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THE WORLD BANK

Washington, D.C.

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vol 6

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1774608

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Brazil - Clausen Country Files - Correspondence - Volume 6

27 de abril de 1982

Prezado Governador,

Muito obrigado pelas fotografias da recepção no palacio do governo no dia 10 de março. Permaneceram como uma lembrança da nossa visita ao Cearã.

A Sra. Clausen une-se a mim para renovar a V. Exa. e a Sra. Virgílio Távora, os nossos agradecimentos mais sinceros assim como os nossos protestos de elevada estima.

A. W. Clausen

Ilmo. Sr. Virgílio Távora Governador do Estado de Ceará Palacio do Governo Fortaleza, Ceará Brazil

DLallement/mmw

Free Translation DLallement

Dear Mr. Governor,

Thank you very much for the pictures of the reception in the Government's palace on March 10. They will remain a souvenir of our visit in Ceara'.

Mrs. Clausen joins me to send you and Mrs. V. Tawora our sincere thanks.

Sincerely,

THE WORLD BANK

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REMARKS:

I have just received the attached document from the State Planning Secretariat. This is the speech which was delivered in the Community Center at the end of the visit of the Rural Development project. A draft acknowledgement letter is attached.

Dominique Lallement E928 72472

Free Translation D. Lallement

4.22-82

Dear Dr. Luis de Gonzago,

I received the translation of the speech you delivered at the end of the visit of the rural development project of Ibiapaba, and read your analysis with great interest. Thank you for this translation which allowed me to appreciate in detail the efforts made by the State government to develop a rural development strategy adapted to the human and physical resources of the state.

As I already told H. E. the Governor, the visit of the project area was most interesting. I thank you again, as well as all those who contributed to the success of the visit, and I wish you success in the implementation of the state rural development programs.

Sincerely,



22 de abril de 1982

Prezado Dr. de Gonzaga:

Recebí a tradução da palestra do senhor no fím da visita do projeto de desenvolvimento rural integrado de Ibiapaba e lí com muito interesse a análise do senhor. Agradeço muito ao senhor pela atenção de ter mandado essa tradução que me permiteu apreciar em detalhe os esforços feitos pelo Governo do Estado para desenvolver uma estratégia de desenvolvimento rural adaptado aos recursos humanos e físicos do Estado.

Como já comentei ao Ilmo. Governador, a visita do projeto foi muito interessante. Renovo ao senhor e a todas as pessoas que contribuiram à realização da visita, os meus agradecimentos mais sinceros, e desejo a todos um grande sucesso na realização dos programas de desenvolvimento rural do Estado.

Cordialmente,

A. W. Clausen

Exmo. Sr.
Dr. Luiz de Gonzaga Fonseca Mota,
Assesor Especial do Governo do Ceará
Palacio do Governo
Fortaleza, Ceará

DLallement/mm

CEARÁ'S PROJECT: A NEW RURAL DEVELOPMENT PHILOSOPHY

Talk given by Mr. LUIZ DE GONZAGA FONSECA MOTA, former Secretary of Planning and Coordination of the State of Ceará, Brazil, on the occasion of the official visit made to our State by Mr. A.W.CLAU SEN, President of the Internation al Bank for Reconstruction and Development (IBRD), on March 10th, 1982.

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rade to our State by Mr. A.W.CLAU CIM, President of the Internation alliant for Reconstruction and Development (IMMD), on March 1942.

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Translated from Portuguese into English by José Cândido Marques Cavalcante, Authorized Public Translator for the State of Ceará, Federative Republic of Brazil.

Federative Republic of Brazil.

I - STATE OF CEARA'S SECOND SOCIO-ECONOMIC DEVELOPMENT PLAN (PLAMEG II) - GENERAL GUIDELINES.

Ceara's work plan, referred to above, is being carried out by the State Administration. It is mostly concerned with providing measures favoring a progressive growth in job opportunities, higher levels of individual income and a stronger market economy.

For attaining these goals, a strategic course of action has been established which - viewed from a strictly economic standpoint - consists in an endeavor to change the framework of our local economy, so as to make the State of Ceara less and less dependent on the hitherto prevaling rural sector.

That structural change may take place in the following ways:

- a) by intensifying industrial investments, mostly within the metropolitan area of Fortaleza and in the main hinterland towns;
- b) by either setting up an infrastructure or improving the already existing one, through speeding up the current pace of investments being made in transportation, electric power, basic sanitation, means of communication, and so on;
- c) by exploiting, to its fullest extent, the actual potentialities of our mineral sector;
- d) by fostering tourism and handicraft activities, so as to greatly improve our avocation for these traditional sectors in our economy;
- e) by adapting agricultural and livestock activities to the peculiarities of our climate and soil.

above, PLAMEG II primarily purports to promote human individuals, by enabling them to fully realize their own capabilities and enter the productive areas of the local economy. This can be made by assuring them ways and means for self-support and possibilities for fulfillment in psycho-social fields.

II - STRATEGY FOR AGRICULTURAL AND LIVESTOCK AREAS

As previously mentioned, the rural strategy will basically consist in an endeavor to adjust Ceara's farming operations to climate and rainfall peculiarities, water scarcity, soil productiveness and land ownership framework.

adjustment seems to be through integrated rural development projects, as hinted by recent experiences in specific areas within the so-called POLONORDESTE (Brazil's Northeast Development Project), now under way at Serra de Ibiapaba (a mountainous range). That project appears to be the best way to derive maximum benefits from such public investments, i.e. by concentrating them in priority segments of the economy, so as to create a physical infrastructure and afford rural producers technical assistance and financial aid to satisfy their needs.

As had been expected, those producers not only played an outstanding and very active role in the economic scene, but have also have been responsible for substantial increase both in rural production and productivity levels.

Therefore, the path to follow leads to a gradual spread of rural integrated development philosophy throughtout the State of Ceara. For that specific purpose, the State Administration has appealed to the Federal Government for financial support, which is expected to come from the Brazilian Department of Economic Planning (SEPLAN) and the World Bank, which has already contributed to Ibiapaba's Project and to other initiatives that have come to be widely referred to as being "Ceara's Project", covering also Serra de Baturité, Quixeramobim, Mid-Jaguaribe River Basin, Inhamuns

III- "CEARA'S PROJECT" AS RELATED TO SMALL-SIZED FARM UNITS

Small farm producers in Ceara's economy rank quite important. In fact, recent statistical estimates, issued by the Agricultural Planning State Committee (CEPA), show that there is a total of 323 thousand farm producers in the State of Ceará, 300 thousand of these having been classified as small-sized ones, including 170 thousand of them who are nonproprietary farmers. As pointed out above, over half of the planters do not cultivate their own land, which indicates an urgent need for reshaping land ownership, besides adopting other corrective measures.

The importance of the small farmers is also evidenced by their contribution to Ceara's total agricultural production, with approximately 60% of foodstuff and other rural production stemming from such small units, which engage more than 70% of available farm hands.

Thus from economical, financial and social standpoints, Ceara's small farmers constitute a most significant segment to deserve full consideration and support in any economic development plan of ours. Bearing that in mind, Ceara's Project focus on aiding small farmers by affording them the needed assistance, in order to uplift their technical and managerial skills, production and productivity levels, saving and investing capabilities, education and sanitary conditions and -last but not least - their social status in their very own communities.

IV - CEARA'S PROJECT: DEADLINES, AREAS COVERED, TOTAL COSTS, MAIN SEGMENTS, AND PUBLIC GOALS.

The World Bank has already sanctioned that specific project, planned for completion within a five-year period.

Public investments are being used for building an infrastructure, and private investments are being made to develop operative units - altogether with other activities programmed and now under way in these so-called Spatial Units located ine the State of Ceara: coastline, Ibiapaba, hinterland, Low-Jaguaribe River Basin, Quixera mobim, Mid-Jaguaribe River Basin, Inhamuns-Salgado, and Cariri.

Ceara's Project is expected to reach US\$163 million, with the World Bank sharing approximately US\$55 million (34% of total cost), Brazil's Federal Government accounting for US\$102 million (about 63%), and the State of Ceará contributing the remaining 2.6%. Unquestionably, such financial scheme is a quite advantageous one for the State of Ceará, since the direct borrower from the World Bank will be the Federal Government and the resources thus obtained will be put to use, under its full responsibility, on a nonreturn basis.

It ought to be herein emphasized once again the full support that the State of Ceará has received from the Brazilian government, both its Planning Department (SEPLAN) and the Ministry of the Interior, besides SUDENE in a very specific way.

Planned investments and other developmental activities, foreseen in Ceara's Project, are focussed on priority segments, such as vicinal roads, rural electrification, storage capacity, marketing facilities, cooperative farming, research and experimentation, education, sanitation, input availabilities, technical assistance, and rural credit.

As already pointed out, the public goals to be achieved in carrying out this program mainly concern small farmers, including cropsharers, landleasers, and landowners whose farm units do not exceed 100 hectares.

Out of a total 300 thousand small rural producers in Ceará, approximately 60 thousand of them (20%) will directly benefit from Ceará's Project.

PROJETO CEARÁ: UMA FILOSOFIA NOVA NO DESENVOLVIMENTO RURAL.

Exposição do ex-Secretário de Planejamento e Coordenação do Estado do Ceará, LUIZ DE GONZAGA FONSECA MOTA, quando da visita do Presidente do BIRD, Mr. A. W. CLAUSEN, ao Ceará, em 10 de março de 1982.

O Plano de Governo da atual administração do Estado do Ceará (PLAMEG II) definiu como objetivo básico o aumento progressivo da oferta de emprego e a melhoria dos níveis de renda da população, paralelamente ao fortalecimento da economia de mercado.

Com vistas ao alcance desse objetivo básico decidiu-se adotar uma estratégia de ação que, sob o aspecto econômico, consistia fundamentalmente em tentar conseguir a mudança do perfil da estrutura da economia cearense, de forma a torná-la menos dependente da participação até então predominante do setor rural.

Essa mudança do perfil da estrutura econômica, de acordo com o Plano de Governo, poderia ser alcançado através dos seguintes meios:

- a) intensificação dos investimentos no setor industrial, notadamente na área metropolitana de Fortaleza e nas principais cidades do interior;
- b) montagem e aperfeiçoamento da infra-estrutura física, mediante aceleração dos investimentos nos subsetores de transportes, energia elétrica, saneamento básico, comunicações, etc.;
- c) maior exploração das potencialidades do setor mineral;
- d) expansão das atividades nos setores do Turismo e do Artesanato, propiciando melhor aperfeiçoamento da vocação natural do Estado para esses segmentos de sua economia;
- e) adaptação da exploração agro-pecuária às caracterís ticas, do clima e solo do território cearense.

Ao lado da estratégia de ação no campo econômico, conforme acima esboçado, o Plano de Governo definia também uma estratégia no campo social, onde o objetivo básico deveria ser a promoção da pessoa humana, de modo a desenvolver toda a sua potencialidade e incorporá-la efetivamente aos setores produtivos da economia, proporcionando-lhe plenas condições de auto-sustentação física e de integral realização no campo psico-social.

Conforme mencionado antes, a estratégia a ser adotada para o setor rural consistiria basicamente, em buscar-se a adaptação da agro-pecuária cearense às reais características de seu território em termos de clima e pluviosidade, recursos hídricos, fecundidade de solos e até mesmo de sua estrutura fundiária.

Para efeito de se alcançar essa progressiva adaptação no setor rural, julgou-se que o caminho mais viável seria a execução de projetos de desenvolvimento rural integrado. Isto porque a expe riência recente obtida em uma área específica de atuação do Polonordeste, na Serra da Ibiapaba, demonstrara que esse tipo de projeto se afigurava uma forma ideal para se conseguir a maximização dos benefícios dos investimentos públicos, tendo em vista que concentração destes em determinados segmentos prioritários propor cionava a criação da infra-estrutura física indispensável, além de permitir o oferecimento de assistência técnica e financeira em condições capazes de possibilitar um satisfatório atendimento ao produtor rural. Com isso, esperava-se não somente levar esse produ tor a assumir um papel eminentemente ativo no cenário econômico, co mo também esperava-se obter significativos aumentos da produção e da produtividade do setor rural.

A estratégia a ser adotada consistiria, pois, em estender, progressivamente, a filosofia dos projetos de desenvolvimento rural integrado a todo o território cearense. Para tanto, procurou o Governo do Estado obter o indispensável apoio do Governo Federal através da SEPLAN e do Banco Mundial, instituição que, já tendo decidido anteriormente apoiar o projeto da Ibiapaba, resolveu também emprestar suporte financeiro à nova iniciativa que resultou afinal na formulação do que passou a se denominar de Projeto Ceará, e que hoje compreende diferentes regiões, entre as quais se destacam além da Ibiapaba, a da Serra de Baturité, a de Quixeramobim e Médio Jaguaribe, a de Inhamuns e Salgado.

3. O PROJETO CEARÁ E O PEQUENO PRODUTOR RURAL

rense se afigura bastante significativa. Como efeito, segundo estimativas da Comissão Estadual de Planejamento Agrícola, existem no Ceará cerca de 323 mil produtores rurais; desse total, aproxima damente 300 mil são classificados como pequenos produtores, sendo que, entre estes, se incluem 170 mil agricultores não-proprietários e apenas 130 mil que possuem terra. Verifica-se, assim, que

mais da metade dos produtores lulais do Escala não-proprietários, o que faz ressaltar a prioridade a ser atribuida ao aspecto da reorganização fundiária, no contexto das ações a serem empreendidas.

A relevância dos pequenos produtores se manifesta também na participação desse segmento no total da produção agrícola do Estado. Assim é que se admite que cerca de 60% da produção de alimentos e de matérias-primas agrícolas é proveniente das peque nas unidades produtoras, ou seja, daquelas propriedades cuja área não é superior a 100 hectares. Constata-se, ademais, que essas pequenas propriedades proporcionam ocupação a mais de 70% dos trabalhadores rurais.

Evidencia-se desse modo que, tanto do ponto de vista econômico-financeiro, como do ponto de vista social, os peque nos produtores rurais representam para o Estado do Ceará um segmento de fundamental importância e, como tal, merecedor do mais amplo apoio dos programas de desenvolvimento a serem levados a cabo. Daí, ter o Projeto Ceará por objetivo exatamente o pequeno produtor rural, visando proporcionar a esse homem integral assis tência, de modo a elevar sua habilitação técnica e gerencial, sua produção e seu nível de produtividade, sua capacidade de poupança e de investimento, sua educação e sua saúde, enfim sua condição social no âmbito da comunidade de que participa.

4. PROJETO CEARÁ: PRAZO DE EXECUÇÃO, ÁREAS DE ATUAÇÃO, CUSTOS TO TAIS, PRINCIPAIS SEGMENTOS, PÚBLICO-META.

De acordo com o programa aprovado pelo Banco Mundial, o Projeto Ceará deverá ser executado ao longo de um período de cinco anos.

Os investimento públicos no setor infra-estrutura, assim como os investimentos privados ao nível das unidades produtoras, junto com os demais trabalhos compreendidos no âmbito do Programa, estão sendo realizados em oito diferentes subregiões do Estado, denominadas Unidades Espaciais de Planejamento e que são as seguintes: Litoral, Ibiapaba, Baturité, Sertões Cearenses, Baixo Jaguaribe, Quixeramobim e Médio Jaguaribe, Inhamuns-Salgado e Carriri.

