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CLAUSEN'S - Country Files ! Bazil

vol 5



# **DECLASSIFIED** WBG Archives

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WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

A Burj

TO: Mr. Moeen A. Qureshi

FROM: H.C. Hittmair

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Mr. Clausen : For March 4, 1983

SUBJECT: Deposits with Banco do Brasil, New York

On your request I talked this morning to Mr. Kafka, the Brazilian Executive Director in the IMF, concerning the Bank's deposits with the Banco do Brasil. I mentioned to him that on Wednesday, March 2, 1983 a discussion had taken place between the regional representative of the Banco do Brasil in Washington and Mr. Findakly. The discussion was scheduled on that date because an understanding with the Banco do Brasil to maintain \$50 million in overnight funds in addition to \$9 million in CD's was to expire on March 5. The purpose of the discussion was to bring the Bank's deposits exposure with the Banco do Brasil in line with the generally applied investment rules and guidelines and to do this in an orderly fashion.

The agreement reached in this conversation foresees the following steps on the basis of available deposit data:

Saturday, March 5: Understanding for \$50 million overnight funds plus \$9 million CD's terminates.

Monday, March 7: Bank deposits reduced to \$25 million overnight funds (\$9 million CD's); this is still well above the guidelines.

Friday, March 11: A \$4 million CD matures, by applying the investment guidelines we can now justify \$25 million in overnight funds plus \$5 million in CD's.

This level of deposits would then continue for the time being and can be reviewed as further CD's mature (the next maturity \$3 million on March 28) or as the Banco do Brasil can provide statements showing an improved deposit base.

Mr. Kafka then proposed that the Bank should consider a slower reduction from the \$50 million overnight fund level of March 5, particularly in view of the possible improvement of the situation by the end of March. After discussing this point with you I called Mr. Kafka back and told him that we would rather want to stick to the above understanding:

- (a) because the phasing had been agreed with the Banco do Brasil, and
- (b) because we did not want to extend the exceptional treatment any longer than necessary, i.e. we do not want to go beyond the March 11 date for the regularization of the position.

We would, of course, be willing to react to improvements in the deposit base of the Banco do Brasil as the required documentation showing it would be made available to us. Mr. Kafka noted my reply and said he would think about it.

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I am attaching an extra copy of this memorandum in case you would like to notify Mr. Clausen about the situation.

HCHittmair:mb

cc: Mr. Rotberg Mr. Schielke Mr. Findakly Mrs. Gonzaga

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OFFICE OF THE PRESIDENT

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A.W. CLAUSEN President

March 9, 1983

Dear Tony:

Thanks for transmitting the letter from the Honorable Tancredo Neves. It has been forwarded to the Latin American Division and Nicolas Ardito-Barletta has sent a reply (copy attached).

Sincerely,

Mr. Antonio V. Romualdez Executive Director The World Bank Washington, D.C.

RS:tk

#### 8 de Março de 1983

Exmo. Sr. Tancredo Neves DD. Governador do Estado de Minas Gerais Palacio da Liberdade 30.000 Belo Horizonte, M.G. Brasil

Prezado Governador:

Foi com imensa satisfação que recebemos sua carta, endereçada ao Sr. A.W. Clausen, através de visite que nos fez seu representante Professor Aluísio Pimenta.

Apraz-nos sobremaneira saber de sua decisao em seguir implementando os projetos em execução, de acôrdo com os convênios assinados anteriormente com o Banco Mundial. Nos reconforta ainda mais seu interêsse em buscar nossa participação em novos projetos que sua administração certamente ira iniciar.

Estamos sempre à disposição com o intuito de estreitar cada vez mais os contatos entre o Banco Mundial e o Govêrno de Minas Gerais.

Cordialmente,

Nicolas Ardito Barletta Vice-Presidente América Latina e o Caribe

cc: Mr. Clausen's Office (with copy of incoming/translation) 1/ cc: Mr. Antonio V. Romualdez, EDS

CMehedff

Letter from Governor Tancredo Neves of the State of Minas Gerais, Brazil to Mr. A.W. Clausen, dated February 9, 1983

Dear Mr. Clausen:

I am taking the opportunity of the presence of Professor Aluisio Pimenta in Washington to offer you my greetings and to reaffirm the strong interest of my administration, which will assume office in Minas on March 15, 1983, in projects underway pursuant to agreements signed previously with the World Bank and in this prestigious institution's support for the new projects our administration plans to implement.

In order to ensure continuity of projects currently underway and to better inform ourselves regarding future operations, we authorize Professor Aluisio Pimenta, who has considerable international experience in the projects sector and who will be in Washington until the end of March, (at which time he will return to Minas Gerais), to contact Bank authorities and gather the most objective information, in order that when we take office in the Government of Minas Gerais, we are able to maintain from the very beginning a strong presence and interest in current and future operations which are beneficial to the people of the State.

We greatly appreciate the collaboration offered to Professor Pimenta during this mission.

Cordially,

English version of letter addressed to Mr. Tancredo Neves, Governor of the State of Minas Gerais in reply to his letter to Mr. Clausen, dated February 9, 1983.

March 8, 1983

Dear Governor:

We were very pleased to receive your letter, addressed to Mr. A.W. Clausen, through your representative Professor Aluisio Pimenta.

We are even more pleased in knowing of your interest in projects underway pursuant to agreements signed previously with the Bank, as well as in our participation in future projects of your administration.

We are looking forward to continuing a close relationship with the State of Minas Gerais.

Cordially,

Nicolas Ardito Barletta Vice-President Latin America and Caribbean

FORM NO. 89 THE WORLD BANK (2-83) Date **ROUTING SLIP** Feb.24/83 Name Room No. Mr. Ardito-Barletta Lallan nl alexie bouch 0.1 o suggist litter 1.00 RVP will ce rismalin 1-So. Chino lin To Handle Note and File Appropriate Disposition Prepare Reply Approval Per Our Conversation Information Recommendation Remarks Would you please have the attachment translated--if you feel it is not necessary for Mr. Clausen to respond, would you please do so. Roy Southworth Carme III. Ms handle From

Belo Horizonte, 9 de fevereiro de 1983

Exmo. Sr. Dr. A. W. Clausen DD. Presidente do Banco Mundial Washington DC

#### Prezado Presidente Clausen

Tenho a satisfação de cumprimentá-lo, muito cordialmente, por intermédio do ProfessorAluísio Pimenta, e reafirmar-lhe o grande interesse de meu Governo, que se iniciará em Minas, a partir de 15 de março de 1983, pelos projetos em execução, de acordo com os convênios assi nados anteriormente com o Banco Mundial e ademais contar com o apoio desta prestigiosa Instituição para os novos projetos que a nossa Administração pensa implementar.

Com o objetivo de evitar soluções de continuidade na execução dos atuais projetos em andamento e informar-nos melhor sobre as operações futuras, credenciamos o Professor Aluísio Pimenta, que conta com gran de experiência internacional no setor de projetos e que estará em Washington até o final da segunda quinzena de março, quando retornará a Minas Gerais, para que possa entrar em contato com autoridades do Banco e recolher informações, as mais objetivas, para que, ao assumir mos o Governo de Minas Gerais, possamos manter, desde o início, um a<u>1</u> to nível de presença e interesse nas operações, atuais e futuras, e que são de proveito comum.

Ficaremos muito agradecidos pela colaboração que puder ser proporcionada ao Professor Pimenta, nesta missão.

Cordialmente

Tancredo Neve

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THE WORLD BANK Washington, D.C. 20433 U.S.A.

**Executive Director** 

## February 23, 1983

### Dear Mr. Clausen,

The Hon. Tancredo Neves, who is the newly elected Governor of the State of Minas Gerais, Brazil, has asked me to forward this letter to you. It was handed to me by Professor Aluisio Pimenta, Directordesignate for development projects in Minas Gerais. He visited our office recently and engaged in conversations with us regarding Bank policies and priorities. Needless to say, among other things, we re-affirmed -as you have not tired in doing - against all sorts of rumors -- the Bank's development orientation.

Thank you and best wishes.

Sincerely, Antonio V. Romúaldez

Executive Director

Mr. A. W. Clausen President The World Bank Room E-1227 1818 H Street, N.W. Washington, D.C. 20433

## INTERNATIONAL MONETARY FUND THE WORLD BANK

### Boards of Governors • 1982 Annual Meetings • Toronto, Ontario, Canada

	MEMORANI	DUM FOR THE RECORD
Prior to August 9, 1982	FROM	: E. Lerdau
Mail Address		5
JOINT SECRETARIAT IMF—WORLD BANK WASHINGTON, D. C. 20431 U.S.A.	SUBJECT	<ul> <li>Brazil - Meeting of Mr. Clausen with Minister Galveas</li> </ul>
	DATE	: September 4, 1982
Cable Address		
INTERMEET WASHINGTONDC (USA)	0	

On September 3, 1982, a meeting took place in Toronto between Mr. Clausen and Minister of Finance Ernane Galveas. Also present were Messrs. Langoni, Serrano and Kafka and Messrs. Stern, Lerdau and Humphrey.

The principal subject of the conversation was the international economic and financial situation and its impact on Brazil. Minister Galveas said that whereas previous external crises had been weathered well by Brazil (e.g. the Middle East, the Iran-Iraq war, the Polish issue) the cumulative impact of all of them had made the present situation much more difficult than any preceding one. There was no doubt that foreign bankers were nervous. Nevertheless, there were also some positive features, and he expected that this would be realized by the market. The structure of Brazil's external debt was quite favorable; the annual amortization burden was not Interest this year would amount to some too heavy. US\$10 billion, but if the average interest rate fell to 12% -- instead of the 16% which he had assumed for his planning -- a relief of some US\$2.5 billion would derive from this. Moreover, the falling real price of oil was giving additional relief. Also important was that bank regulators and Central Banks in capital exporting countries were no longer leaning on commercial banks -- as they had done until not long ago -- to restrict their foreign lending. He and Mr. Serrano asked Mr. Clausen's view on this last point.

Mr. Clausen commented that no country benefitted from sudden sharp curtailments in the supply of external funds but that of course surveillance to ensure the quality of the commercial banks' portfolio was necessary. Brazil in this respect was well placed since it was known that

Telex Addresses:

(RCA) 248331 IMF UR (ITT) 440040 FUND UI (WUI) 64111 INTERFUND (TRT) 197677 FUND UT

#### After August 9, 1982

Mail Address

JOINT SECRETARIAT IMF-WORLD BANK P.O. BOX No. 4217 STATION A TORONTO, ONT. M5W 1V9 CANADA

Cable Address INTERMEET TORONTO CANADA

Telex Address 06-218811 INTERMEET TOR

Continued on page 2 ....

responsible economic policies had been followed ("you have bitten some hard bullets"). The Bank was trying to be helpful in stimulating the flow of private capital, particularly through cofinancing and through the promotion of an international code on private investment.

Messrs. Langoni and Galveas said that there were two issues not directly touched by these remedies: (a) the creditworthiness of the borrowing countries and (b) the resource availability of the banks. They saw real disruption at present in the inter-bank market and hoped that this would not last. They also hoped that the resources of the IMF would be expanded sufficiently.

C.C. /Mr. Clausen's Office Mr. Stern's Office Mr. N. A. Barletta Mr. H. Vander Heijden

August 36, 1982

Dear Mr. Langoni:

Thank you very much for your letter of August 4, 1982, regarding Brazil's IBRD capital subscription. We are very grateful for the quick action which your Government has taken in subscribing so promptly to its additional shares under the General Capital Increase.

We also appreciate your Government's decision to release the local currency portion of the paid-in capital associated with both Brazil's GCI and Resolution No. 314 increases. We note that you wish this release to be tied to payment for exports of Brazilian goods and services for projects financed by the Bank. We are happy to agree to this arrangement, although it would be most helpful if you could bear in mind the future possibility of converting this tied release into a fully convertible release, should Brazil's economic circumstances so allow.

May I take this opportunity to thank your Government for Brazil's continued support to the Bank. I look forward to seeing you in Toronto.

Sincerely, W. Clausen

President

Sr. Carlos Geraldo Langoni Fresidente Banco Central do Brasil Caixa Postal 1102/11 70.000 Brasilia (DF), Brasil

bcc: Mr. Antonio V. Romueldez Executive Director

Copies to: Messrs. Gabriel, Ardito-Barletta, Hattori, Scott (o/r), Thahane, Wood, Ikram, Southworth IBRD Capital Contact Group

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#### BANCO CENTRAL DO BRASIL

PRESIDÊNCIA

PRESI-067/82-C

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Brasilia (DF), August 4th., 1982.

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

Dear Mr. Clausen,

In reply to your letter of March 2, 1982, I am pleased to inform you that the Brazilian Government has already sent to the World Bank its Instrument of Subscription to the 5,305 shares of the capital stock which Brazil is authorized to subscribe under Resolutions 346 and 347. The Central Bank of Brazil is taking the necessary measures in order to make the respective payments.

I would like to reafirm that Brazil feels it is necessary to give due support to the World Bank activities in order to increase the Bank's participation in a worldwide scenario.

In this regard, Brazilian authorities have agreed to release the amount of US\$ 41,162,169.94 of the local currency portion of paid-in capital with the purpose to pay export of Brazilian goods and services for projects financed by the Bank.

On the other hand, I would like to point out that the Brazilian Government will grant the same treatment for the amount of US\$ 18,109,704.75 related to the paid-in national currency of the Brazilian subscription to the 1,668 shares of the capital stock of the Bank under Resolution 314.

Sincerely yours,

Carlos Geraldo Langoni Alternate Governor

#### September 8, 1982

Dear Mr. Figueiredo:

Thank you for sending the photo album on the truction of the Carajas Iron Ore Project construction of the Carajas Iron Ore Project. The pictures are most interesting add aptly dipplay the substantial progress already made on the project.

Please give Eliezer Batista de Silva my thanks for his thoughtful gesture.

Sincerely,

AWC A. W. Clausen

Mr. Luiz Felippe Figueiredo Managing Director Rio Doce America, Inc. 640 Fifth Avenue New York, N.Y. 10019

Roy Southworth: dbz

Tel.: 212 265-1480 Cable Address, RIODOCE NEWYORK

3640

TELEX NUMBERS INTERNATIONAL-ITT 423103 ITT 423073 WU 666236 Domestic - WU 125635

## **RIO DOCE AMERICA, INC.**

640 Fifth Avenue New York, N.Y. 10019

> August 27, 1982 MG/RDA 124/82

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

Att: Mr. A. W. Claussen

Dear Mr. Claussen:

Mr. Eliezer Batista da Silva, president of Cia. Vale do Rio Doce, requested us to send you the enclosed album with photos of the construction of Iron Ore Project at Serra do Carajás.

Mr. Batista also asked us to thank you for your support in the loan agreement signed in Washington, D.C., on August 13, between CVRD and World Bank which represents an important step towards the development of the Carajas Region in Brazil.

Very truly yours,

Luiz Felippe Figueiredo Managing Director

Enc. LFF/mh

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NAM AND A CONTRACT OF

Mr. Henrique Brandau Cavalcante President, Brazilian State Steel Holding Co. is taking Dr. Silveira's place at the luncheon.



WORLD BANK / INTERNATIONAL FINANCE CORPORATION

# OFFICE MEMORANDUM



TO: Mr. A. W. Clausen

DATE: August 11, 1982

THROUGH: Mr. Ernest Stern HD

FROM: Syrique Lerdau, Director, LC2

SUBJECT: BRAZIL - Briefing Notes for Meeting on August 13, 1982 with Brazil Planning Minister Antonio Delfim Netto

(LEMM-OSE)

You will be having lunch on Friday, August 13, 1982 at 1:00 p.m. 1. with Brazil's Planning Minister/Antonio Delfim Netto. He will be accompanied by Dr. Sergio Lemos, Head of Cabinet, Secretary of Planning (lawyer and professor); Dr. Gustavo Silveira, Coordinator of Social × Communications for the Secretary of Planning (economist and journalist); Dr. Nestor Jost, Executive Secretary of the Greater Carajas Project (BOATA-FO-GO) (lawyer), also a member of the National Monetary Council and of the Administrative Council of Banco do Brasil; and Dr. Jose Botafogo Goncalves, Secretary of Economic and Technical Cooperation. The lunch will be followed by the signing of the loan documents for the Carajas Iron Ore and the Metropolitan Development Programs for Fortaleza and Salvador Projects. It is our understanding that Minister Delfim will also meet with Mr. de Larosiere. A biographical sketch of Minister Delfim is annexed to the attached Annual Meetings brief.

The primary purpose of Minister Delfim's visit to Washington on 2. August 13 is apparently the signing of the Carajas loan. However, there is no doubt he will also take the opportunity to sound out the Bank's and IMF's reactions to the recent disquieting developments in Brazil's economy. There is growing evidence of a rekindling of inflationary pressures, and during the first six months of 1982, exchange rate depreciation has lagged relative to inflation, although the lag so far has not been great. These developments, if permitted to continue unchecked could undermine confidence in the Government's capacity to deal with the country's pressing economic difficulties, particularly in the international banking community.

Attached, please find the Briefing Paper prepared for the Annual 3. Meeting. However, since this was prepared, I have learned that Minister Delfim probably will not attend those meetings.

Attachment

GPapadopoulos/cg-p

#### BRAZIL

#### BRIEFING PAPER

Meeting with the Brazilian Delegation

to the 1982 Annual Meeting

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I. FY83-84 Lending Program by Sector

August 1982

August 4, 1982

BRAZIL

#### Meeting with the Brazilian Delegation to the Annual Meeting

#### Key Points

The Delegation will most likely wish to discuss the recent evolution of the Brazilian economy, its short-term policy objectives, and the Bank's lending program. Among the most immediate concerns are the recent decline in exports and reacceleration of inflation. Our on-going policy dialogue with the Government continues to focus on the need to reduce credit and other subsidies, to define and enforce better public sector expenditure priorities, to rationalize industrial and trade policy incentives, particularly maintaining a realistic exchange rate, and to improve longer range policy planning, with particular emphasis on employment. Although the economic team appears sympathetic, at least in direction, with these points, policy making is complicated by the forthcoming national elections (Federal, Congress, State Governors, State Legislatures, Municipalities).

I recommend that you take this opportunity to express satisfaction that the Bank and the Government recently reached an agreement on the actions the Government would take to comply with its obligations under our steel loans (mainly capital contributions and price increases) and express the hope that these measures will be taken and will suffice to complete the projects satisfactorily.

#### GENERAL AND ECONOMIC ISSUES

#### Politics

The November 1982 elections will be the first major elections in Brazil since the mid-1960s. Consequently, political concerns constrain the pursuit of economic policy and stabilization objectives. Despite electoral rules intended to favor the Government party -- the Partido Democratico Social (PDS) -- the Government appears likely to lose the governorships of several key states and have its margin of control in Congress substantially reduced, as the current recession and reaccelerating inflation have already served to undermine its popular support.

#### Aggregate Demand Management

Substantial progress was made in macroeconomic stabilization during 1981, but at the cost of a severe industrial recession. Current indications are that demand management policies have become more expansionary in 1982, and may be contributing to an incipient reacceleration of inflation. At the same time, the recession appears to have bottomed out, and a GDP growth of perhaps 1-2% appears likely for 1982. A major factor exacerbating the trade-off between growth and inflation are the large credit subsidies, directed primarily to agriculture and export industries, which must be offset by severe restrictions on overall credit growth. The result has been extremely high real interest rates in the free segment of the financial market.

Despite important progress in recent years to improve the central authorities' information and control over public sector expenditures, the consolidated deficit, including subsidies channeled through the monetary authorities, is estimated to have been equal to almost 8% of GDP in 1981. In addition to the above-mentioned subsidies, a major part of the management problem emanates from large on-going government investment projects and programs inherited from the past, some of which were selected without sufficient regard to economic considerations. Tighter planning is badly needed for the future. An investment program has now been prepared for the period 1982-85 and is being reviewed by a recently returned Bank economic mission.

#### Foreign Trade Policies

For the first time in many years, Brazil's 1981 merchandise trade account showed a substantial surplus (\$1.2 billion), and, despite a disappointing export performance in the first half of 1982 (down 8.6% in current US\$ as compared to the first half of 1981), the outlook is still for a small merchandise trade surplus for 1982. With interest rates remaining high, however, a current account deficit of about US\$ 11 billion is projected. Although Brazil has not apparently encountered difficulties so far this year in meeting its borrowing needs, the reacceleration of inflation and decline in exports may again cause concern among the international bankers.

Exchange rate policy is crucial to improving export incentives, particularly in view of the Government's commitment to GATT to reduce tax subsidies for that purpose. During the first seven months of 1982, however, exchange rate adjustments have lagged slightly (about 10%) behind domestic inflation. The Government has indicated its intention to make up for the lag during the remainder of the year. I recommend that you inquire again as to government intentions and in so doing express the Bank's concern.

Looking to the longer term, the Brazilian economy is kept relatively closed through the exercise of restrictive trade policies. Domestic market protection, however, also discriminates against exports, and there is reason to believe that greater openness of the economy would enhance economic growth and employment and improve the distribution of income. A Bank Report just published in grey cover, has recommended, among other things, that the Brazilian government organize an economic work program to study the impact of its present trade regime and lay the base for future reform. In pre-publication discussions this recommendation met with approval by the Government. You might take the opportunity to inquire as to the progress and future prospects of such efforts.

#### OPERATIONAL ISSUES

#### Loans to the Steel Sector

A major point of contention in our relations with Brazil was removed when the Bank and the Government recently agreed on a plan of action for insuring timely completion of the Bank-financed steel projects and restoring the financial viability of implementing companies. This plan calls for (i) 5% real steel price increases in the second semester of 1982, (ii) additional government transfers (including equity contributions), and (iii) additional external borrowing. The cornerpiece of this plan is the recommended price increases that would allow the companies a reasonable profit margin over costs at efficient operations. Such increases are not expected to impair the companies' competitive position on domestic and international markets. A Government decision on the expected first price increases is still awaited, and it would be worth while to remind the Brazilian delegation of the importance we attach to this matter.

#### Local Matching Funds

Execution of virtually all our projects in Brazil is being hampered by delays and shortfalls in the required local matching funds. Strict public expenditures management being enforced by the Government, which the Bank supports, seems to be only a partial explanatory factor. Problems with defining priorities and burdensome bureaucratic processes also play a role. The Government and the Bank are organizing a project implementation review meeting this coming fall to discuss the situation and other project implementation problems.

#### BIOGRAPHIES

Antonio Delfim Netto (Minister of Planning and Governor of the Bank). Dr. Antonio Delfim Netto, 54, who became Minister of Planning in the Figueiredo Government in August 1979, has a graduate degree in economics. Early in his career Dr. Delfim Netto was a professor of Economics at the University of Sao Paulo, where he established himself as one of Brazil's outstanding economists. From 1964 to 1967 he served as Secretary of Finance for the State of Sao Paulo, and in March 1967, at the age of 39, he was appointed Minister of Finance, where he remained until 1974. During the Geisel Government (1974-79) he was Brazil's Ambassador to France. In March 1979 he was appointed Minister of Agriculture in the Figueiredo Government, a post he left to become Minister of Planning.

Ernane Galvêas (Minister of Finance and Governor of the Fund). Dr. Ernane Galvêas, 57, who became Minister of Finance in the Figueiredo Government in early 1980, has degrees in economics and law and did some graduate work in economics at Yale University. From 1963 to 1965 Dr. Galvêas was the Finance Director of the Merchant Marine Commission. In 1966 he became head of the Department of Foreign Trade (CACEX) of the Banco do Brasil, and early in 1968 assumed the presidency of the Central Bank, a post he held for six years. In 1974 he became president of a new pulp and paper company, Aracruz Florestal, which he left to become President of the Central Bank in August 1979. Dr. Galvêas was formerly Governor of the Bank. He was recently replaced in this position by Minister Delfim Netto.

Carlos Geraldo Langoni (President, Central Bank of Brazil --Alternate Governor of Bank and Fund). Dr. Carlos Geraldo Langoni, 36, who became President of the Central Bank in early 1980, and was previously a Director of the Central Bank, has a Ph.D. in Economics from the University of Chicago (1970). Since 1971 Dr. Langoni has been on the faculty at the Fundaçao Getulio Vargas (FGV) and from 1974-79 he served there as Director of the Graduate Program in Economics, a position which he left when appointed a Director of the Central Bank in 1979. Since 1970 Dr. Langoni has undertaken research on various aspects of the Brazilian economy, with his best known work on income distribution.

### BRAZIL

ANNEX

#### FY83-84 LENDING PROGRAM BY SECTOR

	FY83	FY84	Total	Z
Industrial Development				
Iron Ore-Carajas	304			
Development Banking II	220		4 4 5 5 4 7 8 9	
Sub-Total - Infrastructure Development	524	*	524	25%
Power - Energy				
Rural Electrification	200			
ELETROBRAS Distribution II		250		
Sub-Total - Power-Energy	200	250	450	22%
	<del></del> ,			
Transportation				
Secondary & Feeder Roads		166		
Highway VII: Rehabilitation/Maintenance		150		-
Sub-Total Transportation		316	316	15%
Urban Infrastructure & Development				
Urban Development- Northeast Metropolitan Engineering	9			
Water Supply & Sewerage- Sector	250			
Sub-Total Urban Infrastructure & Dev.	259	-	259	12%
×				
Agriculture & Rural Development				
Northwest Dev. III - New Settlements	92			
Rural Development Bahia II	35			
Forestry Development	20			
Agro Industries III		200		
Rural Development - Northeast Region		80		
Sub-Total - Agric. of Rural Development	147	280	427	20%
Education & Health				
Primary Health Care - Sao Paulo		75		
Education V - Agricultural and Technical Ed.	-	50		
Sub-Total - Education & Health		125	125	_6%
TOTAL	<u>1130</u>	271	2101	

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

# OFFICE MEMORANDUM

TO: Mr. A. W. Clausen

August 12, 1982

DATE:

FROM: Hans A. Wutthe

SUBJECT: Visit of Minister Delfim Netto

1. IFC's <u>relations</u> with Brazil are excellent. Brazil has traditionally been a very strong supporter of IFC. The Minister may ask about the status of a possible IFC capital increase.

2. There is one problem: the Central Bank has just advised us that it will not authorize two forthcoming IFC loans on grounds that our <u>interest rate</u> is too high (16-3/4 to 17% p.a. in U.S. dollars). Only last week the Central Bank gave its belated authorization to IFC loans approved by our Board last fiscal year. The delay was due to the same complaint that IFC's interest rate is too high. We have discussed this issue at length with the Brazilian authorities. The Minister is aware of the problem and reportedly he is sympathetic towards IFC. We should take advantage of this opportunity to get the Minister's word that he will settle this matter.

3. On <u>Carajas</u> we have agreed with CVRD to postpone further work on a possible convertible debenture for IFC and institutional/Middle East investors until eurobond markets and rates have improved.

4. During his visit in December 1981, the Minister requested IFC to try finding a way of assisting a palm oil project in the territory of Amapa sponsored by the <u>Antunes Group</u>. Last June the Board approved a US\$6 million loan for this project.

5. Eight projects were approved by the <u>Board</u> in FY82 for a total amount of US\$196.6 million. Our <u>portfolio</u> in Brazil, as at June 30, 1982, totaled US\$598.8 million in 30 companies. This amounted to 15% of total IFC's investments for its own account, IFC's largest single country exposure.

6. Our current <u>pipeline</u> includes a cement project in Mato Grosso and a coconut plantation in the Amazon; both in an advanced stage. Other projects in a more preliminary stage include: an expansion of a bauxite mine in the Amazon; an aluminum smelter in the northeast; and a coal mining project in the south. Because many large projects are being postponed, the outlook for this fiscal year (in volume terms) is weak.

