and rapidly expanding agricultural production. The highway loan would be contingent on the preparation and execution of effective agricultural development projects and feeder road programs in the region, for which Bank financial assistance would also be provided. The two other highway loans would continue support for reconstruction and improved maintenance of federal highways, and the delegation of maintenance to the states. An additional emphasis of these projects would be the development of maintenance capacity in the northeast states with special attention to the problem of feeder and secondary roads under the responsibility of rural municipalities.

101. In the ports sector, one loan is contemplated for the development of port and other infrastructure facilities at Vila do Conde, near Belem in the Amazon region, where an aluminum industry is being planned for export, and which would also become an outlet for agricultural exports from the Araguaia River areas of the states of Para, Goias, and Mato Grosso. Another port project, yet to be identified, would serve both institution-building and export-promotion objectives.

BRASIL - TENTATIVE REVISED LENDING PROGRAM

FY 1982 (reserve) US\$ Million

Power - rural electrification	60
Fisheries - Northeast	35
Education IVa	75
Railways - soybean export corridor	100

FY 1983 (S)

Highways VII	150
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FY 1983

Sao Paulo Sewerage II	165
Carajas	150
Rural development - Amazon (oil palm)	40
Agriculture extension II	150
Education V	100
Industry - coal gasification	100
Power - Xingu	100
Secondary and feeder roads III	100
Urban transport - Sao Paulo	150
	<u>1,205</u>

FY 1983 (reserve)

Power - Garabi	100
Agriculture - land redistribution	50
Health (PIASS-NE)	50

FY 1984

Rural development - NE II	250
Agricultural credit - NE II	200
Northwest development III (agriculture)	100
CODEVASF III	60
Energy - gas pipeline	150
Education VI	120
Power distribution - ELETROBRAS II	200
Urban development - medium cities II	120
Railways - FEPASA II	80
	<u>1,280</u>

FY 1984 (reserve)

Power - CEEE II	150
Industry - unidentified (chemical)	100

FY 1985

US\$ Million

Rural development - unidentified	100
Agricultural research III	100
Urban development - Unidentified	150
Sites and services III	200
Education VII	100
Industry - fuel alcohol II	150
Power (unidentified)	150
Health (unidentified)	50
Pollution control - Sector II	120
Water and sewerage - Sector II	200
	<u>1,320</u>

FY 1985 (R)

Road Maintenance - Northeast	100
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CLASSIFICATION OF LENDING PROGRAM BY PRIMARY OBJECTIVES

Classification by Objective and Sector	Approved 78 CPP				Proposed			
	FY80-84				FY81-85			
	Amount US\$ Million	% of Total	No. of Projects	% of Total	Amount US\$ Million	% of Total	No. of Projects	% of Total
A. Assistance to Low-Income Groups								
Agriculture	990		15		1725		16	
Education	230		5		320		3	
Nutrition/Health	70		1		50		1	
Water Supply and Sewerage	635		5 ^{a/}		645		4	
Urban Development	745		7 ^{b/}		845		6 ^{d/}	
Transportation	145		1-1/2 ^{b/}		200		2	
Electric Power	30		1/2 ^{c/}		-		-	
	<u>2,845</u>	57	<u>35</u>	60	<u>3,785</u>	61	<u>32</u>	62
B. Support of Institutional & Policy Reform								
DFCs (Pollution Control)	210		4 ^{b/}		255		3	
Transportation	490		4-1/2 ^{b/}		250		2	
Electric Power	260		2-1/2 ^{c/}		415		3-1/2 ^{a/}	
Urban Development	115		1		130		1 ^{d/}	
	<u>1,075</u>	21	<u>12</u>	20	<u>1,050</u>	17	<u>9-1/2</u>	18
C. Export Promotion & Substitution								
Agriculture	80		1		-		-	
Non-conventional Energy Industry and Mining	450		5		750		6	
Transportation	-		-		140		1	
	<u>530</u>	11	<u>6</u>	10	<u>890</u>	15	<u>7</u>	13
Complementary Financing								
Electric Power	570		6		415		3-1/2 ^{a/}	
	<u>570</u>	<u>11</u>	<u>6</u>	<u>10</u>	<u>415</u>	<u>7</u>	<u>3-1/2</u>	<u>7</u>
	<u>5,020</u>	<u>100</u>	<u>59</u>	<u>100</u>	<u>6,140</u>	<u>100</u>	<u>52</u>	<u>100</u>

- a/ Two urban transport projects have two equally important objectives — assistance to low-income groups and support of institutional and policy reform
- b/ Two secondary and feeder roads projects and an urban rail transport project have two equally important objectives — assistance to low-income groups and support of institutional and policy reforms.
- c/ A rural electrification project has two equally important objectives — assistance to low-income groups and support of institutional and policy reforms.
- d/ Two urban transport projects have two equally important objectives — assistance to low-income groups and support of institutional and policy reform.
- e/ Seven power projects have equally important objectives — support of institutional and policy reform and complementary financing.

October 16, 1979

DISTRIBUTION OF LENDING BY SECTOR1980-84 Approved

	<u>No. of Loans</u>	<u>Amount (\$ million)</u>	<u>% of total lending</u>
Agriculture	16	1,070	21
Nutrition and health	1	70	1
Urban development	7	975	16
Education	5	230	5
Water & Sewerage	5	635	13
DFC's (Pollution control)	4	210	4
Industry	5	450	9
Power	9	860	17
Other energy	-	-	-
Transport	6	635	13
Total	<u>59</u>	<u>5,020</u>	<u>100</u>

1981-85 Proposed

Agriculture	16	1,725	28
Nutrition and health	1	50	1
Education	3	320	5
Urban development	8	860	17
Water & sewerage	4	645	11
DFC's (Pollution control)	3	255	4
Industry	4	500	8
Power	7	830	14
Other energy	1	150	2
Transport	6	690	11
Total	<u>52</u>	<u>6,140</u>	<u>100</u>

ATTACHMENT V

BRAZIL: BALANCE OF PAYMENTS AND DEBT, BASE I, 1978-85
(in millions of US\$)

	1978	1979	1980	1981	1982	1983	1984	1985
1. Merchandise exports	12,651	14,686	17,084	19,723	22,941	26,967	31,715	37,299
2. Merchandise imports	-13,639	-17,145	-18,563	-21,182	-24,218	-27,750	-31,999	-36,934
3. Trade balance	-988	-2,459	-1,479	-1,459	-1,277	-783	-284	365
4. Non-factor services, net	-1,351	-1,337	-2,229	-1,774	-1,910	-2,108	-2,360	-2,648
a) Payments	(-2,494)	(-2,787)	(-3,065)	(-2,975)	(-3,380)	(-3,847)	(-4,406)	(-5,058)
b) Receipts	(1,143)	(1,450)	(836)	(1,201)	(1,470)	(1,739)	(2,046)	(2,410)
5. Resource gap	-2,339	-3,796	-3,708	-3,233	-3,187	-2,891	-2,644	-2,283
6. Factor service income, net	-3,624	-4,755	-5,145	-6,000	-6,974	-8,034	-9,253	-10,525
a) Interest payments abroad	(-3,342)	(-4,254)	(4,294)	(-5,041)	(-5,909)	(-6,857)	(-7,957)	(-9,106)
b) Interest on reserves	(647)	(757)	(512)	(535)	(576)	(624)	(680)	(747)
c) Other factor services net	(-929)	(-1,258)	(-1,363)	(-1,494)	(-1,641)	(-1,801)	(-1,976)	(-2,166)
7. Current transfers, net	72	7	7	7	7	7	7	7
Balance on current account	-5,891	-8,544	-8,846	-9,226	-10,154	-10,918	-11,890	-12,801
9. Net direct foreign investment	906	1,000	1,000	1,000	1,000	1,000	1,000	1,000
10. Net M< loans	8,533	4,544	8,191	8,880	9,909	10,799	11,951	13,035
a) Disbursements	(13,703)	(10,334)	(15,779)	(16,738)	(18,759)	(20,472)	(24,080)	(26,315)
b) Amortization	(-5,170)	(5,790)	(-7,588)	(-7,858)	(-8,850)	(-9,673)	(-12,129)	(-13,280)
11. Short-term and n.e.i.	332	-	-	-	-	-	-	-
12. Change in reserves (= increase)	-3,880	3,000	-345	-654	-755	-881	-1,061	-1,234
Reserves, end of period	11,895	8,895	9,240	9,894	10,649	11,530	12,591	13,825
Gross M< debt, end of period	43,511	48,055	56,246	65,126	75,035	85,834	97,785	110,820
Debt service ratios (%)								
Gross	60.7	62.2	66.3	61.6	60.5	57.6	59.5	55.8
Net	56.1	57.6	63.4	59.1	58.1	55.4	57.5	53.9
Current account deficit (% GDP)	3.0	3.9	3.6	3.3	3.3	3.2	3.1	3.0
Gross M< debt (% GDP)	22.1	21.7	22.7	23.6	24.4	25.0	25.6	26.1
Import coverage of reserves (months)	10.5	6.2	6.0	5.6	5.7	5.0	4.7	4.5

BRAZIL - ECONOMIC AND SECTOR WORK PROGRAM

Subject	Description	Responsible Department	Total Manweeks Required		
			FY80	FY81	FY82
I. Macroeconomic					
1. Economic memorandum	Biannual mission to analyze current fiscal, monetary, and balance-of-payments situation and assess the quality of economic management.	LC2		36	
2. Updating back-to-office report	Updates macroeconomic overview in alternate years to (1).	LC2			18
II. Sectoral					
3. Agricultural policy review	Analyzes the impact on agricultural performance and income distribution of the various pricing, tax, subsidy and foreign trade policies affecting the sector.	LC2	36		
4. Energy sector study	Consists of a series of sub-missions to project energy demand over the next 2 decades and analyze the economic implications and alternatives.	EGY/LC2	70	20	
5. Transport sector study	Analysis of sectoral development alternatives in view of new energy parameters.	LCP		24	
6. Urban sector study	Examination of urbanization trends and problems and implications for development strategy.	LCP		24	
III. Special					
7. Financial markets survey	Survey of the current functioning of the domestic financial system with particular attention to the role and consequences of credit subsidies.	LC2	30		
8. Northwest regional survey	Examines economic prospects and needs of the state of Northern Mato Grosso and Territory of Rondonia in connection with proposed Northwest development program.	LC2	81		
9. Public sector investment survey	Will prepare a consolidated 5-year public sector investment and financial program integrated into updated balance-of-payments and fiscal revenue projections	LC2	90	50	
10. Northeast regional studies	Studies, primarily directed at agriculture and rural development, to be carried out as part of collaborative program with Brazilian Government.	LCP	34	20	40
11. State and local finance	Analysis of financial needs and resources of the state and local governments with particular attention to their abilities to meet their responsibilities in education and other areas.	LC2		36	
12. Distributional impact of public sector revenue policies	First study would focus on tax incidence, including social security contributions, by income groups, source of income, sectors and regions. Would also analyze elasticity of tax system.	LC2		40	
13. Distributional impact of public sector expenditures policy	Complementary study to (12) above of expenditure side.				60
14. Income distribution and employment	Would examine data from 1980 census and analyze the trends disclosed in the context of the economic progress and policies since 1970.	LC2			40

THE STATUS OF BANK OPERATIONS IN BRAZIL

A. SUMMARY STATEMENT OF LOANS
(As of September 30, 1979)

<u>Loan #</u>	<u>Year</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount less Cancellations (US\$ Million)</u>	<u>Undisbursed</u>
Forty-five loans fully disbursed				1,485.0	
756	1971	Brazil	Ports	45.0	6.6
853	1972	Brazil	Land Settlement	6.7	.2
923	1973	Furnas Centrais Eletricas - Itumbiara	Power	125.0	26.6
924	1973	Brazil	Agro-Industry	42.3	16.5
1008	1974	Cia. Hidro Eletrica do Sao Francisco-Paulo Afonso IV	Power	81.0	27.1
1009	1974	Banco Nacional da Habitacao	Water Supply	36.0	1.9
1067	1974	Brazil	Education	23.5	15.3
1074	1975	Rede Ferroviaria Federal	Railways	175.0	20.8
1075	1975	Brazil	Roads	110.0	30.8
1151	1975	Companhia Siderurgica Nacional	Industry	95.0	59.5
1152	1975	Companhia Siderurgica Paulista	Industry	60.0	53.2
1153	1975	Brazil	Agriculture	23.0	15.2
1171	1975	FEPASA - Ferrovia Paulista	Railways	75.0	31.0
1195	1976	Brazil	Rural Development	12.0	10.8
1206	1976	Brazil	Development Bank	85.0	63.1
1207	1976	Brazil	Feeder Roads	55.0	49.5
1249	1976	Brazil	Agriculture	40.0	33.5
1256	1976	Petrobras Fertilizantes	Fertilizer	50.0	5.8
1257	1976	Companhia Paranaense de Energia Eletrica - COPEL	Power	52.0	20.0

SUMMARY STATEMENT OF LOANS (Continued)
 (As of September 30, 1979)

<u>Loan #</u>	<u>Year</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount less Cancellations (US\$ Million)</u>	<u>Undisbursed</u>
1300	1976	Eletrobras	Power	50.0	33.0
1302	1976	Brazil	Nutrition	19.0	17.2
1309	1976	Banco Nacional da Habitacao	Water Supply	40.0	26.9
1317	1976	Brazil	Agro-Industry	83.0	83.0
1343	1977	ELETROSUL	Power	82.0	45.5
1362	1977	State of Minas Gerais	Rural Development	42.0	23.8
1406	1977	Petrobras Fertilizantes	Fertilizer	64.0	57.0
1411	1977	Fertilizantes Vale do Rio Grande S.A.-VALEFERTIL	Fertilizer	82.0	42.5
1452	1977	Brazil	Education	32.0	30.3
1488	1977	Brazil	Rural Development	17.0	15.0
1525	1978	Banco Nacional da Habitacao	Sewerage	110.0	104.3
1537	1978	Brazil	Rural Development	24.0	22.5
1538	1978	ELETROBRAS	Power	130.0	130.0
1557	1978	Brazil	Roads	114.0	113.6
1562	1978	COPEL	Petrochemicals	85.0	80.4
1563	1978	Brazil	Urban Transport	88.0	82.0
1568	1978	Brazil	Agric. Extension	100.0	98.5
1589	1978	Brazil	Rural Development	37.0	35.8
1654	1979	Banco Nacional da Habitacao	Sites & Services	93.0	93.0
1656	1979	Banco Nacional da Habitacao	Water & Sewerage	100.0	100.0
1660	1979	Valesul Aluminio S.A.	Aluminum	98.0	98.0
1714	/1 1979	Brazil	Rural Development	26.0	26.0
1720	/1 1979	Brazil	Urban Development	70.0	70.0
1721	/1 1979	COPEL	Power	109.0	109.0
1728	/1 1979	Brazil	Rural Development	40.0	40.0
1729	/1 1979	Brazil	Irrigation	28.0	28.0
1730	/1 1979	Brazil	Roads	110.0	110.0
Total				4,549.4 /2	
Of which has been repaid to the Bank				576.9	
Total now outstanding				3,972.5	
Amount sold			45.8		
of which has been repaid			40.1	5.7	
Total now held by Bank				3,966.8	
Total undisbursed					2,202.7

/1 Not yet effective.

/2 No IDA credits have been made to Brazil.

B. PROJECTS IN EXECUTION

There are now 40 effective Bank loans under disbursement:

Loan No.

- 756 Santos Port Project: US\$45 million loan of June 21, 1971;
Effective Date: October 29, 1971; Closing Date: September 30, 1980.
After long delays, project execution is proceeding satisfactorily although it appears now that project completion will not be realized until mid-1980. Accordingly, the closing date has been postponed. The financial condition of the port of Santos has improved and is expected to make a profit in 1979. Price escalation for civil works continues to increase the project cost. All of the increase is in local currency and is expected to be covered by additional allocations from Brazil's federal Port Authority, PORTOBRAS.
- 853 Alto Turi Land Settlement Project: US\$6.7 million loan of July 24,
1972; Effective Date: February 15, 1973; Closing Date: June 30, 1980.
The road component of the project now completed was reduced from the original 306 km to 238 km. The settlement agency, COLONE, has prepared revised farm development plans whose credit component, to be financed by public financial institutions, will be significantly higher than originally estimated. Administrative delays in the release of public funds for farm credit, road construction and COLONE working capital requirements and difficulties in recruiting project staff delayed the start of project execution. COLONE continues to be hampered by the lack of assured financing, and this problem is compounded by cost overruns presently amounting to about 240%.
- 923 Itumbiara Hydroelectric Project: US\$125 million loan of August 1,
1973; Effective Date: October 30, 1973; Closing Date: December 31,
1982. The project is about 65% completed. Major procurement has been completed. However, commissioning of the units is expected to be delayed about 6 months behind appraisal estimates, due to geological problems encountered and very heavy rains which delayed construction of the earthfill dam. The present cost estimate is about 54% over the appraisal cost estimate, 10% of which is due to the need for increased physical quantities due to geological problems. The rest of the increase is due to a substantial increase in the size of the transmission works and to an increase in the cost of civil works. However, the project remains economically justified.

Loan No.

- 924 Agro-Industries Credit Project: US\$54 million loan of August 1, 1973; Effective Date: March 11, 1974; Closing Date: June 30, 1979. Disbursements for sub-loans totalling US\$14.7 million were made during 1975-76 under procedures which were not in accordance with the Loan Agreement. These funds have now been prepaid by the Government, reducing the effective loan amount to US\$39.3 million. Commitments under this loan are almost at a standstill as a result of competing credit lines at subsidized rates and a general slow-down in industrial investments. Sub-loan commitments and disbursements are more than 2 years behind schedule. The original Closing Date was postponed once--from December 31, 1978 to June 30, 1979. In view of the slow disbursement, and the fact that commitments under Loan No. 1317-BR had not yet started, the Bank has decided to allow the Closing Date to lapse, and has cancelled the amount of US\$11,737,035.97, corresponding to the uncommitted balance of Loan No. 924-BR as of June 30, 1979. The Borrower will be permitted to draw down until June 30, 1980 up to the amount of US\$16,537,353.30, corresponding to the amount of Loan No. 924-BR committed as of June 30, 1979 against approved sub-projects but not yet disbursed as of that date. Further commitments under the Government's agro-industries credit program will be made against Loan No. 1317-BR.
- 1008 Paulo Afonso IV Hydroelectric Power Project: US\$81 million loan of June 17, 1974; Effective Date: April 15, 1975; Closing Date: December 31, 1980. Resettlement of the 9,700 families displaced by the Sobradinho reservoir has been satisfactorily completed, and new towns and villages to house the displaced population have been constructed. The construction of the underground power station and Sobradinho Dam is proceeding on schedule. Construction of the transmission lines and sub-stations is about 12 months behind schedule. The original Closing Date of December 31, 1978 has been postponed to December 31, 1980.
- 1009 Minas Gerais Water Supply Project: US\$36 million loan of June 17, 1974; Effective Date: January 9, 1975; Closing Date: August 15, 1980 This project is substantially completed. As of August 31, 1979, 93% of the loan proceeds had been disbursed. The project has financed 41 subprojects in the capital city, Belo Horizonte, and in other cities and towns. The Closing Date for this loan was postponed to August 15, 1980 so that the borrower can meet final payments on equipment contracts.
- 1067 Second Education Project: US\$23.5 million loan of December 27, 1974; Effective Date: April 17, 1975; Closing Date: December 31, 1979. Project execution is one year behind schedule mainly because of delays by the government in providing counterpart financing. Project implementation units have been established in all eight project states and these, together with the main project unit, PREMEN, are working well. The pre-investment studies in the Northeast, financed under the loan, have been completed and have yielded useful information for future sector investment planning.

Loan No.

- 1074 Second Railway Project: US\$175 million loan of January 17, 1975; Effective Date: June 17, 1975; Closing Date: June 30, 1981.
Cost estimates for the Investment Plan, of which the project is a part, have increased substantially on several items. Therefore, the Plan has been revised and several items have been deleted or postponed. This revision is not expected to affect significantly the items included under Bank financing. Although the financial situation of the borrower has improved, further improvement is necessary for it to be able to effectively carry out its investment program. The Government has decided to deregulate most freight tariffs and has started to make payments to the railway to meet deficits on uneconomic services. These actions should significantly improve the borrower's financial position.
- 1075 Fifth Highway Project: US\$110 million loan of January 17, 1975; Effective Date: May 15, 1975; Closing Date: December 31, 1979.
Project execution is proceeding satisfactorily. Roadworks are progressing well, and detailed engineering studies for road construction and road rehabilitation are completed. Implementation of the road maintenance component is making progress.
- 1151 CSN Steel Expansion Project - Stage III: US\$95.0 million loan of August 4, 1975; Effective Date: April 30, 1976; Closing Date: December 31, 1982. The latest cost estimate is US\$3,530 million, an increase of about 67% over the appraisal estimate due to a slower than expected start of project implementation, higher than expected construction costs, difficulties in holding the scope of the project to its essentials, some problems in the management of the expansion program, and funding shortfalls from the federal government. The new Government has reassigned priority to the steel sector, and no further financial difficulties are envisaged. Substantial changes were made resulting in better management and control of the project. The project remains economically justified.
- 1152 COSIPA Steel Expansion Project - Stage III: US\$60.0 million loan of August 4, 1975; Effective Date: March 4, 1976; Closing Date: June 30, 1980. Because of the delay in the Stage II project, the Stage III project was revised with the assistance of consultants. Stage III has been proceeding at a reduced pace in part because of uncertainty of Government allocations of the necessary funds to fully finance the project. However, with the assurance that sufficient federal funding will be available beginning in 1980, no further delays are envisaged. The revised project cost is US\$1.7 billion which is 44% above the appraisal estimate. However, the project remains economically justified.

Loan No.

- 1153 Lower Sao Francisco Polders Project: US\$23.0 million loan of August 4, 1975; Effective Date: November 25, 1975; Closing Date: December 31, 1979. Construction on this project was delayed because of heavy rains in the project area, and serious flooding in February/March 1979 has further delayed project progress. Current cost estimates show an increase of at least 80% over the appraisal estimate of US\$56.5 million. These increases have resulted from design changes, rapid increases in the costs of civil works and equipment, and in the cost of land expropriation. The waters from the recent floods have now substantially receded, and construction is expected to resume at a normal rate later in 1979.
- 1171 Third Railway Project (FEPASA): US\$75.0 million loan of November 12, 1975; Effective Date: March 24, 1976; Closing Date: December 31, 1981. Project execution is proceeding satisfactorily. The Transport Master Plan Study for Sao Paulo is substantially completed. The technical assistance program which is intended to improve FEPASA's operations, marketing, and data processing systems is showing results. The Government deregulated most freight tariffs at the beginning of 1979, but FEPASA's tariffs are limited by competition. FEPASA's financial position has consequently weakened. Consideration is now being given to ways in which FEPASA's operating costs can be reduced. Preliminary results of the Transport Master Plan indicate that a major redimensioning of the railway will be required. The closing date for this loan was postponed to December 31, 1981 to allow the borrower the time needed to meet final payments on equipment contracts.
- 1195 Rio Grande do Norte Rural Development Project: US\$12.0 million loan of March 1, 1976; Effective Date: July 30, 1976; Closing Date: September 30, 1982. Phase I of this project ended satisfactorily in the areas of extension, credit, applied research, and health, although one year behind the original schedule. Phase II, now just beginning, would sharpen the project's focus on the lowest income farmers and would include new components in the areas of marketing, storage, and support to cooperatives, land services; seed production; and inland fisheries. The new state administration has indicated its strong support of the project, particularly of Phase II implementation. The closing date for this loan was postponed to September 30, 1982 to allow disbursements to coordinate effectively with Phase II.
- 1206 Development Banking Project: US\$85.0 million loan of March 1, 1976; Effective Date: August 26, 1976; Closing Date: December 31, 1980. Project implementation is behind schedule. The major reasons are: (i) differences between the relending terms required under the Loan Agreement and those of competing sources of funds; (ii) a leveling

Loan No.

off of industry's demand for investment financing; and (iii) resource constraints of the National Development Bank (BNDE). To accelerate commitment of the loan, the Bank agreed to amend the Loan Agreement so as to finance the full foreign exchange cost of subprojects. The closing date for this loan was postponed to December 31, 1980 and funds can be disbursed for sub-projects submitted up to March 31, 1980.

- 1207 Secondary and Feeder Roads Project: US\$55.0 million loan of March 1, 1976; Effective Date: July 13, 1976; Closing Date: December 31, 1981. Eight sub-projects involving eight different states have been approved. Construction is underway in three states, Bahia, Minas Gerais, and Goias.
- 1249 Agricultural Research I Project: US\$40.0 million loan of June 23, 1976; Effective Date: September 21, 1976; Closing Date: December 31, 1981. Project implementation experienced a significant slow-down because of changes in the higher administrative positions at EMBRAPA in early 1979. Imposed hiring constraints also significantly affected the civil works, consultant services, and training components of this project. The outlook for the remainder of 1979 should be more favorable with a resumption of normal hiring procedures since the new government has now taken office.
- 1256 Aracaria Fertilizer Project: US\$52.0 million loan of May 19, 1976; Effective Date: July 20, 1976; Closing Date: December 31, 1980. Project completion is expected to be delayed by about 15 months due to delays in delivery of equipment to be provided by Brazilian suppliers. Total project cost has increased to US\$321 million, which is US\$49 million over the appraisal estimate of US\$272 million. All the increase is in local currency and with the planned increases in local loans and equity commitment the project has no financing gap.
- 1257 COPEL Power Distribution Project: US\$52.0 million loan of May 19, 1976; Effective Date: August 17, 1976; Closing Date: December 31, 1979. Project execution is on schedule and about 90% completed. Procurement under the loan has also been completed. Disbursements lag about 30% behind appraisal forecast, and the loan is not expected to be fully utilized by the closing date; postponement is being considered.

Loan No.

- 1300 Northeast Power Distribution: US\$50.0 million loan of August 27, 1976; Effective Date: January 31, 1977; Closing Date: June 30, 1980. Project implementation is about 6 months behind schedule because of initial difficulties in obtaining a Government definition regarding participation by Brazilian suppliers. Procurement is now progressing satisfactorily. However, the Bank is considering postponement of the closing date to December 31, 1980. After a slow start, the agreed targets for connection of low income households have been widely exceeded. Substantial improvements in the management of the project companies have been achieved, particularly in the areas of financial control and planning of COELBA and CELPE.
- 1302 Nutrition Research and Development: US\$19.0 million loan of October 1, 1976; Effective Date: December 30, 1976; Closing Date: December 31, 1980. The INAN project unit is inadequately staffed which is adversely affecting the progress of the project. The nutrition delivery system's field tests are proceeding reasonably well. Disbursements under the industrial credit component have not started primarily because of competitive programs at subsidized rates. We have been informed by the Health Minister that, notwithstanding the Planning Minister's reservations in this regard, INAN would be given foundation status. This measure would allow INAN to offer competitive salaries and thus attract and retain adequate staff. Measures to deal with the inactive industrial credit are currently under review by the Government.
- 1309 Second Minas Gerais Water Supply and Sewerage Project: US\$40.0 million loan of August 27, 1976; Effective Date: January 18, 1977; Closing Date: September 30, 1980. This loan has been fully committed for the financing of subprojects in the metropolitan area of Belo Horizonte, 38 subprojects for medium sized cities in the interior, and 138 subprojects for small communities mostly in rural areas of the state.
- 1317 Second Agro-Industries Credit Project: US\$83.0 million loan of September 22, 1976; Effective Date: March 25, 1977; Closing Date: December 31, 1982. Because of commitment delays under the First Agro-Industries Credit Project, commitments for the second loan are only now beginning.
- 1343 ELETROSUL Transmission Project: US\$82.0 million loan of February 23, 1977; Effective Date: June 13, 1977; Closing Date: December 31, 1981. The project is about 50% complete and about 70% of the contracts for supply of equipment and materials to be financed under the loan have been awarded; the remainder are expected to be awarded by year-end 1979. With the exception of a relatively minor component, project execution is on schedule. The shortfall (25%) in loan disbursements, caused by delays in the procurement process, is expected to be reduced to 10% by year-end 1979.

Loan No.

- 1362 Minas Gerais Rural Development Project: US\$42.0 million loan of February 23, 1977; Effective Date: June 29, 1977; Closing Date: December 31, 1981. This project is progressing satisfactorily after initial delays. The credit component is gathering momentum. Mainly as a result of administrative difficulties, participation in this project by landless producers was initially significantly lower than originally envisaged, but concerted efforts by the state government and the participating banks have improved this situation recently. The health component has advanced significantly.
- 1406 Sergipe Fertilizer Project: US\$64.0 million loan of April 29, 1977; Effective Date: August 31, 1977; Closing Date: November 30, 1981. Plant buildings and equipment foundations are under construction, but some delays have been experienced in procurement of imported equipment which may delay the project completion date by about nine months. Commercial production is now expected to begin in September 1981. The anticipated cost to complete the project is currently running about 8% below the budget estimate.
- 1411 VALEFERTIL Phosphate Fertilizer Project: US\$82.0 million loan of April 29, 1977; Effective Date: July 29, 1977; Closing Date: May 31, 1980. The project has been progressing satisfactorily within the original budget estimate, and the plant start-up will experience only a minor delay. VALEFERTIL has been sold by CVRD to Petrobras Fertilizantes. This change in ownership is not affecting project execution.
- 1452 Vocational Training Project: US\$32.0 million loan of September 7, 1977; Effective Date: April 5, 1978; Closing Date: December 31, 1982. Construction of training centers and procurement of equipment are proceeding according to schedule. The technical assistance program is underway at the training centers.
- 1488 Ceara Rural Development Project: US\$17.0 million loan of November 17, 1977; Effective Date: March 28, 1978, Closing Date: December 31, 1982. The implementation of the project has proceeded quite satisfactorily in spite of recurring local funding delays. Agricultural extension and experimentation services, agricultural credit, input supply, marketing and storage services are making good progress, while the parts of the project relating to land purchase credit, agricultural mechanization and cooperative societies organization are progressing at a slower than expected rate.
- 1525 Greater Sao Paulo Sewage Collection and Treatment Project: US\$110.0 million loan of March 10, 1978; Effective Date: August 7, 1978; Closing Date: September 30, 1984. This project is proceeding according to schedule. Civil works contracts for construction of three sewage treatment plants have been signed and work is progressing well. Equipment contracts have been signed for these plants, committing approximately US\$60 million of the loan.

Loan No.

- 1537 Paraiba Rural Development Project: US\$24.0 million of May 8, 1978; Effective Date: October 19, 1978; Closing Date: September 30, 1983.
The project is proceeding satisfactorily and generally on schedule. Civil works are underway and progressing well, and the non-farm development component is showing encouraging initial results. However, administrative problems are causing difficulties in making credit available to the smaller farmers and tenants.
- 1538 South-Southeast Power Distribution Project: US\$130.0 million loan of May 8, 1978; Effective Date: September 14, 1978; Closing Date: December 31, 1982. Initial disbursements have been delayed by about one year due to necessary revisions of the beneficiaries' construction programs caused by changes in the power market, reluctance by two of the beneficiaries to contract consultants as agreed, and procurement delays.
- 1557 Sixth Highway Project: US\$114.0 million loan of May 8, 1978; Effective Date: October 13, 1978; Closing Date: December 31, 1982. Reconstruction of highways foreseen under the project is proceeding satisfactorily. There have been delays in the delegation of highway maintenance responsibilities to the states, because of staffing problems in the state highway departments resulting from low salary scales, and because the states will not accept responsibility for federal highways until they have been rehabilitated.
- 1562 COPESUL Petrochemical Project: US\$85.0 million loan of July 6, 1978; Effective Date: October 30, 1978; Closing Date: June 30, 1982. Project implementation is proceeding well. Commencement of commercial operations is now expected in June 1982, about six months behind schedule, reflecting the slow start of some of the downstream projects. The anticipated cost to complete the project is presently running about 2% above the original estimate.
- 1563 Urban Transport Project: US\$88.0 million loan of May 22, 1978; Effective Date: September 1, 1978; Closing Date: December 31, 1981. This project is progressing satisfactorily although progress has varied widely among the five cities involved. The Curitiba sub-project is the furthest advanced.
- 1568 Agricultural Extension Project: US\$100.0 million loan of May 22, 1978; Effective Date: September 22, 1978; Closing Date: December 31, 1982. The executing agency EMBRATER has initiated work with state/territory agencies for project implementation. The Project Coordination Unit has been effectively organized and project execution is proceeding satisfactorily.

Loan No.

- 1589 Bahia Rural Development Project: US\$37.0 million loan of July 19, 1978;
Effective Date: December 5, 1978; Closing Date: December 31, 1983.
First year implementation of the project advanced satisfactorily after initial funding delays. Substantial progress was made in majority of the components, and targets for the number of farmers to be assisted with extension and credit were exceeded. However, project activities were disrupted in March 1979 with the change in state administrations and dismissal of a large number of project-funded staff. Funding delays in year two have compounded difficulties associated with the rehiring of staff, now underway. Means to restore appropriate coordination and integration of project activities are under discussion.
- 1654 Sites and Services and Low-Cost Housing Project: US\$93.0 million
loan of February 8, 1979; Effective Date: July 9, 1979;
Closing Date: December 31, 1983. Project execution is proceeding ahead of schedule in Sao Paulo and Recife. Some initial delays have been experienced in Salvador.
- 1656 Northeast Water Supply and Sewerage Project: US\$100.0 million
loan of February 8, 1979; Effective Date: July 10, 1979, Closing Date:
June 30, 1983. Changes in the state government and the top management of the state water companies as well as difficulties in the preparation of the economic viability studies, on the basis of which the National Housing Bank (BNH) approves the states' investment programs have delayed initial project implementation. However, these initial difficulties are expected to be overcome after the economic viability studies are finalized and approved by BNH.
- 1660 Valesul Aluminum Project: US\$48.0 million loan of March 7, 1979;
Effective Date: August 6, 1979; Closing Date: July 31, 1982.
The project is proceeding satisfactorily with some minor delays.

C. FUTURE PROJECTS

Please see Attachment II of the Interim Program Memorandum under Item 6 for list of "Tentative Revised Lending Program."

FY 1980

Sao Paulo Pollution Control

The purpose of this project is to help reduce air and water pollution in the Greater Sao Paulo area through the implementation of air pollution control subprojects to reduce particulate matter emissions and water pollution control subprojects to pretreat or fully treat liquid effluents. Technical assistance is also included to strengthen the technical and operational capability of the State Environmental Protection Agency (CETESB). The total cost of the project is estimated at US\$187 million and, when the loan was negotiated in October 1978, the amount of the proposed loan was US\$66 million. The loan was ready for Board presentation in December 1978 when the State Assembly adjourned without considering the bill authorizing the state government to borrow from the Bank. The new government, taking office in March 1979, tried unsuccessfully to get the project approved. Because of the importance of the program, the Federal Government decided to borrow directly from the Bank and pass the funds to the state government through the National Development Bank (BNDE). Negotiation of the revised loan documents is expected to take place in November or December and Board presentation in January 1980.

Water Supply and Sewerage - South

The project would extend water services to 1.8 million people and sewerage services to .9 million people in the southern states of Rio Grande do Sul, Santa Catarina and Parana. It would also improve water supply to 3 million people who now receive deficient service in the same states. About 54% of the final beneficiaries would belong to families having incomes below the relative poverty level. A loan of \$130 million is foreseen with a total project cost of \$439 million. The borrower would be the National Housing Bank. Negotiations are scheduled for November 1979 and Board presentation January 1980.

Power Distribution - CEEE

The project consists of a major portion of the 1980-83 power sub-transmission and distribution expansion program of Companhia Estadual de Energia Eletrica (CEEE), the state-owned power company of the state of Rio Grande do Sul. The project includes the connection of about 35,000 low-income urban consumers and about 12,000 rural consumers. Total project cost is estimated at US\$300 million with an estimated foreign exchange component of US\$110 million. We are recommending a Bank loan of US\$110 million, and, as a condition for the loan, private co-financing (for works complementary to the project) of not less than US\$100 million. The loan was appraised in July of 1979.

ELETRORAS - Systems Control

The project consists of the construction of a national center for the supervision and coordination of the operation of the Brazilian interconnected power system (the center to be owned and operated by ELETRORAS, the federal holding company for the sector), related facilities of two of the beneficiaries of the system (CHESF and LIGHT), and software and training. The project, the first of its kind to be financed by the Bank, would allow for improved sector management, reduction and/or postponement of investment in future generation and transmission facilities, improvement in reliability of electricity supply allowing for reduced reserve margins, and other operational benefits. Total project cost is estimated at US\$120 million and a Bank loan of \$70 million is recommended, corresponding to the estimated foreign exchange component. The project was appraised in October 1979.

Urban Transport II - Railways

The objective of this project is to achieve optimum use of all present and future transport facilities in the north-south corridor where the metropolitan region of the city of Porto Alegre is presently expanding. It should help divert car passengers and intermunicipal bus passengers to suburban trains and allow buses to use those routes that are most economically served by this mode of transport. In addition the suburban railway system is expected to facilitate the attainment of the Metropolitan Region's land use strategy aimed at developing a few large employment growth poles in the corridor along the railway line. The total cost of the project is estimated at about US\$232 million. The amount of the proposed Bank loan is expected to be in the region of US\$100 million. The appraisal of the project has just been completed and it is expected to present the proposed loan to the Board in March or April 1980.

Education IV - Northeast

This will be a project costing about \$90 million, of which the Bank would contribute \$32 million, for upgrading rural primary education in nine northeastern states. The educational system in that part of the country is exceedingly weak, and there is a general consensus that illiteracy and near-illiteracy are among the basic reasons for the continuation of poverty in the Northeast. We heard that the government would mount a much larger program but were informed that present fiscal constraints make that impossible. The appraisal of this project is nearly completed.

Water Supply and Sewerage - Minas Gerais III

The project would extend water services to 1.5 million people in Metropolitan Belo Horizonte and 400,000 in 150 small communities. It would extend sewerage services to approximately 300,000 people. The project would complete implementation of the Master Plan for Water Supply and Sewerage for Metropolitan Belo Horizonte. The project is oriented towards low-income groups. The new connections to the water supply system of Belo Horizonte would be in the poorer parts of the city. A loan of

approximately \$100 million is foreseen with a total project cost of \$350 million. The borrower would be the National Housing Bank, which would onlend the funds to the state water company, COPASA. The appraisal mission is scheduled for October/November 1979, and Board presentation is foreseen for May 1980.

Rural Development - Minas Gerais II

The project would assist about 35,000 small farmers, sharecroppers and landless producers with credit, technical assistance and physical and social infrastructure in four sub-areas of the state where rural population and poverty are most concentrated -- the Northeast (Jequitinhonha Valley), the Zona da Mata in the Southeast (area of the ongoing first project), the Rio Doce Valley in the center and the south. Total project cost is estimated at US\$210 million, and a Bank loan of US\$70 million is recommended, directly to the state of Minas Gerais. About 800,000 people are expected to benefit directly or indirectly from the project. Appraisal is scheduled for January 1980, and Board presentation in June 1980.

ELETROSUL - Transmission II

The project would consist of the third stage of ELETROSUL's 500 kv transmission system expansion program, to reinforce the existing interconnected transmission network in ELETROSUL's service area--the southern states of Parana, Santa Catarina and Rio Grande do Sul. The project would comprise of construction of about 1,045 kms of transmission lines, the installation and/or expansion of about 13 substations and expansion of the existing telecommunications network. Total project cost is estimated at about US\$400 million and a Bank loan of about US\$100 million is currently recommended (substantially less than the estimated foreign exchange component of about US\$144 million). The project would include a major private co-financing operation. Appraisal is presently scheduled for end November, 1979.

FY 1981

Rio de Janeiro Pollution Control

The main goals of the proposed project are to help (a) reduce industrial particulate matter in the Rio de Janeiro metropolitan area, (b) reduce industrial discharges of polluting substances within the Paraíba do Sul hydrographic basin, (c) decrease the risk of accidental contamination of the major source of fresh water for the Rio de Janeiro metropolitan area and adjacent municipalities and (d) reduce health hazards by preventing the recurrence of periodic air pollution and the incidence of airborne diseases in the Rio de Janeiro metropolitan area. The project would also provide technical assistance to FEEMA (the executing agency). The total cost of the project is estimated at about US\$105 million and a Bank loan of about US\$35 million is envisaged. It is expected that the project will be appraised either in December 1979 or in January 1980.

Northwest Integrated Rural Development

Two separate loans are contemplated to help finance an integrated program of development in the Northwest, comprising the Territory of Rondonia and western half of the state of Mato Grosso. This area has experienced very rapid growth in the past few years through small farmer migration from other parts of the country--the population of Rondonia has increased from about 110 thousand in 1970 to 730 thousand in 1979. One loan would be for the reconstruction and paving of the 1600 km road from Cuiaba to Porto Velho to provide, for the first time, reliable transportation through the area and a connection with the South, and the other for integrated rural development concentrating on smallholder settlement with technical assistance, credit, storage and related input. The feeder road program to complement these developments will be financed through the loan we have already made to BNDE for feeder roads. A regional economic mission will be completing its work at about the time of Mr. McNamara's visit. We hope to appraise the various components of the program in 1980.

FY81

Urban Development (CURA)

The National Housing Bank (BNH) has set up a system of financing integrated urban development projects and has requested the Bank's support for this program. BNH has requested each of its regional offices in each of the states to submit a proposal with priorities for financing integrated urban development projects. We understand that BNH is presently reviewing these proposals, and would be prepared to receive a Bank project preparation mission in the near future. BNH has informed us that priority will be given to the north and northeast region. BNH's integrated urban development program is commonly referred to as CURA - Program de Complementacao Urbana. A loan amount of \$70 million has been earmarked for this project.

Agricultural Research II

A second agricultural research project would continue the institutional strengthening of EMBRAPA (Empresa Brasileira de Pesquisa Agropecuaria, the federal agricultural research agency) of the state agricultural research agencies, begun under Loan 1249-BR (US\$40 million, approved in 1976). The first project included the execution of agricultural research programs on nine major commodity groups, and farming systems research at three regional research centers, all in the priority areas of the Northeast, North and Center West of Brazil (where agricultural research has lagged behind the South and Southeast). A specific project proposal is not expected to be ready before about April 1980. An amount of US\$100 million is tentatively allocated in the FY81 lending program, although the actual loan amount is likely to be somewhat smaller.

Agricultural Credit - Northeast

This would be a broad program of credit for small farmers in the priority zones selected under the POLONORDESTE program. Preparation of this project has been going on for nearly two years and was delayed, inter alia, by the change in government. Responsibility for preparation of the project has been passed by the new government from the Central Bank to the Banco do Brasil, and a team within the Banco do Brasil is now working more vigorously on project preparation. We hope to appraise no later than April 1980.

FY1981

Railways - RFFSA II

The Government has requested the Bank to finance the Ferrovia do Aco serving the mining and steel producing region of Brazil. The Bank's participation in the financing of this project will depend largely on whether the traffic in the region can support the investments contemplated. The information is presently being analysed and a judgment on the next steps will be made later this month.

Water Supply and Sewerage - Northeast II

The proposed loan will assist the National Housing Bank in the financing of water supply and sewerage subprojects in several states in the northeast excluding Pernambuco, Bahia and Ceara, which are participating in the first Northeast Project. Among the states under consideration in addition to those in the Northeast are Goias, Para and Amazonas. A long amount of \$100 million is tentatively earmarked for this project. The appraisal mission is tentatively scheduled for May 1980.

FY81

Urban Transport III - Medium-Sized Cities

The proposed project would improve urban transport services in several medium-sized cities still to be identified. Special emphasis would be given to the provision of public transport to the urban poor. Subproject components would vary according to the needs of each city participating. It is expected that components of subprojects would include traffic engineering measures to improve circulation in central areas; introduction of exclusive bus lanes; traffic operations programs to improve capacity and safety to alleviate critical congestion points; widening or construction of missing links in the urban road networks; reorganization and construction of bus terminals; and paving of bus routes in low-income areas. Experience gained under the first Urban Transport Project (Loan No. 1563-BR) will be taken into consideration when preparing the proposed project. The total project cost would be about \$380 million with a loan amount of about \$110 million. A project preparation mission is scheduled for early November 1979. Appraisal is tentatively scheduled for May 1980 and Board presentation for January 1981.

Power Distribution--ELETROBRAS I

This project would represent a new approach to our lending in Brazil for the power distribution subsector. The proposed loan of US\$100 million would be made to ELETROBRAS (the holding company for the sector at the federal level), which would relend to state utilities for distribution subprojects to be identified and appraised by ELETROBRAS, in accordance with criteria to be agreed with the Bank. The project aims to develop ELETROBRAS' institutional capability to serve as a financial intermediary, and in this way, to allow Bank funds and technical advice to benefit a far greater number of the weaker companies, particularly in the less developed regions of the country. All distribution subprojects would include programs for the connection of new low-income urban consumers, and where feasible, expanded rural electrification programs. The proposed loan would also include a substantial private co-financing operation. Appraisal is presently scheduled for May 1980, with Board presentation in January, 1981.

Integrated Rural Development Piaui and Ceara II

Two loans, one for \$20 million in Piaui and the other for \$70 million in Ceara, would help finance two more in the series of integrated rural development projects being prepared under the POLONORDESTE program. If SUDENE is suitably strengthened they would be the last of the sub-regional projects to be prepared through direct Bank contact with north-eastern state governments, and such lending in the future would take the form of region-wide loans made through SUDENE. We hope to appraise the Ceara project in January 1980 and the Piaui project a few months later.

Jari Project

We have included in the FY81 reserve program a loan of US\$25 million for the Jari Project--Mr. Daniel K. Ludwig's forest development and pulp and paper complex in the Amazon. Bank financing is requested for a hydroelectric power dam on the Jari river (180-200 MW in a first stage) to provide the power for a newsprint mill and certain other facilities. The Brazilian Government has not yet given its final approval to the project, which has created considerable controversy within Brazil and has been the subject of hostile press criticism. Consideration of whether the Bank ought to participate can only take place once the final shape of the project is known, and for this reason it is carried as a reserve project.

FY81 (Reserve)

Urban Health Services - Sao Paulo

A note on this proposal is included under item 8 - Sao Paulo. The state government is presently preparing a project proposal and a Bank preparation/pre-appraisal mission is tentatively scheduled for April/May 1980.

Small Enterprise Credit

The broad purpose of this project is to help alleviate the inadequate access to credit of small enterprises in the Northeast by providing development funds on reasonable conditions. Unfortunately, preparation of this project has stopped because of a lack of agreement between the Bank and the Brazilian Government on interest rate policy.