Os custos totais do Projeto Ceará deverão alcançar cerca de 163 milhões de dólares. Desse total o Banco Mundial partici pará com aproximadamente 55 milhões de dólares equivalente a 34,4% enquanto o Governo Federal teria uma participação de 102 milhões de dólares cerca de 63 % e o Governo do Estado entraria com o restante 2,6%. Trata-se, naturalmente, de um esquema financeiro bastante vantajoso para o Estado do Ceará, porquanto o mutuário da operação de empréstimo com o Banco Mundial é o Governo Federal que, além disso, aplicará os recursos de sua responsabilidade a fundo perdido.

Nesse particular, é de se ressaltar o apoio que o Es tado tem recebido do Governo Federal, não somente através da Secretaria de Planejamento da Presidência da República, como também através do Ministério do Interior e, especialmente, da SUDENE.

Os investimentos previstos e as demais ações desenvolvimentista compreendidas no Projeto Ceará se concentram em determinados segmentos prioritários, entre os quais se destacam: estradas vicinais, eletrificação rural, armazenamento, co mercialização, cooperativismo, pesquisa e experimentação, educação, saúde, abastecimento de insumos, assistência técnica, crédito rural.

Conforme ressaltando antes, o público meta do programa é constituido pelos pequenos produtores rurais, compreendendo-se aí as categorias de parceiros, arrendatários e pequenos proprietários com áreas não superiores a 100 hectares.

Do total de 300 mil pequenos produtores rurais existentes no Estado, pretende-se alcançar, em cinco anos, através do Projeto Ceará, cerca de 60 mil, ou seja, o equivalente a 20%.

FORM NO 27 - OCR (11-78)

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FORM NO 27 - OCR (11-78)

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OFFICE MEMORÁNDUM

1033

SUBJECT:

TO: Files

DATE: April 12, 1982

FROM: Dennis Koromzay, LC2

BRAZIL - Mr. Clausen's Meeting with PETROBRAS President,

Dr. Shigeaki Ueki

1. Mr. Clausen met with Dr. Shigeaki Ueki, President of PETROBRAS, at around 3:30 p.m. on March 13, 1982, on board the yacht "Marina", in Guanabara Bay, Rio de Janeiro. Also present were Messrs. Ardito Barletta, Levy, van der Heijden, Ms. Lallement and Koromzay.

- 2. Mr. Ueki first described PETROBRAS, which he said was the largest company in the southern hemisphere, with a turn-over last year of some US\$22 billion. PETROBRAS had 60,000 employees, of which 8,000 were university graduates. Last year PETROBRAS had 9,000 university graduate applicants for some 200 places. Present production levels were on the order of 250/260,000 bpd, and prospects for increasing production were encouraging. Last January proven reserves had increased by some 50 million barrels, and available proven reserves were increasing faster than production. PETROBRAS was 80% publicly owned and 20% privately owned, with active trading of its shares on the Brazilian stock exchange. Since 1976 the private sector had been heavily involved in PETROBRAS' oil exploration program through risk contracts.
- 3. Mr. Ueki acknowledged the Bank's involvement in the fertilizer and petrochemical sectors. He mentioned that PETROBRAS' fertilizer operations were its only operations which were losing money. There was no protection for the domestic fertilizer industry, and PETROBRAS had to compete with imports at international prices which were severely depressed. There was a large excess capacity internationally, in particular for nitrogen-based fertilizers, and the market outlook was poor. However, he considered that phosphate fertilizers had a good potential. Mr. Ueki also mentioned that the Sergipe project which the Bank was financing (Loan No. 1406-BR) was proceeding well, and that the Araucaria project (Loan No. 1256-BR) would be commissioned the following week in the presence of President Figueiredo.
- As regards possible areas for future collaboration between PETROBRAS and the Bank, Mr. Ueki referred to the Bank mission which had visited PETROBRAS last year, and indicated PETROBRAS would welcome Bank support for its exploration and development activities. He referred in particular to the secondary recovery program in the Northeast, possible tertiary recovery activities, and gas development. Mr. Clausen responded that the Bank's two main priorities were (a) agriculture and rural development, and (b) energy, implying that the Bank would be interested in considering support for the PETROBRAS program. Mr. Ueki stated that he agreed with the Bank's priorities, and that he considered increasing food production an even higher priority than energy.

- In response to a question about PETROBRAS' oil shale program, Mr. Ueki noted that Brazil had very large oil shale reserves, but that he would be very cautious in moving ahead quickly. Commercial scale oil shale development was considered something for the 1990's, not before. PETROBRAS had a 1,000 bpd semi-commercial scale plant in operation, and was considering scaling up to a 25,000 bpd plant to test new technologies. However, all of the U.S. companies had postponed commercial scale oil shale development in view of the current oil glut. Mr. Ueki indicated he would not go ahead with a commercial scale oil shale program unless the World Bank thought it was economic. His estimate was that oil shale would become economic when the price of oil reached \$40-\$45/barrel.
- 6. In response to a question on the proposed Bolivia-Brasil gas pipeline, Mr. Ueki stated that he felt only an international organization such as the World Bank could put such a project together (implicitly, because of the unstable political situation in Bolivia; Mr. Ueki said that last year PETROBRAS had discussed the project with seven different Bolivian ministers). Mr. Ueki stated that Brazil was the natural market for Bolivian gas, and that Brazil was ready to go ahead with the project. Bank participation on the Brazilian side was welcomed.

DKoromzay:nps

NECEIVED

OFFICE OF THE PRESIDENT

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

Mr Lafourcade

OFFICE MEMORANDUM

TO: Distribution

DATE: March 31, 1982

FROM: Fred D. Levy #

SUBJECT: Mr. Clausen's Meetings with Brazil Economic Team,

Brasilia, March 11, 1982

- During the morning, Mr. Clausen met in SEPLAN with Ministers Delfim Netto and Galveas, Central Bank President Langoni, and various SEPLAN officials and economic advisers. A second meeting was held in the afternoon at the Finance Ministry with Messrs. Galveas and Langoni and several Ministry of Finance advisers. Also representing the Bank were Messrs. Barletta, van der Heijden, Koromzay, Ms. Lallement, and myself.
- 2. A number of topics were covered at the morning meetings:
- a. Short-term economic outlook. Mr. Clausen inquired about the current economic situation. The Brazilians responded that the Government's immediate economic priority is to reduce the current account deficit; important progress was made in that direction in 1981. A major policy tool has been fiscal austerity; no major new investment projects are being started, with the exception of Carajas. Agriculture has performed very well for the past two years, and another good harvest is expected in 1982. The latter will be boosted by the first real harvest of any magnitude in the Northeast after three years of drought. The Government hopes to reduce inflation to the 80-85% range in 1982 (compared to 95% in 1981). Although the publicly announced target is 70%, the Ministers do not believe it can be achieved in the context of the present wage adjustment law. The latter is not only inflationary but also contributes to unemployment --both by raising the cost of low-skilled labor and by the impact the income-redistribution effect of the tapered adjustment has had in shifting the pattern of demand away from the more dynamic sectors. The policy has, for the time being, silenced the cries of the "intellectuals" for income redistribution; they have now discovered that it works at their own expense. In the longer term, however, the law is also a political liability, since wage protection is simply taken for granted as a responsibility of government, while the consequent inflation will be viewed as a sin of government. Nevertheless, no change in the wage law, can be anticipated before the November elections.
- b. Mr. Clausen expressed satisfaction that the short-term situation appeared to be more or less under control but asked whether the Government would be able to withstand the growing political pressures of an election year and also inquired about the medium term. Questions were directed particularly at the need to (i) prioritize investments, (ii) stimulate exports, (iii) reduce subsidies, and (iv) create employment opportunities.
- (i) It was acknowledged that, as in all countries, the budget contained some political projects, but these were few and not

very important. Meanwhile, the peaking of expenditures for major projects such as Itaipu, Tucurui, and the Ferrovia do Aco, stretchout of the electric power investment program, and the completion of the steel program, which now has substantial excess capacity, would over the next few years enable the public sector to undertake new projects in both the productive and social sectors, particularly education and health. Minister Delfim emphasized that in addition to the need to establish investment priorities, as suggested by Mr. Clausen, Brazil must also adjust its investment aspirations down to the level of internal savings. Mr. Barletta inquired about the progress being made toward formulation of a medium-term investment program and reminded the Ministers of the mission scheduled for May. Minister Delfim reaffirmed that he welcomed the mission and indicated that a five-year program (82-86) was near completion and that a framework was already being prepared for an 83-87 version. (This last point was offered by SEPLAN Secretary General Pecora.)

- (ii) Minister Delfim reiterated the high priority being given to exports, describing it as the objective of every decision being taken in the economic area and essential in view of Brazil's high debt service obligations.
- (iii) Mr. Clausen pointed to the strides made by the Government in recent years to reduce price and interest rate subsidies but noted these were still very large and inquired about a long-term strategy for their reduction. Minister Galveas pointed out that the only remaining consumer subsidy of any significance was that for wheat and that subsidies to agriculture and export industries were being reduced. He also noted that some of what are often referred to as subsidies are only incentives to induce the private sector to do what many governments in other countries do directly. Minister Delfim argued that what was wrong was not the subsidy but the way, in recent years, it was financed. In the past, subsidies had been fully financed by the Treasury and were merely a device for transferring public sector surpluses back to the private sector for investment. More recently, however, they had come to depend on financing through monetary expansion, and that was the problem. In response to Mr. Clausen's point that subsidies cloud real economic rates of return and can thus lead to poor investment choices, Minister Delfim responded that the sectors of priority -- e.g. agriculture -- were quite apparent, and that without the added incentives provided by the subsidies the needed production increases would not be achieved. Minister Galveas pointed out further that medium and large farmers are now actually paying positive real interest rates, given the share of current expenses they must finance themselves, and asserted that the real rates for financing agricultural investment were indeed too high, since in fact very little money was being made available by the government for this purpose. He also noted that farmers, unlike industrialists, don't benefit from a tax deduction for interest charges (since they pay practically no income tax anyway) and must compete with heavily subsidized farmers in other countries.
- (iv) Minister Delfim acknowledged that employment creation in the medium term represented a difficult challenge. He

noted that 6-7% output growth was needed to absorb the annual increment to the labor force. Although only 4-5% growth appeared possible in 1982, relaxation of the balance-of-payments constraint may allow some acceleration in later years.

- c. Carajas and the steel program. Mr. Clausen indicated that he was well impressed by his visit to the Carajas project area and by its potential for transforming the economy of northern Brazil. He was also well impressed by the precautions being taken to protect the area's ecology. He affirmed the Bank's interest in being involved in Carajas, noting, however, that firm commitments would have to await Board approval. In this regard, Mr. Clausen later in the conversation expressed his concern about the difficulties that could arise from the problems being experienced by the Bank-financed steel projects. Minister Delfim responded that he believed the Government had complied with the agreements reached during his December visit to Washington; that steel prices had been increased and the debt/equity ratios of both CSN and COSIPA improved even beyond the levels agreed. He reaffirmed that the order of Government priority was: first CSN, second COSIPA, and third ACOMINAS; and that the financing of the latter was being arranged by the partners -- via purchase/leaseback of equipment -- and was not part of the Government's financing program. Mr. Barletta mentioned that a Bank mission to examine the problem was in the field, and Minister Delfim promised his full cooperation. Returning to the topic of Carajas, Mr. Clausen indicated he hoped for Board presentation in June or July. Minister Galveas mentioned that ambitious plans were also being developed for the agricultural development of the area, and that the IDB was expected to participate in that facet of the program.
- 3. The afternoon meeting began with: (a) a wide-ranging review, by Messrs. Galveas and Langoni, of the current economic situation. Also touched upon were: (b) the Bank's policy on graduation; (c) Brazilian participation in an international investment insurance scheme; and (d) Brazil's continued interest in a loan for export industries.
- a(i) Brazil has put off virtually all new investment projects in the effort to adjust to the 1973 and 1979/80 oil shocks. Although the balance of payments had by 1978 adjusted to the 1973 shock, its reverberations, as well as those of the second wave, are still very important in the economy. Interest payments on the external debt amounted to US\$8.7 billion in 1981 and, assuming an average interest rate of 16.5%, will reach US\$9.5 billion in 1982. The current account deficit was reduced by more than US\$2 billion in 1981 and will hold constant in 1982 with an expected trade surplus of \$3 billion. Export growth is projected at 15-18%, led by manufactures. Agricultural exports are not expected to grow in volume terms, but some price recovery is likely. Economic recovery should not significantly stimulate imports in 1982, given the high levels of idle capacity in industry, high interest rates which will inhibit inventory accumulation, and the real devaluation resulting from the accelerated crawl, and the expected decline of oil imports (see para. a(vii)). No problems are being experienced or anticipated in obtaining the rollovers and new financing needed in 1982, and

borrowing needs are expected to decline steadily after 1982. Although the international bond markets are practically dead, Brazil has continued to acquire US\$300-500 million per year in this form,

particularly in Japan.

- a(ii) The Government is not proud of its inflation performance, but there has been a clear downward trend since March 1981. The short spurt in January-February 1982 resulted primarily from public sector tariff adjustments -- e.g. water, power and urban The monetary base fell in February and March. The Bank of Brazil is now under very tight control with previously "open" accounts now closed. In 1981, BB credit expanded only 63%, compared to 95% inflation and commercial bank credit expansion of 110%. The Central Bank is also reducing its development banking functions and limiting itself more and more to refinancing operations. Open market operations withdrew about Cr\$ 500 billion from the system in 1981. There is no Treasury deficit, and the deficits of the public enterprises result primarily from high interest rates, the wage policy, and the impact of the 1979 devaluation. The social security deficit has been significantly reduced by recent tax measures; the petroleum account is in surplus, and the wheat subsidy has been reduced by about two-thirds in nominal terms. It was intended to eliminate the latter in 1982, but this proved (politically) not possible despite very large increases in the prices of bread and flour. Other small subsidies continue to be paid to Northeast sugar growers and for fluid milk storage.
- a(iii) The major inflationary source now and for the foreseeable future is wage policy. It requires a tremendous monetary squeeze to overcome the mandatory wage increases; wages were adjusted upwards 110% in 1981, compared with inflation of 95% and a growth of M1 of 70%. On the other hand, it was also noted by Mr. Langoni that employers are able to get around the law (and are doing so) by increasing labor turnover -- replacing workers with others at lower job classifications .-- and that, indeed, average real wages may have fallen in 1981. In any event, Minister Galveas stated that continued macroeconomic restraint would eventually overcome wage pressures, and that workers were increasingly asking employers to ignore the law for the sake of maintaining employment levels. Politically, the law had been passed by Congress, and no Government initiative to change it could be expected this year. At the same time, however, Minister Galveas asserted that there was growing public awareness of the problem that extended across party lines, so that the outcome of the elections might not greatly affect the prospects for change. Later in the conversation, Minister Galveas invited the Bank to carry out a study of present wage policy and its economic implications, and the mission promised to explore that possibility.
- a(iv) <u>Unemployment</u> has increased surprisingly little since 1980, in spite of the recession, and is heavily concentrated in the capital goods and consumer durable goods industries around Sao Paulo. Mr. Barletta asked what policies were in mind to maintain employment growth as general macroeconomic constraints eased. Minister Galveas indicated that there were no specific programs toward that end, but that progress should follow from their increasing emphasis of social

programs -- human investment. He also noted that the frontier would continue to attract labor. He agreed with Mr. Levy's point that labor absorption was probably inhibited by the existing labor taxes and capital subsidies, and that various alternatives were being studied to remedy that distortion. Mr. Barletta suggested a possible shift in social security financing to the value-added tax, and it was indicated that this was one of the options being looked at.