7. In the past Brazil has encouraged IFC to step up its activities in the <u>Capital Markets</u> sector. Last year our Board approved investments in an agroleasing company and in a venture capital company.

8. Brazil is again asking for help in increasing the number of Brazilians in our staff.

JRuisanchez/zp

## International Bank for Reconstruction and Development

SecM82-733 August 11, 1982

FROM: Vice President and Secretary

SIGNING OF LOANS: BRAZIL 1. Carajas Iron Ore Project 2. Preparation of Metropolitan Development Program for Fortaleza and Salvador

1. The following arrangements have been made for signing the loans - (\$304.5 m.) to Companhia Vale Do Rio Doce with the guarantee of Brazil for a Carajas iron ore project and (\$8.9 m.) to Brazil for the preparation of metropolitan development programs for Fortaleza and Salvador.

Date and Hour	- Friday, August 13, 19	982 - 3:15 p.m.
Place	- Board Room	2112 N
Signing Officials	- For the Borrowers:	For Carajas Iron Project: Dr. Eliezer Batista da Silva President, CVRD
		Dr. Samir Zraick Financial Director, CVRD
		For Metropolitan Programs: Dr. Cid Heraclito Queiroz Attorney General, Ministry of Finance
	- For the Guarantor:	Dr. Cid Heraclito Queiroz
Seating:	- For the Bank:	Mr. Lerdau Director, Country Programs II Latin America and the Caribbean
4(R) Mr. Cardenas		

- 3(R) Mr. Romualdez
- 2(R) Ministry of Finance

1 Country Programs Director

- 2(L) CVRD
- 3(L) CVRD
- 4(L) LAC Region

2. Mr. Tcheyan (Latin America and the Caribbean) will arrange for the attendance of the signing officials. Mr. Abbott (Legal Department) will supervise the execution of the documents.

#### Distribution:

Mr. Romualdez	Mr. Baum	Mr. Lerdau
Mr. Cardenas	Mr. Gabriel	Mr. van der Meer
President	Mr. Hattori	Mr. Vogl
Mr. Qureshi	Mr. Rotberg	Mr. Papadopoulos
Mr. Ardito Barletta	Mr. Scott	Mr. Abbott
	Mr. Lari	

K (

Will fim - hette

Wine Jenne Jenne Jenne Jenne APPETIZERS Chilled Consomme Madrilene - New England Clam Chowder \$0.75 Fnuit Juices - Pineapple Princess Marinated Mushrooms - Melon Smoked Trout - Devilled Eggs Danoise ENTREES

OMELETTE AUX CHAMPIGNONS \$3.40 (Mushinoom Omelet) CORNISH HEN WITH WILD RICE \$4.90 SALTIMBOCCA A LA ROMANA \$5.90 (Veal Scallopine w/Proscuitto) COQUILLE AUX FRUITS DE MER \$5.55 (Scalard in Schell) \$4.90 \$5.55 (Seafood in Shell)

#### OR

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

NEW YORK SIRLOIN STRIP STEAK \$5.90 (TWO BROILED LAME CHOPS \$5.75 CHOPPED SIRLOIN STEAK W7MUSHROOM SAUCE \$4.10

#### \*\*\* VEGETABLES Weid ful ren (Choice of Two) Bachesse Kotato Buttered

...

#### COLD PLATES

AVOCADO SEAFARE \$3.75 EGG SALAD SANDWICH \$3.40

#### DESSERTS

Sherbert - (Ice Cream)	\$0.80
Chocolate Mousse - Pear Belle Helene	\$1.00
Assorted Pastries - Tartlets	\$1.25
Cakes and Pies	\$1.05
Charge and Chappers - Frank Fruit	51 10-

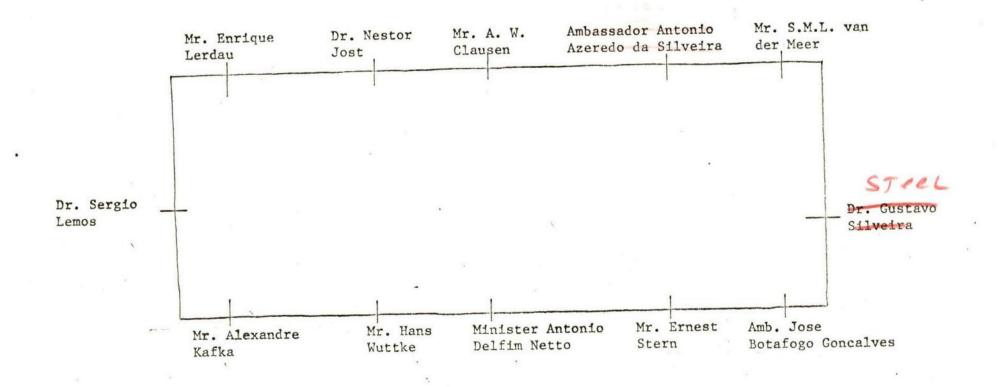
#### APERITIFS - BEVERAGES

Sherry Sweet/Dry Coke \$0.60	\$0.75 Ginger Ale	Dubonnet \$0.60		\$0.30
Perrier \$0.95 Coffee \$0.30	Tea \$	0.30	Espresso	\$0.45

Friday

#### August 13, 1982

Proposed Seating Arrangement for Mr. Clausen's luncheon for Minister Delfim Netto and Brazilian Delegation



							4	
FORM NO. 453		THE	WORLD	BANK			9	
16-761	DINING	ROOM	RESERV	ATION REG	QUEST		/P	
L	See reverse side for	instructio	ns. This for	rm must be sub	mitted in dup	olicate.	/	
TO:		OM NO .:	FROM:				ROOM NO .:	EXTENSION:
Executive Dining Room	Monogor	pri. r	n. A.	W. Clausen	1		E 1227	72001
I request a reservation in t following <i>(No.)</i> 8 pe	ople, of which	(a)		Friday /ENING FUNCT (No.)	<i>on</i> _will be Re	presentati	13 on Charges ality Charge	
		(c)			_will be Sta	aff Activit	ies Charges	
		(d)	÷	will be Perso	nal Charges	to Host		
		(e)		will be Perso	nal Charges	to Individ	dual	
NAME			NUZATION		CI	HARGES (Ch	eck one)	
NAME	TITLE	ORGANIZATIC		Representation	Hospitality	Activities	Host	Individual
HOST: A. W. Clausen	President	Wor	ld Bank	x				

A. W. Clausen	President	World Bank	X				
OTHER BANK GROUP STAFF:	Acting VP						
Suitbertus van der Me		"	X				
	Director	NUM					
Enrique Lerdau	LC2	"	X				
Ernest Stern	SVP Operations	"	X				
alevandre Kafler IMFJED		IME					
IMFJED							
antassador							
antassador da Silveira Hittike							
Huttle							
OTHERS:	Min. of Finance		1				2
Antonio Delfim-Netto	Brazil		X				
	Head of						
Dr. Sergio Lemos	Cabinet	Brazil	X				
	Coordinator for		1516.51				
Dr. Gustavo Silveira	Social Commun.	Brazil	X				
	Exec. Sec. for	-					
Dr. Nestor Jost	Carajas Proj.	Brazil	X		-		
T 1 D . C	Sec. of Econ. &						
Joseph Botafogo	Tech. Coop.	Brazil	X				
				-			
	1		1				11
DEPARTMENT TO BE CHARGED FO STAFF ACTIVITIES:	R REP., STAFF HOSP.,	EPT. NO.: DIV.		GNATURE OF		DAT	
Office of the President	:	103	99	hun the	hincelle	8/11/ 8/	6/82
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				/	5		

THE WORLD BANK Washington, D.C. 20433 U.S.A.

Office of the President

#### July 28, 1982

Dear Dr. Franceshi:

The enclosed letter was returned recently to our office and we are indeed sorry to learn that you obviously never received Mr. Clausen's thanks and appreciation for all your kindnesses. We are now trying a slightly different address, suggested by the Brazil division in the Bank, in the hope that the letter, although late, will finally reach you and your family.

Sincerely,

#### Helen Higgins Executive Secretary

Dr. J. Franceshi e Familia Ayrosa Galvao Dist. de Potundava Municipio de Jahu Sao Paulo, CEP 17200 Brazil

ROUTING SLIP	DATE:			
NAME		ROOM NO.		
Mrs. Helen Higgins		7-2001		
		-		
APPROPRIATE DISPOSITION	NOTE AND			
APPROVAL	NOTE AND SEND ON			
CLEARANCE	PER OUR CONVERSATIO			
COMMENT	PER YOUR REQUEST			
FOR ACTION	PREPARE REPLY			
INFORMATION	RECOMMEND	DATION		
INITIAL	SIGNATURE			
NOTE AND FILE	URGENT			
Helen: This is the detailed found: AYROSA GALVAO DIST. DE POTUNDAVA MUNICIPIO DE JAHU SAO PAULO, CEP 1720	00	ich I		
I hope this one will	. WOIK OUL.			
ROM: Dominique Lallement	воом NO.: E-928	EXTENSION		

July 16, 1982

Dear Antonio:

Just a brief note to tell you how sorry I am that I will miss you during your visit in Washington. We are leaving today for the West Coast for a little vacation.

I enjoyed the visit we had together in March. These are difficult times for all countries and we certainly applaud the good job you are doing.

Though we will miss one another this trip, I look forward to seeing you during the annual meetings in Toronto.

Warm regards.

Sincerely,

2

A. W. Clausen

His Excellency Antonio Delfim Netto Ministro de Estado Chefe da Secretaria de Planejamento Esplanada dos Ministerios Bloco L, 7º Andar 70.063 Brasilia, DF, Brazil

bc: H. van der Heijden (for hand delivery)

HH:MH

Mr. van der Heiden doesn't think Mr. Delfim Netto will come to the Bank but, nevertheless, thinks a note from you is a good idea. He had nothing to offer other than what you had suggested to me for the letter.

#### HH

P.S. He will see that Mr. Delfim Netto received the letter.

#### INFORMAL TRANSLATION

#### MR. CLAUSEN'S FILE

Answer to Mr. Delfim Netto's Acting Minister's letter dated June 14, 1982

We thank you for letter dated May 12, 1982 addressed to Mr. Alden W. Clause, President of the World Bank confirming that Secretariat of Planning concurs with the priority of the Agricultural Development Project of the Amazonas,

Sincerely

Hendrick van der Heijden

hrono

14 de junho de 1982

Exmo. Sr. Antonio Delfim Netto Ministro de Estado Chefe da Secretaria de Planejamento Esplanada dos Ministérios, Bloco K, 79 andar 70000 Brasilia, D.F.,Brasil

#### Prezado Senhor Ministro:

Agradecemos carta de 12 de maio de 1982 mandada ao Senhor Presidente do Banco Mundial, Dr. Alden W. Clausen, confirmando a concorrência da Secretaria de Planejamento com a prioridade do Projeto de Desenvolvimento Agrícola do Amazonas.

Aproveitamos a oportunidade para renovar a V. Exa. protestos de elevada estima e consideração.

Atenciosamente,

Hendrick van der Heijden Chefe, Divisão do Brasil America Latina e o Caribe Escritório Regional

### FAgueh/cfk

co: Mr. Clausen's office Mr. Senner, LCP Mr. Saes, LEG (with original of incoming)

#### INFORMAL TRANSLATION

#### FOR MR. CLAUSEN'S FILE

Letter from Dr. Flavio Pecora, Acting Minister of Planning

Mr. President,

I wish to refer to the State of Amazonas' request of priority for the Integrated Agricultural Development Project in the State of Amazonas, for which a proposed Bank Loan of US\$ 24,6 million is being considered.

The proceeds of this loan, together with the national matching funds, will help finance the said Project which has an estimated cost of US\$ 77,7 million and the objectives of:

a) improving the social and economic conditions of some 9.500 farm families operating farms of and up to 100 hectares,

b) improving food supply and promoting a rational development of agricultural productivity,

c) improving production support services, including social infrastructure and services, and

d) expanding the state of Amazonas capability to plan and execute similar projects.

In this regard, I am pleased to inform Your Excellency that the Secretariat of Planning, in accordance with the existing legislation recognizes the priority of the Project, for purposes of the loan referred to.

Sincerely

Jose Flavio Pecora Acting Minister

# CARTA/nº 076

0996

Em, 12/5/82.

Exmo. Sr.

Doutor ALDEN WINSHIP CLAUSEN

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

### Senhor Presidente,

Tenho a honra de referir-me à solicitação do Estado do Amazonas relacionado com os aspectos de prioridade do Projeto de Desenvolvimento Agrícola do Amazonas, com vis tas à contratação, pela República Federativa do Brasil, de operação de crédito externo junto a esse Banco, no montante de US\$ 26,4 milhões, a serem aplicados no referido projeto.

Os recursos provenientes da mencionada opera ção, adicionados à contrapartida nacional, possibilitarão 0 financiamento do mencionado projeto, orçado em US\$ 77,7 mi lhões e cujos objetivos abragem: a) melhoria das condições s $ilde{o}$ cio-econômicas de 9.500 famílias de produtores rurais que ex ploram área inferior a 100 hectares, b) aumento da produção de alimentos e promoção do desenvolvimento racional da produ tividade agrícola, c) melhoria das atividades de suporte à produção, incluindo infra-estrutura social e de serviços, e d) capacitação do Estado do Amazonas na elaboração e execução de projetos similares.

A propósito, apraz-me comunicar a V.Exa. que esta S<u>e</u> cretaria de Planejamento, nos termos da legislação em vigor, rec<u>o</u> nhece a prioridade do Projeto para fins de contratação da referida operação de crédito.

Aproveito a oportunidade para renovar a V.Exa. pro testos de elevada estima e consideração.

avio Pécora José Ministro Interino

# INFORMAL TRANSLATION FOR MR. CLAUSEN'S FILES

Answer to Mr. Delfim Neto dated June 14, 1982

We thank you for your letter of May 31, 1982 addressed to Mr. Alden W. Clausen, President of the World Bank confirming that Secretariat of Planning concurs with the priority of the Integrated Rural Development Project in the State of Maranhão.

Yours sincerely,

## 14 de junho de 1982

Exmo. Sr. Antonio Delfim Netto Ministro de Estado Chefe da Secretaria de Planejamento Esplanada dos Ministérios, Bloco K, 79 andar 70.000 Brasília, DF, Brasil

## Prezado Senhor Ministro:

Agradecemos à vossa carta de 31 de maio de 1982 mandada ao Senhor Presidente do Banco Mundial, Dr. Alden W. Clausen, confirmando a concorrência da Secretaria de Planejamento com a prioridade do Projeto de Desenvolvimento Integrado do Estado do Maranhão.

Aproveitamos a oportunidade para renovar a V. Exa. protestos de elevada estima e consideração.

Atenciosamente,

Enrique Lerdau Diretor Departamento de Programas da America Latina e do Caribe Repartição Regional

FAgueh/cfk

cc: Mr. Clausen's offica Mr. Senner, LCP

Mr. Saez, LEG (with original of incoming)

#### INFORMAL TRANSLATION

FOR MR. CLAUSEN'S FILE

Letter. from Mr. Delfim Netoo to Mr. Alden W. Clausen

Mr. President,

I wish to refer to the Ministry of Interior's request of priority for the Integrated Rural Development Project in the State of Maranhao, for which a proposed Bank Loan of US\$ 42,400,000 to the Federative Republic of Brazil is being considered.

The proceeds of this loan, together with the national matching funds, will help finance the said Project which has an estimated cost of US\$ 122,9 million and the objectives of providing:

> - access to land and security of tenure for 39.000 small scale farmers in Maranhao with a view to improving agricultural production,

- production support services to 24.000 small-scale farmers, of which 19.500 will receive intensive assistance, the remaining 15.000 receiving the type of assistance provided to farmers already settled in the areas of Alto Turi and Merim Pindare; and

- social and physical infrastructure for the Project area's communities.

In this regard, I am pleased to inform Your Excellency that the Secretariat of Planning, in accordance with the existing legislation, recognizes the priority of the Project, for purposes of the loan referred to.

Sincerely,

Antonio Delfim Netto Minister

# Carta nº 085

Em, 31/5/82

Exmo. Sr.

3111

Doutor ALDEN WINSHIP CLAUSEN

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

#### Senhor Presidente

Tenho a honra de referir-me à solicitação do Ministério do Interior relacionada com aspectos de prioridade do Projeto de Desenvolvimento Rural Integrado do Estado do Ma ranhão, com vistas à contratação, pela República Federativa do Brasil, de operação de crédito externo, no montante de US\$ 42,700,000.00, junto a esse Banco, destinada a aplicação no referido Projeto.

Os recursos provenientes da mencionada operação adicionados à contrapartida nacional, possibilitarão o financiamento do aludido Projeto, orçado em US\$ 122,9 milhões P cujos objetivos, em síntese, abrangem: a efetivação de aces so mais seguro à terra cerca de 39.000 pequenos produtores no Maranhão, visando o melhoramento agrícola; prestação de ser viços de apoio direto a 24.000 desses produtores, dos quais 19.500 receberão assistência mais intensiva, e os restantes 15.000 pequenos produtores receberão o tipo de apoio prestado aos colonos mais antigos das áreas do Alto Turi e do Mearim -Pindaré; e a dotação de infraestrutura social e física para atender as maiores comunidades das áreas do Projeto.

A esse respeito, apraz-me comunicar a V.Exa. que esta Secretaria de Planejamento, nos termos da legislação em vigor, reconhece a prioridade do Projeto, para fins de contratação da referida operação de crédito.

No ensejo, renovo a V.Exa. protestos de elevada est<u>i</u> ma e consideração.

Antonio Delfim Netto Ministro

14 de junho de 1982

Exmo. Sr. Antonio Delfim Netto Ministro de Estado Chefe da Secretaria de Planejamento Esmlanada dos Ministérios, Bloco K, 7º andar 70.000 Brasília, DF, Brasil

Prezado Senhor Ministro:

Agradecemos à vossa carta de 31 de maio de 1982 mandada ao Senhor Presidente do Banco Mundial, Dr. Alden W. Clausen, confirmando a concorrência da Secretaria de Planejamento com a prioridade do Projeto de Desenvolvimento Integrado do Estado do Maranhão.

Aproveitamos a oportunidade para renovar a V. Exa. protestos de elevada estima e consideração.

Atenciosamente,

Enrique Lerdau Diretor Departamento de Programas da America Latina e do Caribe Repartição Regional

FAgueh/efk

cc: Mr. Clausen's office

Mr. Senner, LCP

Mr. Saez, LEG (with original of incoming)

# 'Carta nº 085

Em, 31/5/82

Exmo. Sr.

3111

Doutor ALDEN WINSHIP CLAUSEN

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

#### Senhor Presidente

Tenho a honra de referir-me à solicitação do Ministério do Interior relacionada com aspectos de prioridade do Projeto de Desenvolvimento Rural Integrado do Estado do Ma ranhão, com vistas à contratação, pela República Federativa do Brasil, de operação de crédito externo, no montante de US\$ 42,700,000.00, junto a esse Banco, destinada a aplicação no referido Projeto.

Os recursos provenientes da mencionada operação adicionados à contrapartida nacional, possibilitarão o financiamento do aludido Projeto, orçado em US\$ 122,9 milhões e cujos objetivos, em síntese, abrangem: a efetivação de aces so mais seguro à terra cerca de 39.000 pequenos produtores no Maranhão, visando o melhoramento agrícola; prestação de ser viços de apoio direto a 24.000 desses produtores, dos quais 19.500 receberão assistência mais intensiva, e os restantes 15.000 pequenos produtores receberão o tipo de apoio prestado aos colonos mais antigos das áreas do Alto Turi e do Mearim -Pindaré; e a dotação de infraestrutura social e física para atender as maiores comunidades das áreas do Projeto.

A esse respeito, apraz-me comunicar a V.Exa. que esta Secretaria de Planejamento, nos termos da legislação em vigor, reconhece a prioridade do Projeto, para fins de contratação da referida operação de crédito.

No ensejo, renovo a V.Exa. protestos de elevada est<u>i</u> ma e consideração.

Antonio Delfim Netto Ministro

#### 14 de junho de 1982

Exmo. Sr. Antonio Delfim Netto Ministro de Estado Chefe da Secretaria de Planejamento Esplanada dos Ministérios, Bloco K, 7º andar 70000 Brasilia, D.F.,Brasil

#### Prezado Senhor Ministro:

Agradecemos carta de 12 de maio de 1982 mandada ao Senhor Presidente do Banco Mundial, Dr. Alden W. Clausen, confirmando a concorrência da Secretaria de Planejamento com a prioridade do Projeto de Desenvolvimento Agrícola do Amazonas.

Aproveitamos a oportunidade para renovar a V. Exa. protestos de elevada estima e consideração.

Atenciosamente,

Hendrick van der Heijden Chefe, Divisão do Brasil America Latina e o Caribe Escritório Regional

#### FAgueh/efk

cc: Mr. Clausen's office Mr. Senner, LCP Mr. Saez, LEG (with original of incoming)

# CARTA/no 076

2992

Em, 12/5/82.

Exmo. Sr.

### Doutor ALDEN WINSHIP CLAUSEN

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

#### Senhor Presidente,

Tenho a honra de referir-me à solicitação do Estado do Amazonas relacionado com os aspectos de prioridade do Projeto de Desenvolvimento Agrícola do Amazonas, com vis tas à contratação, pela República Federativa do Brasil, de operação de crédito externo junto a esse Banco, no montante de US\$ 26,4 milhões, a serem aplicados no referido projeto.

Os recursos provenientes da mencionada opera ção, adicionados à contrapartida nacional, possibilitarão 0 financiamento do mencionado projeto, orçado em US\$ 77,7 mi lhões e cujos objetivos abragem: a) melhoria das condições so cio-econômicas de 9.500 famílias de produtores rurais que ex ploram área inferior a 100 hectares, b) aumento da produção de alimentos e promoção do desenvolvimento racional da produ tividade agrícola, c) melhoria das atividades de suporte à produção, incluindo infra-estrutura social e de serviços, e d) capacitação do Estado do Amazonas na elaboração e execução de projetos similares.

A propósito, apraz-me comunicar a V.Exa. que esta S<u>e</u> cretaria de Planejamento, nos termos da legislação em vigor, rec<u>o</u> nhece a prioridade do Projeto para fins de contratação da referida operação de crédito.

Aproveito a oportunidade para renovar a V.Exa. pro testos de elevada estima e consideração.

io Pécora José

Ministro Interino

Flr. Clausen

# OFFICE MEMORANDUM

TO: Mr. Olivier Lafourcade, EXC

FROM: Dennis Koromzay, LC2

SUBJECT: BRAZIL - Mr. Mario Garnero

DATE: June 17, 1982 DECLASSIFIED APR 07 2011 CONFIDENTIAL

WBG ARCHIVES

Mr. Mario Garnero is President of BRASILINVEST, a promotional group based in Sao Paulo to promote investment in Brazil. He has also been a director of Volkswagen do Brasil and a director of the Brazilian Automobile Manufacturers Association. Together with Mr. Alejandro Orfila, Secretary General of the OAS, he has started a group known as the "Forum of the Americas," to promote hemispheric dialogue and improved inter-American relations (this group is perceived by some as primarily "Brazilian" rather than truly representative). He is regarded by many in Brazil as a rising star -- young, bright, flamboyant, and controversial. He is said to be close to Governor Maluf of São Paulo. We have had no direct dealings with him, although Bank staff (Mr. Quijano) have addressed a meeting of the Forum of the Americas. Mr. Garnero probably met Mr. Clausen at a dinner in São Paulo on March 12. We see no particular reason why Mr. Clausen should meet with Mr. Garnero, and there may even be some risks in his doing so. Some Bank staff who have had contact with Mr. Garnero have felt one should be "careful" in dealing with him.

cc: Messrs. van der Heijden Quijano

DKoromzay:nps

The Clauser On the basis of this information, we declined the invitation sent to you by Ambanador Enders for a reception in honor of The barnero -OL

6/17



Mr. Clausen:

March 10, 1982

#### Original is with Mr. Qureshi.





BANCO CENTRAL DO BRASIL

PRESIDÊNCIA

PRESI-017/82-C

Brasilia, March 04, 1982.

Mr.A.W.Clausen President International Development Association Washington, D.C.

Dear Mr. Clausen:

I refer to Resolution Nº 117 of the Board of Governors of the Association authorizing the Sixth Replenishment of the Association's resources and to the Chairman's Summary Note of the IDA Deputies' meeting in Washington, D.C. on September 27-29, 1981.

Paragraph 11 (a) and (b) of the Resolution referred to above set forth certain limitations on the use by the Association of the subscriptions and contributions authorized thereunder for purposes of <u>credit commitments</u>. The Government of Brazil hereby notifies the Association that it waives these limitations in respect of 62% of its total subscription and contribution to the Sixth Replenishment(the first and second "commitment tranches").

Geraldo Langoni Carlos

Alternate Governor

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

August 6, 1981

Tom,

Attached is the CPP we discussed yesterday. The basic document is prepared by the Region, with extensive consultation and a final review by the Regional Vice President in which all interested Departments, plus the IMF, participate. The memoranda from P & B and DPS are intended to serve as points for discussion during the meeting with the President. The postscript is prepared after the meeting to reflect the decisions taken.

Ernest Stern

Attachment

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

# Mr Shellings E90.

# OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE:

May 29, 1981

FROM: Mahbub ul Haq, Director, PPR 9~~

SUBJECT: BRAZIL CPP: Major Policy Issues

1. The IBRD's exposure in Brazil, as measured by debt outstanding and disbursed, is greater than in any other country. So is the balance of committed but undisbursed IBRD loans. And the proposed FY82-86 lending program, at \$6.4 billion, is by far the largest. Brazil's total foreign debt, approaching \$60 billion, exceeds that of any developing country and any major default could have serious implications for the international financial system. Despite recent improvements in economic management, some favorable developments affecting this year's balance of trade and continued progress toward a more democratic political system, Brazil's future is more clouded by undertainty than at any time since 1964. Two major issues are posed by this excellent CPP:

- (i) the need for structural adjustment reforms to underwrite Brazil's creditworthiness for the proposed level of lending; and
- (ii) the volume and composition of economic and sector work.

These two issues are closely interrelated.

#### Measures to Strengthen Brazil's Creditworthiness

2. The CPP notes a number of areas in which there has been notable improvement in Brazil's economic management since the last CPP was reviewed. Among them are enhanced control of public enterprises and "autarkies", a gradual shift of expenditure programs from the monetary to the Treasury budget and some reduction in subsidies on petroleum products. But serious problems persist. Inflation in the past 12 months was over 120 percent, the highest level in Brazilian history. In 1980 agricultural credit subsidies alone were equivalent to 5 percent of GDP. While the agricultural credit subsidies may be reduced somewhat this year, they will still be huge, and credit subsidies for exports have been expanded. The cruzeiro has become increasingly overvalued since the major devaluation of November 1979. This has been compensated by <u>ad hoc</u> measures such as subsidized credit and tax incentives for exports, import taxes and ever more pervasive direct import controls.

3. The CPP explains that a number of measures are under consideration to deal with this and other problems, but they have not yet been carried out. Furthermore, the CPP's thorough economic analysis demonstrates convincingly that the Brazilian economy has become very vulnerable to any new external or internal shock. The CPP's political analysis, however, does not accurately reflect the fragility of the Government's political position. The narrowness of the Government's current political base is presently offset by the effective fragmentation of the civilian opposition and the Government's monopoly on military force. But 1982 is an election year and, as the CPP points out, economic policy reversals have been common in recent years

#### Mr. Robert McNamara

1

for essentially political reasons, even when the political system was less open than it is today.