Candiota Coal

The project would include the expansion of the Candiota open pit mine located about 350 kms southwest of Porto Alegre presently producing 600,000 TPY of coal to provide fuel for the Presidente Medici power plant after it has completed its expansion program. The Bank's objective is to get a "foot in the door" in the coal sector in Brazil but so far the technical assistance offered to CRM, the company responsible for mining the coal, has not been welcomed. A judgment on whether the Bank should finance the project would also depend on what role the Bank can play in this sector to help Brazil develop alternative sources of energy to oil. Assuming we can go ahead with this project, appraisal could quite possibly take place in the first quarter of 1980.

Volvo do Brasil (Volbras) - IFC

Volbras is the leading enterprise of the Curitiba industrial park. It is sponsored by Volvo of Sweden and leading Parana private and state investors. Its plant will manufacture annually, at capacity, 5,500 heavy trucks and 1,000 bus chassis for the local market, as well as 4,300 diesel engines for export. The project will generate 1,000 direct jobs. It is estimated that an additional 4,000 new jobs will result from Volbras' high degree of integration with local component suppliers, the establishment of which it is helping. Project cost is estimated at about US\$124 million, and completion is being accomplished in stages, ending in early 1981. IFC's investment consisted of a loan of US\$60 million, of which US\$50 million was sold to participants, and an equity investment of US\$5 million.

Parana, a predominantly agricultural state whose development has been overshadowed by nearby Sao Paulo, has, in recent years, increased its efforts to implement industrial projects. The Curitiba industrial park has channelled a large part of this industrial activity, and Volbras is its most important component. The project thus furthers Government priorities to spread development activity away from traditional centers. Volbras is also significant in that it constitutes the first company in the domestic automotive industry whose share capital will be majority-owned by Brazilians.

7:30-9:30 Dinner by Dm
8:00 2nd floor EMBRAPA
8:30 4th "

8:30-11:30 Res. Sta. small farm level

12:15 2nd floor
12:30-1:30 Lunch
1:45 2nd floor
2:15 2nd floor

2:35 Air Manaus
3:00 2nd floor EMBRAPA
3:15-6:00 Dinner

Vizual
Sul Lodos +
Sul J. S. P. +
Embrapa, Sudam,
+ Inepr
Working on agencies
+ direct of Embrapa
Agri. devel. with parameters
diff. from Sulbrasil
6:30 2nd floor

SUMMARY OF THE AGRICULTURAL RESEARCH PROJECT (EMBRAPA)

(The National Rubber Center and the State Adaptive Research Station)

Background Data on Research Project

Total Project Cost: \$189.4 million
Bank Loan (1249-BR): \$40 million (the foreign exchange component, 21% of project costs), \$6.2 million disbursed as of September 30, 1979.
Other Financing: Federal Government
Executing Agency: EMBRAPA, the national agricultural research company
Execution Period: July 1976 - June 1981
Project Area: The Northeast, North, and Center-West of Brazil

Main Project Activities:

Civil works as necessary, laboratory and farm equipment, libraries and documentation services, and research plot development at: 8 national commodity research centers (rice, corn/sorghum, cassava, cotton, beans, rubber, dairy/beef, and sheep/goats); 3 regional agricultural research centers (focussing on farming systems typical of the 3 project regions); and 14 state or sub-regional adaptive research centers;
technical assistance and consulting services for the research programs;
a fellowship and training program;
incremental operating costs at the research stations.

Background Data on the National Rubber Research Center

Location: Situated at KM 27-29 on State Road AM-010
Purpose: To provide a base for all phases of research on rubber (Hevea brasiliensis) and to coordinate such research on a national scale. Also to provide the basis for transfer of new technology through all interested agencies and institutions, mainly the rubber superintendency (SUDHEVEA) and extension services (EMBRATER), and to the rubber producers.

Physical Plant: 825 ha of experimental fields;
administration and laboratory buildings already completed (with project financing); and
rubber technology labs, library and workshops under construction (with project funding).

Staff: Current staff -- 17 technicians
Staff at full complement (1981) -- 34 technicians.

Research Program: Breeding and clonal resistance, plant pathology, entomology, physiology of rubber, plant nutrition, field production systems, technology of latex handling and processing. Total of 14 sub-projects and 57 experiments during 1979.

Main Objectives of Station: To provide new technology for cultivation of natural rubber to meet the national goals to:

- (a) Reduce period of maturity from 7-8 to 4-5 years.
- (b) Increase production to 1,500-1,800 kg/ha/yr of fresh latex.
- (c) Provide intercropping and multiple-cropping schemes for rubber cultivation.
- (d) Provide criteria for classification of natural (native) rubbers.

Likely Project Costs at Station: About \$12 million over 5-year period of which roughly 40% to be actually covered by Bank disbursements.

Major Problems Encountered So Far in Project Execution:

The two-phase construction program has already experienced delays (and some associated cost increases) as a result of the failure of two construction contractors to perform acceptable timely work. The second contractor had to complete the work of the first on Phase I, but the second contractor also failed after completing only about 40% of Phase II. Force account and probably a negotiated contract with a third construction firm (which has been successfully carrying out project-financed work at the nearby state-level adaptive research station) will be used to complete the civil works.

Background Data on the State-Level Adaptive Experimentation Station

Location: Situated at KM 30 of State Road Manaus-Itacoatiara (AM-010), but adjacent to (1/2 km from) National Rubber Research Center.

- Purpose: To adapt the technology produced by the National Commodity Centers to facilitate its adoption by farmers in this area of the State of Amazonas. Sub-stations, having similar goals, operate at Maues, Tefe, Itacoaticara, Boa Vista and the Agricultural District of SUFRAMA (a duty-free zone).
- Physical Plant: 5,696 ha of experimental areas, including sub-stations;
- an administrative building and soil analysis laboratory which were completed prior to the project; and
- two laboratories nearing completion (project-funded).
- Staff: Current staffing level is 13 technical staff (research personnel), or 6 (31%) below estimate for end of third year of project execution. Hiring freeze in 1978 and lack of adequate laboratory space caused this lower level of staffing, which is expected to be corrected shortly.
- Research Program: This varies according to crop priorities in each sub-station, but broadly includes adaptive research for the following: buffalo and beef cattle, maize, beans, corn, rice, tropical vegetables, "guarana" and cassava. Related sub-projects are in soil conservation, cropping systems, disease and pest control. There are 31 sub-projects and a total of 52 experiments; 6 sub-projects were completed in 1979.
- Main Objectives of the Station: To provide new technology to the producers (farmers) of the major crops mentioned by means of adapting this technology to local conditions. Some of the major research goals are as follows:
- (a) Maize. 40% increase in production for flood-plain cultivation and 30% increase for up-land plantings.
 - (b) Rice. 60% increase in production for non-irrigated rice.
 - (c) Beans (Cow-peas). Yield increases of up to 250% mainly through introduction of new varieties.

- (d) Cassava. Increases of 110-130% in yields of roots per ha; also additional efficiency in amount of cassava meal (farinha) produced from metric ton of roots. An increase of 50-75% in farinha production per metric ton of roots is the goal.
- (e) Buffalo. 100% increased efficiency in beef and milk production; 20% increase in carrying capacity of pastures and 30% increase in birth rate.

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara (Through Mr. Ernest Stern) DATE: August 24, 1979
 FROM: Nicolas Ardito Barletta, RVP, LAC
 SUBJECT: Expanded Work Program on Rural Development in Northeast Brazil

1. The accompanying memorandum outlines a greatly expanded Bank effort in support of rural development activities in Northeast Brazil. The additional activities proposed would cost an average of about \$310,000 annually in FY80-FY83 because of the necessary enlargement of the Recife Rural Development Liaison Mission and the increase in consultancy services. During FY80 and FY81 these costs would represent a net increase in the region's budget, but they would be increasingly offset by savings in other areas in the following years. Your approval of the necessary additional budget is now requested so we can continue our discussions with the Brazilians.

2. The proposed work program is an outgrowth of your discussion with Minister Antonio Delfim Netto last June, and more generally of our past technical and financial collaboration on rural development in Northeast Brazil. It would represent, however, a substantial change in the Bank's role. The basic objective of the proposed work program is to strengthen the capacity of Sudene to respond to the needs of the region through both better policies and more effective program implementation. The required effort would go well beyond the normal institution building that accompanies Bank lending operations.

3. The work program thus involves a significant enlargement in the Bank's activities in Northeast Brazil and consequently requires substantial additional inputs from the Bank. A by-product of Sudene's strengthened role should be the capacity to help prepare major projects for the POLO-NORDESTE program as a whole, which would be suitable for financing by the Bank. This could result in a future expansion of our lending for rural development, accompanied by a contraction of activities in more traditional sectors and a reduction of manpower inputs in the latter. But additional budgetary resources are required at the beginning because it is not possible for us to find the inputs needed to meet the expanded objectives from within our present budget and also because the benefits in the form of reduced inputs in traditional sectors involve less staff-intensive sectors and, in any event, would not be realized in the initial years.

Attachments

cc: Messrs. Stern, VPO; Goodman, OPD; Paijmans, AOP; Pollan, PMD;
 Yudelman, AGR; van der Meer, LCP (o/r); Favilla/Lerdau, LC2;
 Goffin, LCP; Perez, LAC; Dabbagh, LAC; Skillings, LC2DA;
 Greening, LCPA3; Senner, LCPA3;
 Ms. Dowsett, Recife Office; Foggiano, LCPA3.

cc: Mr. Gabriel

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara (through Mr. Georg Gabriel, Director, PAB) DATE: August 24, 1979

FROM: Nicolas Ardito Barletta *NAB*

SUBJECT: BRAZIL - Proposal for Expansion of Recife Rural Development Liaison Mission and of Bank Support for Northeast Rural Development Program

Introduction

1. On March 30, 1979, we provided Mr. Stern with an evaluation of the Recife rural development liaison office, which we have operated in Northeast Brazil with one professional staff member and local support staff since mid-1974. That evaluation (copy attached as Annex 1 for your reference) concluded that the Recife mission has played a very important role in helping us expand our rural development collaboration in Northeast Brazil. It also noted that further review and adaptation of the mission's role would be necessary once we became more familiar with the rural development objectives and priorities of the new Brazilian Government which took office in March 1979.
2. During his visit with you on June 7, the Brazilian Minister of Agriculture (and now Minister of Planning), Antonio Delfim Netto, noted the importance he placed on World Bank technical and financial collaboration in the Northeast rural development effort. In a special mission to Brazil in late June for follow-up talks on this subject, Mr. van der Meer was requested by various key Ministers to consider expanding the Bank's support. The Ministers also asked that the Bank prepare a discussion paper on how it felt the expanded collaboration might take shape and on what the Bank would expect from the Brazilian side.
3. After consultation with Mr. Stern, and taking into account the importance of this subject to the 1980-85 planning exercise now being undertaken by the new Government in Brazil, we sent such a discussion paper to the Brazilians on August 6 (copy attached as Annex 2). The paper was presented to the Brazilians as a starting point for consideration of the key decisions we believe would be necessary on: (a) the objectives of the rural development program in the Northeast and the policies needed to attain them; and (b) the most effective organizational arrangements for translating those policies into action. The paper outlines some of the areas in which the Bank would want to maintain an active policy dialogue, as well as key principles which we feel should be embodied in new organizational arrangements in Brazil to coordinate the Government's effort. The possible means for expanded Bank collaboration, should the Brazilians respond favorably and concretely to the suggestions in the discussion paper--increased lending for the rural development effort; more Bank technical missions to work on rural development program matters (as opposed to primarily project-specific matters); and expansion of the Bank's Recife Office--are the subjects of this memorandum.

Recommendations

4. On the condition the Brazilians agree to the proposed active dialogue on the policies needed to promote rural development and to take the steps necessary to reorganize SUDENE (the agency they have chosen to manage coordination of the Northeast rural development special programs) with appropriate powers and staff, we recommend that you authorize: (a) an expansion of the Bank's rural development liaison mission in Recife by 3 professional staff and minimal local support staff; and (b) an increase in funding for consultancy services—to be managed in part by Headquarters and in part by the Recife Office—to support the expanded program development and technical assistance effort.

5. The terms of reference and objectives of the expanded Recife mission and of the technical assistance, and the budgeting implications, are discussed in the following paragraphs. It is recommended that the expanded technical support for the Northeast rural development effort be viewed as a three-four year endeavor.

Objectives and Terms of Reference

6. General Objectives. The reinforcement of Bank support for the Northeast rural development effort is intended to promote and aid in the development of a significant reorganization and strengthening of institutional arrangements to effectively plan, coordinate and execute programs to improve the incomes and standards of living of the rural poor in the Northeast. The new support would build upon the efforts initiated in our work so far on the six integrated projects already under execution in significant micro-regions of the Northeast, and in ongoing preparation of several other projects, by focussing a new and especially concentrated effort on program-wide policy and institutional issues affecting Northeast rural development. This in turn should result not only in a significant increase in the Bank's lending for rural development in Brazil—by enabling joint preparation of larger lending operations through a Brazilian agency to which substantial subproject preparation assistance, appraisal and monitoring responsibilities could be delegated—but also in an improved execution of the numerous projects already underway. The concentrated effort over the short and medium term corresponds to a period particularly important in Brazil, as the new administration is now gearing up to launch the programs which will be the reference points for its term in office.

7. The Brazilian Program. The recommended expansion of Bank technical assistance should be viewed first in the context of what the Brazilians would themselves be doing. We have proposed to the Brazilians that, as they establish an improved organizational environment for coordination of overall planning of the Northeast rural development programs, they initiate a specific work program including:

- (a) activities in the short-term to clarify the objectives, introduce some modifications in the content, and improve the management of the various rural special programs (only some of which are partly financed by the Bank) already underway in the Northeast; and

- (b) a series of parallel activities and studies on major policy issues, in an effort to design means to improve the effectiveness of the Government's Northeast rural development effort in the long-term.

8. The short-term program would include, over a 12-18 month period: review of recent experiences of the rural programs in the Northeast and establishment of improved guidelines and criteria for project design and evaluation; systematic re-examination of the more than 30 projects in the Government's POLONORDESTE rural development program and establishment (based on the newly refined criteria) of new annual and medium-term targets; establishment of program-wide monitoring and evaluation systems; and identification of the training requirements of SUDENE as well as the local, state and federal agencies involved in planning, coordinating and implementing the POLONORDESTE program, and design of a comprehensive training plan to meet those needs.

9. The parallel long-term program would include, over a three-four year period: the carrying out of a systematic updating and review of overall development strategy in the Northeast with particular attention to the role of rural development; the review of possible means to streamline further and possibly consolidate Government rural development efforts in the region (improvement of financial planning, budget and disbursement procedures; execution of training programs; refinement of project preparation guidelines, etc.); and execution of a series of in-depth policy review and program development studies on such subjects as means to improve access to land or security of tenure, measures to improve local or municipal capacity to finance recurrent costs, and ways to stimulate more meaningful community participation in rural development planning.

10. The Proposed Bank Technical Support. Additional Bank technical support for the Northeast rural development effort would involve the mounting of new Headquarters missions devoted to program-wide issues, as well as the adaptation of ongoing project-specific Headquarters missions to improve their program-wide impact. It would also include the reinforcement of the Recife Office with new staff working virtually full-time on the institutional development and project preparation activities to enable new, larger scale program-wide Bank operations in the Northeast. More specifically, the Bank support would include:

(a) an increase in periodic technical assistance through:

- (i) special Headquarters missions on program development matters (to help define the details of a specific joint rural development work program with the Brazilians; to up-date our understanding of the Northeast socio-economic trends and development strategies; to provide specialized technical assistance on land tenure problems, financial management systems, etc.); and
- (ii) the adaptation of project-specific missions (preparation, appraisal, supervision of projects already in the Bank operations program) to include more Brazilian counterpart staff and to increase the missions' use as training mechanisms for the Brazilian staff; and

(b) an expansion of the Recife professional staff from one to four, along the following lines:

- (i) Team Leader, who would concentrate mainly on policy and program development and on provision of management assistance to the program unit in SUDENE charged with overall coordination of rural special programs in the Northeast.
- (ii) Economist) to work mainly with staff of the
) SUDENE program unit and the
) States in preparation of
) POLONORDESTE sub-projects, but
- (iii) General) also, as appropriate, on program-
 Agriculturalist) related issues such as program
) organization/financing, land
) redistribution, etc.
- (iv) Monitoring and Evaluation Specialist, to assist SUDENE and the States in establishing M & E systems for the rural special programs and the sub-projects.

It is also proposed that, to enable greater flexibility and autonomy in the operation of the expanded Recife Office, it would have the necessary resources to recruit short-term consultants, mainly to assist in specialized project preparation and program development activities, and as necessary in "trouble shooting" resolution of particular project supervision missions. The Team Leader (an experienced M level staff member) would continue to report to the Chief of the Agriculture 3 Projects Division.

11. The Proposed Expansion of Bank Lending. As noted in our March 30, 1979 evaluation of the performance of the Recife Office, it is our view that the office has already been instrumental in facilitating the development of lending operations for rural development in the Northeast. Six rural development loans totalling US\$159 million have been approved over the several years since the Office was created. Our existing work program includes additional projects in the Northeast, including two integrated projects now at a relatively advanced stage of preparation and a loan for credit to small-farmers in all POLONORDESTE areas. Overall, the most recent (August 1979) update of the project specific FY80-84 LAC Regional lending program includes 13 projects for agriculture and rural development in Brazil, with proposed lending totalling US\$956 million. All except two of these projects would be directed primarily toward the rural poor and all except three would be primarily in the Northeast.

12. It is our estimate that the proposed expansion of Bank technical support in the Northeast rural development effort would result in:

- (a) the addition of about two poverty-oriented integrated rural lending operations during the FY80-84 period in the form of major loans of US\$150-250 million each for the POLONORDESTE program as a whole--loans which would depend on the Bank's being able to delegate a major part of sub-project preparation and appraisal to a competent Brazilian agency; and

- (b) a slight revision of the composition of (and a small net increase in) the remainder of the rural operations program, replacing one or more of the currently scheduled micro-regional integrated projects in specific parts of the Northeast (which could be absorbed by the new program-wide operations) with new, specific-function support operations in the Northeast (such as a program to improve state land titling and redistribution services) and possibly also highly justified rural development operations in poverty pockets in other parts of Brazil (particularly the Northwest, where the new Government is giving high priority to improving conditions of the large numbers of low income farmers spontaneously settling in the area); and
- (c) as a result of improved Brazilian program management, an improvement in the quality of execution and supervision of the Northeast rural development projects already receiving Bank support in the Northeast.

13. We believe that over the FY80-84 period, an overall net increase of rural development operations by three to four (and US\$300-400 million in lending) is possible. These changes would amount to a 20-30% increase over the number of currently programmed operations and a 30-40% increase over currently programmed agricultural and rural development lending. Conservatively assuming that each of the incremental projects would require at least 200 person-weeks during the preparation, appraisal and negotiation stage, this work alone would add on the order of 800 person-weeks (including the supporting "sector" work, but not counting the supervision work eventually associated with the new projects). The proposed expansion of staffing of the Recife Office and the request for an increase in resources for consultancy services would meet these incremental needs.

14. It should be noted that the additional lending for rural development could gradually replace lending now in the overall five-year program for Brazil but allocated to other, more "traditional" sectors. Once the proposed significant reinforcement of the rather specialized rural program development effort is made, and the new rural operations begin to materialize, we expect that we would be able to realize some staff savings in other sectors where previously programmed projects would be replaced by rural projects.

15. However, the staff input into rural development projects is much greater than into the more "traditional" projects. For this reason, our eventual savings in other fields would compensate for only part of the incremental staff costs incurred to build up our capacity to lend for rural development. Of the approximately 800 person-weeks needed for the intensified rural development work, I estimate that only around 350 person-weeks would be saved in other sectors. Moreover, the preparation and appraisal lead time for rural development operations is longer than for "traditional" operations. Most of the incremental costs of the rural development work would need to be incurred in the first four years of the five-year period, whereas the reduction of work in other sectors would occur mainly in the second half of the period. The phasing might be roughly along the following lines:

	<u>Additional Work on Rural Development</u>	<u>Savings in Traditional Sectors</u>	<u>Net Additional Work Program</u>
			(person-weeks)
FY80	180	-	180
FY81	190	-	190
FY82	190	90	100
FY83	190	140	50
FY84	50	120	(70)

Thus, at least through FY81, the additional rural development work would be fully additional to the Region's workload. Only in FY82-84 would this be partially offset by reduction in work on currently scheduled projects in traditional sectors. As that occurs, and as the rural work eases off, further fine tuning of budget allocations (in part through adjustments in consultancy use) for the rural program should be possible. However, the additional burden in the earlier years cannot be absorbed by the Region from its current budget, and without additional allocations we cannot undertake the expanded rural program.

Budget Implications

16. Depending on the Brazilians' response to our proposals of August 6 on the Northeast rural development effort, we believe that we could send at least two of the proposed technical missions prior to the end of calendar 1979 and that, by the beginning of calendar 1980, we could place additional staff in the Recife Office. The budget implications of this scenario are summarized below; the details of the budget request for the Recife Office expansion are given in Annex 3. The current FY80 budget for the Recife Office, US\$98,400, is not included in these figures.

	<u>FY80</u>	<u>FY81</u> (US\$ '000)	<u>FY82</u>	<u>FY83</u>
I. Incremental Recife Office Costs	152.3	200.2	200.2	251.2
II. Incremental Consultancy Costs	180.0	90.0	90.0	90.0
(of which Headquarters managed;	(36.0)	(45.0)	(45.0)	(45.0)
Recife Office managed)	<u>(144.0)</u>	<u>(45.0)</u>	<u>(45.0)</u>	<u>(45.0)</u>
III. Total Incremental Requirement	<u>332.3</u>	<u>290.2</u>	<u>290.2^{1/}</u>	<u>341.2^{1/}</u>

^{1/} To the extent that savings can be realized in other sectors (as noted in paragraphs 14 and 15), the incremental cost in FY82 might be adjusted downward by as much as US\$188,800 (the average total cost per LAC Headquarters staff in FY80 is US\$94,400) and in FY83 by as much as US\$283,200.

17. The above figures are based on an estimate that some 100 person-weeks of incremental consultancy services would be required in FY80 and about 50 person-weeks annually for up to three years thereafter. As to the Recife Office, we assume, for purposes of budget calculations, that the incremental staff would be of L level, each married with two children. We also assume that SUDENE will continue (as in the past) to provide most of the logistical support—office space, vehicles, use of telex facilities at no cost to the Bank, and the base salaries of local support staff including bilingual secretaries. It is assumed that the three additional staff would be able to import their own cars for family use.

18. The willingness of the Government to provide this logistical support underscores their interest in Bank collaboration, and significantly reduces the cost for the Bank to establish resident staff in Recife. The direct costs to the Government of the incremental logistical support (office space, local staff base salaries, telex facilities, etc.) are estimated at about US\$72,000/year. This, however, greatly understates what would have to be the incremental overall Brazilian financial commitment to an expanded Northeast rural development effort. There would be substantially increased salary, operating and travel costs for the newly reorganized SUDENE unit charged with overall program coordination and, of course, significant Brazilian counterpart funding of the projects financed (65% of total project costs, plus financing of recurrent project operation costs).

19. The incremental Bank budgetary support now proposed was not possible to predict at the time of the preparation of the FY80 budget as the Brazilian Government was about to change. Outgoing officials were not in a position to launch new initiatives and only in the last four months have we been able to begin to exchange specific ideas with the new administration.

20. Other background data on the operation and general justification for the Recife Office was provided in the March 30, 1979 evaluation attached as Annex 1.

21. May I have your concurrence?

Attachments

cc: Messrs. Stern, VPO; Goodman, OPD; Paijmans, AOP; Pollan, PMD;
Yudelman, AGR; van der Meer, LCP (o/r); Favilla/Lerdau, LC2;
Goffin, LCP; Perez, LAC; Dabbagh, LAC; Skillings, LC2DA;
Greening, LCPA3; Senner, LCPA3;
Ms. Dowsett, Recife Office; Foggiano, LCPA3.

ESenner:nd

OFFICE MEMORANDUM

TO: Mr. Ernest Stern, Vice President, Operations

DATE March 30, 1979

FROM: Mr. Nicolas Ardito-Barletta *NB*

SUBJECT: Evaluation of Resident Mission in Recife, Brazil

1. As requested in your memorandum of January 26, 1979, we have prepared (copy attached) an assessment of the usefulness of the rural development liaison office in Recife, Brazil. Our conclusion in this review is that the office has been fulfilling its objectives and should most definitely be continued.

Attachment

cc: Messrs. Chadenet
Clarke
Kearns
Gabriel
Lerdau
van der Meer
Yudelman
Goffin-
Greening
Mirza

ESenner:bt

AN ASSESSMENT OF THE BANK
RURAL DEVELOPMENT LIAISON OFFICE
IN RECIFE, BRAZIL

Introduction

1. This note presents, as requested by Mr. Stern in his memorandum of January 26, 1979, an assessment of the Bank's rural development liaison office in Recife, Brazil. The note, which focusses on the role and justification of the office, is supplemented by an Attachment providing basic data regarding Brazil and Bank lending in Brazil, and miscellaneous supporting background information relevant to the form and function of the Recife office.

Recommendations

2. Continuance of Mission. We recommend that the Recife rural development liaison office, which was established in mid-1974 as part of the Bank's effort to expand rural poverty-oriented lending in Northeast Brazil, be continued. The office, staffed by one professional from headquarters and local support personnel, has been a highly important facet of the Bank's work in Northeast Brazil. Its role has developed in stages, reflecting both the development of the Government's activities in the Northeast, and the capabilities, personal strengths and styles of the resident officers.

3. Further Review and Adaptation. We expect that the ability to adapt the office's role to changing conditions will continue to be a factor in its effectiveness. March 1979 marked a change in Government in Brazil, the new Federal Government to be in office 6 years and the new state governments 4 years. The objectives and priorities of the new authorities, the Government staff assigned and the institutional arrangements made for rural development work are obviously key factors which will help determine the shape of our future work. Also, we are increasingly feeling that continuation of the current scheme of operation of the Recife office - focus on extensive and detailed assistance in project preparation by one professional - may have become prohibitively difficult (given the number and complexity of project issues to be handled), and possibly not entirely appropriate (given the scope of program and policy issues also needing attention). We have, over the last year, explored the possibilities for arranging complementary technical assistance support for the Northeast rural development effort from organizations such as UNDP and the OAS. For various reasons, including the change in Government, these efforts have yet to show positive results. They will be pursued, and the results taken into account in our review over the coming months of possible adjustments to our work in the Northeast and to the role of the Recife office. The scenarios include various possible qualitative and quantitative adjustments such as: an increase in the number of staff assigned in Recife and some specialization of functions; establishment of mechanisms for the office to contract consultants directly; shifting the office role toward greater, if not exclusive, focus on policy formulation and general rural development program issues (possibly also broadening the focus to include other poverty-oriented subjects); or including in the work (whether preparation or policy) efforts directed toward poverty programs other than POLONORDESTE and/or regions other than the Northeast. At the moment, our FY80 budget proposal reflects a continuation of current arrangements in Recife.

Should events and our review of the situation in the next several months suggest adjustments in the Recife office with significant staff or budget implications, we would return to management with appropriate analyses and recommendations.

Justification

4. Origin and Objectives. The establishment of the Recife rural development liaison office was one of several operational steps taken by the Bank during the period 1973-75 to strengthen the Bank's contribution to helping alleviate rural poverty in Northeast Brazil -- other steps including an extensive farm survey carried out by DRC and SUDENE (the Government's Northeast Development Superintendency in Recife), intensified and high level Bank policy and programming missions, a special Bank rural development "issues and options" study in the Northeast, and preparation work on an initial rural development project in the state of Rio Grande do Norte. Also, in 1974, the Government established a major rural development program, POLONORDESTE, which by the end of 1977 (end-1978 figures not yet available) had applied almost US\$600 million to various integrated rural development, colonization and irrigation projects.

5. The general objective of the rural development liaison office has been to help accelerate identification and preparation of rural development projects in the Northeast. The principal functions of the resident officer have been:

- a) to provide technical assistance in project-specific work on the individual state-prepared projects (mainly collaboration in identification, preparation and appraisal but also, unavoidably, in resolution of some supervision problems) and on other projects related to rural development in the Northeast (e.g., identification and preparation of the Northeast Credit and Fisheries Projects);
- b) to provide technical assistance on POLONORDESTE program matters such as program administration, financial management, project preparation guidelines, monitoring and evaluation;
- c) to provide assistance to state, regional and federal authorities in formulation of policy affecting rural development;
- d) to represent the Bank in numerous contacts with (frequently initiated by) local officials, private organizations, students and others interested in the Bank's activities in Northeast Brazil and elsewhere; and
- e) to manage the administrative affairs of the Recife office.

6. During the past 2-3 years, project-specific work (point "a" above) has clearly been the main category of activity. It has involved participation in most related missions from headquarters, helping ensure continuity and consistency in Bank dialogue with the local authorities and bringing to bear knowledge of any new project or program developments that might have occurred between missions or in other states. Participation in the missions has often been linked to the resident officer following up on specific matters during the intervals between Bank missions on a particular project. As the Bank is now

working in all of the 9 Northeastern states (7 integrated projects in execution or preparation, added to the Alto Turi colonization project initiated in Maranhão with Bank financing prior to the creation of POLONORDESTE, as well as irrigation projects in the lower São Francisco River valley in Sergipe and Alagoas), this has evolved into an immense task and implies the need for considerable coordination and communication between Bank staff working on different projects, between Brazilian authorities and Bank staff, and among the Brazilians (staff in various states and at the regional and federal levels).

7. Results. We believe that there is broad and strong evidence that the Recife office has achieved and is achieving a very substantial part of its objectives. The indicators include, not necessarily in mutually exclusive categories or in order of importance, the following.

- (i) Probably a majority of the rural development projects in which the Bank has collaborated in the Northeast were identified largely because of the "promotional" activities of resident officers and/or the local accessibility of a Bank representative in the Northeast. The resident office generated, on a sustained basis, interest in rural development activities; created a demand for Bank collaboration; sorted out requests or project possibilities warranting further consideration; helped set up the first steps of project identification and preparation by potential project executing authorities; and played a key role in "negotiating" and arranging Bank response (e.g., headquarters missions) to the Brazilian initiatives. This "marketing" activity, though probably relatively more predominant in the early days of the Bank presence in the Northeast, continues. Operationally, it has played a key part in building up the rural development project pipeline in the Northeast which in practical terms did not exist prior to 1975, but has since resulted in appraisal of 6 projects (4 loans totalling US\$90 million approved and two totalling US\$69 million about to be negotiated) and initiation of preparation work on several others. There is little doubt in our minds that progress would have been appreciably slower in the absence of a strongly staffed Recife office.
- (ii) The intensification of Bank collaboration on the Northeast rural development effort has had impact beyond the specific projects financed. For example, POLONORDESTE program targets were initially somewhat vague, but Bank support on individual projects and the Recife resident mission have together facilitated the type of dialogue helpful in gradually focussing the overall program more sharply on assisting low income farmers and on mobilizing the energies of various Government agencies toward improving the agricultural productivity, incomes and standard of living of, specifically, the rural poor. In addition, the Bank's more active role in the Northeast has helped to generate increased interest in rural development elsewhere in Brazil. In the past year, three of Brazil's southern states have requested Bank collaboration in preparing and financing projects for the rural poor.
- (iii) The Recife office "follow-up" and participation in preparation work has shortened, we believe, what would otherwise have been the time between identification and appraisal. The periodic "hand-holding", "teaching", "explaining" role has been critical in maintaining enthusiasm of local preparation teams and improving understanding of project preparation methodology. It has strengthened the viability of what

we feel is one of the Bank's major contributions in the Northeast, the decentralization and broadening of planning capacity, by reinforcing the state agricultural planning commissions. It has facilitated work of headquarters missions by improving the probability of timely local completion of preparation work programs and has allowed a more supportive and reflective Bank participation often not feasible in time-pressed headquarters missions.

(iv) The resident officers have all established solid personal contacts with Brazilian counterparts and have earned the confidence and respect necessary to open the channels for "informal" communications (on, for example, political or institutional or project developments) which can guide, speed and improve Bank activity.

(v) The Recife office has contributed significantly to communication and coordination between Bank missions. In spite of the vast amount of written material circulated in the Bank with respect to the Northeast Brazil projects, Bank staff, some relatively new to work in the Northeast, have an uneven knowledge and understanding of some key project issues (e.g., management and organization, sectoral policies, institutional constraints, financial aspects). Comments and suggestions given to mission members by the resident field officer often prove more immediately useful and relevant than previously read material, precisely because of the immediacy of the problems in the field and the smaller amount of miscellaneous headquarters distractions. The importance of this "coordination" and "information" role is heightened by the fact that two separate Bank divisions have rural development operations in the Northeast (CPS/AGR and LCPA3).

(vi) The Recife office has performed effectively the typical resident mission role as "buffer" between the Bank and local counterparts -- advocating local positions in cases where issues cannot be adequately dealt with in the abruptness of regular project missions, and clarifying and explaining Bank positions.

(vii) A very delicate contribution made by the resident officers has been that of being a locally respected catalyst/advocate in helping expedite the business of the POLONORDESTE program. This contribution, though unquestionably justified on a case-by-case basis, has not been without its perils. Helping jar into action the bureaucratic machinery to get federal funds released to a particular project or federal technical assistance or collaboration in solving a project-specific problem has been necessary more frequently than we would wish or than we would find consistent with our longer term objective of seeing a smoothly functioning Brazilian mechanism administering POLONORDESTE.

8. It is our understanding that Brazilian officials are also generally pleased with the operation of the Recife office. They seem to consider it a highly visible Bank presence in, and commitment to, helping solve the problems of Northeast Brazil. They feel easy access to the Recife office, and the resident officer is usually given privileged communication lines and with most levels of Government in Brazil. At the state level, the resident officers'

intense involvement in technical and policy discussions for the first several projects which were prepared created an expectation and demand from other states. This demand for assistance from the Recife office reflected, in part, the failure of SUDENE and the regional POLONORDESTE team to develop their own technical assistance capacity as quickly as hoped, a problem which reflected, in turn, the inability or insufficient commitment of key federal authorities to take the steps (streamlining the organization, improving staffing and salaries, increasing authority of the program managers and contact with policy decision makers, etc.) necessary to strengthen substantially the overall management arrangements for the program. While appreciating the Bank's expectation that the Recife office give priority to work specifically linked to immediate operations, the relatively junior technical level staff in charge of day-to-day coordination of POLONORDESTE (at both the federal and regional levels) have frequently requested that the Bank increase its technical assistance presence on program matters. Such assistance might be viewed as a means to reinforce the overall institutional structure of rural development efforts in the Northeast and, in the process, contribute to the longer term viability of the entire program and to the continued generation of new project alternatives.

9. Costs. Against the benefits of the Recife office, it is interesting to note that the annual cost of maintaining a professional staff member in Recife has been about the same as the average cost per professional in Washington. An OPD study in late 1977 found, in fact, that during FY77 the adjusted total cost of the staff member in Recife was US\$79,800 (US\$56,800 excluding the base salary for the resident officer) compared to a cost per professional staff member in Washington (Regional Offices only) of US\$80,400 (US\$44,300 excluding base professional salaries) and an average cost of US\$121,000 in all resident missions (US\$88,100 excluding base professional salaries). The fact that costs of the Recife office are relatively lower than in other resident missions results, in part, from a cost-sharing arrangement with the host agency, SUDENE, for administrative support and overhead. Since FY77, the non-salary costs of the Recife office have remained quite stable -- US\$64,300 in FY78, US\$76,400 budgeted in FY79 (the increase mainly reflecting resettlement costs) and US\$61,200 expected in FY80.

10. It is virtually impossible to analyze the impact of expenditures made by the Recife office in reducing Headquarters costs. For example, the effectiveness of the office probably reduces the number of missions or amount of Headquarters travel cost which would otherwise be necessary for preparation or appraisal of the "new style" projects being developed. These theoretical savings are, however, probably being taken up by Headquarters work on a larger number of projects of this type than would otherwise be possible. In our judgement, the critical consideration is that, at a negligible (if indeed any) marginal cost, the Recife office has enhanced our ability to launch and pursue an active participation in supporting development efforts in Northeast Brazil.

PART I - BASIC DATA ON BRAZIL AND BANK LENDING IN BRAZIL

1. GNP/Income/Socio-Economic Conditions. The estimate of 1977 per capita GNP in Brazil is US\$1,390. Per capita income in Northeast Brazil has been estimated at about US\$400 - 450 or roughly 40% of per capita income in Brazil as a whole. Per capita incomes in the rural Northeast are estimated at only about 25% of the national average. The nine states of Northeast Brazil have a population of about 35 million, two-thirds of whom live in rural areas. Much of the region has a semi-arid climate with periodic serious droughts and generally poor soils. Nonetheless, the Northeast is a significant agricultural region, usually accounting for 20% of Brazil's agricultural production. Throughout the Northeast, agricultural productivity is low. Farming systems of small producers have reflected the physical and institutional environment: lack of access to credit for working capital or investment, limited agricultural extension services, market isolation and weak linkages with the regional economy, insecurity of land tenure and, in areas, a difficult physical environment. Less than 1% of the total number of farm establishments account for 40% of the area, and in some areas up to 80% of the rural labor force owns no land at all, though this proportion varies considerably by region.

2. Brazil is not classified by the Bank in the "least developed" or "other poorest" categories. It does not have an IDA allocation.

3. Bank Lending Program. The FY80 - 84 lending program for Brazil, approved in Fall 1978, included 59 projects with proposed lending amounting to US\$5,020 million. The sectoral distribution of the program is as follows:

	FY80-84 Lending Program (1978 CPP)		
	US\$ Million	% of Total	N° of Projects
Agriculture	1,070	21.3	16
Nutrition	70	1.4	1
DFC	210	4.2	4
Education	230	4.6	5
Transport	635	12.6	6
Electric Power	860	17.1	9
Water and Sewerage	635	12.6	5
Industry	450	9.0	5
Urban Development	860	17.1	8
TOTAL	5,020	100.0	59

4. By December 31, 1978 the Bank had made 82 loans to Brazil, amounting to US\$3,887.1 million, of which 39 were not fully disbursed. Among the undisbursed loans, the sectoral composition and amounts were as follows:

Loans Under Disbursement (Dec. 31, 1978)

	N° of Projects	Loan Amounts		Amounts Undisbursed	
		US\$ Million	% of Total	US\$ Million	% of Total
Agriculture	11	438.7	17.4	392.7	22.2
Nutrition	1	19.0	0.8	18.2	1.0
DFC	1	85.0	3.4	72.3	4.1
Education	2	55.5	2.2	50.5	2.9
Transport	6	574.0	22.7	295.3	16.7
Electric Power	7	580.0	22.9	333.0	18.9
Water and Sewerage	3	186.0	7.3	146.2	8.3
Industry	7	500.5	19.8	369.9	21.0
Urban Development	1	88.0	3.5	86.7	4.9
TOTAL	39	2,526.7	100.0	1,764.8	100.0

PART II. SUPPORTING BACKGROUND INFORMATION

5. Relative Importance of "New Style" Projects. Attachment 1A to the Fall 1978 Brazil CPP noted that 60% of the proposed number of projects (35 of 59) and 57% of the lending amount of the proposed FY80-84 program are intended mainly to assist low income groups. These efforts include 15 in agriculture, and 12 in water supply, sewerage and urban development. A majority of these, as well as the possible second nutrition project, would clearly fall into the "new style" category.
6. Relative Importance of Bank Role. As of December 31, 1977, the World Bank accounted for 4.8% of the total disbursed outstanding medium and long term external debt in Brazil (Annex 1, page 6 of recent President's Reports). Other multilateral agencies combined for a total of 2.5% and governments for 9.2%. Financial credits and supplier credits are the principal components of Brazil's medium and long term external debt. UNDP, FAO, OAS, UNESCO and other international agencies have numerous technical assistance projects underway in Brazil, a fair number in collaboration with agencies or projects also receiving Bank financing (e.g., Lower São Francisco irrigation, vocational training, agricultural research).
7. Operational Difficulties. Particularly in the execution of "new style" or multi-component projects involving numerous agencies, there have been persistent delays in Government decision-making and provision of counterpart funding. Although we have attributed this in part to the "newness" of the operations, it also reflects slower than hoped for Government reinforcement of management capacity in such programs as POLONORDESTE (see para 8 in main text).
8. Stability and Openness of Politico-Administrative System. The Brazilian Government has been stable and has, in recent years, reflected a gradual political liberalization. Its decision-making machinery is often very complicated and cumbersome. While it is possible for staff working from Headquarters to keep track generally of the "levers of power" in the country, it is extremely difficult to maintain contact with shifts in the inner workings of Government programs involving numerous ministries and agencies. The problem is compounded by the fact that, in areas such as rural development, we are also working with numerous state secretariats and agencies. This factor, in turn, contributes to the need for frequent clarification from the Bank of Bank policies and procedures.

10. Travel/Telecommunications. Travel to, from and within Brazil is relatively easy. However, even within just the Northeast, distances and travel times can be very long. Counting connecting times, travel from Washington to many of the main points in the Northeast often amounts to over 20 hours. Telephone service between main cities in Brazil is fairly good and international direct dial is available. Postal service is slow (as much as 3-4 weeks for airmail between the Northeast and Washington), unless special courier or pouch arrangements are used (available through the Bank's contracted office services from FURNAS in Rio de Janeiro).

NORTHEAST BRAZIL

A PROPOSAL FOR WORK ON RURAL DEVELOPMENT

August 1979

The World Bank
Washington, D.C.

NORTHEAST BRAZILA PROPOSAL FOR WORK ON RURAL DEVELOPMENTTable of Contents

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NORTHEAST BRAZILA Proposal for Work on Rural DevelopmentIntroduction and Summary

1. This proposal for discussion has been prepared pursuant to understandings reached between representatives of the Government of Brazil and the World Bank during June 1979. It seeks to provide a basis for developing means to help expand, and improve the effectiveness of, rural development efforts in Northeast Brazil and the World Bank's collaboration in those efforts. The proposal is based on the Government's determination that SUDENE be the instrument for managing the planning and coordination of Spécial Programs for rural development in the Northeast. It cites briefly the key antecedents. It outlines a recommended general organizational environment for future rural development efforts in the Northeast, including a substantial reorganization and staff strengthening of SUDENE. It sketches out a work program of both short-term efforts to improve operation of existing programs such as POLONORDESTE, as well as parallel efforts on issue-oriented studies and planning work to assure a structure for solid growth and performance of rural development efforts over the longer run. It concludes by setting forth possible means for expanded World Bank technical and financial collaboration.

I. BackgroundEfforts Through the Early 1970s

2. There is a long history of deep concern in Brazil about regional income disparities and about the extent of poverty in the Northeast. Programs introduced in attempts to alleviate this situation have included reservoir construction, the 34/18 tax incentive scheme, the sugar rehabilitation plan, Amazon colonization, irrigation development and the PROTERRA land reform and agro-industry program, among others. Though progress has been made, the nature and scope of the problem and of the programs were such that significant poverty continues to exist. While to some extent this is attributable to a poor natural resource base and weak institutional capacity, it probably also reflects the frequent failure of program designers to recognize the fact that: (i) infrastructure, services and farm inputs are highly complementary and the effectiveness of one may be significantly curtailed by the absence of another; and (ii) program interventions are often specific to a particular target group, and programs must be designed to address the economic, social, institutional and political conditions of the poor -- inadequate access to land, agricultural services, education, etc. -- if they are indeed to help that group significantly and directly.

Multi-Sectoral Programs Emerging in the Mid-1970s

3. The Special Programs inaugurated in the mid-1970s, aimed at improving economic and social conditions in the Northeast, added an important dimension by their respective efforts to integrate development of various services and/or investments; increasing attention was also paid to identification of specific target groups. Multi-sectoral interventions, totally or in part directed to the rural Northeast, were mounted under POLONORDESTE, Baixa Renda, Sertanejo, and the INAN nutrition program. These were also complemented in cases by new sector-specific efforts in health (PIASS) and education (PROMUNICIPIO). The POLONORDESTE program has been something of an "all purpose" rural development effort, serving a variety of target groups (not necessarily always in the lowest income groups) with a wide range of investments in selected "priority areas" in different ecological zones. Baixa Renda, in its concept, was probably more sharply focused on the lower income groups; it has been characterized by a specific credit/marketing intervention (advance purchase of production), but experience has been limited to rather isolated efforts and has seen very uneven results. Sertanejo was intended specifically for the Sertao, appears to be less sharply focused on the lowest income groups and to have an extremely high cost per beneficiary, and has had limited implementation experience so far. The rural aspects of the nutrition program, executed in selected areas only, have centered around food supplementation and health care to the most vulnerable parts of the population.

4. Of the recent multi-sectoral programs, POLONORDESTE has probably had the most extensive experience. The program has embodied an opportunity to try to resolve simultaneously key institutional, economic and social development problems. It also presented, in principle, a mechanism for the Federal Government to better adapt its program to local needs and conditions and to support the development of the institutions ultimately responsible for providing the services or maintaining the improved infrastructure envisaged. The selection of priority areas, intended to reflect demographic density and/or development potential, also reflected recognition of administrative and financial constraints and the need to define interventions on a manageable scale.

5. Initially, progress under POLONORDESTE was slow. Considerable ambiguity persisted as to specific program objectives and intended target beneficiaries. As important, the program lacked an appropriate institutional structure to assure that economically and administratively viable projects would be developed, that resources would be allocated in a timely and efficient manner, and that appropriate monitoring and evaluation of the program would be undertaken. At the State and local levels, the frequent initial failures (in part for lack of overall program guidance) of planners to define carefully the target beneficiaries and objectives of projects, to analyze the relationship between the needs of the target groups and proposed investment alternatives, and to think through the long-run administrative (including staff training and development) and financial implications of project execution resulted in very uneven performance within and among projects. Nevertheless, although in most cases it is still too early to evaluate the impact of the POLONORDESTE program, preliminary production results in several of the projects are good, important improvements in physical and social infrastructure and in production support

and social services have been initiated, and the work on special projects has helped improve the overall efforts and abilities of local agencies to focus an increasing share of the benefits of infrastructure and services on the rural poor. Furthermore, State and local commitment to and enthusiasm about the program have become substantial.

Current Position

6. Administration and Organization. A determining factor in the current administrative environment for Government rural Special Programs in Northeast Brazil is embodied in Presidential Decree No. 83.436 of May 10, 1979. That Decree expresses the Government's decision that SUDENE be the part of the Federal Government responsible for administration of such programs and that previous inter-ministerial program management units be eliminated. The Decree also calls for the implementation of new program management systems (yet to be detailed) within 180 days.