- a(v) Interest rates in Brazil are not as out of line with international rates as may appear. If the interest rate on foreign loans to a Brazilian borrower were broken down, and account taken of the rate of devaluation, normal bankers' spread, and risk premium, it would add up to about 128%, which sets the floor for domestic borrowing costs. Besides, industrial borrowers can deduct the cost when calculating their income tax.
- a(vi) Mr. Clausen asked what target the Government has in mind re Brazil's savings ratio to GDP. Minister Galveas replied that it has historically run in the range of 20-25%, with foreign savings recently being reduced from 7% to 3%. In general, given Brazil's ICOR, a 20% savings ratio should be sufficient to reach a growth rate of 5-6%.
- a(vii) Minister Galveas cited the significant improvement in Brazil's energy picture. Domestic oil production reached 240,000 b/d by the end of 1981, and they expect to attain 300,000 b/d by end-1982. Meanwhile, oil consumption had been reduced 14% since 1979. Net imports in 1982 will be about the same as 1981 -- 830,000 b/d, less about 100,000 b/d of derivative exports. Given the recent stagnation of demand and the strain on credit expansion, the alcohol program is being stretched out. The 10.7 billion liter target initially set for 1985 is now expected to be achieved in 1987. Meanwhile, the coal expansion program will get under way as funds become available, and they expect to double production to 12 billion tons by 1985. The Minister indicated that IFC has shown interest in this sector.
- b. In response to a question from Mr. Clausen, Minister Galveas stated that Brazil was not happy with the Bank's policy of graduation but, in any case, anticipated a continuing long relationship with the Bank. Mr. Langoni asserted that per capita income was too simple a concept by which to measure a country's development and outlined the proposal Brazil had put forward at the IDB meeting in Lisbon. Rather than graduation, he described a process of "maturation," whereby the interest rate charged by the multilateral institutions would vary among countries and over time, according to a more complex set of criteria, and would also take into account the amount of a country's paid-in capital in convertible currencies. Mr. Clausen pointed out that the per capita income criterion only triggers discussions, and that the graduation path to be followed was to be determined flexibly in response to other criteria. Mr. Langoni objected, however, that this was not a market evaluation. This point was further emphasized by Mr. Serrano (Central Bank Director for External Credit), who remarked that Brazil would be willing to pay a

higher interest rate to retain World Bank participation in Brazil to help shape projects and, through its appraisal, attract other lenders. Minister Galveas also cited the Knight-Moran article which had appeared in Finance and Development as evidence of Brazil's social problems and the prematurity of any consideration of graduation.

- c. Mr. Clausen expressed his hope that the Brazilian Government would give sympathetic consideration to the proposal for an international insurance scheme against political risk as a means of attracting more private capital to developing countries. Minister Galveas reacted negatively, however, pointing out that Brazil does not need such a scheme and asserting that probably no country in the world has more or so varied a participation of foreign companies. Mr. Clausen responded that nevertheless other countries may need such a mechanism and could benefit from Brazil's support of the concept, and that Brazilian inventors abroad could also benefit from such insurance. Mr. Langoni expressed the concern that such a mechanism, by reducing risk differentials among countries, might distort world capital flows.
- d. Mr. van der Heijden mentioned the forthcoming trade and industrial policy report and the possibility of an industrial credit loan through BNDE. Mr. Galveas expressed interest in the report and ensuing discussions. He reiterated the Government's continuing interest in a loan to finance the import content of industrial exports and asked about its status. Mr. Clausen responded that such a loan might face difficulties because of Part I countries' perception of the subsidy issue, particularly in the present world context of protectionist pressures. Both Minister Galveas and Mr. Langoni indicated the Government's intention to liberalize trade policies as the macroeconomic situation provides them increasing degrees of freedom. It was agreed that discussions on possible lending alternatives would be held at the time of discussion of the aforementioned report.

Cleared by and cc: Mr. van der Heijden

cc: LAC: Messrs. Ardito Barletta, Lerdau, van der Meer, Pfeffermann, LCP Assistant Directors, Brazil Division; Outside LAC: Messrs. Stern, Fuchs, Lafourcade.

FDLevy:cjb

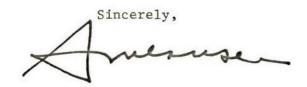
A.W. CLAUSEN President

March 23, 1982

Dear Mr. Alves:

Thank you for your letter and the kind words of appreciation for the works of Bob Skillings during his extended association with Brazil. I know that your praise of Bob is well deserved as I am indeed well aware of his contribution to the development of the close and fruitful relationship which exists between Brazil and the Bank, particularly in the agricultural sector. My recent visit to Brazil has made very clear to me that the high quality of the dialogue between the Government and the Bank owes much to the efforts of Bob Skillings and his colleagues. I am pleased to note that you share the same views.

Thank you again for writing to me.



Mr. Eliseu Roberto de Andrade Alves President Empresa Brasileira de Pesquisa Agropecuaria Vinculada ao Ministerio da Agricultura Brasilia, Brasil

P.S.: Knowing that Bob will also appreciate your kind comments, I am taking the liberty of sending him a copy of your letter.

bcc: Mr. Barletta) with copy of incoming Mr. Knox) with copy of incoming (

CC: Robert F. Skillings

OLafourcade:m1



Dear Mr. Clausen,

I learned that Mr. Robert F. Skillings has left the office of Chief, Brazil Division to become Chief, Country Programs Division for West Africa. As President of EMBRAPA I wish to express our deep and sincere appreciation for his outstanding work in that office.

I do this in no mere formal sense, for Mr. Skillings always provided us his assistance with efficiency and dedication. EMBRAPA owes much to him, for he has helped our Organization with zeal, since its inception, in the difficult task of institutional building. His role in the First Agricultural Research Project at all stages of its development was remarkable.

He always did his best to facilitate our understanding of the Bank mechanisms and, in the other hand, to explain our philosophy and operational model to the Bank officials, at all levels. He was also a strong ally of EMBRAPA in the discussions with the Government authorities, which took place during the negotiations of the second loan. The Bank prompt approval of the loan contributed to increase EMBRAPA's reputation within Brazil and abroad as well. Furthermore, his work was outstanding in regard to advise EMBRAPA on research priorities and strategies, and linkages with foreign universities and other international institutions.

I greatly acknowledge our debt to Mr. Skillings, and trust that our association with the World Bank will always continue at the high level we have achieved.

Yours sincerely,

Eliseu Roberto de Andrade Alves

President

Mr. ALDEN W. CLAUSEN

President, World Bank
International Bank for Reconstruction and Development - IBRD

1818 'H' Street, N.W.

Washington, D.C. 20433

U.S.A.

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1982 MAR 17 PM 3: 57

FORM No. 89 (2.66)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Brayel

INTERNATIONAL DEVELOPMENT ASSOCIATION INTERNATIONAL FINANCE CORPORATION

	ROUTING SLIP	Date March 17	, 1982	
	OFFICE OF THE	E PRESIDENT		
	Name	Ro	om No.	
	Mr. Clausen	A		
	Mr. Stern			
	Mr. Barletta		(2)	
	Mr. Benjenk			
	Mr. Thahane			
	To Mandle	Note and File		
	Appropriate Disposition	Note and Return		
	Approval	Prepare Reply	Prepare Reply	
	Comment	Per Our Conversa	tion	
	Full Report	Recommendation		
XX	Information	Signature		

Remarks

Initial

Original has gone to Mr. Hennessy.

Olivier Lafourcade

Send On

From

7984

OFFICE OF COUNTY AUDITOR

ST. LOUIS COUNTY, MINNESOTA

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World Bank Headquarters 1818 H Street N.W. Washington, D.C. 20433

OFFICE Dubuth Minnesotant AND SECRETARY March 11, 1982

Enclosed you will find a certified copy of resolution No. 157

March 8, 1982

adopted.......by the Board of County Commissioners of St. Louis County, which is self-explanatory.

Yours very truly,

RUSSELL PEDERSEN , County Auditor

By

Clerk of County Board

Resolution No: 157

Adopted

March 8 1982

By Commissioner Anzelc:

WHEREAS, a government owned company in Brazil is seeking a three-hundred million dollar (\$300,000,000) World Bank loan to build what would be the world's largest iron ore production facility; and

WHEREAS, the Company, Cia Vale Do Rio Doce, receives subsidies from the Brazilian Government and already sells ore at prices far below production costs; and

WHEREAS, the Iron Range of Minnesota, its communities and residents are dependent on the mining of iron ore for their livelihood; and

WHEREAS, the construction and operation of said facility would have a serious, detrimental effect on the economy of the Iron Range of Minnesota and threatens the future of the entire American iron ore industry;

NOW, THEREFORE, BE IT RESOLVED, the St. Louis County Board of Commissioners hereby urges the President of the United States, the United States Congress, and the American Representatives to the World Bank to strenuously oppose any World Bank Loan to the Brazilian Mining Company, Cia Vale Do Rio Doce, or any other company to be used for the proposed Iron Ore Production Facility in Brazil.

Commissioner moved the adoption of the Resolution and it was declared Anzelc adopted upon the following vote: Yeas - Commissioners Dodge, Kron, Hall, Hoff, Anzelc, and Chairman Doty - 6 Nays - None Absent -Absent - Commissioner Shannon - 1

STATE OF MINNESOTA Office of County Auditor. County of St. Louis

I, RUSSELL PETERSEN, Auditor of the County of St. Louis, do hereby certify that I have compared the foregoing with the original resolution filed in my office on the 8th March 82, and that the same is a true and correct copy of the whole thereof.

WITNESS MY HAND AND SEAL OF OFFICE at Duluth, Minnesota, this March

8th

A. D. 19 82

RUSSELL PETEUSEN, County Auditor.

Dynaude Clerk of County Board.

would have.

March 15, 1982

Dear Mr. Langoni:

Thank you very much for your letter of March 4 regarding release of commitment authority in connection with your Government's contribution to IDA6.

We are very grateful for your response. As you know, the United States has now deposited with the Association a second installment amounting to \$700 million, thus triggering the release of additional commitment authority from all donors who wished to keep such releases of their contributions proportionate to further additional payments by the United States.

May I express again our gratitude for your action and our deep appreciation for Brazil's continued support for the Association.

Sincerely,

TC

Sr. Carles Geraldo Langoni Presidente Banco Central Do Brasil Caixa Postal 1102/11 70.000 Brasilia (DF), Brasil

Bc: Mr. Jaime Garcia-Parra

Executive Director

bcc: Messrs. Duarte, Ikham, Mistry, Rothenbuhler Mrs. De Santis

AHumm: kav

P.S. Let me express great appreciation for your warm welcome to Brasilia last week and for the courtesies Mrs. Langoni extended to Peggy. Our trip was very pleasurable and I'll write you about my experience in a few days.

WORLD EARK OUTGOING MESSAGE FORM (Tologram, Cable, Telex)
IMPORTANT (PLEASE READ INSTRUCTIONS BELOW BEFORE TYPING FORM.)

TELEX Date FEBRUARY 23, 1982 Class of Service Telex No. 1130939 CPMO BR _____ Originators Ext ______ 7-3585 12 START N. KNOWLTON KING CONTINENTAL CAN COMPANY 1 HERE THANK YOU FOR YOUR INVITATION TO SPEAK AT A LUNCHEON AT THE CITY/COUNTRY AMERICAN CHAMBER OF COMMERCE IN SAO PAULO DURING MY FORTHCOMING MESSAGE NO VISIT TO BRAZIL STOP EYE REGRET THAT EYE MUST DECLINE BECAUSE OF THE VERY SHORT DURATION OF MY VISIT TO SAO PAULD AND AN ALREADY EXTREMELY TIGHT OFFICIAL SCHEDULE STOP MANY THANKS AGAIN FOR THE INVITATION STOP SINCERELY A.W. CLAUSEN 10 12 13 17 18 19 20 END 21 OF TEXT 22 NOT TO BE TRANSMITTED SUBJECT: Invitation to speak DRAFTED BY: OLafourcade:ml CLEARANCES AND COPY DISTRIBUTION: AUTHORIZED BY (Name and Signature): A. W. Clausen DEPARTMENT. SECTION BELOW FOR USE OF CABLE SECTION CHECKED FOR DISPATCH

OFFICE MEMORANDUM

Mr. A. W. Clausen TO:

SUBJECT:

(Through Mr. Ernest Stern)

Nicolas Ardito Barletta FROM:

BRAZIL - Briefing Notes for Meeting on February 12, 1982

with Dr. Eliezer Batista da Silva, President of CVRD

Re: Proposed Carajas Iron Ore Project

DATE: February 9, 1982

- You will meet on Friday, February 12, Dr. Eliezer Batista da Silva, President of Companhia Vale do Rio Doce (CVRD). He will be accompanied by Mr. Samir Zraick, CVRD Financial Director. They would brief you on the current status of the Carajas iron ore project for which a Bank loan of US\$300 million is under consideration. We are proposing that you visit the Carajas project on your forthcoming trip to Brazil. Dr. Batista will meet with Mr. Wuttke later in the afternoon.
- The Carajas project consists of a 35 mtpy open pit integrated 2. mining development in the "Serra dos Carajas" (in the southern part of the State of Para, in the northern Amazon region of the country), a deep water port at Ponta da Madeira (near Sao Luis in the State of Maranhao) with capacity to handle vessels up to 280,000 dwt, and an 890 km railway line connecting the mine with the port. The project is expected to be commissioned by 1985, with an initial production of 15 mtpy, increasing to 25 mtpy in 1986 and 35 mtpy in 1987. The project is expected to generate net foreign exchange earnings averaging about US\$0.6 billion p.a. in 1981 terms at a level of 35 mtpy and US\$0.8 billion p.a. at 50 mtpy (production level expected to be reached by 1993).
- Total financing requirements for the project are around US\$4.7 3. billion, of which US\$1.57 billion would be from external sources. financing plan looks as follows:

Equity		US\$ Million
CVRD Internal Cash General New Capital Subscription		1,409.7 382.2
Debt	Total Equity	1,791.9
Local		1,338.8
Foreign (a) IBRD (b) IFC (c) EEC (d) Japanese Loans (e) KfW (f) Other Total Foreign		300.0 50.0 400.0 500.0 150.0 175.0 1,575.6
	Total Debt	2,914.4
Total Financing		4,706.3

Mr. A. W. Clausen

The Japanese have already announced their willingness to participate in the financing to the extent of US\$500 million. The other prospective loans are well advanced in consideration, and CVRD hopes to finalize all of the financing commitments, including our own, by around the middle of 1982.