4. Continued deficiencies in economic management, including Brazil's strong focus on short-term issues to the detriment of medium- and long-term planning, have caused increasing operational problems for the Bank. Without any deliberate slowdown in the lending program, there has in fact been a decrease in IBRD commitments in real terms over the past two years. More-over, the disbursement rate has fallen for the last three years to only 14 percent in FY80, slightly more than half the average rate for the LAC Region and below the Bankwide IBRD/IDA average by almost 30 percent - this despite Brazil's obvious need for new capital inflows. The last two CPPs projected steadily rising lending.

5. These problems warrant early action to reduce credit subsidies and to attack the complex of issues related to the trade regime. In addition, a major tax reform in Brazil is long overdue; this is needed to mobilize more funds for the flagging attack on poverty, to reduce taxes on labor use and subsidies to capital, and to encourage the production of basic wage goods while discouraging the production of luxury goods for the domestic market. Without more decisive action along these lines we question whether Brazil // remains creditworthy for the amounts of lending now proposed.

6. If Brazil does not experience any major new external or internal shocks, it is possible that the second scenario outlined by the CPP (paragraph 62) would 'warrant lending of the level proposed. However, the potential for better performance is so clear and the economy so vulnerable to shocks that simply sustaining the improvements recently observed without some further significant improvements over the next twelve months would not in our view provide a sufficient basis for this high a lending program, particularly since a large part of it has resource transfer as its primary objective and little policy impact. The Region should be asked to define a range of actions which the Bank could take to encourage the Brazilians to proceed with the needed reforms.

7. The Region has proposed adding \$1.2 billion to the FY82-86 lending program to finance structural adjustment loans totalling \$2.1 billion over the critical FY82-84 period should major policy improvements be achieved across the board (scenario 4). The Region's expectation is that the Bank's SAL would be parallel to a large-scale IMF operation. In our judgment Brazil is not likely to approach the Fund unless forced to do so by a deterioration of its economic situation and a slowdown of lending by private banks and by official lenders. The real problem is how to persuade Brazil to approach the Fund and the Bank for needed structural adjustment support before deterioration in the economic outlook proceeds very far. If \$1.2 billion of additional funds earmarked for SAL operations totalling \$2.1 billion over a three year period were to prove decisive in an effort at

#### Mr. Robert McNamara

persuasion, we would certainly support this additional allocation. 1/ While not large in relation to Brazil's capital requirements, the increase would be significant, raising the Bank's share in projected net MLT disbursements from 5.7 percent without structural adjustment lending to about 11 percent with structural adjustment lending.

8. While we cannot support the Region's request for an extraordinary 60 percent cost sharing formula for projects benefitting the poor, as an additional incentive for a tax reform with built in poverty reduction characteristics, we would recommend accepting the Region's proposal, <u>if and only</u> if a SAL conditioned upon such a tax reform is approved and then only for the duration of the SAL.

#### Economic and Sector Work

9. Although Bank lending to Brazil is not insignificant, much more important is the contribution which the Bank can make to policy formulation, since this can affect not only the use of the Bank's limited resources, but also those of other international lenders and, even more importantly, the allocation of Brazil's domestic resources.

10. But a necessary condition for a wide ranging and effective policy dialogue is a well planned, broad based and timely economic and sector work program. Clearly there have been deficiencies in the macro-economic policy dialogue with Brazil, but there are indications that the Bank's economic and sector work is respected and has had an influence in the thinking of Brazilian policy makers. The magnitude of the Bank's exposure in Brazil and the seriousness of the economic problems the country faces suggest that the economic and sector work program be expanded and some studies advanced. Today the Bank is not adequately prepared to make detailed recommendations for a structural adjustment program because the necessary economic work has not been done.

11. The attached tables comparing the number of country economists and the volume of economic and sector work for Brazil and nine other countries with populations over 40 million and FY81-85 lending programs over \$1 billion show clearly that Brazil is relatively understaffed with country economists and that economic and sector work planned is well below the Bankwide average for comparable countries. They are critically low given the amount of IBRD funds at risk in Brazil. We recommend that the number of country economists working on Brazil be increased as soon as possible. If the Region's budget is constrained, and the economic and sector work programs for other countries cannot easily be reduced, one option to be considered would be the switching of staff resources from other activities

<sup>1/</sup> Assuming additional resources could not be found, the major part of such an increase for Brazil might come from a temporary reduction of lending (say by 10 percent) below presently planned levels to the Bank's oil exporting borrowers.

#### Mr. Robert McNamara

within the Region, as has been done in East Asia and Pacific Region. This increase should permit the more timely completion of the planned economic and sector work program, which is on the whole well suited to Brazil's needs, accelerating the tax incidence study so that it can be completed in FY82 and pursuing some additional work on important development issues related to the strategic questions of energy demand and supply.

12. There is a need to examine in a broader sense the energy question in order to follow up on the excellent energy sector report now being finalized. One central issue which should be analyzed is whether there are alternatives to the extrapolation of past development trends, alternatives which would have considerably lower energy demands or require a mix of energy sources more atuned with Brazil's resource endowment. Also the Region should study the impact of biomass energy schemes on land use patterns, the concentration of land ownership, employment opportunities, poverty reduction objectives, and the environment. Both studies could involve active participation by Brazilian consultants and draw on the data generated by the Alcohol Program's monitoring and evaluation unit as well as the results of the 1980 agricultural census. They should be completed before the second alcohol loan or any other biomass energy loan is presented to the Board.

Attachments

cc: Management Review Group

### Table 1

#### Program Economists,

### Economic and Sector Work and Economic and Sector Work Norms:

### Brazil and Selected Countries with Major Lending Programs

(Staffyears per billion dollars annual average lending program, FY81-85)

Country	Program Economists <u>a</u> /	Annual Average ESW FY78-80 b/	Annual Average Proposed ESW FY81-82 c/	FY82 ESW Norms d/
Brazil	2.7	5.8	6.8	8.0
Egypt	6.5	13.8	15.2	12.1
Indonesia	7.8	17.6	15.6	9.8
Mexico	4.7	7.5	8.5	9.3
Philippines	8.1	13.0	9.9	10.7
Thailand	6.5	13.0	12.9	10.9
Turkey	7.5	7.7	15.1	9.8
Bangladesh	17.0	25.7	28.5	24.7
India	4.3	5.5	6.4	8.8
Pakistan	21.7	21.6	27.8	29.1
Mean for Ten Countries	8.7	13.1	15.6	13.3
Brazil as Percent of Mean for Ten Countries	31.0	44.1	43.9	60.2

As of May 1980, including those in field offices.

TRS, excluding DPS research.

As proposed in FY82 indicative statements, excluding DPS research.

Calculated by PPR on the basis of population, size of lending program and a measure of receptivity to Bank ESW.

#### Table 2

Program Economists, Economic and Sector Work and Related Indicators:

#### Brazil and Selected Countries with Major Lending Programs

		Approved				
Country	1979 Population (millions)	FY81-85 Lending Program IBRD and IDA (\$ millions) a/	Program Economists b,	Annual Average ESW FY78-80 <u>c</u> / (Staffweeks)	Annual Average Proposed ESW FY81-82 <u>d</u> / (Staffweeks)	FY82 Norms <u>e</u> / (Staffweeks)
Brazil	115.8 <u>f</u> /	5600.0	3	337.2	398.5 <u>g</u> /	467.0
Egypt	40.9	2315.0	3	332.9	367.0	292.0
Indonesia	138.9	4500.0	7	823.0	732.0	458.0
Mexico	67.6	3200.0	3	250.4	283.5	310.0
Philippines	46.8	3100.0	5	420.2	317.5	346.0
Thailand	45.5	3100.0	4	419.0	414.5	350.0
Turkey	44.3	2675.0	4	214.2	419.5	273.0
Bangladesh	87.0	1770.0	6	473.0	525.0	455.0
India	658.0	10580.0	9	610.0	706.5	973.0
Pakistan	78.5	1150.0	5	258.8	332.5	348.0

1980 Review Group Decisions. a/

As of May 1980, including those in field offices.

TRS, excluding DPS research.

As proposed in FY82 indicative statements, excluding DPS research.

Calculated by PPR on the basis of population, size of lending program and a measure of receptivity to Bank ESW.

Mid year 1979 population estimated on basis of 1970 and 1980 census data. f/

81 CPP. WORLD BANK / INTERNATIONAL FINANCE CORPORATION

# OFFICE MEMORANDUM

Mr. Robert S. McNamara

DATE June 3, 1981

Heinz Vergin, Director, PAB

BRAZIL CPP - Outstanding Policy and Program Issues

1. The CPP presents a frank analysis of the problems which beset the Brazilian economy and the solutions the Government is pursuing. Since the last CPP review in November 1978, the economy has continued to grow at a fast rate. The policy pursued by Government has stimulated domestic demand which in conjunction with recent increases in oil prices and with weak controls over credit and public expenditures has led to a 1980 inflation rate which is over 110%, the highest ever recorded in Brazil; by April 1981, prices were rising at an annual rate of 120%. The overheating of the economy, the rising current account deficits, and the threat of a serious balance of payments crisis are the major economic problems confronting the Government.

2. Against this background we do not think that the proposed "flexible" Bank assistance strategy which envisages a \$6.4 billion lending program in response to a "more of the same situation" (paras. 61 and 62) constitutes an adequate Bank response to the difficult circumstances of its major borrower.

#### The Overheated Economy

3. The structural adjustments which are being pursued by the Government (paras. 17 through 38) are aimed at dampening inflationary pressures without damaging the economy's medium and long term growth prospects. It is likely however, that, as in the past, short term problems and political circumstances will force retreat from forceful application of these policies. One danger that has to be taken into account is the growing voice of opposition to the regime. While the regime is "firmly in command" (para. 3) at the present time, a coalition of Church, which is targetting its concern at the continued neglect of the poor, Labor which opposes changes to the wage adjustment system, and Intelligensia could force concessions regarding pace and extent of required reforms. This may mean that forceful pursuit of structural adjustment will require trade-offs with the ongoing democratization of Brazil's polarized politics.

#### Balance of Payments and Current Account Deficits

4. There are five major assumptions which shaped the "base case" among the alternative balance of payments and debt service projections presented in the CPP (para. 40). At least two of these assumptions--the projected spread over LIBOR for Brazilian borrowing and the projected growth of manufactured exports--appear too optimistic in the current general environment.

5. 'At present Brazil is borrowing heavily on the international financial market at an interest rate close to 15% annually; a lower borrowing rate of 13% has been assumed in the projections. In the closing the months of 1980, the international banking community was expressing serious concerns about the creditworthiness of Brazil and was showing growing reluctance to extend additional credits. However, in the early months of 1981, based on the strong growth performance of the economy and Brazil's acquiescence to substantially larger margins (averaging about 2-1/4% over LIBOR), the smaller international banks have come forward with loans to Brazil. When these banks reach their lending limits, which have already been reached by many of the larger banks, the Brazilian authorities could once again experience difficulties in attracting the required finance. In our view the margin above LIBOR will have to be maintained at a relatively high level in order to sustain the necessary inflows. Thus, the projected borrowing rate of 13% plus an average margin of 1.5% above that rate appear unrealistically low.

6. With respect to the projected 16% real growth of manufacturing exports, this projection does not seem to make adequate allowance for recent developments in international trade. With declining growth rates projected for the developed economies during the 1980s, there is already growing pressure in these countries for the imposition of curbs on their imports of manufactured goods and for the protection of domestic industries. To the extent that these countries buy about 80% of Brazil's manufactured exports, any rise in the protectionist tide will have an adverse effect on Brazil's export growth. Brazil's exports to the developing countries are small but rising; however, most of these countries will experience only very limited growth during the early 1980s and will not be major markets for Brazil's exports. Under these circumstances it would appear prudent to employ a lower rate of growth of manufactured exports in the "base" scenario.

7. Because of both of these considerations, it is our view that the "base case" does not capture the most likely set of conditions under which the Brazilian economy will have to be managed in the 1980s. In so far as the "base case" is used to assess the external financing requirements and debt management problems, the economic management problems confronting the Government would appear to be more urgent and more formidable than the Region's "base case" implies. If our assessment is correct, this would have significant implications for the urgency and content of the Bank's policy dialogue with the Brazilian Government and should affect the thrust of the conditionalities which should be attached to the Bank's lending program. In our view, the program should aim at accelerating the pace of policy and institutional reform as well as improving domestic resource allocation and economic management to achieve the sometimes conflicting goals of stability, growth, and equity.

The Region proposes a "base" lending program of \$6.4 billion for 8. FY82-86, which exceeds the FY81-85 lending program approved at the Allocation Review of April 1980 by 13%. Currently planned lending to Brazil over the period FY81-85 constitutes 10.5% of total IBRD lending; the present proposal would increase Brazil's share of the program only marginally to 10.7%. We support the proposed lending program, its increased emphasis on agriculture and energy, and its focus on the low income groups (paras. 74 and 75). However, we consider the uncertainty over Brazil's creditworthiness such that only a two-year tranche of the program should be approved by Management; the remainder should be considered as notiona for planning and programming purposes pending Government's response to the policy conditions which will have to be pursued in order to ensure the efficient utilization of the resources which are to be provided by this lending program and which have already been committed but are as yet undisbursed. In this context, we agree with the Region that, given the size of available IBRD resources relative to Brazil's stated resource requirements and given overall political constraints, the thrust of the Bank's lending cannot take the form of explicit structural adjustment lending. However, we consider it essential that the Region establish in consultation with the Government an explicit program of policy conditionalities which it would commit itself to pursue in a mutually reinforcing manner through the lending operations proposed under the "flexible" lending strategy. The coincidence of the IMF's and the Bank's concern about Brazil's creditworthiness suggests informal but close collaboration in the development of these conditionalities would be desirable.

9. The level of lending projected under the Region's scenarios (c) and (d) (para. 70) represents shares of IBRD lending (16% and 26% respectively) higher than we can support at this time considering the already large share of loans to Brazil in the IBRD portfolio and the anticipated level of IBRD resources available. Should it become feasible to proceed with SAL, it would appear that only very limited additionality could be envisaged. In this context, we question the need for the extensive list of reserve projects (Attachment 1) totalling 22 projects with lending value of \$1.9 billion for a base lending program of \$6.4 billion comprising 49 projects.

#### Cost Sharing

10. There is only one country (Fiji) at Brazil's income level for which the Bank finances more than 35% of project costs; in fact, in most of the higher middle income countries (Group IV) the Bank does not finance any local costs. Therefore, we cannot support the proposal to raise total project financing from 35% to 60%, even for projects that benefit lowincome groups. We recommend that the present 35% coverage be maintained. Although we note that the disbursement rate has been falling steadily since 1977, we do not support the idea of disbursing a higher percentage of

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#### Mr. Robert S. McNamara

project funds in the early years since in our view it is doubtful that the Brazilian budget system and policy framework can generate the rising share of local funding which such an IBRD disbursement profile would require.

#### Economic and Sector Work

11. Attachment 4 describes the ESW program and the rationale for the proposed studies. The issues which are to be examined are relevant to the proposed assistance strategy. It is disturbing, however, to note that, given the high priority which should be accorded to the Brazil work program in the Region's total budgeted program, staff constraints might jeopardize the timely completion of some of the studies.

12. In the light of the uncertain international environment, its impact on Brazil, and the need to constantly monitor developments in the economy of the Bank's largest borrower, we recommend that the next CPP be presented before the end of FY82.

Annex 1 shows the program proposed in the CPP compared with previously approved programs for Brazil.

The Country Program Review Meeting is scheduled for Friday, June 5, 1981 at 11:00 a.m. in Room E-1227.

#### Attendance:

#### LAC Regional Office:

Messrs. McNamara Stern Qureshi Baum Chenery Haq Horsley Gabriel Vergin

> LaFourcade Landell-Mills Robless

cc: Mr. Paijmans Ms. Pratt Messrs. Ardito-Barletta, RVP Pfefferman, Chief Economist van der Meer, Director, Projects Lerdau, Director, Programs Skillings, Division-Chief, 2A Levy, Senior Economist Agueh, Loan Officer Brazil

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FY76 FY77 **FY78 FY79** FY80 FY81 FY82 FY83 **FY84** FY85 FY86 FY76-80 FY79-83 FY81-85 FY82-36 Operations Program (No.) Approved, September 1978 10 7 9 13 12 14 7 11 13 53 57 .. .. • • 47 Proposed, May 1981 10 7 9 9 7 8 13 9 6 9 11 42 46 45 Lending Program (No.) Approved, September 1978 10 7 9 11 11 12 12 13 11 48 57 .. .. .. Std. Table IVi, February 1981 10 7 9 9° . 7 7 8 10 10 11 42 41 46 . .. .. Proposed, May 1981 10 7 9 9 7 7 9 10 10 9 11 42 42 45 49 Lending Program (Cur. Sm) Approved, September 1978 498 425 705 800 865 925 990 1070 1170 3293 ... 4550 .. •• .. Std. Table IV, February 1981 498 425 705 674 695 828 . 947 1310 1055 1430 2997 4199 .. 5570 •• Proposed, May 1981 498 425 705 674 695 815 994 1120 1320 1400 1520 2997 4298 5649 6354 Lending Program (Const. FY81 \$m) Approved, September 1978 800.6 602.0 898.1 931.3 930.1 925.0 924.4 937.8 965.3 4162.1 4648.6 .. .. .. Std. Table IV. February 1981 \$800.6 602.0 898.1 784.6 747.3 828.0 884.7 924.6 1080.9 1112.0 3832.6 4168.7 4829.7 • • .. Proposed, May 1981 800.6 602.0 898.1 784.6 747.3 815.0 1089.1 1088.6 928.1 981.6 1115.2 3922.6 4256.6 5202.6 4902.4 Commitment Deflator (FY81 = 100) 62.2 70.6 78.5 85.9 93.0 100.0 107.1 114.1 121.2 128.6 136.3

> PAB/CP 6/3/81

Annex I

#### COUNTRY PROGRAM PAPER

#### BRAZIL

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#### Postscript

136. The Country Program Paper for Brazil dated May 5, 1981 was reviewed at a meeting chaired by Mr. Stern on June 5, 1981.

137. Some participants outside the Region asked whether the Bank needed a more clearly articulated set of objectives to be achieved through its economic policy dialogue with the Brazilian Government and a clearer relationship drawn between those objectives and the size and direction of the lending program. In the Region's view, the macro-economic dialogue had been more productive in fact and, at the same time, was more limited in potential influence than commentators had implied. The lending program proposed was focussed on priority sectoral needs and policy objectives and would also serve to maintain support for poverty-oriented programs despite the resource constraint affecting the economy as a whole. A question was also asked regarding the Region's view of what might be the most important issues to be dealt with by a SAL if such an operation were to be considered.

138. The following decisions were taken:

- (a) An interim two-year lending program for FY82 and FY83 of \$1650 million was approved. The Region was instructed to work toward a clearer understanding with the Government on interest rates, the size of its public investment program and other issues. It was agreed that the Region could propose that the level of lending and any additionality for non-project lending be reconsidered when there was evidence of substantial improvement in the priority areas of economic management.
- (b) The sector's composition of the lending program, as proposed in the CPP was endorsed including the Region's proposal that it would not present additional power projects until the outstanding issues on power tariffs were settled. It was agreed that the number of projects in the Reserve category should be reduced.
- (c) The present cost-sharing level (35%) should be maintained, and skewed disbursement schedules would be considered only in exceptional cases.

139. A revised Lending Program is attached.

Attachment

LAC Regional Office July 23, 1981

ATTACHMENT 1 Page 1 of 3

	*						
1982		<u>US</u> \$	Million				
Northwest I - Highway			280				
Northwest I - Rural development - Rondon	ia		70				
Northwest I - Health	14		10				
Northwest II - Rural development - Mato	Grosso		30				
	610330		40				
Rural development - Maranhao			70	10			
Urban development - Recife			300				
Carajas			500				
					800	(7)	
					000	(,)	
10835							
<u>1983S</u>							
Secondary and Feeder Roads III			150				
Water supply and sewerage - Sao Paulo			200				
water supply and sewerage - Sao radio			200				
1002							
<u>1983</u>							
Purel development Amogeneo			30				
Rural development - Amazonas Rural development - Bahia II			30				
			20				
Urban development			70				
Forestry I			50				
Education V			200				
Fuel alcohol II			100				
Power - ELETROBRAS I	2		100				
					850	(9)	
					0.00		
109/ 0							
<u>1984S</u>							
Northwest III - INCRA			100				
			30				
Health - Sao Paulo	× .		250				
Water and sewerage - Sector I			250				
100/		14					
<u>1984</u>							
· · · · · · · · · · · · · · · · · · ·	8. 5		150				
Northeast rural development I			200				
Shale oil			150				
Power - ELETROBRAS II							
Highways VII - Rehabilitation and mainte	enance		170				
Energy conservation - Steel			150				
Urban development - Small cities			100				
Gas pipeline			150				

1,4500 (10)

ATTACHMENT 1 Page 2 of 3

1985		4	US\$ Million
Ceara - Phosphates a	nd uranium		150
Medium and small ind			150
Power - ELETROBRAS I	II		200
Rural development -			50
Rubber development			130
Sewerage treatment -	Sao Paulo II		250
Forestry - Sector			120
Urban development -	Medium cities II		150
Education VI			100
Urban transport IV			200

1,500 (10)

# 1986

Northeast rural development II	200
Power - ELETROBRAS IV	250
Northwest development - Second phase	100
Secondary and feeder roads IV	200
Pollution control	. 100
Rural electrification	100
Agricultural extension II	150
Water and sewerage - Sector II	300
Health - Northeast sector	100
Coal gasification	100

1,600 (10)

NY I

 $\frac{\text{ATTACHMENT 1}}{\text{Page 3 of 3}}$ 

## Reserve Projects

FY83	US\$ Million
Railways - RFFSA III	150
Urban transport - Belo Horizonte	90
<u>FY84</u>	
Energy saving - Fertilizers	100
Petroleum development	200
Rural development - Rio Grande do Norte I	I 30
FY85	
Soil erosion control - Parana	60
Rural development - Alagoas	80
Coastal and inland shipping	50
Rural development - Pernambuco II	100
FY86	s =
Agricultural research III	150
Sites and services II	200
Education VII	100
Urban transport V	200

ATTACHMENT E REVIEW DRAFT DECLASSIONFIDENTIAL APR 0 7 2011 WBG ARCHIVES

# Country Program Paper

BRAZIL

May 5, 1981

Latin America and Caribbean Regional Office

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# BRAZIL - COUNTRY PROGRAM PAPER

1980 Population	: 119.0 million 1/
Growth Rate	: 2.5%
1980 per capita GNP	: \$1,908 <u>2</u> /
Current Exchange Rate	
(April 27, 1981)	: Cr\$80.95 = US\$1.00

## LENDING PROGRAM

	ACTUAL FY76-80	APPROVED FY81-85	PROPOSED FY82-86
		-US\$ Million-	
IBRD	2,997	5,645	6,354
IDA			-
Total	2,997	5,645	6,354
No. of Loans/Credits	42	50	49
No. of Loans/Credits per million population	.35	.42	.41
Average lending per capita per annum			
Current US\$	5.0	9.5	10.7
(Constant FY81 US\$)	(5.4)	(8.2)	(8.7)

The FY81-85 lending program proposed in this CPP compares with the program for the same period approved in the April 1980 Bank Allocation Review, as follows:

	APPROVED FY81-85	PROPOSED FY81-85	% CHANGE Prop/App
No. of Loans and Credits	50	45	-10.0
Current US\$ Million	5,645	5,649	0.0
Constant FY81 US\$ Million	4,892	4,902	0.0
Average lending per capita			
per annum Current US\$ (Constant FY81 US\$)	9.5 (8.2)	9.5 (8.2)	0.0 (0.0)

1/ This figure is based on 1980 Brazilian census data and shows the estimated September 1980 population.

2/ Preliminary national accounts estimates for 1980 were divided by the census population and converted at the average annual exchange rate.

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#### INTRODUCTORY NOTE

Many useful comments and suggestions were made during the working 1. level and Regional Vice President review process, and most of the suggestions have been incorporated. However, there are two comments which, after considerable reflection, the Region has decided it would be preferable not to pursue. One suggestion was that the base-case lending program should contain less project lending for infrastructure and more quick-disbursing sector or structural adjustment lending, to intensify and enhance Bank influence in the macroeconomic policy dialogue. Lending for social sectors and for energy would not be affected. The second suggestion was that one additional scenario be added (in paragraph 62): namely, a situation in which economic policy management deteriorated from its present level such as to cause us to reduce our lending but not so seriously as to justify a complete cessation of Bank lending. The proposal included the suggestion that "trigger points" be identified; i.e., specific policy or performance events that would justify such a reduction in lending.

The Region feels that in present circumstances the receptivity 2. of the Brazilian Government to an intensified macroeconomic policy dialogue, as pointed out in paragraph 64, is limited, while in fact the Bank has been and can continue to be effective in achieving important policy and institutional reforms through project lending of the type that has been carried on in recent years and that is proposed in the base-case scenario for FY82-86. The alternative scenarios involving quick-disbursing sector or structural adjustment lending are in fact predicated on a more receptive government attitude toward a macroeconomic policy dialogue (whether caused by a more relaxed attitude towards Bank advice or rather by the imperatives of a deteriorating economic situation). While we will continue to seek to induce a better dialogue, we are not confident that it will come about, and we do not therefore build it into our base-case program. In any event the institution-building which the Bank will seek through lending for the traditional infrastructure sectors is extremely important in attaining more effective resource allocation in Brazil.

Also, after due consideration, we have not added a fifth scenario 3. for the lending program involving a reduction in lending, but not its complete cessation, should economic management deteriorate. For one thing, we are not quite as pessimistic as some of the commentators that the political environment in Brazil may deteriorate to the point that economic management becomes less effective. Moreover, should it do so, and the Bank responded with a reduced lending program, the response of the Brazilian Government would probably be such as to reduce rather than strengthen the effectiveness of our macroeconomic dialogue. Finally, it would be unrealistic to try to identify "trigger points" specifically, since any decision as important as the decision to reduce or stop lending could be made only after due consideration to the many different aspects of the situation as it existed, and not simply to one or a few specific events. This is not to say that we will not continue to be attentive to the quality of economic management, and to suggest changes in the Bank's posture if this seems warranted.

## I. BACKGROUND

1. The most recent Country Program Paper on Brazil was reviewed by management in September 1978. Last year an Interim Program Memorandum dated November 2, 1979, was presented in lieu of a CPP, since a new Government, whose economic policies and priorities had not yet been fully established, had taken office earlier in the year. The most recent Economic Memorandum on Brazil (2283a-BR) is dated March 19, 1979, and was circulated to the Executive Directors. The findings of an economic mission which visited Brazil in April 1980 and February 1981 have been included in the paper, and a new Economic Memorandum will be circulated shortly.

### Political Situation

2. An increasingly difficult economic situation and the need to undertake unpopular stabilization measures have to some degree weakened the political position of the Figueiredo Government over the past year. This continues a general pattern since the oil crisis in 1973, in which the Government supported by the military establishment has faced increased political difficulties, precipitated in part by persistent problems with inflation, the balance of payments, and slower economic growth. At the same time, the present Government's movement toward political liberalization, the "opening", has resulted in broader and more open popular debate. Press censorship has disappeared, and political opposition parties have become increasingly vocal.

3. Despite its difficulties, however, the Government remains firmly in command. It seems to have dealt successfully with its right wing extremist critics and benefits from the fact that the opposition on the left is fragmented and relatively weak, and lacks both a coherent strategy and an institutional framework strong enough to threaten seriously the Government party's dominant position. Notwithstanding occasional popular manifestations of defiance such as the metalworkers strike in Sao Paulo early in 1980, the possibility of persistent widespread social unrest which could rapidly alter the political structure for the time being appears remote.