7. In the case of the POLONORDESTE program, the administrative situation which developed over the recent years (and to a large extent continues during this interim period) offers several insights important to the design of the new system. One of the most positive organizational developments has been the gradual improvement and strengthening of State planning capacity and of the State agricultural planning commissions (CEPAs). On the other hand, for the program as a whole, one of the critical problem areas has been that of authority and unity of command. Overall program coordination has been, in practice, ambiguously layered and sub-divided. The inter-ministerial group based in Brasilia (GECA) has largely played the role of administrative facilitator. It has been neither a policy-making body nor an immediately responsible full-time management unit. Its performance was limited by the lack of a clear consensus among the Ministries concerned regarding rural development policies and priorities, and by the fact that the GECA was only a committee of technical staff (though very competent and dedicated individuals) several levels removed from the higher decision-making authorities. Most of the members were only part-time participants and leadership among committee members was never clearly defined. The second group (GRPN, based at SUDENE), which was theoretically charged with day-to-day program management, has simply been too weak to function effectively. Difficulties were compounded by the fact that, for the GECA in Brasilia, the leading role was played by SEPLAN but, for the GRPN in Recife, the line of command was to the Ministry of Interior. The dual lines of command, together with the lack of active high level policy guidance to the program, made it very difficult to achieve effective collaboration and meaningful integration of the rural development activities of the respective Ministries.

8. Other problem areas in the administrative arrangements for POLONORDESTE (and probably, to at least some extent, in the other Special Programs as well) include: (a) a complicated financial budgeting and disbursing system prone to extended delays; (b) continued wide variation in the interpretation of program objectives and application of program criteria by the different States; (c) staffing of program administration not fully

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appropriate (in terms of recent practical experience, motivation and aggressiveness) to the priorities of POLONORDESTE, both because of salary restrictions and the work environment; (d) a lack of medium- and longer-term perspective in programming; and (e) an absence of adequate means to critically monitor and evaluate the impact of the program on its intended beneficiaries and to translate that knowledge into more effective interventions. Added to these factors, is the complication that there has been something of a proliferation of separate new programs which have similar objectives but are sometimes super-imposed upon each other. Given limitations in human and financial resources, it is not efficient to use those resources for unproductive competition between programs or to absorb inadvertently so much of the energy of local executing agencies on the demanding bureaucratic requirements of each separate program, at the expense of actual project execution.

9. Program and Policy Issues. The rural development project execution experience of the last years has also highlighted other issues which need to receive attention. One of those issues is the lack of a longer-term perspective in program planning, or a strategy for rural development in the context of overall development plans (definition of relative priorities and main targets within the rural development effort, compatibility within rural development programs and between them and programs in urban or industrial development, etc.). Another set of issues relates to the definition of means to better achieve rural development targets. A reflection of this type of issue is the difficulty to date of addressing effectively the economic problems of non-landowners and rural laborers, often among the poorest of the rural population. It is becoming increasingly apparent that the success of future rural development efforts in improving the incomes of these groups in many areas of the Northeast hinges in large part on the adequate complementary development of more effective mechanisms and policies to facilitate greater and more secure access to land by the poor, and to help expand non-farm rural development. There are numerous other areas where existing bottlenecks or inadequacies will require special attention--among them, delivery of credit to small farmers, pricing policy, market prospects and arrangements, community participation in program development and execution, and recurrent cost financing. Notwithstanding these difficulties, programs such as POLONORDESTE have clearly demonstrated sufficient promise in their early results to warrant a concerted effort to create for them a new institutional environment and to address systematically the program and policy issues which still exist.

II. Organizational Requirements

10. The Federal Government's decision to vest primary responsibility for planning and coordination of POLONORDESTE and other Special Northeast Rural Development Programs in SUDENE requires, if it is to be effective, significant reform in: structural/administrative arrangements at the State and Federal Government levels; the allocation of powers and responsibilities within and between these two levels; and staffing.

11. The two principles which have guided the formulation of the following proposal on organizational requirements are simplicity and flexibility. As cited in Part I above, the Special Programs have to date been characterized by an excess of bureaucracy and administrative confusion. Therefore, recommendations for improving the performance of the Special Programs must include specific provisions to simplify their administrative structure and clarify lines of responsibility and authority. At the same time, sufficient flexibility must be built into the system to permit changes in the organization and content of the Special Programs, when evaluation of experience indicates such a need.

12. Essentially, the Federal and nine Northeastern State Governments 1/ are the key "actors" as far as planning, coordination and execution of the Special Programs are concerned. Any effort to develop other administrative layers between these two will only complicate the business of implementing the Special Programs. For that reason, it is fundamental to establish from the outset that SUDENE's actions in respect of planning, coordination and evaluation of the Special Programs are undertaken on behalf of the Federal Government. In other words, SUDENE should not be viewed as a third layer between the Federal and State Governments, but rather as the Federal Government's principal agent for managing the Special Programs. Consequently, SUDENE must be given all the political, administrative, technical and financial resources and powers necessary so that it can act as the Federal authority in making decisions regarding the Special Programs, without having to refer excessively to other Federal entities for approval.

Structural Reforms

13. SUDENE. SUDENE will have jurisdiction over various rural Special Programs, each of which is multi-sectoral in content, comprises numerous sub-projects and demands the institutional collaboration of a multitude of agencies. Hence, there will be a need for a high-level forum (see para. 14) in which inter- and intra-sectoral problems can be aired and resolved, policy differences among the participating agencies reconciled, contradictions and duplication among the Special Programs avoided, and so on. There will also be a need to reorganize the operating units of SUDENE (see para. 15) to bring the control of the various rural Special Programs under one administrative umbrella, which should be led by and have at its disposition staff with the necessary technical and managerial skills to plan, coordinate and evaluate multi-sectoral programs and projects. It is therefore proposed that SUDENE be restructured, along the following lines.

14. A Regional Rural Development Council should be established, as a sub-council of SUDENE's Deliberative Council. The Regional Rural Development Council would be essentially a consultative body concerned with POLONORDESTE and all other rural Special Programs managed by SUDENE. Its chairman would be a new Deputy Superintendent of SUDENE for Rural Development (see para. 15), and its technical secretariat would be a new sub-Superintendency for Rural Development. Membership on the Regional Rural Development Council would include the chairmen of the new State Rural Development Councils (see para. 18)

1/ Plus Minas Gerais.

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as well as high-level representatives of the key Ministries and institutions involved in the planning and/or execution of the various Special Programs:

- (a) Chairmen of State Rural Development Councils (10) ^{1/}
- (b) Representatives of Ministries of Interior, Agriculture, Planning, Finance, Health, Education and Transport (7)
- (c) Representatives of the official banking system, including BC, BB, BNB and BNCC (4)
- (d) Representatives of CODEVASF, DNOCS and CHESF (3)
- (e) Representatives of INCRA, EMBRATER, EMBRAPA, COBAL, CIBRAZEM and INAN (6)

Given its size (approximately 30 members), the full Regional Rural Development Council would probably not meet more than twice yearly. In the intervals, smaller meetings would be convened, at the discretion of the Deputy Superintendent for Rural Development. For instance, the Deputy Superintendent might wish to meet regularly with the chairmen of the State Rural Development Councils and to call separate ad hoc meetings of the credit institutions, agricultural agencies, social sector agencies, etc. The Regional Council would provide a valuable mechanism for the discussion and resolution of policies and problems affecting the rural development of the Northeast Region. For this mechanism to work, it will be essential for the participants to be very high-level representatives of their respective Ministries or agencies and for there to be continuity of representation. This, in turn, implies that the participating agencies may need to restructure their own organizations along regional lines or adapt themselves in some other manner so that each has several staff or a unit competent to speak for the agency's policies and make commitments in regard to the Northeast Special Programs. As necessary, the Regional Rural Development Council might refer problems and issues to the full Deliberative Council of SUDENE, for discussion and/or decision at that political level.

15. SUDENE's present structure includes three sub-Superintendencies, for Planning, Administration and Operations. It is proposed that the latter be replaced by three new sub-Superintendencies, for Rural, Urban and Industrial Development (e.g., five sub-Superintendencies in all), as set forth in Chart 1. The main advantage of establishing a sub-Superintendency of Rural Development would be the grouping under one administrative unit of all rural Special Programs. The Deputy Superintendent for Rural Development would report directly to SUDENE's General Superintendent and would have the necessary

^{1/} The nine Northeastern States, plus Minas Gerais.

staff 1/, resources and authority to cope with the multi-sectoral programs and projects. The sub-Superintendency of Rural Development could comprise two sub-units: one responsible for policy formulation, research, evaluation and training, and the other responsible for coordinating implementation of all ongoing Special Programs. The latter could have a technical support unit with specialists in all necessary fields (e.g., education, health, agricultural credit, etc.) to provide support services to the various Special Programs. Each Special Program could be organized along geographic lines, 2/ with staff responsible for overseeing all sub-projects in a particular State(s), coordinating SUDENE's technical and other inputs into each sub-project, liaison with the sub-project implementation units and other State agencies, etc.

16. States. There has been considerable variation thus far in the way each State has chosen to organize itself to manage preparation and execution of the Special Programs. POLONORDESTE provides a good illustration of this point. All States have some form of POLONORDESTE Management Council, but membership and chairmanship differ. Some project units (UTCs) report to the Secretariat of Planning and others to Agriculture; the internal structure and degree of autonomy of the UTCs differ, sometimes even within the same State; budgetary arrangements are unique in each State; etc.

17. This diversity has been healthy in that it has permitted experimentation with a wide range of management styles and systems. Although it has in the process been possible to identify some approaches which clearly work better than others, the main lesson learned has been that circumstances (technical, institutional, political, financial) differ sufficiently among the States to warrant continued flexibility. In other words, experimentation and variety are to be encouraged rather than circumscribed. For that reason, we present no "model" for the administration of the Special Programs at State level, with the following exception.

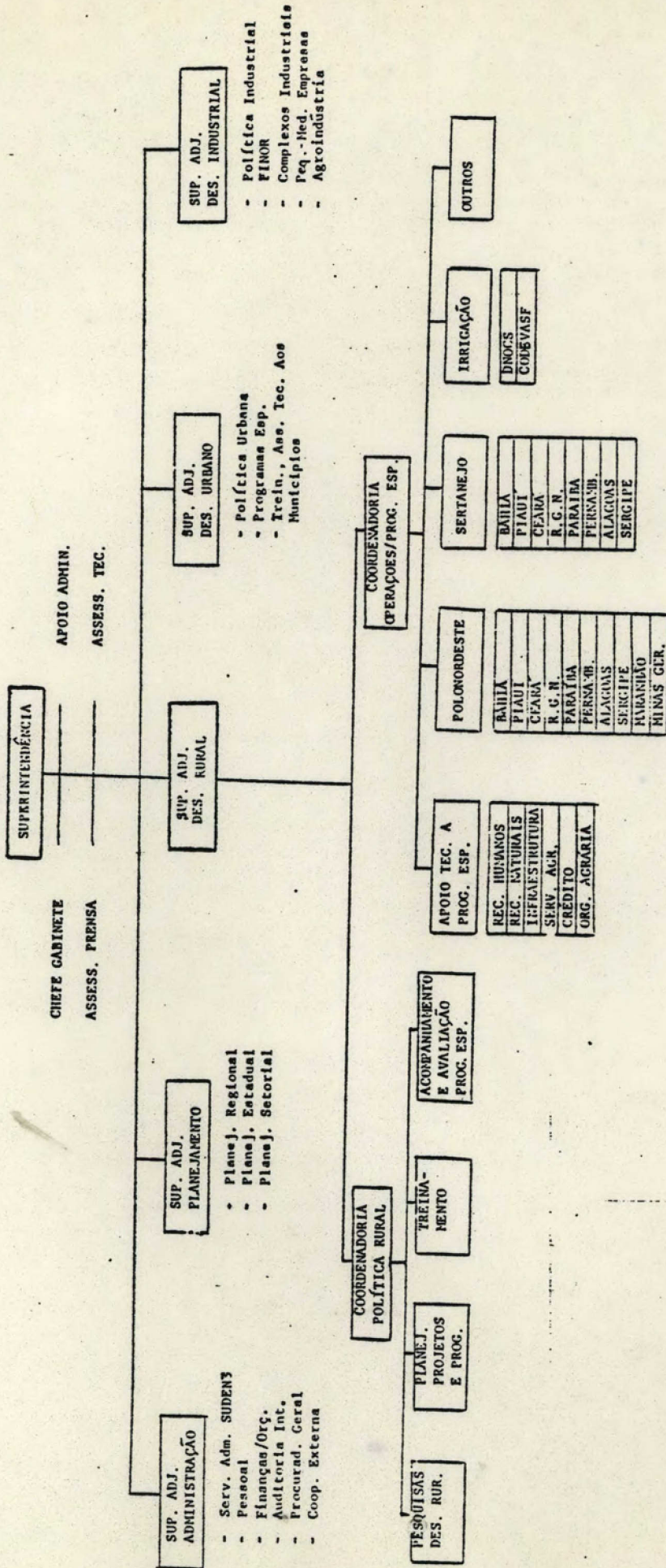
1/ It is implicit in this recommendation that the existing sectoral departments (which now report to the sub-Superintendent for Operations) be disbanded and their staff re-assigned to the various sub-Superintendencies. For instance, staff of the Department of Human Resources (DRH) who have appropriate skills would be transferred to the sub-Superintendency of Planning, where they would work on regional educational planning and on providing technical assistance to the States in educational planning. Other DRH staff with experience in rural education and training would be assigned to the sub-Superintendency of Rural Development to provide support services to the Special Programs, and so on.

2/ With the exception of irrigation, which would be organized along institutional lines (DNOCS, CODEVASF).

CHART 1

SUDENE

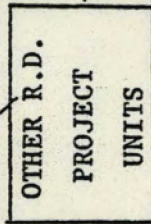
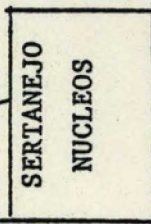
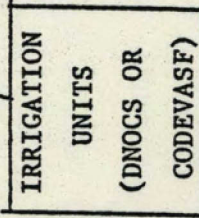
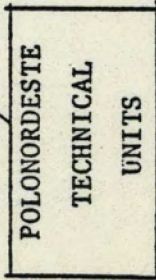
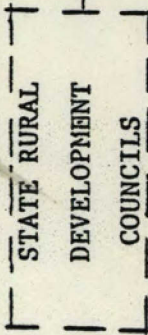
PROPOSED STRUCTURE



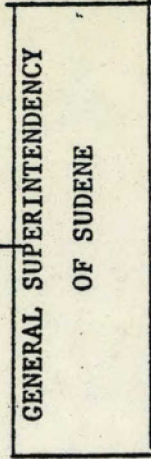
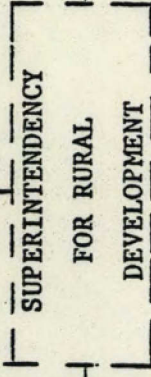
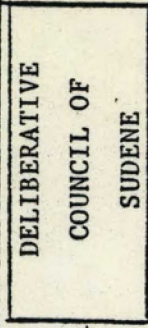
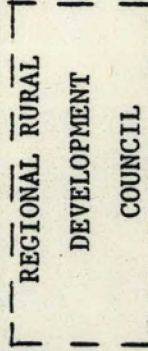
STATE/SUDENE MANAGEMENT STRUCTURE

FOR RURAL SPECIAL PROGRAMS

STATE/PROJECT EXECUTION LEVEL



SUDENE/PROGRAM MANAGEMENT LEVEL



— Existing Units
 - - - - - New Units

18. It is recommended that the existing POLONORDESTE Management Councils be converted into State Rural Development Councils with jurisdiction over all Special Programs. As with the Regional Rural Development Council and the Superintendency of Rural Development at SUDENE, it is also essential to have some mechanism at State level for overseeing the entire gamut of rural Special Programs, understanding their differences, where they overlap, contradict or complement each other, and so on. The State Councils would probably be chaired by Governors (or the State Secretaries of Planning) and should include all State Secretaries and agency heads involved with the preparation and execution of the States' rural Special Programs (see Chart 2).

Powers and Responsibilities

19. It is important to clarify that this proposal does not envision any major changes in the present Sistema Nacional de Planejamento: States would develop local priorities, objectives and targets; SUDENE would translate these into regional priorities, objectives and targets; and SEPLAN would still have primary responsibility for setting national priorities, objectives and targets. The process is, of course, a two-way one, with the States and SUDENE both making inputs into the regional and Federal plans, as well as accepting directives from above. What is recommended is a re-allocation of powers and responsibilities for the management of the rural Special Programs in the Northeast.

20. The following are the suggested functions of the Federal and State Governments in relation to the planning, coordination, execution and evaluation of the rural Special Programs.

(A) Federal Government

(1) SEPLAN

- (a) Establishment of five-year funding levels and approval of overall annual budgetary allocations to the rural Special Programs.
- (b) Disbursement directly to SUDENE, on an advance basis, of annual allocations to the rural Special Programs. 1/

(2) Other

Other Federal Ministries and agencies would participate actively in policy formulation for the rural Special Programs, via their membership on the Regional Rural Development Council and their informal working relationships with SUDENE's sub-Superintendency for Rural

1/ Disbursements would be quarterly or by semester. They would be automatic and would be timed so that SUDENE has the funds at its disposition one month before the start of each budget period (quarter or semester), so that SUDENE could in turn make the funds available to the States by the beginning of the budget period.

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Development. They would also continue to be involved in project execution (e.g., EMBRAPA in the case of research). Although they would have a role in approving the pluri-annual and annual targets and implementation strategies of the programs/sub-projects, they would not be involved in the disbursements of funds.

(3) SUDENE

- (a) Review and approval of State proposals for annual allocation of resources to sub-projects and components of each rural Special Program.
- (b) Disbursement directly to the States ^{1/} of approved allocations, subject to adjustments which may be necessary to reflect differences between planned and actual rates of implementation or other new developments.
- (c) Research and policy formulation in the field of rural development, and establishment of criteria and guidelines for the rural Special Programs.
- (d) Technical assistance to the States in preparation and execution of sub-projects of the rural Special Programs.
- (e) Coordination of implementation of the rural Special Programs.
- (f) Program-level monitoring and evaluation of the rural Special Programs.

(B) State Governments

- (1) Disbursement directly to the executing agencies of approved allocations for the rural Special Programs.
- (2) Preparation and execution of sub-projects to be financed under the rural Special Programs.
- (3) Monitoring and Evaluation of the sub-projects of the rural Special Programs.

Staffing

21. It is widely recognized that SUDENE's performance as a regional planning and development authority has deteriorated steadily over the past 15 years. The reasons are numerous, but certainly two factors stand out as the primary causes for this trend: (a) SUDENE's powers, which were

^{1/} Or directly to DNOCS or CODEVASF in the case of irrigation programs.

initially quite broad, have been eroded to the point where the institution is simply no longer able to coordinate execution of programs or to provide meaningful direction and technical assistance to the States in their development planning; and (b) SUDENE's salaries and other conditions of service have not been sufficiently competitive to attract and retain enough well-qualified staff and managers.

22. The combination of these two factors has generated a pervasive sense of impotence within SUDENE, which will not be easily dissipated. Better remuneration of staff is important, but it will not be sufficient to attract the kinds of managerial and technical personnel who will come to SUDENE only if they have confidence that the institution has clear and important functions to fulfill in the Northeast.

23. Assuming that the decision is taken to reform the structure, powers and responsibilities of SUDENE along the lines cited above, a concerted effort will be required to develop a staffing plan for the institution which is consistent with its future role. It is likely that many of the nearly 3,000 staff of SUDENE simply do not have relevant professional training and experience: some can be upgraded through intensive training, others will have to be shifted into routine jobs which do not require decision-making and judgement in matters which are beyond their competence, and still others may have to be offered various incentives to terminate their employment with SUDENE. That so many people are affected is a reflection of the fact that SUDENE's problems have prevailed for such a long time that they have had a most serious impact on the institution.

24. Staffing of the "new" SUDENE will require difficult decisions and imagination on the part of its leadership, because what is required is a fundamental change in both the staff composition and structure and in the very mentality of the institution. If this problem is not appreciated from the outset and confronted directly, the reorganization of SUDENE will be simply a "paper" event: existing staff will move into different positions on the new organization chart; passive attitudes towards problem-solving will not change noticeably; and the States and other Federal authorities will be reluctant to allow SUDENE to take any real initiative.

III. Policy Objectives and Work Program

25. The general objective of the Government's Special Programs for Northeast rural development is to raise the incomes and standards of living of the large low-income segment of the population of the rural Northeast. To this end the programs are designed to increase productivity, especially in agriculture, to provide support services for the increased production and to promote human development through adequate education, health and other social services. To achieve these objectives, it will be desirable to refine further a number of relevant government policies. Such policies include those designed to:

- (a) improve agricultural research and technical assistance to small farmers;

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- (b) adopt agricultural credit policies to make credit more readily available to small farmers, including the landless;
- (c) achieve more ready access to land by small producers;
- (d) assure adequate prices and marketing channels for products of small farms;
- (e) upgrade basic education and health services;
- (f) improve community participation in program design and execution; and
- (g) provide adequate and timely financing for investment and recurrent costs.

26. On the organizational side, the work program of the newly established sub-Superintendency for Rural Development would include: (a) activities to clarify the objectives, introduce some modifications in the content, and improve the management of the Special Programs in the short-term, and (b) a series of parallel activities and studies on major policy issues, designed to improve the effectiveness of the Government's rural development efforts in the Northeast over the medium and long-term.

Short-Term Program Upgrading 1/

27. POLONORDESTE still does not have very clearly defined criteria for target group selection, or guidelines for the design of sub-projects (PDRIs) and individual sub-project components (e.g., education, water supply, etc.). Many of the 32 PDRIs do not have specific targets in relation to raising of agricultural productivity and output, family incomes or access to basic agricultural and social services. Hence, there is often little basis for evaluating the impact of the PDRIs or the POLONORDESTE Program as a whole, for making decisions about allocation of resources among the PDRIs and among components within each PDRI, for determining when it would be legitimate to phase out a particular PDRI and begin work in a new geographic area, etc.

28. It is therefore recommended that, during the first 12-18 months following its establishment, the new sub-Superintendency for Rural Development undertake a systematic review of the POLONORDESTE Program, as follows:

- (a) Criteria, Guidelines (3-6 months). Review experience to date and set income and other criteria for target group selection to ensure that there is a clear focus on baixa renda farmers, and establish guidelines for the design and evaluation of individual PDRI components.

1/ Although this discussion focusses on POLONORDESTE, it is probably relevant to the other Special Programs as well.

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- (b) Project/PDRIs (12 months). Systematically re-examine each of the 32 PDRIs to assess POLONORDESTE achievements to date, analyze the needs of the project areas in relation to the newly refined criteria for target group selection and component design, and establish new annual and 5-year targets for the PDRIs. 1/

29. The sub-Superintendency for Rural Development would have responsibility for managing the aforementioned work, although obviously the collaboration of the States and concerned institutions (e.g., EMBRATER in relation to extension, EMBRAPA on research, etc.) would be essential for the successful completion of the tasks.

30. At the same time that the sub-Superintendency for Rural Development is reviewing and reformulating the POLONORDESTE Program, it should undertake the following two supplementary tasks:

- (a) Monitoring and Evaluation. Establish a system for the monitoring and evaluation of the POLONORDESTE Program, based on the newly refined criteria and guidelines adopted for the Program as a whole and on the targets set for each individual PDRI.
- (b) Training. Identify the principal training requirements for the staff of the sub-Superintendency of Rural Development and for officials of the local, State and Federal entities involved in planning, coordination and implementation of the POLONORDESTE Program and design a comprehensive plan to meet those needs.

Program Development over Longer-Term

31. Parallel to the refinement and re-examination of the rural development projects already underway, the work program should include a simultaneous effort to build the foundations for improved medium- and longer-term planning and execution. This work would range from more global or "macro" strategy development, to refinement of policies and programs related to rural development. More specifically it might include:

- (a) the carrying out of a systematic updating and review within the next 9-12 months of overall development strategy in the Northeast, with particular attention to the role of rural development (this work might take as a starting point the regional development plan being completed by SUDENE, and might be viewed, in a limited sense, as an effort to further refine or define a consistent master package or plan of objectives, policies and program priorities for rural development in the region);

1/ Shorter-term targets would be acceptable in cases where it is expected that the PDRI or component(s) would be phased out in less than 5 years.

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- (b) the reviewing of possible means to further streamline and possibly consolidate Government rural development efforts in the region (systematic review and improvement of sub-sector policy and project component preparation guidelines for POLONORDESTE; refinement of program financial planning, budgeting and disbursement systems; possible consolidation of some of the special programs; development and execution of training programs, etc.); and
- (c) the execution of a series of policy review and program development studies (e.g., to develop recommendations on pricing policies, technical assistance and extension methodology, credit mechanisms and policies, programs to improve access to land or security of tenure, marketing prospects and systems, programs to improve local or municipal capacity to finance recurrent costs of services, measures to stimulate more meaningful community participation in rural development planning, etc.).

32. The leadership and coordination of this aspect of the work program, which in many respects would be a continuous effort, would be the responsibility of SUDENE's new sub-Superintendency for Rural Development. However, various of the specific studies or tasks would have to be sub-contracted or delegated. For example, INCRA could take a leading role in the definition of possible land related policies or region-wide programs. Bank of Brazil and Bank of the Northeast would, as is apparently already foreseen, take key roles in definition of means to better serve the credit needs of the rural poor, as would EMBRATER in the area of extension. BNB's ETENE would contribute significantly to various aspects of the macro-economic work, and the States might also have important contributions to make, particularly as participants in defining improvements to financing arrangements and systems, community participation and other related matters. Some tasks -- e.g., development of basic improvements in financing and budgetary arrangements, information systems and evaluation techniques, among others -- are almost certain to require the short- and medium-term contracting of highly specialized individuals on a consultancy basis.

IV. Possible World Bank Collaboration

33. Assuming that decisive action can be taken on the organizational arrangements within Brazil and a general understanding reached between the Government and the World Bank on the nature of the desired work program, several types of increased Bank collaboration could be offered. These can be characterized, in general, as: participation in the development of lending operations to enable broader Bank financial collaboration in the rural development effort; assistance through periodic technical missions; and intensified continual assistance through an expanded Recife Office.

34. Expanded Bank collaboration can only function effectively and make a useful contribution to Northeast rural development efforts if there is a general policy framework to facilitate it and an appropriate structure to absorb it. Regarding policy development, the Bank would expect to maintain

- (b) the reviewing of possible means to further streamline and possibly consolidate Government rural development efforts in the region (systematic review and improvement of sub-sector policy and project component preparation guidelines for POLONORDESTE; refinement of program financial planning, budgeting and disbursement systems; possible consolidation of some of the special programs; development and execution of training programs, etc.); and
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a continued, active dialogue with the Government on the policies needed to promote rural development, including those set forth in paragraph 25. Regarding institutional structure, an expanded role for the Bank would depend upon the Government's taking the necessary steps to (a) reorganize SUDENE to manage appropriately the Northeast rural development programs; (b) delegate the necessary powers and authority (including especially financial authority) to SUDENE to enable it to assume responsibility for coordinating the planning and execution of the Special Programs; and (c) recruit and retain the kinds of staff which SUDENE will require.

Financing of the Special Programs

35. The World Bank could increase its financial support to the POLONORDESTE Program through additional loans for individual PDRIs, loans for sectoral activities (e.g., agricultural credit, education) in support of the entire POLONORDESTE Program, loans for all POLONORDESTE activities in particular States, and/or global loans to the POLONORDESTE Program to cover its activities throughout the whole Northeast. Substantive work on all of these options except the last is underway, and would continue to result in several loans for the next year or two. Eventually, however, the Bank would have a preference for reaching some form of the last alternative--that is, the provision of several large loans to be administered by SUDENE, with the Bank relying heavily on SUDENE's capacity to provide preparation assistance to the States and appraise and monitor sub-projects. To help SUDENE develop this capacity, the Bank could offer the following kinds of assistance.

Assistance Through Technical Missions

36. Program-Oriented. Special World Bank missions could be arranged to support and collaborate with Brazilian counterpart teams in several aspects of the program-oriented tasks mentioned above. The missions would include (but not necessarily be limited to):

- (a) a 2-3 week mission by 2 or 3 of the staff members (and/or Bank consultants) familiar with rural development work in the Northeast to help the sub-Superintendency for Rural Development (and other related Federal agencies as appropriate), at the earliest convenient date after it is organized, prepare in more detail the terms of reference for carrying out the work program noted in Part III above;
- (b) a 4 week mission (probably no earlier than October 1979) of about six members, including two general economists, plus specialists in agricultural economics, programs analysis, rural credit, and rural sociology/demography. This mission would, in collaboration with Brazilian counterparts, review overall development strategy in the Northeast with particular attention to the role of rural development. It would attempt to quantify and analyze recent socioeconomic trends, and evaluate the effectiveness of government policies and Special Programs, in the rural Northeast. Making use of both primary and secondary data, the mission would primarily deal with trends in production, income and employment; the distribution of income and wealth (including land); rural credit; as well as other social

indicators such as fertility, mortality, morbidity, illiteracy, and internal migration. The mission would seek to relate identified socioeconomic trends to the impact of government policies and Special Programs in the region and, where indicated, suggest possible policy alternatives; and

- (c) a series of small specialized missions, to be defined as the detailing of the work program progresses, to assist in work on specific program related issues (e.g., land tenure problems, financial management systems, project appraisal techniques, monitoring and evaluation, training).

37. Project-Specific. To complement the activities directed specifically at program improvement, a concerted effort could be made to adapt the work of Bank project preparation, appraisal and supervision missions for ongoing operations in the Northeast to improve the missions' usefulness as a basis for collaboration with and, in cases, training of Brazilian counterpart staff. This might include:

- (a) more systematic division of labor whereby Brazilian staff would be fully responsible for work on a particular project aspect or component, including report writing; and
- (b) development of a program of periodic short internships, by Brazilian program staff participating with Bank missions, to assist in the writing and preparation in Washington of, say, appraisal or supervision reports being prepared for projects in Brazil.

Expansion of Bank Recife Office

38. The World Bank Office in Recife could be expanded to form a small team that would concentrate mainly on policy and program development and on provision of management assistance to the new sub-Superintendency for Rural Development. It would work with staff of the sub-Superintendency for Rural Development and the States in preparation of POLONORDESTE sub-projects, and, as appropriate, on program-related issues such as program organization/financing, land redistribution, monitoring and evaluation, etc. In addition, the Office would be able to recruit short-term consultants, mainly to assist in specialized project preparation and program development activities, and as necessary in "trouble shooting" resolution of particular project supervision problems which might occur in the interval between regular headquarters supervision missions.

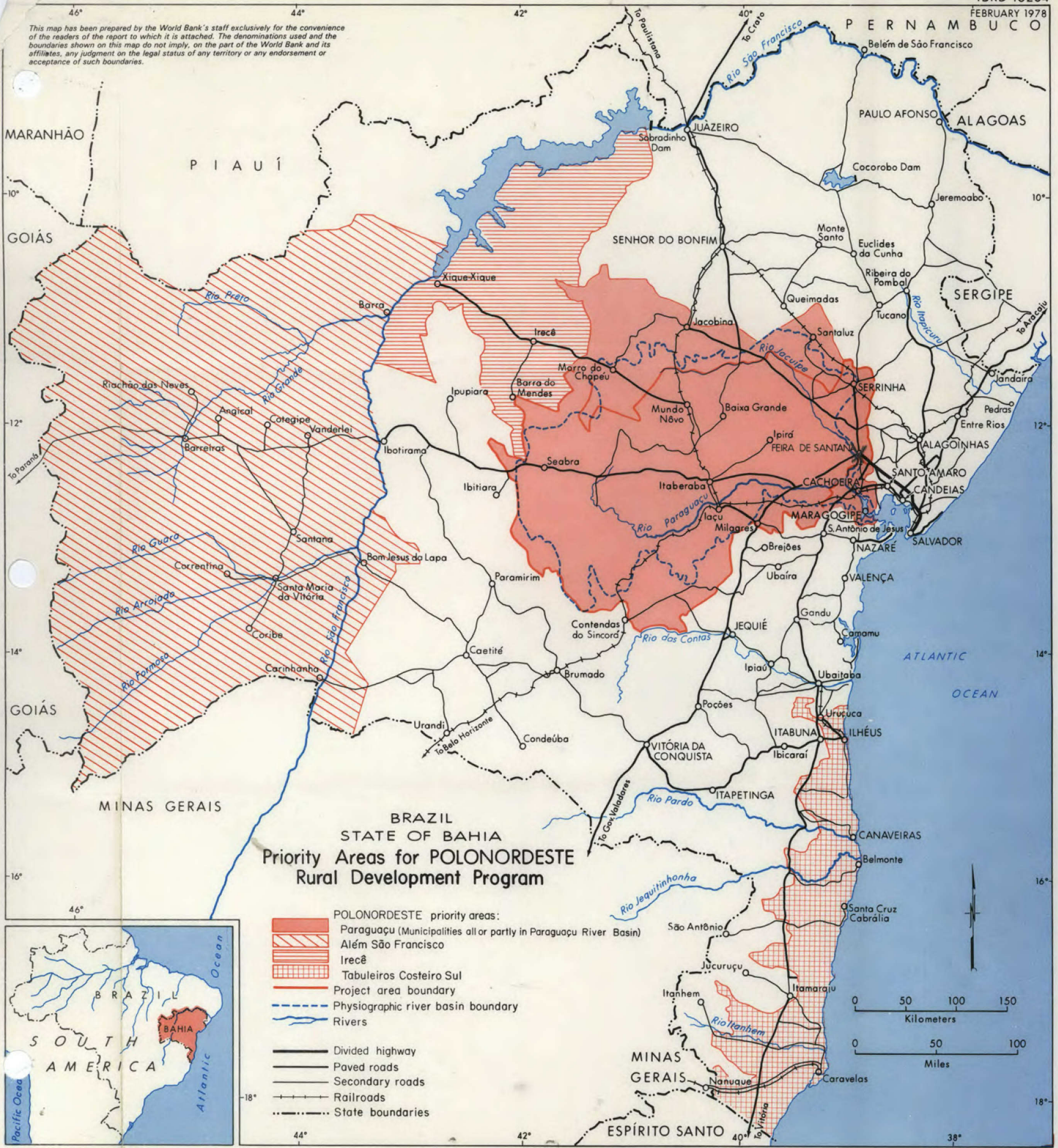
39. To avoid duplication of efforts among external agencies in relation to the rural Special Programs, it is suggested that the OAS, IICA and any bilateral agencies which are likely to be providing technical assistance to SUDENE be asked to focus their support on project preparation (except for those programs/projects for which the World Bank is providing direct assistance), and on training, policy formulation and research support to the sub-Superintendency for Rural Development and the States.

INCREMENTAL FIELD OFFICE BUDGET REQUEST

(US\$ '000 of FY80)

	<u>Start-up FY80</u>	<u>FY81</u>	<u>FY82</u>	<u>FY83</u>
I. <u>Authorized Positions</u>				
Professional Headquarters Staff	3	3	3	3
Local Secretarial Staff	1	1	1	1
II. <u>Man-Years</u>				
Headquarters Staff	1.5	3.0	3.0	3.0
Secretarial Staff	0.5	1.0	1.0	1.0
III. <u>Discretionary Costs</u>	<u>66.0</u>	<u>132.0</u>	<u>132.0</u>	<u>132.0</u>
1. Regular Salaries	48.0	96.0	96.0	96.0
2. Operational Travel	15.0	30.0	30.0	30.0
3. Communications	3.0	6.0	6.0	6.0
IV. <u>Other Direct Costs</u>	<u>86.3</u>	<u>68.2</u>	<u>68.2</u>	<u>119.2</u>
1. Local Staff Costs	1.0	2.0	2.0	2.0
2. Post Allowances	30.1	55.7	55.7	55.7
a. Assignment	(3.8)	(7.6)	(7.6)	(7.6)
b. Post Adjustment	(0.5)	(1.0)	(1.0)	(1.0)
c. Special Overseas	(4.8)	(9.6)	(9.6)	(9.6)
d. Rent	(15.0)	(30.0)	(30.0)	(30.0)
e. Utilities	(3.0)	(6.0)	(6.0)	(6.0)
f. Furniture and Appliances	(3.0)	(1.5)	(1.5)	(1.5)
3. Staff Benefits	1.5	3.0	3.0	3.0
4. Other Travel	51.0	3.0	3.0	54.0
5. Office Occupancy	0.2	0.5	0.5	0.5
6. Office Machines	2.0	3.0	3.0	3.0
7. Other Miscellaneous	0.5	1.0	1.0	1.0
Total III + IV	<u>152.3</u>	<u>200.2</u>	<u>200.2</u>	<u>251.2</u>

This map has been prepared by the World Bank's staff exclusively for the convenience of the readers of the report to which it is attached. The denominations used and the boundaries shown on this map do not imply, on the part of the World Bank and its affiliates, any judgment on the legal status of any territory or any endorsement or acceptance of such boundaries.



The POLONORDESTE Rural Development Program

Background

1. The Brazilian Government established the POLONORDESTE rural development program in late 1974 to help improve the incomes and standards of living of the rural poor in Northeast Brazil. In recent years, the program has been of the order of US\$150 million (excluding rural credit) annually in support of:

- (i) some 32 integrated rural development projects in sub-regions of the Northeast (shortly to be increased by another 12) chosen for their concentrations of low income farmers and/or development potential;
- (ii) 4 colonization projects;
- (iii) various DNOCS (National Department for Works Against Drought) and CODEVASF (Sao Francisco River Valley Development Company) irrigation works;
- (iv) research carried out by the National Scientific Research Council (CNPq) and the National Agricultural Research Company (EMBRAPA); and
- (v) overall program administration.

For the 1979/80 fiscal year (April 1979 - March 1980), 87% of the total (non-credit) POLONORDESTE funding was directed toward rural development and colonization projects. Applications of rural credit to small farmers in the individual rural development projects are typically equivalent to around 50% (and as much as 100%) of funding applications for other project services or infrastructure.

2. The World Bank is participating in the financing of six of the integrated rural development projects and one of the colonization projects. These include:

	Date of Bank Loan	Loan Amount (\$mln.)	Appraisal Estimates of Number of Direct Beneficiaries ^{1/}
A. Integrated Rural Development Projects:			
(i) Serido (Rio Grande do Norte)	1976	12	15,000
(ii) Ibiapaba (Ceara)	1977	17	5,790
(iii) Brejo (Paraiba)	1978	24	7,980
(iv) Paraguacu (Bahia)	1978	37	17,000
(v) Tabuleiros Sul (Sergipe)	1979	26	8,400
(vi) Agreste Setentrional (Pernambuco)	1979	40	18,240
Sub-Total		156	72,410
B. Colonization:			
(i) Alto Turi (Maranhao) ^{2/}	1972	6.7	5,200
Total		162.7	77,610

These seven Bank-supported projects represented some 38% of the total POLONORDESTE budget for the 1979/80 period. We are currently collaborating with the Brazilians in the preparation of a large second rural development project in Ceara and of a project in the state of Piauí, where land redistribution is expected to play an important part in the project. We are also working with the Government in the preparation of a small farmer credit project to cover the entire POLONORDESTE program.

Progress of Program

3. Initially, progress under the overall POLONORDESTE program was slow. Considerable ambiguity persisted as to specific program objectives and intended target beneficiaries. Although the program was given high priority, the federal agency, SUDENE, responsible for its implementation, lacked the institutional structure necessary to assure (a) that economically and administratively viable projects would be developed; (b) that resources would be allocated in a timely and efficient manner; and (c) that appropriate monitoring and evaluation of the program would be undertaken. At the state and local levels, although the commitment to and enthusiasm for the program has been substantial, project execution has been very uneven within and among projects. This has been in part due to a lack of overall program guidance and in part due to the target beneficiaries and objectives of the projects not being carefully defined; the relationship between the needs of the target groups and proposed investment alternatives not being properly analyzed; and the long-run administrative (including staff training and development) and financial implications not being thought through. Furthermore,

^{1/} Defined here as number of families expected to receive direct project technical and/or credit assistance for production purposes over project life (usually 5 years). In the case of the Brejo project, the number includes 580 small rural non-farm enterprises; and, in the case of the Agreste Setentrional, 2,700 such small enterprises.

^{2/} This project was started prior to the creation of POLONORDESTE, but was subsequently incorporated into the program.

since POLONORDESTE is only one of several special Government programs (some multi-sectorial and others single-sector) being executed in the Northeast, there has been duplication in some instances and competition between them in others. Nevertheless, preliminary production results in several of the projects have been good, although it is still too early to evaluate the full impact of the program. Important improvements in physical and social infrastructure and in production support and social services have been initiated and the work on special projects has helped improve the overall efforts and abilities of local agencies to direct an increasing share of the benefits of infrastructure development and social services to the rural poor.

Outlook

4. You will recall that when Mr. Antonio Delfim Netto, then Minister of Agriculture, visited you last June, he requested an expanded Bank program in the Northeast in support of the Brazilian Government's decision to give the highest priority to the development of this region. The Memorandum for the Record dated June 28, 1979, recording your discussions with the Minister is attached. As a result of this meeting, a Bank mission headed by Mr. van der Meer visited Brazil to determine what action is needed both on the part of the Brazilian Government and the Bank to increase the rural development effort in the Northeast. Attached is correspondence recording the subsequent sequence of events starting with identical letters sent to the Ministers of Finance, Agriculture, and Interior on August 6 by Mr. Barletta, and ending with a letter from Minister Delfim Netto addressed to you. The Minister's letter states what steps the Brazilian Government plans to take to strengthen SUDENE. The Government has also informed us that a Presidential order will be issued shortly authorizing the increase in salaries of SUDENE staff and the hiring of additional staff at higher salaries so that the right type of people may be attracted to it. We have also been informed that a Decree Law is being prepared for the reorganization of SUDENE, designed to provide it with the institutional structure necessary to effectively carry out the POLONORDESTE program. Assuming the actions proposed by both Minister Delfim Netto and Minister Mario Andreazza (Interior) are taken, we hope to be able to respond by devoting more staff to the rural development program in the Northeast. A memorandum, dated August 24, from Mr. Barletta to you outlining our proposal in this respect is also attached for your reference.

5. A by-product of SUDENE's strengthened role should enable it to help prepare projects for the POLONORDESTE program as a whole, which could be considered suitable for financing by the Bank and result in an expansion of our lending for rural development, and to make large regional sector loans instead of many small sub-regional loans.

6. We are planning to send a small (2-3 member) mission to Brazil in the second half of November to have more detailed talks with the Government on the precise reorganization and staffing plans for SUDENE. Our hope is that we will be able to start, during that mission, to work with at least some of the new staff charged with managing POLONORDESTE. This would allow us to detail our joint future program of work, including the proposed regional economic and rural program review mission and specialized missions to work on different aspects (financing mechanisms, land tenure issues, etc.) of the POLONORDESTE program. In the meantime, we are preparing our contingency plans to meet the additional staffing needs of our Recife office and consultancy funding required.

*differ-
decision
on action
until
I receive
report
mission*

INTERIM PROGRESS REPORT

July 1979

Project Objectives and Composition

1. The Brazil Nutrition Research and Development Project was the first Bank-aided project of its kind. This paper reports on the status of the project after its first two years of operation.
2. The Bank's dialogue with Brazil on this project began in 1973. It coincided with, and in part contributed to, an increasing awareness by the Government of Brazil of the problems related to malnutrition. Early in 1973, the Government of Brazil approved a national nutrition program and set up a National Food and Nutrition Institute (INAN) to coordinate ongoing nutrition activities and evolve new ones. Initial serious management problems led to a setback and reappraisal of the national nutrition plan. Project preparation efforts contributed to the recasting of the plan, which finally emerged as PRONAN, to which the Government committed more than US\$1 billion for the period 1976-79. The US\$72 million Nutrition Research and Development Project was perceived at the time of appraisal as part of this national effort. Its objective was to assist the nutrition policymakers with institution building, technical assistance and other related inputs, and to elicit lessons on how best to reach people with better nutrition and thus how to refine the subsequent phases of PRONAN.
3. As stated in the President's Report (Report No. P-1865-BR) of June 7, 1976, the objective of the project was "to strengthen, over a four-year period, the capability of Brazil to upgrade successfully the nutritional standards of the population, particularly the most vulnerable groups: pre-school children and pregnant and lactating women of low-income families." The project consists essentially of four components:
 - (a) institutional development through the training of staff and the development of a training capability, along with organizational support to Brazil's National Food and Nutrition Institute (INAN) for project planning, management, monitoring and evaluation;
 - (b) the testing of alternative nutrition delivery system;
 - (c) development of an information base through a nutrition and food consumption survey and surveillance system to determine the magnitude and implications of the nutrition problem, and a continuing program of assessment of the nutritional implications of agricultural policies; and
 - (d) development, testing and industrial production of low-cost highly nutritious foods.

4. Explicitly oriented toward research and development, the project is highly experimental and it was anticipated from the outset that operations may not necessarily work out as originally expected. Although the risks inherent in the project were recognized when the Bank loan was made and were considered acceptable in order to make a significant development contribution in a highly uncharted field, experience of the past two years has shown that they were underestimated.

5. While a number of field activities in the project have progressed satisfactorily, implementation of several components has been hampered by delays resulting from institutional inexperience and other problems associated with projects in any new area. On the other hand, once mounted, certain project components exceeded appraisal expectations of the numbers of beneficiaries who could be reached. Expectations for the speed with which new programs can be mounted (and the loan disbursed) proved to be overly optimistic. Actual expenditure on the project has so far been about US\$4 million equivalent as against the total anticipated expenditure of about US\$25 million through the first two years of its operation. ^{1/} Disbursements by the Bank have been US\$1.1 million or 18% of appraisal estimates. Three basic problems that plagued this project from the outset and the proposed solutions to them are discussed in paragraphs 6 to 10 below.

The Organizational Problem

6. Strengthening INAN's capabilities to carry out its role as central coordinating body for PRONAN (and the principal executing agency of the Bank-aided project) was, and continues to be, an important objective of the project. From the outset, the administrative weakness of INAN, including its lack of sufficient authority to operate effectively and its inability to attract and retain qualified professionals, had been identified as the principal constraint to implementation of the project. However, it was not felt that the removal of these constraints would be a major undertaking. Assurances had been obtained during negotiations that INAN's status and salary scales would be revised. The salary scales presented by the Government to the Bank was not adopted, nor was INAN given the flexibility required to carry out its management and coordinating role in the project. Most of the organizational difficulties noted have stemmed from this problem. The project unit in INAN has not been able to attract and retain enough competent professionals to manage the coordination of the project effectively. This staffing issue has hampered the implementation of many of the components of the project.

7. In retrospect, although the preparation of the project took three years, the timing of the Bank loan was premature if viewed against criteria usually applied to conventional Bank projects. The design of this project was explicitly different from the more usual project concept because it was developed as an experimental research and development project. In addition,

^{1/} Annex 1 lists components, their estimated base costs and government expenditures on them through 1978.

at the time the loan was made, INAN had just emerged from a government inquiry involving its top management which had been highly publicized in the press. The Bank did not expect that the damage done to INAN's image by this episode would take as long to redress as has been the case. During the past two years, the Bank has had an intensive dialogue with the Government on this issue. The new Government has now recognized the need to take action in regard to INAN's role in the nutrition program, and has decided to set up INAN as a separate foundation. This should enable INAN to upgrade its salary structure so that it can attract competent staff. It would also give INAN autonomy to play a more effective role in implementing the nutrition program. The time has also come to adjust the project in line with Brazil's current needs.