- 4. CVRD has made good progress in obtaining long term commitments for the purchase of iron ore from Carajas, with signed contracts, mainly with Japanese and European steel mills, totalling about 25 mtpy. This is considered a remarkable achievement in view of the current slump in the worldwide steel industry, and is a reflection of the confidence which the steel producers have in CVRD as a company and in the Carajas project.
- The Bank has appraised this project in October/November 1981, and the Appraisal Report is currently under preparation. The Transportation Department has raised some technical questions regarding the designs for the railway and port components, and accordingly, a post-appraisal mission was recently in the field to review these components. In addition, we are reviewing the capital cost estimates. The economic rate of return on the project was calculated at 14%. While this rate of return is relatively low, it is quite firm and is within the range of most mining projects. The true economic rate is probably considerably higher than the estimated one which excludes all non iron ore benefits (other mining, regional development, etc.) which are difficult to quantify for now.
- The Bank's participation in the project is regarded as critical in terms of mobilizing the other external financing commitments for the project. At a recent meeting of prospective lenders in Paris, it was decided that the financing plan above would be amended to include US\$200 to US\$250 million in private co-financing for the project. The precise distribution of this is not yet certain; some of it is likely to replace part of the scheduled local borrowing from the Government's development bank (BNDE) which is short of funds. I suggest you express your support for this initiative, as well as for CVRD's on-going efforts to bring into the project new private equity capital through the issuance of subordinated convertible debentures in Brazil's capital market.
- We have two on-going loans with CVRD subsidiaries: Loan No. 1411-BR for the VALEFERTIL phosphate fertilizer project (US\$82 million approved in April 1977); and Loan No. 1660-BR for the VALESUL aluminum project (US\$98 million approved in March 1979). The VALEFERTIL project has been successfully completed, and was recently transferred to a PETROBRAS subsidiary. After initial implementation delays, the VALESUL project is now proceeding with no major problems. A delay of six months and a cost overrun of 10% is expected. In addition, IFC is supporting the Trombetas (MRN) bauxite development (also in the Amazon region) in which CVRD has a 46% interest. The latter project was successfully completed.

Cleared with and ce: Ms. Haug, IPD

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OFFICE OF THE PRESIDENT
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February 4, 1982

Bog

Mr. Louis V. Riggio Senior Vice President Nomura Securities International, Inc. 100 Wall Street New York, New York 10005

Dear Mr. Riggio:

Mr. Clausen received with pleasure your letter of January 29, 1932, and we note that you have been appointed Consul for Commercial Affairs at the U.S. Consulate General in Sac Paulo. All of us in the Latin America and Caribbean Region are looking forward to benefiting from your guidance whenever we shall be in Sac Paulo.

With best regards,

Sincerely yours,

Hendrik van der Heijden Chief, Brazil Division Latin America and Caribbean Regional Office

cc: Mr. Clausen's Office (with copy of incoming)
Messrs. Ardito Barletta
Lerdau, LAC II

vanderHeijden:nev

7576

NOMURA SECURITIES INTERNATIONAL, INC. 100 WALL STREET, NEW YORK, N. Y. 10005

January 29, 1982

LOUIS V. RIGGIO SENIOR VICE PRESIDENT (212) 483-9793 TELEX 222371 OR 222681 NOMRA UR

Mr. A.W. Clausen President International Bank for Reconstruction and Development Washington, D.C. 20433

Dear Mr. Clausen,

I am pleased to announce that February 8 I will join the Foreign Commercial Service of the U.S. Department of Commerce with the rank of FS-1. I have been appointed Consul for Commercial Affairs at the Consulate General in Sao Paulo, Brazil.

The new position represents my return to the Foreign Service. I was with the State Department until going to the private sector in 1964.

While in Sao Paulo I will be very pleased to render assistance to you and to your associates. I ask that your appropriate officers be informed of my assignment.

Yours very truly,

LVR:as

Visit by Mr. Delphim Netto, Minister of Planning for Brazil.
Briefing Note Covering Brazil's Contribution to the CGIAR in 1982.

December 14, 1981.

7.901

Brazil has recently joined the Consultative Group on International Agricultural Research as a donor member. Brazil was for the first time represented at this year's International Centers Week, its representative being Dr. Eliseu Alves, President of EMBRAPA, Brazil's National Agricultural Research Institution. The attendance of such an important official signified that Brazil is now committed to the CGIAR. Nevertheless, Dr. Alves was not in a position to indicate at the pledging session during Centers Week how much Brazil intends to contribute to the CGIAR in 1982. It is said that a decision on the matter required the approval of Mr. Netto, and that this was not possible to obtain prior to Centers Week. All but one or two donor members of the CGIAR have now made their pledges for 1982 and we now need to know the amount of Brazil's contribution. In all our discussions with the Brazilians about their becoming a donor, including earlier discussions and correspondence with Mr. Netto himself, we have urged that they give \$1 million in 1982, their first year.

Brazil is a major beneficiary of the work of several centers in the CGIAR that are researching problems of great interest and importance to agricultural development in Brazil. Centers of particular interest to Brazil are CIAT (Colombia), CIP (Peru), CIMMYT (Mexico), IITA (Nigeria) and ICRISAT (India). The crops concerned are cassava, beans, potatoes, maize, wheat, sorghum, various grain legumes and tropical pastures. All these crops are of major importance to Brazil. Brazilian scientists are well aware of this and maintain close contact with their scientific counterparts at the centers. Relations are good. Attached is an excerpt on this from a report by Mr. Yudelman following his recent visit to Brazil.

Brazil is also in a position to contribute substantially to the CGIAR, as a source of financial contributions, skilled manpower, ideas, and joint research programs. Also, membership by Brazil is a tangible sign of commitment by a third world country to the principles and objectives of the CGIAR. It can play an important part in the Group, and stands to benefit substantially and directly from its participation in the system.

The Bank has been soliciting Brazil's membership as a donor for several years. The matter has been raised on several occasions in discussions between Mr. Netto and both Mr. McNamara and Mr. Barletta. A verbal commitment was made by Mr. Netto last September that the contribution in 1982 would be \$1 million. This has never been confirmed by him officially. When pressed, Brazilian officials have been evasive on the subject, claiming that the last word rests with Mr. Netto, which is probably the case. Once Mr. Netto has made a firm commitment, we can pursue the matter, including the question of payment, with the appropriate officials.

12-15.8!

If Mr. Netto pleads poverty you might care to mention to him that Mexico, also a new member of the CGIAR, has pledged \$1 million in 1982. Both India and the Philippines, who are also newly joined, have pledged \$500,000 although neither are anywhere near as well off as Brazil. A contribution of \$1 million would be consistent with Brazil's important role in the CGIAR, and with the importance it places domestically on the pivotal role played by research in agricultural development. Considering that the Bank has made two large loans to Brazil for agricultural research (one for \$43 million and a second for \$100 million, both for the benefit of EMBRAPA), it should not be difficult for it to justify providing \$1 million to the CGIAR.

Extract from a Back-to-Office Report Prepared by Mr. Yudelman Following a Visit to Brazil. (Report dated December 1, 1981)

- 4. While I was in Brasilia, I visited three research stations and made two brief field trips. (Goias and into Mato Grosso). My visit to the three stations run by Empresa Brasileira de Pesquisa Agropecuaria (EMBRAPA), currently supported by a large loan from the Bank, call for two comments of general policy interest:
- a) Questions have been raised whether national research centers gain from the CGIAR supported international agricultural research centers. There can be no doubt that EMERAPA is benefiting from the work of these centers. The vegetable center is cooperating very actively with CIP in its potato work, and is testing CIP varieties (and seeds) for local conditions. Needless to add, the local scientists were very enthusiastic about the potential for potato production in Brazil; the rice and bean center is cooperating actively with IRRI and CIAT on upland rice and with ICRISAT and IITA on chickpeas; the resource utilisation center close to Brasilia has worked very closely with CIAT in its celebrated work on soils and pastures. All the centers had exchange programs with the IARCs and all looked to the IARCs for a collaborative division of labor, especially in training and testing programs. There can be no doubt about the mutual benefits flowing from the links between the national and international system.

In my view the research and training program at EMBRAPA represents a major contribution to Brazil's agricultural development. Bank staff associated with this project deserve to be commended.

OFFICE MEMORANDUM

TO: Mr. A. W. Clausen

DATE: December 15, 1981

FROM: Hans A. Wuttke

SUBJECT: Your Meeting Today with Mr. Antonio Delfim Netto, Minister of Planning, Brazil

X

Relations between IFC and Brazil are excellent. The only possible problem concerns IFC's relatively high exposure in Brazil which amounted to US\$256 million or 15.5% of IFC's total portfolio at June 30, 1981. We are taking steps to ensure that IFC's exposure in Brazil does not significantly exceed 15% of our total portfolio.

IFC's program in Brazil for FY82 is expected to comprise seven projects for a total net IFC investment of about US\$90 million. The most recent IFC project in Brazil is the PISA newsprint project, which was approved by the Board on December 3, 1981. The novel feature in this investment for which we are seeking Government approval is the discounted subordinated convertible loan of US\$12.5 million. Further projects for FY82 which we are currently considering include a palm oil project (CODEPA) with the Antunes Group in the Amapa region of the Northeast, in which Minister Delfim Netto is particularly interested, as well as an agricultural leasing project and a venture capital project.

For FY83 and beyond our proposed projects include a number of important export-oriented projects of priority to the Government:

- Carajas (iron ore),
- 2) Trombetas (bauxite),
- 3) VAW (aluminum smelter),
- 4) Albras/Alunorte (aluminum smelter), and
- 5) MBR--Antunes Group (iron ore).

The most important of these future prospects for Mr. Delfim Netto's visit is <u>Carajas</u> for which IFC has a mandate to mobilize up to about US\$50 million in subordinated convertible debt financing.

DA/JK:mrw/es

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Partly by selling some of the existing portfolio and by seeking participations mainly with Arab institutions.



OFFICE MEMORANDUM

TO:

Mr. A. W. Clausen

(Through Mr. Ernes 3tern)

DATE: December 14, 1981

FROM:

Nicolas Ardito Barletta

SUBJECT: BRAZIL - Brie

BRAZIL - Briefing Notes for Meeting on December 15, 1981 with

Brazil's Planning Minister Antonio Delfim Netto,

Interior Minister Mario David Andreazza, and Transport

Minister Eliseu Resende

1. You will be having lunch Tuesday, December 15 at 1.00 p.m. with Brazil's Planning Minister Antonio Delfim Netto, Interior Minister Mario David Andreazza, Transport Minister Eliseu Resende, and Ambassador to the United States, Antonio F. Azeredo da Silveira. Also present from the Bank will be Mr. Stern, Mr. Lerdau and myself. Biographical sketches of the three ministers and Ambassador Azeredo da Silveira are attached (Attachment 1).

Recent Political Developments

In September 1981, President Figueiredo suffered a mild heart attack, and for a period of about 2 months, Vice President Aureliano Chavez, a civilian, was Acting President. The assumption of executive powers by Vice President Chavez went smoothly. President Figueiredo reassumed his powers in November. Recently, the Government introduced electoral reform measures in the Congress which are likely to assure that the Government party (PDS) will remain in power in the next elections scheduled for November 1982 (the elections are for State Governors, members of Congress, and mayors; President Figueiredo's term runs to 1985). These reforms have been widely criticized within and outside Brazil as a setback for "abertura", the on-going process of liberalization and democratization. The measures include a requirement that voters must cast ballots for a slate of candidates all of the same party. Since the Government party is strongest at the local level, this measure is likely to result in electoral victories for PDS at all levels.

Economic Situation

- 3. The Government has introduced a series of stabilization policies during 1981 to deal with its high rate of inflation and large current account balance-of-payments deficit (around US\$12 billion for 1981). Tight monetary and fiscal policies have produced a severe slowdown in the economy, with zero or negative growth projected for 1981 (following an 8% growth rate in 1980), with unemployment increasing, particularly in urban areas. The inflation rate in 1981 is now declining toward 90% and the trade balance will be positive in 1981 (US\$.5-1.0 billion), the first time since 1977.
- 4. The main points on the agenda of the current dialogue between the Bank and the Brazilian authorities are subsidized interest rates, and the need for a comprehensive public sector investment program for the medium term. In both, some progress has been made; in 1981 some interest rates

were liberalized, the exchange rate adjustments have followed closely the domestic inflation rate, and the controls on the federal, monetary and public enterprises budgets have been strengthened. But there still is no medium-term public investment and financing program, and this interferes with rational investment and borrowing decisions.

The efforts of Brazil to raise the efficiency of fuel oil uses and to substitute domestic energy sources for imported oil have born important results in 1981. Oil imports declined in 1980 and will again in 1981 as a consequence of the rise of domestic prices for oil products, the expanding production of alcohol and the substitution of coal for fuel oil in a number of industries. Greatly increased expenditures in oil exploration and development, the major hydroelectric projects coming into operation in the next couple of years, and the substitution and conservation efforts, make it appear that the Government's announced goal of reducing oil imports to 500,000 b/d by 1985 (as compared to one million b/d in 1979) is attainable.

Current Lending Program

6. Lending in FY81 amounted to US\$844 million. The currently authorized program for FY82-83 is US\$1,546 million, and the FY82-86 program amounts to US\$5,646 million. I recommend you state that our ability to maintain these levels of lending will depend on a number of factors, including adequate counterpart funding (a problem which is affecting a major part of our on-going program) and agreement on private cofinancing and adequate tariff levels.

Proposed Export Sector Loan

You may recall that at the 1981 annual meetings, Finance Minister Ernane Galveas raised with you the proposal for a fast-disbursing loan of some US\$500 million to finance the import content of manufactured exports. He said that the expansion of manufactured exports (which had an import content of around 40% and often required export financing) was putting pressure on Brazil's reserves, and that a special line of credit to finance the import content of exports, creating a revolving fund for the purpose, would alleviate these pressures. I suggested at the meeting that possibly such an operation could be combined with commercial bank loans, with the commercial banks taking the shorter and medium maturities. Such an operation would also have to be linked to commitments on industrial policy reforms -- in particular elimination of subsidies, lowering of the effective level of protection, and exchange rate policies. You had indicated to Minister Galveas that the Bank would take a close look at the proposal. Minister Delfim may raise this issue with you again. So far, informal consultations with the American, British and German EDs about the possibility of such a loan, suggested by Mr. Stern, have not been very promising.

Steel Sector

We have loams outstanding to CSN (Companhia Siderurgica Nacional) and COSIPA (Companhia Siderurgica Paulista) which are in serious difficulty because of insufficient counterpart funding. At the end of October, 1981, we formally put the Government and the companies on notice that we would suspend these loans if they did not present for us, by November 30, 1981 (since extended to December 15, 1981), a plan of action which would enable the companies to complete their projects and to achieve financial viability. COSIPA requires about US\$500 million in new equity in 1982 and CSN around US\$375 million in order to maintain the present construction schedules and for the companies to achieve a satisfactory financial position (of which around US\$300 million each in new funds in 1982, with the balance possibly to be provided through conversions of debt into equity). The Government is likely to inform us that the amounts needed by the steel sector are not available, and to request our agreement to a further slow-down and/or a more gradual financial recuperation of the steel sector. The Government recognizes that too many large projects were started in the period 1974-78, and that following the circumstances created by the second round or oil price hikes in 1979 and 1980, the simultaneous completion of these projects in 1982 and 1983 is not possible. I recommend that you say that an agreement by the Bank would only be acceptable if at the same time joint Bank/Government work were initiated to formulate a coherent public investment and financing plan for the next several years, so as to avoid a repetition of the steel problem in other sectors.

Carajas Iron Ore Project

We have in our FY83 lending program a loan of US\$300 million for a US\$5 billion iron ore mining project in the Amazon Region (comprising a mining complex, a 900 km railway line, and a port complex). The project has been appraised, and an appraisal report is under preparation. Minister Delfim has just been in Japan, where he obtained commitments from the Japanese Government to contribute US\$500 million towards the financing of this project. The EEC is considering providing US\$400 million in financing, KFW US\$150 milion, and IFC US\$50 million. Our own participation is considered essential to putting together the external financing for this project. Both the Japanese and EEC financing will involve substantial participation by commercial banks. I recommend you state to the Ministers that while we think that the project merits our support we are concerned by the large capital investment requirements at a time when some ongoing projects are not receiving adequate funding. I recommend you also underscore the importance we attach to the proposed participation of the Brazilian private sector in the project (through the proposed issuance by CVRD of 3 successive issues of convertible debentures of around US\$100 million each in 1981, 82 and 83) and to the participation of the commercial banking community (indirectly as part of the Japanese and EEC financing, and possibly directly under co-financing arrangements with us).