4. President Figueiredo seems determined to continue on a course toward direct free elections in 1982 for a broad range of officials including state governors and the federal congress. The present Government has done more than any of its military predecessors to move toward a more democratic system and, at least in public statements, stress the importance of a more equitable society. However, the pace at which President Figueiredo is able to realize these goals may depend upon how the country's economic problems are handled. A return to the more repressive policies of the mid- and late 1960s is unlikely, but the democratization process could experience a slowdown. Nonetheless, the medium-term prospects are for further political opening. The next presidential elections are scheduled for 1985, and present expectations are that a civilian may be elected. Even then, however, the military would be likely to continue to play a vital behind-the-scenes role.

## Economic Situation

5. Introduction. During the period 1967-73, Brazil demonstrated its capacity to sustain rapid growth and diversification of its economy, based largely on domestically mobilized resources, and to compete successfully in international markets with a wide range of increasingly sophisticated products. Although these developments greatly enhanced Brazil's ability to adjust to externally generated shocks, the quadrupling of oil prices at the end of 1973 struck the economy at perhaps its weakest point: the heavy dependence of its industrial and transport sectors on theretofore cheap, foreign petroleum. Few, if any, large nations are apparently as deficient in fossil fuels as is Brazil. Despite a major exploration effort, more than 80% of its petroleum consumption is supplied from abroad, and petroleum now accounts for nearly half of total imports.

6. Consequently, successive governments since 1973 have had to confront the implications of the reversal of the nations's terms of trade. Pressed by the growth expectations awakened by the "miracle" years and the need to provide jobs for the rapidly growing labor force, the authorities have been, until recently, reluctant to restrain aggregate demand. Moreover, a strong international reserve position, continued rapid growth of manufactured exports, the liquidity of world financial markets and widespread confidence in Brazil's creditworthiness, and the opportunities offered by its large domestic market for efficient import substitution combined to encourage and sustain the continuation of a rapid growth strategy.

Taking full advantage of the foregoing factors, the economy has 7. maintained a growth rate in excess of 7% per annum, albeit with wide annual fluctuations, since 1973. The balance-of-payments and price level implications of this growth, in the face of the worsened terms of trade and exacerbated by a succession of poor harvests, have been attacked largely through raising import barriers, ad hoc price and supply interventions in the goods and financial markets, and large investments aimed at import substitution, particularly in the intermediate goods industries. Although an aggressive and innovative effort was also launched to substitute domestic energy resources for imported petroleum, any significant reduction in Brazil's petroleum dependence necessarily involves a long gestation period. Meanwhile the rapid build-up of external debt, the reduction of imports relative to GDP, a fall in domestic savings as a share of GDP, the steady intensification of domestic inflationary pressures and the impact of these developments on perceptions of Brazil's creditworthiness increased the economy's vulnerability to further external shock. That vulnerability is now being severely tested by the additional sharp increases in petroleum prices and international interest rates that occurred in 1979 and 1980.

8. For the next several years, Brazilian policymakers will be tightly constrained: on the one hand, by a difficult balance-of-payments situation, dependence on large amounts of external financing, and intense inflationary pressures; and, on the other, by pressures for continued output and employment growth and improved income distribution, which have been heightened by the process of political "opening". The gradual relaxation of these constraints will depend heavily on the ability of the economy to reduce its dependence on petroleum, continue the rapid expansion of exports and strengthen domestic savings. Important to this process will be the increased efficiency of resource allocation throughout the economy, which implies a progressive restoration of the role of the market and a re-opening of the economy to international competition.

9. <u>Poverty and Income Distribution</u>. The long-term objective, of course, is a higher living standard and improved distribution of the fruits of production among Brazil's large population. Despite the impressive growth of the Brazilian economy since 1967, a significant proportion of the nation's families remain in poverty, with particular concentration in rural areas and in the Northeast. 1/ It is estimated that in 1974-75 some 27% of all families and 61% of all rural families fell below the poverty line. The northeast, with about 28% of total families and 41% of rural families, accounted for 54% and 60%, respectively, of the nation's poor in these two categories.

10. While there is general agreement that poverty is widespread in Brazil, there is considerable debate over both the trends and determinants of income distribution. Several studies published in the early 1970s purported to show a marked increase in income inequalities between 1960 and 1970, sparking considerable controversy in Brazil and in international circles regarding the merits of the Brazilian post-1964 economic and political model. While more recent estimates of trends in income distribution are still imprecise, it appears that the earlier estimates tended to exaggerate the extent of income concentration occurring over the 1960s and early 1970s, and that the real incomes of the poor did improve substantially during the period. Moreover, some convergence of the Northeast per capita income with the national average has apparently occurred since the mid-1960s, though the former remains at less than one-half of the latter. 2/

11. Demographic Development. The preliminary results of the 1980 census have been released recently, and, although it is not yet possible to analyze the demographic trends of the 1970s in detail, certain broad tendencies are manifest. Most importantly, there appears to have been a significant decline in the fertility rate since 1970. While the national population grew at an average annual rate of 2.9% between 1960 and 1970, the rate fell to less than 2.5% per annum during the last decade. This abrupt decline in the growth rate came as a surprise to most demographers, and the actual national population in 1980 (some 119 million) was about five million less than that predicted. This decline in fertility is undoubtedly beneficial to Brazil, but its impact on the composition of the labor force should lag by approximately 15 years. Thus, in the near term, about 1.5 million new jobs per year will continue to be needed in order just to maintain current employment levels.

- 1/ These aspects of poverty are illustrated in the Brazil Human Resources Special Report (Report No. 2604-BR) and the Pfeffermann-Webb study (IBRD Staff Working Paper No. 356) of income distribution in Brazil, both published by the Bank in 1979.
- 2/ Ongoing and planned economic and sector work will further investigate issues pertaining to poverty, income distribution (including tax incidence) and the Northeast, employing the results of the 1980 census and existing household studies when they become fully available.

12. <u>Recent Economic Performance</u>. During the period 1967-73, Brazil had one of the fastest growing economies in the world, with GDP rising at an average annual rate of more than 10%. Industrial growth was particularly rapid, averaging 13% per year, but agricultural growth was also unusually high at 5%. Rapid export expansion, particularly of manufactures, and improving terms of trade had by the early 1970s moved the merchandise trade account into surplus despite substantial liberalization of import policies. This rapid economic growth was achieved, moreover, with only a modest increase of foreign debt, with an increase in international reserves, and with a steady decline in the rate of domestic inflation.

13. The deterioration in Brazil's terms of trade and balance of payments after 1973 was exacerbated by excess aggregate demand and a succession of poor agricultural harvests which contributed to the balance-of-payments problem and the reacceleration of inflation. After a sharp increase in 1974, non-petroleum imports were tightly constrained permitting, along with the rapid growth of manufactured exports, the reappearance of a small trade surplus in 1978, as compared to a US\$5 billion deficit in 1974. Non-fuel imports in 1978 were reduced to about 5% of GDP as compared to 9% in 1974 and an average of 6% in 1970-73.

14. Despite efforts to contain aggregate demand and dampen inflationary expectations, growth of GDP in 1979 and 1980 exceeded 6% and 8%, respectively, and inflation in the latter year accelerated to over 110%, the highest rate ever recorded for a 12-month period in Brazil. Although rapid export growth was sustained, the new round of petroleum price increases in 1979 and 1980 and the resumed real growth of non-fuel imports resulted in merchandise trade deficits of almost US\$3 billion in each of the past two years. Combined with the sharp jump of LIBOR rates, to which almost two-thirds of Brazil's external debt is tied, the current account deficit in 1980 rose to US\$12.2 billion, or almost 6% of GDP.

15. By the end of 1980, medium- and long-term foreign debt had reached over US\$56 billion, a more than fourfold increase since 1973, the increment coming largely from private financial institutions. After large additions to international reserves had been accumulated during 1976-78, heavy drawdowns in 1979 and 1980 reduced reserves to almost the end-1973 level, or about three months' coverage of projected 1981 merchandise imports. The net debt service burden in 1980 reached 61% of goods and non-factor receipts. Net medium- and long-term borrowing requirements in 1981 are expected to reach US\$12 billion, an increase of US\$6.5 billion over 1980 when US\$2.8 billion in reserves (net of revaluation adjustments) were used. During the first three months of 1981, Brazil borrowed about US\$4.7 billion in the Eurocurrency market with average spreads over LIBOR of 2 to 2-1/4%.

16. The Brazilian economy is sufficiently resilient to avoid an external payments crisis, gradually reducing its debt service burden and current account deficit, while still maintaining an acceptable rate of growth. The projections and sensitivity analysis described in paragraph 40 illustrate this flexibility. The base projection, however, is predicated on a number of important assumptions: (a) some moderation of future petroleum price increases; (b) stabilization of LIBOR rates significantly below their present level; (c) continued absorption of Brazilian exports in world markets; (d) success in reducing inflationary pressures; and, finally, (e) the continued confidence of private international lenders, from whom, even under the most positive of assumptions, large amounts of new financing will be needed in the years to come. In 1980, this confidence eroded somewhat among many of the largest international banks heavily exposed in Brazil, and reports were frequent that they were pressing the authorities to enter into an agreement with the IMF as a condition for increasing their exposure in Brazil. Policy changes since November 1980 seem to have revived the banks' confidence to a great extent (see paragraphs 25 and 26). An agreement with the Fund is politically difficult for the Government -- mainly for symbolic reasons -- but it could occur within the current year.

17. Economic Management. As noted above, economic policies since 1973 have given primary emphasis to the maintenance of economic growth, dealing with the resultant balance-of-payments and inflationary pressures through increased import protection, ad hoc price interventions and the promotion of large investments in import-substituting and export industries. Prior to 1980 intermittent efforts to cool off the economy were shortlived, and little attention was paid to the resource allocation distortions being introduced by the increasing administration of the economy.

18. The formulation and execution of economic policy was complicated, moreover, by the increasing size and complexity of the public sector itself and the fragmentation of economic decision making and control. An increasing proportion of public sector programs were financed through the monetary budget and from a large number of special funds, over which little fiscal control was exercised, and whose ultimate source of financing was the Central Bank. Almost half of the revenues which were channeled through the fiscal budget in the latter half of the 1970s were legally earmarked, thus weakening further the discretionary control of the economic authorities. Finally, an increasing share of public sector investment and borrowing was accounted for by the proliferating state enterprises and autarkies which enjoyed considerable de facto autonomy from the Central Government.

19. Since its inauguration in March 1979, the Figueiredo Government has made important progress in reforming the structure of economic policy making and execution, improving both the information available to, and the power exercised by, the central economic authorities. After considerable vacillation regarding the ends and means of short-term management (see below, paragraphs 23-25) and a number of reversals of policy direction, this authority is now being applied in a concerted effort to reduce aggregate demand through both monetary and fiscal measures. Somewhat more tentative steps have also been taken in the direction of the long-term liberalization of domestic and foreign trade in recognition of the distortions introduced by past policies. This progress has been disrupted, however, by a continued tendency toward <u>ad hoc</u> administrative intervention in the management of short-term problems. The new oil price and interest rate shocks of 1979 and 1980 made these problems more pronounced.

20. <u>Reform of the Policymaking Machinery</u>. Progress in institutional reform has been impressive. The Planning Secretariat (SEPLAN) has extended and consolidated its budgetary authority over the public enterprises and "autarkies", through the creation in October 1979 of the Special Secretariat for Control of the State Enterprises (SEST), with increasingly effective power over their total expenditures and revenue sources. SEPLAN's post-audit authority over the other ministries and the enterprises and autarkies has also been strengthened. A Presidential Decree issued in December 1979 established a schedule for eliminating most tax earmarkings, except those forming the revenue-sharing program with the state and local governments, by 1983.

21. Monetary and fiscal controls have been further enhanced by the gradual shift of expenditure programs from the monetary to the treasury budget where they can be more vigorously and publicly monitored, and the expenditures do not result directly in monetary creation. 1/ Among the items transferred thus far are the subsidy programs for wheat, beef, and milk, buffer stock financing for coffee and cocoa, certain outlays for the minimum price program, and interest payments on the domestic public debt. Some improvement in the coordination of price interventions has also been achieved by the creation in SEPLAN of the Special Secretariat for Supply and Price (SEAP) with policy setting authority over the various price control and monitoring agencies of the Government.

22. Under discussion, but yet to be adopted, are: (a) the further reduction of the development promotion responsibilities of the Central Bank, executed through its subsidized credit lines, and the money-creating power of the Bank of Brazil, where additional credit subsidies originate outside the fiscal budget; (b) the reduction and rationalization of the extensive fiscal incentives available for the encouragement of a wide variety of economic activities, many of whose present priorities are questionable; and (c) the institution of a multi-year public sector investment and financing program to supplement the year-by-year effort now being made by SEST. Progress in these areas would greatly enhance the ability of the authorities to conduct monetary and fiscal policy and to direct the allocation of public sector resources in accordance with current national priorities.

Liberalization of Domestic Markets and Foreign Trade. The reduction 23. of domestic price and supply interventions and the opening of the economy to international competition is desirable to improve the efficiency of resource allocation, encourage private sector savings and investment, assure the long-term export capacity of Brazilian industry, and increase the effectiveness of macroeconomic management tools. (A discussion of specific recommendations is contained in paragraphs 47-60.) The Government has explicitly recognized the need for liberalization and has made some tentative progress in that direction. Reversals have been frequent, however, and progress has been limited by political considerations and by a perceived conflict between this objective and the demands of short-term price stabilization and balance-ofpayments management. Measures introduced since November 1980 suggest that the Government may now be prepared to act more aggressively to reduce distortions in the domestic market. Foreign trade policies, on the other hand, after a significant move toward liberalization, have become more protective in response to Brazil's increasingly serious balance-of-payments difficulties.

1/ The monetary budget itself has been published for the first time in 1981.

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In December 1979, a 30% devaluation of the cruzeiro was accompanied 24. by the elimination of most tax subsidies to exporters (some of them since restored) and the removal of the prior deposit requirement on imports. The longstanding Law of National Similars was abolished, and a technical group was formed to prepare recommendations for the reduction of tariff and nontariff barriers to trade. This move toward apparent liberalization was quickly reversed, however, under the pressures of the new oil price increase, the sudden jump of LIBOR, and accelerating inflation. In an effort to dampen inflationary expectations and attract increased capital inflows, the total exchange rate adjustment to be carried out over 1980 was pre-announced at the beginning of the year at a rate considerably below the current rate of inflation. Widespread skepticism regarding the Government's ability to achieve its inflation targets and maintain the announced policy, however, undercut (and perhaps reversed) the intended impact on expectations. The result was a gradual real appreciation of the cruzeiro that potentially threatened the continued expansion of exports.

25. This policy was abandoned in November 1980, and exchange rate adjustments are once again fully reflecting the differential between domestic and international inflation. Indeed, some real depreciation can probably be expected over the course of 1981. On the other hand, import protection has continued to rise with the imposition of a tax on foreign exchange transactions for imports, first set at 15% in April 1980 and recently raised to 25%. Administrative controls on imports have been progressively tightened, including large cutbacks in authorized public sector imports. At the same time, subsidies to exporters, particularly through the credit system, again appear to be increasing. <u>1</u>/

Frequent changes have also marked policies affecting the financial 26. markets. 2/ As a consequence of the large volumes of heavily subsidized credit moving through government-administered programs, an otherwise restrictive monetary policy instituted in early 1979 resulted in extremely high interest rates in the non-administered segment of the market. In order to avoid recession, reduce cost pressures, and lower inflationary expectations, the Government introduced interest rate ceilings throughout the market in September 1979. Then, in December 1979, an important step was taken in the direction of eliminating credit subsidies, when all administered credits, except those applying to the special development programs for the Northeast and Northwest regions, were made subject to partial monetary correction. While still permitting a substantial interest differential between administered and commercial markets, this measure did represent a breaking away from fixed nominal interest rates which had allowed subsidies to balloon as a function of inflation. But, this intention, too, was quickly undercut in January 1980, when the monetary correction index was prefixed for the entire year well below current inflation rates, once again in an effort

<sup>1/</sup> These measures have been introduced to compensate for the overvaluation of the cruzeiro recognized to have occurred during 1980. The Government hopes to phase them out as the real exchange rate is brought back to a more realistic level.

<sup>2/</sup> The study entitled Brazil: Financial Systems Review (Report No. 2790a-BR), dated November 18, 1980, reviews these policies in detail.

to dampen inflationary expectations. The result instead was a rapid disintermediation of the financial system, and this policy was abandoned, along with pre-fixed exchange rate adjustment, in November 1980.

27. The Government now intends over the course of 1981 to reduce the gap between monetary correction and the actual inflation rate; this process has already begun. In January 1981 ceilings were removed from interest rates on regular commercial bank credits to industry and commerce; these are now market determined and have reached effective nominal rates of 130% or more to producers and 200% to consumers. Moreover, effective nominal interest rates were increased for most administered credit programs with lower borrowing limits for the largest borrowers in many of the programs and the removal altogether of several activities -- e.g., agricultural marketing -- from the official credit programs. The Government has indicated its intention to reduce interest subsidies over time and, toward this end, will review the schedule of rates at mid-year. Nevertheless, it continues to view credit subsidies as an important incentive device, particularly for the agricultural sector.

A similar evolution has been traced by pricing policies in the goods 28. markets. After a brief flurry of freeing products -- particularly agricultural products -- from price controls and "catch-up" adjustments of public sector tariffs during the second half of 1979, controls were again tightened and tariffs allowed to lag as anti-inflationary measures during 1980. Also, despite contrary intentions expressed in late 1979, the major consumer subsidy programs -- wheat and petroleum -- increased in magnitude over the course of 1980. In November 1980, however, the Government drastically reduced the subsidy on petroleum products, with especially large price adjustments for theretofore heavily subsidized diesel and fuel oils. The monetary budget for 1981 forecasts a slight surplus in the "petroleum account" for the year. The wheat subsidy, now funded primarily through the ordinary treasury budget, is to be reduced by about a third in nominal cruzeiro terms. Beginning in late 1980, price controls are being lifted from a growing list of manufactured goods. Finally, the Government has begun to allow public utilities, including power and water supply companies, to increase tariffs more rapidly.

29. In summary, the Government espouses the liberalization of domestic goods and financial markets and of foreign trade as long-term objectives. However, this desired long-term tendency has been frequently disrupted and reversed by <u>ad hoc</u> interventions intended to deal with immediate stabilization and balance-of-payments difficulties. A move toward liberalization, at least in domestic market policies, has again become evident in recent months, and the Government has indicated its intention to continue this progress at a pace consistent with the economy's (and political system's) ability to absorb the perceived costs in terms of short-term price and balance-of-payments objectives. In the meantime, serious distortions continue to exist, particularly in the financial markets and foreign trade regime, and these issues will continue to be central topics of the Bank's policy dialogue with the Brazilian authorities.

30. <u>Short-term Policies</u>. Aside from the price control and subsidy policies noted above, important short-term policy measures have been taken in the monetary and fiscal areas, whose cumulative dampening effect on aggregate demand should become evident in the current year. The principal tool of monetary restraint, currently, is the placement of direct controls on the quantity of new credit which can be extended by commercial banks. 1/ During 1980 total credit extension for the year was not to exceed 45% of loans outstanding at the end of 1979, but foreign financial loans intermediated through the banks, production credits to agriculture, and export financing were not charged against the ceiling. The money supply (M1) did contract in real terms over the course of the year, largely as a consequence of the loss of international reserves and the disintermediation referred to above. The primary squeeze apparently fell on commercial and industrial enterprises lacking access to external resources. That production was not seriously affected may reflect normal impact lags but also suggests that a rising proportion of credit needs were being handled through informal channels, presumably at market rates of interest.

31. The monetary budget for 1981 calls for a total nominal credit expansion of 56% (including "open accounts" not included in the calculation of the stipulated ceiling of 50%). A larger share of credit expansion than in the past is to be accounted for by the private commercial banks -- as opposed to the Bank of Brazil -- as a consequence of an increase in the former's mandatory allocation of credit to agriculture from 15% to 20% of demand deposits. 2/ Monetary control should also be enhanced by the attraction of resources back to the banking system by the freeing of commercial interest rates and the reduction of the percent of total costs to be financed by the various administered credit programs. As a consequence, the credit squeeze beginning to be evident in a number of industries in the second half of 1980 should become increasingly generalized in 1981.

32. A number of important short-term fiscal measures were also introduced in 1979 and 1980. These included increases in the highest marginal tax rates applicable to personal and corporate incomes, a new withholding tax on rental and professional service incomes, and the imposition of a compulsory loan of 10% of non-wage and non-salary incomes in excess of Cr\$4 million. This "loan" amounted to the introduction of a capital gains tax and is expected to be formalized as such in the near future. While the lag of tariff adjustments continues to be a problem, on the expenditures side the enhanced budgetary control over public enterprises and autarkies is now being vigorously applied to reduce the overall public sector deficit. The budgeted increase in enterprise expenditures for 1981 is significantly less than the expected rate of inflation, and no new investment projects are to be approved. The impact of the public investment cutback was already evident in the domestic capital goods industry during the second half of 1980. With the National Savings Bank

1/ Except for agricultural credits and other special programs, commercial bank interest rates were freed in January 1981.

2/ Production credit for agriculture from the Bank of Brazil is the largest of the "open accounts." To the extent that the Bank of Brazil is replaced in this financing by the commercial banks, therefore, overall monetary control is strengthened. A recently issued regulation of the Central Bank reinforces this effect by eliminating marketing credits to distributors and processors from the calculation of the 20%. (Caixa Economica Federal) required to transfer about US\$1 billion to the Monetary Authorities in 1981, private construction activity will also feel the pinch. Finally, a public sector employment freeze imposed in mid-1980 is to remain in effect at least through the end of 1981.

33. Long-term Public Expenditure Priorities. Brazil's changed terms of trade and short-term economic difficulties have brought about a realignment of sectoral investment priorities, with highest priority being accorded to export industries, agriculture, and the development of domestic energy resources. These areas have been at least partially exempted from the constraints being imposed on credit and fiscal expenditure. Specific efforts in these sectors are further discussed below in the context of the proposed Bank lending program.

The Government is cognizant of the need to improve the distribution 34. of income and one of the principal objectives of the Third National Development Plan, 1980-85 (III PND) is to reduce absolute poverty and to increase the welfare of the poorest elements of society. Ultimately, the most important factor in this regard will be the Government's effort to assure an adequate rate of growth of employment opportunities -- and to this it is firmly committed. In addition, according to the III PND, measures are needed to improve the access of the poor to basic social services such as education, health and housing and to help the poor indirectly through tax reforms, adjustments in wage policy, support of small- and medium-sized enterprises, and expanded developmental initiatives in the Northeast. A number of programs in the areas mentioned above were first established in the 1970s and it is the intention of the present Government to continue, or expand, some of them. Among the more important of these poverty-oriented measures which are expected to continue include: PIASS, a primary health care program directed to the rural Northeast; PRONAN, a national nutrition program; and POLONORDESTE, a program to provide integrated packages of economic and social infrastructure and services to smallholders in the Northeast.

35. New initiatives by the Figueiredo administration include: a national immunization campaign against polio; Zonas Canavieiras, a program to improve the housing and social services available to the poor of the Northeast's sugarproducing areas; and PROMORAR, a national program to upgrade urban slums. In addition, the current administration has proposed a new health program, called PREVSAUDE, that would cover all rural areas of the country with a PIASS-type primary health care system; extend such a system to urban areas, especially the peripheries of metropolitan areas; and integrate this primary health care system with the urban curative system, thereby increasing the efficiency of the overall system while decreasing average health costs. Planned surveys of the urban, health and education sector will emphasize the recent evolution of basic needs strategies and programs and will update, as necessary, the findings of the Human Resources Special Report. The planned study of state and local finances will explore the fiscal implications of expanding basic social services.

36. As highlighted in the Human Resources Special Report, the Government has been slowly moving toward the establishment of a national family planning policy. The Brazilian delegation to the 1974 World Population Conference at Bucharest and the Second National Development Plan 1975-79 (II PND) both asserted that access to the means of family planning should not depend upon people's ability to pay for them. The implementation of this policy began in the late 1970s through a modest program to provide family planning services in instances where pregnancy would involve a high health risk. It is expected that the Figueiredo administration will continue the gradualist approach to family planning adopted by its predecessor, despite continued opposition by the Church and by elements who cite the results of the 1980 census as evidence that official family planning programs are not necessary.

#### External Capital Requirements

In the past year, very significant advances have been made in the 37. institutional framework for economic decision-making in Brazil, potentially strengthening the management capacity of the economic authorities. In recent months, and after some false starts, the authorities have also taken increasingly determined measures to restrict the growth of aggregate demand while eliminating, rationalizing, or loosening many of the ad hoc administrative interventions previously introduced into the economy. At present, they appear resolved to overcome their difficulties and retain the support of the international financial community without resorting to the IMF. Although no mediumterm public sector investment program has been formulated and none is expected, most of the measures now being introduced are consistent in direction with what an IMF-approved program would be likely to consist of. Provided that the domestic political reaction is manageable, the eventual negotiation of a Fund program might face fewer substantive difficulties than opponents of such a move seem to assume. Under an Extended Fund Facility arrangement, Brazil could have available to it some US\$5-6 billion over a three-year period. These amounts are not included in the projections that follow.

38. Under the most favorable of assumptions, Brazil will require large additional amounts of external financing over the next several years, particularly 1981-83, and the bulk of that financing will have to be provided by the private, commercial banks. The terms of such borrowing have been highly volatile over the past year. The country will remain vulnerable also to any changes in world petroleum prices. At the same time, policymakers will be under pressure, magnified by the opening political process, for continued output and employment growth. Crucial to Brazil's ability to weather this difficult period will be the sustained rapid growth of exports and success in restraining the demand for petroleum imports through energy conservation and substitution.

39. Given the inherent uncertainties of the situation, the danger of an external liquidity crisis and/or a severe recession will persist for at least the next two or three years. Beyond that period, however, assuming success in energy conservation and substitution, the picture should improve rapidly. Several projections have been run, varying assumptions with regard to the growth of manufactured exports, the price of imported petroleum, borrowing costs, and possible limits on the availability of commercial bank financing. The "most likely" or "Base Run" is described in the following section, followed in turn by a summary of the results of the "sensitivity" runs.

40. <u>Base Run</u>. Both base and sensitivity runs posit a GDP growth rate of 5-6% per annum, about 2% below the average rate sustained since 1973. In the Base Run, national savings rise from 24.6% of GDP to 26.3% of GDP from 1980 to 1985, a marginal savings rate of 0.31. In addition to the macroeconomic

performance indicators summarized in Table 1, the Base Run assumes that petroleum prices will rise 3% per year in real terms; that LIBOR will average 13% per year, with Brazil paying a spread of 1.5%; that manufactured exports will grow 16% per year in real terms; and that Brazil will succeed in reducing its oil imports to 800,000 b/d by 1985. This latter figure compares to imports of about 930,000 b/d in 1980, which were below 1979 imports despite industrial growth of more than 8%. (The Government's announced target is to reduce imports to 500,000 b/d by 1985.) Combining the price and volume assumptions, petroleum's share in total merchandise imports would fall from 44% in 1980 to 39% in 1985. Other imports grow at an average annual real rate of almost 6%. <u>1</u>/

Table 1: MACROECONOMIC PERFORMANCE AND PROJECTIONS - BASE RUN

	Actu	al	Estimated	Projected
	1973-78	1979	1980	1981-85
GDP	7.0	6.4	8.5	5.4
Agriculture	4.7	3.2	8.1	4.7
Industry	7.7	6.9	8.3	5.4
Services	6.8	6.5	8.7	5.5
GDY .	6.9	5.7	8.0	5.4
Consumption a/	6.4	6.1	8.5	4.9
Fixed Investment	8.3	7.3	8.7	.5.4
Savings (GNS)	4.2	4.4	8.5	7.1
Imports	4.2	7.8	4.0	4.9
Petroleum	7.1	9.7	-9.7	-2.9
Exports	6.0	7.4	15.0	10.1
Manufactures	20.0	21.4	22.3	16.0
M< External Debt	13.3	0.2	-2.0	6.1

(Annual Real Growth Rates - %)

a/ Includes changes in stocks.