The Conceptual Problem

8. A conceptual issue has also hampered project progress. While the basic concept of the project had been agreed with INAN, a difference in emphasis emerged between the Bank and the Brazilian Government at the time of negotiations. This concerned the extent to which the project should focus primarily on research and development, and may have arisen from the incorporation of experiments suggested by the Bank during preparation. At the time of negotiations INAN was in a state of flux and was not in a position to implement a major nutrition program. The agreed project design therefore provided INAN considerable flexibility in implementation. Nevertheless, certain groups within the Government, concerned that the emphasis lay heavily on experimental research and development, continued to perceive the project as more a 'Bank project' than 'a Brazilian project'.

9. In recent discussions, the Government has revealed that it does not believe that establishing INAN as a foundation by itself will solve the implementation problem. Government has suggested that a partial reformulation of the project would be welcomed to speed its implementation. Detailed discussions can now be held with INAN on the various project components with the view to reaching agreement on a scope and content that responds more closely to Brazil's current perception of its needs. We propose to do this as soon as possible in the expectation that the Brazilian Government would feel more committed to the reformulated project which will emerge along the new organization of INAN.

Interest Rate Problem

10. Out of a total loan amount of US\$19 million, US\$7.2 million was to be used by the National Development Bank (BNDE) as a credit line to finance the production of low cost nutritious foods through small and medium scale enterprises. BNDE and INAN were, however, unable to reach agreement on the terms and conditions on which funds from this line of credit would be onlent to the ultimate beneficiaries because of the difference in policy between the Bank and the Brazilian Government on the interest rate to be charged. The Brazilian Government has maintained that a substantial subsidy should be given to the producers of low-cost nutritious foods in the Northeast whereas

the Bank has insisted on a policy of positive real interest rates for such credits. Given the fact that the Bank's stand on positive real interest rates happened to coincide with an availability of ample funds at subsidized interest rates from domestic sources, there was no pressure on BNDE to try to utilize this line of credit. Because no disbursements have been possible under this component INAN and the Ministry of Health have requested the Ministry of Finance to request the Bank for its cancellation. We have discussed this matter with both the Minister of Planning and Finance and have agreed that if they request cancellation we would be prepared to do so.

11. Given this situation, our assessment of the progress made during the past two years on the various components of the project is outlined below.

Test of Alternative Delivery Systems

12. Despite these basic problems, the operational core of the present project has proceeded through a set of activities in Northeast Brazil involving: (a) the comparative test of methods to counter urban and rural malnutrition among preschool children in and around Recife in the state of Pernambuco and (b) efforts to raise rural nutrition levels through increased food production and consumption in the state of Sergipe. In Recife an urban intervention tests the relative effectiveness of selling basic food staples to low-income families at different levels of subsidies through two alternative systems: through normal commercial channels or in combination with health services and nutrition education. Another intervention uses the primary school system as a mechanism for delivering food supplements and educational activities to preschool children. ^{1/} The Sergipe test involves the single or combined use of agriculture extension; social extension (health services and nutrition education) and farm production credit to improve the nutritional status of rural target groups. Foods used in these test programs are purchased from small farmers by the government food marketing agency. The programs thus provide both incentives and added incomes for needy producers and improved access to basic foods by the poor. Some 28,000 rural and urban families, 60% above appraisal targets, are being reached through these components. While slow in getting started, the three tests now are running closely to schedule. Although a definitive evaluation of the impact of such nutrition programs cannot be done over a one- or two-year period, preliminary indications of the impact are encouraging. An evaluation of their relative efficiency will be undertaken at the appropriate time.

13. The test involving commercial food distribution in Recife now covers 8,400 families. A special marketing effort has permitted timely delivery of foods to participating supermarkets and purchase by target

^{1/} The test originally was intended to operate on a limited scale in the state of Sao Paulo. After consultation with the Bank, the Government shifted the program to the state of Pernambuco and expanded it through the use of additional domestic resources. (The project continues to be associated with evaluation of the Sao Paulo effort.)

groups. Preliminary data covering the first 18 months of operation suggest that the number of severely (third degree) malnourished preschool beneficiaries appears to have declined by between 30-40%. A side benefit of the component is the establishment of the first government supermarkets in low-income areas of Recife. The location of these supermarkets was largely influenced by the project and had the effect of lowering food prices also through other retailers in the immediate areas.

14. A purpose of the other Recife test is to help equip children, both physically and intellectually, to cope with the school situation and reduce currently high dropout and repetition rates. Rapid implementation has led to participation by nearly three times the number of children envisioned as possible at appraisal. One of its important features is participation by mothers who receive regular training to prepare meals and carry out activities to educate their children. In addition, recent missions have observed that many families living in these communities have enthusiastically provided free use of their labor, time, and in some cases, materials to upgrade the physical infrastructure of many of the schools and play areas where this program is being implemented. This component has changed the nature of the relationship of the school with the community since it is apparently for the first time that parents have been actively involved in a school program. The evaluation methodology is presently being refined to conform better to statistical and analytical requirements.

15. The purpose of the Sergipe test is to achieve both increased consumption of on-farm production and encouragement of the use of increased income in nutritionally beneficial ways. From its original target of 3,000 low-income families, participation increased with Bank agreement to almost 5,000 families. Activities have been expanded to include a crop loan element financed by the Government outside the project which promotes participation by tenants and sharecroppers who encounter institutional difficulties in obtaining credit through the existing banking system. Other activities, such as the installation and staffing of 30 health posts, built largely through community contributions, have proceeded on schedule, although the quality of institutional support from the health system remains a serious cause for concern, requiring much more attention to training and field management. Consequently, supervision by the health authorities is to be upgraded and distribution of medicines and vaccines will be improved.

16. Because of difficulties in segregating the Sergipe test's impact from favorable weather conditions which followed the 1976 drought, it is not yet possible to assess the extent of the production and nutritional benefits which have accrued to assisted families. Nevertheless, preliminary information indicates that in 1977 severe child malnutrition in the Sergipe project area was reduced by some 40%. During the next few years, monitoring and evaluation should reveal whether these improvements are real and permanent.

17. Ongoing evaluation of the Sergipe test also reveals the severe effects of socio-political factors on the economic conditions of small farmers and tenants in the Northeast. With no enforcement of land tenure laws and

at a time when price relationships encourage cattle raising, small tenants are generally forced to vacate their tilled land in response to growing pressure from large landowners to expand pasture land. As a result, evicted tenants participating in the credit program under the project are left with less land available and severe indebtedness. Substantial improvements in the administration of land tenure laws appear a precondition to achieve fully the objectives of the Sergipe component. These issues are presently being discussed with the Brazilian Government both in our dialogue with respect to this project as well as with upcoming projects under preparation.

Monitoring and Evaluation

18. Monitoring and evaluation is a central feature of this project. The monitoring and evaluation systems for each of the above tests are now operational, after initial delays by the Ministry of Health concerning contracts with evaluation groups. As with similar components in other projects, problems were encountered initially in design and implementation. The monitoring system is designed to provide management information from the executing agencies on the implementation status for each test, permitting assessment of the quality as well as the physical level of performance. However, limited INAN supervision due to staff constraints has resulted in a lack of satisfactory feedback to executing agencies and delayed submission of evaluation reports from contracting institutions.

Development of a Nutrition Information Base

19. Cumbersome administrative procedures and inadequate communication by participating institutions have inhibited implementation of this component. Certain of the activities envisaged under the surveys and surveillance sub-component have been undertaken outside the project. Under the project, a 12-person team has nevertheless made a useful start in its analyses of Brazil's food consumption survey (ENDEF). Work is also nearing completion of a major study financed by the project on infant practices. ^{1/} With regard to the related sub-component studies of the nutritional consequences of agricultural policies, a qualified university group has been nominated to initiate this work, although no contract has yet been signed. Because of a re-assessment of priorities within the Ministry of Agriculture, support for the policy studies subcomponent has not been forthcoming, and the Ministry has now abolished the Planning Secretariat, SUPLAN, under which a nutrition planning unit was to have been established to undertake these studies.

Food Technology Research

20. The objective of this component is to provide development of nutritious products for low-income beneficiaries through government centers of food technology. At appraisal it was foreseen that special attention would be

^{1/} Findings include a dramatic decline in breastfeeding over the past four years, much of its attributed to commercial advertising of infant milk formulas.

directed to developing or improving existing technologies for food processing at village and farm level. Initial delays in executing the component arose while INAN sought to further elaborate its research policy in this direction. In line with PRONAN's focus on basic commodities, a program has been developed which involves pioneering research in the Northeast on the adaptation and on-site application of appropriate technologies for processing foods in low-income areas. This has also led to the involvement of more food technology institutions than anticipated and agreed to at appraisal. After consultation, the Bank agreed both to broadening of this component and to the incorporation of planned research on processing of nutritious food mixtures within this framework.

21. After a slow start, since mid-1978 the component has become fully operational. Three sub-components are under way to determine appropriate technologies for small-scale processing and conservation of, respectively, cassava, maize and inland fish products. Under each sub-component, simultaneous investigation of the economic, social and nutritional impact of village-level food processing models is being carried out. Three more sub-components -- on cowpeas, marine fish and soybean products -- are scheduled to come onstream during 1979. Additional studies of technologies for processing and quality control of food products are being prepared for implementation in 1980, which would raise total project expenditures under this component close to appraisal estimates by year four. An important side-benefit of the component which is now emerging is the practical stimulus and nutrition orientation being provided to existing technology institutions in the field, hitherto neglected in Brazil, of village-level food processing and storage.

Development of Low Cost Nutritious Food

22. At the time of appraisal, BNDE and the Ministry of Planning had indicated that nearly US\$90 million had been set aside for lending for food industries during PRONAN. The requirements of the large institutional feeding program already under implementation in the Brazilian school system and being contemplated under PRONAN led to the inclusion of this component. Correspondingly, it was also agreed that a government agency (FINEP) would undertake a series of feasibility studies for such products. As explained in paragraph 10, this component was never activated and we are now awaiting the Government's request for cancellation.

Nutrition Training

23. This component has made some progress although inadequate support from INAN has held back its full implementation. INAN has provided three short training and orientation courses in nutrition planning to officials from each of the Northeastern states, as well as a number of seminars. These have been well received; more are planned during the current year. However, INAN has not yet made use of funds for the equipping of various schools and universities for nutrition training and for overseas training and fellowships. This, in part, reflects the availability of grant funds from other donors for

these purposes and the considerable extent of specialized training now available nationally. INAN is now working out arrangements for national institutions to carry out some of the manpower studies relating to training needs from PRONAN II. One such proposal has received Bank approval and its details are now being worked out.

Summary

24. Generally, the project has run into larger problems than anticipated with respect to INAN's capacity to manage and coordinate a multi-faceted nutrition program in Brazil and hence disbursements are well below appraisal estimates. Notwithstanding these problems, several of the field programs have proven to be both operationally effective and of significant value in a project which by design was experimental in nature. In retrospect some of the project's problems may have resulted from: (i) inadequate project preparation of some components; (ii) the experimental nature of the project; (iii) differences between the Ministry of Health and INAN as to who was the prime mover in project design; (iv) insufficient commitment to project implementation on the part of Government and INAN; and (v) the differences in the position of the Bank and that of the Government towards interest rate subsidies which prevented a major portion of the loan from being disbursed. Current government plans to give INAN the necessary authority and status to act independently, cancel the industrial credit component and to redesign the project to meet Brazil's current needs should ensure a significant improvement in the implementation of the project.

Nutrition Division
Agriculture and Rural Development Department
August 1, 1979

ANNEX 1

Component	Estimated Base Cost At Appraisal (US\$'000 Equivalent)		Total Project Expenditure (up to 12.31.78)	IBRD	
	(4 years, 1977-1980)	(2 years, 1977,1978)		Estimated Disbursement At Appraisal (US\$'000 Equivalent) (1977-1978)	Actual IBRD Disbursement (up to 5.31.79) (US\$000)
Nutrition Surveys and Surveillance (IBGE)	2,702	1,698	160	408	38
Agriculture and Food Policy Studies	3,858	1,893	-	454	-
Rural Extension (Sergipe)	4,841	2,575	1,341	618	601
PROAPE Pre-school Feeding	1,134	591	411	142	136
PINS Nutrition Through Health and Commercial Delivery Systems	3,640	1,562	861	375	206
Food Technology Research	4,666	2,865	112	688	27
Nutrition Training and Human Resources	3,263	1,721	56	413	13
Project Administration	2,716	1,307	389	327	115
BNDE (Food Industries)	<u>30,000</u>	<u>9,000</u>	-	<u>2,160</u>	-
TOTAL	<u>56,820</u>	<u>23,212</u>	<u>3,330^{1/}</u>	<u>5,585</u>	<u>1,136</u>

^{1/} It is estimated that by May 1979 another US\$1.0 million had been spent. However, due to agreed accounting practices, it will not be possible until mid-1979 to itemize these additional expenditures by components.

SUMMARY OF PARAIBA (BREJO) RURAL DEVELOPMENT PROJECT

Background Data on Project

Total project cost: \$67.3 million

Bank loan (1537-BR): \$24 million (35% of total cost),
\$1.47 million disbursed as of September 20, 1979

Other financing: Federal Government POLONORDESTE Program

Execution period: April 1978 - March 1983 (though a variety of "pre-project" pilot works and activities were financed by POLONORDESTE in 1977/78).

Project area: 1,580 km² including 14 municipalities (counties) in the eastern part of Paraiba State (see attached map); the Brejo is an elevated micrôregion with favorable climatic conditions; 1976 population density of 118 per km²; estimated 12,200 farms in region, of which 71% "owner"-operators, 25% landless, and 4% large landowners; about 78% of properties are less than 10 ha, but these account for a total of only about 18% of the total farm land; about 95% of properties are less than 50 ha, accounting for only about 38% of farm land. Main production from manioc, beans, sugar cane, sisal, cotton, potato, citrus, banana, and livestock; more than 10,000 primarily employed in off-farm activities; about 2,500 enterprises with 20 employees or less and an average payroll of 3 employees; physical infrastructure in the region is weak, particularly in rural areas; school attendance was only 32% in 1975; health services are very poor; prior to project, most of agricultural services and rural credit was absorbed by medium and large farmers.

Main project activities and targets: Agricultural extension and credit to about 7,400 small farmers;

Strengthening of support services (applied research and farm trials, seed supply and production, marketing and storage and land tenure service);

Non-farm production services (technical assistance, research and demonstration, access to credit services) to about 1,200 small-scale enterprises;

Infrastructure development (upgrading of 145 km of state roads; reconstruction of 92 km of main feeder roads and upgrading of 85 km; 25 village water supply systems; 25 health posts; 74 rural primary schools); and

project administration monitoring and evaluation.

Main Year One (April
1978 - March 1979)
Achievements:

Marketing and storage: construction of 4 minimarkets; construction of one 1000-ton cold storage facility for potato seeds and rehabilitation of another 200-ton facility; construction of a producer market in Campina Grande.

Satisfactory input supply for basic planting material: 212 tons of improved potato seeds, seedlings for citrus and banana.

Applied research: 34 farm trials and construction of a soil laboratory.

Small-scale non-farm enterprises: about 300 contacted; 64 loans released, about 230 loan applications prepared or under preparation.

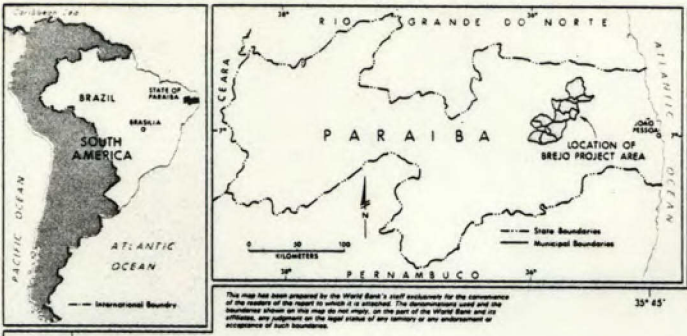
School construction: 25

Main Year One
Problems:

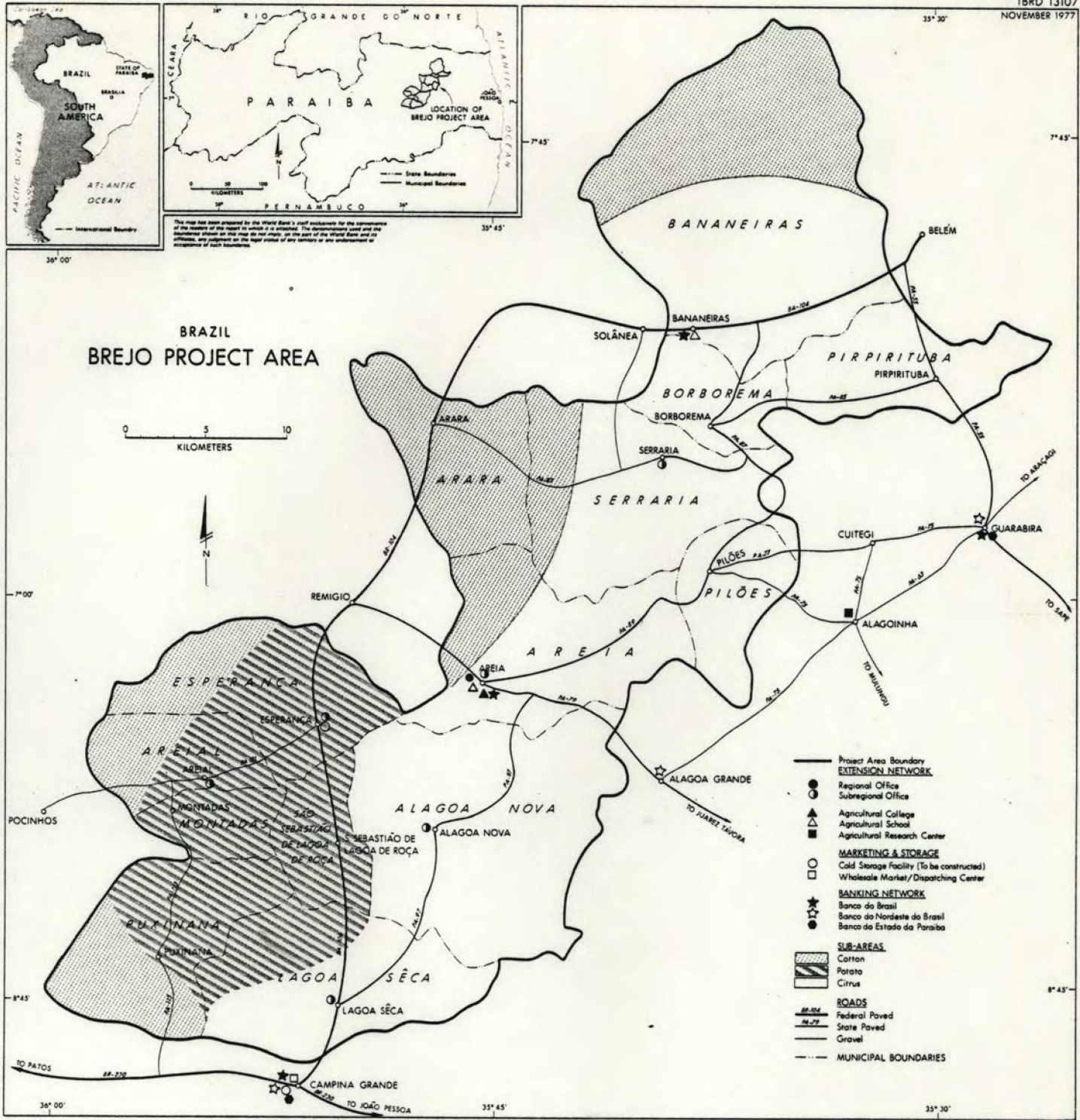
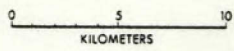
Recurring funding delays. As a result of funding delays, there was a slow start in several components (extension, agricultural credit, health, and village water supply).

General Briefing for Visit

The project has benefitted from strong support from the state administration, particularly from Mr. Humberto Freitas, State Secretary of Agriculture, who has been with the project from the start. He chairs the POLONORDESTE Management Council at the state level, and oversees all rural development activities in the State of Paraiba. Despite this strong state Government commitment, first year achievements, although reasonably good, would have been far better if the Federal Government had made the required funds available on time. This, however, is a general problem faced by all such projects in the Northeast. Please see note on SUDENE/POLONORDESTE under Topics of Discussion (Item 5).



BRAZIL
BREJO PROJECT AREA



- Project Area Boundary
- EXTENSION NETWORK
 - Regional Office
 - Subregional Office
 - ▲ Agricultural College
 - △ Agricultural School
 - Agricultural Research Center
- MARKETING & STORAGE
 - Cold Storage Facility (To be constructed)
 - Wholesale Market/Dispatching Center
- BANKING NETWORK
 - ★ Banco do Brasil
 - ☆ Banco do Nordeste do Brasil
 - Banco do Estado da Paraíba
- SUB-AREAS
 - ▨ Cotton
 - ▩ Potato
 - ▧ Citrus
- ROADS
 - Federal Paved
 - State Paved
 - Gravel
- MUNICIPAL BOUNDARIES

SUMMARY OF THE BAHIA (PARAGUACU) RURAL DEVELOPMENT PROJECT

Background Data on Project

Total Project Cost: \$106.6 million

Bank Loan (1589-BR): \$37 million (35% of total cost), \$1.2 million disbursed as of September 30, 1979.

Other Financing: Federal Government POLONORDESTE Program, State of Bahia

Execution Period: April 1978-March 1983 (though a variety of "pre-project" and pilot works and activities were financed by POLONORDESTE between late 1976 and March 1978).

Project Area: 60,764 km² including 49 municipalities (counties) in Center-East of Bahia State (see attached map); southeast of project area borders humid and fertile coastal zone, central area is dry, crystalline basin and west is relatively humid highland; 1970 population just under one million, 70% rural; major city in area is Feira de Santana in East; estimated 72,000 farmers in region of which 84% "owner"-operators (usually without secure titles); more than 80% of farms are less than 50 ha, but these account for a total of only about 13% of the total farm land; main production from manioc, beans, corn, tobacco, castor beans, sisal and livestock; physical infrastructure in region is weak, much of the some 12,300 km road network seasonally impassable; estimated 47% of children 7-14 years old attend school; health services very poor; prior to project, most of agricultural services and rural credit absorbed by medium and large scale livestock ranchers.

Main Project Activities and Targets:

Agricultural extension and credit to 16,325 small crop-farmers and 675 small and medium livestock producers (total of 17,000 by 5th year);

strengthening of production support services (agr. research, seed production, input supply, mechanization, storage, marketing, cooperatives);

surveying and titling of some 15,000 of the participating small farms and provision of land purchase credit to some 820 current non-owners or very small owners;

infrastructure development (1,140 km of access roads; small irrigation schemes; multi-purpose small dams; 70 village water supply systems; 77 health posts or centers; 100 rural primary schools); and

project administration, monitoring and evaluation.

Main Year One (April 1978-March 1979)

Achievements:

Organization of over 200 groups of small farmers;

extension contacts with over 15,000 farmers;

credit contracts (mainly incremental working capital) to about 4,400 farmers -- well above the year one target -- averaging around US\$700 per farmer;

3,400 land surveying and titling processes started and 840 completed;

construction of three 700-ton storage units;

initiation of construction of 237 km of access roads;

marketing assistance to estimated 1,500 farmers; and

improved supervision of area rural education and health services.

Main Year One Problems:

Recurring funding delays;

slow starts in several components (land purchase credit, health and village water supply, education, seed production, small irrigation schemes) as a result both of funding delays and weak institutional arrangements; and

a very difficult land dispute involving ownership claims by two families to some 500,000 ha in the center-south of the project area affecting well-being of several thousand small scale farmers who have occupied and worked the land for many years (the state now trying to negotiate a settlement involving the titling of the small farmers and the overall reduction by about 80% of the lands held by the two large-owner families).

General Briefing for Visit

1. After very promising Year One results, the project faced rather difficult staffing, coordination and continuity problems after the state government changed in March 1979. Because there had been a considerable general increase in staff in the

state agencies during the last 15 months of the previous state government, the new Governor dismissed all state employees hired after January 1, 1978 (over 19,000). The dismissals included some 300 associated with or financed by the project. Although the Governor allowed each State Secretary to rehire 20-30% if specifically justified, many of the affected project-financed staff (field office and monitoring and evaluation staff in the project management unit, recently hired and trained social extensionists and extension office field staff, land titling and surveying staff, agricultural researchers, health and education service field supervisors, etc.) were only recently (August-October 1979) rehired or replaced. The rehiring process was made more difficult by funding delays (Year Two POLONORDESTE funding arrived in the state some 5 months late).

2. With respect to project coordination and continuity, there has been a six-month period of uncertainty over the authority and role of the project coordination unit. The project coordinator has been replaced, but, the new coordinator appears to be equally competent. However, she did not, until very recently, have the direct communication lines to the key state authorities or decision makers in executing agencies, as did the previous coordinator during the previous administration. After considerable delays the coordination of all of the state's special multi-sectorial programs has just recently been placed under one umbrella (two of the state's POLONORDESTE projects had been coordinated by CEPA, the state Secretariat of Agriculture's planning commission, and two by the Secretariat of Planning). It is hoped that the move will help defuse what had been a growing conflict between project unit and regular CEPA staff over project unit autonomy. During the period of uncertainty over the future of the project unit, the quality of direct relationships and collaboration between the unit and some of the executing agencies has weakened. It is hoped that this can now be recuperated. It will be interesting to learn how the revised project coordination arrangements have taken shape. Entering its second year of execution with new managers at the head of virtually all the executing agencies, the project now especially requires clearly defined and strong coordination. This problem of management has been compounded by the delays in the release of funds for the project by the Federal Government. This, however, is a general problem faced by all such projects in the Northeast. Please see note on SUDENE/POLONORDESTE under Topics of Discussion (Item 5).

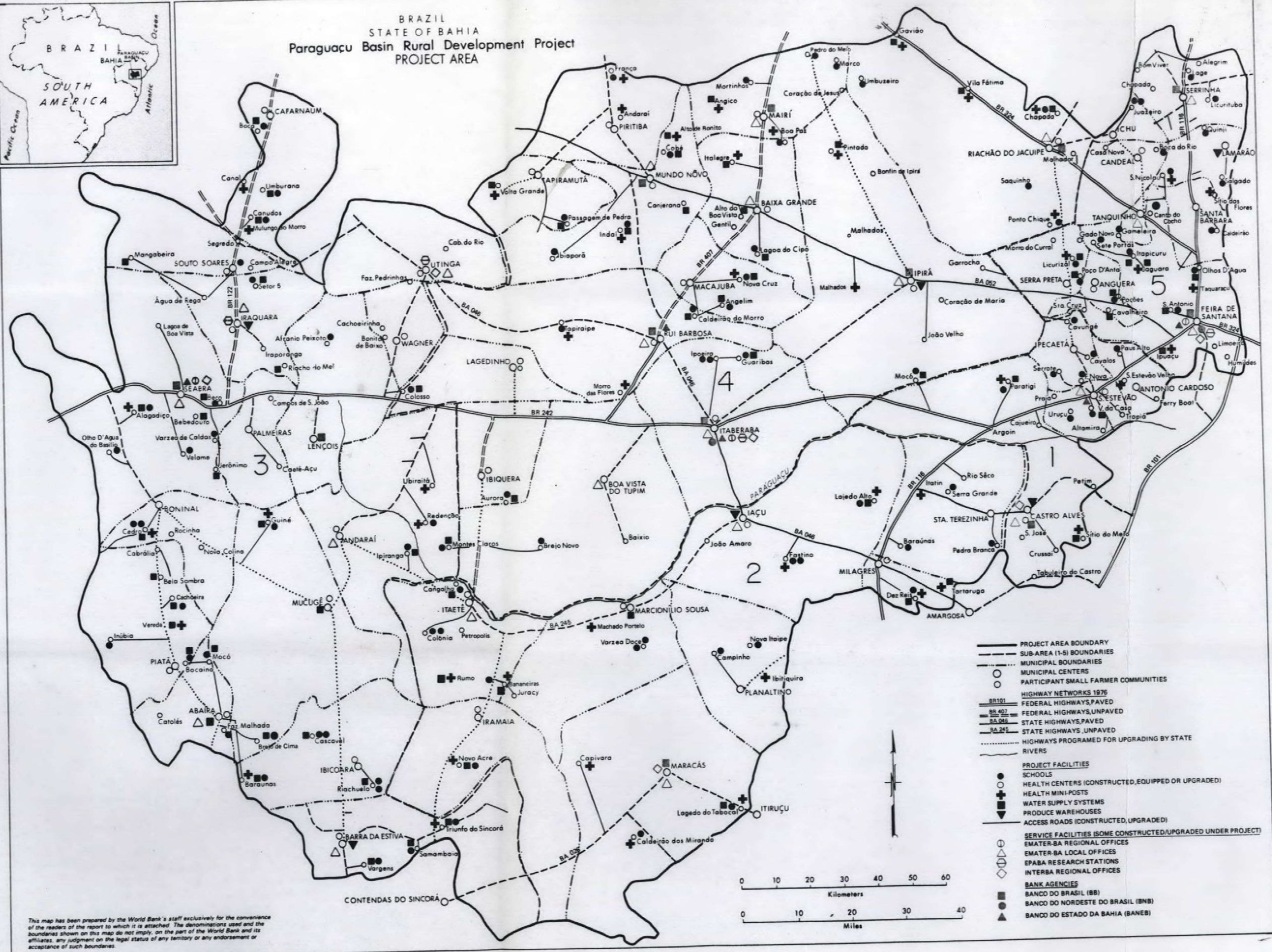
Visit to Project Area

3. Since the project area is very large the visit will be limited to a small rural community named PAIAIA (pronounced pie-ya-ya) in the eastern part of the project area. The village is in the municipality of Santo Estevao and (incorrectly noted as Praia on the attached map No. 13285). The village is the site of several works (rural school, health post) funded by POLONORDESTE in the pilot phase of the project, but of the type to be executed elsewhere with Bank assistance. It is also the terminus of a recently constructed short section of access road financed by the project. The on-going work of project-financed extensionists here, with farmer groups, is typical of the project. Some of the farmers in the village have received project credit and project assistance in titling their land. Lack of clear land title has traditionally impeded small farmer access to credit and has effectively also reduced the farmer incentive to invest in improving the farm property.

4. The local harvest took place several months ago, so the visit comes during the agricultural "off-season". The visit should nonetheless give an idea of the physical environment in which some of the Northeast rural development projects are being carried out and of the work being done at the local level.

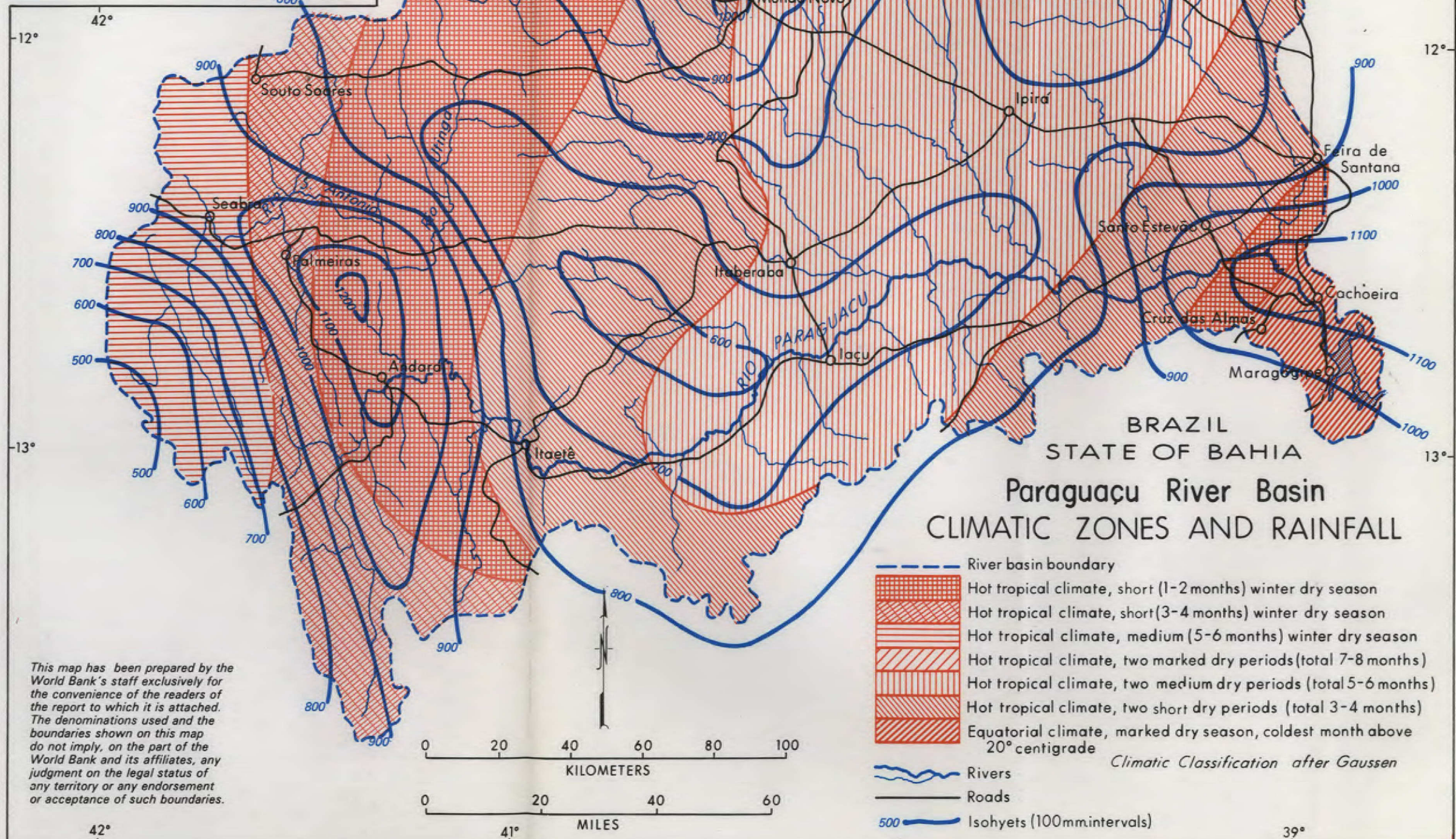
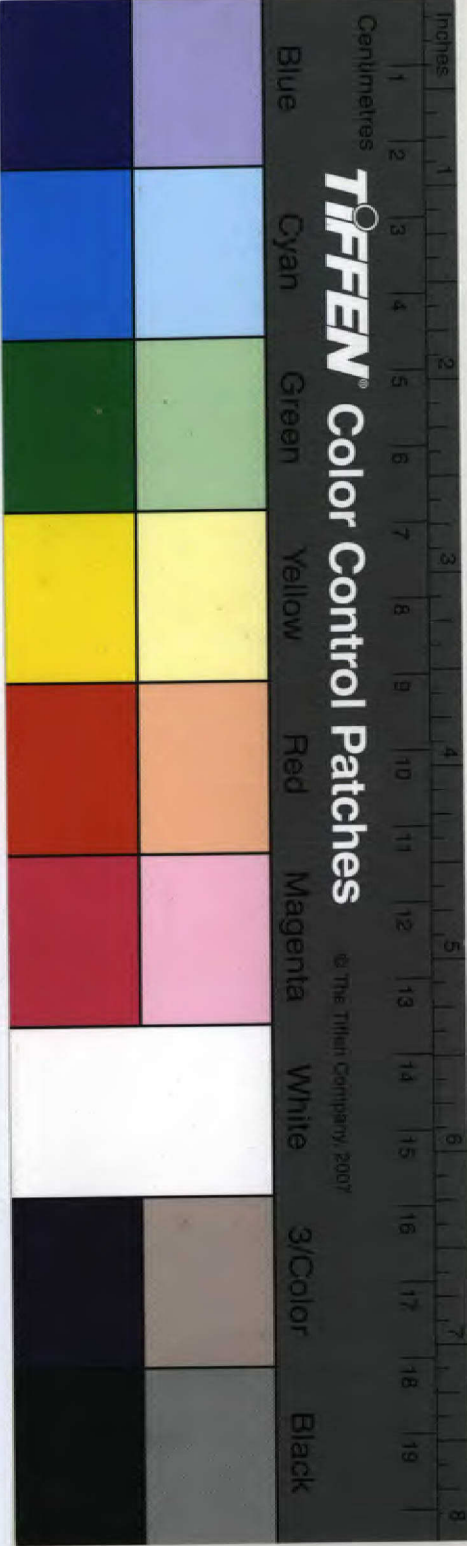


BRAZIL
STATE OF BAHIA
Paraguçu Basin Rural Development Project
PROJECT AREA



This map has been prepared by the World Bank's staff exclusively for the convenience of the readers of the report to which it is attached. The denominations used and the boundaries shown on this map do not imply, on the part of the World Bank and its affiliates, any judgment on the legal status of any territory or any endorsement or acceptance of such boundaries.

- PROJECT AREA BOUNDARY
- SUB-AREA (1-5) BOUNDARIES
- MUNICIPAL BOUNDARIES
- MUNICIPAL CENTERS
- PARTICIPANT SMALL FARMER COMMUNITIES
- HIGHWAY NETWORKS 1976
- BR 101 FEDERAL HIGHWAYS, PAVED
- BR 407 FEDERAL HIGHWAYS, UNPAVED
- BA 006 STATE HIGHWAYS, PAVED
- BA 295 STATE HIGHWAYS, UNPAVED
- BA 292 STATE HIGHWAYS, UNPAVED
- HIGHWAYS PROGRAMED FOR UPGRADING BY STATE
- RIVERS
- PROJECT FACILITIES
- SCHOOLS
- HEALTH CENTERS (CONSTRUCTED, EQUIPPED OR UPGRADED)
- HEALTH MINI-POSTS
- WATER SUPPLY SYSTEMS
- PRODUCE WAREHOUSES
- ACCESS ROADS (CONSTRUCTED, UPGRADED)
- SERVICE FACILITIES (SOME CONSTRUCTED/UPGRADED UNDER PROJECT)
- EMATER-BA REGIONAL OFFICES
- EMATER-BA LOCAL OFFICES
- EPABA RESEARCH STATIONS
- INTERBA REGIONAL OFFICES
- BANK AGENCIES
- BANCO DO BRASIL (BB)
- BANCO DO NORDESTE DO BRASIL (BNB)
- BANCO DO ESTADO DA BAHIA (BANE)



SUMMARY OF THE SITES AND SERVICES AND LOW-COST HOUSING PROJECT

(SAO PAULO COMPONENT)

Background Data on the Project

Project Cost: US\$265.7 million total
US\$102.6 million in Sao Paulo

Bank Loan (1654-BR): US\$93 million (35% of total cost)
~~US\$1.8 million disbursement application pending~~

Other Financing: Brazilian Housing Bank (BNH)

Execution Period: March 31, 1979 to September 30, 1983

Project Areas: (a) Municipality of Sao Paulo
(b) Salvador Metropolitan Area and interior cities in the States of Pernambuco and Bahia
(c) Recife Metropolitan Area and interior cities of the State of Pernambuco
(d) Other urban areas of Brazil

Project Activities and Targets: Provision of about 41,8000 sites and services, 19,000 low-cost housing and 23,200 building material loans, and community infrastructure for the urban poor in the project areas. 91% of the proposed beneficiaries would be in the relative poverty group. In Sao Paulo, the project would finance the provision of 15,500 sites and services, 7,000 low-cost housing units and 11,100 building material loans.

Achievements to Date: The loan was signed in February 1979 and became effective in July 1979. It is therefore too early to assess project progress. However, two subprojects presented by the low cost Housing Company of Sao Paulo for housing units and sites and services have already been approved by the Bank and first contracts for these projects have already been let.

Problems: No major problems to date.

General Briefing for the Visit

COHAB-SP is one of the three intermediaries executing the project. Up to 1975, COHAB-SP has completed only 3,600 units. The appointment of a new management team in 1975 improved its performance dramatically. By late 1978, COHAB-SP completed about 25,000 housing units, and now has in the pipeline about 100,000 units (of which 45% are sites and services) in different stages of planning, design, and execution.

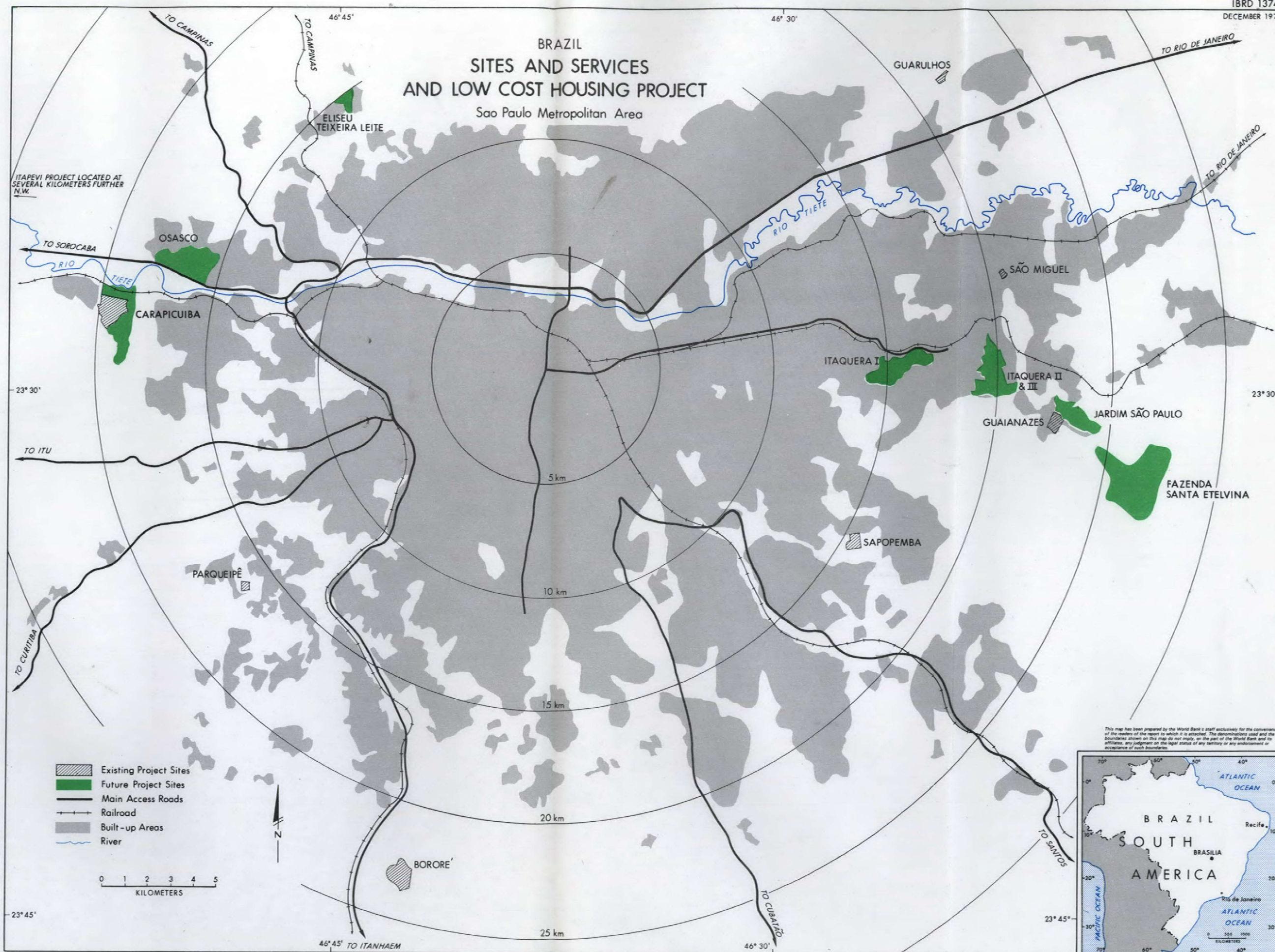
COHAB-SP has demonstrated an outstanding ability to design and produce low-cost housing (detached houses and walk-up apartments) in large quantities. It has also developed an effective and innovative community assistance program for its beneficiaries. The challenge before COHAB-SP is to apply its knowledge to the development of large-scale site and service projects. In order to ensure social integration and cross-subsidization, sites and services areas will be integrated with higher-cost finished houses and apartments.

Visit to the Project Area

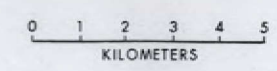
We understand that COHAB-SP intends to take you to see the Jardim Sao Paulo sub-project. On the way to the project, you will see large-scale housing projects already completed by COHAB-SP. On the site, you will visit an embryo house, comprising a kitchen, a bathroom and one room, with the beneficiary expecting to build additional bedrooms. The unit cost of the unit is about US\$4,000, which makes it affordable to the 22nd percentile of the urban households in Sao Paulo. The standards for the unit are still somewhat high and we discussed with COHAB-SP the need to lower them by better design and less finish. Further lowering of cost is expected to be achieved by the use of soil-cement blocks. A soil-cement block factory and experimental site is nearby, and, time permitting, you may wish to visit it.

BRAZIL SITES AND SERVICES AND LOW COST HOUSING PROJECT

Sao Paulo Metropolitan Area



- Existing Project Sites
- Future Project Sites
- Main Access Roads
- Railroad
- Built-up Areas
- River



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Centimetres
Inches

Blue
Cyan
Green
Yellow
Red
Magenta
White
3/Color
Black

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SUMMARY OF THE SITES AND SERVICES AND LOW-COST HOUSING PROJECT

(RECIFE COMPONENT)

Background Data on the Project

Project Cost: US\$265.7 million total
US\$118.9 million in Pernambuco

Bank Loan: US\$93 million (35% of total cost)
US\$1.8 million disbursement application pending

Other Financing: National Housing Bank (BNH)

Execution Period: March 31, 1979, to September 30, 1983

Project Areas: (a) Municipality of Sao Paulo
(b) Salvador Metropolitan Area and interior cities in the States of Pernambuco and Bahia
(c) Recife Metropolitan Area and interior cities of the State of Pernambuco
(d) Other urban areas of Brazil

Project Activities and Targets:

Provision of about 41,800 sites and services, 19,000 low-cost housing units, and 23,200 building material loans, and community infrastructure for the urban poor in the project areas. Over 80,000 families or some 400,000 individuals would benefit from the project. 91% of the proposed beneficiaries would be in the relative poverty group. In Recife, the project would finance the provision of about 12,000 sites and services, 11,000 low-cost housing units, and about 8,000 building material loans. The bulk of the shelter units would be in the Recife Metropolitan Area. The project also includes a squatter upgrading component in Recife for about 7,000 families.