Electric Power Sector

The financial condition of Brazil's electric power sector has deteriorated in the past few years as a result of the failure of the government to grant tariff increases that would ensure adequate levels of remuneration to power utilities. The sector achieved only a 6% rate of return of remunerable assets in 1980 and is expected to achieve a rate of return of 8% in 1981, compared to the rate of return of 10-12% required by the covenants of our loans. Following an informal threat of the Bank in late July to suspend disbursements on all the Bank power loans to Brazil, whose undisbursed amount aggregated US\$550 million, the Brazilian government agreed that a 10% rate of remuneration for the electric power sector should be achieved as soon as possible and, to that effect, they would undertake to carry out a program of annual increases in the level of electricity tariffs to be not less in real terms than 3% during 1982 and 5% thereafter until the 10% rate of remuneration has been achieved. Some snags developed over the detailed interpretation of this agreement, and the Government has not yet accepted our proposed text. We are now close to a satisfactory agreement, however. I recommend you underscore that a final agreement on this matter must be reached promptly; otherwise, we will have to suspend disbursements.

Private Co-Financing

11. As you know, we have had a long experience in Brazil with private co-financing. Since 1976, we have concluded some 12 co-financing operations totalling US\$465 million with private financial institutions, and several others are in preparation (including a possible US\$250 million loan in support of Brazil's alcohol program and a US\$50 million loan in support of our second rural development project in Minas Gerais). Notwithstanding this experience, there has been some reluctance in some Brazilian quarters to do private co-financing, apparently because of a perception that it does not bring an improvement in terms. Private co-financing is apparently also regarded as complicating the management of Brazil's external borrowing program, which is coordinated by the Central Bank. I recommend you reiterate the importance we attach to private co-financing, and our interest also in co-financing projects in the non-traditional sectors (such as the rural development project).

Transport Sector

12. Minister Resende is likely to raise the procurement of trains for the Porto Alegre Urban Transport Project. This issue was raised by Minister Galveas in his meeting with you on October 1, 1981. A government delegation has been in Washington during the week of December 7 to review the case as well as procurement guidelines generally. After a very careful review, we continue to believe that our position is the correct one, and that the contract should be awarded to the lowest Japanese bidder, Mitsui.

Attachments

cc: Messrs. Lerdau, LC2
van der Meer, LCP
Fuchs/Dewey, IPD
Pfeffermann, LCNVP
Levy, LC2
Jennings, LCP
Wessels, LCP
Goffin, LCP
Glaessner, LCP

Messrs. Senner, LCP
Newman, LCP
Scott, LCP
Moscote, LCP
Renger, LCP
Ms. Haug, IPD
Mr. Rowat, IPD

Brazil Division

DKoromzay:mmw/nps/nev

BIOGRAPHICAL NOTES

Antonio Delfim Netto - Minister of Planning and Governor of the Bank

Antonio Delfim Netto, age 53, became Minister of Planning in the Figueiredo Government in August 1979. He had previously held the post of Minister of Agriculture for five months, March to August 1979. Early in his career, Mr. Delfim Netto was Professor of Economics at the University of Sao Paulo where he established himself as one of Brazil's outstanding theoretical economists. From 1964-67 he served as Secretary of Finance for the State of Sao Paulo, and in 1967, at the age of 39, was appointed Minister of Finance, where he remained until 1974. During the Geisel Government he was Ambassador to France for Brazil. Throughout his career, Mr. Delfim Netto has been widely respected and popular, which was reflected in his being chosen "Man of the Year, 1970" by "Visao", the Brazilian equivalent of Time magazine.

Mario David Andreazza - Minister of the Interior

Mario Andreazza, age 63, a career army officer, served as Minister of Transport in the Medici Government when the Bank was embarking on a large highway lending program in Brazil. This program was successfully implemented and as a result the Bank's technical assistance is now no longer considered necessary by the Brazilian Government in this sector. Following this cabinet post, Minister Andreazza joined the private sector and became President of the Naval Industrial Equipment Company. He later moved to the Atlantica Boa Vista Insurance Group as Vice President before being appointed to his present post, Minister of Interior in the Figueiredo Government in March 1979.

Eliseu Resende - Minister of Transport

Mr. Eliseu Resende, age 52, is an engineer with a Ph.D. from New York University, and has taught engineering at the University of Minas Gerais. He was head of the Minas Gerais Highway Department, and during the Medici Government (when Mario David Andreazza was Minister of Transport) Resende headed the national highway department (DNER). From 1974 to 1979 he was President of Samarco, an iron ore mining company (controlled successively by Marcona Mining, Utah International, and now General Electric), which successfully built a slurry pipeline to transport iron ore from its mine in the interior of Minas Gerais to the coast. Resende has the reputation of an excellent, get-things-done administrator.

Antonio F. Azeredo da Silveira - Ambassador to the United States

Ambassador Azeredo da Silveira, age 64, a career diplomat, was Foreign Minister of the Brazilian Government from 1974 to 1979 when he left that post to become Ambassador to the United States. Early in his career, he was assigned to the Brazilian Embassy in Havana, and also had foreign service assignments in various countries such as Argentina, Spain, Italy, and France. Prior to becoming Foreign Minister he headed the Brazilian Diplomatic Missions in Geneva and Buenos Aires. At various times in the past Mr. Azeredo da Silveira has represented Brazil in economic negotiations sponsored by GATT, UNCTAD, ECLA and OAS. Mr. Azeredo da Silveira initiated and participated in various projects for regional cooperation, and was one of the chief negotiators for the Treaty of Cooperation in the River Plate Basin of 1969, and for the Treaty for Cooperation in the Amazon Region of 1978. As Foreign Minister he was also involved in agreements with other developing and developed countries, among which are the Nuclear Energy Agreement signed with the Federative Republic of Germany in 1975, and the Memorandum

of Understanding with the Uni, which he signed along with Secretary of State Herry Kissinger in 1976. Mr. Azeredo da Silveira has also served as Chairman the Twenty-ninth United Nations General Assembly in September 1974, and has noted the Brazilian Delegation to the United Nations General Assembly for all years including the Chirty-third UN General Assembly in 1978.

APPETIZERS

Consomme with Sherry - Cream of Leeks	\$0.65
Fruit Juices - Grapefruit	\$0.60
Asparagus Vinaigrette - Eggs à la Russe	\$1.05
Roll Mops - Pâté Maison	\$1.25

ENTREES

OMELETTE A L'ESPAGNOLE (Spanish Omelet) COTE DE PORC MILANAISE \$4.65 (Pork Chop) FILET DE BOEUF FORESTIERE \$5.70

(Sliced Beef Tenderloin) BROCHETTE AUX FRUITS DE MER NANTUA (Seafood on Skewer)

OR

FROM THE GRILL R() M() W() (Cooked to Order)

GRILLED MINUTE STEAK \$5.60 TWO BROILED LAMB CHOPS \$5.45 me CHOPPED SIRLOIN STEAK LYONNAISE \$3.80

VEGETABLES (Choice of Two)

Potatoes Lyonnaise

Broccoli Spears Salad

*** COLD PLATES

SALADE NICOISE \$3.15 CORNED BEEF SANDWICH \$3.20

DESSERTS

Sherbert - Ice Cream Chocolate Mousse - Coupe aux Marrons Assorted Pastries - Cakes and Pies Trush Fruit	\$0.80 \$1.00 \$1.05 \$1.10

APERITIFS - BEVERAGES

Sherry Sweet/Dry	\$0.75	D	ubonnet	\$0.75		
Coke \$0.60	Ginger	Ale	\$0.60		Milk	\$0.30
Perrier \$0.95 Coffee \$0.30	To	a \$0	.30	Es	presso	\$0.45

Tuesday

December 15, 1981

Broiled Tomato Cabernet (Valley)

Mr. Barletta phoned Olivier today to say that Delfim Netto, Andreazza (Min. of Interior) and Rizende (Min. of Transport) are coming to DC for a loan signing on Dec. 15. They want to see We think a luncheon would be in order unless you feel otherwise. HH

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: October 6, 1981

FROM:

Robert F. Skillings, Division Chief, LAC II

SUBJECT: BRAZIL - Meeting Between Mr. Clausen and the Brazilian Delegation during Annual Meeting - October 1, 1981

Present for Brazil: Mr. Ernane Galveas, Minister of Finance
Mr. Carlos Geraldo Langoni, President,
Banco Central do Brasil
Mr. Alexandre Kafka, Executive
Director, International Monetary Fund
Mr. Jose Carlos Madeira Serrano,
Director of International Affairs,
Banco Central do Brasil
Mr. Tarcisio Marciano da Rocha,
Coordinator of International
Affairs, Ministry of Finance
Mr. Mailson Ferreira da Nobrega,
Advisor to the Minister of Finance

Present for the Bank: Messrs. Clausen, Stern, Ardito Barletta, Lerdau, Lafourcade and Skillings

- Mr. Galveas opened the meeting by saying that he had liked Mr. Clausen's speech and was pleased that it did not mention things that Brazil did not want to hear. He had liked the tribute paid to Mr. McNamara and wanted to assure Mr. Clausen that Brazil would contribute to the endowment fund. Mr. Galveas wanted to express his thanks for the cooperation he had received from Bank staff and hoped it would continue. Mr. Clausen said that although there had been differences they had always been resolved. Mr. Galveas said that Brazil was satisfied with a level of lending of \$800 million a year, even though they were at one time expecting more, in view of the difficult adjustments that Brazil had to make with its external debt increasing. They would not, however, be disappointed if in the medium term, say through 1985 or 1986, the Bank kept to a level of \$800-900 million a year. Brazil was, moreover, concerned about the talk about "graduation". It felt that, with the world situation as bad as it was and Brazil still in the moment of take-off, it needed to rely on capital from international institutions, particularly for energy production, for agricultural technology and for investments that would lead to the expansion of exports (especially manufactures).
- 2. Mr. Clausen assured the delegation that graduation was not imminent. On the other hand there was hardly any chance that lending to Brazil could increase in real terms. Holding the line at the present real level of lending was the likely option. Mr. Galveas said that Brazil had not been able to borrow as much as it wanted in 1981 because of difficult capital market situations, especially in Japan and the United States. Brazil's ecomonic growth was not a "miracle", for there were good reasons for it. However, Brazil still had large pockets of poverty and average per capita income far below the industrialized countries. Mr. Clausen said that he had no doubt that in time Brazil would graduate from the World Bank, but he repeated that this was not imminent.

- 3. Mr. Galveas repeated the government's support for IDA and said that it would advance its subscription for the sixth replenishment and would continue to respond in moderate amounts to its appeals.
- 4. Mr. Galveas said that Minister Delfim was quite concerned about a difference of opinion between Brazil and the Bank about the procurement of trains for the Porto Alegre suburban railway. The issue was whether port and merchant marine improvement taxes were a tax or a cost. Brazil felt that a Brazilian firm, MAFERSA, was the winner, while the Bank held that a Japanese bidder was the low bidder after taking account of the 15% domestic preference. Mr. Clausen said that the matter would be studied carefully.
- In response to a question from Mr. Clausen, Mr. Galveas said that Brazil was not dissatisfied with the outcome of the IMF discussion. They would have preferred to see higher quotas immediately, as well as an increase in the issuance of new SDRs. However, they felt that the compromises reached were reasonable under the circumstances. Mr. Clausen mentioned that issuing SDRs was inflationary, or could be. Mr. Galveas said that he felt differently and that Brazil believed that international liquidity should not depend on the balance-of-payments situation of international reserve centers, such as the United States.
- Finally, Mr. Galveas said that the government would like the Bank to take up again consideration of the proposal for a loan of \$500 million to finance the import content of manufactured exports. The expansion of manufactured exports, which had an import content in the neighborhood of 40%, was putting pressure on Brazil's reserves, and a special line of credit to finance the import content of exports, creating a revolving fund for the purpose, would alleviate this pressure. Mr. Clausen said that if the revolving cycle were short such an operation would appeal to commercial banks, who might be willing to make a line of credit of 2-4 years, perpetually growing, in order to meet this need of Brazil. This would permit official institutions, like the Bank, to move further into areas that conventional lenders were not willing to enter. Mr. Ardito Barletta suggested a possible combined operation with commercial banks taking the short- and medium-term maturities. Mr. Clausen said that the Bank would study the matter, "more than just look at it". He underlined that the Bank supported the policy directions in which the Brazilian government was trying to move and wanted to help the government move in those directions. Mr. Galveas reiterated that it was government policy to move ahead steadily with economic readjustment, to achieve equilibrium or surplus in trade accounts by the end of 1981, and continue to bring inflation down. Mr. Clausen concluded by saying that if Brazil kept its policies moving in the right direction the Bank would help.

Cleared with and cc: Mr. Lerdau, LAC II

cc: Messrs. Pfeffermann, Levy, LAC II RECEIVED
1981 OCT 28 AM 10: 16
OFFICE OF THE PRESIDENT

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January 26, 1982

Father Rémi Morel, Coordinator S.I.P.A.L. Calle 54 A. N° 23-49 Bogota, D. E. (2), Colombia

Dear Father Morel:

Thank you for your letter to Mr. Clausen expressing your concern for the possible impact the Brazilian POLONOROESTE program may have on Amerindian communities.

As the enclosed announcement indicates, agreement was reached with the Brazilian government for World Bank finance of a portion of the POLONOROESTE program. As part of these agreements, a special project prepared by the federal authorities and to be funded entirely by the Government, provides for the upgrading of the organization and operations of the Fundação Nacional do Indio (FUNAI) in the region. A series of measures have begun which give priority to the protection and demarcation of Amerindian lands, and for the removal of illegal settlers and the improvement and expansion of health services to those communities.

The World Bank intends to monitor closely the implementation of all agreements provided for in the loan, as we do in all our loans. I would suggest that for additional details on the specifics of FUNAI's planned and ongoing activities you contact them directly.

Sincerely,

Enrique Lerdau
Director
Country Programs II Department
Latin America and Caribbean Region

Enclosure

cc: Mr. Clausen's Office (with copy of incoming)
NOTcheyan/mmw

IBRD LANG	GUAGE SERVICES DIVISION
CONTROL No. E-799/82	DATE: 22 January 1982
ORIGINAL LANGUAGE:	French (Brazil)
DEPT. LAC II	ITRANSLATOR: ENMCM: 1b

Secretariado Intermonfortiano para América Latina (SIPAL) (Secretariat of the Montfort Fathers for Latin America) Calle 54 A. No. 23-49
Bogotá, D.E. (2)
Colombia

The President
The World Bank
Washington, D.C.

December 7, 1981

Dear Sir:

For several months we have been receiving disturbing news about the North-west Development Pole project and the serious consequences it will have on the populations in the region affected, unless effective measures are taken to safeguard the interests of all the Indians living in the region in accordance with Brazilian law.

We have been informed, inter alia, of the exchange of correspondence between you as Director of Country Program(s) II Department and Survival International in the person of its director, Mrs. Barbara Bentley. We do not at any moment underestimate your efforts to reach effective agreements with the Brazilian Government for the protection of the constitutional rights of the Indian populations affected.

To date, we have not received any information on the outcome of these efforts and our sense of concern is growing as time passes.