41. Under the conditions outlined, the trade balance would improve rapidly, becoming positive in 1983 and thereafter. As a consequence of growing debt service payments, however, the current account deficit would remain in the range of US\$10-12 billion through 1983 before beginning to decline. By 1985, the current account deficit would have fallen to about US\$3.5 billion, or less than 1% of projected GDP.

1/ A more detailed discussion of the assumptions underlying the balanceof-payments projections of the Base Run is contained in Attachment 3E. 42. Gross external capital requirements and their financing are shown in Table 2. Some US\$20 billion per year of gross inflows will be required over the projection period, with an average US\$15.4 billion coming from private sources. Viewing the period as a whole, this would represent an increase in private lending, including suppliers' credit, roughly equal in percentage terms to the projected increase in private lending for all oil-importing LDCs. The major growth would occur in 1981 and 1982, however, when the needed increases in borrowing from the private market would amount to approximately 20% and 16%, respectively. Total external debt outstanding would reach US\$103 billion, or 26% of GDP, by 1985. However, the projected favorable export performance would help to reduce the debt service ratio from 65% (61% net) in 1980 to below 49% (43% net) by 1985.

# Table 2: EXTERNAL FINANCING REQUIREMENTS - BASE RUN

		Actua	1			Projecte	d	
	1978	1979	1980 <u>a</u> /	1981	1982	1983	1984	1985
Requirements								
Current deficit Amortization	5,927 5,286	9,757 6,551	12,179 7,000	11,748 7,449	11,371 8,514	9,924 9,321	7,104 11,604	3,541 13,212
Brazilian export credits abroad Reserve additions	358 4,262	596 -3,218	689 -3,499	1,082	1,442	1,918 755	2,521	3,336 1,053
Total	15,833	13,686	16,369	21,177	22,066	21,918	22,028	21,142
Sources								
Direct Investment, net Official and	906	1,505	1,202	1,736	1,967	2,226	2,514	2,832
suppliers' credits Private financial	2,973	2,729	3,704	3,794	3,948	4,173	4,060	4,064
credit	11,954	9,452	11,463	15,646	16,151	15,519	15,454	14,246
Total	15,833	13,686	16,369	21,177	22,066	21,918	22,028	21,142

(US\$ Million)

a/ Preliminary.

43. <u>Sensitivity Runs</u>. Table 3 (Runs II-VII) summarizes the end-year (1985) implications of varying the Base Run's assumptions regarding the rate of growth of manufactured exports, real petroleum prices, and the average LIBOR. In the worst alternative case tested (Run VII), manufactured exports grow only 10% per year, half the rate achieved in the 1970s, LIBOR averages 15% per year, and the cost

of imported oil rises 6% per year in real terms. Under these assumptions, the current account deficit would remain in the range of US\$14-16 billion throughout the projection period and be equivalent to almost 4% of projected 1985 GDP. The gross DSR would rise slightly to about 66% of exports, and total debt outstanding would rise to US\$133 billion, or 34% of GDP. To sustain this projection, private commercial debt would have to grow about 18% per year, representing a significant increase in Brazil's share of total private international lending. Such a situation probably would not be acceptable to Brazil's foreign creditors and would have to be met by further reductions in the overall rate of economic growth.

	1981-8 of Gro	erage 35 Rate owth of actured	Real Rate of Petroleum Price	Average	1985 Current Account Deficit - % of	Gross Debt Service Ratio		ernal : - % 35
Run	1000 000 000000000000000000000000000000	ts - %	Increase - %	LIBOR - %	GDP	1985 - %	US\$b	% GDP
I	(Base)	16	- 3	13	0.9	48.6	103.4	26
II	(,	10	6	13	3.4	60.0	124.9	32
III		16	6	13	1.6	50.4	110.7	28
IV		16	6	10	1.0	44.5	103.1	26
V		20	3	10	-	37.7	85.7	22
VI		10	3	10	2.1	51.3	109.8	28
VII		10	6	15	3.9	66.2	133.0	34
VIII	<u>a</u> /	16	3	13	3.1	52.3	120.9	31

Table 3: BALANCE OF PAYMENTS SENSITIVITY RUNS

a/ Assumes rising petroleum imports.

44. Runs I-VII, as previously noted, all assume that oil imports are reduced to 800,000 b/d by 1985. Given the importance of this assumption, an additional projection (VIII) was run proposing instead an annual growth of oil imports of 6.7% per year, implying an elasticity of demand with respect to industrial output of 1.1 and no significant conservation or substitution of domestic energy sources. Under this pessimistic assumption, coupled with the other parameters of the Base Run, the current account deficit would hold in the range of US\$10-12 billion throughout the projection period, equivalent to about 3% of 1985 GDP. An additional US\$10 billion of petroleum would be imported in 1985 as compared to the Base Run. Total external debt would rise to 31% of GDP in 1985, with the gross DSR falling slowly to reach 52% in the same year. The implicit growth of debt to private external sources would be about 16% per year over the five-year period. 45. Finally, all of the above runs assume that substantial increases in private external resources will be made available in 1981 and 1982, inasmuch as once over this "hump", external requirements would quickly moderate, and the expansion for the entire five-year period would be more or less in line with overall expectations regarding the liquidity of international capital markets. An additional set of runs was performed, therefore, to test the growth impact of constraining the availability of private external financing to 12% per year over the five-year period. Although the model used is not well constructed for this purpose, the results suggest that such a constraint in 1981 and 1982 would cause a severe recession, probably requiring an absolute decline in gross output. On the other hand, reducing GDP growth to 3% per annum would still require that private external credit grow by 16% per year during the "hump" period, a reduction in net lending of only about US\$1-2 billion annually compared to the previous projections.

46. It is, therefore, critical that external lenders be willing to increase their relative as well as absolute exposures in Brazil over the next year or two if Brazil is to avoid external financial difficulties and rising social unrest. Given the progress being made in the energy sector and the priority being given to continued export growth, the external constraint should ease considerably after 1983.

## Stabilization, Structural Adjustment and Long-Term Growth

47. The economic policies that would help improve resource allocation and promote a general strengthening of the economy over the medium and longer term are outlined below. Particularly important are policies affecting the foreign trade and financial markets and impediments to the effective utilization of monetary and fiscal control mechanisms.

48. <u>Stabilization</u>. The Brazilian government is in the midst of a comprehensive campaign to bring down inflation and it will be important to continue to pursue policies to reduce aggregate demand pressures in the economy. The recent raising of interest rates in the administered markets, the freeing of interest rates in the non-administered markets, the loosening of price controls, and the proposed tight limits on increases in the money supply and the monetary base in 1981, with strict controls on credit expansion to both the public and private sectors, should help to achieve this objective, after a period of corrective inflation. Also the marked institutional improvements which permit authorities to monitor and control public expenditures better should soon begin to show positive results. Efforts to increase domestic savings through higher rates of monetary correction should also help temper domestic consumption.

49. The continuing enforcement of strict monetary and fiscal restraint will be a cardinal element in reducing inflationary pressures in the economy. Further progress in relieving the Central Bank of its development banking responsibilities would facilitate that effort. The ongoing shift of items from the monetary budget to the fiscal budget, where spending can be better controlled and more open to public scrutiny, will also be helpful. Finally, the expenditures of the public sector, particularly those of the state enterprises and autarkies, must be kept in line with available resources. 50. The fragmentation of financial markets is a serious problem in Brazil. A highly differential interest rate structure in the administered and free markets has produced serious implications for potential resource allocation distortions. In 1980 agricultural credit subsidies alone amounted to over US\$12 billion and, despite the recent increases, real interest rates in the administered markets remain highly negative. The fact that commercial banks must channel a fixed portion of demand deposits into the agricultural sector at highly subsidized rates means that non-controlled credits must carry extremely high interest rates in order for the banks to cover their costs, thereby raising the possibility of a more serious industrial recession than might otherwise be necessary. This differential should be reduced and interest rates charged for all types of administered credit should become more market oriented.

51. The allocation of resources in the economy would be improved by modifying the system of price controls, and rationalizing pricing for public sector services. Although price controls have been relaxed in recent months, tight control is still exercized over a number of primary and manufactured products. Increasing minimum prices on agricultural products would facilitate the reduction of credit subsidies. Also, pricing policies for public sector services should reflect the need to cover both operating costs and investment requirements.

52. Wage policy has also been an important obstacle to reducing inflationary pressures in Brazil. 1/ This would be corrected if the present system of wage adjustments, which was initiated in October 1979, were modified so that automatic increases occurred less frequently and were somewhat lower relative to inflation. The current semi-annual adjustment of wages in line with movements in the consumer price index plus negotiated "productivity" increases has a strong built-in inflationary bias which is difficult to reverse. It is also likely that this system has become a disincentive to the employment of labor.

53. <u>Structural Adjustment</u>. The medium-term resolution of Brazil's balance of payments and external debt difficulties requires fundamental structural changes in the economy. The most critical of these include continued progress in the substitution of domestic for imported energy, with further reductions in the share of petroleum in total energy consumption, and an increase in the ratio of exports to GDP. At the same time the economy should be increasingly opened to the forces of international competition.

1/ Wage adjustments are made semi-annually on a sliding scale ranging from 1.1 times the change in the consumer price index for individuals earning 0-3 minimum wages to 0.5 times the change in the index for those earning 15-20 minimum wages. No automatic adjustments are made for workers earning more than 20 minimum wages. Since this policy has been in effect only since late 1979, it is not yet possible to estimate its impact on income distribution. Also, the close link between wage increases and movements in the index of consumer prices is an important obstacle to reducing inflationary pressures. 54. With regard to energy, it is particularly important that the government implement existing conservation and substitution programs along the lines outlined in its national energy development program. A decrease in the share of petroleum in total energy supply is a cardinal element of the Brazilian energy strategy and this implies a very large increase in the share of hydroelectricity during the next five years with significant increases also coming from alcohol, coal, and shale oil.

55. Energy pricing policies must also be adjusted to ensure the desired substitution of domestic for imported energy. Although substantial progress has been made in increasing the prices of petroleum derivatives, further rises are still required for LPG, diesel, and fuel oil. At the same time, care must be taken to ensure that tariff policies for other types of domestic energy, particularly electricity, be geared toward covering costs and ensuring increased generation of financial resources for investment.

56. A continued commitment to rapid growth of exports, particularly manufactured exports, will be essential to the structural adjustments required. Toward this end the system of import protection and export promotion should be revised in order to open the economy more to world market forces. This implies reduction in non-tariff barriers, lowering and evening out of the tariff structure, progressive elimination of credit subsidies and rationalization of fiscal incentives for exporters. As these policies are introduced, some real devaluation of the cruzeiro through an acceleration of the crawling peg would likely be required.

57. Long-Term Growth and Employment. Brazil's longer-term prospects for growth depend importantly on the levels and types of investment which are undertaken. Particular emphasis should be given to investments which will help the country to meet its priority needs -- namely energy, projects which help to save or generate foreign exchange, and projects to reduce poverty.

58. The public sector accounts for about 60% of total investment in the economy with the bulk being made by the public sector enterprises. In the past these entities have enjoyed considerable autonomy in making investment decisions. While annual total spending levels are now under effective control, the government still does not have a comprehensive public sector investment strategy. This calls for the formulation of a multi-year investment program with outlays related to financial resource availability.

59. Although the dimensions of the problem have not yet been investigated, the allocation of functional responsibilities and revenue raising powers among the federal, state, and local governments are not properly balanced. This problem is most prevalent in the poorer areas of the country where state and local governments are frequently unable to finance recurrent costs of public services, particularly health and education. Means should be sought to redress this fiscal imbalance so that these levels of government may be more effective in carrying out basic needs programs. A study addressing this issue, with particular attention to the financing of health and education, is planned for FY82. 60. Employment generation, which is ultimately the most important consideration in efforts to improve the lot of the poor, is likely to be a major issue over the next few years with the expected reduction in the rate of growth of economic activity. In order to help ensure that job opportunities increase as rapidly as possible, the Government should move toward modifying its incentive policies (including interest rate policies) which tax the employment of labor and encourage the use of capital. This would involve a revamping of certain fiscal incentives and changes in the financing of the social security system which now occurs through payroll taxes and acts as a disincentive to employment.

#### Bank Lending Strategy

61. The immediate outlook for Brazil's financial and balance-of-payments situation and for the principal thrust of economic policy is especially uncertain at the present time. In these circumstances any projection of the Bank's lending over the next five years must itself be fraught with uncertainties, and in fact full flexibility should be retained in order to adjust the lending program to the ongoing situation and thus enable the Bank to make the maximum contribution to Brazil's development at a time when Bank support is especially needed or, conceivably, to reduce it if Brazil proves unable to use Bank financing effectively.

62. The base-case lending program set forth in this paper assumes a "more of the same" situation. That is, it assumes that, on the one hand, Brazil's economic situation and policies do not deteriorate so much as to call for a major reduction or suspension of lending and, on the other hand, that there are no improvements in economic policies so great that one could predict with assurance that the economy would in the medium term adjust fully to its large and expensive petroleum import requirements and heavy debt service, while at the same time maintaining a growth path that assures rising incomes and employment opportunities for the growing labor force. Four general scenarios can be identified:

- (a) A situation of extreme difficulty in which economic policy deteriorated, the cruzeiro became highly overvalued, controls over monetary and fiscal expansion were ineffective, exports failed to expand and the balance of payments became unmanageable. In such a situation - which would imply a reversion to the policies of the populist regimes of the early sixties - Brazil would be uncreditworthy, and the Bank should probably stop its lending altogether or limit it to the amount of current amortization on old loans. In fact such a scenario is most unlikely to occur with Brazil's present competent economic management.
- (b) The second scenario, the base case reflected in the lending program set forth in this memorandum, would be that in which the present mix of policies would continue, sustaining the improvements recently observed but without major further improvements. Priority would continue to be given to export expansion; the exchange rate would continue to be moved in line with the difference between domestic and foreign inflation; there would be moderately effective controls on credit

expansion and the public sector deficit, but inflation would continue, expansionary credit and other subsidies would continue at a high level, and the present highly protective import regime would be maintained.

- (c) A third scenario would be that in which some further important policy improvements were achieved, as well as the present strong points maintained. If the authorities were willing and able to move toward a situation in which they could in one or two years begin to open the industrial sector to international competitive forces, thus strengthening the competitive position of manufacturing for export, and if at the same time interest rate subsidies were eliminated in the industrial sector, then the Bank would be justified in supporting these developments by making one or a series of large quick-disbursing sector loans. For example, it might be possible, in return for policy undertakings relating to industrial interest rates, the continuing competitiveness of exports and the gradual rationalization of the protective system, to make a large quick-disbursing sector loan to finance the import content of manufactured exports. The cruzeiro counterpart of such a loan could be used to help finance Brazil's system of export credits for capital goods and construction and consultancy services sold abroad.
- (d) A final scenario would be that in which major policy improvements were achieved across the board. Agricultural subsidies, including interest rate subsidies would be sharply reduced or eliminated, monetary and fiscal management would be further strengthened by the formulation of a multi-year investment program. Such a policy would probably also have to include a more restrained wage setting system and it would involve the gradual dismantling of direct import controls and the revision of the import tariff system in order to expose industry to international market forces. Finally the government should consolidate its management of public investment by putting together and implementing a good and credible investment program addressed to priority tasks such as energy substitution and the reduction of poverty, and limited to available financial resources. Were such a combination of policies to be pursued, a situation would exist in which Brazil would easily qualify for a large operation with the IMF and the Bank could seriously consider a structural adjustment loan.

63. In the situation of the third and fourth of these scenarios the improved performance of economic management would justify the Bank's increasing its lending to Brazil in the next three years or so over and above the level presently planned. In the case of scenario three, sector loans of, say, US\$500 million a year for three years would be justified, and should be partly additional to the program, perhaps to the extent of US\$200 million a year. In the case of scenario four -- the major policy improvement situation -- all or most of the structural adjustment lending (say, US\$400 million out of US\$700 million a year for three years) should be additional. The resulting total lending is shown in paragraph 70 below. 64. In considering which scenario is likely to be most appropriate, or which the Bank should prefer, the special nature of an economic policy dialogue should be recognized. That dialogue has been extensive, frank (on both sides) and friendly. The Bank's views are certainly taken into account when shaping many of the changes in economic policy. However, it must be recognized the extent of our influence has limits -- and many of our recommendations are not in fact acted upon. This results from at least four factors: (a) domestic political limits on unpopular economic measures; (b) the highly personalized nature of the economic decision-making process in Brazil; (c) a traditional unwillingness to follow (or acknowledge the influence of) foreign advice; and (d) the fact that the Bank's financial contributions represents only a minor part of Brazil's requirements.

In planning the future composition of the Bank's lending program, the 65. present economic difficulties need to be taken into account. The Government's need to limit public investment expenditures, in order to secure better control over the growth of aggregate demand and thus dampen inflation, makes it more than ever necessary that investment priorities be thought through carefully and applied rigorously. Obviously, in a situation in which the balance of payments has become a binding constraint on the country's economic growth, economically justified projects that will earn or save foreign exchange assume prime importance, and the Bank should seek as many opportunities as possible to assist such projects. High importance also attaches to projects that will promote the more efficient use of investment resources through institutional reforms and improvement in planning methods, as well as through more realistic prices and interest rates. Increased domestic savings are an essential component of aggregate demand and balance-of-payments management, and public enterprises, which conduct a significant portion of Brazilian economic activity, will often find the Bank's support useful in gaining government acceptance of adequate pricing policies. At the same time, the Bank can help improve overall economic management by encouraging better project evaluation and investment programming at the enterprise and sectoral levels. Finally, Brazil continues to be plagued with large local and regional pockets of urban and rural poverty. In the past few years we have worked with the authorities to create an ample pipeline of urban and rural development projects addressing the problems of poverty, and it would be a pity to interrupt their preparation and implementation, since they are of great importance for the long-run economic and social health of the country. During the present effort to curtail public expenditures in Brazil, there will be a strong temptation to cut back on socially oriented investment, even though the absolute sums involved are relatively small. Continued Bank presence in these sectors -- which the Brazilians themselves desire -- can help to ensure the continuance of some of the most important of these social programs.

66. This diagnosis suggests that the basic objectives of Bank lending over the past several years should remain: development of alternative energy sources and other means of strengthening the balance of payments, institutional and policy reform, and the alleviation of poverty. But the implementation of the program may require different emphases than in the past:

- (a) The Bank should recognize the Government's wish to reduce public investment in the short term and to concentrate it on sectors and projects that it regards as highest priority; this may mean delaying or eliminating from the lending program some projects on which preparatory work has already been invested;
- (b) An increased effort should be made to identify projects that will reduce Brazil's dependence on imported petroleum. The lending program proposed in this paper includes more energy projects outside the electric power sector than in previous years, but it may be possible to expand lending in this sector further; and
- (c) As long as the Government continues its present vigorous efforts to reduce its budgetary expenditures and those of public agencies the Bank should respond by increasing its share of project expenditures covered by Bank loans for programs that benefit low-income groups, from 35% at present to, say, 60%. This higher cost-sharing formula should be applied as long as strong expenditure controls are being applied and until Brazil has been able fully to adjust its economy to the new level of energy costs. The Bank should also continue and extend the practice, initiated with the second Ceara rural development loan, of financing a higher percentage of project. costs in the early years, falling to a lower percentage in the final years of project execution.

67. It is particularly appropriate for the Bank to demonstrate its support for Brazil at this critical time. Although the Bank's share of the country's total external financing requirements is small, Bank lending helps to improve the country's overall debt profile. More important, a continued high level of Bank lending can exert a considerable influence on the perceptions of the international financial community and have an important catalytic effect on private lenders. Of course, such support can only be extended in the context of a close dialogue with Brazilian economic officials, encouraging them to adopt appropriate aggregate demand and balance-of-payments policies to stabilize the economy. With such policies, although Brazil's debt would continue to grow and be heavy, it should be manageable and progressively less burdensome over the next five years.

# The Proposed 1982-86 Lending Program

68. <u>Amounts of Lending</u>. A lending program of about US\$6.4 billion is proposed for FY82-86. For FY81-85 the proposed lending would amount to US\$5.6 billion; or about 10.5% of total Bank lending as projected by the Review Group in April 1980. The Review Group suggested that lending to Brazil in FY81-85 should be US\$5.6 billion. Under the proposed new program, lending would increase from about US\$700 million a year in FY78, 79, and 80, to US\$815 million in FY81, and thereafter rise gradually to US\$1,520 million in FY86. This represents an annual percentage increase of 12.9% from FY81 to FY86 in nominal terms, or 6.1% in real terms, using the Bank's commitment deflator. 69. The proposed lending would be as follows, compared to the lending suggested in the Interim Program Memorandum dated November 2, 1979:

	1979 In	terim Memo	New Proposals		
	US\$ Million	No. of Projects	US\$ Million	No. of Projects	
1981	1,160	12	815	7	
1982	1,175	10	994	9	
1983	1,205	9	1,120	10	
1984	1,280	9	1,320	10	
1985	1,320	10	1,400	9	
1986	n.a.	n.a.	1,520	11	
1981-85	6,140	50	5,649	45	
1982-86	-	-	6,354	49	

Table 4: LENDING PROGRAMS - 1979 INTERIM AND NEW PROPOSED

70. The increased levels of lending that should be contemplated if there were major improvements in economic management so that large sector or structural adjustment loans were possible (as contemplated in paragraph 63) would be as follows:

	FY82	<u>FY83</u>	\$ FY84 Milli	FY85	FY86	Total
Base Case	994	1,120	1,320	1,400	1,520	6,354
Scenario Three						
Sector loan Project loans	500 720	500 820	500 1,020	- 1,400	- 1,520	1,500 5,480
Total	1,220	1,320	1,520	1,400	1,520	6,980
Scenario Four						
Structural adjustment loan Project loans	700 720	700 820	700 1,020	- 1,400	- 1,520	2,100 5,480
Total	1,420	1,520	1,720	1,400	1,520	7,580

Such increased lending would bring Brazil's share of total Bank new commitments up to around 12.5% (scenario three) or 14.5% (scenario four) in fiscal years 1982 to 1984. At the end of the latter year, the Bank's total exposure in Brazil would be about 12.5% of the Bank's disbursed and outstanding loans as table 6 shows, and the exposure would begin to decline thereafter.

	FY81	FY82	FY83	FY84	FY85
3RD TOTAL				8	
Annual	3,866	4,063	5,230	5,773	6,150
Cumulative	25,494	30,097	35,327	41,100	47,250
Brazil					
Base case					
annual	300	469	553	690	725
as % of total	7.8	10.2	10.6	12.0	11.8
cumulative	2,240	2,709	3,262	3,952	4,677
as % of total	8.8	9.0	9.2	9.6	9.9
Scenario 3					
annual	300	669	753	890	725
as % of total	7.8	14.5	14.4	15.4	11.8
cumulative	2,240	2,909	3,662	4,552	5,277
as % of total	8.8	9.7	10.4	11.1	11.2
Scenario 4					
annual	300	869	953	1,090	725
as % of total	7.8	18.9	18.2	18.9	11.8
cumulative	2,240	3,109	4,062	5,152	5,877
as % of total	8.8	10.3	11.5	12.5	12.4

Table 6: NET DISBURSEMENTS - BRAZIL AS A % OF BANK TOTAL (US\$ Millions)

71. The proposed base-case lending to Brazil is compared to that projected for the LAC region and for the Bank as a whole in the following table:

	FY80	FY81	FY82	FY83	FY84	FY85
Bank a/	7,644	8,600	9,600	10,700	11,900	13,200
LAC Region	2,595	3,009	3,078	3,387	3,832	4,196
Brazil	695	815	994	1,120	1,320	1,400
Brazil as % of Bank	9.1	9.5	10.4	10.5	11.1	10.6
Brazil as % of Region	26.8	27.1	32.3	33.1	34.4	33.4

Table 7: PROJECTED BANK LENDING TO ALL COUNTRIES, LAC REGION AND BRAZIL (Current Commitment US\$ Million)

a/ Source: Review of World Bank Group Financial and Operating Programs and FY81 Administrative Budgets, May 16, 1980, Annex Table 1.

72. At the end of 1979 Brazil's indebtedness to the Bank constituted 3.4% of its total external indebtedness, down from the 5% levels in the mid-1970s. This falling trend is expected to be reversed over the forecast period and by 1985, assuming the level of lending of the base case, the Bank's share is projected to rise to 5.2%. The proposed US\$6.4 billion program for FY82-86 includes 49 projects as compared to the US\$5.7 billion program with 45 projects for FY81-85. We have also tentatively identified 22 additional (reserve) projects which might be included in the program.

73. The main changes in the sectoral distribution of lending would occur in agriculture (up from 16.4% of lending in 1977-81 to 27.1% in 1982-86) and energy other than electricity (up from 7.5% to 17.2%). There would be reductions in the proportions going to water and sewerage (down from 23.7% to 11.3%) and electric power (down from 18.5% to 11.6%). Details of these changes are dealt with in the following sector sections. The growth of agricultural projects reflect the extensive preparation work devoted in the past two or three years to rural development projects in the Northeast and Northwest, as well as the expectation (which may or may not materialize) that in the second half of the five-year period institutional strengthening proceeds to the point where the Bank can make rural development sector loans, as well as interest rate charges that would permit the Bank to support agricultural credit. A case could be made for maintaining a higher level of electric power lending if the present sector financial problems are addressed realistically. 74. <u>Sectoral Distribution</u>. Lending by sector in 1982-86, as compared to expected lending in 1977-81, would be as follows:

	1977-	1977-81		Proposed 1982-86		
	US\$	% of	US\$	% of		
	Million	Total	Million	Total		
Agriculture and						
rural development	576	17.4	1,704	26.8		
Education	64	1.9	150	2.4		
Health and nutrition	0	0	100	1.6		
Energy	864	26.1	1,840	29.0		
Electric power	(614)	(18.5)	(740)	(11.7)		
Other	(250)	(7.6)	(1, 100)	(17.3)		
Water and sewerage	699	21.1	720	11.3		
Urban development	500	15.1	690	10.8		
Transport	224	6.7	550	8.7		
Industry and mining	387	11.7	600	9.4		
TOTAL	3,314	100.0	6,354	100.0		

Table 8: SECTORAL DISTRIBUTION OF LENDING a/

75. Breaking down the proposed lending in accordance with the principal objectives sought to be achieved gives the following picture:

Table 9: DISTRIBUTION OF LENDING BY OBJECTIVE a/

	Percent of	of Lending
	1977-81	Proposed 1982-86
Assistance to low-income groups	52.2	53.9
Support of institutional and policy reform	16.8	17.1
Support of export promotion and import substitution	20.0	22.8
Resource transfer	11.0	6.2
TOTAL	100.0	100.0

a/ All loans aim at several objectives. The classification in this table is weighted by objectives considered to be important for each loan. See Attachment IA.

a/ In Table 8 the line "other energy" includes certain loans processed by agricultural and industrial projects divisions. In Attachment 1, the classification is in accordance with the division responsible for processing. Attachment 1 D lists all energy loans.