Achievements to Date: The loan was signed in February 1979 and became effective in July 1979. It is therefore too early to assess project progress. However, two subprojects presented by the low-cost Housing Company of Pernambuco (COHAB-Pe) for housing units and sites and services have already been approved by the Bank; the earthworks have been completed and the first disbursements application for US\$1.8 million is pending.

Problems: There are no major problems to date. However, the preparation of the squatter upgrading component has been slowed by the change in COHAB-Pe management (see below).

General Briefing for the Visit

COHAB-Pe is one of the three intermediaries executing the project. Between 1977 and early 1979, COHAB-Pe became an efficient and well-managed company with about 35,000 housing units already sold and about 25,000 under construction. The change of the State Government in March 1979 introduced some uncertainty in project continuity as all of the COHAB-Pe Directors were replaced. While it is still too early to judge the new administration, there is reason to be optimistic.

The new COHAB-Pe President, who is also a State Secretary of Housing and Urban Development, has formulated a broad-ranging plan to tackle different facets of shelter for the urban poor, including squatter upgrading sites and services, finished housing and construction industry. If implemented, this program will go a long way to alleviate the shelter problem of the urban poor in the state. Furthermore, a Special Operations Department was created at the Secretariat to deal, among other things, with squatter upgrading in Recife.

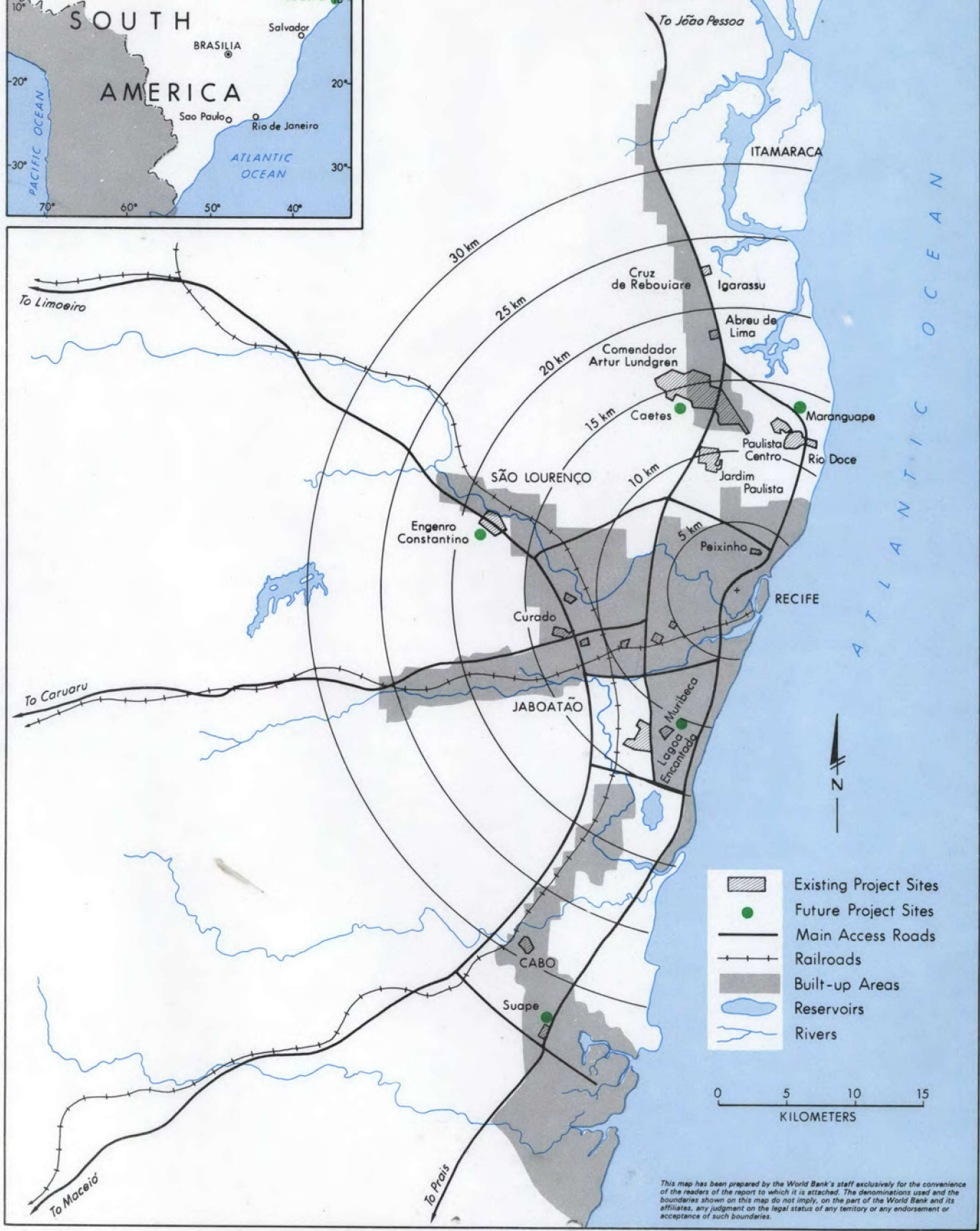
Visit to the Project areas

You will be taken to one of the sites proposed for the squatter upgrading component. The site originally proposed by the previous administration is considered by the Special Operations Department as too large and socially volatile for the first operation. The Department proposes instead one or two smaller sites, with better organized and more receptive local communities. You will meet the community leaders.

Two major issues in squatter upgrading are drainage and tenure regularization. Most of the squatter areas are low-lying, often inundated and require extensive and costly drainage works. Most of the inhabitants are either occupying the land illegally or are renting from absentee owners. Thus, in the absence of tenure regularization, the upgrading operation may result in uprooting of the present inhabitants. Furthermore, lack of formal title prevents them from obtaining Building material loans from the National Housing Bank (BNH) which requires the title as security. We have suggested to BNH to (a) relax the lending criteria for the building material loans, (b) consider using building material loans line of credit for tenure regularization, where the inhabitant would purchase the land and title either from the private owner or, in the case of unclear ownership, from the state or municipality, and (c) as a part of the technical assistance component of this project, study the quick, practical, and reasonably inexpensive ways of regularizing tenure in the squatter areas, which would prevent both speculative turnovers and extensive litigation and costs. The policy dialogue with BNH on these proposals continues.



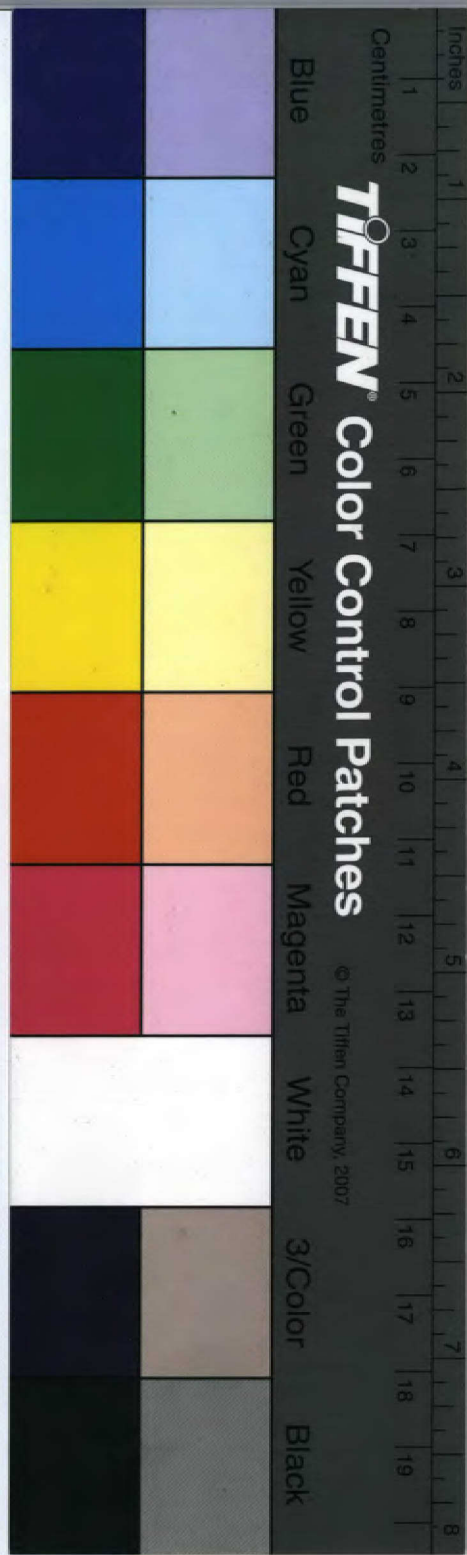
BRAZIL SITES AND SERVICES AND LOW COST HOUSING PROJECT Recife Metropolitan Area



Inches 1 2 3 4 5 6 7 8
Centimetres 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19

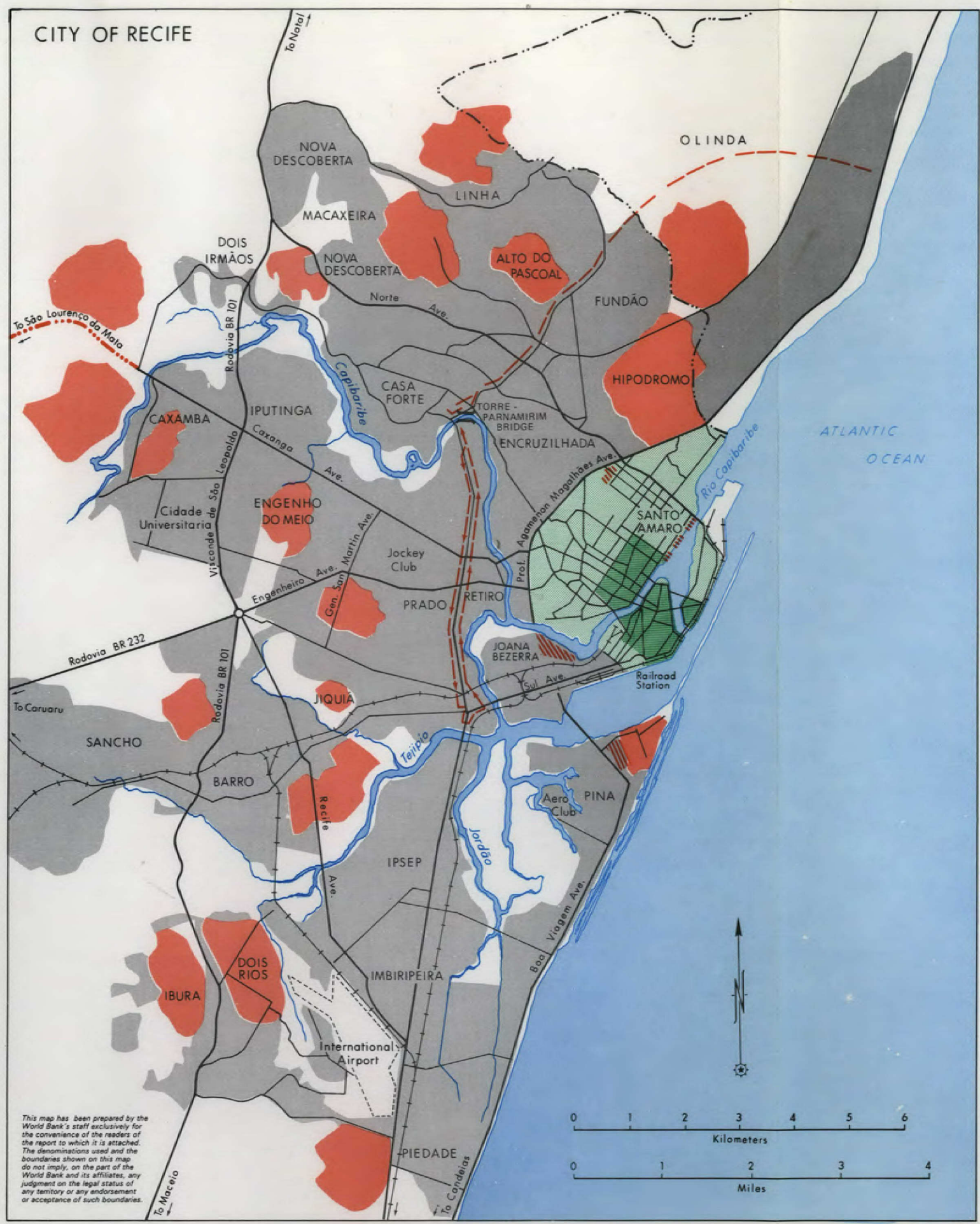
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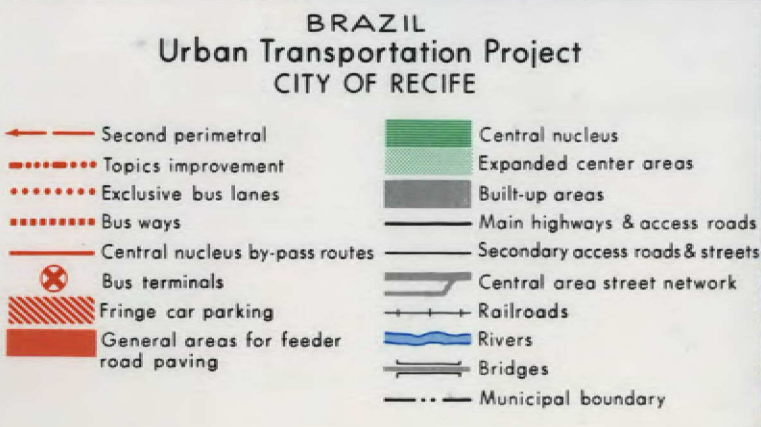
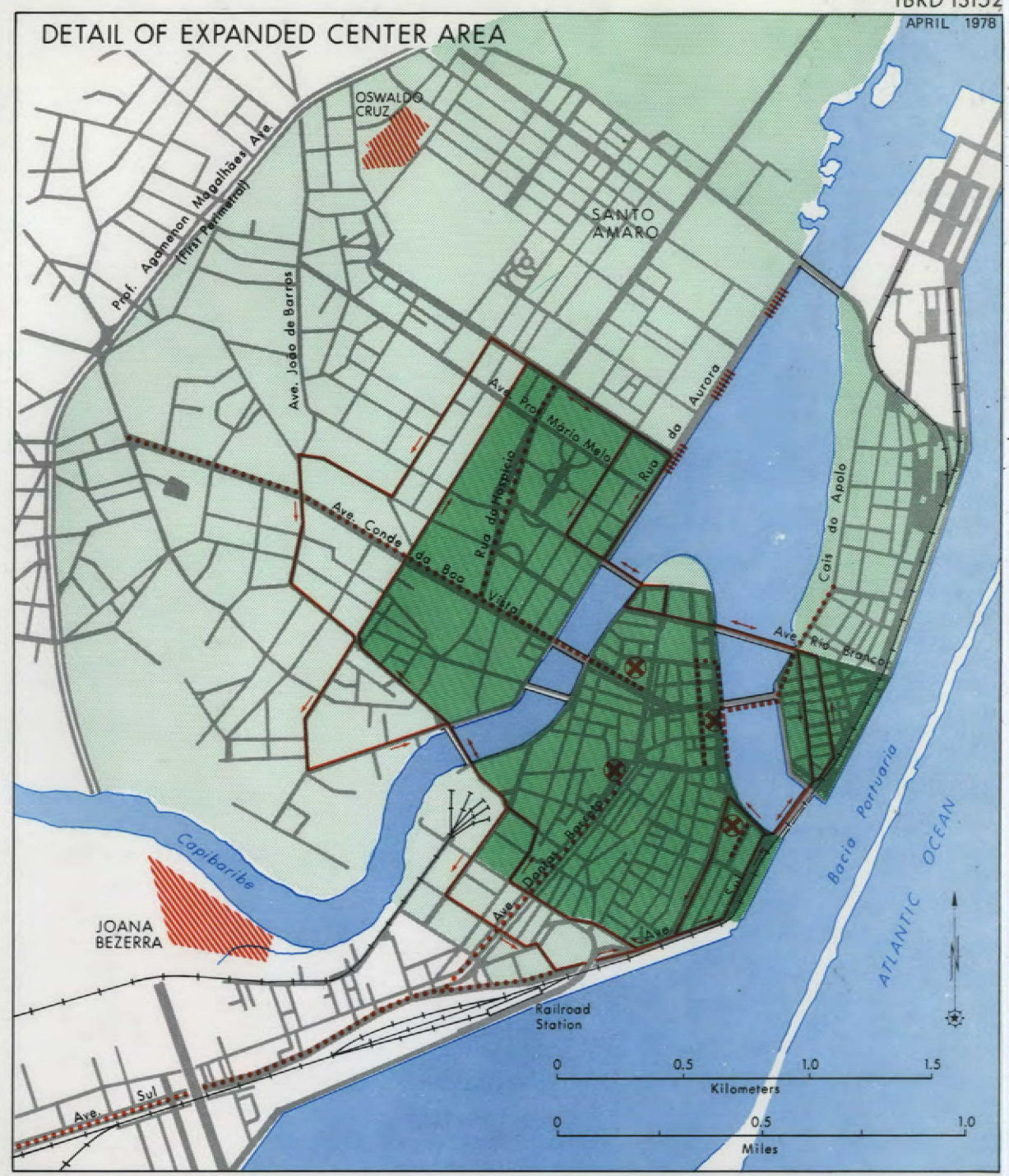


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SUMMARY OF THE NORTHEAST WATER SUPPLY AND SEWERAGE PROJECT
(Recife Component)

Background Data on the Project

- Project Cost : US\$303 million total
US\$111 million in Recife
- Bank Loan : US\$100 million (33% of total cost)
- Other Financing : National Housing Bank
- Execution Period : July 1, 1979 through December 31, 1982
- Project Areas : (a) State of Pernambuco
(b) State of Bahia
(c) State of Ceara
- Project Activities and Targets : Provision of water supply services to 2.3 million people and sewerage services to 1.2 million people in the project areas. The project is also improving the provision of water supply to 5.3 million people. In Pernambuco, water supply would be provided to 0.8 million people and sewerage services to 0.4 million people. Project activities include construction of water production, treatment, storage and distribution facilities. It also includes house connections, leak detection and control programs, construction of sewerage collection and disposal facilities in major urban centers including Recife, and expansion and improvement of water supply systems in medium-sized cities and small communities. Technical assistance will be provided to the three state water companies.
- Achievements to Date : The loan was signed in February 1979 and became effective in August 1979. The state water company COMPESA has prepared a five-year investment program 1979-1983 which has been submitted to the National Housing Bank (BNH). COMPESA is preparing final designs, the bids, and the contracts for subprojects. COMPESA has also prepared studies on the basis of which water metering programs will be executed.
- Problems : All state water supply companies need substantial tariff increases to meet their cash needs in order to comply with the national tariff legislation and the covenants in our loan agreements.

General Briefing for the Project Visit

The state of Pernambuco participates in the National Sanitation Plan (PLANASA) through its state water company (COMPESA). The National Housing Bank (BNH) is responsible for coordination of PLANASA. The states are required to contribute up to 5% of their tax revenues for water supply and sewerage projects. The balance is financed by BNH through various lines of credit. The Bank's loan funds are lent to BNH which onlends them together with their own funds to the state or directly to the state water company depending on the size of the project.

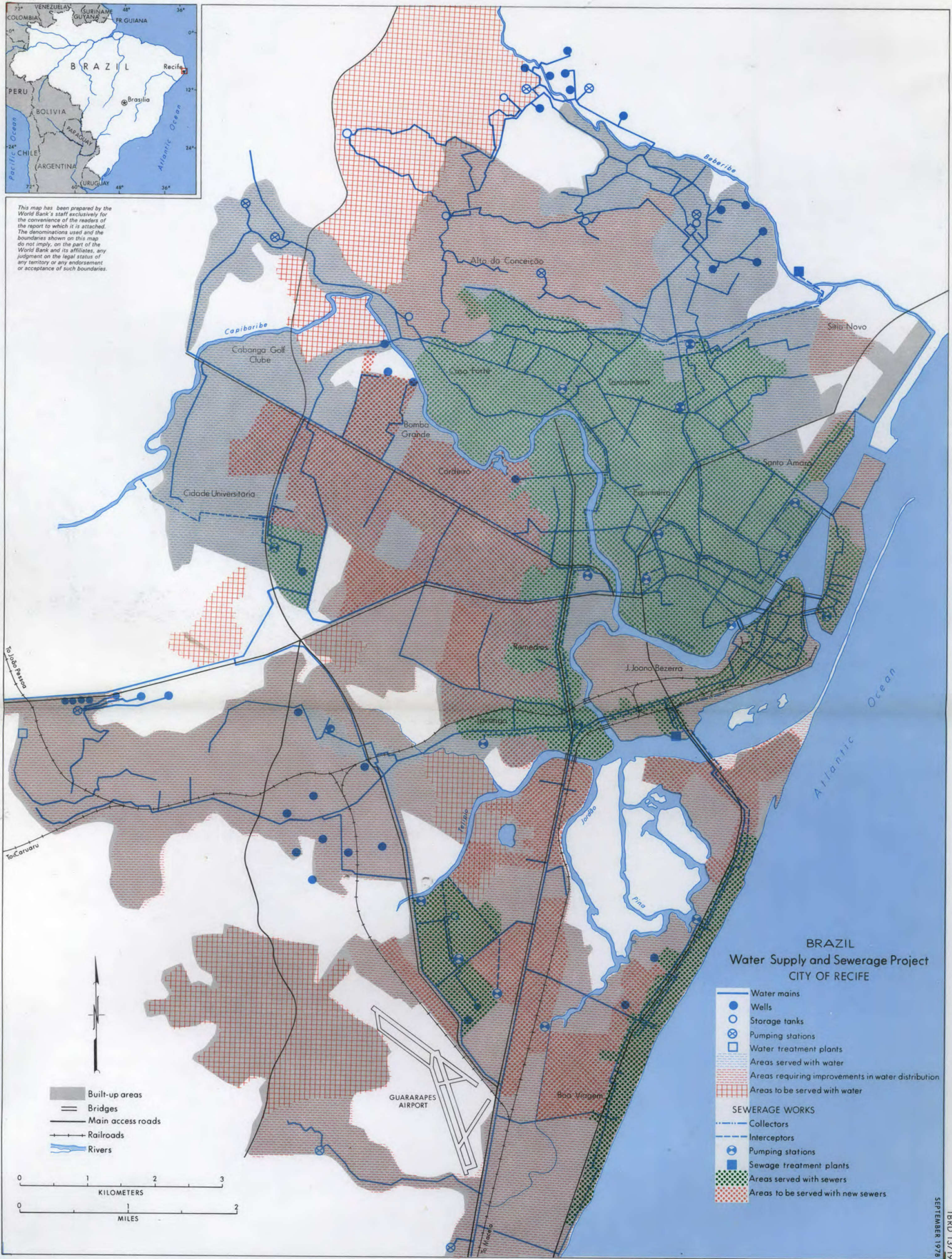
The state water companies in the Northeast are not as strong institutionally as those in the center and south of Brazil. Accordingly, technical assistance will be provided to each company including COMPESA. The Pan American Health Organization (PAHO) is providing the technical assistance, and concentrating in administration and finance accounting.

Visit to the Project Area

You will be taken to one of the low-income areas of Recife which will benefit from the proposed project. A subproject is under preparation in several areas in Recife including the area you will be visiting. Water distribution facilities and house connections will be made in this area.



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BRAZIL
Water Supply and Sewerage Project
CITY OF RECIFE

- Water mains
- Wells
- Storage tanks
- ⊗ Pumping stations
- Water treatment plants
- ▨ Areas served with water
- ▩ Areas requiring improvements in water distribution
- ▧ Areas to be served with water
- SEWERAGE WORKS**
- Collectors
- Interceptors
- ⊗ Pumping stations
- Sewage treatment plants
- ▨ Areas served with sewers
- ▧ Areas to be served with new sewers

IBRD 13719
 SEPTEMBER 1978



NOTE ON PROPOSED URBAN HEALTH SERVICES PROJECT

Introduction

1. A Bank reconnaissance mission visited Sao Paulo between August 5 and 11, 1979, and held discussions principally with State Planning and Health officials on possible Bank assistance to develop health services for low income groups in the Greater Sao Paulo metropolitan area. Discussions were very satisfactory, and the mission recommended that the Bank should support the Government's plan to extend services to the periphery of Greater Sao Paulo, where the need for health services is greatest. At the State Government's request, the Bank forwarded project preparation guidelines to State officials based on five possible components that had been identified during the mission. The Government aims to send a project proposal to the Bank in the Spring of 1980.

Health Program Needs and Objectives

2. The State's population is expected to increase by 5 million over the next decade. Most of this growth will continue to occur in the city of Sao Paulo and its periphery which, together, comprise the Greater Sao Paulo metropolitan area. Greater Sao Paulo contains about 12 million inhabitants, or over 50% of the State's total population.

3. At the periphery, peri-urban residents have more serious health problems than the average State population. Whereas increased life expectancy and lower fertility among the urban middle and high-income groups have led to a high rate of deaths caused by degenerative diseases, health conditions in the periphery are typical of low-income, underdeveloped areas. High mortality is attributable to infectious and parasitic diseases and perinatal causes. Greater Sao Paulo infant mortality rates rose from 63 per thousand in 1960 to 84 per thousand in 1976, with around 50% occurring at birth. Immunization levels are as low as 20% in peripheral areas such as Sao Miguel Paulista.

4. Although there is a national system of compulsory health insurance supported by matching employees' and employers' contributions, the installed capacity of public and private health services in Greater Sao Paulo is grossly inadequate to take care of the demand. About 10% of the population of Greater Sao Paulo (1.0 million) are uninsured, while another 20% (2.4 million) are classified as "marginal"--unemployed and often also uninsured, without ready access to health services. The poor must therefore rely on the State supported public health network whose 1978 budgetary contribution (Cr \$6 billion) to health operations was weak in comparison with that of the "Previdencia" or public insurance scheme (Cr \$24 billion).

5. State health planners are exploring avenues whereby the "Previdencia" would advance money to the Health Secretariat for the development of primary health care services. Planners intend to demonstrate that this approach will eventually generate savings for the social insurance system which is now in serious financial difficulty. The State Government plans to decentralize social programs, and to encourage the sharing of resources of current public health, nutrition, education and social welfare activities within the State's eleven administrative regions.

6. To these ends, State planners have drawn up an integrated maternal and child health, nutrition and pre-school program that can serve as a nucleus for the development of a primary health care strategy. State health planners must still go much further in assessing needs, clarifying program objectives, and defining required norms and tasks in direct relation to priority health problems. A State financed pilot health project for the peripheral area of Sao Mateus is under preparation, and is expected to guide planners further in their attempt to integrate services, share resources, and achieve 100% coverage of the target area.

Possible Bank-Assisted Project

7. Based on the above stated issues and objectives, the Bank has encouraged the State Government to undertake further planning, with a view toward developing the State's health delivery capability in preventive and curative services, for low-income persons. The emphasis on health education which runs throughout the integrated maternal and child health, nutrition and pre-school State proposal also needs operational definition and support. Finally, there was agreement that the management, supervisory and evaluative capabilities of the State Secretariat of Health may need improving in order to support a decentralized, integrated primary health care program strategy.

8. The following emerged as possible components of a preliminary project design:

- (i) Training of (a) new health personnel, and reorientation, retraining and redeployment of existing personnel for ambulatory and outreach health services (with emphasis on the expansion of nursing, para-medical and other workers to meet the functional requirements of an integrated program); (b) training of trainers for the development of personnel under (a) above; (c) training of education staff in the Secretariats of Health, Social Promotion and other related community agencies to become educators/communicators of new health policies and practices; and (d) training of trainers for (c) above.
- (ii) Expansion of health services through the construction, equipping and furnishing of health centers of various types (prototype facilities for 10,000; 20,000; 40,000; and 50,000 population groupings).
- (iii) Establishment of an integrated maternal and child health, nutrition and pre-school education/communication capability using interpersonal, group and mass media approaches to health education.

- (iv) Procurement of vehicles for the development of ambulatory, outreach and promotive or health educational services, and for the supervision of personnel.
- (v) Development of a management information system and of a research and evaluation capability to:
 - (a) assist the Secretariat of Health in planning, coordinating, supervising and effective cost accounting of an integrated system; and
 - (b) develop a monitoring and evaluation system that can provide a more effective data base of health status indicators, including the impact of program interventions among the "marginal" populations, and the impact of interpersonal and group communication efforts. Evaluation of the proposed project impact would be included.

SUMMARY OF THE URBAN TRANSPORT PROJECT

(Curitiba & Recife Components)

Background Data on Project

Total Project Cost: \$248.9 million

Bank loan (1563-BR): \$88.0 million (35% of total project cost. US\$6.0 million disbursed as of Sept. 30, 1979, compared with appraisal estimate of US\$18.0 million).

Other Financing: Federal Government (Empresa Brasileira dos Transportes Urbanos - EBTU) 35% of total project costs and State and Municipal Governments (30% of total project costs).

Execution Period: July 1, 1978, to June 30, 1981.

Project Area: Metropolitan of Belo Horizonte, Curitiba, Porto Alegre, Recife, and Salvador. (The majority of works are in the principal cities, with smaller paving and upgrading works in the peripheral municipalities).

Main Project Activities and Targets:

The project's objective is to improve the levels of transport services in the five metropolitan regions, concentrating on public transport services. The main measures are (a) traffic engineering in central areas to improve traffic flow and give priority to public transport; (b) elimination of bottlenecks and provision of exclusive bus lanes on radial corridors; and (c) paving in low-income areas to extend bus services and ensure all-weather operations. In certain cases, new or upgraded road facilities are included to organize city-wide traffic movements or to structure urban development. (Recife and Curitiba, respectively)

Specific Components for Curitiba:

(a) The construction of a new structural axis (three others already exist) made up of "structural 5" and "connector 5". The axis provides the physical prerequisites for the application of land use controls. This is necessary to organize urban development and to create corridor flow levels required for good public transport services; (b) eight bus terminals on the existing and new structural axis. The terminals are interchange points between the neighborhood feeder bus services and the express buses that provide rapid CBD service. They also are designed to serve as focal points for local commercial development; (c) paving of 67 km of feeder bus routes in low-income areas.

Specific Components
for Recife:

(a) Bus lanes, terminals, and traffic engineering improvements in the central area (nucleo central); (b) bus lanes, intersection improvements, and spot widening on radial bus corridors; (c) paving and drainage of bus routes in low-income areas; (d) road rehabilitation, widening, and construction for the Second Perimetral Road; (e) upgrading and rehabilitation of regional roads.

Main Achievements
(July 1978 -
August 1979)

Establishment of local institutional arrangements for project execution;

establishment of EBTU capacity to review, supervise and monitor project components;

completion of final designs for most components;

initiation of construction programs.

Main Problems
(July 1978 -
August 1979)

Lack of coordination and cooperation between local planning and executing agencies in Recife. This problem was aggravated by the loss of continuity from the March 1979 change in Government.

Difficulties in putting into operation new procedures for EBTU of final designs and bidding documents.

General Briefing

1. Overall, the project got off to a rather slow start, although the performance varies dramatically by city, with the northeastern cities predictably lagging behind the southern cities. In fact, Curitiba is the most advanced in this respect and Recife the least. By August 1979, Curitiba had spent 84% of the funds allocated to it for 1978-79; in contrast, Recife had only spent about 10%. This reflects the fact that Curitiba has a strong agency (Instituto de Pesquisas e Planejamento Urbano de Curitiba -- IPPUC) with experience in planning and executing urban projects, while Recife has a fragmented and uncoordinated local planning and executing capacity. The existence of IPPUC and a tradition of continuity in local government enabled Curitiba to survive the change in government with only minor delays that will be made up in the near future. In Recife, on the other hand, the government change paralyzed operations for several months.

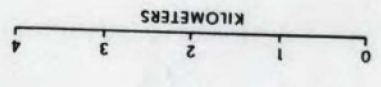
2. Recent developments in Recife are, however, encouraging. The new mayor and his staff are dynamic and committed to the project. The local executing agencies have taken over the project components from the planning agency and are working hard to execute them efficiently and recoup past delays. Expenditure

on project components jumped from CR\$2.3 million in June to CR\$22.3 million in July and CR\$47.3 million in August. Thus, Recife is at a turning point. With continued efforts from local agencies, project execution can be expected to accelerate rapidly and at least some of the lost time made up. However, Recife is by no means out of trouble and the new trend could easily be reversed if the local agencies become complacent. These points could usefully be stressed to the Governor of Pernambuco.

3. In general, the difficulties of (a) introducing new procedures (this was the first urban project in Brazil) at both the local and federal levels, (b) dealing with unexpected problems of local coordination, and (c) the change of Government have now been overcome. It is expected that project implementation will progress smoothly over the next twelve months.

URBAN TRANSPORTATION PROJECT CITY OF CURITIBA

BRAZIL



- EXISTING**
- Lateral Road
 - Exclusive Bus Facilities and Service Access
 - Feeder Roads
 - Bus Terminals
- PROJECT**
- ▨ Lateral Road
 - ▨ Exclusive Bus Facilities and Service Access
 - ▨ Feeder Roads
 - ▨ Bus Terminals
 - ▨ Streets and Avenues
 - ▨ Main Highways and Access Roads
 - ▨ Central Area Ring Road
 - ▨ Railroads
- ZONES**
- ▨ Commercial
 - ▨ Services
 - ▨ Industrial
 - ▨ Commercial & Services
 - ▨ Green Areas
 - ▨ Built-up Areas
 - ▨ Canals
 - ▨ Rivers



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F

UNDP ACTIVITIES

UNDP Brazil is presently implementing its Second Country Program, 1977-1981, totalling US\$42 million. UNDP has contributed US\$30 million and the Brazilian Government US\$12 million equivalent to this Program. In addition, the Government is contributing between \$160 million to \$200 million equivalent to specific UNDP projects.

At the request of the Government UNDP has concentrated its technical assistance on science and technology. Examples are assistance in modernizing Brazil's patent system, airworthiness certification procedures for the country's burgeoning aeronautical industry, and the application of nuclear techniques to agriculture.

The Bank is the executing agency for one UNDP project, a study on the interrelationships between costs of highway, construction, maintenance and utilization. The end result of the study will be a highway design and maintenance standards model (HDM) adapted to Brazilian conditions and based on empirical data gathered in Brazil. The model was developed over a period of ten years by the Bank in conjunction with MIT and the Transport and Road Research Laboratory (TRRL) in England. The adapted model will be used by Brazilian transport officials for evaluation of highway projects and for defining construction, maintenance and rehabilitation strategies.

Brazil participates actively in the UNDP Global Project, executed by the Bank, to develop low-cost water and sanitation techniques. Under the project low-cost demonstration projects using alternative technologies are being set up in several countries including Brazil. Tentative plans are to carry out Brazil's demonstration project in Salvador, Bahia.

Under the Bank's Vocational Training Project (Loan No. 1452-BR) Bank funds have been joined with UNDP funds for technical assistance being provided by ILO. Under the Bank's Sao Francisco Valley Irrigation projects (Loan Nos. 1153-BR and 1729-BR) Bank funds have been joined with UNDP funds for technical assistance being provided by FAO.

The UNDP's office is in Brasilia, and Dr. Luis M. Ramirez Boettner is the Resident Representative. Dr. Ramirez Boettner is one of UNDP's most senior resident representatives. He has been resident representative in Brazil since 1971, and prior to that served in the same position in Chile and Central America. He has a law degree from Harvard. He is held in high esteem by the Government and we have excellent relations with him and his staff.

G

BRAZIL--Information Media

Brazil's media network, which is one of the largest in the world, is experiencing important changes as it responds to the more liberal political climate in the country.

During a period of severe censorship, which lasted more than a decade, the quality and independence of most of the media declined. At the same time there were major technical advances, especially in the television and graphics industry. And to compensate for the reduced political coverage, the press devoted more attention to specialized economic and financial reporting.

With the democratic initiatives of the government, there is now a resurgence of political journalism. In particular, this has been freed from controls established by the authorities for reasons of "national security."

Now that the press as a whole has virtually resolved its dispute with the Government over press freedom, the newspapers are returning to their traditional political positions. The large-circulation press is again conservative, while the radicalism of the smaller opposition newspapers has re-emerged.

The period of press control coincided with official encouragement of private investment and greater diversity in the media industries. New publications were launched, and the large publishing conglomerates expanded their operations. There was considerable commercial and technical growth of the television industry.

As a consequence, the Brazilian media can be compared now technically with any other country in the developed world, although the circulation or audience might seem low by Western standards.

Brazil's very large and complex media system is, on the other hand, still mainly concentrated in the urban centers of the South and Southwest.

According to most recent estimates, Brazil has 11,295,000 television sets with a potential audience of about 60 million people or approximately half of the country's population. It also has over 40 million radio receivers covering about 80% of the population.

The Brazilian printed media includes 304 daily newspapers with an average circulation of 3.7 million copies. It also comprises 841 periodicals and about 600 magazines. The printed media is estimated to reach some 22 million people, or about 20% of the population.

While the Brazilian printed media have smaller circulations than the press in other countries of similar size, there is a high level of readership per copy for newspapers and magazines. Circulation figures show newspaper readership ranging from 1.6 to 6.6 readers per copy. Magazine readership per copy is higher; for instance Manchete, a popular illustrated weekly, has 7.15 readers per copy.

Radio and Television

The Brazilian broadcasting system, now in the process of expansion, comprises over 1,000 radio stations and about 78 television stations across the country. A large majority of them belong to commercial private enterprises; only a few are operated by government agencies, universities or other public institutions.

An audience of 60 million potential viewers makes Brazil the largest television market in the Western Hemisphere with the exception of the United States. Brazil is exceeded only by the United States, major European countries, the Soviet Union, and Japan in number of television sets.

The electronic media has increased notably its influence in Brazilian life. This is evident in the advertisement investment that is increasingly concentrated in the television, at the cost of the other media. Television has increased its share in the advertisement market from 24.7% in 1962 to 55.8% in 1977.

The most important television networks are Rede Globo, with 25 stations; Rede Tupi, 20 stations; and Rede Bandeirantes, 13. With a very few exceptions, the vast majority of the television stations are privately owned and licensed by the government.

Rede Globo is by far the most prominent of the television networks and forms part of the powerful media conglomerate O Globo, with headquarters in Rio de Janeiro. This group, owned by Roberto Marinho, a journalist-entrepreneur, includes the newspaper O Globo (one of the four most important in the country); the Globo Radio Network with 5 stations in Rio and 2 in Sao Paulo, plus others in the interior; and a publishing company in Rio, besides several other companies in the telecommunications and media industry.

.../

The TV Globo network advertises itself as "the largest communications industry in Brazil" and as the ninth in the world in terms of audience. It has five generating stations in Rio, Sao Paulo, Belo Horizonte, Brasilia, and Recife plus 19 affiliated stations and dozens of repeaters distributed throughout Brazil. It reaches an average audience of 65 to 70% of the potential number of viewers in the country.

Its most important news program, Jornal Nacional, on Channel 4 in Rio de Janeiro every night at 7:50 p.m. for 25 minutes, reaches practically all corners of the country. A well-made newscast, Jornal Nacional is the only truly national daily news program in Brazil. It has been on the air since 1969.

The second network, Tupi, belongs to another powerful group, Diarios e Emissoras Associados (DEA), established in 1924 by Francisco de Assis Chateaubriand, a journalist and diplomat. DEA comprises 31 newspapers, 20 tv stations, and 28 radio stations. It also owns Editorial O Cruzeiro, which publishes 18 magazines, two local news agencies, recording, advertising and graphics companies, along with two agriculture enterprises.

A period of crisis followed Chateaubriand's death in 1968, and DEA's importance has declined. But it is now trying to recover with the support of the Brazilian government and the direction of Senator João Calmon. DEA owns Correio Braziliense--the first newspaper in Brasilia--and successful papers in the interior, like Estado de Minas (Belo Horizonte), and Diario de Pernambuco (Recife), the oldest Latin American daily paper in circulation.

With its first public broadcast on September 18, 1950, Tupi was the first television station in Brazil and in Latin America. Recently celebrated its 29 years of existence announcing plans of expansion and modernization, including new equipment with a power of 200,000 watts. Presently, Tupi reaches about 23% of the audience.

Tupi's headquarters is in Sao Paulo. And together with Rede Globo and Rede Bandeirantes (also based in Sao Paulo) produces over 85% of the Brazilian television programs that are broadcast in the country. This supports the criticism that the Brazilian television is basically television from Rio and Sao Paulo.

.../

The private commercial radio network includes 909 AM stations and 77 FM stations, along with several other educational and cultural radio stations. As in the case of television, radio stations are also concentrated in the South (313) and Southeast (338) regions of the country. In 1974, it was estimated that radio broadcasting covered the whole country and 70% of its entire population, but actually covered only 90% of the urban population and 50% of the rural population.

Globo and Tupi have also important radio networks, although a large number of the radio stations are independently owned. The Roman Catholic Church also owns several stations and in 1974 it was estimated that about 180 stations were operated by priests.

There are about fifty government-owned stations, including Radio Nacional, the official radio station. The government has reserved an hour daily --from 7 p.m. to 8 p.m.--for the nationwide broadcast of "Voz do Brasil" (Brazil's Voice) in all radio stations. This is a program with news from the executive and legislative branches of the government.

The recording industry, closely related to the television and radio networks, is also very dynamic. With 28 million records released in 1977, Brazil is now the fifth market in the world.

Newspapers

Since the first Brazilian newspapers appeared in early 1800's, the press has been considered as an important channel for influencing the so-called public opinion and for expressing political views. Although in several instances the Brazilian press has been considered independent, the traditional newspapers have mostly been linked to the political or economic groups at regional and local levels.

There are no national newspapers as such, and only the four most important can be considered as close to reaching that category. O Estado and Folha de Sao Paulo, both published in Sao Paulo, and Jornal do Brasil and O Globo, from Rio de Janeiro, can be found in most capitals of the interior.

O Estado is considered the most influential paper in Brazil, although it has lost some of its quality. It was established in 1875 and has been owned by the Mesquita family since 1902. The publisher is Julio de Mesquita Neto, an internationally well-regarded conservative journalist and the editor is his brother Ruy, also a moderate.

It is by far the leading newspaper enterprise in the country, with a very solid economic position. However, its traditional position of editorial independence from the financial community seems to have been affected recently as a result of the debt it contracted in foreign currency to build a new, massive plant outside Sao Paulo. According to some observers, this has made O Estado more dependent to the financial groups.

O Estado was the only large newspaper that refused self-censorship and led resistance to government controls to the press in the past ten years. In the past 12 months, and as a consequence of the government loosening its control of the press, it has resumed its conservative position. Also because of internal personnel problems, the newspaper has lost some of its best journalists and is currently rearranging its cadres.

O Estado has a circulation of about 187,400 copies per weekday issue and 290,300 on Sundays. It has an afternoon edition, called Jornal da Tarde, one of the best evening papers in the country, with a local circulation confined to Sao Paulo.

Another powerful publishing enterprise in Sao Paulo is Empresa Folha da Manha S.A. owned by a conservative businessman, Octavio Frias de Oliveira. The main newspaper of this group is Folha de Sao Paulo, with a weekday circulation of 237,100 and 283,100 on Sundays. It also publishes A Gazeta Esportiva, Folha da Manha, Folha da Tarde, and Noticias Populares, all of them with circulation over 100,000 copies each.

Folha de Sao Paulo achieved in recent years a very good reputation among the Brazilian media under the direction of an experienced journalist, Claudio Abramo. Folha--which did not at first offer strong resistance to government pressure--opened its pages in 1975 to different political views including those of the opposition and soon gained a reputation for independence.

Under a new editor, Boris Casoy, it maintains a high quality of journalism, taking up some of the ground vacated by O Estado.

The most important daily in Rio de Janeiro is, without doubt, Jornal do Brasil. Many journalists consider it to be the best newspaper in Brazil and probably in Latin America. It is an independent, conservative newspaper, increasingly critical of government policies, owned by Countess Pereira Carneiro. She is the widow of Ernesto Pereira Carneiro, who received the title from the Vatican in 1919.

.../

Jornal do Brasil's main executive is the Countess' son-in-law, M.F. do Nascimento Brito, who is recovering from a stroke that virtually paralyzed him. His son, a young journalist, Jose Antonio Brito, who recently spent several years studying and writing in the United States, is increasingly taking over the main responsibilities in the paper.

Jornal do Brasil is influential with top policy makers, politicians, businessman, and the military. It maintains large offices in Brasilia, Sao Paulo, and other cities, and also has an extensive network of foreign correspondents, including one recently assigned to Moscow.

Jornal do Brasil prints 143,421 copies during a weekday and 248,233 Sundays. With an average readership of 4.1, it reaches about one million people on Sundays.

The fourth largest newspaper in Brazil is O Globo, head of the Globo conglomerate of the Marinho family. Also a conservative paper with more popular appeal, O Globo has been consistently a supporter of the military regime. It has a circulation of 173,573 from Tuesday to Saturdays, and of 260,857 on Sundays.

In 1979 the only newspaper still owned by the Diarios Associados group in Rio de Janeiro was the 159-year old Jornal do Comercio, the second oldest daily in the country. Jornal do Comercio has few readers (about 30,000) but subsisted on the advertising revenue from business corporations, which traditionally publish their annual balance sheets.

Other newspapers published in Rio de Janeiro are O Dia, Ultima Hora, Tribuna de Imprensa and Jornal dos Sports. O Dia, of the Chagas Freitas family, is a newspaper of popular appeal, with the largest circulation in Brazil (252,812 on weekdays and 305,786 on Sundays).

Among other important newspapers is Sao Paulo's Gazeta Mercantil, the best financial paper in Brazil. Recently Fortune placed Gazeta Mercantil among the top ten in its field in the world. It is owned by Herbert Victor Levy, a Sao Paulo politician who is currently a representative in the ARENA (Alianza Renovadora Nacional) government party. The newspaper maintains an independent position regarding the government and is very well regarded in business circles, although its circulation is comparatively small (about 45,000 copies a day).

Gazeta Mercantil is now being printed simultaneously in Sao Paulo and Rio de Janeiro. Its editors also plan to print facsimile copies in Brasilia and other cities, aiming at converting it in the first truly Brazilian national paper.

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The "Radical" Press

Censored and persecuted for many years, the opposition press, called "nanica" (small) in Brazil, is emerging vigorously, benefitting mainly from the end of censorship. Among them, Pasquim, an irreverent, satirical weekly is still the leading publication with an average circulation of 50,000 copies.

Another interesting publication is Coojornal, a monthly printed in Porto Alegre by a journalist cooperative that has proved to be very successful. Other publications are Movimento, Versus, Brasil Mulher, En Tempo, and Pingente, all of them left-leaning and anti-establishment. In all, the "nanica" publications account for about 200,000 copies.