This is why we cannot but add our voice to those protesting the violation of Articles 12, 13, 20 (inter alia) of Brazilian Convention No. 107 concerning native populations, and the United Nations Convention on Civil and Political Rights. As we see it, the World Bank, with you at its head, has made itself an accomplice to such violations by approving the loan for this project.

We shall be playing an active part in the international campaign to secure the guarantees referred to, until such time as we obtain information on the agreements reached with the Brazilian Government and on the effectiveness of the measures taken to safeguard the constitutional rights of the Indian populations.

We shall be grateful if you will keep us informed of future developments.

Yours, etc.

/s/ Father Rémi Morel Coordinator



S.I.P.A.L.

le 7 Décembre 1981

The President, World Bank 1818 H Street NW WASHINGTON DC 20433 U.S.A.

Cher Monsieur,

POLONOROESTE, BRAZIL

Depuis quelques mois nous recevons des nouvelles inquiétantes en relation avec le projet "NORTH-WEST DEVELOPMENT POLE " et les conséquences graves que sa réalisation provoquera au sein des populations de la région concernée, si des mesures efficaces ne sont pas mises en oeuvre pour assurer la sauvegarde des intérêts de tous les indiens de la région selon la loi brésilienne.

Nous sommes informés entre autres, de l'échange de correspondance entre Vous-mêmes comme Directeur du COUNTRY PROGRAM II DEPARTMENT et SURVIVAL INTERNATIONAL en la personne de son Directeur, Mrs Barbara Bentley. En aucun moment nous ne sousestimons votre souci de recherches d'accords efficaces avec le Gouvernement brésilien pour la protection des Droits Constitutionnels des populations indiennes affectées.

A ce jour ne nous est parvenue aucune information sur les résultats de ces recherches et notre préoccupation va croissante en fonction du temps qui passe.

C'est pourquoi nous ne pouvons que nous unir à la voix de ceux qui sont conscients de la violation des Articles 12,13,20 (entre autres) de la Convention Brésilienne N° 107 relative aux populations indigènes,ainsi que de la Convention des Nations Unies sur les Droits Civils et Politiques,conscient nous-mêmes que la WORLD BANK que vous présidez,se rend complice de telle violation en approuvant le prêt pour la réalisation du Projet.

Nous nous associons effectivement à la campagne de diffusion internationale pour obtenir les garanties mentionnées, jusqu'à obtenir information sur les accords convenus avec le Gouvernement Brésilien et sur l'efficacité des mesures prises en faveur de la sauvegarde des Droits Constitutionnels des populations indiennes.

Nous vous saurons gré de nous tenir informés et nous nous souscrivons

sincèrement vôtre.

Père Rémi Morel Coordinateur

R, Bray

January 22, 1982

Sua Excelencia Eliseu Resende Ministro dos Transportes Esplanada dos Ministerios, Bloco 9, 6° andar Brasilia, DF, Brasil

Dear Mr. Minister:

On behalf of Mr. Clausen, I would like to acknowledge your letter of December 14, 1981 with a request for financing a new project to RFFSA.

I am pleased that you will be able to meet with the mission which will be in Brazil at the end of the month to establish with your ministry, SEPLAN, and RFFSA the measures which will need to be taken towards the satisfactory preparation of a new loan from the Bank.

As I indicated to you during our meeting in Washington on December 14, 1981, we will need to consult our management on your request and we propose to do so when the forthcoming mission has completed its report. I therefore expect to provide you with a more detailed response to your letter during the month of March.

With warmest personal regards,

Enrique Lerdau
Director
Country Programs II Department
Latin America and Caribbean
Region

Cleared with and cc: Messrs. Koromzay, LAC II Newman, LACP

cc: Mr. Clausen's Office (with incoming)

1-27-82

Brasília, 14 de dezembro de 1981

Exmo Sr,

A. W. CLAUSEN

DD. Presidente do Banco Internacional para Reconstrução e Desenvolvimento - BIRD

WASHINGTON = DC

Prezado Senhor,

Dirigimo-nos a V.Dxa. para informá-lo das atuais dis posições do nosso Governo relativas à recuperação do sistema de transporte ferroviário do Brasil e ao mesmo tempo reafirmar a importância que consignamos à colaboração do BIRD nessa tarefa.

- A reorganização do sistema de transportes vem sendo considerada pelo Governo como um dos componentes fundamentais da adaptação da economia brasileira às novas condições em vigor no cenário mundial, desde 1973. A recuperação do sistema de trans porte ferroviário, em especial, vem sendo objeto de atenção particular em função do papel estratégico reservado a essa modalidade na reorientação do setor vis à vis à sua contribuição aos objetivos de racionalização do uso da energia, de ampliação das exportações e de melhoria da qualidade de vida das populações de baixa renda situadas na periferia das principais cidades do País.
- Q BIRD, desde o início da década dos 70, vem colabo rando com o Governo Brasileiro nos esforços destinados à melhoria das ferrovias do Brasil sendo, ao mesmo tempo, corresponsável e testemunha dos extraordinários progressos alcançados, dos quais constituem prova a evolução, no período 1975/80, dos indicadores apresentados no Anexo la este documento.
- 4. © Coverno Brasileiro tem a noção precisa de que a continuidade desses progressos depende da intensificação de medi das destinadas a solucionar problemas fundamentais, de natureza

institucional e financeira, que afetam, em particular, o seu prin cipal instrumento no setor - a RFFSA. Devemos mencionar que algu mas dessas questões vem sendo colocadas pelo Banco, desde algum tempo, por considerá-las insuficientemente tratadas em face dos objetivos estabelecidos nos Acordos de Empréstimos e de Carantia assinados pelo Governo Brasileiro, RFFSA e Banco (em 1975), no bo jo do II empréstimo ferroviário. Dentre esses pontos destacamos: a observância de uma política tarifária apoiada tão somente na cobertura dos custos totais de transporte racionalizados; a feita separação das funções econômica, social e política da RFFSA, erradicando-se ramais e desativando-se serviços empresarialmente desinteressantes ou procedendo-se à aplicação correta da normali zação contábil naqueles casos cuja manutenção seja considerada es sencial pelo Governo; a necessidade de dar consistência à políti ca de investimentos e ao seu correspondente plano de financiamen to, respeitados os objetivos da conclusão dos projetos em andamen to no setor; e a definição de esquema financeiro para cobertura do serviço da dívida da empresa, cujo perfil se mostra particular mente desfavorável nos próximos anos.

- tudo e implantação de medidas voltadas para a remoção dos obstáculos, de natureza institucional e financeira, à recuperação do se tor ferroviário se manifesta, no campo prático, através dos trabalhos em desenvolvimento por equipe técnica interministerial, da SEPLAN, Ministério da Fazenda, Ministério dos Transportes e RFFSA, objetivando a obtenção de soluções no que concerne particularmente
 - (i) distribuição de papéis e responsabilidades en tre a Administração Direta e RFFSA, examinando soluções como normalização contábil ou contrato de empresa;
 - (ii) reorganização da RFFSA em vista da definição de suas funções, tendo presente particularmente a problemática dos subúrbios;

- (iii) política de pessoal, comercial, tarifária e tec nológica, em vista dos pontos anteriores e das funções da Empresa na economia nacional;
 - (iv) política de investimentos e desinvestimentos, particularmente com o exame simultâneo das me lhorias dos sistemas viáveis e desativação dos não viáveis.
- 5. Independentemente desses esforços, observa-se que são notórios os resultados já obtidos pela RFFSA no tratamento das questões relacionadas com a erradicação de ramais antieconômicos, através do GESFRA, sob coordenação e supervisão do Conselho Nacio mal dos Transportes CNT.

Da mesma forma, o problema do serviço da dívida da RETSA vem sendo solucionado pelo Governo nos seus orçamentos anuais, inclusive o de 1982, cabendo, doravante, à equipe técnica interministerial o seu equacionamento a médio e longo prazos, in serido devidamente nos programas globais de investimento da empresa ferroviária.

A mesma observação é válida para o problema da nor malização contábil dos serviços deficitários, reforçado, agora, pe lo novo enfoque, de caráter institucional, em desenvolvimento pe la equipe técnica dos Ministérios envolvidos.

Dentro dessa perspectiva e tendo em vista a relevân cia atribuída à cooperação do BIRD na recuperação do sistema fer roviário, seria de todo desejável que o Banco começasse a se enga jar no acompanhamento dos referidos trabalhos da equipe intermi misterial e na preparação e avaliação de operações financeiras es pecíficas que, na prática, marcarão o reatamento do vínculo BIRD//RFFSA interrompido com a conclusão do empréstimo 1074.

Nesse sentido, o Governo Brasileiro dará todo apoio à Missão de preparação do "Terceiro Projeto Ferroviário" Brasilei ro", como definido no item 4 da Carta 1391/GM do Ministro dos

Transportes ao Sr. Lerdau, datada de 24/09/81.

Dentre os projetos alinhados nessa Carta, o Governo Brasileiro confere elevada prioridade aos projetos de capacitação e recuperação do trecho Sete Lagoas - Belo Horizonte - Costa Lacerda e da Malha do Paranã. Esses dois projetos foram formulados segun do a orientação aqui definida para os trabalhos da equipe técnica interministerial, tendo sua prioridade de implantação confirmada por estudos econômicos.

- B. Desta forma, o Governo Brasileiro, através da Secre taria de Planejamento da Presidência da República e do Ministério dos Transportes, submete a essa Instituição a proposição de finam ciamento para os dois projetos acima, ao mesmo tempo em que firma seu propósito de dar cumprimento às medidas e ações dispostas no item 5.
- 9. Os dois projetos em questão, para os quais já se dis põe de análise de viabilidade, envolvem investimentos de 33,5 bi1hões de cruzeiros médios de 1981 (1 US\$ = Cr\$ 100) a serem desem bolsados no período de 1982 a 1986 como se segue:

1 US\$ = Cr\$ 100				Cr\$	10 ⁹ de 1	1981
PROJETO	TOTAL	1982	1983	1984	1985	1986
Malha do Paraná	23,5	0,9	3,8	5,4	8,7	4,7
Costa Lacerda-Sete Lagoas	10,0	1,0	4,0	4,0	1,0	-
TOTAL	33,5	1,9	7,8	9,4	9,7	4,7

Ambos os projetos foram avaliados sob a ótica da economia nacional e sob a ótica privada, justificando-se sua viabilidade nas análises conduzidas pelo GEIPOT, RFFSA e ENGEFER, den tro do Programa Global de Modernização da Malha.

Em termos de suporte financeiro, o projeto da Malha do Paraná contaria com esquemas de contrapartida nacional, com recursos do Tesouro da União no montante de cerca de 60% dos valores acima, na hipótese do Banco Mundial optar por sua participação em cerca de 40%.

Para o projeto Costa Lacerda - Sete Lagoas, a contra partida nacional será assegurada pela Companhia Vale do Rio Doce, conforme contrato entre essa empresa e a RFFSA, relativo à Administração do trecho Desembargador Drumond - Engo Costa Lacerda, caben do à RFFSA a captação da parcela em moeda estrangeira junto ao Banco Mundial, em percentuais a serem definidos em negociação.

Os elementos técnicos necessários à definição final dos financiamentos estarão disponíveis para análise da missão pre paratória do III Empréstimo Ferroviário, do Banco Mundial, no Brasil, em janeiro próximo.

10. Entende, assim, o Governo Brasileiro, ser possível dar início ao III Programa Ferroviário, pois, em paralelo às eta pas iniciais dos projetos de investimentos, acima caracterizados, estariam sendo criados mecanismos institucionais, inadiáveis, atra vés dos quais a RFFSA adquirirá, gradualmente, condições mais ade quadas para reestruturar-se, de acordo o próprio processo de moder nização pelo qual atravessa a economia nacional.

Na oportunidade, renovamos protestos de elevada es tima, colocando-nos à disposição de V.Exa. para o que se fizer ne cessário à consecução dos nossos objetivos comuns.

ANTONIO DELFIM NETTO

Ministro de Estado Chefe da Secreta

ria de Planejamento da Presidência

da República

ELISEU RESENDE Ministro de Estado dos Transportes

INDICADORES DE EFICIENCIA

•	METAS 1975	FIXADAS BIR 1976	D (EMPRES	TIMO 1074) • 1978	1979	VALORES OBSERVADO 1979
1) No de Empregados	112.000	110.000	108.000	106.000	104.000	94.45
- Administração	-	-	-		_	17.78
- Suburbio	-	-	·	-	-	18.66
- Carga (operação)	-	-	-		-	58.00
2) Disponibilidade de locomotivas	85	86	87	88	90	90
3) Disponibilidade de Vações	86	87	88	89	90	91
4) Tonelada Otil por trem Exclusive MBR	405	425	440	460	475	639
) Tonelada Quilômetro						
Otil por vagão dia em trafego Exclusive MBR	1,400	1,525	1,650	1,775	1,900	2,20
) Rotação dos vagões						
(dias) Exclusive MBR	9,7	9,5	9,3	9,1	8,8	8,6

PLAN OF ACTION

PREPARATION OF THIRD RFFSA PROJECT

1982

	Action	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Α.	TILIAN COVERNMENT RFFSA/GE1POT Complete economic feasibility study for PARANA and Belo Hori- zonte - Costa Lacerda Invest- ments				
1.2	Proposal to the Ministry of Transport and proposed action plan on uneconomic lines and services		and the second second second		,
1.3	Preparation and economic analysis of an Investment Plan	J	The state of the s	· · · · · · · · · · · · · · · · · · ·	-made Lat u Phyl
1.4	Economic analysis for the implementation of the Ferrovia do Aço		-annion and an		
	Inter-Ministerial Team Ministry Transport, Flanning, Finance				s conscionary page - special page -
1.5	Preparation and plan of action on the normalization payment system				
1.6	Tariff policies regarding: suburban fares, intercity fares, MBR tariffs and freight tariffs	1			
1.7	Debt service solution				
1.8	Definition of Investment and Financing Plan				
1.9	Institutional arrangements especially regarding suburban rail services			2	
IBRD					
2.1	Preparation Mission				
2.2	Preparation mission	1			
	 to analyze economic justification of Parana and Belo Horizonte - Costa Lacerda investments 	×			
	b. Follow-up of main issues				
2.3	Preparation mission - follow-up of main issues	,			
2.4	Appraisal mission				1

316

OFFICE MEMORANDUM

Mr. A. W. Clausen TO:

DATE: September 1, 1981

Ernest Stern, SVP, Operations FROM:

SUBJECT:

BRAZIL - Meeting with the Brazilian Delegation to discuss the Electric Power Sector

You will be meeting this afternoon with the Brazilian delegation which, as you know, is in Washington to discuss the threatened suspension of disbursement of all loans to the Brazilian power sector because of Brazil's consistent failure to comply with the rate of return covenants. The attached note prepared in the Latin America Region provides you some background information. At stake are approximately \$550 million of undisbursed funds.

Not only has Brazil failed to meet the agreed level of tariffs, but as a result the self-financing ratio of the electric power sector has declined drastically. This of course has meant increased borrowing requirements for the sector in order to finance the very ambitious energy program which is an absolute priority in Brazil.

The matter has been discussed with the Brazilian Government for two years now, and we have been given successive assurances that steps would be taken to allow the utilities to reach an adequate rate of return. Twice we have agreed to carry the shortfalls of preceding years forward, and twice the agreed measures have not been taken. In 1981 we again face the possibility that the agreed rate of return will not be achieved, and there certainly is no prospect that the shortfalls of previous years will be made up. That is the basis for informing the Brazilian Government that we would suspend disbursements.