76. An increasing proportion of the Bank's lending would be flowing to the less-developed, low-income, regions of Brazil -- the northeast, the north and northwest -- as shown in the following table:

	FY1977-81		Proposed FY1982-8	
	USS Million	% of Total	US\$ Million	% of Total
Northeast	900	27.2	2,334	36.7
North/Northwest	205	6.2	1,280	20.2
South/Southeast	2,209	66.6	2,740	43.1

Table 10: REGIONAL DISTRIBUTION OF LENDING

Agriculture, Rural and Regional Development

	Actual 1977-81	Proposed 1982-86
No. of loans	12	16
Amount (US\$ Million)	576	1,704
% of lending	17.4	26.8

77. Brazil's agriculture sector is dualistic in nature with modern mechanized farming practiced in parts of the south, and traditional, lowproductivity methods enduring in poorer areas of the northeast and northwest. This phenomenon helps to explain performance statistics which may otherwise appear contradictory. Agricultural products make up 56% of total export earnings, and Brazil is the world's largest exporter of coffee and orange juice, the largest producer of sugarcane, and the third largest producer of soybeans. The average real annual agricultural growth rate during the 1970s was a healthy 5%. Agriculture contributes about 12% of Brazil's GDP, while employing nearly half of the economically active population.

78. The excellent aggregate performance of Brazilian agriculture masks some serious market distortions and inequities introduced by government policies toward the sector. 1/ Several decades of policies favoring importsubstitution industrialization have included an overvalued exchange rate, high protection against imported inputs, price controls on basic foodstuffs, and export taxes and restrictions on farm products. Compensation for these policies has been provided largely in the form of subsidized credit, whose

1/ A Bank report entitled <u>A Review of Agricultural Policies in Brazil</u> (Report No. 3305-BR) examines these policies in detail. This report is in green cover for discussion with the Government in early May. benefits, along with those of other farm-oriented programs, have gone primarily to the larger producers of grains and export crops. The production response of these farmers has been very positive, as reflected in the aggregate data, but the output of many basic good crops, produced largely by smaller farmers, has lagged behind. Yields on some of these, such as black beans and manioc, have declined over the past decade.

79. While the intrasectoral distortions are still substantial, many of the discriminatory policies against agriculture and some of the "compensating" subsidies have been reduced over the past year. In addition, the Government has taken a number of steps to improve the opportunities of small farmers. Among these measures have been: (a) increased research and extension aimed at small farmers and at basic food crops; (b) special rural development programs, such as POLONORDESTE in the Northeast and POLONOROESTE in the Northwest; and (c) special efforts to increase the access of small farmers to institutional credit and to the minimum price program. Against this backdrop, the Bank has primarily attempted to assist low-income farmers through integrated rural development projects. A series of rural development projects in the northeast starting in FY76 (Rio Grande do Norte, Ceara, Paraiba, Bahia, Sergipe, and Pernambuco) has begun to bring about substantial changes in the selected project areas, and in planning capabilities at the state level. We have been less successful in pressing for policy changes, which are difficult to achieve by means of small, multi-component rural development projects.

Our proposed strategy in agriculture is to combine the regional 80. approach, focussed on poor rural areas in the northeast and northwest, with a functional approach which should strengthen our impact on broad policy matters. We plan to continue to focus attention on the northeast region, due to its relative poverty, its substantial population (30% of the country) and the uneven income distribution related to severe land tenure problems. The proposed lending program in the northeast includes a mix of sub-area, statewide and regional rural development projects. While we would prefer to shift the scope of all these projects from sub-areas to a regional basis, in order to increase the efficiency and volume of our lending and to strengthen regional planning, this cannot yet be assured. We are presently assuming that administrative improvements in regional programs sufficient to allow direct lending for time slices of these programs will only occur in the latter half of the five-year planning period. Individual state projects are shown as reserve projects at that time, in case the regional approach proves impractical.

81. The Bank is currently engaged in efforts to help bring about these necessary improvements. We are planning to add a second higher level staff member to the Bank's Recife office to assist in project preparation and institution-building at state and regional (SUDENE) levels. We continue to encourage better staffing, management and funding for POLONORDESTE; we are analyzing the efficiency of POLONORDESTE fund transfer mechanisms, and the possible application of revolving funds to provide liquidity. An economic mission went to Brazil in FY81 to review and evaluate the major northeast rural development programs and projects over the past few years. This study, the first stock-taking exercise since the initiation of Bank lending for northeast rural development five years ago, will make recommendations concerning the Government's and the Bank's approach to the region's problems which will help to refine the design of our lending in this area.

82. A second regional emphasis proposed for Bank lending is the Amazon region, particularly the northwest area (Territory of Rondonia and part of Mato Grosso State). The further settlement and economic development of the Amazon region is a high government priority, with goals of raising agricultural production and absorbing migration from other parts of Brazil. 1/ Our strategy is to support the Government's efforts to assure orderly occupation of selected areas and to strengthen the institutions charged with implementing settlement programs. The focus of our involvement will be to promote rational land use patterns and social equity, while protecting the natural environment and the Amerindian population.

83. Our proposed lending for the Amazon region consists largely of time-slice financing of the POLONOROESTE program, specifically established this year to support productive activities and provide social and economic infrastructure. We are including three of these tranche loans over the FY82-86 period, each centered on settlement and agricultural development but also including a key highway link, feeder roads, and environmental protection components. We are also proposing two rural development projects in Amazonas State.

84. Our lending emphasis on the northeast and northern regions will be complemented by several agricultural projects designed along functional lines. These include a planned agricultural credit project for the northeast, and several focussing on agricultural extension and research. This functional approach is important in allowing the Bank to help promote needed policy changes and institution-building. A major objective of the agricultural credit projects, for instance, is to link interest rates more realistically to the inflation level, to unify rural lending terms, and to simplify the administrative procedures for extending credit to small farmers. While reaching agreement with the Government on such policy changes is difficult and time consuming, the impact goes well beyond normal project level financial and technical assistance. Proposed projects in the education, health and nutrition sectors can also be expected to influence policies affecting the rural population.

85. The lending program planned for agriculture, rural and regional development (excluding the Carajas export corridor loan) over the FY82-86 period totals about US\$1.7 billion, or 27% of total Bank lending to Brazil. This would represent a substantial increase in the proportion of Bank resources devoted to the sector, up from about 16% over FY77-81. Achieving this program depends on our success in packaging suitable large projects aimed at entire regions (the northeast and northwest) or functional areas (e.g., credit). In order to overcome the institutional, fiscal and

1/ See Bank Report No. 3042a-BR entitled Brazil: Northwest Region Economic Survey, December 23, 1980. policy barriers involved, it would be particularly useful to be able to finance a higher proportion of local costs than we have so far. Approval for Bank funding of up to 60% of net project costs (instead of the current 35% limit), in cases with high local costs, would greatly facilitate our efforts to carry out the lending program in agriculture.

#### Education

	Actual	Proposed
	1978-81	1982-86
No. of Loans	2	2
Amount (US\$ million)	64	150
% of lending	4.5	2.4

Deficiencies in education, especially for the poor, are a major 86. constraint on labor mobility, productivity, and incomes in Brazil. Overall educational performance is among the worst in South America. Less than 3% of GNP and only 12% of public expenditure are devoted to education. Illiteracy remains high at 36%. Primary and secondary enrollment rates are, respectively, 88% and 26%. Both Peru and Colombia, with per capita incomes roughly half as large, are more advanced by all these educational vardsticks. This generally poor situation is exacerbated by vast internal differences: inequities among regions, and between rural and urban areas. Rural areas of the northeast, north, and center west are particularly disadvantaged with dilapidated facilities, untrained teachers and insufficient textbooks and other learning materials. The result in the rural northeast is that fewer than one child in twenty receives as much as five years of schooling. In the sprawling peripheries of the major cities, the children of migrants and poor workers encounter conditions in the public primary schools which are almost as inadequate.

In this context, the Government's Third National Educational 87. Development Plan (1980-85) centers on appropriate education sector policies: basic education for rural areas and for the urban poor, functional literacy/ numeracy for disadvantaged adults, strengthening of planning and management capabilities, and reform of the mechanisms for capturing and allocating financial resources for education. However, current government fiscal constraints are hampering the achievement of the proposed goals. Wage demands (backed up by politically sensitive strikes of primary teachers in early 1980 and of university academic personnel later in the year) and widespread dissatisfaction with public schools and universities among the vocal middle-class urban population have brought tremendous pressures to bear upon the Ministry of Education and Culture (MEC). New subsector programs aimed specifically at extending and improving basic education in rural areas and in the low-income peripheries of the large cities have been launched on a pilot basis, but their extension will clearly be limited by financial constraints.

88. Bank involvement in the sector has focussed on basic education (in part through education components in six northeast rural development projects) and on vocational training. A major effort was recently made to address basic schooling concepts and policies in rural areas throughout the northeast, with an FY80 project. This is the fourth since initiation of education lending to Brazil a decade ago, and is broad enough in scope to enable us to support worthwhile policy changes, including improvements in teachers' conditions. In the 248 project municipalities, teachers' charters will be adopted, covering certain tenure and wage scale rights. As part of its new rural basic education subsector program the Federal Government has also adopted a salary supplement program applying to rural primary teachers in the nine northeast states.

89. Compared to the substantial needs in the education sector, the Bank's involvement has been very minor. The financial constraints now present in Brazil make it hard for MEC to provide the 65% counterpart funding required for Bank loans to the sector. Difficulties also arise because education entails heavy recurrent expenditures which are largely borne by states and municipalities often unable to pay for federallydetermined objectives. The Brazilian Government has been somewhat reluctant to use foreign borrowing for education projects, and has refused the Bank's offer to include recurrent costs in projects. Finally, sector work by the Bank has been sporadic in the past, with the result that the lending pipeline has not been developed to its full potential.

90. For the future, we propose continued involvement in Brazil's education sector, on the grounds that lending can directly support basic needs and regional equity goals as well as increasing labor productivity in both urban and rural areas. Indeed, in this period of fiscal stringency, Bank support is particularly needed in the priority basic education subsectors. Bearing in mind the existing constraints, however, our program for FY82-86 includes a modest two projects of US\$150 million or 2.4% of Bank lending. We also propose to continue to finance education components of rural development projects planned for the northeast and northwest.

91. Recent discussions with the Government have focussed on education priorities and needed sector work in order to rebuild the project pipeline. We have agreed that sector work will proceed during FY81 and FY82, mainly by Brazilian institutions, to generate projects in FY83 and FY85 supporting basic education programs for the urban poor and rural areas. As a component of our next loan in the sector, it will be important to finance the development of the management information systems and analytical services at both federal and state levels which are required for more adequate evaluation of ongoing programs and planning of future ones. The third project, proposed as a reserve project in FY86, would probably focus on specific middle and high level manpower needs to be met by expansion of selected programs at post-secondary technical and university levels. A continuation of sector lending focussing on basic education policies and programs for the urban poor and for rural areas would be programmed beginning in FY87.

92. The educational authorities in Brazil have made it plain in recent weeks that the Government may not be willing to borrow for educational development unless the Bank responds to the special situation presented by the fiscal stringency required in the foreseeable future. The extent to which our lending targets are feasible is thus in significant measure a function of Bank flexibility in adopting measures to increase the attractiveness of its loans for education. Most important among the necessary measures is an increase in the disbursement percentage from 35% of total costs to 60%.

## Health and Nutrition

	Actual 1977-81	н	Proposed 1982-86
No. of loans	0		1
Amount (US\$ million)	0		100
% of lending	0		1.6

93. Comparative statistics indicate that the health and nutrition situation in Brazil is unfavorable in relation to its income level. The Brazil Human Resources Special Report (1979) shows that the country's infant mortality rate is twice as high as the average for countries at the same level of GDP per capita, and that only one-third of all Brazilians consume a diet adequate in calorie content. This is partly related to the inequitable distribution of incomes and services among different regions of the country, and between rural and urban areas.

94. In the health sector, the Government has addressed rural health . and sanitation problems through the PIASS program, established in 1975 to provide basic health services in rural areas of the northeast. The Bank has supported this program through modest health components in several rural development projects. PIASS is being expanded to nationwide coverage, and seeks to reach 29 million rural inhabitants by 1985. A new program, PREVSAUDE, is planned to expand the PIASS activities to urban beneficiaries. This program would combine the financial resources of Brazil's social security system with the technical capabilities of the Federal Ministry of Health and the state health secretariats. However, substantial problems remain in organizing this ambitious program and integrating public health services into the private medical care system now operating in the cities.

95. The Government inaugurated the National Nutrition Program (PRONAN) in 1976 to provide food supplements for low-income pregnant and nursing women and preschool children. A Bank-financed nutrition research and development project (FY76, US\$19 million) has supported PRONAN in various pilot efforts to improve nutrition levels. Due to interest rate problems with one of the components, remaining loan funds are being reallocated to help finance a simplified wholesale and retail food distribution network for low-income areas. We are not planning a second nutrition project during the FY82-86, because the several experimental programs underway will require further time and evaluation. However, a sector survey is planned for FY82-83 to review work on health in the Northeast, and expand and update the work on health in the "Brazil Human Resources Special Report." <u>1</u>/

96. Our objective in FY82-86 is to support one free-standing health project, in addition to further health components of rural development projects in the northeast and northwest. Health problems are especially

1/ Report No. 2604-BR of July 13, 1979.

serious in the latter region, and the northwest regional lending will contain an important component for control of malaria. By deepening our involvement in the health sector, we hope to achieve a policy dialogue and impact which has not been possible in the context of modest project components. The area under active consideration is a multi-state rural health project, possibly in the northeast. This project would bring the Bank into the major controversial issues surrounding the health sector in Brazil today. The Government does not at present wish to promote family planning components in these projects, preferring to pursue this delicate subject without the participation of an international agency.

Energy

	Actual 1977-81	Proposed 1982-86
No. of loans		
Electric power Other energy	6 1	5
Total	<u> </u>	13
Amount (US\$ million)		
Electric power Other energy	614 250	740 1,100
Total	864	1,840
% of lending		
Electric power Other energy	18.5 7.5	11.7 17.3
Total	26.0	29.0

97. Energy consumption has expanded at 10% annually over the past decade and the consumption of imported petroleum has been growing at an even faster rate -- 13.3%. Although Brazil enjoys an abundance of hydroelectric resources it is apparently seriously deficient in fossil fuels and it produces only about 15% of domestic petroleum needs. The Government has articulated a three-pronged strategy for addressing the oil import problem including: (a) an acceleration of domestic oil exploration, with the participation of foreign firms operating under risk contract; (b) promotion of fuel conservation through higher domestic prices for derivatives and other incentives; and (c) the progressive substitution of petroleum derivatives by domestically produced fuels such as mineral coal, charcoal, and ethyl alcohol.

98. The ambitious PROALCOOL (alcohol substitution) Program, is the most visible of Brazil's efforts to reduce its dependence on imported energy. While large-scale commercial production of alcohol has been undertaken in Brazil for the last 60 years, major increases in alcohol production and use as automobile fuel have occurred only during the past four years. Since the inception of PROALCOOL in late 1975, domestic alcohol production has increased fivefold, increasing the average alcohol/ gasoline blend ratio from 1% in 1975 to about 20% in 1980. At present about 250,000 cars are being manufactured annually with modified engines capable of running on straight alcohol. Efforts are also underway to find technically and economically feasible means of substituting diesel fuel with alcohol. Future production targets have been set to ensure that all of Brazil's future incremental gasoline demand over the 1973 consumption level will be met by alcohol. This strategy would increase alcohol production to 10.7 billion liters in 1985 (over 5% of total energy supplies) compared to 2.0 billion liters in 1978 (1.5% of total energy), excluding any substitution for diesel or fuel oil. A loan of US\$250 million in support of Brazil's fuel alcohol program is included in the FY81 lending program.

99. Notwithstanding this effort, Brazilian energy policies still are deficient in several areas due to: (a) continued sub-economic pricing of certain forms of energy, especially diesel oil, cooking gas (LPG), fuel oil, and electricity to some consumers; and (b) incomplete integration of the electric power sector into the Government's long-term planning for domestic energy development and inter-fuel substitution. Progress on both the pricing and planning issues has been slow. A series of Bank missions have examined policies and development prospects in each of the major energy sub-sectors: petroleum, alcohol, biomass, hydro and nuclear power, coal, and solar power. The findings of these missions are now being integrated into an overall Energy Sector Review, which is at an advanced phase of preparation.

100. The Government's targets for domestic energy production by 1985 are highly ambitious. In the coal sector, the official production target for that year is 25 million annual tons (washed basis) up from 4.7 million tons in 1978. Only half of this target is likely to be attained. Similarly, the target for domestic oil production of 500,000 bpd by 1985 probably is over 50% too high. With these revisions of official production targets, together with some reservations concerning the impact of conservation measures, crude oil imports of 800 thousand bpd appear to be possible for 1985. This oil import figure is roughly 10% below present import levels, and some 40% above the government's target.

The proposed energy sector lending program, in addition to the 101. US\$250 million loan for fuel alcohol development in FY81, would include a loan for reforestation and charcoal production (US\$80 million in FY83), a gas pipeline project (US\$150 million in FY84), a second fuel alcohol project (US\$250 million in FY83), a coal gasification project (US\$70 million in FY84), and an unidentified energy project (US\$150 million in FY86). Additionally, we would continue to support the electric power sector, although on a reduced scale, through loans for power distribution (US\$160 million, US\$130 million, and US\$150 million, respectively, in FY82, FY83, and FY84), and for rural electrification (US\$100 million in FY86). We intend to continue to seek new possibilities for lending for indigenous energy development in both the traditional and non-traditional areas, including petroleum exploration and development, coal gasification, oil shale development, hydroelectric development in the Amazon (conventional and mini-hydro), fuelwood development, and biogas and solar power development, as and when the economic merits of investment in these areas are established.

102. The gas pipeline project would transport natural gas from the Bolivian border to the industrial southeast. The project is tentative until Bolivia's gas reserves are proven and the cost of utilizing the gas in Brazil has been established. In June 1980, IDA granted a US\$16 million engineering credit to Bolivia whose object is to finance the studies needed to confirm the gas reserves.

103. The reforestation and charcoal project would finance private sector investments in reforestation, mainly in the less developed regions of the State of Minas Gerais (the center of Brazil's iron and steel industry), and in charcoal production facilities to substitute for imported coal for the steel sector and for imported petroleum for the cement industry, as well as for possible household use. The project is expected to have a significant energy import substitution effect as well as social impact by increasing the incomes of small farmers and providing new employment in the state's least developed areas with high concentrations on unemployment and poverty.

104. The further development of Brazil's hydroelectric potential will require a sustained annual level of investment of US\$5 billion over the next five years in generation, transmission and distribution works. The Bank can continue to play an important role in support of the Government's energy policy by providing a portion of this requirement. The main rationale for our lending for power is to enable us to maintain a policy dialogue on sector issues, in the economic, financial, and technical areas.

105. By focussing our future lending for power primarily on the distribution sub-sector, and on rural electrification, we will be supporting institutional development, particularly of the weaker companies serving Brazil's less developed areas. Additionally, we would continue to support programs to expand electricity connections to lower income groups. Our continued presence in the sector will encourage and support least-cost investment decisions, help strengthen the planning and management of power companies, assist the Government in the review and development of overall energy policies and investment programs, and help to mobilize additional external capital through co-financing.

106. Power sector tariffs have been declining in real terms over the last several years, and a number of our borrowers did not achieve in 1979 or 1980 a remuneration of 10% on remunerable investment as provided in the Brazilian legislation and in the various loan covenants. In recent months, the sector has not been allowed to increase tariffs sufficiently to keep pace with inflation. In connection with our recent loans to CEEE and ELETROSUL, we agreed with the Government that beginning in 1981 a 10% remuneration would be assured.

107. Combined lending for energy-related projects of all types (including electric power) would amount to US\$1,840 million, or 29% of the total FY82-86 lending program, of which the electric power would account for about 40%. In the approved FY81-85 program, lending for electric power would account for about 13.8% of total lending. The corresponding figures for FY77-81 was 18.5%.

### Water Supply and Sewerage

	Actual 1977-81	Proposed 1982-86
No. of loans	6	4
Amount (US\$ million)	699	720
% of lending	21.1	11.3

108. The Government accords high priority to its innovative water supply and sewerage program which was launched in 1971 as PLANASA (the National Sanitation Plan). The Bank has been assisting the Government with the implementation of PLANASA since its inception and has made nine loans totaling US\$772 million to Brazil for water supply and/or sewerage. All but the first two loans were made to the National Housing Bank (BNH) with onlending to one or more state water companies for specific sub-projects under Planasa. The proposed FY82-86 lending program includes four operations totalling US\$720 million. Two of these operations would be full sector loans.

109. Despite the progress made since 1971, only 71% of the population is served by house connections to water has access to adequate water supplies, and only 34% have sewerage connections. The Third National Development Plan emphasizes the provision of water supply services and adequate means of water disposal to urban areas, especially the peripheries of the largest cities. To hold down escalating costs of sewerage services, the Government's strategy calls for the application of simple low-cost technologies. BNH is now experiencing difficulties in allocating adequate financial resources to meet the needs of the state water companies, and in supplementing state contributions where necessary. BNH has assured the Bank that adequate counterpart financing will be provided for all Bank projects.

The Bank's lending for water supply and sewerage helps to improve 110. the living conditions, including the health, of the low-income population in both urban centers and small communities. The Bank's strategy supports provision of adequate services to as many persons as possible for the least cost, with special emphasis on the poor who do not yet have access to adequate supplies of safe water and means of waste disposal. To ensure that these services are provided to the poor at affordable prices the Bank supports water and sewerage cross-subsidization which has been adopted by the Government. High priority is also accorded to recovering investment and operating costs of water supply and sewerage networks, and contributing to the expansion of these networks by 1983 when the Brazilian tariff legislation will come fully into effect. Substantial tariff increases will be required to enable the SWCs to comply with the minimum requirements of the legislation. The initial tariff increases approved for 1981 and discussions with the authorities in Brazil give grounds for confidence that, after lags in 1979 and 1980 more adequate tariff adjustments will be permitted in the future. Institutional strengthening of BNH is essential and the Bank is providing technical assistance to strengthen its appraisal and supervision capabilities. This should enable the benefits of our lending to be applied to an increasing number of states and eventually to the entire sector. The Multi-States Project presently being processed is geared to ehlp BNH prepare itself for full sector lending. Appraisals of three of the six water companies are being carried out by BNH, and as much as possible of the supervision work will be turned over to BNH.

### Transport

	Actual	Proposed
	1977-81	1982-86
No. of Loans	2	4
Amount (US\$ million)	224	550
% of lending	6.7	8.7

Brazil's transport strategy aims at a maximum integration of the 111. national transport system, providing adequate transport for growing production (especially exports), and saving and rationalization of the use of fuel. The investment program calls for the maintenance and re-equipment of existing road and rail infrastructure, and improving the system of ports and their equipment. Priority is also accorded to investments which will increase highway capacity, integrate well into the existing system, and make possible the evacuation and marketing of agricultural products from the interior. One loan totalling US\$150 million is proposed for the federal railway (RFFSA), but is predicated on important prior measures, including slowing down the construction of the so-called "Ferrovia do Aco" between Belo Horizonte and the coast, investment in which appears to be premature. If this and other issues are resolved the Bank could consider financing various other capital investment by RFFSA that are economically justified. Apart from the investments themselves, there would also be an important institution-building role for the bank.

112. Disbursements on a 1975 loan to FEPASA, the Sao Paulo State Railway, were informally suspended in 1980 because of FEPASA's unsatisfactory financial performance under the third railway project. The situation is now much improved, and disbursements have resumed.

Three loans are proposed for highways -- one for the federal 113. network and the other two for feeder roads. The loan for the federal highways would support the rehabilitation and maintenance program of the Government. Under this program, upon completion of rehabilitation of a federal highway the maintenance responsibility is delegated to the corresponding state. This financing would be a follow-up to the loans already made for this purpose in recent years. The two secondary and feeder roads projects would help the Government concentrate investments in roads for the evacuation of agricultural products from the interior. They would follow the first and second feeder roads loans which are expected to be committed by early FY82. Major subprojects under the third project are foreseen for Mato Grosso and the Territory of Rondonia and would form part of the Northwest Integrated Development Program (POLONOROESTE), in which we also propose to help finance the construction of the highway between Cuiaba (Mato Grosso) and Porto Velho (Rondonia) as part of the regional development loan. We also propose to include feeder road components in various other rural development projects, as appropriate.

114. At present no loan for port development is included in the FY82-86 lending program. The first ports project to rehabilitate the left bank of Santos Port is almost completed after long delays and cost overruns. Should the Government decide to make port development a priority for Bank lending, consideration might be given to a port project which would have important institution-building and export-promotion objectives.

115. The Bank's knowledge of the transport sector as a whole has become somewhat out of date, and we are planning a sector economic mission in FY82. The mission's findings should enable us to revise and refine our transport sector lending program. It may, <u>inter alia</u>, be possible to prepare a coastal and inland shipping project -- this being a subsector that is still very underdeveloped in Brazil. Development of coastal and inland shipping -in combination with intermodal facilities (such as roll-on, roll-off)--could have important energy-saving benefits.

### Urban Development

	Actual	Proposed
	1977-81	1982-86
No. of Loans	5	5
Amount (US\$ million)	500	690
% of lending	15.1	10.9

116. Brazil's urban growth continues to be rapid. The urban population is now estimated at approximately 50 million compared with 25 million in 1960. Over the past decade rates of urban growth have averaged around 5.5% (compared with a national average of 2.9% and are expected to be on the order of 4.5% over the next decade. The highest growth rates have occurred in medium-sized cities and on the periphery of the major cities where poverty is serious. The proportion of families living in relative poverty ranges from 55% in the southern cities to 77% in the northeast.

117. Brazil's urban strategy was first articulated in the Second National Development Plan (II PND) for the period 1975-1979 and has been reiterated in the III PND. It is based on the belief that recent urbanization trends have introduced serious distortions in urban structure and spatial organization thereby exacerbating problems of poverty, underdevelopment and infrastructural deficiencies in Brazil's urban centers. The Government's program calls for the improvement of the structure and efficiency of the urban system, and limiting further concentration of population.

118. It is proposed that the Bank should continue to support projects that will imporve the living conditions and incomes of the urban poor, through the provision of housing services and employment opportunities, and strengthening institutions at the federal, state, and municipal levels. Given the scale of the urban problem and the relative scarcity of funds to deal with it, the Bank is trying to develop intermediaries at the federal level as channels for its resources. This requires close collaboration with federal institutions to ensure improved methods of analysis, increased attention to urban poverty, and better inter-agency coordination. To reinforce these institution-building objectives, maximum feasible project appraisal and supervision responsibility will be given to the appropriate federal agency, which in turn will be encouraged to transfer this responsibility to the local agencies to promote their institutional and technical development. A second thrust will be the development of a capacity to implement integrated projects in selected metropolitan areas.

119. To achieve the twin objectives of providing housing, key services and employment opportunities to the poor, and institutional strengthening, five operations totalling US\$690 million are planned for the urban sector during the FY82-86 period. The first is a loan of US\$70 million for an integrated urban development project in Recife, which has strong local agencies and will have to cope with extremely rapid growth over the next two decades, in addition to correcting the present inadequacy of shelter and urban service provision to the poor. An additional loan of US\$200 million for sites and services and low-cost housing is also proposed to finance additional housing for low-income groups and provide support for BNH's Program to Upgrade Slums (PROMORAR). The philosophy behind PROMORAR is to improve the area where the poor live rather than to move them to another area, which might be more distant from the city center and employment opportunities.