News Magazines

The leading news magazines are Veja and Isto E. Veja is a general news weekly, with an emphasis on political and international events. It can be compared very favorably with Time or Newsweek. Its over 300,000 copies reach a readership of more than 1.2 million people, and it has the largest circulation in this field.

Veja belongs to the Editora Abril, a Sao Paulo publishing empire that ranks first in the graphics industry in Brazil. Abril is owned by Victor Civita, a businessman of Italian-American origin, formerly associated with Time-Life. Another member of the Civita family owns a similar, but completely separate publishing enterprise in Argentina, also named Abril.

Abril also publishes Placar, Quatro Rodas, and Homen, magazines for male readers, and eleven publications for women, including Claudia (monthly, 200,000 copies), Capricho (fortnightly, 300,000), and Caricia (monthly, 242,933). Abril claims a circulation of 3.5 million a month for its publications.

Although is still far from reaching the circulation of Veja, Isto E has become an important competitor in only three years. Mino Carta, its editor, left Veja and created his own news magazine. After initial financial problems the magazine has finally reached a solid position, both in terms of circulation (over 100,000) and advertising revenues.

Isto E lacks the technical advantages of Veja but some prefer it to Veja because of its deeper analysis of national and local politics. Both Veja and, to a less extent, Isto E have national penetration.

.../

Manchete, an illustrated weekly styled after Paris Match and Life, is also a popular publication with over 200,000 copies a week and a readership of 1.4 million. It is the leading publication of Bloch Editores, the second publishing conglomerate in Brazil, based in Rio de Janeiro and owned by Adolpho Bloch.

Bloch also publishes Desfile, a women's magazine (207,140 copies monthly), Amiga, Pais and Filhos, Ele, Fatos e Fotos, and Tendencia, a financial monthly with about 26,000 copies.

Exame, of Editora Abril, is the largest publication for the business and financial market. It publishes every two weeks about 60,000 copies. Visao is also an important fortnightly of a more general type, although it also gives a lot of attention to the country's economy. It has an estimated circulation of 130,000 copies.

Altogether some 618 magazines are published in Brazil, including consumer, sports, business, and technical magazines. As in the other media, the majority of them--about 80%--are printed in the South and Southeast.

Books

The book publishing industry is suffering the chronic constraints of a small market, caused by the low literacy, and the lack of economic means of most Brazilians. However, in recent months there has been a boom in non-fiction publications, especially political, historical, and sociological books, as a consequence of the loosening of the censorship. In 1978, about 713 fiction and 2,132 non-fiction books were published, although the average printing is only 3,000 copies.

Among the books recently released are the first records of political repression and torture, and also of the guerrilla movements during the last decade.

One of the elements that hamper the distribution of books in Brazil is the small number of bookstores in the country. Most recent estimates show that there are only about 500 bookstores in the entire country (as a comparison, Buenos Aires alone had that number of bookstores in 1977). Including the newstands, drugstores, and supermarkets, there are less than 1,700 outlets for the books in Brazil.

This is the situation in a country in which, as the publicist Mauro Salles put it recently, "there is a lot to do." He expressed his concern about "the dark side of the information media in Brazil, a country in which 20% of the population doesn't listen to the radio, 50% doesn't watch television, and more than 80% doesn't read any type of newspaper, magazine, or periodical publication."

Jornal do Brasil, September 27, 1979

McNAMARA WILL LOOK AT PROJECTS IN THE NORTHEAST

Recife. - World Bank (IBRD) President Robert McNamara will visit Brazil during the first half of November, when he will spend two days in the Northeast, in contacts with SUDENE and the Governments of Bahia, Pernambuco and Paraiba, observing the progress of urban development programs and integrated projects of POLONORDESTE being financed by IBRD.

The chief of the World Bank's Brazil Division in Washington, Humayun Mirza, arrived here yesterday to prepare for Mr. McNamara's visit. According to the chief of the Bank's field office in SUDENE, Donna-Marie Dowsett, the World Bank is stepping up its technical and financial assistance to the region, to the benefit both of the towns and of the rural areas.

The special POLONORDESTE Program has so far received World Bank financing totaling \$156 million for projects in Rio Grande do Norte, Paraiba, Ceara, Pernambuco, Bahia and Sergipe.

The World Bank has signed a loan of \$182 million for various programs for improving the living conditions of the populations of the large and medium-sized cities of the Northeast, and financing agreements totaling \$25 million are in preparation.

IBRD LANGUAGE SERVICES DIVISION	
CONTROL NO. E-435/80	DATE: October 22, 1979
ORIGINAL LANGUAGE: Portuguese (Brazil)	
DEPT. LAC	TRANSLATOR: GAG:aj

Jornal do Brasil, October 8, 1979

17% OF BRAZILIAN POPULATION SUFFERING FROM MALNUTRITION, SAYS IBRD

Sao Paulo. - Malnutrition affects some 17% of the Brazilian population and is the main cause of 60-70% of death in children under five years of age in Brazil. Twenty-one percent of Brazilians under 18 years old suffer from second or third degree malnutrition, and in the Northeast 30% of people in that age group are victims of hunger.

These are some of the indicators contained in a special report on human resources in Brazil prepared by World Bank staff under the leadership of Mr. Peter Knight, former chief of the Bank's Brazil section. The report is due to be published soon but its broad lines are being revealed in this week's issue of the periodical Veja. Running to some 500 pages, the report projects that by the year 2000 Brazil will have a population of 203 million and that only 77.3% (optimistic projection) or as few as 53.5% (pessimistic projection) will have an adequate diet.

The report describes malnutrition as one of the most serious of the problems that the Brazilian Government will have to face up to the turn of the century. It is expected that meeting minimum medical care, nutrition, education, housing and basic sanitation needs will absorb 5% of Gross Domestic Product each year from 1981 to 2000.

Like all the World Bank's other reports, this one stresses the question of the birth rate. It estimates the present population at 120 million and the population growth rate at 2.8%, giving an annual population increase of 3,400,000. In one of its conclusions the reports comments that rapid progress in reducing malnutrition will be impossible without a massive redistribution of income.

In the year 2000 the Northeast will have 56,526,000 inhabitants, of whom 28% (optimistic projection) or 41.8% (pessimistic projection) will have a diet deficiency of up to 400 calories. In the Southeast region, with a population of 121,531,000, the segment with a deficiency of 400 calories will be between 13.7% (optimistic projection) and 38.3% (pessimistic projection). For the frontier region, with 25,261,000 people, the projections are 50.2% and 62.4%, respectively. The report projects annual GDP growth during the last twenty years of this century at 7% (high projection) or only 4% (low projection).

Summary translation of 14 recent clippings from the Brazilian press

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A. Undated clipping from Tribuna da Imprensa, Rio de Janeiro

Under the headline "Third World condemns World Bank policy," this article reports on the World Conference on Agrarian Reform and Rural Development held in Rome. Third World representatives attacked the western development model, and the World Bank was accused by Cheryl Payer, a member of the Club of Rome, of serving the interests of the multinationals. The non-governmental organizations (NGOs) leveled a similar charge against FAO. "Where are the peasants we are all talking about?" asked Jacques Chonchol, minister of agriculture under Salyador Allende. It was unanimously agreed that there can be no Agrarian Reform until the masses achieve power. Michel Cepede, former president of FAO, is quoted as having said that, of the 150 member countries of the United Nations, 30 are true democracies, 60 are dictatorships and the remainder are closer to dictatorships than to democracies. The delegate from Lesotho, commenting on the conference's failure to achieve any concrete results, called it a "mockery and an affront to humanity."

B. Jornal do Comércio (Porto Alegre, Rio Grande do Sul), May 11, 1979

This lengthy article, entitled "UNCTAD Conference: McNamara cites Brazil as a model to the Third World for increasing exports and issues a serious warning on protectionism," consists almost entirely of direct quotations from Mr. McNamara's address to the UNCTAD meeting in Manila. Naturally enough, it highlights his references to Brazil's export performance (along with Korea and Singapore) and

the volume of Brazil's export trade with other developing countries. The article then quotes extensively from Mr. McNamara's remarks on the rising tide of protectionism.

C. Tribuna da Imprensa (Rio de Janeiro), May 25, 1979

This article, entitled "Eliseu has talks with IBRD mission," reports on the previous day's meeting between the Brazilian Minister of Transportation, Eliseu Resende, and the World Bank mission. Three main topics came up for discussion: the Center Line/Ferrovia do Aço project, the Paranaguá export corridor, and construction of highway BR-364 linking Cuiabá and Porto Velho. After visiting the sites of these proposed projects earlier in their visit, the World Bank mission members discussed mainly financing aspects with the minister. According to the article, it is hoped to start the financing operation next year.

The second half of the article deals with the benefits of the Ferrovia do Aço (Steel Railway) project, as compared with duplication of the Center Line, indicating that the former would obviate the need for expensive bypasses around five cities in Minas Gerais. The article stresses that the Brazilian Government has already decided to build the Ferrovia do Aço. The Bank mission requested, and received, information on cost estimates and the proposed electrification schedule. This information will, it is reported, be passed on to the Bank's top management for final decision.

D. A Notícia (Rio de Janeiro), May 25, 1979

This article, under the headline, "Brazil tells World Bank: the Ferrovia do Aço is irreversible," reports on the same meeting as clipping C. above.

However, it places greater emphasis on the determination of the Brazilian authorities to pursue this project: it represents a government decision, the writer states forthrightly.

E. O Estado de Sao Paulo (Sao Paulo), May 25, 1979

Like clippings C. and D. above, this article deals with the meeting between the World Bank mission and the Brazilian Minister of Transportation. The title "IBRD examines transportation projects" is indicative of a more matter-of-fact approach. In addition to the three projects previously listed, the article refers to a project for construction of a Ferrovia da Soja (Soybean Railway) from Miranda in Mato Grosso do Sul to the port of Paranaguá.

F. O Globo (Rio de Janeiro), May 25, 1979

This article, appearing under the title, "McNamara wants a reduction in arms expenditures," quotes extensively from Mr. McNamara's speech to the University of Chicago in which he pointed out the futility of seeking security through increased arms outlays.

G. Jornal do Brasil (Rio de Janeiro), May 26, 1979

As the headline, "IBRD suggests cheaper solution to Eliseu for increasing capacity of railways," indicates, this article focuses on the railway component of the transportation project discussed with the World Bank mission. According to the newspaper report, the World Bank suggested reducing the cost of the Ferrovia do Aço/Center Line project by Cr\$4.4 billion by eliminating projected Center Line bypasses around major cities along the route. The Brazilian Government, on the other hand, considered such congestion-alleviating measures essential.

H. Jornal do Brasil (Rio de Janeiro), May 29, 1979

"IBRD studying US\$90 million loan for urban development," is the headline of an article announcing the arrival of a pre-appraisal mission from the World Bank to discuss a possible loan to the Banco Nacional de Habitação for its CURA project in a number of Brazilian cities.

I. O Globo (Rio de Janeiro), May 29, 1979

The first article is a report on Mr. McNamara's Chicago speech, under the headline, "McNamara calls for fewer arms and more struggle against poverty," with a number of quotations from the speech. The article points out that these words may seem strange coming from a former U.S. Defense Secretary who was responsible for the massive U.S. arms and troop buildup in Viet Nam, but his contact with world poverty through the World Bank has changed him radically.

Immediately under the report on Mr. McNamara's speech, O Globo carries a slightly longer article on Mr. Oritz Mena's opening address at IDB's annual meeting in Montego Bay, highlighting IDB's new strategy of focusing more on low-income groups, who are to receive 50% of Bank lending in the period 1979-82.

J. O Globo (Rio de Janeiro), June 5, 1979

"IBRD grants loan to Sergipe," is the headline of a report on loans approved the day before by the World Bank. The US\$26 million loan will "provide limited prosperity" for the Northeast region of Brazil. While highlighting the rural development loan for Sergipe, the report also lists the loan amounts approved for four other countries.

K. Gazeta de Notícias (Rio de Janeiro), June 7, 1979

This article introduces a two-paragraph report on the US\$40 million Pernambuco rural development loan with the following words: "The United Nations Information Centre (UNIC) in Brazil has distributed the following World Bank communique:". The article appears under the headline: "Rural development in Brazil: World Bank lends US\$40 million."

L. O Globo (Rio de Janeiro), June 13, 1979

A report entitled, "Eliseu wants integrated transportation system with countries of the Americas," deals at some length with the remarks made by the Brazilian Minister of Transportation at the Forum of the Americas in Sao Paulo on "Transportation in Continental Integration." The minister called for increased use of Brazil's road, rail and water transport systems by neighboring countries to optimize operations and save energy.

This report is immediately followed by an account of Mr. Philip Glaessner's remarks at the same Forum, under the headline, "IBRD seeks reduction in poverty." After mentioning Mr. Glaessner's call for faster economic development and investment in human capital, the article concludes by citing his remarks on skewed income distribution in many countries.

M. Jornal do Brasil (Rio de Janeiro), July 17, 1979

The headline, "Secretary denies IBRD is imposing birth-control conditions," indicates that this article deals with the touchy issue of Brazilian sovereignty vis-à-vis the Bank. Mr. Rubens Vaz da Costa, Sao Paulo State Secretary of Planning, is at pains to deny reports that he had said the World Bank was tying a possible loan to finance construction of 300 health posts in low-income areas

around Sao Paulo to acceptance by the Sao Paulo State Government of the World Bank's guidelines on birth control. After proclaiming that "We in Brazil are not about to accept conditions from anybody," Mr. Vaz da Costa lets it be known that the Sao Paulo State Government is in full agreement with the Federal Government's policy on family planning.

According to the Secretary, the health clinic project was one of three (the others being for transportation/street paving and for urban renewal) suggested by the State Government and discussed with a World Bank mission in June. The World Bank reportedly is most interested in the street paving/transportation project.

If the health clinic project materializes, it would, according to Mr. Vaz da Costa, "offer low-income people what the rich already have. There are no plans whatsoever to compel people to accept any form of family planning."

N. O Globo (Rio de Janeiro), July 24, 1979

"McNamara foresees growth in 80," is the headline to an article featuring some of Mr. McNamara's forecasts (derived from the World Bank's soon-to-be published annual report) of economic growth in various parts of the world, as presented to the summer meeting of ECOSOC in Geneva. The report makes specific mention of the "depressing prospects" for sub-Saharan Africa and the fact that, by the end of the century, there will be 600 million people living in absolute poverty.

Oh, Brazil

Norman Macrae, the deputy editor of *The Economist*, has been visiting Brazil, which is the biggest of the development-ripe countries in the poor south of the world. If Brazil stops growing, the poor south stagflates. Macrae believes that the growth of a Brazilian business class should enable the economy to keep expanding, but he fears that the impressionable country is being showered from abroad with exactly the wrong insults and advice.



Elephants can't be pink

Brazil is the stumbling elephant in the van of the charge towards affluence by the most development-ripe dozen countries among the poor two thirds of the world. Everybody who cares for the world's poor south must pray that it keeps racing forward, but its stumble has been applauded and (through intellectual claptrap) miserably aided by the rich northern hemisphere's silly left.

By now there is sufficient business dynamic in the cheerful and adaptable country for its people at last to advance rather quickly to a tolerable life, provided only that governments keep out of the way. But South American governments rarely do keep out of the way, and the process of disengagement in Brazil has reached an awkward and familiar corner.

The next few years, under a new president whose main passion is fortunately horseriding, will decide whether Brazil can move from a too interventionist military technocrat government (which is the fourth worst sort of government for a

South American country to have), into becoming a Japanese-style-near-democracy with a more market-oriented economy (which is the best early hope for any development-ripe poor country in today's world).

Or whether Brazil will be driven back into the vicious circle of the three worst and more usual sorts of South American governments, which are the military oppressive, the military populist and the civilian populist—the last two of which become so inflationary, corrupt and Jacobin that they spark coups by the military oppressives and start the vicious circle again.

A puissant nation

In Brazil everything is huge, especially the land area (the fifth largest in the world, 8½m square kilometres, a surprising number of them still unused), the population (the world's eighth largest, approaching 120m, unfortunately temporarily doubling every 25 years), the gnp (the world's tenth largest, approaching

\$200 billion, trebled in real terms since 1964), the opportunity, the bureaucracy and the danger that things will still be messed up.

In the first 10 of the past 15 years they were not messed up. Since 1964 when a rather unwilling (thus originally unbossy) military coup replaced the populist but about-to-become-murderous government of President Jango Goulart, Brazil's real gnp has multiplied more than three times and, despite the 2.7% annual increase in population, real gnp per head has more than doubled to around an annual \$1,600. In the middle period of the miracle, real gnp growth was above 8½% per annum for the seven consecutive years 1968 through 1974, and inflation (which hit an annual rate of nearly 150% in Goulart's last quarter) was down to an alleged 15½% in 1972.

This happened because, until 1974, the military government tended to pitch its economic policies in the opposite directions from those that authoritarian governments usually choose: on balance in

1964-74 it moved away from protectionism towards an export-led economy, away from nationalism towards internationalism, away from "structural reform" (ie, public-sector imperialism) towards control via the money supply. But it is not usual for soldiers to stand at ease before the laws of supply and demand for long.

This year, 1979, economic growth will be down near 5%, inflation up near 50%, there have been strikes among the richest workers in the big cities, there are fears among the business classes (and hopes among the political left) that the miracle may be coming apart at its seams.

The reasons why the miracle has faded are the opposite of those most widely believed by newspaper readers and writers abroad.

Investing in underemployment

The economic growth after 1964 was sparked—as it has been in most fast-developing countries in the past two decades—by a switch of government policy to the market-oriented right. There was, however, even from the beginning, one common mistake in this freer-market Brazil. As growth gathered pace after the early 1964-66 recession, there was unfortunately "planned" (ie, from-the-top-down) stimulation of investment. This

created a lucky dip of bright new jobs in capital-intensive industries in the towns.

After about 1968 a lot of the new plants were financed by the state, because it was said that "only the state can provide the large capital required". This is the meaningless phase which impels fast-developing economies into social crisis. First, the state has not got any capital; it can only pinch it from the taxpayer, and in Brazil the main tax is the inflation tax which bears hardest on the poor (when there is a 5.8% rise in the cost of living in a single month, as there was this March, this is especially incommensurate for those living 5½% above subsistence). Secondly, state subsidising of capital spending in a development-ripe country means mainly that economic growth becomes less labour intensive. So the inflation tax paid by Brazil's underemployed rural poor was used to ensure that economic growth was steered away from providing them with jobs.

Brazil's rural underemployed therefore flocked to the favelas or slum shanty towns around the big cities. They awaited job opportunities there, while engaging in part-time occupations such as mugging. This is a main reason why half the world is blowing up.

As huge, empty Brazil's population

became absurdly 65% urbanised in the late 1970s (versus 46% in 1960), as crimes spreading from the favelas made parts of the cities fearsome places in which to walk at night, as the Catholic church moulded into intense opposition to the regime because of the horrors its priests saw in the favelas and the depopulating countryside, as the universities filled with today's 1½m undergraduates who were toddlers when Goulart last made Marxism unpopular in 1961-64 (and their cowed professors found it comfier to lean the leftist way), as the bureaucracy and a growing Brazilian business lobby complained to colonels that Chicago-style tight money threatened bankruptcies to Brazilian firms (and never to wicked well-heeled multinationals), there grew a groundswell of opposition to the military government whose only legitimisation was the continuing 10% annual economic growth which it did not understand.

Then the oil shock at the turn of 1973-74 was said to threaten even that economic growth. The Geisel government of 1974-79 did not respond to these worries by moving to the repressive right, as has been widely misreported, but by moving unhappily to the bureaucratic left.

And towards still more "planned investment".

The importance of not being Ernesto

President Ernesto Geisel (1974-79) tried to move all his policies away from the right wing. This had unfortunate results for the poorest

There is no way in which the Brazil that President Joao Figueiredo inherited in March, 1979, from President Ernesto Geisel can be called a predominantly free market economy. Far too many things are licensed, allocated and price-controlled. Permissions to do quite small things (register patents, import capital equipment) are granted only after long bureaucratic agony. About 70% of this year's fixed investment in Brazil will be undertaken directly by the state. Worse, the 30% of fixed investment nominally undertaken by private industry is being channelled into mischosen "priority areas" by a fabulous variety of fiscal incentives and subsidised interest rates that are too clever by half.

In 1964-79 back-of-beyond Brazil has had perhaps the most articulate, sophisticated, expert teams of economic ministers of any country in the world. Five of the six main economic policymakers in this period have been internationally known economists in their own right. This has been, on balance, a misfortune.

They have compounded Brazil's curse of overgovernment.

During two years in mid-miracle there were promulgated in Brazil 7,300 new laws, decrees and regulations, many of them drafted by economists and engineers. As Brazil has the slowest-moving legal system of any country (its appeal court at about this time was deciding a case begun in 1892), there was never a prospect that many of these laws could be read, understood, policed and enforced.

Then, in 1974, on top of a new and customary clever team of ministers, there was imposed an uncanny clever and more decisive (ie, more meddling) president. As Robert Harvey said in his survey on Brazil in *The Economist* of July 31, 1976 (significantly called "Change in direction"): "When President Geisel took office in March, 1974, he had the novel idea of subordinating economic decisions to political ones—his own".

Any general who subordinates economic decisions to his own political ones is liable to find that economic forces go



General Geisel's parade

marching off in insubordinate directions. In Brazil, they did.

At this stage of this survey, be fair to President Geisel (1974-79), before proceeding further to malign him. He tried to move Brazil's policy on political matters to the more liberal centre (which was praiseworthy), while moving it in economic matters to the more interventionist inside left (which was disastrous).

During the two military presidencies immediately before him (General Costa e

Silva 1967-69, and General Emilio Medici 1969-74), economic policy had already moved slightly to the more protectionist and nationalist left, while security policy had marched sharply to the more repressive right. This last was mainly because of what happened in the Sorbonne in Paris and Berkeley in California in 1968. Student pseudo-revolution and urban guerrilladom then spread across Latin America.

It was met in Brazil in 1968-73 by deterrent torture (putting students briefly into prison and giving them a few weeks of a rather worse time than fags had in minor British public schools in the 1930s, so that Brazilian students then did not want to be imprisoned again) and by much crueller investigative torture (so that those with information about urban guerrillas quickly squealed).

It was said confidently that this repression would never work. In practice, it worked like a bad dream. Student rebellion and guerrilladom in Brazil stopped.

Geisel's opening to liberalism

It was therefore courageous when President Geisel, immediately after his inauguration in 1974, called back the more liberal pre-1967 political household-managers, and told his fellow officers that the army was corrupting its name with the young. President Geisel restored a much freer press. There are today investigative programmes on Brazilian television into people who disappeared in the Silva and Medici days, although usually with a punch line demanding pensions for their widows rather than punishment of interrogators. President Geisel restored freer elections to Brazilian institutions that do not greatly matter (see *The Economist's* article last November 25th on the Brazilian congressional election, called "Did we rig it enough?"), and picked a successor in the new President Figueiredo who will annoy the hard-line generals by moving further along this road.

In the midst of this rather brave march towards democracy, Britain's (not exactly democratic) TUC said that President Geisel was an ever-more-repressive right-wing dictator, and told the Wilson government that it should not welcome a visit to Britain from him.

While he was thus annoying the military by liberalising, President Geisel tried to titillate them by building grander nuclear power plants and dams. He sought a constituency among the less efficient domestic businessmen (who were called *lefter* because they disliked competition by multinationals), among the bureaucrats (who liked the opportunity for more corruption which greater state controls brought), among the universities (who said they liked freer speech), and among

richer organised workers (who liked greater freedom to strike). What President Geisel did not realise was that all parts of this constituency (including the richer organised workers) belonged to the better-off quarter of the community, and also the one that was least displeased by inflation.

By the left, on my order, stagflate

The consequences showed in the figures. Table 4 on a later page—one of a series of tables to which we will refer often—shows that Brazil's miracle began to go sour with a trebling of 1972's 15½% inflation to 46% in 1976, followed by 39%, 41% and maybe 49% in 1977-79.

The orthodox Brazilian explanation of this is that "during a few weeks at the turn of 1973-74 the Arabs abruptly took 3% of our gnp from us, wholly concentrated in the weak groin of our balance of payments". True, but without some large policy mistakes a 3% increase in national costs into a 45% annual inflation would not go.

The first plank in President Geisel's new development plan in September, 1974, was (to quote Robert Harvey again) "a deliberate switch back to investment in capital goods industries and to some measure of import substitution". The investments that the government then particularly wanted to encourage read today like a compendium of subsequent worldwide industrial disasters. They included steel, petrochemicals, nuclear power, Brazil's 38 shipbuilding yards. Oh, dear. The three main features of most capital goods industries are that (a) their manufacture is itself capital-intensive, at a time when Brazil needs to be more labour-intensive; (b) during the world minirecession desperate industrial exporting countries have almost been giving capital goods away; (c) technological change in most of these industries is rapid, so that when Brazil starts to build a new capital goods plant today it is likely to be yesterday's plant before it is completed.

There may have been more sense—only the market can tell—in the aim of making Brazil more self-sufficient in agricultural products, and energy (for a discussion of Brazil's possibly hopeful development of energy from alcohol, see later). But it is a Brazilian delusion that presidential dreams can be enforced by (to quote a Hudson institute report) "printing laws like *cruzeiros*" or "like vaccinations, some take, some don't". Or by cheap state loans for white elephants.

Across Brazil the system of subsidised loans for favoured investment projects had by this May painted inflation purple. When the fiscal incentives are taken into account, it was possible to borrow for a



Drive hard for the wrong industries

few projects at nil money interest rates (in a country which expects over 45% inflation this year, that meant a real interest rate of minus 45%), and for a broadly-defined range of projects like agriculture, investment in the poorer regions and worthier industries it was possible to borrow at around 15-25% (which meant real interest rates of minus 20-30%).

Cheap loans for sale

Unsurprisingly, every loanworthy person was saying that he was a farmer or a dweller in poor regions or a most deserving industrialist about to invest there, and was borrowing at these rates in order promptly to lend back to the government on index-linked bonds at about an expected 51%, or to the overnight money market at around 55%, or to the equivalent of prime commercial borrowers at around 65%, or to borrowers who might conceivably disappear into the bush at rates of around 180%, or to speculate in the real estate bubble with hopes of higher returns still.

In fiscal 1977 the cost to the government of these credit subsidies and fiscal incentives amounted to Cr121 billion (of which Cr48 billion went to agriculture); this was half the total federal tax revenue of Cr243 billion in that year. For fiscal 1978 nobody has yet been able to work out what they cost, but the cost of the agricultural part had risen to Cr80 billion and it is possible that in some months more than the whole of federal tax revenue was being lent out cheaply by the government in order to be borrowed back by the government more expensively next

day. The Figueiredo government (see final article in this survey) intends to curb this nonsense. Insufficiently.

Brazil's five main economic needs are a freer market system (because it has not got the sort of bureaucracy that can sensibly run a controlled system), a continuing incentive to produce rather than speculate, some bias in favour of labour-intensive rather than capital-intensive industries, a stern grip on inflation and progressive correction of the inequality of incomes. The system of capital subsidies has managed to make matters acceleratingly worse on all five fronts at once.

To him that hath

Even in big multinational firms in Brazil the manager of the money has temporarily become more important (and makes more of the profits) than the manager of the production. Among individuals I heard of one Brazilian with 17 bank accounts; he makes most of his money shifting funds between them in a few working hours early each day, and then (since he is a liberal Brazilian) spends the rest of the day doing good works. Capital subsidies have brought especial opportunities to the loanworthy, and have bid up the prices of the sorts of investments bought with lent money (which brings huge capital gains to the rich).

These capital subsidies are one reason why incomes have grown so unequal in Brazil. President Geisel aroused hopes because he was a third generation German immigrant, and foreigners whispered that he seemed "more an Ernst

than an Ernesto"; unfortunately, he proved to be a Brazilian when one wanted him to be German, and then a German when one wanted him to be a Brazilian.

He started his policies of intervention because he thought they would bring better balance to the economy and help the poor, and then intensified them when they did the opposite.

The workers differ from the poor

His supporters said he would move Brazil "away from headlong growth at any cost", into a situation where "higher wages and social spending would form the basis for an expanded home market". This was always populist nonsense. You cannot get the wherewithal for higher wages and social spending except by higher growth. But something like it is dangerously liable to be the votewinning ticket in Brazil as and if the desirable "opening to democracy" (ie, return to filling more important political posts by elections, return to settling wages by strikes) grows wider, which the new President Figueiredo honestly at present intends.

There are two classes in Brazil: the better off (who include the industrial workers as well as the bloated capitalists) versus the desperately hungry and underemployed. The name of the most dishonest political game is to pretend to the world (and the voters) that policies nominally in favour of the urban industrial workers will also favour the really poor. They won't.

visiting television producers.

Special seasoning is added by ignoring the age distribution of the workforce (in a country where a 45-year-old worker gets three times the wage of a new entrant to an urban labour force which is growing at 5½% a year in a country with half its population aged under 18), by underestimating the breadwinners per family, by forgetting the 13-month or (for poorer workers) 14-month annual wage, by putting in regression equations and computer models of poverty programmes which have their residuals massaged into masturbative orgasm for any visiting reporter who likes to reinforce his decent emotional prejudices instead of work out sums.

When West Germany's Chancellor Helmut Schmidt was begged by a bishop in Sao Paulo to "instruct Volkswagen Brazil to pay the same wages as at Wolfsburg", he naughtily replied: "Excellent idea, then VW Brazil would close, transfer some production back home, and marginally ease my unemployment problem in West Germany".

The truth is bad enough

The appalling true figures remain. Even among the "economically active population"—as table 1 (on the next page) shows—the rich have grown richer since 1960, while the poor have grown less poor less fast. Managers in Brazilian firms often get \$50,000-\$100,000 a year, which is more than their colleagues in multinationals. The worst poverty hits the 30-40% of Brazilians who are not really in the market economy at all.

By adding these to the lowest paid, Dr

Poverty traps

Brazil's worst problem is that of the underemployed

Don't believe half the statistics on Brazil's unequal incomes; those about the poor workers. Do believe the harrowing other half; those about the poor underemployed. Only by making this distinction can policies be devised to keep Brazil advancing by the right instead of stagflating by the left.

It is sometimes said that the desperate ferocity of the poor, in a country where the richest 20% of the population take 67% of all incomes, broke out at last in this year's Sao Paulo autoworkers' strikes. This is odd, since the Sao Paulo autoworkers are among those richest 20% of the population, with average after-tax incomes at about five times average gnp per head. The average wage for all metal workers after the strike was \$7,300-\$8,300 a year, to which should be added employer-financed fringe benefits up to 30%-80% of the wage.

It is also not really likely that most

working (as distinct from underemployed) Brazilians have grown poorer during the 15 years of military rule. Since the generals' coup, the proportion of Brazilian households with television sets has grown from 7% to 51%, that with refrigerators from 15% to 48%.

If some group of workers got a 132% wage rise on February 2nd in the last Goulart year of 1974, those workers were momentarily 132% better off than they had been on February 1st, although the gain was quickly dissipated in inflation. By comparing the general subsequent doubling of real incomes per head precisely with income levels on that February 2nd instead of February 1st, you can then make those workers look 32% worse off than just before the military coup. There is a large statistical cookpot industry in Brazil, ready to serve up such statistics to the taste of innumerate native Catholic priests or (by way of turbot)



Not a bad life at Volkswagen

**Table 1—
Economically active population**

		% of personal incomes	
		1960	1977
Richest	5%	27.7	39.0
Next	15%	26.7	28.0
Next	30%	27.9	21.2
Poorest	50%	17.7	11.8

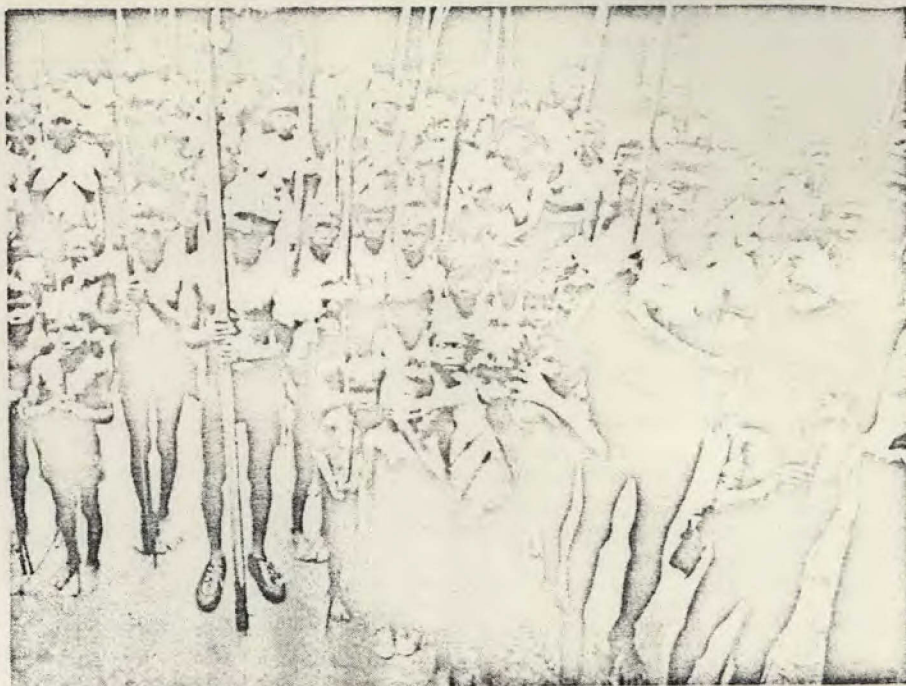
Edmar Bacha believes that 40-44% of Brazilian families are absolutely poor, and receive between 8.2% and 9.8% of the country's total family income. He concludes that the transfer of 8% of the income of the non-poor (ie, only about two years gnp growth per head) would double the average incomes of the rural poor and increase by two thirds those of the urban poor. Even if one believes his 40-44% figure is too high by about a quarter—as I do—the first lesson is that redistribution of income in Brazil is very worthwhile. The second lesson, however, is that the three methods of redistribution favoured by Brazil's populist left would have the opposite effect to what is pretended.

Not by doles or minimum wages

The switch to the really poor would not be aided by a great improvement in social security benefits, which in Brazil already look quite impressive (financed by those employers' contributions) but do not filter through the bureaucracy to reach those who most need them. The desperate need in Brazil is to bring jobs to the underemployed, not subsistence picnics for still more footballing teenagers on the beach.

Nor would underemployment be helped by the left's cruel favourite of a large increase in the statutory minimum wage. Last May's minimum wage in the richest states like Sao Paulo, at the then exchange rate and multiplied by the 13-month or 14-month salary, was around \$1,200 a year, which is a high proportion of a \$1,600 average gnp per head. In the poorest states like those of the north-east, where Brazil's poorest have sub-African living standards, the minimum wage in employment was a miserable-sounding \$860-\$950 a year, but that was above gross provincial product per head.

The application to some farmers of minimum wage legislation (remember plus employers' obligatory 30-80% fringe benefits) has caused many rural workers to be sacked and evicted. They have moved to the favelas round the towns, and travel on a two-hour bus journey each day back to their old area, where the farmer employs them on a deliberately casual basis, careful not to employ any one of them so many days in the week that he becomes a regular employee. In a country with nearly 45% annual inflation,



The answer's not a higher minimum wage

the minimum wage is much lower in real terms at the end of the wage year than at the beginning. Towards that end of the year the construction industry in some cities enjoys a seasonal boom, but workers are sacked when the minimum wage is raised again. It really is not decent for populist academics to table emotions from middle class ivory towers about raising the minimum wage when these underemployed people have to pay for it.

Land reform?

The next popular shibboleth is that poverty in Brazil can best be tackled by land reform, by government-financed irrigation in the dry north-east, and by opening up the agricultural frontiers. Each policy can increase misery.

Land redistribution is rather a nonsense in huge empty Brazil, but periodically taxes are levied to persuade big landowners to use idle arable land or else sell it. If the taxes begin to bite, landowners find that squatters have been living on their idle land for generations; the "reform" causes them to hire thugs to drive the squatters off it.

There has been a sharp increase in capital-intensive irrigation schemes in the poor north-east, aided by the government's subsidies to capital investment there. The land to be flooded is chosen by the local authorities (which means by the squires). It is the poor who get the flooding, with compensation in rapidly-depreciating cruzeiros; they then flock to the favelas, but near the north-east's towns the urban authorities meet the buses and pay their fare back to flooded nowhere again.

In some plantations and cattle ranches in the wide frontier areas, especially the efficient ranches owned by companies rather than the inefficient ones owned by old squires, workers can buy provisions only at the company shop. The company manager (who is often a subcontractor with none of the squirearchical traditions of occasional *noblesse oblige*) has an incentive to get the workers into debt. If the debtors abscond, the police (who are the managers' hirelings) can hunt them wild-west style, sometimes shooting to kill. Some distributors have tried to break the monopolies of the company shops—eg, by sending shopping boats up river. Various "progressive" labour laws are used to stop these.

Three needs stand out for anybody who wants to see poverty conquered in Brazil.

Growth and full employment

The first need is continued economic growth. It is nonsense to advocate anti-poverty programmes based on redistributing to everybody more than average gnp per head.

The second need is to reduce underemployment in the countryside, but not primarily by creating jobs in farming. One possible model for fuller employment is the pre-1960 Japanese free-market one; tiny village sweatshops or cottage workrooms where all members of the family make component parts for big urban capitalist factories, necessarily at well below Brazil's present legislated minimum wages.

An alternative system is communist China's system of village Keynesianism,

by creation of a secondary local currency called the work point, and by village infant industry protectionism. The commune's old women and some children sit making sandals, and are paid in work points; the sandals are then sold in the commune shops for work points, while the better quality factory-made sandals can be bought there only with scarce national currency.

Since many areas in Brazil suffer alternately from flood and drought, in a country where small irrigation projects from the great rivers would be easy and are needed, I make no apology for reporting again what three of us from *The Economist* saw in a small (population 13,500) commune in Hunan in China at the end of 1977. The commune members had spent two winters on an irrigation scheme for 800 hectares of paddy fields that would have cost hundreds of thousands of dollars anywhere else. The workers were paid in work points, so the real cost of the project at that season of heavy underemployment equalled the productive work that was in consequence not done in the fields (which in winter was probably almost nil).

By the end of two winters the commune had a reservoir and irrigation channels that thenceforth kept its cultivatable areas almost free from the previous enormous variations due to drought or flood. It also had a dam generating electricity. So the next winter's task was the building of a paper mill, using the dam's hydroelectricity and the ricefield stubble. The paper mill is a marvellous alternation,

down the same production line, of machinery bought from Shanghai and machinery successfully copied by wild improvisation within the commune—(therefore the local peasants know how to repair it). In other poor countries like Brazil this reservoir, dam and mill would have cost over a million dollars. That sum would have had to be voted by parliament as a public work, and the construction would have been expensively undertaken by a city contractor who (even if not corrupt) would have installed mysterious city machinery that the local peasants could not operate or maintain. I tried to get several leading Brazilians interested in this sort of project, but the answer was "we are not Chinese".

Don't be a Chile

Brazil's third need is to get on top of inflation and to abolish bureaucratic controls. If the present inflation deteriorates to the point where the country becomes a forced client of the International Monetary Fund, the IMF will certainly demand an end to the cheap loans (which would help Brazil) but might also demand a sharper squeeze.

If a squeeze was imposed in Brazil at present, with the Sao Paulo trade unions thinking they are about to celebrate an opening to populism, the consequences could be explosive. The need is for concerted (but not too difficult) thought on how Brazil can get back to its miracle without exploding. That requires a willingness to imbibe two recent Brazilian history lessons.

Been here before?

Brazil's economy breaks down on the rare occasions when politicians' laws are enforced. Otherwise, it develops fast . . .

"This country," said the Brazilian economist, "industrialised through four blockades: the 1914-18 war, the great depression, the 1939-45 war and not least the 1974 oil shock". I partially disagree, but start from that.

The 1914-18 war was kind to Latin America, especially to Argentina which by 1928 had more cars per head than Britain or Sweden; but Argentina since 1928 (like Britain since 1948) has crashed into oblivion by subsequently picking the wrong economic policies whenever a choice lay to hand. The post-1929 depression was desperate for Latin America, especially for Brazil which, however, stumbled during the 1930s into probably the right Keynesian policies by choosing self-contradictory initiatives that triumphantly cancelled each other out.

Between 1929 and 1931 the price of coffee (which at that time provided three

quarters of Brazil's export earnings) fell by two thirds, and made devaluation of the cruzeiro inevitable. The depression also happened to coincide with a Brazilian revolution, which was not an unusual event, but in the post-revolutionary situation placation of the powerful coffee interests was important. The government bought up huge unsaleable stocks of coffee and destroyed them, in a policy that was reviled round the world but proved to have an odd logic. With imports made expensive by the devaluations, and with internal money supply inflated, new domestic manufactures for the home market suddenly became profitable. Brazil therefore bounced through the depression years out of its feudal system into a sort of helter-skelter industrialisation based on import substitution by mistake.

Immediately after Hitler's war—in

Table 2—The populist years

	Real gdp growth %	General price index %
1948	+ 7½	+ 8
1949	+ 6½	+12
1950	+ 6½	+12½
Vargas		
1951	+ 6	+12
1952	+ 9	+13
1953	+ 2½	+21
1954	+10	+25½
Interregnum		
1955	+ 7	+12½
Kubitschek		
1956	+ 3	+24½
1957	+ 8	+ 7
1958	+ 7½	+24
1959	+ 5½	+39½
1960	+10	+30½
Goulart		
1961	+ 5	+51
1963	+ 1½	+81
1964	+ 3	+92

which all of South America accumulated large stocks of foreign exchange, but at the price of not importing machinery and of seeing its capital equipment decay—Brazil for a while followed precisely the opposite policy to the 1930s; but paradoxically achieved precisely the same results.

Populism, 1945-60

This time it attempted for a brief period to keep the cruzeiro overvalued instead of devalued. This made imports very cheap, so that it quickly ran through its war accumulated stocks of foreign exchange, and had to resort to import controls; behind the zereba of these, industrialisation by import substitution went on as before. In 12 of the 14 years 1948-61, as table 2 shows, real gdp growth was above 5%, and the average annual growth was around the 7% which doubles real gdp every 10 years.

This successful response to artificial demand shows that Brazil has long been a developable country, and it might seem surprising (see table 2) that inflation in 1948-58 never went over 25½% a year (even though this still multiplied the cost of living 20 times in the first 15 postwar years). The surprise turns to astonishment when one reads how the large annual rise in production in these years was overconsumed.

Under the populist presidencies of Getulio Vargas (1930-45 and then 1951-54) and Juscelino Kubitschek (1956-61) laws were passed guaranteeing to Brazilian workers minimum wages, job security and fringe benefits which the country clearly could not afford.

The reason why a crash was avoided until 1961 lay in the Brazilian institution of the "jeito", under which Brazilian governments have long informally ar-



Printing laws like cruzeiros

ranged that their own laws should not be obeyed.

Give me a jeito

"Under this institutional bypass of the legal system," to quote *seriatim* from the jeito's ablest American chronicler, Professor Keith Rosenn, "eg, a few essential parts are removed from an illegally imported car, which is reported to the authorities as contraband; when the car is sold at public auction, as required by law, the smuggler, who is the only one with the missing parts, is the only bidder. . . . Eg, a labour inspector condones the failure of a firm in an area of high unemployment to pay the official minimum wage on the theory that strict enforcement would likely throw many employees out of work. . . . Both Chile and Brazil tried to fight inflation by freezing food prices. Chilean bureaucrats struggled valiantly to enforce these price controls, thereby stagnating the food supply. . . . Brazilian bureaucrats characteristically permitted the jeito to operate. . . . The net effect of the jeito in practice is frequently to push the government into assuming a more laissez faire position than it is ideologically disposed to assume."

The old Vargas labour laws gave virtually complete security of tenure to any worker who stayed with a firm for more than 10 years. Since this meant that after their tenth anniversary many workers would draw a salary but rarely turn up for work, firms sacked most of their workers in their ninth year, but by a mutual jeito sometimes kindly arranged with another firm that "your and my ninth year employees will be swapped". The usury

laws, which were meant to penalise banks, led to a vast expansion of luxury bank branches. Thanks to the jeito, it became profitable to gather in deposits at below the usury rate, and then lend at bogusly-announced interest rates (with lots of redeposit requirements) through layers of intermediaries that were really the bank itself.

To this day nearly two pages in the yellow pages of the Sao Paulo telephone book list the entirely legal profession of "despachante"—an expeditor who, for a fee, jogs the bureaucracy so as to get the import licence, driving licence or other permission you want. Unsurprisingly, many despachantes are bureaucrats' relatives. This is another example of how controls in Brazil (especially when introduced nominally to protect the poor) are the biggest curse for the poor. To quote Mr Rosenn again, Brazilians complain that "officials create difficulties in order to sell facilities" and that:

"The cycle can be vicious indeed. A person whose papers are not in order has great difficulty securing employment, but he may not be able to secure the necessary documents without the aid of a despachante, whose services he cannot afford. The small entrepreneur may be thwarted from opening his own business because he has insufficient capital to pay for the expenses of legalising the business. The system heavily discriminates against the poor, who are forced to wait patiently in the long lines in front of the windows of governmental departments."

Further upmarket, business firms now find it necessary to employ expensive "consultants", not just despachantes, to expedite their permissions to raise prices; the consultants are often retired price-controllers.

There are two circumstances when the jeito, and therefore the economy, breaks down. First, when inflation goes above a certain level, so that "speed money" paid by firms to bureaucrats' consultants—to get quicker permission to raise selling prices or to buy something before its price trebles—becomes for each firm a matter of life and death. There are many

who ascribe the 1961-64 collapse to the acceleration of inflation after 1958 (see table 2 on preceding page), which is worrying because of the similar growth of inflation in the Geisel years after 1975 (see table 4 on next page). This year price-controllers are finding it profitable to retire into becoming consultants more quickly than ever.

Secondly, the bigger breakdown occurs if a left-wing government arrives in power which actually tries to put its controls and pro-worker legislation into effect. This last happened in Brazil when vice-president Jango Goulart took over (because the elected president above him had a nervous breakdown) in 1961.

The disastrous Goulart, 1961-64

President Goulart's personal economic policy consisted largely of trying to distribute wage increases to existing industrial workers at the expense of profits (especially foreign companies' profits) where these could be milked. He inherited (see table 2) a real gdp growth rate of still 10% in 1960 but inflation above 30%. By the time he was deposed the annual rate of inflation in January-March, 1964, was near to 150%, and real growth was below nought with unemployment soaring.

He announced he would bring in revolutionary land reforms, and began appealing to mass meetings of workers; some people, at least, honestly believed that he might start to arm them. The Marxist activists, almost unable to believe their good luck, stepped up their paramilitary activities. In the country districts, the brigand bands acquired machine-guns. Execution lists of people with any money (including foreigners) were drawn up. By now the naturally terrified middle classes and some fairly populist governors of the big states were urging the army to act. In the spring of 1964, the army did, and the unwilling chief of staff, General Castello Branco, was proclaimed head of state. He brought in a technocrats' government.