The Brazilian response which the delegation brought with it is inadequate. It is attached, and I would draw your attention only to Paragraphs 8 and 9. The idea that this is a minor problem or that we can be satisfied with the agreement on the basic objective without worrying about the timing of implementation is clearly unacceptable. I have instructed the Region to settle for nothing less than a system which would on a legal regular basis increase electricity tariffs by more than the rate of inflation. This is not particularly difficult in Brazil, where everything is indexed and monthly and quarterly price increases are routine. If agreement is reached on such a system, it will be relatively less important whether an exact 10% rate of return is achieved in 1981. An adequate increase in real terms on a monthly basis would permit the industry to catch up with the past neglect and to restore its self-financing ratio in due course.

I will advise you prior to the meeting as to where the negotiations stand. I believe we have no flexibility in this matter, both because it is central to dealing with some of Brazil's basic problems and because we cannot accept repeated violations of assurances in response to our flexibility regarding a contractual agreement.

Attachments EStern/1ms

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1981 SEP , I AM 9: 58

OFFICE OF THE PRESIDENT

9-3-8! line 16 300 500 BRAZIL September 1, 1981

Negotiations with the Brazilians on Bank Power Sector Loans Disbursements

- 1. Negotiations have been almost at an impasse so far.
- 2. The Brazilian team argues that the three-year downward trend of the financial conditions of power companies has been reversed starting in 1981. This is true according to the limited information we have. They point out that eventually the sector will achieve the 10% rate of return established by Brazilian law and agreed upon in several loan contracts with the Bank. We acnowledge the reversal of the trend but consider that the rate of increase is too slow to significantly improve the financial contribution of the sector to their investment program. Besides they are in default with formal and informal agreements we had made in the last two years which have been repeatedly breached. In our cable, which prompted the sending of their mission, we stated that unless the covenant agreements were executed we would suspend disbursements.
- 3. The present political picture of Brazil is complex and difficult. Recent happenings have shown gains and setbacks for the economic team led by Delfim Netto. The overall economic policies put in effect last December are showing gradually the expected improvements in the macro economic picture.
- 4. Taking into account the setting described above, the region suggested to the Brazilian team that a methodology of tariff increases leading to a 10% increase in real terms per annum might be discussed. It was made clear that the suggestion was not a Bank position, merely an exploration piece. The Brazilians jumped at the possibility but said that it might be too high a level and that they needed to go back and consult.
- 5. We have added two more points to be considered when the meeting reconvenes at 2:15 p.m.:
 - a. That the program starts with an additional tariff increase of 10-20% this year to be made in November, on top of the 112% compounded, which the Brazilians have already programmed for this year. The figure programmed by the Brazilians will be reached after the 23% increase they are scheduled to make before the end of September. The Brazilian program would mean an increase of 6% in real terms in 1981. Our additional proposal would increase somewhat above that level.
 - b. The 10% rate of increase per year in real terms would be sustained as long as necessary, after the 10% rate of return on assets is achieved, in order to recover shortfalls of the last two years.
- 6. Our conversation proposal would, at least, ensure a methodology of increases moving permanently toward the required target, independently of the rate of inflation or the rate of increase of consumption.
- 7. If our proposals are accepted by the Brazilians they might be considered satisfactory at your level in order not to suspend disbursements.
- 8. In addition, in order to renew more power lending, we might require a sector expansion program and a consistent financial plan to take care of it. This issue does not need to be discussed in detail now, but the Brazilians may ask for it and such a suggestion could be an appropriate answer.

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OFFICE OF THE PRESIDENT

BRAZIL: Meetings with the Brazilians on the Electric Power and Steel Industry Sectors

The Financial Issues of the Electric Power Sector



Background

- 1. The Bank has made 34 loans to the Brazilian power sector totalling about US\$1.5 billion since 1949. They have been for hydroelectric plants, associated transmission facilities and distribution systems in the southern, southeastern and northeastern regions. Bank participation has contributed to improved sector organization and planning, and has facilitated foreign commercial financing of the sector. The Bank has also sought, through its power lending program, the implementation of a tariff policy which would enable the sector to contribute a sufficient portion of the funds required for sector investments.
- 2. Through 1977, the Bank's objectives in lending to the Brazilian power sector were substantially achieved. Bank participation in the sector contributed to more orderly sector organization and more effective planning while facilitating the mobilization of foreign commercial funds for the development of the sector. The Government implemented adequate tariffs which enabled the utilities to earn, and in some cases even to surpass, the statutory minimum 10 percent rate of return on remunerable assets. embodied in Brazilian legislation and required in our loan agreements. As a result, the sector was able to self-finance a high proportion of its investment program (54% in 1973, 42% in 1976).

Sector Problems

3. Since 1977, investment in the power sector has been lower than the level commensurate with growth in electricity demand. To compound this problem, above normal proportion of sector investment have been allocated to three priority programs (Itaipu, Tucurui, and the nuclear power projects)

thereby leaving even less resources available for normal system expansion.

As a result of this under investment, the quality of electric power service is beginning to deteriorate, especially in the high growth areas of the southeastern region such as Minas Gerais where indices of overloads, voltage fluctuations and outages are approaching questionable levels. The underinvestment in the sector referred to above has been caused principally by:

- (i) the inability of the utilities to generate adequate resources internally to support an adequate level of investments because of inadequate tariffs; and
- (ii) insufficient counterpart funds (para. 7 below).

 Rate of Return and Rate Base Valuation
- 4. Unlike the case with other countries Bank loan agreements with Brazilian power borrowers do not contain any specific rate of return provision. Instead the agreements refer to a clause in Brazilian legislation (Law 5655 of May 20, 1971) which provides for a 10% rate of return on remunerable investment for Brazil's electric power utilities. As previously indicated, up to and including 1977, the utilities were able to earn this minimum return. Since then, the Government, citing as justification its efforts to control inflation, has not allowed adequate tariff increases.

 As a result during 1978-80 the earnings of most of the Bank's power sector borrowers were substantially below the 10% return required by the agreements (see Attachment 1). The remuneration for the sector as a whole has declined steadily (11.2% in 1977, 8.1% in 1978, 8.1% in 1979 and 6.1% in 1980).

- The official rates of remuneration indicated above even over-5. state the real rate of earnings of the utilities because they have been calculated on an asset base which, at year end 1980, was about 60% of its real value. The sector remunerable asset base is revalued in accordance with sector legislation. Since 1977, sector legislation has provided for the assets of the sector to be revaluated by indexing to the ORTN (Obrigacoes Reajustaveis do Tesouro Nacional - an official index used to adjust the value of national treasury bonds). Because the ORTN lagged the general rate of inflation in Brazil in 1979 and 1980, the ORTN - valued sector asset base is understated - by about 40% as of year end 1980. The Government's current economic policy provides for the ORTN to move more closely with the INPC (a national consumer price index which is more commensurate with price movements in the power sector) and therefore the distortion resulting from indexing sector assets to the ORTN should not persist in the future if this policy is continued. However, an extraordinary revaluation would be needed to correct the distortion resulting from the undervaluation in 1979 and 1980.
- As a result of the declining rate of earnings, the sector's ability to contribute to the financing of its investment program has dropped steadily from the satisfactory levels of the mid 1970s to an insufficient 24% in 1980. We have repeatedly expressed our concern over the deterioration in the financial condition of the power sector to the Brazilian Government officials. Each time the Government has responded by providing assurances of intent to implement tariff action to reverse the deterioration. Up to now, these assurances have not been translated into action. In connection with Loans 1824-BR and 1895-BR

both made in 1980, the Government assured the Bank (through a March 24, 1980 letter from Mr. Delfim Netto - the Minister of Planning) that the utilities in the sector would be allowed to earn the minimum rate of return of 10% on remunerable assets during the year. Despite this assurance, the average remuneration for the sector and the sector self financing ratio were 6% and 24% respectively.

Counterpart Funds

7. In addition to inadequate levels of remuneration the three beneficiaries under Loan 1538-BR (CEMIG, CELESC and ESCELSA) have had their financial difficulties compounded by delays on the part of the Federal and State Governments in providing the necessary counterpart funds to carry out their parts of the project. In the case of CELESC and ESCALSA, we recommended through Mr. Favilla's memorandum to you dated June 3, 1981, that disbursements on their portions of the projects be informally suspended if ELETROBRAS did not provide the necessary counterpart resources by June 15, 1981. ELETROBRAS has now notified the Bank of its counterpart participation in the the project. ELETROBRAS' intended participation is in the case of ESCELSA, sufficient to cover its investment program through 1981-1983 and, in the case of CELESC, it covers its requirements for 1981 and part of 1982. The State of Santa Catarina has agreed to provide the rest of CELESC's needs. A default condition exists in the case of CEMIG where the financial difficulties were more pronounced. We sought and you provided your authorization to informally suspend disbursements on CEMIG's portion of loan 1538-BR. This was communicated to ELETROBRAS by telex dated June 5, 1981 from Mr. Lerdau (Attachment 3) in which we also indicated that we would formally suspend disbursements if a satisfactory action plan

for the financial rehabilitation of CEMIG was not received by July 31, 1981. On July 30, the Ministry of Planning informed the Bank that ELETROBRAS agreed to cover its portion of the counterpart needs of CEMIG in 1981 and that ELETROBRAS and CEMIG are to provide the Bank with a financing plan for CEMIG's priority projects for the 1981-1985 period. As a result, it was recommended that the Bank would extend the informal suspension of disbursements on CEMIG's portion of loan 1538-BR to August 17, 1981. On that date CEMIG delivered to the Bank's office in Rio its investment and financing plan for the 1981-85 period. The Bank is analyzing this program at this time.

BRAZIL

Rate of Remuneration for Power Utilities Borrowing from IBRD

			1977	1978	1979 :	1980	1981
ELETROSUL			9.3	7.2	5.3	4.6	8.0
CHESF			12.5	8.9	8.6	7.3	4.5
COPEL .			10.0	8.1	8.5	5.5	8.0
CEMIG			11.1	8.4	8.0	7.8	8.0
CEEE	2		8.1	5.9	7.1	5.9	8.0
CELPE			11.9	6.0	7.0	4.8	10.
COELBA		•	10.0	6.3	6.3	5.0	1.
CELESC				5.4	9.1	2.3	8.
ESCELSA		•	10.0	7.6	6.4	5.6	6.
COELCE		•- •	9.9	8.7	6.9	-5.5	5.
FORNAS			NA	9.8	10.0	8.0	
LIGHT			NA	7.9	9.8	6.1	
CESP			· NA	7.8	6.9	5.4	
CPFL			NA	8.6	7.8	7.5	
34						***	

PRESENTATION TO THE
WORLD BANK BY THE BRAZILIAN
OFFICIAL MISSION
SEPLAN-MME

BRASÍLIA, 28.08.81

PRESENTATION TO THE

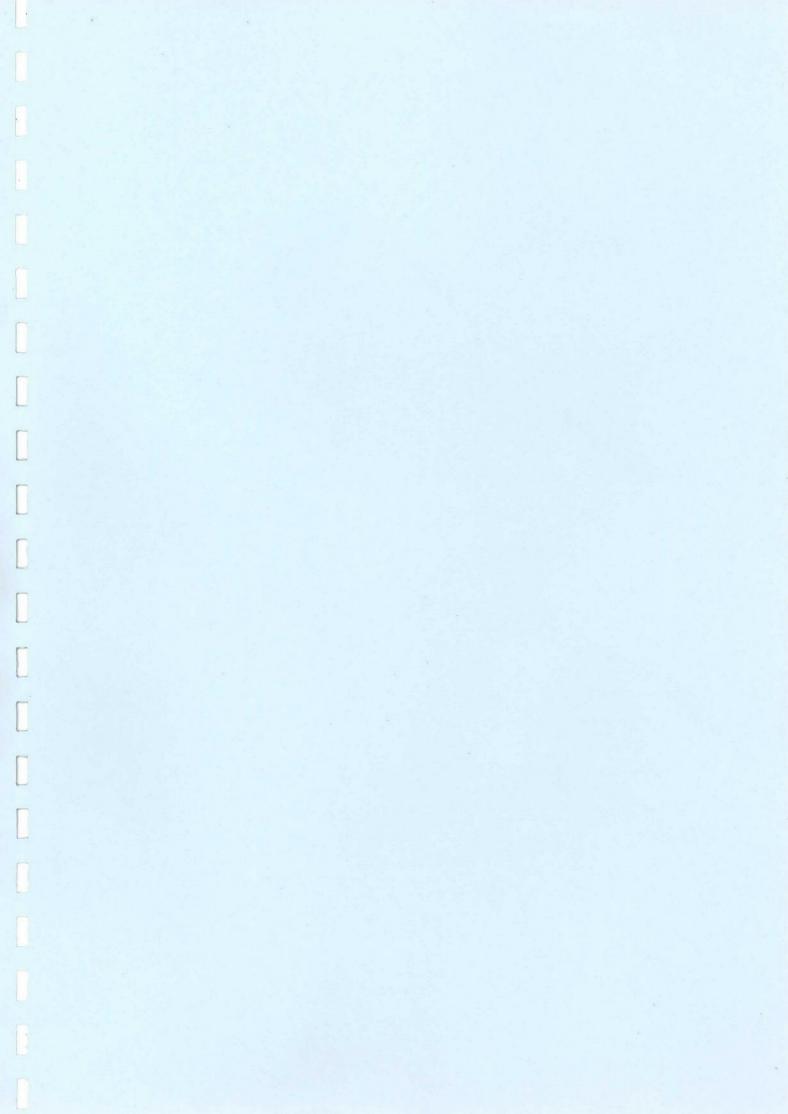
WORLD BANK BY THE BRAZILIAN MISSION

PRESENTATION TO BE MADE TO THE WORLD BANK BY THE BRAZILIAN MISSION

- 1. The Brazilian Government is indebted to the World Bank for its long standing support of the Electric Sector. In this vein, the Mission should like to make some comments on the question raised by the IBRD regarding the 10°/o rate of remuneration of Brazilian electric public utilities that have financial contracts with the Bank.
- 2. First of all, we think that it is perfectly natural that occasional disagreements might arise all the technical level between the IBRD and the Brazilian technical entities regarding some clauses in the contract. However, it is rather worrysome that clauses of secondary importance might affect the implementation of a contract, which major clause strict compliance, with the timetable of capital and interest payments has been rigorously met. Such a position would mean prevalence of accessory over substance.
- 3. Second, it sems also that possible differences of opinion regarding contractual clauses between the Bank and public utilities of the electric sector one of the main subsystems of the Brazilian energy sector could not have consequences that would go beyond the strict limits of the technical level, reaching higher echelons. These differences could not affect, either the will of the Bank to grant loans to projects considered of the highest socio-economic importance to developing countries or the will of the Brazilian Government to take these loans which are now indispensable for the expansion of the electric sector.
- 4. Third, it should be stressed that the Brazilian Electric Sector is one of the earliest clients of the Bank, and the Federal Government recognizes the major role played by the World Bank in developing the Brazilian Electric Sector. Thus, it would not be our wish to lose this indispensable support.