120. The proposed urban program also includes a second medium-sized cities loan as a follow-up operation to the project which is presently underway. Its purpose would be to attend to the needs of the rapidly growing population in the medium-sized cities, help strengthen federal and local institutions, and create employment opportunities.

Finally, a US\$200 million loan is included for a fourth urban 121. transport project in FY86. The third urban transport project, for which a loan will be presented in FY81, should help to strengthen the Brazilian Transport Corporation (EBTU) and its successful implementation would permit the fourth project to be a full sector operation. This would support the Government's urban transport policy which aims to develop those systems most adequate to meet transport demand with available resources, and use these systems as a means to achieve a more just income distribution. Implementation of these objectives will help to ensure a considerable strengthening of the sector through: more efficient use of energy; improved utilization of existing systems; expansion and improvement of transport systems through limited physical expansion; technological and operational innovations; improved institutional arrangements; and the integration of urban transport planning and land-use planning. Consideration is also being given to financing a suburban rail operation in the Belo Horizonte metropolitan area similar to the second urban transport (Porto Alegre) project. This project is now carried as a reserve project for FY82.

Industry, Mining and DFC

	Actual 1977-81	Proposed 1982-86
No. of loans	4	4
Amount (US\$ million)	387	570
% of lending	11.7	9.0

122. Proposed lending for industry and mining is limited to a few high priority projects designed to achieve economical import substitution, or to increase exports, and where the Bank can play a significant role in institution building or as a catalyst for mobilizing other resources. Projects would be mainly concentrated in the less developed regions of Brazil -- in particular the north and northeast.

123. The only mining project is the large Carajas iron ore project in the north for which a loan of US\$300 million is being proposed for FY83. We are presently reviewing the feasibility study for a mine with a 35 mtpy capacity. The Bank's presence would serve as a catalyst to bring other financing to the US\$3 billion project, including possibly foreign risk capital. Additionally, the Bank's participation could help to achieve a more rational industrial development in the north region, and a US\$100 million loan has been included as a reserve project in FY86 for an integrated regional development project in the Carajas export corridor.

124. Several recent Bank missions to Brazil have attempted to develop a suitable coal mining project in the south, but these efforts have proven unsuccessful. However, given the possibilities of substituting coal for imported petroleum, we will continue a dialogue with the Government on its policies for the coal sector in the context of overall energy policies in the hope that a suitable framework for lending can be agreed upon.

125. Other loans for this sector include a loan of US\$70 million for a coal gasification project in FY84 and a loan of US\$100 million for small and medium industries in FY86. Additionally, a loan of US\$150 million for investment in energy conservation for the steel sector has been included for FY84. Such a loan, aside from assisting in reducing consumption of imported petroleum, would permit the Bank to continue to provide institutional support to the steel sector, to which major Bank commitments were made in 1972 and 1975, and which continues to be beset by institutional and financial difficulties.

126. Industrial projects provide a particularly good vehicle for attracting private foreign finance, and we would expect most of our lending for industry and mining to be in conjunction with private co-financing. The Bank's share in total project financing would continue to be much less than for projects in other sectors.

127. The availability of funds for industrial finance from BNDE and other official institutions at highly subsidized interest rates has severely limited the usefulness of several existing World Bank loans, and has made it impractical to consider new DFC projects of the conventional type. However, the Government has now phased out most interest rate subsidies for industry, and we may therefore be able to prepare a loan for small industries which has been under discussion for some time. Small-scale industry would also continue to be supported through Bank lending for medium-sized cities development and integrated urban development projects. 1/

1/ Other policy issues which need to be explored in conjunction with any new Bank lending to industry are the high levels of trade protection and investment tax incentives currently in effect. Economic missions are planned for FY82 and FY83 to examine these issues. Also of interest in the formulation of industrial policies is a DRC study in process to identify the determinants of industrial location. 128. There is a special type of DFC operation for which some interest rate subsidization seems justified, namely, credit for industries installing air and water pollution control equipment. Pollution is a serious and growing problem in Brazil's industrial centers -- Sao Paulo, Rio de Janeiro, and Belo Horizonte especially -- and in a number of other cities. A first industrial pollution control loan (US\$58 million) was approved in FY80 for Sao Paulo. A loan of US\$35 million has been included in the FY83 reserve program for pollution control in Rio de Janeiro (already appraised, but delayed because of lack of counterpart funding), and a sector loan for US\$100 million has been included for FY85. In view of current constraints on the availability of counterpart resources, the timing of these operations is tentative.

129. Besides the foregoing, Brazil's development banking system will continue to receive support through Bank lending for secondary and feeder roads development and under the proposed fuel alcohol and reforestation and charcoal projects, which would use the development banks as financial intermediaries.

### IFC Activities

130. Through June 30, 1980, the IFC had made 44 investments in Brazil totaling US\$539.3 million. The iron and steel industry represented the largest commitment with US\$109 million followed by mining (US\$108 million), chemicals (US\$77 million), and textiles (US\$57 million). As of June 20, 1980, IFC held investments in Brazil valued at US\$204.3 million, or about 15% of the total IFC-held portfolio. In FY80 IFC invested in six projects in Brazil, accounting for a total IFC investment in loan equity of US\$74 million for its own account.

131. In an effort to support priority sectors within Brazil's development program IFC is focusing on agriculture and agro-industry, energy, mining and the downstream units in the new petrochemical complex in the south of Brazil, and export-oriented projects. The reduction of regional imbalances in industrial development has also been an important criteria for the IFC. Since June 1975, only one project has been located in the Rio-Sao Paulo area. The IFC has also concentrated on complex projects which need sophisticated project financing arrangements, and/or foreign joint ventures. Other important considerations are the need for IFC equity and the achievement of a substantial Brazilian equity participation.

132. IFC aims to mobilize substantial amounts of foreign capital for Brazilian private enterprise and obtain the participation of foreign financial institutions in its loan and equity investments. Up to June 30, 1980, about 40% of IFC's total commitments in Brazil have been sold to participants. IFC will continue to seek such participations in the future, especially in large natural resource-based projects requiring substantial amounts of capital.

### IDB Activities

133. The Inter-American Development Bank lent US\$275 million in foreign exchange to Brazil during 1979 (calendar year). In 1980 the lending program is expected to reach US\$316 million (plus US\$92 million in local currency and is highlighted by three integrated rural development projects totaling US\$180 million in Paraiba, Minas Gerais and Parana, a US\$60 million feeder roads project, and a large electric power loan. The lending program for the next two years is expected to average about US\$250 million annually and in 1981 major undertakings include integrated rural development projects in Bahia and Pernambuco and feeder roads construction in Mato Grosso and Goias. During the same year the IDB also plans to help finance a program to determine the feasibility of producing energy from biomass sources, a primary and secondary education project, and an agricultural credit project.

### Summary of Recommendations

134. The principal recommendations of this paper are as follows:

- (a) The Bank should plan a basic lending program of project loans amounting to US\$6.4 billion in 1982-86 (paragraph 68).
- (b) If Brazil's situation develops in such a way that important macroeconomic policy objectives could be attained through quickdisbursing sector or structural adjustment loans, this opportunity should be pursued, with such lending partially additional to the proposed project lending (paragraphs 62 and 70).
- (c) The lending program should continue to be heavily oriented toward projects that will raise the productivity and incomes of low-income groups (paragraph 65).
- (d) To the extent possible, the lending program should be strengthened by the addition of further energy-related projects (paragraphs 66(b) and 101).
- (e) As a response to the Government's present strenuous effort to compress public investment, and to underline the importance of continuing an active program to benefit low-income groups, the Bank should, as a temporary measure, increase its cost sharing for projects benefitting the poor from 35% to 60%. It should also, whenever appropriate, repeat the practice recently initiated of disbursing a higher share of project costs in the early years of execution, and a lower share later (paragraph 66(c)).

135. The next program paper should be prepared for review in May 1982, in recognition of the need to follow Brazil's evolving situation closely.

 Population:
 119.5 million (mid-1979)

 CNP per Capita (current \$):
 US\$1,633 (1979)

 Area:
 8,512,000 Km<sup>2</sup>

# BRAZIL - ACTUAL AND PROPOSED PROGRAM OF LENDING OPERATIONS THROUGH FY86

- 42 -

(US\$ Million) .

		Through	m11/		Actual	19970	192.00	Current	19480	24.83	Program	PUDE	PVRC	Total FY76-80	Total	Total Fy82-86	
	IBRD	1975	FY76	FY77	FY78	FY79	FY80	FY81	FY82	FY83	FY84	FY85	FY86	FY/6-80	FY81-85	FY32-80	
Six agricultural projects Integrated rural development - Rio Grande do Norte - Rio Grande do Norte II - Ceara I - Ceara II - Anazonas I - Anazonas I - Peraiba - Bahia I - Peraiba - Peraiba - Rahia II - Perambuco I	IBRD IBRD IBRD IBRD IBRD IBRD IBRD IBRD		12		17 24 37	40		56		30 30 60			80				
- Maranhao - Sergipe - Piaui - CODEVASF III - Northeast I - Northeast II	IBRD IBRD IBRD IBRD IBRD IBRD					26			40 29(8)		50 200		250				
Minas Gerais - reforestation and charcoal Forest development - sector Lower Sao Francisco Development II Agricultural Export Industries II Minas Gerais - Rural Development I Minas Cerais - Rural Development II Agricultural Research II Agricultural Research II Agricultural Research II Agricultural Research II Fisheries - Northeast Agricultural credit - Northeast II	IBRD IBRD IBRD IBRD IBRD IBRD IBRD IBRD		40	83 42	100	28	63	60		80		100* 100 250	130 60				
Northwest Development I Northwest Development II Northwest Development III	IBRD IBRD IBRD								225 70		100(S)						
Nutrition I Health - Northeast sector	IBRD IBRD		19										100		1		
Two education projects Education III - vocational training Education IV - Northeast Education V Education VI	IBRD IBRD IBRD IBRD IBRD	31.9		32			32			50		100					
Urban Transport I Urban Transport III - medium-sized cities Urban Transport IV Urban Development - medium cities Integrated Urban Development I - Recife Urban Development - Medium Cities II Urban Development - CURA Sites and Services I Sites and Services II	IBRD IBRD IBRD IBRD IBRD IBRD IBRD IBRD				88	70 93		90	70*	70		150	200				
Three water supply and severage projects Water supply and severage - Minas Geraís II Water supply and severage - Minas Geraís III Sewage treatment - Sao Paulo I Swage treatment - Sao Paulo II Water supply and severage - Northeast I Water supply and severage - Miltistate Water supply and severage - South Water supply and severage - Rio de Janeiro Water supply and severage - Sector I Water supply and severage - sector I Water supply and severage - sector I	IBRD IBRD IBRD IBRD IBRD IBRD IBRD IBRD	73		40	110	100	139 130	180*	150*	120	200(S)	250					
DFC - SNB DFC - SNDE (small and medium industries) DFC - Sao Paulo Industrial Pollution Control I DFC - pollution control - sector I	IBRD 1BRD IBRD IBRD	25	85				58					100					
Six industrial and mining projects Aluminum - VALESUL Iron Ore - Carajas Steel - COSTPA II Petrochemicals - COPESUL Fertilizer II - ammonia Pertilizer III - ammonia Fertilizer III - ammonia Industry - Fuel Alcohol I	IBRD IBRD IBRD IBRD IBRD IBRD IBRD IBRD	359	60 50	64 82	85	98		250		300(S) 250							
Industry - Fuel Alcohol II Industry - coal gasification Industry - fertilizers - unidentified Small and medium industries	IBRD IBRD IBRD										70 100*		100	-			
Twenty-six power projects Power XXVII - distribution (COPEL I) Power XXVIII - distribution (Northeast I) Power XXX - distribution (South/Southeast) Power XXX - distribution (South) (CEEE/COPEL II) Power XXXII - distribution (CEEE) Power XXXIV - transmission (ELETROBIAS) Power XXXVI - distribution (ELETROBIAS I) Power XXXVI - distribution (ELETROBAS I) Power XXXVI - distribution (ELETROBAS II) Power XXXVI - distribution (ELETROBAS II) Power XXXVII - distribution Power XXVII - distr	IBRD IBRD IBRD IBRD IBRD IBRD IBRD IBRD	\$78.1	52 50	82	130	109	114	54 125	160	130	150 150(S) 150	200	100* 150*		4	н н	
Eleven transport projects Highways VI Highways VII - rehabilitation and maintenance Secondary and Feeder Roads I Secondary and Feeder Roads III Secondary and Feeder Roads III Secondary and Feeder Roads IV	IBRD IBRD IBRD IBRD IBRD IBRD IBRD IBRD	670	55		114	110			100		150(\$)	-	150				
Railways - FEPASA I Railways - RFFSA III Railways - urban transport	IBRD IBRD IBRD		75		×		159		150								
Lending Programs (in current US\$ million) No. Lending Program (in constant FY81 US\$ million) No. Commitment deflator (FY81=100) Standby Projects Total Number	IBRD IBRD	2,316.7 55	498 10 800,6 62.2	425 7 602.0 70.6	705 9 898.1 78,5	674 9. 764.6 85.9	695 7 747.3 193.0	<u>819</u> 7 815 100.0 29 1	<u>994</u> 9 968.1 107.1 300 1	1,120 10 981.6 114.1 600 4	1.320 10 1,089.1 121.2	1.400 9 1,088.6 128.6	<u>1.520</u> 11 1,115.2 136.3 -	2,997 42	<u>5,688</u> 46	<u>6,380</u> 49	

ATTACHMENT 1 Page 1 of 2

\*

(S) Standby projects
 \* New projects

Country Programs Department II Latin America and Caribbean Regional Office

Reserve projects are listed on next page

March 11, 1981

ATTACHMENT 1 Page 2 of 2

# Reserve Projects

	00(EV02)
Belo Horizonte Urban Transportation	90(FY82)
Ceara - Phosphates and Uranium	100(FY83)
Fisheries - Northeast	20(FY83)
Agricultural Credit - Northeast	150(FY83)
Energy - Shale Oil	200(FY83)
Land Titling and Redistribution - Northeast	40(FY83)
Petroleum Development	200(FY83)
Industry - Fertilizer - Unidentified	100(FY83)
	35(FY83)
Rio de Janeiro Pollution Control	100(FY84)
Energy Conservation - Unidentified	
Rural Development - Sergipe II	70(FY84)
Rural Development Alagoas	50(FY84)
Sao Paulo Health	20(FY84)
Rubber Development	50(FY84)
Coal - Unidentified	50(FY85)
Rural Development - Pernambuco II	50(FY85)
Rural Development - Piaui II	50(FY85)
	100(FY85)
Integrated Regional Development - Carajas	
Coastal and Inland Shipping	50(FY85)
Inter-modal Transport Services	80(FY85)
Education VII	100(FY86)
Water and Sewerage - Unidentified	100(FY86)

March 26, 1981

BRAZIL - CLASSIFICATION OF LENDING BY PRIMARY OBJECTIVE

		Actual FY77-81		Proposed FY82-86	
		Amount	% of	Amount USS Million	% of Total
		US\$ Million	Total	030 MILLON	
	Assistance to Low-Income Groups				
		413	12.5	1,589	25.0
	Agriculture and rural development	64	1.9	150	2.4
	Education	-	-	100	1.6
	Health and nutrition	-	-	50	.8
	Energy	659	21.1	720	11.3
	Water and sewerage	500	15.1	690	10.8
	Urban development	55	1.6	125	2.0
	Transportation	10000		-	-
	8		52.2	,424	53.9
	Sub Total	1,731	5	5,124	
в.	Institution Building				
		80	2.4	115	1.8
	Agriculture	307	9.3	420	6.6
	Energy	112	3.3	350	5.5
	Transportation	58	1.8	200	3.2
	Industry				
	Sub Tocal	557	16.8	1,085	17.1
	Sub local				
C.	Export Promotion and Import Substitutio				
	Agriculture	83	2.5	1,050	16.5
		250	7.6	400	6.3
	Energy Industry	329	9.9	400	0.5
	Industry				
	Sub Total	662	20.0	1,450	22.3
D	. Resource Transfer				
-		307	9.3	320	5.0
	Energy	57	1.7	75	1.2
	Transportation	31		Western	00000
	Sub Total	364	11.0	395	6.2
	TOTAL	3,314	100.0	5,354	100.0

<u>a</u>/ In each lending program several projects have dual primary objectives. These have been divided evenly for calculating dollar amounts, number of projects, and percentages in order to more accurately depict the amount of projected Bank financing devoted to each objective.

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March 16, 1981

BRAZIL - SUMMARY OF BANK GROUP AND OTHER OFFICIAL LENDING

	Through FY74	PT75	F¥76	F <b>1</b> 77	F¥78	FY79	FY80	Current FY81	FY82	FY83	TY84	FY85	FT86	FY76-80	FY81-85 FY	82-86	
CTORAL DISTRIBUTION OF NK GROUP COMMITMENTS (%)							9.1		38.3	17.9	26.5	25	34.2	16.4	26.9	27.1	
Agric. and tural dev.	8.3	5.4	10.4	29.4	25.3	14.0		10.1	-	22.3	28.0	17.9	9.9	7.5	8.9	9.4	
Energy	15.3	22.3	39.1	34.4	12.1				-	26.8	7.6	14.3	6.6	18.5	13.8	11.6	
Industry Power	51.7	-	20.5	19.3			16.4	21.6	15.8	-	-	-	6.6	-	1.4	1.0	
Pop., health & sutrition	-	-	3.8	-	-	-	-	-	-	-		-	9.9	6.7	14.3	8.6	
Regional development	20.4	66.8	26.2	-	28.0				24.5	6.2	11.4	10.7	26.2	13.7	12.0	10.3	
Transportation Urban development	-	-	-		-	13.8		16.9	6.7	10.7	15.1	17.9	-	23.7	11.8	11.3	
Water supply and sewage	3.9	:.	-	9.4		5 14.8	4.5	-	-	4.5	-	7.1	100.0	1.9	100.0	100.0	
Education	100.0	5.5 100.0	100.0	100.			100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0			
														<u>.</u>			
ANK GROUP DISBURSEMENTS (USSm)			A100					5,653	6,223	7,210	8,184	9,207	10,277	18,573			
BRD o/s incl. undisbursed $\frac{2}{2}$			2,556	2,932 1,462	3,722	4,402 2,106	4,961 2,382		3,151	3,704	4,394	5,119	5,797	8,988		4,775	
			202	267	251	295	318	441	673	836 283	1,036	1,102	450	374	1,352	1,001	
BRD gross disbursements			33	86	94	73	88		205	553	690	725	678	959		3,114	
less: amortization equals: net disbursements			169	181	157	222			250	290		393	452 226	622 337		1.390	
less: interest & charges			83 86						218	263	351	332	220	221	.,		
equals: net transfer								441	673	836	1,036	1,102	1,128	1,333		4,775	
in the second design and the			202						205		346	377	450			1,661 3,114	
BRD/IDA gross disbursements less: amortization			33						468			725	678 452	959		1,724	
equals: net disbursements			83			150	170		250			393	226			1,390	
less: interest & charges			86		. 35	72	60	106	218	20.	, ,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,						
equals: net transfer				10.0										Projec	ted		
			197	5	1976	Act 19		1978	197	9	1980	19	81	1982	1983	1984	1985
							-										
IBRD EXPOSURE (%)												2	.9	3.8	4.8	5.5	6.1
IBRD disbursement/total gros dispursements			3.	6	2.1		.2	1.8	2.		2.5		.8	4.0	4.3	4.7	5.2
IBRD DOD/total DOD			4.		4.3		.1	3.5	3.		2.0	2	.3	2.7	2.7	2.8	3.0
IBRD debt service/total debt service			2.	4	3.2	د	.7							-	• •		
CC'MITMENTS FROM OFFICIAL SOUT	CES (USS	a)												-			
Grants & concessional loans				38	39		54	84		-		7	,325	3,000	3,280	3,440	3.64
Non-concessional loans Total bilateral				792 80	1,921		893 205	1,343 376		331 461	2,558 1,390	1	.40	1,490	1,540	1,590	1,54
Total multilateral				712	625		688	967 688		870 674	1,168		,385	1,510	1,740	1,350	1,52
LULBA MAALAABLUARS				538	486		319 369	279		196	340		365	390	420	450	48
IBRD				174				-		.			-	-		-	
IBRD Regional Dev. Bank Other				-	• •		- 947	1.427		331	2.558		.826	3.000	3,280	3,440	3.04

1/ Coal projects should be classified in the energy sector. 2/ Includes exchange rate sdjustment.

May 6, 1981 .

	Act	ual FY77.	-81	App	coved FY8	1-85		posed FY8	
	US\$ Million	% of Total	No. of Projects	US\$ Million	% of Total	No. of Projects	US\$ Million	% of Tocal	No. of Projects
Agriculture and rural development <sup>1</sup>	544	16.4	12	1,516	26.9	18	1,730	27.1	16
Education	64	1.9	2	150	2.6	2	· 150	2.4	2
Health and nutrition	0	0	0	80	1.4	2	100	1.6	1
Energy	864	26.0	7	1,249	22.1	11	1,840	28.8	13
Electric power	(614)	(18.5)	(6)	(779)	(13.8)	(6)	(740)	(11.6)	(5)
Other	(250)	(7.5)	(1)	(470)	(8.3)	(5)	(1,100)	(17.2)	(8)
Water and sewerage	787	23.7	7	665	11.8	4	• 720	11.3	4
Urban development <sup>2/</sup>	457	13.7	4	680	12.0	5	690	10.8	5
Transport	224	6.7	2	805	14.3	5	550	8.6	4
Industry and mining $\frac{3}{}$		11.6	_5	500	8.9	3	600	9.4	_4
TOTAL	3,327	100.0	40	5,645	100.0	50	- 6,380	100.0	49

# BRAZIL - SECTORAL DISTRIBUTION OF LENDING

1/ Including integrated regional development.

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2/ Including urban transport.

3/ Including pollution control.

March 16, 1981

# BRAZIL - ENERGY SECTOR BREAKDOWN

		Approved			FY82-86			
	US\$ Million	FY81-85 % of Energy Total	No. of Projects	USS Million	% of Energy Total	No. of Project		
lectric Power Eletrobras I	<u>779</u> 110	<u>62.4</u> 8.8	6	740 160 130	$\frac{40.2}{8.7}$	<u>5</u> 1		
Eletrobras I Eletrobras II Eletrobras III	- 150	12.0	1	130	8.2	1		
Xingu Garabi	180 160 125	14.4 12.8 10.0	1 1 1 1	-	-	-		
Eletrosul Power Coordination Rural Electrification CEEE II	54 _ _	4.4	1 -	100 200	5.4 10.8	1		
Other .	470	<u>37.6</u> 0	<u>5</u> 0	<u>1,100</u> . <u>180</u>	<u>59.8</u> _9.8	 		
Agricultural M.G. Reforest/Charcoal Forestry Development II	-		<u> </u>	80 100	4.4	1		
Industry Alcohol Development Alcohol II Candiota Coal	320 175 - 25	25.6 14.0 2.0	4 - 1 1	620 - 250 - 70	33.6 13.5 3.7	1  		
Coal Gasification Coal (Unidentified) Steel (energy saving) Industry (energy saving)	70 50 -	5.6 4.0 -	1 - -	- 150 150	8.2 8.2			
Other Gas pipeline Unidentified	<u>150</u> 150	12.0	<u>1</u> -	300 150 150	$\frac{16.4}{8.2}$	2 1 1		
Total Percent of total	1,249	100.0	11	1,840	100.0	13		
lending program	-	-	-	-	-	-		

March 6, 1981

### BRAZIL

### IBRD Disbursements

(Millions of US dollars)

	1976	1977	1978	1979	1980
1. Undisbursed balance at July 1	1,031	1,323	1,470	1,913	2,296
<ol> <li>Commitments during FY</li> <li>Total disbursements during FY</li> <li>Disbursement rate 3:1=%</li> </ol>	498 202 19.59	425 267 20.18	705 251 17.07	674 295 15.42	695 318 13.85
Comparators (%)					
<ul> <li>a) Disbursement rate for total of all other countries in the region</li> </ul>	24.35	5 22.23	19.24	18.80	25.47
<ul> <li>b) Bankwide IBRD/IDA average disbursement rate</li> </ul>	32.90	30.38	24.81	22.18	19.37
c) Selected comparators average disbursement rates 2/			20		
Argentina	26.24	22			
Mexico	24.48				
Turkey	28.52	22.91	27.95	42.05	23.05

1/ Undisbursed balance includes credits approved but

unsigned, and signed but not effective.

2/ Excludes exchange adjustments.