When Campos sowed and Delfim reaped

Who was then the miracle's hero?

At this stage I must eat some humble pie. My last previous visit to Brazil was in 1965 when Roberto Campos (now Brazilian ambassador to London) was overlord of the economy in the first year after Goulart. I said then that he was imposing Latin America's most intelligent deflation to date. But I also made it fairly clear

that I thought the squeeze would throw a lot of Brazilians into further underemployment and would not work.

It later became the conventional wisdom that this happened, and I was greeted by some elephant-memory people this time who said how right I was. There is thus an obligation to say that I now think

I was quite wrong.

The Campos squeeze of 1964-66 was one of the most triumphant macroeconomic policies of the past 50 years.

All the odds were against success. In 1965 any Brazilian who could acquire any savings rushed illegally to get them out into dollars; it was weird to return in 1979 to find that one of Minister Simonsen's most controversial but sensible 1979 policies (see next article) is designed to stop too many dollars coming in.

In 1965 over half of Brazil's export earnings still came from coffee which was then plainly in process of collapse. Between 1951 and 1963 Brazilian coffee production had doubled but Brazilian coffee exports had stood still; the increased production—bought at a huge support price by the government—had gone into expensive government store. Because of the Goulart policy of wild wage increases to all the most restrictive workers (such as Brazilian dockers), it cost \$30 to load a ton of cocoa in Brazilian ports in 1963 compared with \$2 a ton in African ports.

The other Goulart chickens were coming home to Mr Campos's roost. Most income taxes were paid well in arrears, and after two years of Goulart inflation the new government was drawing in revenue deteriorated two thirds in value while its expenditure was met at today's costs. The military rulers' first contribution to disinflation was to double the armed forces' pay. Money supply in both 1964 and 1965 was rising at 75-85% a year. The balance sheets of all Brazilian firms were in an impossible mess. It seemed that a squeeze would drive many of them bankrupt, and that better-heeled multinationals would gobble some of them up.

To all this Mr Campos provided the brilliant answer of indexation. This immediately persuaded people to pay last year's taxes quickly, because tax payments delayed until tomorrow would under indexation cost more. It allowed the marketing of a government bond that would rise in value in line with prices or

Table 4. The Geisel years

	Real gdp growth %	General price index %	Money supply %
1974	+10	+34½	+34
1975	+ 5½	+29½	+43
1976	+ 9	+46	+37
1977	+ 5	+39	+38
1978	+ 6	+41	+42
Figuelredo			
1979	+ 5(?)	+49(?)	?

the dollar, whichever rose most. This came to be seen as a better investment for Brazilians than the dollar itself, and so there was now a government bond that could actually be sold. With the aid of it the growth in money supply was brought down from 76% in 1965 to 16% in 1966. But indexation allowed businesses to indulge in inflation accounting, so that they were no longer dunned for tax on inventory appreciation profits that in real terms did not exist.

There were still some bankruptcies, but only of firms that it was progressive to allow to go bust. Public utilities were told to raise their prices to a level which made profits. With the re-investment of these profits they began to produce telephone services, postal services and electricity supply that actually worked. Under Goulart, the letters announcing government or business orders did not reach their destinations because postmen pinched the stamps. A proper devaluation of the cruzeiro made it profitable for Brazilian manufactured exports to go out, and for American and European investment to come on in.

Then in 1967 the first military president came to the end of what was supposed to have been President Quadros's six-year term from 1961. He was replaced by a righter-wing military president, who in accordance with Brazilian tradition brought in a new economic team—who moved a little to the protectionist left.

From Campos to Delfim to Geisel

While Mr Campos (at planning) had been more influential than his finance minister, the new finance minister Mr Antonio Delfim Netto was more influential than

the planning minister (a jovial but nationalist businessman Mr Helio Beltrao). The new team made relaxations in fiscal policy with a brief tax holiday for business (probably wise), in wages policy to allow real wages to advance with productivity (certainly expedient), re-expanded the growth in money supply (from 16% growth in 1966 to 42-43% in each of 1967 and 1968, clearly too much), and introduced a trotting peg exchange rate system (which in 1979 is a galloping peg, with small devaluations in the cruzeiro every two or three weeks).

The Delfim Netto-Beltrao team also tightened price controls, and started to subsidise interest rates for Brazilian business (which had soared from huge negative real interest rates in 1964 to high positive real rates in 1967). By these two measures they initiated big worries for the future.

Mr Delfim Netto's years at the finance ministry coincided with the years of fastest growth. He harvested flexibly where Mr Campos had sown, enjoying during his years a miracle-making average annual increase of 52% in manufactured exports. He was a more political economist than Mr Campos. The two different fig-



Delfim was more political

Table 3. Campos and Delfim Netto years

	Real gdp growth %	General price index %	Money supply %
Campos			
1964	+ 3	+92	+84
1965	+ 2½	+57	+76
1966	+ 5	+38	+16
Delfim Netto			
1967	+ 5	+28	+43
1968	+ 8½	+24	+42
1969	+ 9	+21	+33
1970	+ 9½	+20	+27
1971	+11½	+20	+31
1972	+10½	+15½	+38
1973	+14	+15½ (+27*)	+47
1974	+10	+34½	+34

*See text for explanation

ures for 1973 price rises in table 3 reflect the fact that he was then keeping the price index artificially low, by tying it to the formally-controlled prices of particular goods which were not in fact anywhere available at these prices. But it was after he left that the rush to state control impossibly accelerated.

This was strange because his successor as finance minister, Mr Mario Simonsen, was a more prominent, more internationalist and more liberal economist than he. The explanation is that after 1974 President Geisel was meddling in economic policy to a much greater degree. Mr Simonsen thought this was because the planning minister, Mr Reis Velloso, had (from the tradition of the office in Ro-

berto Campos's day) a desk in the presidential palace, while Mr Simonsen sometimes had to wait a fortnight before President Geisel would listen to him.

Since Mr Simonsen feels strongly (and rightly) that a serious fight against inflation must now begin, he demanded and got the planning minister's portfolio in the new Figueiredo government. Mr Simonsen now sits at his special desk in the presidential building every morning, planning how to deflate.

Awkwardly, President Figueiredo is often out horseriding in the mornings, and Mr Delfim Netto—hero of the miracle years—is back in the big spending ministry of agriculture, by all accounts planning something else.

Tightrope to democracy

Best guesses about where Brazil may go under its new 1979-85 government—politically, socially, technologically, economically

"The Brazilian constitution", says that Hudson report, "is not fixed, and the military operates as a continuing constitutional convention. Laws exist for almost everything in Brazil, and they are changed quite frequently". There is now again an argument among the military about which laws to change and which parts of the temporary constitution to refiddle.

President Geisel and the new President Figueiredo are democracy-leaning officers who want to get the military out of the direct business of government, provided something too populist does not take their place. Most of the rest of the army command (who feel they were not properly consulted when Geisel picked Figueiredo as his successor) have a more conservative view of what "insupportably populist" means, and they might mount a coup against Figueiredo if the populist rot goes too far.

But the sort of rot sometimes forecast for Brazil in Bloomsbury cocktail parties ("it's going to be an Iran, with Catholic bishops as its ayatollahs") happily does not find credence in Sao Paulo, either among those who would be murdered if this happened or among those (often sitting cheerily at the same dinner table) whose dialectic requires them to pretend they would be delighted if it did.

As I had visited Iran at the height of the Shah's power, and had thought it probably would blow up, I pondered why Brazil really does feel less tense than old Teheran, and I ended by convincing at least myself of the two following paragraphs of possibly convoluted rubbish.

In Iran the educated children of the upper class were in revolt against both their autocratic parents and autocratic

ruler, while the Shah also generously sent tens of thousands of the sons of his lower middle class to acquire inferiority complexes and student revolutionary bitterness in Europe's and America's polytechnics. By contrast, the ablest educated children of Brazil's upper class are taking over their fathers' or uncles' or school-friends' fathers' businesses at an incredibly early age. Indeed, they now form the brighter part of Brazil's business class—and know that (unlike Iran's rent collectors from oil) fuddy-duddiness can alter the fortunes of their families' businesses profoundly. As in Japan, it is therefore the dreamier brothers who go off to become perpetual university students and then left-wing professors.

Meanwhile, an educated lower middle class in Brazil does not exist, which means unfortunately that the masses vote for the most ignorant populists whenever allowed to. But I could find nobody plotting revolution in Brazil who felt that he would be very good at it. "In Brazil" said the great Pele, in a phrase popular in the 1960s, "we do everything badly except *o carnaval, o futebol y o amor*". The young businessmen, who know that they do business very well, rightly say that this self-disparagement now applies only to revolutionaries, bureaucrats and politicians. But they and some in the army dangerously feel it is the more liberal military politicians like President Figueiredo (about whom they tell unending Polish jokes) who are most likely to go bumbling.

In search of an undemocratic civilian

The Geisel-Figueiredo opening to democracy has been based on an undemocratic system of one-man-one-vote for the im-



Figueiredo in (?) the saddle

portant offices like national president and state governors (undemocratic because the one man with a vote is the existing incumbent) and a more democratic system of 50m-Brazilian-adults-30m-partly-unrigged-votes for the unimportant talking shops like the national congress and the state parliaments (which are consequently captured by the most left-wing party that is allowed to stand).

There is an obeyed (and astonishingly self-effacing) rule that the president and each state governor retires at the end of his term, but usually he has the main say in picking his successor (by rigging an electoral college after discussion with appropriate interests). Last year the system broke down hilariously and unimportantly in one state when a gubernatorial candidate bought an electoral college that had been rigged for somebody else, but the real drama was that the army was not properly consulted about the nomination of President Figueiredo.

Now President Figueiredo has made it clear that he wants his successor in 1985 to be an undemocratically-picked civilian with an appropriately-rigged electoral college, instead of the sixth successive military ditto. Only the technocrats think that the post-1985 president may be a technocrat (with Mr Delfim Netto the most ambitious, but Mr Murilo Macedo, see below, emerging as the candidate of the more relaxed). Everybody else assumes that President Figueiredo will pick a government-supporting governor of one of the big states.

President Figueiredo would like the elected congress to have some say in who this civilian president after 1985 should be, and in 1979-85 he might try to shift the choice of state governors from the rigged electoral college system to something more democratic. Some of his ad-

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visers say that Arena (the party supporting the government) might not lose so heavily to the MDB (the permitted opposition party which is slightly left, more nationalist and more stupid than Arena) if he employs cunning: let permission to stand be granted to other and much leftier parties which would split the MDB's vote. The horrified army hardliners say that if more left-wing parties are allowed to stand, then the mass vote will go to whichever party is looniest and leftist. I suspect they may be right.

But the real danger for the Figueiredo regime will be if the trade unions start riots, while the real misery for the very poor will be if the regime succeeds in getting in cahoots with the trade unions.

Opening to Lula

During his last months in office President Geisel liberally renounced the main anti-libertarian instruments of his power, which left his successor right up the creek on inauguration day: including facing a strike of Sao Paulo autoworkers which was illegal (called within a contract's term) but was plainly being allowed. Loudly, the church and all other "progressive" institutions shouted support for the hitherto-unknown 33-year-old strike leader Mr Luis Ignacio da Silva (called Lula, a beatification by abbreviated nickname usually bestowed only on folk heroes like footballers).

President Figueiredo's interesting choice as labour minister was Mr Murilo Macedo, who was a technocrat (former provincial minister of finance), but a man of the people (sold sweets in a cinema as

a boy, one of the underemployed), and billed by the president as a "man of dialogue". As I discovered from a relaxed evening of conversation with him, he also bubbles with a sense of humour, which in interclass relations in Brazil is fortunately still important.

Since Mr Macedo could not legally meet illegal strikers in his ministry, he used the jeito to have a private meeting in his house. After what Downing Street would call a long beer-and-sandwiches session (with the added Brazilian advantage that the catering broke down), Mr Macedo had charmed the hind legs off Lula, and got an agreement, which Lula promptly repudiated at a "strike meeting" of 60,000 people in a football stadium (how many of them had ever been auto workers?). Mr Macedo then used the law against mass meetings to declare Lula no longer an authorised negotiating agent, but went on negotiating with Lula's lawyers who were reporting straight back to him.

Interestingly, at this stage the strike began to fray. Less than one fifth of Brazil's workers belong to unions, so there are potential blacklegs around. Even more interestingly, Mr Macedo moved to reinstate both Lula and something like the original agreement, on the grounds that "total defeat of the workers would have implied total defeat of the dialogue". Other scattered strikes have been settled in the same way.

Some of the most decent men around President Figueiredo are cockahoop. "In the opening to democracy on which the president is determined", says one, "the

important change will be with the trade unions. Wage policy is going to be bargained".

The army hardliners see all this as a surrender by government to a rent-a-mob of 60,000 shouting subversives gathered during an illegal strike in a football stadium, under a Lula whose occasional political utterances are dottily syndicalist, with some Cuban (and allegedly and mysteriously East German) money attached. They fear this will encourage more violent strikes and then riots next year.

What nobody sees is that, even if the hardliners are fortunately wrong, a *modus vivendi* between the government and the fifth of workers who belong to trade unions would still be an alliance only of the richest quarter of the country. It would not help the underemployed. It is the technocrats advocating the opening to Lula who are most liable to say:

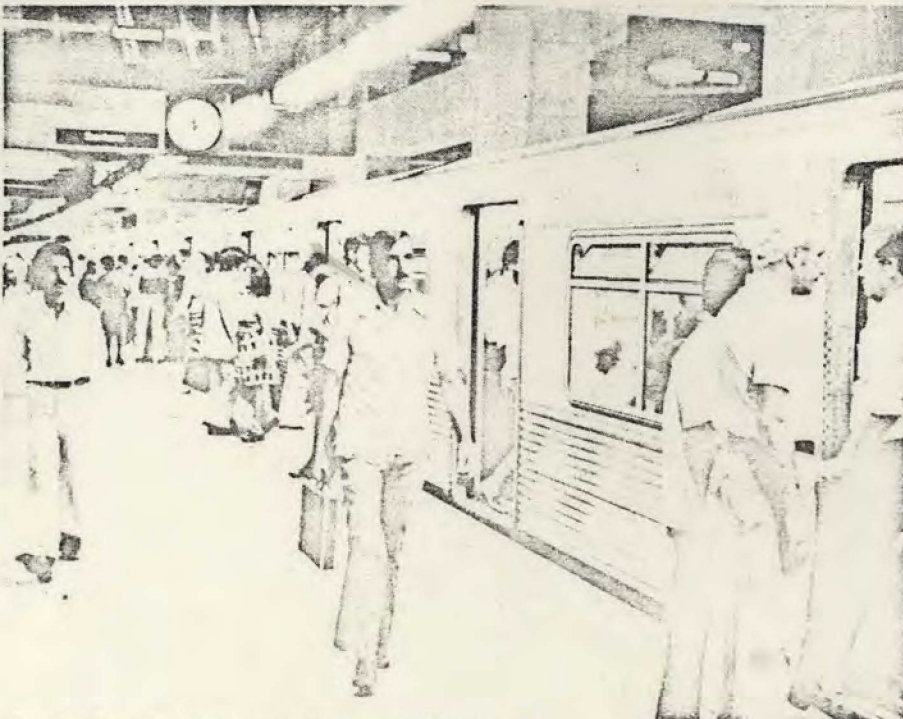
We already have overfull employment, at least of people who can be used. You forget the differentiation in quality of workers here. Over 15% of the existing labour force is still illiterate, ranging from 5% in Sao Paulo to 40% in the north east. You are not going to expand Brazil by diluting north-easterners into the efficient industries we have built up, and fortunately the unions will reject such entry. Annual growth at 10% brought us to today's inflation. Only 4-5% annual growth is supportable. Luckily, that will still allow a good rise in gnp per head, because we are just about to discover that population is not growing at the 2.7% a year you people report. The birth rate dropped sharply a few years ago, but demographers have not yet noticed this . . .

I agree with the point about birth rates, but I fear the rest of this strategy could blow the underemployed country up.

Third-world charade

There is a leftward shift in Brazilian foreign policy. The two neighbours with whom Brazil most needs to make friends are the United States and Argentina, but relations are deteriorating with both. Brazil's military rulers are having a fancy dress ball portraying Brazil as a third-world country that is neighbour to Africa's many military rulers. There is a better economic argument for this than I had supposed.

"I agree that we have made our industries too capital-intensive", says a Brazilian economist, "but this has set up the physical structure for producing exports to the third world, at a time when your rich countries are going to turn protectionist against us Nics (newly industrialising countries)". His examples were that Brazilian civil engineering firms have built roads in Mauritania, and are now taking Mauritanian workers under Brazilian engineers for construction projects in



On Sao Paulo's subway—the commuting classes



Non-dilutable north-easterners?

Iraq; that Brazilian buses exported to Nigeria with large windows are easier tropical buses to maintain than the air-conditioned monsters the Americans and Europeans tried to sell; that Brazil makes an 18-passenger turboprop airliner that will win a growing market in countries with no roads and small runways. Importantly, the flirtation with the third world is not turning Brazil silly in its treatment of multinationals.

Multinational business

Brazil has never been quite as wide open for multinationals as both its advertisements and angry nationalists pretend. One of the ablest foreign businessmen in Rio talks of a "frustration curve" when starting an investment in Brazil.

"First, the enthusiasm of a new project. Then dismay, delay and seemingly endless opposition. When you are about ready to give up, things suddenly fall into place and start happening at an amazing pace. In the end the project gets done in no more time than it would have taken in Europe".

Once inside the country, large profits can be made. One reason the technocrats impede the entry of some multinationals is that "they do not want overcapacity to be installed. Hence they virtually guarantee quick high loading of plants which means a profitable enterprise". But the preferred mechanism for new entrants will increasingly be joint ventures. Tie yourself to Brazilian groups that know their way round the jeito.

Some people find discrimination against multinationals in Mr Simonsen's recent measures requiring parts of the proceeds of foreign loans to be held in idle non-interest-bearing balances for varying periods. In this, I support Mr Simonsen. While dollars could be bor-

rowed on Euromarkets at around 12% a year, the addition of an allowance for galloping peg cruzeiro devaluation (at say 35% a year) still left it profitable to borrow abroad and relend locally.

It is rather impressive that Brazil can afford to check the inflow of foreign money at this moment of oil price rises and renewed energy crisis. But energy policy brings us back to the typical Brazil—a country too capital intensive, with stumbling state companies, but with extraordinary technical achievements driving up through the bud.

Energy problems

Brazil has a surplus of total electricity supply over demand which will last well into the 1980s, but also brownouts because of inefficient state distribution. More than 70% of its electricity comes from hydro, much of it from too big dams. The country is now adding to its electricity surplus by building nuclear power stations of German design, commercially unproven, on insecure foundations and with plenty of bugs. President Carter thought this would be safer than letting Brazil buy a complete package through Westinghouse, lest somebody some day blame America for the coming emergence of a Brazilian H-bomb.

Mr Cesar Cals, the sensible sounding new minister of energy, has called Itaipu (the world's largest dam), the Tucuru dam and the Brazilian-German nuclear accord "a lot of money for such a small solution". He has talked encouragingly of building dozens of mini-hydroelectric plants in the north-east and north.

Since there are 9m vehicles on Brazil's roads, and Brazil's own vehicle production is now more than 1m a year, the energy problem for Brazil means oil. Brazil's oil and oil-related imports in the year ahead may top \$6 billion, out of total imports of around \$15 billion, pushing the country (which has \$43 billion of foreign debt) back into large deficit again.

Brazil has used the proper system to curb oil demand by making its petrol at the pump expensive, with a consequent huge switch to smaller (under 2000 cc) cars: they were 75% of home sales in 1976 and are 97% today. But it has not dangled price incentives to get bigger production of domestic oil.

Petrobras, the nationalised oil company, is sufficiently flush with funds to build itself huge office headquarters, to have lots of subsidiaries (including some ridiculous ones), and to have little corporate incentive to dirty its hands by anything so tiresome as searching for and digging new oil. The commercial oil companies find that Brazil's price controls, and the presence of Petrobras, make a

campaign for expensive exploration pretty unprofitable. All Brazil's oil production is far behind schedule.

Brazil's technical achievement has been in gasohol. The world's energy comes from the sun, which takes about 15m years to convert itself into oil, about six years to convert itself into methanol via eucalyptus or other trees, and about six months to convert itself into alcohol via sugar, manioc and other crops.

Brazil's experience suggests that conversion of cars to use gasohol is easier than pessimists thought. A mixture of up to 20% alcohol in petrol need not require changes in the car's engine. There are service stations in Brazil which already mix 16% alcohol into the petrol at sugar cane harvest time. The ministry of industry says that in a few years time 6m of Brazil's 9m vehicles will be running on 20% alcohol mixture. I doubt this.

Above the 20% mixture, car engines have to be adapted, but \$400 per car will probably buy an adaptation right over to using 100% alcohol. Some Brazilian police cars already run on pure alcohol. Alcohol-driven cars are to be exempt from the latest batch of hire purchase controls.

The Brazilian government says that alcohol becomes competitive with petrol in cars when crude oil's price passes \$25 a barrel; there is some cheating here, because these calculations are made at the subsidised interest rates which make all favoured products in Brazil look cheaper than they are. A better calculation may be that plant to produce methanol from eucalyptus trees (possibly in the end the best bet) might have a capital cost of around \$40,000 per production capacity of one barrel a day of oil equivalent; by the same measure the capital costs of some North Sea oil have been around \$12,000 per production capacity of one barrel a day.

The temptation in Brazil is to seek alcohol from sugar cane: a plantation crop in recession, with powerful producer interests using cheap labour (which some day will have to be paid much more). Since the social need is to encourage peasant crops, there may be a better case for manioc or other crops (including some that grow wild). Methods of distilling alcohol have improved little in efficiency since Bacchus; a new technology of distillation could reduce alcohol prices enormously, but perhaps breed a world of drunks. Undrinkable methanol, from eucalyptus trees, might be wiser.

Brazil's advances in gasohol show that it has broken through to become one of the liveliest of young technological countries, and that it can flexibly use the price system to put new technologies into effect. The next question is whether the



A recession could be explosive

whole price system in Brazil can be saved from breaking down.

The new economic team

The early test of the new government will be whether it can roll back inflation. Minister of Planning Simonsen is aiming for new measures to cut demand practically every other month, and is in some danger of bringing a recession.

The new minister of finance, Mr Karlos Rischbieter, cheered me up. He is a clear-sighted former banker who wants to unify interest rates, cut fiscal incentives for over-investment, use fiscal policy to redistribute income, reduce the bureaucracy and reduce price controls (except on state monopolies).

Mr Rischbieter regards the new minister of industry and commerce, Mr Camillo Penna, as a doughty ally in the fight for good sense. I must have met Mr Camillo Penna on an interventionist day. His main theme to me was that Brazilian industry produces too many types of each good; he instanced a Brazilian shoe manufacturer who makes 200 different types of men's shoes, the country's 14 different sizes of television screen (where three would be more economical), etc. It is true that unequal incomes in Brazil have caused Brazilian industry to lose some of the economies of mass production, in a too elitist and custom-built market. But it would be a mistake for bureaucrats to pore over 200 types of shoes, and say which 194 types some particular manufacturer should not make.

Still, this new team of economic ministers is more market-oriented than the old, less interested in grandiloquence, more interested in people. There will be

fewer friends at this president's court for empire-builders. Unless an empire is built out of the one department of government which has always previously had an unknown as minister, and now suddenly has a dynamo.

Agricultural Delfim

I did not get an interview at the ministry of agriculture with Mr Delfim Netto. One was finally arranged for 0730 hours, but then a telephone call said that by that time of morning he had already turned his ferocious energy to something else.

He is peppering his colleagues with detailed new proposals, in a job which proffers him an easy temptation to do triumphantly badly and also a difficult opportunity to do historically well.

It will be fairly simple to secure huge increases in agricultural production in Brazil in 1980 and the immediate succeeding years. The weather catastrophes of 1978 and 1979 cannot easily all be repeated (flood, drought and frost). The elasticity of supply of particular commodities in Brazil's capital-intensive agriculture is high if price increases are fed through; that is how Brazil leapt almost overnight into being a major soya bean producer after the international soya crisis.

If Mr Delfim Netto is mainly intent on the percentage increases in farm output

that he can claim by 1984, then the whole shakily-based index of agricultural production lies to his hand. For populist and international acclaim add in measures of land reform (which in Brazil mean nothing) and a higher guaranteed wage for farm labourers (which will get some of these unfortunates sacked in the few places where it is applied)?

If the minister is playing for the rescue of his people, he will instead abolish the cheap agricultural loans which the richer squires are using to increase urban money supply and inflation; pass through to producers price increases in the things that the domestic market most needs and those that exporters can sell (with a cushion of guaranteed prices indexed-linked to expected inflation ahead); infuriate the most powerful interests in the countryside by breaking distribution monopolies, reducing squirearchical privileges and stopping slave labour. Above all, by some methods borrowed either from Japan's free-market system for village industries or from Chinese communes' village Keynesianism, he should start to tackle Brazil's most agonising and dangerous problem of underemployment.

If this remarkable man can do this, he will again command a reputation as a miracle-maker. And, this time, he would also deserve it.



A nice place for a miracle

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- THE WALL STREET JOURNAL
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- THE WASHINGTON POST
- THE JOURNAL OF COMMERCE
- FINANCIAL TIMES

BRAZIL

The euphoria of Brazil's economic miracle has given way to warnings of tough times ahead. The country is at a watershed and events are moving fast as it tries to find a stable system free of authoritarian rule and to cope with social strains. Problems of the economy have to be tackled, including fast rising oil imports and a foreign debt of about \$50bn.

Politics again a primary issue

By Hugh O'Shaughnessy
Latin America Correspondent

EVENTS IN the world of politics and economics in Brazil are moving with the speed of an express train and at times the visitor has to rub his eyes to make sure that he is in that same Brazil which seemed so ordered and disciplined only a decade ago.

The events of the past few weeks have included a strike by the bank employees of Sao Paulo during which a mob rampaged through the city's financial centre, rioting and breaking every pane of plate glass they could reach; and the resurrection of the National Union of Students, one of the bodies which was most harshly curbed after the military take-over of 1964.

Two veteran political leaders, Sr. Leonel Brizola and Sr. Miguel Arraes, who went in fear of their lives in 1964 and who have been living in exile for more than a decade, returned to Brazil and immediately became the centre of a nationwide politi-

cal debate. Belo Horizonte, capital of the rapidly industrialising state of Minas Gerais, was virtually under siege for a few days as the Government battled to halt labour stoppages.

The principal focus of attention for much of the increasingly outspoken Press has been the life and thought of Sr. Luiz Inacio da Silva ("Lula"), the charismatic leader of Sao Paulo's metalworkers. Lula had no difficulty in persuading his followers to down tools and demand better wages and conditions, halting production in the country's industrial heartland.

As a descant to the orchestrated activities of opposition political leaders and trade unionists, the Catholic Church has maintained a chant of criticism of the country's social structures.

On the economic front the euphoria which characterised Government pronouncements during the years earlier in the decade when GNP was growing at an annual rate of 10 per cent has given way to warnings of tough times ahead.

The soldier who took over the presidency in March no longer wishes to be known as General-do-Exercito Joao Baptista de Oliveira Figueiredo, but rather "Presidente Joao."

Having taken over as a hard-liner who wore dark glasses and appeared disposed to take the toughest measures against his opponents, he now appears to be a man who is able to keep up with the political changes in the country thanks only to the greatest nimbleness of mind.

Brazil is clearly at a watershed as the country's 120m inhabitants, tired now of a mode of development which appeared

to give too much emphasis to accumulation of resources and too little to their more equitable distribution, seek to fashion a new political and economic system for themselves.

There is no doubt that politics today have reasserted their primacy over any discussion of economic expansion in Brazil. The system created by the military after it closed down the political parties which existed at the time of the coup d'etat of 1964 no longer serves the purpose for which it was set up.

Impatient

The arrangement under which a pro-government party, ARENA, was to rubber-stamp the decisions arrived at by the military and its civilian advisers in the Cabinet while a "loyal opposition" — the MDB or Brazilian Democratic Movement — was to give the illusion of a democracy on a British or U.S. model, has crumbled.

Benefiting from the injection of protest votes from an electorate impatient for change, the MDB has ceased to be a puppet and, like Pinocchio, has taken on a life of its own. The quandary for the government now is how to control this new creature, which some of the military regard as more of a Frankenstein than a Pinocchio.

The dilemma facing many of the critics of the military, who until recently were unhappy with such an artificial creation as the MDB, is whether to swallow their words and use the party to gain a grip on the reins of government or attempt to establish new parties which will inevitably take longer to group together for a determined

assault on the positions of power.

Opinions are divided. Lula is planning to launch a Workers' Party which would reflect the growing power of organised labour in Sao Paulo and other cities.

Leonel Brizola returned from exile with ideas of recreating the PTB or Brazilian Labour Party, the populist vehicle of President Getulio Vargas through which he dominated politics in the 1940s, while Miguel Arraes feels it is better to husband the force of the opposition in the existing structure of the MDB. Others are planning to create an uncompromisingly named Socialist Party.

For the moment nothing in politics is certain but the belief that change is round the corner.

What is making the political uncertainties of the moment all the more enigmatic is the fact that they are occurring at a time when Brazil's economic future is fraught with considerable difficulty.

The authorities are faced with a foreign debt which at the end of this year will amount to about \$50bn, the servicing of which is likely to consume up to two-thirds of the country's export earnings. Meanwhile, the bill for imported oil is rising by leaps and bounds and may perhaps touch \$7bn this year, or half the expected export earnings.

Forecasts for the outturn of the balance of payments are pessimistic. The trade deficit is expected to come to \$2.5bn — possibly more if the price of oil continues to rise rapidly and the growth in domestic oil consumption is not choked off fast.

At the same time, the rise in



interest rates is making a mockery of the fine margins over LIBOR that Brazil is paying on its foreign borrowings. With six-month LIBOR rates now around 14½ per cent the debts service burden is becoming increasingly heavy. It is expected that the current account deficit could be as much as \$9bn in the red by the end of the year.

Inflation rates, which in the early 1970s, the government had got down to nearly single figures, are rising inexorably. Inflation in August came to 5.8 per cent and in the year to August the consumer price increase totalled 51.9 per cent.

Food prices rose more steeply than the prices of any other staple at 9.1 per cent in one single month, a particularly hard blow to the already-discontented industrial workers.

For this situation to be squared Brazil must continue to attract foreign funds in the forms of loans and investments and must also continue to increase its exports rapidly.

Debt

The faster Brazil grows, the bigger the import bill will be and the faster the foreign debt will pile up. The Government will be very lucky if the inflation rate is kept under 70 per cent this year.

And Brazil cannot opt for zero growth and economic stagnation. As Sr. Ernani Galveas, president of the Central Bank, commented in London earlier this month, there must be enough growth to provide 1.4m new jobs every year for the growing population. Without these jobs the social strains in Brazil would rise alarmingly.

Yet can Brazil afford to

borrow more in order to finance this growth? Will lenders continue to put money into the country in the amounts it needs at a time when the political future is, as we have seen, increasingly problematical? The next two or three years will provide the answers to these questions, but meanwhile Prof. Antonio Delfim Neto, the Planning Minister and one of the principal architects of policy, shows no sign of wanting to slow the economy down.

In the year to mid-1979 manufacturing industry grew at the rate of 9.3 per cent, and Brazil is preparing to borrow a further \$1.2bn in a massive new syndicated loan.

The Government is gambling on the success of a strategy aimed at modernising the agricultural sector and making it very much more productive. If the strategy succeeds it could yield big dividends in the form of cheaper food for the discontented city dwellers, exportable surpluses to offset the crippling

oil bill, and a large number of those 1.4m new jobs.

But in order to raise the prosperity and productivity of the farm sector billions of dollars will have to be invested in farm machinery, new roads, railways and ports and in credits to farmers. It is unlikely to be as rapid a process as the government would wish and the imported items needed for a nationwide farm modernisation programme will certainly add to the problems of the balance of payments.

An agricultural revolution will have to put right decades of neglect of the farm sector and the sense of hopelessness that this neglect has engendered especially in the North-East of Brazil, the most backward region of the country, where nearly a quarter of the population lives.

If one particular agricultural idea succeeds, that of growing big new crops of sugar to convert into alcohol as a substitute for the petrol produced from

imported oil, the benefits could be particularly useful.

But the fact remains that the strategy is still a gamble and there are presidents of central banks in Latin America who are prepared to forecast that the gamble will fail as a result of the very severe strains it will put on Brazil's balance of payments. They prophesy that the dash for growth will be blunted and the country will have to live as best it can with a period of stagnation.

The understandable concentration of politicians, bankers and economists on the prospects for the next five years does, it must be said, obscure one fact and that is a very positive one; that Brazil, for all its problems, is a country whose agricultural, mineral and industrial potential is still a long way from being realised.

Whether this potential comes soon or is postponed for some years by the problems of the moment, Brazil's continued growth cannot be gainsaid.

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Relationship with U.S. cooler

WHEN Dr. Henry Kissinger was carrying all before him as Secretary of State in Washington he announced that the U.S. would henceforward have a "special relationship" — complete with periodic bilateral confabulations on matters of world concern — with Brazil. The authorities in Brasilia felt that at last the country's pre-eminent position in Latin America was being recognised formally by one of the great powers.

The fall of Dr. Kissinger and the appearance in the White House of a President whose concern with human rights are well known have blown away the idea of a special relationship like a puff of cloud on a summer day.

Not only has Mr. Carter taken a less permissive attitude than Mr. Ford did towards the military and its lack of attention to human rights but the U.S. has been alarmed at some of the practices followed by Brazilian exporters. The relationship has greatly cooled on the political level though Brazil's financial links with Washington and New York are still strong.

But it is difficult to believe that, even if Mr. Carter had not come upon the scene that Brazil's relations with Washington would have retained their primacy. In 1979 it is the energy problem that has become the principal focus of concern for Brazil in its dealings with the rest of the world.

As the scramble for oil proceeds pell-mell among importers, Brazil, whose oil import bill may this year reach \$7bn, is in the front rank. The search for easy access to oil was in great part responsible for

Brazil's decision to recognise the Agostinho Neto government in Angola before any other Western country and for the good relations with Luanda which exist today.

Angola and Nigeria are becoming important energy suppliers to Brazil and are helping to determine that relations with the apartheid regime in South Africa are being pushed farther and farther into the background. Pretoria's ideas for a

"South Atlantic Pact" are now openly ridiculed in Brasilia and there are hints at the Itamarati, Brazil's foreign office, that visa regulations for South African nationals wanting to visit Brazil are not going to get easier.

The energy question is also a determinant in Brazil's attitudes in the Middle East.

At the time of the overthrow of the Shah of Iran last year Brazil was among that country's largest customers for oil and the production cutback in the Iranian oilfields after his departure caused considerable nail-biting in Brasilia. But Brazil was not totally dependent on Iran and the good relations that Braspetro, the overseas exploration arm of the government-controlled oil company Petrobras, had built up with Iraq stood the Brazilians in good stead.

Brazil can count on supplies won as a byproduct of Braspetro's exploration activities in Iraq and now Iraq is one of Brazil's most important suppliers. Braspetro's activities in Egypt should also assure Brazil a growing line of supply from that country.

Brazil's dependence on Arab oil has not surprisingly had a part to play in its growing disenchantment with Israeli

attitudes. Brasilia, however, has preferred caution to rhetoric on the Palestinian issue, if only because of the well-entrenched group of friends of Israel who are particularly powerful in the communications media. The Jornal do Brasil and the Bloch group in Rio de Janeiro, publishers of the popular and glossy magazine Manchete, make no secret of their pro-Israel proclivities.

Despite this, however, Brazil has made it clear it stands behind UN Resolution 242 and wants action to safeguard the rights of the Palestinians.

Task

In Africa and the Middle East Brazilian diplomats are faced with the enormous task of trying to claw back some of Brazil's multi-billion dollar

expenditures by promoting exports. In Africa a start has been made in selling motor vehicles and intermediate technology items and, for instance, the Brazilian-made Volkswagen Beetle is already becoming familiar on Nigerian roads.

In the Middle East, however, the stiff competition of the whole world's exporters attempting to supply the region's tastes in highly-sophisticated goods and offering to construct large turnkey projects at knock-down prices have presented the Brazilians with headaches. "How can we compete with some countries of the Far East who draft in labourers in the shape of young men doing their military service? It's all very difficult," complained one senior diplomat.

The Brazilians are supplementing their export promotion campaign by trying to persuade Arab countries to make direct investments in Brazil, but there too the progress is slow.

Energy also dominates Brazil's relations with its closest neighbours in Latin America. Earlier this year Brazil concluded an agreement with Venezuela under which Venezuelans would supply increasing quantities of oil in return for Brazilian technology in the nuclear or other fields and there are those in both countries who think that the two economies are as complementary as any two neighbouring economies are ever likely to be.

It remains to be seen, however, just how operative this agreement in principle will be. Perhaps with an eye to getting easier supply routes for oil from Ecuador the Brazilians

have offered recently to aid that country's roadbuilding programme in the Amazon. Increasingly oil-rich Peru declined such an offer last year.

The most immediate energy initiative in South America is the joint-Brazilian-Paraguayan scheme, to cost \$11bn, which will harness the Parana River behind the Itaipu Dam. The

scheme, described elsewhere in this survey, becomes more technologically and diplomatically intricate as the date for its inauguration in 1983 approaches.

Few would envy the job of the Brazilian Foreign Office in trying to satisfy the demands of the increasingly capricious Paraguayan president, Gen. Alfredo Stroessner, or in trying to forecast the future of this massive undertaking once he is no longer ruler of Paraguay.

The Parana and its use for the production of hydro-electricity is another energy question which determines Brazilian relations with its largest neighbour, Argentina. The Argentines seeing Brazil, their traditional rival, taking the lead in so many questions in which Argentina sees its own prestige bound up, have been fighting a sniper's battle against Itaipu.

They have been seeking to get the Brazilians to reduce the head of water in the dam for the benefit of Argentina's own hydro-electric schemes downstream. The Argentines, one feels will forgive Brazil anything but its success.

In the last major sphere of foreign relations, those with Western Europe, the energy question is also somewhere at the centre of things. The signature three years ago of a multi-billion dollar sale of nuclear power stations to Brazil by Kraftwerk-Union of Germany, raised the hope in many European minds of a series of massive contracts with Brazil.

Brazil at the same time, it was thought, could become an important supplier of uranium for Western Europe. The cost of the power stations now appears to be too great for the Brazilians to manage and the scope of the sale is likely to be considerably reduced but with new uranium discoveries Brazil could become an increasingly important fuel supplier to Europe.

New finds this year have put estimated reserves of the metal as high as 123,000 tons, nearly four times the estimate only two years ago.

Hugh O'Shaughnessy

- THE NEW YORK TIMES
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- FINANCIAL TIMES (ENGLAND)

Trade dips into red

WHEN BRAZIL achieved a trade surplus of \$133m in 1977, it seemed that a four-year export drive had paid off and, thereafter, yearly surpluses could ease debt related pressures on the balance of payments.

By December 1978, however, there was little cause for optimism. The trade account was \$1bn in the red. Though exports had doubled to over \$12bn since 1974, and manufactured goods now accounted for over half of overseas sales, a healthy switch for a developing nation.

The main cause of the 1978 deficit was farming. By pumping too many incentives into large-scale, export-related businesses like soya, the Geisel Government, whose tenure ended last March, neglected small and medium-sized farms, essence of Brazil's agriculture, and weather disasters made matters worse.

Domestic staples went short and the State turned to imports —\$600m by the end of the year. Moreover, with only reasonable coffee and soya exports, important overseas revenue was lost. When the incoming government headed by Sr. Joao Figueiredo, began to shape policies in January, agriculture was given absolute priority to ensure—weather permitting—domestic supplies and exportable surpluses.

But accumulated effects of 1978 crop failures and hoarding or dumping by middlemen and producers trying to force up prices, left the new administration with no choice but to plan for \$1bn of foodstuff imports in 1979. It now appears that the final food imports bill could reach \$1.5bn.

Hopes

Initially, with prospects of 25 to 30 per cent growth in manufactured exports this year, there were hopes that the year-end trade deficit would be small or even non-existent, but two OPEC price increases dashed these hopes.

Even though the country is working on mass production of cane alcohol as a partial petrol substitute, Brazil, with 2.8 per cent annual population growth and 6 per cent annual economic growth fuelled on rapid industrialisation, will have to take daily imports of more than 1m barrels of crude oil.

By June, \$2.5bn at least were added to the imported oil bill, a year-end total of about \$7bn. This has driven estimated overall imports up to at least \$16bn while, whatever the effort to sell abroad, exports are unlikely to exceed \$12-\$14.5bn.

Trade figures show that in August the balance plunged \$1.2bn into the red. Oil imports for the month, \$660m, swallowed 37.5 per cent of all imports, compared with 32 per cent earlier in the year. Manufactured sales continued to improve, but oil and foodstuffs imports masked their healthy performance.

At the end of 1978, the gross foreign debt was just over \$42bn. According to the Treasury, which revealed the current figures only recently, it is now \$47bn, and should reach \$50bn at the end of the year.

As Sr Karlos Rischbieter, Finance Minister, pointed out on a recent European tour, of the \$42bn net debt, the State is responsible for only one third—or \$14bn.

Borrowing

Half the remaining \$28bn are owed by the Brazilian private sector, half by subsidiaries of multinational concerns (in this case, largely house to house loans).

Total foreign investment and reinvestment in Brazil is about \$14bn: that is the same sum as the multinationals' foreign debt. The authorities would prefer more capital investment and less borrowing. To encourage this, they have made private overseas borrowing less easy since April, with a compulsory freeze of 50 per cent of cruzeiro proceeds of private loans until further notice, and 50 per cent cut in income tax relief on interest and commissions on private foreign loans.

This has turned several foreign concerns to Brazilian banks for loans — in many cases, for the first time in the history of large-scale, foreign operations in Brazil. It is reported that several major concerns have raised equity, accepting a fact of life the government apparently intends to perpetrate.

Year-end investment figures will tell how successful the Figueiredo government has been in coaxing co-operation from concerns which officials repeatedly state are welcome as long as they wish to contribute to the country's development, rather than use Brazil as a passive host.

The trade debt ratio remains tense. While seeking to manage the debt efficiently the Administration is also bent on streamlining foreign trade with judicious choice of items and markets. It hopes to sustain real export growth of 25 per cent a year until, by 1984, exports rise to \$40bn in real terms. There are few hopes of importing less or of drastic, rapid reduction in borrowing so exports are seen as the saving grace.

To provide an efficient policy-making and legislative instrument, the government has resuscitated the somnolent foreign trade council, Concex.

Sr. Karlos Rischbieter, who presides over the new Concex, and Sr. Paulo Vellinho, the prominent private businessman appointed executive secretary, see foreign trade as the art of the possible, not as was the case in earlier governments, an activity that primed by lavish fiscal or financial incentives, will enjoy rapid spontaneous generation.

Meanwhile, Sr. Rischbieter is bent not only on squeezing state handouts but also the elephantine bureaucracy that grew up with them: 1,400 existing pieces of trade legislation. With "de-complication" Sr. Rischbieter hopes that businessmen can negotiate at speed, on inter- and their own merits, not the government's apron strings.

Concex will define trade policies and priorities in permanent consultation with the private sector, a new departure for Brazil—where, before, the government hand fed while its ears were largely closed to recommendations by competent private businessmen.

A great strength behind Brazil's manufactured goods, Sr. Vellinho feels, is the country's progress with local engineering and equipment know how, adapted to Southern Hemisphere conditions and a large unskilled labour market.

These circumstances prevail in many developing countries. Therefore, to Sr. Vellinho, "universal" relatively simple machinery used in Brazil has considerable export potential: a more logical choice than capital intensive, highly-sophisticated, and expensively-maintained equipment sold by many industrialised nations, or engineering techniques that may not allow for local quirks.

Closer recent attention to the Third World has made the balance of Brazil's trade slowly shift away from traditional partners such as the U.S. and the EEC. The industrialised world still means 64 per cent of two-way trade but this is a drop compared with the 73.5 per cent ten years ago.

Concex hopes to develop more sophisticated commodity trading, ensuring even greater sales regardless of oil crises. Brazil expects developing nations still to invest in infrastructures or basic industries. It sees engineering services and services-related machinery and equipment as a substantial growth area for visible or invisible exports to oil-exporting nations, the Latin American Free Trade

Association area, and oil-importing African and Oriental nations.

Recent successes in such areas have made trade negotiators realise much more can be done. Brazilian civil constructors, agro livestock enterprises consortia of manufacturers, or services companies have built dams in Central and South America, cheap housing in Algeria and sewerage systems in Libya. They have set up soya or livestock projects on the Ivory Coast and in Nigeria and worked on Nigeria's telecommunications systems and partly dredged the Suez Canal.

Traditional

Apart from the U.S., with a small surplus, and Japan—with a large one from massive sales to Brazil of capital equipment—most industrialised countries, the Comecon bloc, Africa and the Far East, have trading deficits with Brazil.

Conversely and not surprisingly Brazil has a deficit with the Arab world of \$2bn. Ten years ago that world accounted for 0.3 per cent. How Brazil can break traditional supply barriers in most Arab countries, and sell more there, is not sure.

The Figueiredo administration is showing signs of more realism and less gung ho in its political and trade expectations. It faces the fact that currently Brazil represents only 2 per cent of world trade of \$1.3 trillion (million million), although it is the fifth largest country in the world.

It hopes to improve this ratio without wasting time, money or florid phrases. Sr. Vellinho and many other businessmen stress that much hard work needs to be done to catch up, but they welcome the new government's receptivity to the private sector's opinions as a very positive sign.

Diana Smith

World Bank

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Personalities in the government

Helio Beltrao

ONCE A fortnight, Sr. Helio Beltrao strides into the Press briefing room of the Planalto Palace in Brasilia, seat of the presidency of the Republic, and happily submits himself to a battery of television cameras, microphones and reporters' notebooks.

As Minister extraordinary for matters of debureaucratisation, specially appointed by President Figueiredo to excise as much of the country's stifling red tape as possible, Sr. Beltrao knows each word he says is of supreme importance to the 120m paperwork-battered Brazilians.

He patently enjoys his mission. Buried in his modest office in the Planalto under a mountain of files, forms, letters from the public and suggestions for improvements, he emerges triumphant periodically, having eliminated another set of time-wasting processes.

Nothing in the hitherto spontaneously self-generating labyrinth is safe any longer from the bald, bespectacled, cheerful Sr. Beltrao, an economist by training and sometime Finance Minister.

He has spirited away 1,500 superfluous signatures from the president's jurisdiction, including authorisations for ministries to buy furniture, and relieved citizens of the obligation to present their birth certificates, residence certificates, taxpayers' certificates, economic dependence certificates, moral probity certificates and clean police record certificates to municipal, state or federal bodies whenever they need other documents.