- 5. Lastly, we should not lose sight of the origin of all these questions. We all know that, before the first petroleum shock of October 1973, there was no divergence, based on the rate of remuneration of concessionaries, in carrying out IBRD contracts. Because the Brazilian economy is strongly dependent on petroleum, serious difficulties arose which affected all sectors of the economy, requiring a comprehensive set of measures by the Government.
- 6. Coming now to the heart of the matter raised by the Bank, namely that "almost none of its borrowers" are likely to reach the 10°/o remuneration rate, we would like to bring up some points with the aim of clarifying the question.
- 7. First of all, a comprehensive analysis of the problem must begin with an inquiry into the attitudes of both the Bank and the Brazilian Government on the matter. From the Bank's part, its technical staff took a firm stance for attainment of the 10°/o level already in 1981. The Government's attitude was unequivocally stated in SEPLAN'S letter, dated 24.03.80, expressing its firm political intent. And it could not be otherwise, since this intent had already been recorded in one of the Government's major policy instruments on electric energy. It was from this document that the concept was transferred to the contracts entered into between the Bank and the concessionaries. Therefore, it is perfectly clear that the Bank and the Government share the same view on the question. Both spouse the same principle, the same philosophy.
- 8. How could then the Bank contemplate to suspend loan disbursements, if the fundamental spirit of the clause related to the 10°/o has been respected, in so far as the Government is progressively moving in that direction? In fact, the difference lies exclusively on the date when the 10°/o rate should actual be reached. Therefore, the action entertained by the Bank seems to us excessively severe since it will benefit no one, neither the Bank nor the Sector. On the contrary, such action, if implemented, would bring about immediate damage to the Electric Sector, which the Bank and the Brazilian Government are determined to strengthen. It could also set-off a process with many implications and with serious consequences for the economy of a developing country so deeply affected by the oil shock.

- Government with respect to the electric concessionaries. Upon the initiative of the Government, using various instruments, the electric public utilities have received financial support in the form of an increased capability to generate internal resources, such as: (1) full reinvestment of the Government's dividends in Eletrobras and of this holding company's in its subsidiaries and associated companies; (2) specific allocation of funds for the sector in the Federal Budget; and (3) the increase in the reversion charge. These concrete measures are representative of the Government's total commitment of support in favor of the Electric Sector.
- 10. In view of these clarifications, the Brazilian Government trusts that the Bank will find it possible to proceed with disbursements arising from its contracts with the Brazilian Electric Sector.



OFFICE MEMORANDUM

Mr. A. W. Clausen

DATE: September 4, 1981

(Through Mr. Ernest Stern) (Through Mr. Ernest Stern) FROM: Nicolas Ardito Barletta

SUBJECT: BRAZIL - Proposed Northwest Region Integrated Program -Amerindian Issues



- I would like to bring to your attention the issue associated with the protection of the Amerindian communities located in the area of the Brazil's Northwest region where we are preparing an ambitious integrated development program. It has some public relations connotations for the Bank and we have been acting in liaison with the Information and Public Affairs Department and of course propose to continue to do so. Negotiations for three loans totalling US\$313 million for the first phase of proposed Bank financing for the US\$1.5 billion program are tentatively scheduled to start in early September, and the loans are expected to be submitted to the Executive Directors in early November.
- Brazil's sparsely populated (one million people) Northwest region has become Brazil's fastest growing development frontier since the completion, in the mid-1960s, of a 1500 km of earth road linking the two major cities of the region. The uncontrolled influx of migrants into the Northwest increasingly threatens the region's Amerindian population estimated at about 8000 people. Some of these groups never have had contact with outsiders and all are quite primitive. Transmission of diseases, such as tuberculosis, measles, and influenza, to which the Amerindians have little or no immunity, has increased and pressure on Amerindian land has intensified. Squatters have, in some cases, invaded officially designated Amerindian areas. The treatment of aborigines is politically sensitive in Brazil; past abuses have been bad and have received a great deal of attention internationally.
- The POLONOROESTE program, designed to bring order to the spontaneous settlement of the Northwest region, aims at settling some 120,000 small-scale farm families while ensuring the protection of the region's natural environment and Amerindian population. From the onset of its involvement in mid-1979, the Bank insisted that the government devise adequate safeguards -- especially with respect to land rights and health -- for these Amerindian communities, prior to any financing decisions by the Bank. Despite the politically sensitive nature of Amerindian issues in Brazil, we have made considerable progress in our discussions with the government. Under a special project prepared by the government and reviewed by the Bank, the National Indian Agency (FUNAI) is upgrading its organization and operation in the Northwest region and has initiated a series of measures giving priority treatment to (a) the protection of Amerindian land, their demarcation, and the removal of squatters, and (b) health care through stepped-up preventive campaign and more effective assistance to fight infectious diseases.

As a condition of loan negotiations, the government has been requested to take concrete steps on all these points. We expect these conditions to be fully met in time for loan negotiations, currently scheduled to start September 21, 1981. One reason for the government's responsiveness to Bank involvement on such a delicate matter is that we have handled our discussions discreetly and without publicity so that no nationalistic banners against Bank "meddling" were raised.

- 4. While these discussions with the government were in progress, a pro-Amerindian campaign was launched by international anthropological groups, such as Survival International. This campaign was supported by other pressure groups, including some associations related to the Brazilian Catholic church. The campaign also received some international attention and press coverage during the last Russell Tribunal on Latin American Indians (held in Rotterdam in November 1980). The main quarrel of most anthropological groups is with FUNAI, because of its past poor performance and the massive firing and resignations of anthropologists that marked FUNAI's new management's efforts to impose some discipline to a previously ill-managed organization. While recognizing FUNAI's past poor performance and image, the Bank has sought quietly to upgrade its capabilities and funding, especially its operations in the field. We are reasonably satisfied with our arrangements with the government in this regard.
- 5. To date, we have met the criticisms levelled at the Bank by stressing our genuine concern for the problems of these Amerindian communities and our continuing efforts with the Brazilian government geared to improving the protection of their constitutional rights. We have adamantly resisted pressures to disclose the detail of our discussions with the government so as not to jeopardize the outcome of these discussions. This has, naturally, irritated Survival International. We have, however, obtained government authorization to publish a Bank report entitled "Brazil Integrated Development of the Northwest Frontier, June 1981" which includes an objective analysis of the Amerindian issue. We have been sending copies of this report to our critics and IPA is preparing, for a wider dissemination of the Bank's views, a press release on this report.
- 6. We expect the pressures and criticisms against the Bank to increase as we near approval of the first loans. We plan, however, to continue to deal with criticisms regarding Bank involvement in this program in the manner described, emphasizing that the development of the Northwest will continue, and that the government, and we, believe it important that the development be done in a controlled and systematic manner both because of the fragility of this tropical area and to protect the native population.

cc: Messrs. Baum, van der Meer, Lerdau, Senner, Skillings FAgueh:nps

RECEIVED 1981 SEP -9 AM 9: 03 OFFICE OF THE PRESIDENT

The section of the section

Dear Mr. Ambassador:

Thank you for your kind letter of August 21. I fully share your desire that we should continue to strengthen the effective working relations between Brazil and the Bank.

While unfortunately prior engagements will prevent me from attending your luncheon, I will be delighted to receive Deputy Minister Barbalho and his associates, and I have asked Mr. Barletta to arrange for a mutually convenient time. I trust that the mission headed by him and our staff will have a useful and productive discussion on the execution of our lending programs with Brazil.

Warm regards,

Sincerely,

(Signed) A. W. Clausen

A. W. Clausen

His Excellency Antonio F. Azeredo da Silveira Ambassador of Brazil Embassy of Brazil 3006 Massachusetts Avenue Washington, D.C. 20008

cc: Mr. Clausen's Office (2) Mr. Barletta

EStern:dpw 8/25/81

To Mr. A. W. Clausen President International Bank for Reconstruction and Development Washington, D.C.

Dear Mr. Clausen:

Permit me, first of all, to present to you my very best wishes for success in the vital functions that you have recently taken up. Many common friends and former Cabinet colleagues, like Mario Simonsen and Karlos Rischbieter, have spoken to me about you with such warmth and commendation that, even before having the opportunity of getting more acquainted with you, I already know that you are a friend of Brazil and a true statesman.

As you know my country has enjoyed a long and very beneficial relationship with the World Bank since its inception. We value very highly this association and wish to continue to strengthen our bonds with the institution that you preside over. It is in this light that I am taking the liberty of writing the present letter to you.

On August 31st a very senior mission of the Brazilian Government, headed by the Deputy Minister of Mines and Energy, Mr. Arnaldo Barbalho, will be in Washington for an important round of conversation with the World Bank. The subject will be the loan programs for energy and steel. I think it would be very desirable for them to have a chance to present directly to you the framework of economic policies that my

Government is implementing, therefore giving you the perspective of the Brazilian economy and some of its key sectors like the energy and steel programs. This mission will be in Washington and would wish to visit with you on Monday, August 31st and Tuesday, September 1st. I shall be very grateful if you can accommodate this request. On the other hand I am planning to offer a luncheon for the Mission and it would be a high honour to have you as the principal guest. Such luncheon would take place on Monday, Tuesday or Wednesday, August 21st or September 1st or 2nd at your convenience.

I look forward to have the opportunity of meeting you again. Thanking you for the attention you may give to this present matter, I remain,

Truly yours,

Antonio F. Azeredo da Silveira

Ambassador of Brazil

(11-78)

WORLD BANK OUTGOING MESSAGE FORM (Telegram, Cable, Telex) IMPORTANT (PLEASE READ INSTRUCTIONS BELOW BEFORE TYPING FORM.)

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	I AM PLEASED TO INFORM YOU THAT MR.	CLAUSEN WILL BE DELIGHTED
	TO PERSONALLY MEET WITH MR. BARBALHO	O AND HIS ASSOCIATES WHEN
	THEY VISIT THE BANK NEXT WEEK TO DIS	SCUSS THE ELECTRICITY AND
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Mr. KXXX Lerdau V

Mr. Clausen

Mr, Ardito-Barletta

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MR. ALDEN WINSHIP CLAUSEN WORLD BANK WASHINGTON - DC - TELEX NR Ø89650

I AM PLEASED TO INFORM YOU THAT A BRAZILIAN MISSION COMPOSED BY MRS. ARNALDO RODRIGUES BARBALHO, HENRIQUE BRANDAO / CAVALCANTI, JOSEH BOTAFOGO GON&ALVES, NELSON MORTADA, GERALDO / SIQUEIRA, MASSATO YOKOTA E JOSEH MILTON DALLARI WILL BE VISITING WASHIGTON FROM 31 AUGUST TO 3 SEPETEMBER IN ORDER TO DISCUSS PROBLEMS RELATED TOICOOIWNECGETIC AND STEEL SECTORES. I WOULD BE VERY GRATEFUL IF YOU WOULD BE KIND ENOUGH TO HAVE A PERSONAL MEETING WITH THEM. LOKING FORWARD TO SEE NEGOTIATIONS COME TO SATISFATORY / UNDERSTANDING, I WISH YOU MY KINDEST REGARDS.

ANTONIO DELFIN NETTO SECRETARY OF PLANNING.

IBRD LANGUAGE	SERVICES DIVISION
CONTROL No. E-35/82	DATE: July 10, 1981
ORIGINAL LANGUAGE: Portugi	uese and French
DEPT. Off. of the Pres. IT	RANSLATOR: JC: jb

Translation of five incoming cables

To: Mr. A. Clausen, President of the World Bank

From: Brazil

Congratulations on your assumption of the Presidency of the World

Bank. We wish you every success. Regards. Ubaldo Campos Correa,

President, Banco da Amazonia S.A., Beleiu, Para, Brazil.

Lu. Correa

Awc

Mushadah Mus

Mr. Alden W. Clausen, President of the World Bank Group

From:

Ivory Coast

Dear Mr. President:

As Governor for Ivory Coast and spokesman for the 21 French-speaking African countries, I have the honor to offer my sincere congratulations on your appointment to the Presidency of the World Bank Group.

Looking forward to meeting you in Washington in September, I wish to stress the importance attached by the governments of Ivory Coast and the other 20 French-speaking African countries to the World Bank's activities in our region.

Very truly yours,

M. Abdoulaye Koné
Minister of the Economy and Finance
Republic of Ivory Coast

MR MINISTER AWC

Mr. A. W. Clausen, President of the World Bank To:

From: Zaire

July 1, 1981

Great pleasure in offering sincere congratulations on your appointment. Convinced that under your dynamic leadership the World Bank will bring a fresh approach to the problems of the developing countries.

Namwisi Ma Koyi

The State Commissioner for Finance and the Budget

MR. Awc

To: Mr. A. W. Clausen, President of the World Bank

From: Burundi

On the occasion of your assumption of the Presidency of the Bank Group I should like on my own and my Government's behalf to offer sincere congratulations and good wishes for your success. Our Government looks forward to working with you within the framework of activities initiated by your predecessor, namely program loans, structural adjustment loans, expansion of energy-related operations, and creation of an energy affiliate. Burundi, one of the poorest countries, has great expectations of your leadership in solving its development problems.

Regards, Minister of Finance and Governor of the World Bank, André Bibwa.

MIN ISTER

Mr. Alden Clausen, President of the World Bank

From:

Senegal

I have the pleasure in offering my warmest congratulations upon your assumption of the Presidency of the World Bank and my good wishes for your success in your new office.

Thanks to your high level of competence and your long experience of the business world I have no doubt that the World Bank will receive a new boost under your leadership enabling it to make a substantial contribution to Africa's economic and social development.

I feel sure that the future will bring further development in the fruitful relationship between my country and the World Bank.

Very truly yours,
Louis Alexandrenne
Minister of Planning and Cooperation
Governor for Senegal

MR MINISTER

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ORIGINAL LANGUAGE:	or ouguese and rienen	
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Louis Alexandrenne

Minister of Planning and Cooperation

Governor for Senegal

(50 lines)

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Above message received via the Academy for Educational Development, Wash. D.C.

REPLY TO THIS TELEX WIR RCA

TELEX NO 137 DU 3/07/1981.

MONSIEUR ALDEN W. CLAUSEN

PRESIDENT DU GROUPE DE LA BANQUE DE EE MONDIALE WASHINGTON

MONSIEUR LE PRESIDENT,

TRANSLATED
INTO ENGLISH

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CONTROL NO E 35/82

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EN MA QUALITE DE GOUVERNEUR POUR LA COTE D'IVOIRE ET PORTEPAROLE DU GROUPE DES VINGT ET UN PAYS FRANCOPHONE D'AFRIQUE,
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RECEVEZ MONSIEUR LE PRESIDNET, LES ASSURANCES DE MA HAUTE CON-, SIDERATION.

M ABDOULAYE KONE,
MINISTRE DE L'ECONMIE ET DES FINANCES
DE LA REPUBLIQUE DE COTE D'IVOIRE

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1981 JUL -7 PM 1: 28 COMMUNICATIONS

ADRESSE

A MONSIEUR A.W. CLAUSEN PRESIDENT DE LA BANQUE MONDIALE WASHINGTON DC.

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TRES HAUTE CONSIDERATION MINISTRE DES FINANCES ET GOUVERNEUR A LA BANQUE MONDIALE ANDRE BIBWA

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9 JUL -3 TH 2:11

MONSIEUR ALDEN CLAUSEN

PRESIDENT DE LA BANQUE MONDIALE

WASHINGTON

TRANSLATED

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CONTROL No E 35/8 &

VOTRE PRISE DE FONCTION A LA PRESIDENCE DE LA BANQUE MONDIALE ME PROCURE L'AGREABLE PLAISIR DE VOUS ADRESSER MES FELICITATIONS TRES CHALEUREUSES AINSI QUE MES SOUHAITS DE PLEIN SUCCES DANS VOS NOUVELLES FONCTIONS

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LOUIS ALEXANDRENNE

MINISTRE PLAN ET COOPERATION

GOUVERNEUR POUR LE SENEGAL

248423 WORLDBANK

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