"Until now," Sr. Beltrao maintains, "our bureaucracy has worked on the principle that everyone is lying until a piece of paper proves him truthful. From now on, he will be assumed truthful, until proved guilty."

Having dealt death blows to certificate mania Sr. Beltrao is now hacking away at 55 pieces of red tape that threaten to strangle businessmen seeking municipal operating licences, formalisation of contracts and other routine procedures. He hopes to spare businessmen innumerable trips a year to the local trade boards, not to mention costly outlays on paperwork or extra hands to cope with the multifarious forms.

So eager is Sr. Beltrao to tell a country struggling to rid itself of 400 years of accumulated red tape that relief is coming that, if the Press fails to ask for details of his latest triumph, he exhorts them: "Ask me more. Ask me anything."

Karlos Rischbieter

DESCENDANT OF 19th century German immigrants, Sr. Karlos Rischbieter, 52, rose to his present position as Finance Minister via an engineering degree, post-graduate studies in Europe and a grounding in the Parana State Development Bank, National Savings Bank and, before he joined the Cabinet in March 1979, presidency of the gigantic Bank of Brazil — the half state, half private body that fuels farming, small businesses and exports.

Independent

Sr. Rischbieter, who has a loathing of unnecessary red tape, has been criticised for his independent nature and plain speaking by adepts of a system more accustomed to obeisance to the hierarchy.

Using a sardonic sense of humour as a shield against criticism or pressure by rivals he has stubbornly advanced tax reform proposals that will introduce death duties, near heresy

in a country of vast inherited wealth. And when bankers failed to comply with a gentlemen's agreement to lower lending rates, he ordered them to do so through the National monetary Council, over which he presides.

He has also proclaimed that past voluminous Government subsidies to industry have bred a generation of businessmen keener on getting Government handouts than running their factories.

All this, plus his astute trading off of a Treasury department or commission in exchange for supervision of a new department, rather than let his space be occupied by the exuberant, powerful Planning Minister, Sr. Delfim Netto, makes the Brasilia rumour factory work overtime, having Sr Rischbieter dead and buried when he is alive and lecturing out of town, or resigning when he is quietly beefing up his province.

Only time can tell whether his Germanic taste for efficient organisation and simplification, and general receptivity to the private sector—as long as it minds its ethics—can keep him in his position. Though not an easy man he is judged a fair one, but he has ambitious rivals whose high-level support may outweigh all other considerations.

Aureliano Chaves

BRAZIL, like the U.S., is a country used to regarding the presidency of the republic as everything in political terms and the vice-presidency as almost nothing. However, Brazilians have had to revise their ideas a little since Sr. Aureliano Chaves de Mendonça took over the job in March.

A conservative politician who has been used to getting things done, Chaves left his mark on the last job he had, governor of the fast industrialising state of Minas Gerais. Under his governorship the Fiat company settled into a big site outside Belo Horizonte, the state capital, and started to produce its range of vehicles.

Plans

Complementary to that, plans were agreed and work started on another multi-million pound scheme: the construction of a new steel complex, Açominas, in which British banks and capital goods manufacturers are heavily involved.

The industrial history of Minas can never be written without extensive reference to the Chaves governorship.

It was to be foreseen that he would not want to while away his time with mere protocol when he took over the vice-presidency, and Gen. Figueiredo, the president, gave him the task of co-ordinating action on one of

the most difficult tasks the country faces, tackling the fuel crisis.

As head of the newly-created National Energy Commission, Chaves works from an office in the Banco do Brasil and does his best to encourage the saving of imported fuel and the production by all feasible means of locally-produced fuel.

This is not a job which brings immediate nationwide popularity. The squeeze on the petrol user is having to be tightened up as the oil imports bill swallows up \$7bn a year half the money Brazil earns from exports. Petrol pumps are having to close at the weekend, the price of petrol is being raised sharply in real terms and locally-produced alcohol is being admixed more and more with petrol for the motorist.

But Chaves presses on with increasingly ambitious plans to ease the imported energy bill, which he sees as the greatest challenge facing the government. Last month he brought together government representatives and the leaders of the motor industry who pledged to make the alcohol-driven car a common sight on the roads by next year.

If the vice-president succeeds in his job of cutting this bill Brazilians will have reason to be grateful to him and much of the rest of the world will be coming to Brasilia to learn how they did it. But even then he will scarcely be popular with the ordinary motorist.

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Itaipú power vital to the economy

SEEN FROM the air the \$1.1bn Itaipú hydro-electric scheme gives little clue to the immense importance it will assume in the next few years for the economies of Paraguay and Brazil.

The red earth is pitted and gashed with the tracks of machines and the workers' quarters stretch for miles on the Brazilian side of the river. But the reddish-brown Paraná River still flows unimpeded and as yet there is little indication of the size of the lake which will stretch back upstream once the retaining dam is completed.

From an aircraft the visitor's eye is more readily caught by the cloud of mist and spray which rises a few miles to the south over the Iguazú Falls, the Niagara of South America.

The enormous scheme at Itaipú is vital to Brazil and Paraguay in the coming decade. Scheduled to provide a capacity of 12,600 MW of electric power from 18 turbines, the scheme will dwarf Aswan, Grand Coulee, Dniepropetrovsk and all the other hydro-electric world record holders when it is fully in operation. The first generating sets are to be inaugurated in 1983.

A joint venture by Brazil, which occupies the left bank of the river, and Paraguay, which occupies the right, the scheme will submerge the cataracts of Sete Quedas (Seven Waterfalls) through which the Paraná tumbles a few miles upstream from the dam site.

Each country will have the right to half the energy produced though the main consumer will doubtless be Brazil, with its 120m population and a well-developed industrial base, rather than Paraguay which has

but 4m people and no industry to speak of.

If Paraguay were to absorb all the electric power it is due from Itaipu the average Paraguayan by 1990 would be consuming nearly 50 per cent more energy than the average U.S. citizen was using in 1973 — 12,000 kW/hours against 8,312 kW/h.

With few signs of energy-intensive industry wanting to establish itself in General Stroessner's Paraguay the Paraguayans are likely to take their benefits in the form of payments for that share of their half of the project's energy that they will sell to the Brazilians. This probably will make Paraguay into the world's largest exporter of electric power.

Saving

As it is Paraguay's share of the annual expenditure on the building works, about \$1bn this year, and half as much again next year, has had big expansionary — and inflationary — effects on its economy.

For Brazil, the possibility of acquiring three-quarters or more of the energy output of the Itaipu scheme will mean a large saving in an imported fuel bill which, this year, probably will touch \$7bn or half export earnings and help the country to make hydro-electric power rather than oil the principal energy source in the country.

By the year 1987 when much of Itaipú's capacity should be in operation, it is projected that hydro-electricity will be supplying 34.8 per cent of Brazil's primary energy compared with 26.5 per cent this year while petroleum's share will have

fallen from this year's percentage of 42.5 to 34.2.

The cost of the energy will be surprisingly cheap given the continuing rise in the world oil price. And the question of exactly what price Paraguay will be selling its power for is threatening to cloud further the already difficult relationship over Itaipú between giant Brazil and dwarf Paraguay.

The Paraguayan side is divided about how to deal with the energy question. Sr. Deifin Ugarte, the Paraguayan Economy Minister, has been keen for Paraguay to use as big a proportion of the power as it possibly can in order to attract energy-intensive industry which could provide jobs and foster new manufacturing development.

On the other hand, Sr. Enzo Debernardi, the head of ANDE, the Paraguayan power corporation, has been eager to see that the big credits Paraguay has saddled itself with for the construction of the scheme are paid off as rapidly as possible with the export of power.

The difficulty facing Paraguay is that under the bilateral agreement regulating the operation of the Itaipú project the Paraguayans must decide how much they should take and maintain that proportion over the space of 20 years. What Paraguay's decision will eventually be is clearly of prime importance to Brazil which, if it could, would doubtless buy up the whole of the energy output of Itaipu.

Brazil meanwhile faces a headache over what price the power will be bought at. As the world oil price rises and nuclear power becomes more expensive

and controversial, Paraguay has been hinting that Brazil should be prepared to pay more than was envisaged when oil was \$5 a barrel.

An important series of articles in the Asuncion newspaper La Tribuna suggested that Brazil should pay Paraguay the price that it would take Brazil to generate the power in nuclear power stations which it estimated at 26.65 mils (thousandths of a U.S. dollar) per kW/h, rather than the maximum of 0.3 mils as stipulated in the Itaipú treaty signed by the two countries in April 1973.

Brazil is not without its arguments to counter the Paraguayans, of which the most powerful would seem to be the most obvious: that if Brazil had known it was to pay a "nuclear" price for the power from Itaipú it would not have built Itaipú but built its own nuclear power stations.

Nevertheless, the Brazilian authorities are resigned to the fact that some adjustment must be made in the price of Itaipú power bought from Paraguay. They see too that whatever government comes to power after Gen. Stroessner's departure (which may not be too long delayed) may seek a wholesale renegotiation of the Itaipú Treaty.

As the day approaches when the power begins to flow the financial attractiveness of the Itaipu project is more and more clearly proved despite the many escalations of the original cost. But the problems surrounding the scheme's administration appear to be getting more complex.

Hugh O'Shaughnessy

World Bank

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Minas expanding fast

BELO-HORIZONTE, the capital of Minas Gerais State, set in one of Brazil's most mountainous regions, has none of the oceanside languor of Afro-Brazilian cities such as Salvador.

It is the hyperactive home of 2m "Mineiros"—which means both miners and denizens of Minas Gerais—a place growing too fast with outcrops of high rise buildings spreading into acres of once rural land.

"Belo" as it is commonly known, is the epitome of Minas Gerais itself, Brazil's fastest-developing state. There is a Southern European feel about the place—with its maniacal traffic, beautiful mountain towns and villages, and aura of Piemontese industriousness.

The Italian inference is heightened by the presence in the new industrial estate of Betim Fiat's new \$600m, 11,000-hand plant and foundry, and growing numbers of jaunty Fiat 147s darting through the Minas traffic.

The Fiat connection is not confined to manufacturing; the corporation has set up an Italian School and cultural foundation. It has, moreover, provided eager clientele for a number of new Italian restaurants in Belo, patronised also by members of 23 smaller Italian industrial ventures.

Backdrop

Generally paying higher wages than Brazilian concerns, Minas Gerais' new foreign guests are exercising a multiplier effect on the state's economy (FIAT provides three indirect jobs for each direct one), inducing young men to remain, not migrate, and attracting service or component oriented Brazilian concerns.

Street life in Belo, coloured by groups of bystanders heatedly arguing politics or football, strolling musicians, hard-sell vendors and fast walking crowds, now unfolds against a backdrop of new banks, shops, hotels, restaurants and office buildings, dwindling slums and spreading workers' housing estates.

Large, medium or small factories seem to sprout overnight in the industrial districts that encircle Belo, and arise further to the south of the state hoping to avoid the pollution that has poisoned where factories are over concentrated.

Minas authorities are demanding green belts and stringent toxic waste or fume controls. So far, the miasma seems to have been avoided, despite the fact that much of Minas' industry is heavy metallurgy.

This is no coincidence: the state is the source of Brazil's iron ore, of which \$800m was exported in 1978 by the government-owned Companhia Vale do Rio Doce and private companies.

Iron ore is not the only mineral asset. The bulk of Brazil's 192,000 tonnes of uranium reserves lies in the Pocos de Caldas area: the south of the state is rich in phosphates and lodes of precious or semi-precious stones proliferate: witness the town of Diamantina, named after one lucrative commodity.

In the Portuguese colonial era there was abundant gold, but an 18th century rush enriched Portugal and depleted the mines. Today, evidence of past glory is found in the churches of the colonial monument town, Ouro Preto (black gold), covered in dazzling gold leaf.

Long ago, proximity to iron ore attracted foreign majors such as Krupp, Mannesman and Belgo Miniere. It has bred major government-run steel mills such as Usiminas, development with Nippon Steel—now in its third stage of expansion—and Acominas, in the advanced building stages, which is to be Latin America's largest steel works.

With Brazil's rapid modernisation, and useful location as a corridor for exports to Latin America, manufacturers of sophisticated means of transport specifically, helicopters have moved into Minas, in the guise of Aerospacia. The huge French concern has gone into partnership with the state government and Brazilian aeronautical companies in Helibras, to assemble Lama and Ecureuil helicopters.

Minas Gerais' average annual GDP growth of 9 per cent in recent years, compared with average national growth of 7 per cent, has been spurred not only by industrialisation. The state is a major producer of coffee, dairy products, fruit and vegetables—a mixture of small farms and huge estates controlled by a small number of prominent families.

As in all Brazilian rural communities, tensions between large landlords and tenants or independent small farmers are far from resolved, particularly since the central government has begun to devote long-overdue attention to smallholders.

Having ardently wooed new foreign or Brazilian businesses with tax incentives, offers of state Government shareholding, land incentives and assistance with infrastructures, the Minas authorities, in this era of energy crisis, rampant inflation and rising cost of Government, are considering whether it is time to pause for stock taking.

Meanwhile, in recent months, Minas Gerais political idiosyncrasies have caused recurring headaches to a central government that, with all due caution, is liberalising Brazil.

Confidence

Under the able, cool-headed 1975-79 state administration of Sr. Aureliano Chaves, now Vice-president of the Republic, the wilder aspects of Minas Gerais' political passions were largely kept in check. But Sr. Chaves' successor, Sr. Francelino Pereira, appears to have some difficulty keeping local politics on an even keel, or inspiring similar public confidence.

The State's Right-wingers are generally considered the most militant in Brazil, often avid supporters of tempestuous bodies such as the CCC (Comando de Caca aos Comunistas — the Communist Chaser Command). Patently irritated by the implications of incipient democracy and freedom of expression shown by better-organised workers and embryonic tax reforms due to bite at hitherto untaxed inherited wealth, the Minas extreme Right wing has grown increasingly restive.

The extreme Left, less influential and smaller in Minas, but no less zealous than the extreme Right, is no more innocent of disruptive efforts in Belo Horizonte—though for different reasons. The gauchistes, urgently in search of a cause—appear anxious to provoke a military clampdown, exposing liberalisation as a "facade" and recruiting putative victims of new repression to their ranks.

However, aside from police brutality in Belo where forces of law and order appear reluctant to master crowd control techniques promoted in other major Brazilian cities, there is little danger, so far, that Minas Gerais will be the launching pad for another era of Brazilian authoritarianism.

Availing himself of his widespread popularity as a peripatetic president, Sr. Figueiredo frequently visits Minas Gerais (and other potential hot spots) rallying personal support.

Probably inevitably, aggressive Minas Gerais has become for the moment an uncomfortable example of the country's problems. Nevertheless, the central Government still upholds its much repeated resolve to reconcile and democratise Brazil and Minas' economic successes are a stronger selling point than the rebelliousness or atavistic longings of its less moderate citizens.

Diana Smith

plus assets was \$3.778bn, exceeding that of the Bank of America, the world's biggest bank.

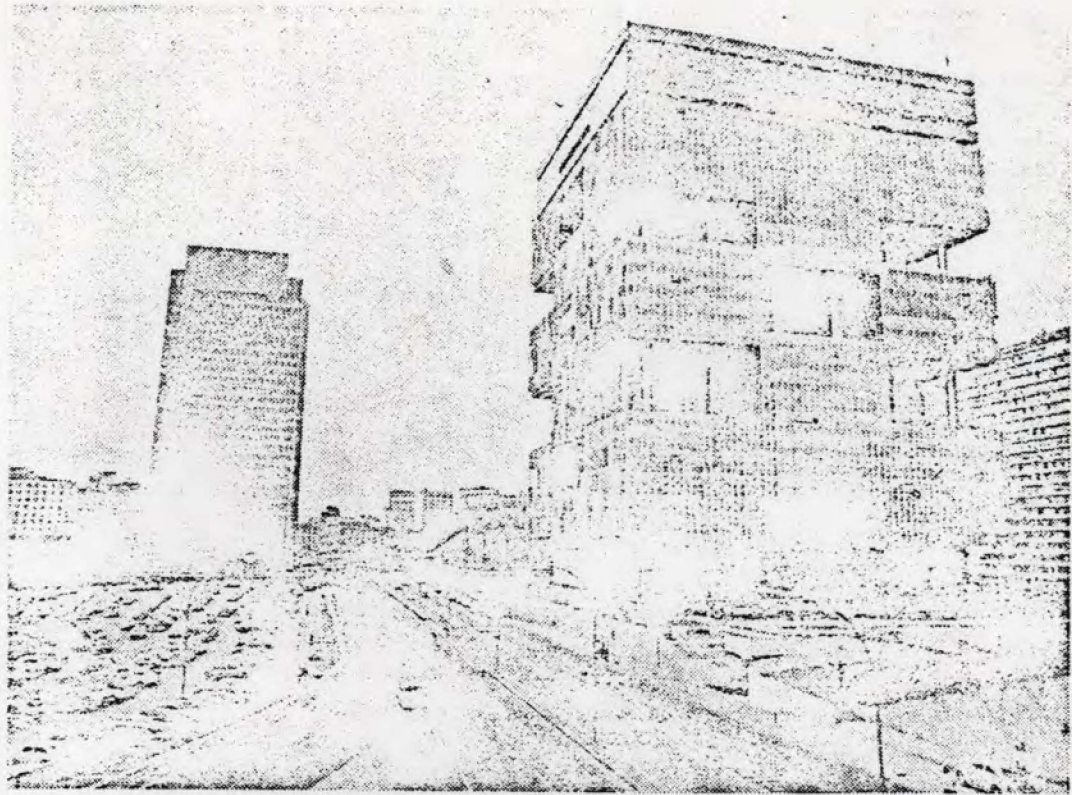
The bank has more than \$2bn worth of participation in companies in all areas of production, from Mafersa, a metallurgical company, through Caraiba Metais, a mining operation, to the Companhia Editora Nacional, a major publishing company.

According to Sr. Luis Sande, the BNDE's president, the bank will now move gradually into agriculture and agro-business, with financing outlay of Crs 5bn (£900m) in 1979, increasing annually until 1984, when it will reach Crs 109.6bn (£1.6bn).

The BNH is the recipient of the massive guarantee fund paid by employers on the basis of workers' salaries. Eight per cent of all wages are paid into the fund annually. The BNH is also moving into the country, where it will finance the construction of the "economy house" for rural labourers.

The price the private banks have had to pay for a prolonged period of virtually free operation on the open market is a high level of state interference, not only via competition by state-run banks but also by restrictions on the bank's capacity to attract deposits. As a result, the conglomerates have been moving into new areas to find alternative sources of income.

Thus it is now estimated that about 40 per cent of insurance companies are controlled by



Part of the banking quarter in Rio de Janeiro, with the Petrobras building (right) and the National Housing Bank on the left

banks, and the top ten leasing companies with 76 per cent of the market, all are part of banking conglomerates, either Brazilian or foreign. The biggest company in the sector is Manufacturers Hanover, a subsidiary of the fourth biggest commercial bank in the U.S. The company leased goods to the value of Crs 2bn (£30m) and controls 20 per cent of the market in Brazil. Leasing and insurance were defined by one banker as

"the areas of greatest expansion for banks in the immediate future."

The other trend many observers predict for this year is an increasingly direct participation by banks in financing industries and agro-businesses. The idea of closer co-operation between finance and the productive sectors was proposed by Sr. Netto shortly after his move from the Ministry of Agriculture to that of Planning. He

suggested the formation of conglomerates of banks and industries in the national cause of increased production to counter inflation.

His idea was received with little enthusiasm, however. As one observer put it: why should the banks take on the responsibility of ownership of industries, and lose them as customers?

Rik Turner

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Ambitious plans for alternative fuels

BRAZIL MUST import 45 per cent of its energy needs. This means about 1m barrels a day of crude oil, for which the bill in 1979 will come to \$7bn, or 44 per cent of overall imports and 47 per cent of overall exports.

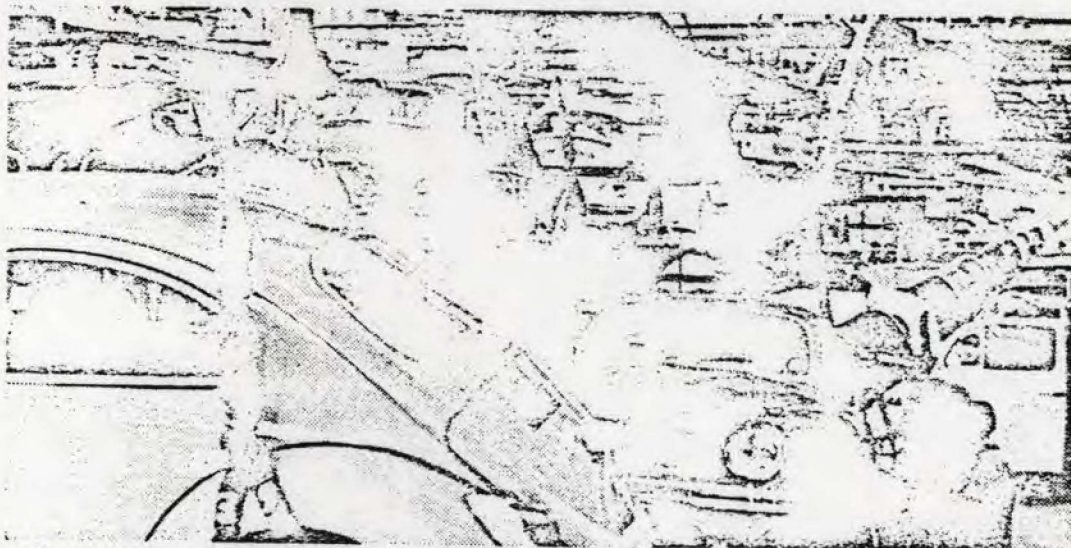
With a 2.8 per cent annual increase in population (now 120m) and rapid industrial development, Brazil's oil derivative consumption has grown at about 8 per cent a year. Fuel oil, diesel and petrol account for 77 per cent of daily crude consumption of nearly 1.2m barrels, of which domestic wells supply only 15 per cent.

The search for offshore and onshore oil is costing about \$1.3bn a year. Results so far have been modest but the Government has set a target of 500,000 barrels a day for 1985, partly drawing on risk contracts with foreign oil majors to help to hasten new discoveries.

Oil derivatives must remain the primary—and expensive—material for a wide range of needs, but with considerable dynamism Brazil is developing several alternative energy sources.

Hydro-electric reserves of nearly 200,000 MW are being channelled rapidly, either by big dams like Itaipu on the Parana River or smaller units in the north and north-east.

A controversial \$13bn nuclear energy plan involving supply of eight pressurised water reactors by Germany's Kraftwerk Union is going ahead, despite serious construction troubles and persistent public criticism. The programme involves not only absorption of nuclear electricity generation know-how but also enrichment reprocessing and equipment manufacturing technology. The government hopes this will place Brazil among major world suppliers of nuclear equipment and services. The country has domestic reserves of 192,000 tonnes of uranium ore.



The Volkswagen car assembly plant at Sao Paulo. Government representatives and motor industry leaders have pledged to make the alcohol-driven car a common sight on the roads next year

Practical

While everything from solar through wind to tidal energy is being looked at, Brazil's most practical and ambitious plans for alternative fuels for industry and transport lie in two areas.

Coal reserves of 12bn tonnes, albeit of high ash and sulphur content, will be used to fire boilers first of the cement industry and then other sectors. With a \$7bn allocation for mining, transport and improvement of coal over the next six years, fuel oil savings will eventually equal 170,000 barrels a day of crude.

Meanwhile, Brazil's broad spectrum alcohol programme is unique. The heart of the matter is biomass potential—some 5.5m square miles of territory, including vast tracts of arable land, receive a particularly high ratio of sunny days per annum.

The idea is to develop this natural potential to the full and use alcohol as a motor fuel, either in a mixture of 80 per cent low octane petrol and 20 per cent alcohol already used nationwide or as exclusive fuel for converted or newly designed "alcoholvehicles" (ethylalcohol hydrates).

By 1985, with an annual alcohol production target of 10.7bn litres, there are hopes of saving 186,000 barrels a day of crude. To achieve this, \$5bn are to be spent on new cane planting areas, distilleries and capital equipment for these units.

To encourage purchase of "alcoholvehicles" the Government will allow buyers to pay their hire purchase in 36 instalments as opposed to 12 instalments for petrol-run vehicles, give a 50 per cent deduction on road tax and keep the price of alcohol a good 30 per cent below that of petrol.

Brazil's motor industry has made a firm commitment to mass production of alcohol-vehicles starting next year.

In 1980 250,000 alcohol-powered cars, buses, vans and mini buses will roll off the assembly lines of Volkswagen, Fiat, Ford and General Motors of Brazil. Production will be shared on the basis of the market share of each manufacturer. Thus Volkswagen, with nearly 50 per cent of the market (and, with Fiat, a pioneer alcoholmobile design) will take the lion's share, leaving the other majors about eleven per cent each.

In 1980, 1981 and 1982, 270,000 vehicles will be converted to alcohol. With new alcoholvehicle production of 300,000 in 1981 and 350,000 in 1982, 15 per cent of Brazil's fleet will run on ethanol in three years' time, not only saving petrol but also contributing towards reducing pollution in the cities. Ethyl alcohol eliminates the use of the toxic lead tetraethyl additive.

To supply this new fleet and an important new industry also-chemicals, which will absorb 1.5bn litres of alcohol by 1985 as feedstock for ethane, vinyl acetate, polythene and synthetic rubber, will require 12.5m acres of cane.

Government technicians consider that the most efficient distillery capacity is 120,000 litres a day, requiring 2,608,000 tonnes of cane a year, and an average planted area of 12,500 acres. Average investment in each unit runs at just under \$1m, 40 per cent for the agricultural side and 60 per cent for construction and equipment.

The 81 distillery projects approved since 1975 are keeping one branch of the capital goods industry at full stretch. Future plans allow room for new manufacturers. Some 80 per cent of the industry is concentrating in prosperous Sao Paulo, with two groups Dedini and Zanini, dominating the domestic market and beginning to export.

The interest shown by foreign governments in Brazil's alcohol programme makes the export potential for technology or equipment considerable. So far agreements have been made with the Philippines and Guyana. Governments for assistance in their alcohol programmes, while numerous developing country governments have made firm enquiries about possibilities of co-operation.

The motor industry sees strong chance of selling alcohol vehicles abroad as the significance of Brazil's fully integrated programme begins to be understood internationally.

This programme is not only designed as an oil saver. Increased cane planting areas and new distilleries are expected to create jobs in backward rural areas suffering from depopulation and, in the long run, to redistribute income socially and regionally.

Since a sizeable share of alcohol production will be directed in time to the impoverished north-east it is hoped this traditional cane producing area will benefit from higher employment and tax revenue (VAT).

There is of course nothing new about cane alcohol as a motor fuel. In 1923 alcohol cars ran on Brazil's roads but oil proved vastly cheaper. Development was shelved.

In the mid-1970s, however, as oil prices rose, alcohol was reconsidered, albeit slowly. Finally, this year's OPEC increases resolved the argument. It is estimated that a litre of cane alcohol will cost about Cr7 (26 U.S. cents). Even if it were more the foreign currency savings now patently justify the outlays.

Cane is not the only raw material for producing ethyl alcohol. Mandioc (cassava) sweet potato and pineapples, among others, offer equally useful yields.

Efforts

So far cane has been favoured, because manioc is a cottage crop, often inefficiently farmed. Nevertheless a pilot manioc alcohol plant set up in Minas Gerais State has given interesting results. Efforts are now under way to develop a hardier root and better yield per acre.

There is also the eccentric fringe of alternative fuels: quince, castor beans, the dende and babacu palms and a variety of trees and plants whose fruit offers diesel-like properties. All these are being considered, as is eucalyptus ethanol (not methanol because of its toxic effects), but technicians are still opting for proven crops and processing methods while admitting anything is possible in the long run. A castor alcohol mixture is being tested in some urban buses, with satisfactory results so far.

While Brazil's researchers work on new sources the Government perpetually exhorts its citizens to save fuel. This may be the hardest task of all. Brazilians are particularly impervious to voluntary restraint or the need for maintenance of vehicles and boilers to prevent waste.

The country's car industry is only 25 years old and 8m Brazilians are proud car owners and use them on every possible occasion. Sporadically enforced fuel-saving speed limits are often blithely disregarded, giving Brazil the grim distinction of the highest fatal accident rate in the world—27 in every 10,000 vehicles. Meanwhile motorists fill their tanks throughout Fridays to make up for Saturday and Sunday pump-closing. A city like Rio de Janeiro, with one car for every 10 of its 10m inhabitants, is

a traffic and pedestrians' nightmare.

Petrol rationing has been suggested but the authorities view it with reluctance. Experts estimate that the black market in coupons would assume proportions as gigantic to those of the billion dollar black currency market, while bribery and corruption of petrol station managers or attendants would be likely to introduce a new brand of crime.

Things are bad enough as they are, with 56,000 reported crimes in Rio de Janeiro in eight months and car thefts high on the list.

In an effort to reduce petrol consumption the administration has increased road tax by 50 per cent and petrol by 100 per cent since January—a form of price rationing that has, so far, not visibly affected the number of vehicles on urban roads. Increased road tax has a dual purpose—as a price deterrent and as a source of funds for the new National Energy Fund, of which one-third will go to alcohol production, with \$400m allocated for 1980.

Some Brazilian drivers respond to the alcohol vehicle vogue with the sticker "Only the driver runs on alcohol."

Diana Smith

World Bank

News Service of the Department of Information and Public Affairs

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- THE NEW YORK TIMES THE WALL STREET JOURNAL THE CHRISTIAN SCIENCE MONITOR
 THE WASHINGTON POST THE JOURNAL OF COMMERCE FINANCIAL TIMES (ENGLAND)

Union movement grows

BRAZIL IS emerging from 14 years of military rule, during which time the "Brazilian economic miracle" was performed. The economy reached growth rates of 10 per cent per annum at the turn of the decade and might have continued at this rate but for the 1973 oil crisis. However, the cost of the miracle in social terms was high.

Brazil's military rulers inherited a set of labour laws inspired by Mussolini's Fascist legislation in Italy and these they strengthened and enhanced. Workers found themselves faced with corporatist unions totally subjected to the state, annual wage agreements in which increases were decreed by the Government according to a never-revealed "scientific" formula and strike legislation that made it all but impossible to use industrial action.

As a result, the purchasing power of wages decreased by more than 100 per cent in ten years, a fact admitted even by employers' associations, and in 1977 it was revealed that the Government had manipulated the figures for inflation in 1973, so that wage rises in that year were not in keeping with the cost of living.

Over the last two years, however, the union movement has been growing in strength and audacity, so that today there is a considerable discrepancy between the letter of the law and the reality of the situation. While strike law remains unchanged, strikes have become an everyday occurrence.

Brazil's most important unions, the metalworkers in the industrial zones around Sao Paulo (including all the major car companies), went on strike as the new government took office in March this year, after two weeks of unsuccessful negotiations. Sr. Murilo Macedo, Labour Minister, declared the three unions under intervention, a legal instrument com-

monly used by authoritarian regimes in Latin America whereby the State ousts elected leaders and replaces them with its own men—usually military officers.

Sr. Luiz Inacio da Silva, or "Lula," the ousted president of the biggest of the three unions, reassumed control of the movement after two days in the capacity of what he termed the "de facto leader" of the workers.

Since the metalworkers, a number of other sectors have gone on strike. Sao Paulo local government workers, bus drivers, car workers at the FIAT diesel factory in Rio de Janeiro, doctors, journalists and teachers.

A strike by construction workers in Belo Horizonte, the country's rapidly-expanding third industrial centre, led to a situation of virtual civil insurrection at the beginning of August, with an estimated 20-50,000 men taking to the streets of the city centre and creating havoc, smashing shop fronts and burning cars. The fracas resulted in one death, when a worker was hit in the chest by a teargas bomb.

The government has shown itself willing to revert to a hard line throughout the year although, according to informed sources, President Figueiredo's Cabinet was against the decision to intervene in the metalworkers' unions, with the exception of one member: the head of SNI, the military security organ in which the President himself began his career.

In September, a bank employers' strike in the southern capital of Porto Alegre brought intervention and the imprisonment of all 16 leaders of the union.

As the redemocratisation process opens spaces for parties on

the Left workers and labour leaders such as Lula have received overtures from politicians eager to incorporate them into their particular group. There has been much speculation especially with the return from exile of political figures such as the former State Governors Sr. Leonel Brizola and Sr. Miguel Arraes, and the central committee of the Communist Party of Brazil.

However, it would seem the workers have decided to go it alone. This month will see the first meeting to articulate the formation of a Workers Party, which will count on the membership of Lula and the metalworkers, and the logistic support of the respected inter-union data centre and study group, Dieese.

Trend

The Government, meanwhile, is preparing new legislation, beginning with a law on wage rises, timetabled for the beginning of November.

This law is considered by workers and employers alike to be a backward step in terms of economic democracy. It reaffirms the role of the state, introducing six-monthly wage increases based on inflation indices, when the trend over the last two years has been increasingly towards direct negotiation between the two sides in industry.

However, with a congress where the Government party has a majority despite having received a minority of votes in last November's election, the law is likely to be passed. To what extent it can be imposed within the context of a redemocratised Brazil is another matter.

Rik Turner

Soap operas grip TV audiences

AFTER WEEKS of bewilderment, I think I've got the gist of "Os Gigantes"—the Giants—the latest six-month long, multi-million dollar, prime time novela aired six nights a week by TV Globo.

Loosely "novela" means soap opera. Rather than soap TV Globo's up-market commercials sell cars, clothes, cigarettes, whisky and luxury flats.

Globo—Brazil's most popular network—shows three novelas a night, at six, seven and eight o'clock.

Eight o'clock brings the blockbuster that holds tens of millions of Brazilians to their screens with hooks of passion or, if ratings slip, murder and mystery.

Sprinkled with myriad subplots and sub-characters, "Os Gigantes" is about Paloma, a feverish 40-year-old heiress from the tiny interior town of Pilar. Not only is she single, she is a foreign correspondent in Rome. Was, that is. She abandoned Rome for Pilar, where she wreaks havoc, pilots her Piper Cub, chats to her ageing father and suffers flashbacks to childhood.

Fernando and Francisco, both dairy farmers, have lusted after Paloma since puberty, so far with little progress beyond fiery glances and ditto kisses. Nevertheless, Fernando's wife and Francisco's fiancée are furious.

Francisco has a problem (apart from a painful passion for Paloma): His cows have foot-and-mouth disease. Further, the fearsome foreigner Edgardo Novak has opened a branch of the mighty milk multi-national, Welkson, putting Fernando and Francisco's small-scale dairies at risk.

Meanwhile, Paloma's heritage is threatened by sinister sister-in-law, Viridiana, widow of Paloma's brother Fred on whom Paloma pulled the plug to put him out of the agony of terminal cancer. Viridiana wants the ranch and she has decided that Paloma is a certifiable lunatic because her morals are loose.

This drama unfolds in glorious technicolour if you can afford \$800 a set. Some people can: more than 500,000 new

colour sets were sold last year. Meanwhile, much of the submerged third of the population living on less than \$70 a month—40m people—goes without proper food to pay hire-purchase on their TV sets. What they think of the likes of Paloma and the glossy commercials that punctuate the heavy breathing remains to be polled.

The procession of fantasy-fuelling novelas such as "Os Gigantes" has heated the screens for the last 15 years. The more improbable the plot, it seems, the more Mrs. or Miss Rio de Janeiro, Sao Paulo or Curitiba sighs, eyes her husband or boyfriend and wonders why he cannot match up to fuming Fernando.

In 1979, however, something close to realism is infiltrating TV Globo. The one-time 10 pm novela slot has been filled by three-weekly series, rising like ruffled phoenixes from the ashes of dotty fantasy. The protagonists are a financially-crippled, thorny, middle-aged divorcee, a sagging, bad-tempered, middle-aged reporter, and two scruffy, foul-mouthed long-distance lorry drivers.

Cue

All decidedly unstock characters for Brazilian television which, for 15 years, took its cue from deodorised, homogenised U.S. series, these distraught characters stumble through episodes dealing bleakly with abortion, male or female homosexuality, drug addiction or alcoholism, police brutality or corruption and other problems that not only TV swept under the carpet during a decade and a half of authoritarian rule.

The amateur guardians of public morals loathe the new series—but ratings are good.

On minority channels, struggling to win an audience against TV Globo's omnipotence, serious political discussions have superseded canned U.S. series and gained some A-grade viewers—even from Globo's long Sunday night potpourri of news, sports, snippets of U.S. spectacles, or breathless looks at parapsychology or bizarre diseases, called "Fantástico."

If anyone forgets the name, at regular intervals scantily-clad ladies with gaudy feathers burst on screen yelling "Fantástico" and forming the shape of a scorpion. Don't shoot the art director, he is doing his best.

Having hooked Brazilian housewives and husbands for years, the novela is now travelling abroad. First to Portugal (logical, the language is the same) with the TV adaptation of Jorge Amado's earthy "Gabriela," a minor Brazilian classic, which in 1977 brought Lisbon and other parts of the country to a halt at eight o'clock sharp nightly.

After the wildly successful "Gabriela," Portugal saw less meaty Globo novelas more typical of computer programmed plots drawing lugubriously on guilt, religiosity and astrology. Portuguese ladies, considerably liberated after the events of April 1974, were not impressed.

Dubbed into Spanish, the novela moved on—to Mexico, thence to New York and the Puerto Rican TV channels.

Lately, it has penetrated even revolutionary, Portuguese-speaking Angola, apparently taking the people by storm.

Back home on TV Globo, something else besides novelas is grabbing viewers: the weekly "Planeta dos Homens"—Planet of the Men—starring the once-muzzled caricaturist, Jo Soares, a leading Brazilian comic.

Soares' favourite target is the exuberant Planning Minister, Sr. Antonio Delfim Netto. Taking Sr. Netto's middle name, Delfim, which means dolphin, Soares has given viewers "Dr. Sardine" who wants "Plans, more plans, give me plans. Planning is my business."

Hardly a year ago, this cheerful guying would have sent Jo Soares down for *lese ministere*. A year ago, indeed, television was still a tied vehicle for direct or indirect pompous State propaganda.

But times have changed. The Brazilian people are being allowed to grow up and learn to assume their responsibilities and rights. It seems that one major right is freedom from anaesthetic television.

Diana Smith

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Agriculture given a high priority

THIS YEAR was dubbed The Year of Agriculture by the Government of President Joao Baptista Figueiredo when it took office in March, and to underline the sectors' newly-acquired importance, the Ministry of Agriculture was put into the charge of Sr. Delfim Netto, the economic brain behind Brazil's "miracle" of the late 1960s and early 1970s.

Since then Delfim has moved upstairs, replacing the more recessionist Mario Henrique Simonsen as Minister of Planning at the beginning of August. Nonetheless, the Government's emphasis on agriculture is unchanged, and Sr. Delfim's replacement at the ministry, Sr. Amaury Stabile, is known to think along the same lines as his predecessor.

An "agro-package" of government measures in May was the first of a series of moves to increase support for the sector. The objectives were bumper crops to help Brazil's ailing balance of payments by both decreasing imports such as wheat, corn and rice and increase the country's traditional agricultural — coffee and soya. Agriculture is being given a high priority and to feed Brazil's expected 120m population by the end of the century.

It is also hoped that a strengthening of agriculture will reverse the problematic trend of migration from the country to the already over-populated and over-strained urban centres.

The May package was basically a series of measures expanding and facilitating the financing of agricultural activities, particularly those of the small and mini-producers who are still responsible for the bulk of the country's agricultural production.

These measures included the removal of limits on agro-financing by the Banco do Brasil, an increase in resources available to producers' co-operatives (from £4m to £8m), an increase in investment obligations for private banks in the agricultural sector from 10 per cent to 25 per cent of their total deposits.

Then in August came the next important step: the National Monetary Council raised the minimum support prices on all agricultural products. Those prices are a major factor in a grower's planning of his strategy for the coming year, and the move was an incentive to grow more.

According to Delfim, the Government's policy is that "everything planted will be financed, and everything harvested will be bought."

Efficiency

There are a number of special projects under way which are also intended to increase agricultural efficiency. One is the cerrado utilisation project, which seeks to put to use the "cerrados," savannah-like areas until now left untouched. The project is to be carried out by a joint venture involving a Brazilian company Brasagro and the Japanese Development Company, and will be financed by a £12m loan from the Japanese International Co-operation Agency, and a syndicate of 16 Japanese banks.

Another project is the Soya Railway, to be built over the next six years. It has been decided so far that the railway will link Cascavel, in the heart of Parana State's soya-producing area, with the port of Paranagua. A stretch of over 300 km, from Guarapuava to Curitiba, is already built, leaving another 400 km of track to be laid.

Still to be decided is a further western stretch, from Cascavel to either Foz de Iguacu or Guaira on the Paraguayan border, and there is even talk of an extension to Asuncion, Paraguay's capital. As to the financing of the railway, to be built specifically to facilitate the movement of the country's second biggest export, a Japanese trade mission visiting Brazil in August showed interest in providing a \$215m loan.

The Government has thus succeeded in creating an atmosphere of expectation about agriculture, and it does seem that there will be an expansion in the area cultivated for the coming harvest. There is an average expansion predicted of 10-15 per cent, with bumper figures for some crops (66 per cent for soya, 55 per cent for rice, 36 per cent for corn).

The demand for seeds (another indicator of increased planting intentions) is up 38 per cent on last year for soya, 27 per cent for almonds, and no less than 179 per cent for beans. The tractor industry, after a bad start to 1979, was greatly assisted by £33m in extra credit facilities granted by the Government in May, and is now in the embarrassing position of being unable to meet all the demand, which always increases at this time of the year. Fertiliser imports have reached an all-time national record in the last month.

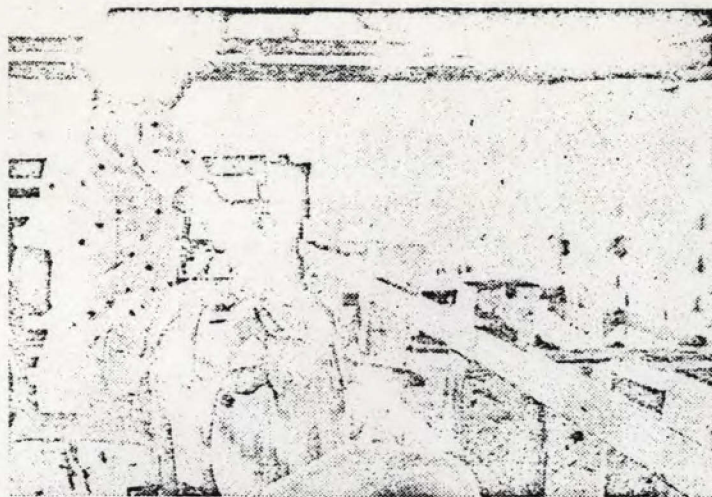
Thus the scene is set for bumper crops in 1980, after two years of extremely poor performance by the agricultural sector. Next year's coffee crop would have been a bumper, around 20m bags, but for frosts at the beginning of June which frustrated not only this year's crop, but represents a setback to the country's coffee strategy.

The Brazilian Coffee Institute had been boosting coffee production in Minas Gerais, so that this state, thought to be frost-free, could take over the premier position from Parana, which was hit by severe frosts in 1975.

This year's frosts affected about 34 per cent of Brazil's coffee plant population, cutting down the Minas crop for this year by 10-15 per cent, and the 1980 crop by 50 per cent. The recuperation programme, which allotted £147m to the state's planters, will take three years to bring production up to the pre-frost level.

The last two years have been ones of setbacks for much of Brazil's agricultural production. Apart from the frosts in Minas Gerais, a series of droughts and heavy rains in the southern state of Rio Grande do Sul and floods in Bahia and Espirito Santo have frustrated crops of coffee, beans, soya and corn.

The one bright spot in 1979 is an anticipated bumper crop of wheat, originally put as high as 4.5m tonnes before frosts in September forced a downward re-estimate to about 4m tonnes. However, it is pointed out that wheat has benefited from a £3bn subsidy in recent years, expanding at the cost of other crops, and even so about 2m tonnes will have to be imported this year. However, it is rather the lack of infrastructure which is concerning experts now. There are not enough roads, railways, vehicles, warehouses, silos and port facilities, and it may be that full advantage cannot be taken of any bumper crop in 1980. Ten per cent of Brazil's corn crop is lost each year due to poor road conditions. The main problem next year may well be lack of storage space at the farms.



Cows being vaccinated. Livestock projects designed to aid Brazil's ailing beef industry have not proved particularly successful

According to Sr. Willy Fink, director of the Brazilian Association of Silo Manufacturers, there will be serious problems if the country's total crop next year exceeds 50m tonnes, as this is the country's present storage capacity.

The other major question in Brazilian agriculture this year

is the expansion of the alcohol programme, or proalcool as it is called. Brazil is seeking to dispense with a considerable amount of her petroleum imports by developing ethyl alcohol as alternative fuel. The present objective is to raise the country's annual production to 10bn litres and it was recently announced that this year Brazil is to export alcohol, since she will produce 3.8m litres in 1979.

The only fears of technicians from the Sugar and Alcohol Institute concern other crops, which may be neglected in the rush by producers to benefit from the generous credits and incentives offered by proalcool. As one put it, since alcohol is becoming the new petroleum, a lot of growers, especially in Sao Paulo State (responsible for 44 per cent of this year's production) are starting to see themselves as sugar sheiks.

Apart from the problems of agriculture in Brazil's coastal states there exists still that other reality which is the Amazon region, where successive Brazilian governments have implanted schemes which were to open up the country's last remaining frontier for colonisation and turn it into a vast source of land for crops and livestock.

Incentives

First there were the huge livestock projects, with foreign companies such as Volkswagen and Liguigas being given fiscal incentives to participate. A total of 350 projects have been opened up since 1966, covering an area of 7.9m ha, 7 per cent of which are controlled by foreign capital. Liguigas has about 500,000 ha and Volkswagen a further 100,000 ha, but such projects, involving large herds of cattle designed to aid Brazil's ailing beef industry, have not so far proved particularly successful—so much so that many big companies have pulled out in recent years.

The most notable exception is the Jari project, a major development of more than 2m ha owned completely by the American businessman Daniel Ludwig. Mr. Ludwig's project is a many-sided one, involving livestock, cellulose, kaolin, and rice, 140,000 tonnes of which are produced in three annual crops. However, this is so far destined exclusively for the project's 30,000 inhabitants.

In the Agrovilas, the colonists (poor farmers from other regions, such as Parana, Rio Grande do Sul, of Brazil's poor north-eastern region) plant beans, rice, corn and mandioc under a scheme designed by the National Institute for Colonisation and Land Reform. But experience has shown that the villages were frequently allotted infertile land, forcing the *Colonos* to move on. So far, Brazil's agriculture has failed to provide an answer to their problems.

Rik Turner