BRAZIL - SOCIAL INDICATORS DATA SHEET

LAND AREA (THOUSAND SQ. KM.)		BRAZIL		REFERENCE GROUPS (WEIGHTE - MOST RECENT ESTI	D AVERACES
TOTAL 8512.0 AGRICULTURAL 2067.2	1960		MOST RECENT	MIDDLE INCOME LATIN AMERICA & CARIBBEAN	MIDDLE INCOM EUPOPE
GNP PER CAPITA (US\$)	320. 0	570.0	1690.0	1562- 9	2749.5
ENERGY CONSUMPTION PER CAPITA (KILOGRAMS OF COAL EQUIVALENT)	332.0	474.0	794- 0	1055.9	1641.4
POPULATION AND VITAL STATISTICS POPULATION, MID-YEAR (MILLIONS) URBAN POPULATION (PERCENT OF TOTAL	71.5 .) 46.1	9 <b>5.</b> 2 55. 9	119. 5 63. 3	63.4	53.9
POPULATION PROJECTIONS POPULATION IN YEAR 2000 (MILLION STATIONARY POPULATION (MILLIONS) YEAR STATIONARY POPULATION IS RE			201. 0 345. 0 2075	÷	
POPULATION DENSITY					
PER SQ. KM. PER SQ. KM. AGRICULTURAL LAND	8. 0 44. 0	11.0 49.0	14-0 58-0	28.1 81.7	77. 2 129. 5
POPULATION AGE STRUCTURE (PERCENT)					
0-14 YRS.	43.6	42.6	41.7	41.4	30.6
15-64 YRS. 65 YRS. AND ABOVE	53.8	54.3	54.9	54. 7 3. 9	61.1
	2.0	3.1	3. 4	3+ 2	, 0. 2
POPULATION GROWTH RATE (PERCENT) TOTAL	3.0		2.8	2. 7	1.6
URBAN	5.5	4.8	4.5	4.1	3- 3
CRUDE BIRTH RATE (PER THOUSAND)			36.0	34-8	22.8
CRUDE DEATH RATE (PER THOUSAND) GROSS REPRODUCTION RATE	11.0	9.0 2.6	9.0	8.9 2.5	8.9 1.5
FAMILY PLANNING ACCEPTORS, ANNUAL (THOUSANDS)		111.0	203-6		
USERS (PERCENT OF MARRIED WOMEN					
FOOD AND NUTRITION INDEX OF FOOD PRODUCTION PER CAPITA (1969-71-100)	89.0	102-0	112.0	106- 9	113-1
PER CAPITA SUPPLY OF CALORIES (PERCENT OF					
REQUIR EMENTS )	101.0		107.2	107-4	125.3
PROTEINS (GRAMS PER DAY) OF WHICH ANIMAL AND PULSE	61.0 34.0		62.7 35.1	65. 6 33. 7	91.0 39.6
CHILD (AGES 1-4) MORTALITY RATE	13.0	10-0	9.0	8- 4	4. 3
HEALTH LIFE EXPECTANCY AT BIRTH (YEARS)	57.0	61.0	62.0	63-1	67.8
INFANT MORTALITY RATE (PER THOUSAND)				66.5	55.9
ACCESS TO SAFE WATER (PERCENT OF					
POPULATION)					
TOTAL	••	56.3	77.1	65-9	
URBAN RURAL	::	77.7	88.8 56.8	80-4 44-0	::
ACCESS TO EXCRETA DISPOSAL (PERCE				.+	
OF POPULATION)					
TOTAL URBAN		59.9 86.1	64.8 83.7	62 - 3 79 - 4	.:
RURAL		26. 5	31. 7	29.6	
POPULATION PER PHYSICIAN POPULATION PER NURSING PERSON	3600.0		1700.0	1849.2 1227.5	1030-1 929-4
POPULATION PER HOSPITAL BED TOTAL	309.0	262.0	253.0	480- 3	289.7
URBAN				••	
RURAL	••	••	••	••	••
ADMISSIONS PER HOSPITAL BED HOUSING		18.0			17.0
AVERAGE SIZE OF HOUSEHOLD TOTAL	5.1	4-8	4.9		
URBAN RURAL			4.7		
		3. 2	2+ 3		••
AVERAGE NUMBER OF PERSONS PER ROO TOTAL	M	1.1		••	
UR BAN RURAL	::	1.0		::	::
ACCESS TO ELECTRICITY (PERCENT OF DWELLINGS)					500 C
	38.7				
TOTAL			63- 0 84- 9	::	

BRAZIL - SOCIAL INDICATORS DATA SHEET

		1	BRAZIL		REFERENCE GROUPS (WEIGHTE - MOST RECENT ESTI	
		1960	<u>/b</u> 1970	MOST RECENT <u>/b</u> ESTIMATE <u>/b</u>	MIDDLE INCOME LATIN AMERICA & CARIBBEAN	MIDDLE INCOM EUROPE
EDUCATION						
ADJUSTED ENROLLA		1020	121212			
	TOTAL	95.0	125.0	90.0 <u>/c</u>	99.7	105.9
	IALE	97.0	125.0	89.0/c	101.0	109.3
Ĩ	FEMALE	93.0	125.0	90.0 <u>/c</u>	99.4	103.0
SECONDARY:	TOTAL	11.0	26.0	24.0/c	34.4	64.0
1	IALE	11.0	26.0	22.0/c	33.5	71.1
1	FEMALE	10.0	26.0	26.0/c	34.7	56.9
VOCATIONAL ENROL	L. (% OF SECONDARY)	19.0	17.0	47.0 <u>/c</u>	38.2	28.8
PUPIL-TEACHER RA	TIO					
PR IMARY		33.0	28.0	22.0	30.5	29.4
SECONDARY		13.0	13.0	11.0	14.5	26.1
ADULT LITERACY A	RATE (PERCENT)	61.0	66.2	75.7	76.3	
ONSUMPTION						
PASSENGER CARS I POPULATION	PER THOUSAND	7.0	25.0	52.4	43.0	84.6
RADIO RECEIVERS	PER THOUSAND					04.0
POPULATION		66.0	124.0	155.0	245.3	192.2
TV RECEIVERS PER	R THOUSAND					
POPULATION NEWSPAPER ("DAIN		17.0	64.0	93.0	84.2	118.5
INTEREST") CIRCU						1000 C
THOUSAND POPULAT	TTENDANCE PER CAPITA	54.0	37.0	39.0	63.3	93.0
	LEADING TEN ON IT		,	2.0	••	3. /
ABOR FORCE						
TOTAL LABOR FOR		872.9	30057.3	37704.7		
FEMALE (PERCER		17.5	20.4	22.0	22.2	30.4
AGRICULTURE (I		51.9	45.6	41.0	37.1	37.0
INDUSTRY (PERC	(ENT)	14.8	18.3	22.0	23.5	29.3
ARTICIPATION RATE	E (PERCENT)					
TOTAL		32.0	31.6	31.5	31. 5	40.9
MALE		52.7	50.3	49.5	48.9	55.9
FEMALE		11.2	12.8	13.6	14.0	26.2
CONOMIC DEPENDENC	CY RATIO	1.4	1.4	1.4	1.4	1.0
NCOME DISTRIBUTIO PERCENT OF PRIVA RECEIVED BY						
	CENT OF HOUSEHOLDS					
	RCENT OF HOUSEHOLDS	60.0	63.5			
	CENT OF HOUSEHOLDS	3.8	3.2			
LOWEST 40 PER	CENT OF HOUSEHOLDS	10.8	9.0	9.4		
OVERTY TARGET GRO ESTIMATED ABSOLU LEVEL (USS PER (	JTE POVERTY INCOME					
URBAN						
RURAL				150.0	190.8	
LEVEL (US\$ PER (	IVE POVERTY INCOME CAPITA)					
URBAN RURAL		::	::		474.0 332.5	385.8
ESTIMATED POPULA	ATION BELOW ABSOLUTI			552.0	332. 3	383.8
POVERTY INCOME I URBAN	LEVEL (PERCENT)					
RURAL			::		••	
			••	••		

.. Not available

. Not applicable.

#### NOTES

<u>/a</u> The group averages for each indicator are population-weighted arithmetic means. Coverage of countries among the indicators depends on availability of data and is not uniform.

<u>/b</u> Unless otherwise noted, data <u>for 1960</u> refer to any year between 1959 and 1961; <u>for 1970</u>, between 1969 and 1971; and for <u>Most Recent Estimate</u>, between 1974 and 1978.

<u>/c</u> Beginning 1973 primary and secondary educations cover age groups 7-14 and 15-17 instead of 7-10 and 11-17 in earlier years; therefore most recent estimates are not comparable with earlier data.

Most recent estimate of GNP per capita is for 1979, all other data are as of April, 1980.

October, 1980

#### DEFINITIONS OF SOCIAL INDICATORS

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Notes: Although the data are drawn from sources generally judged the most authoritative and raliable, it should also be noted that they may not be inter-nationally comparable because of the lack of scandardized definitions and concepts used by different countries in collecting the data. The data are, none-theless, useful to describe orders of magnitude, indicate trends, and characterize certain major differences between countries.

The reference groups are (1) the same country group of the subject country and (2) a country group with somewhat higher average income than the country group of the subject country (except for "Capital Surplus Oil Exporters" group where "Middle Income North Africa and Middle East" is chosen because of stronger socio-cultural affinities). In the reference group data the averages are population weighted arithmetic means for each indicator and shown only when at socio-cultural affinities in a group has data for that indicator. Since the coverage of countries among the indicators depends on the availability of data and is not uniform, gaution must be exercised in relating averages of one indicator to another. These averages are only useful in comparing the value of one indicator at a time among the country and reference groups.

LAND AREA (thousand sq.km.)

- <u>ND AREA</u> (thousand sq.km.) <u>Total</u> Total surface area comprising land area and inland waters. <u>Agricultural</u> Satimate of agricultural area used temporarily of permanently for crops, pastures, market and kitchen gardens or to lie fallow; 1977 data.
- CNP PER CAPITA (USS) GNP per capita estimates at current market prices, cal-culates by same conversion method as World Bank Atlas (1977-79 basis); 1960, culated by same conv. 1970, and 1979 data.
- ENERCY CONSUMPTION PER CAPITA Annual consumption of commercial energy (coal and lighte, petroleum, natural gas and hydro-, nuclear and geothermal elec-tricity) in kilograms of coal equivalent per capita; 1960, 1970, and 1978

POPULATION AND VITAL STATISTICS Total Population, Mid-Year (millions) - As of July 1: 1960, 1970, and 1978

inta. <u>Trban Population (percent of total)</u> - Ratio of urban to total population; different definitions of urban areas may affect comparability of data among countries; 1960, 1970, and 1978 data.

- Section 1990, 1970, and 1978 data.
  Population Projections
  Population In year 2000 Current population projections are based on 1980
  Foruitation In year 2000 Current population projections are based on 1980
  total opulation by age and sex and their mortality and fertility rates.
  Description parameters for mortality rates comprise of three lavels assuming life expectancy at birth increasing with country's per capita income level, and female life expectancy stabilizing at 77.5 years. The parameters for fertility rate also have three lavels assuming decline in fertility according to income level apart family planning performance.
  Each country is then assigned one of these nine combinations of mortality and fertility rates does not be death rate, and also the age structure rates are in the rate of the second structure rates assigned only after fertility rates decline to the replacement level of unit net reproduction rate, when each generation of vomen replaces itself exactly. The stationary population size was stimated on the basis of the projected characteristics of the population in the year 2000, and the rate of decline of fertility rate to replacement level.

Year stationary population is reached - The year when stationary population

- size has been reached. <u>Population Density</u> <u>Per sq. km</u>. Mid-year population per square kilometer (100 hectares) of total area.
- Per sq. km. agricultural land Computed as above for agricultural land

- Per sq. km. sgricultural land Computed as above for agricultural land only.
   Population Age Structure (percent) Children (0-14 years), working-age (15-64 years), and retired (65 years and over) as percentages of mid-year popu-lation; 1960, 1970, and 1973 data.
   Population Growth Rate (percent) total Annual growth rates of total mid-year populations for 1930-60, 1960-70, and 1970-78.
   Population Growth Rate (percent) urbam Annual growth rates of urbam popu-lations for 1930-60, 1960-70, and 1970-78.
   Crude Sirth Rate (per thousand) Annual live births per thousand of mid-year population; 1960, 1970, and 1978 data.
   Crude Deach Rate (per thousand) Annual deaths per thousand of mid-year population; 1960, 1970, and 1970 data.
   Crude Deach Rate (per thousand) Annual deaths per thousand of mid-year population; 1960, 1970, and 1978 data.
   Crude Deach Rate (per thousand) Annual deaths per thousand of mid-year population; 1960, 1970, and 1978 data.
   Crude Deach Rate (per chousand) Annual deaths per thousand of mid-year population; 1960, 1970, and 1978 data.
   Cruss Reproduction Rate Average number of daughters a woman vill bear in her normal reproductive period if she experiences present age-specific fer-tility rates; usually five-year averages ending in 1980, 1970, and 1977, and 1977, anning Cuserpors, Annual (thousands) Annual number of acceptors of Dirth-control devices under auspices of national family planning program.
   Family Planning Cusers (percent of ameried women) ferentage of married women of child-bearing age (15-44 years) who use birth-control devices to all married women in same age group.
   Condo ND WTRITION

#### FOOD AND NUTRITION

- All matrices women in same sage group.
  ODD AND NUTRITION
  (index of pood Production per Capita (1969-71-100) Index of per capita annual production of all food commodities. Production excludes seed and feed and is on calendar year basis. Commodities cover primary goods (a.g. sugarcame instead of sugar) which are edible and contain nutrients (e.g. coffee and tea are excluded). Aggregate production of each country is based on national average producer price weights; 1961-65, 1970, and 1978 data.
  Per capita supply of calories (percent of requirements) Computed from anergy equivalent of net food supplies available in country per capita upply of calories (percent of requirements). Requirements (e.g. coffee and the supplies comprise domestic production, imports less exports, and changes in stock. Net supplies exclude animal feed, seeds, uantities used in food processing, and losses in distribution. Requirements of her site is the set of population, and allowing 10 percent of reast at the supply of protein (gramm per day) Protein content of per capita net supply of protein (gramm per day) Protein content of per capita net supply of protein (gramm per day) Protein and show. Requirements for all countries established by USDA provide for animam allowance of so grams of tocal protein and 20 grams of animal and pulse protein and threes for animal and pulse protein supply for antime of coci and coci and and are keed of animal and pulse for the world, proposed by FAO is food dering a set anger day is food in the Third World from animals and pulses in grams of animal and pulse grams of tocal protein and 20 grams of tocal protein and 20 grams of animal and pulse (grams per day) direct and 20 grams of animal and pulse (grams per day) direct and 20 grams of animal and protein as an average for the world, proposed by FAO in the Third World from animal and pulses (1-65, 1970 and 1977 data.
  Per capita protein supply for animal and pulses (grams di day) and 1977 data.
  Per capita protein

- EEALTH Life Expectancy at Sirth (years) Average number of years of life remaining at birth; 1960, 1970 and 1978 data. Infant Mortality Rate (par thousand) Annual deaths of infants under one year of age par thousand live births. Access to Safe Water (parcent of population) total, urban, and rural N. Number of people (total, urban, and rural) with reasonable access to safe water supply (includes treated surface waters or untreated but uncontaminated water supply (includes treated surface waters or nurban area a public fountain or standpost located not more than 200 meters from a house may be considered as being within reasonable access of that house. In rural areas reasonable access yould imply that the housewife or members of the household do not have to spend a disproportionate part of the day in fetching the family's water meeds. <u>Access to Excepts Disposal (percent of spoulation foral, urban, and</u> furda). Sumber of people (total, urban, and trual) served by excreta any include the collection and disposal, with or without treatment,
  - <u>cursi</u> Number of people (cocal, urban, and rural) served by excreta disposal as percentages of their respective populations. Excreta dia-posal may include the collection and disposal, with or without treatment, of numan excrets and wasterwater by water-borne systems or the use of plit privice and similar installations.

- <u>Population per Physician</u> ropulation divided by number of practicing physicians qualified from a medical school at university level.
  <u>Population per Nursing Person</u> Population divided by number of practicing male and female graduate nurses, practical nurses, and assistant nurses.
  <u>Population per Hospital Bed cotal, urban, and rural</u> Population (cotal, urban, and rural) divided by their respective number of hespital beds evailable in public and private general and specialized hospital med re-hebilitation centers. Hospitals are establishment personantly staffed by a physician (but by a medical assistant cance of andical activities. For statistical jurpose urban hospitals include HOS principal general and specialized hospitals, and rural hospitals local or rural hospitals and specialized hospitals, and rural hospitals local or principal general and specialized hospitals, and rural hospitals local or furth hospitals and medical and maternity centers.
- HOUSING
- OUSING <u>Average Size of Household (persons per household) total, urban, and rural</u>-<u>A household consists of a group of individuals who share living quarters</u> and their main meals. A boarder or lodger may or may not be included in the household for statistical purposes. <u>Average number of persons per room total, urban, and rural</u> Average num-ber of persons per room in all urban, and rural occupied conventional dvellings, respectively. Dvellings exclude non-permanent structures and unoccupied parts. <u>Access to Electricity (percent of dvellings) total, urban, and rural</u> -<u>Conventional dvellings with electricity in living quarters as percentage</u> of total, urban, and rural dvellings respectively.

#### EDUCATION

- NUCATION Adjusted Enrollment Ration Frimary school totai, male and female Gross total, male and female enrollment of all ages at the primary level as percentages of respective primary school-age populations; normally includes children aged 6-11 years but adjusted for different lengths of primary education; for countries with universal education enrollment may exceed 100 percent since some pupils are below or above the official school age. Secondary school total, male and female Computed as above; secondary education requires at least four years of approved primary instruction; provides general, vocational, or teacher training instructions for pupils usually of 12 to 17 years of age; correspondence courses are generally excluded.
  - aveluded.
- excluded. <u>Vocational enrollment (percent of secondary)</u> Vocational institutions include technical; industrial, or other programs which operate indepen-dently or as departments of secondary institutions. <u>Pupul-teacher ratio primary</u>, and secondary Total students enrolled in primary and secondary levels divided by numbers of teachers in the
- primary and secondary seven and corresponding levels. Adult literacy rate (percent) Literate adults (able to read and write) as a percentage of total adult population aged 15 years and over.
- CONSUMPTION
- ONSUMPTION Tassenger Cars (per thousand population) Passenger cars comprise motor cars searing less than eight persons; uxcludes ambulances, hearses and military vehicles. Radio Receivers (per thousand population; excludes unli-broadcasts to general public per thousand of population; excludes unli-censed receivers in countries and in years when registration of radio esem countries abolished licensing. TV Receivers (per thousand population) TV receivers for broadcast to general public per thousand population; excludes unlicensed TV receivers in countries and inyears when registration of TV sets was in effect. Newspaper Circulation (per thousand population) TV receivers as periodical pub-lication devoted primarily to recording general news. It is considered to be "daily" efficient interest least four times a veek. Cinema Annual Attendance per Capita per Year Based on the number of tickets sold during the year, including admissions to drive-in cinemas

- and mobile units.

- LABOR FORCE Total Labor Force (thousands) Economically active persons, including armed forces and unemployed but excluding housewives, students, etc. Definitions in various countries are not comparable; 1960, 1970 and 1978 data.

- Definitions in various countries are not comparable; 1990, 1970 and 1978 data. <u>Semale (percent)</u> female labor force as percentage of total labor force. <u>Afficulture (percent)</u> Labor force in farming, forestry, hunting and <u>Afficulture (percent)</u> Labor force in mining, construction, manufacturing and electricity, water and gas as percentage of total labor force; 1960, 1970 and 1978 data. <u>Participation Rate (percent) total, male, and female</u> Participation or <u>activity rates are computed as total, male, and female</u> Participation or each <u>age-sex</u> structure of the population, and long time trend. A few esti-mates are from national sources. <u>Economic Dependency Ratio</u> Ratio of population under 15 and 65 and over to the total labor force.
- INCOME DISTRIBUTION Percentage of Private Income (both in cash and kind) Received by richest 5 percent, richest 20 percent, poorest 20 percent, and poorest 40 percent of households.

- POVERTY TARGET GROUPS Estimated Absolute Poverty Income Level (USS per capita) urban and rural -Absolute poverty income level is that income level below which a minimal nutritionally adequate dist plus essential non-food requirements is not
- affordable. <u>Estimated Relative Poverty Income Level (USS per capita) urban and rural</u> -Rural relative poverty income level is one-third of average per capita personal income of the country. Irban level is derived from the rural level with adjustment for higher cost of living in urban areas. <u>Estimated Population Selow Absolute Poverty Income Level (percent) urban</u> <u>and rural</u> Percent of population (urban and rural) who are "absolute poor".

#### Economic and Social Data Division Economic Analysis and Projections Department Decober 1980

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### ATTACHMENT 3A

### (BRAZIL) - ECONOMIC INDICATORS

	Amoun							Annual	Growth	h Race	• (3)						
	(million current p						Actu	al							Protected		
Indicator	l97		1973	974	1975	1976	19	77	1978	19	79	1980	1981	1982	1983	1984	1985
ATTONAL ACCOUNTS											85.	-	0.025				
Gross domestic product /a	204 476	5	13.9	9.8	5.7	8.9		. 7	6.0		- 4	8.5	4.7	4.9	5.8	5.3	5.3
Agriculture	19 314	4	3.5	8.5	3.4	4.2			-1.7		. 2	8.1	3.0	4.2	4.2	6.0	5.0
Industry	55.084	4	15.8	9.9	6.2	10.7		.9	8.1		. 9	8.3	4.0	5.0	ā.0		
Services	86.97	0	14.4	9.9	5.7	8.5	4		5.7	6	5.5	8.7	4.7	5.0	5.8	5.8	5.8
Services	385.025	-	1.210						4.4		.1	8.5				5.2	5.2
Consumption	163.33			10.6	1.3	10.5			9.4		.3	8.7	4.4	4.4	5.3	5.3	3.3
Gross investment ,	46.17			16.3	11.6	-0.3			17.8		100	15.0	10.1	9.3	9.9	.0.0	10.3
Exports of GNFS -	16.71		14.3	2.3	-4.5	-1.2		.6	9.5		.8	4.0	7.3	4.2	4.5	4.0	4.9
imports of GNFS-	21,74	8	20.4	28.5	-4.3	-1.2	-,		3.5			4.0	1.3	4.2	+.3	+.0	+.9
Gross national savings			22.0	21.4	-12.6	2.7	1	1.1	11.2	4	•.4	8.5	5.6	5.1	7.6	8.2	3.2
RICES									09.2	1,229	1.6						
GDP deflator			2	18.5	289.6	410.9			18.1		7.0	53.5		-			_
Exchange rate				5.8	0.1	10.7	14	•••				Se Tacella	_	-	and the second		_
	5				Prices (	L)			cosh (a.	A			crease (%)				
				ent pric					104	. 20	(at cons	tant 19	0 prices) 0 1980-85	1985-90			
	1965	1970	1975	-1980	19857	1990			190	010	1970-75	1973-00	1960-85	1903-90			
	100.0	100,0	100.0	100.0	100.0.1	100.0			7	7.7	10.6	6.9	5.4	5.8			
Gross domestic product	13.2	8.2	8.7		5.8	5.5			1	.9	5.7	4.7	4.7	4.2			
Agriculture	27.1	29.1	32.6		31.5	31.7			9	9.2	11.6	7.6	5.5	6.0			
Industry	42.9	43.0	41.3		43.0	43.0				3.0	10.7	6.8	5.5	5.8			
Services	42.9	+3.0			-3.0	4310						0/25/200					
Consumption	75.9	76.9	78.6	79.0	71.5	59.4				7.7	9.8	7.0	4.9	5.1			
Gross investment	22.0	23.5	25.4	22.6	25.0	25.0				9.4	14.6	5.6	5.4	5.8			
Exports GNFS	7.4	6.6	7.4	7.3	8.5	10.5				8.2	11.2	7.9	10.1	9.8			
Imports GNFS	5.3	7.0	11.4	9.4	4.9	4.9			14	4.5	17.2	2.5	4.9	4.1			
Gross national savings		22.3	22.	24.7	26.3	25.5					12.0	6.3	5.8	8.0			
		-						7. of GDP									
1				19	70 1	975	1976	1977		1978	1979						
PUBLIC FINANCE								21.6		21.3	20.8						
Current revenues				16		9.8	20.7	17.0		17.4	17.6						
Current expenditures				14		5.8	16.4	4.6		3.9	3.2						
Surplus (+) or deficit (-)						4.0	4.3			4.7	3.9						
Capital expenditure						3.8	5.4	5.2		.8							
Foreign financing				0	-4 -	0.2	1.1	••		.0	•						
and the second					1965-70	1970-	75 1	975-79	1980	-85	1985-90						
OTHER INDICATORS CNP growth rate (%)					7.7	10.7		5.8	5	4	6.0						
GNP growth rate (%) GNP per capita growth rate (%)	1				4.6	7.7		3.0	2.		3.3						
Energy consumption growth rate					7.2	7.3		5.5									
unity, committee ground in					1000				6		K 4						
ICOR					2.9	3.0		3.9	4.		4.4						
Marginal savings rate					20.5	25.7		22.7	31.		0.71						
Import elasticity					2.2	1.6		0.3	2.	3	0.11						

/1 At market prices; components are expressed at factor cost and will not add due to exclusion of net indirect taxes and subsidies. (b) Projected years at constant prices. (c) As calculated from the Brazilian national accounts data.

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March 17, 1981

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### (BRAZIL) - EXTERNAL TRADE

	Amount				ual Growt									
	(million US\$			(at	constant		ices)				F	rojected		
Indicator	current pric		107/	1975	A 1976	<u>ctual</u> 1977	1978	1979	1980	1981	1982	1983	1984	1985
	1979	1973	1974	1975	1970	1977	197	17/7	1,000-					
EXTERNAL TRADE b/														
Merchandise exports	15,244	11.7	-2.0	23.9	6.4	3.8	4.4	4.4	21.2	10.3	9.5	10.1	10.8	11.1 6.4
Primary	9,080	5.3	-12.9	30.7	8.2	-5.9	-2.3	-2.9	20.4	6.6	4.9	16.0	16.0	16.0
Others	6,164	34.7	24.7	0.0	0.0	28.6	18.7	17.5	22.5	16.0	16.0	10.0	10.0	10,0
Merchandise imports	17,961	11.4	49.9	-15.0	-3.7	-13.5	2.5	7.2	1.4	7.2	4.2	4.5	4.5	4.5
Food	1,710	<b>a</b> 30.3	-28.2	8.2	39.4	-22.7	52.8	17.3	13.2	26.1	6.5	6.7	6.5	6.7
Petroleum	6,697	15.6	6.8	-3.8	14.5	-1.1	5.8	12.1	-9.8	-5.8	0.0	-3.0	-3.0	-3.0
Machinery and equipment	3,332	3.4	15.3	9.8	-9.5	-20.9	0.0	-8.0	6.4	12.2	5.1	6.1	6.1	6.9
Other	6,222	41.9	110.8	-30.6	-7.8	-8.4	-5.3	13.9	-2.2	3,6	4.4	4.4	4.7	4.7
PRICES														
Export price index		145	196	176	192	226	228	266	290	328	358	388	421	455
Import price index		157	213	242	255	286	317	389	431	553	582	608	631	667
Terms of trade index		92	92	72	75	79	71	68	67	59	61	64	66	68
		Composit	tion of Me	rchandise Tr	ade (%)				rage Annual					
				eat prices)					t constant 1			1000 05		
		1970	1975	5 1980	1985		196	65-70	1970-75	1975	5-80	1980-85	4	
Exports		100.0	100.	.0 100.0	100.0	)		7.8	1.1.9	5.		10.4		
Primary		87.0	73.	.0 58.0	51,0			7.3	8.3	1.		5.9		
Manufactures		13.0	27.	.0 42.0	49.0	)		7.9	28.2	18.	.2	16.0		
Imports		100.0	100.	.0 100.0	100,0	)	10	0.0	17.6	-1.	.4	5.0		
Food		14.9	5.		8.5	5	-1	3,8	-6.7	17.	.5	9.8		
Petroleum		11.4	25.		39.5	5		9.3	7.6	4.	.3	-3.0		
Machinery and equipment		36.2	32.		22,5			2.1	15.2	-7.	.5	7.2		
Others		37.5	37.		29.5	5	8	3.3	28.4	-1	.9	4.3		
	SI	hare of '	Trade with	h	Share of	Trade w	rith	Sha	re of Trade	with				
			Countries		veloping	Countri	es (%)		urplus 0il 1		(%)			
	1970		the second state of the se		1970 19	)75	1979	1970	1975 0	1979				
DIRECTION OF TRADE														
Exports	80.8	8 69	.8 68	.6 1	7.7 23	2.2	26.2	1,5	8.0	5.2				
Imports	80,1	2 69	.7 50	4 1	3.8	9.0	17,6	6.0	21.3	32.0				

# a/ Preliminary

b/ Each category of imports was deflated at 1970 prices using the price indexes elaborated by the Bank's Commodity and Export Division. The growth rates for every category of imports as well as for the total were calculated using these deflated values. The same methodology was used for exports.

### ATTACHMENT '3B

### March 17, 1981

ATTACHMENT 3C

(BRAZIL) -	BALANCE OF	PAYMENTS	, EXTERNAL	CAPI TAL	AND	DEBT
	(million	s US\$ at	current pri	ices)		

- 54 -

				10.70	10.70	Tagact	1003			1007	1005	
1970	1975	1976	1977	1978	1979	1980-	1981	1982	1983	1984	1985	
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21	2	1	-	/1	17	1.50	41	50	50	30	20	
562	-6,700	-6,017	-4,038	-6,015	-9,757	-12,179	-11,748	-11,371	-9,923	-7,104	-3,541	
132	892	959	810	1.071	1,505	1,202	1,736	1,967	2,226	2,513	2,832	
767	3,963	5,033	4,630	8,845		5,451	11,991	11,585		and the second second		
137	619					100 00000000000000000000000000000000000	1,415					
630	3,344						10,576	9,867				
-	-203	-248	-267	-357	-596	568	-1,082	-1,442	-1,918	-2,521	-3,336	
						1 150						
									5.1	-	1 050	
-545	950	-1,192	-630	-4,262	3,218	3,499	-897	- / 39	-/54	-/98	-1,05z	
1,186	4.036	6.544	7,256	11,894	9,688	6,911	7,808	8,547	9,301	10,099	11,151	
			5.9	8.5	5.3	3.0	3.0	2.9	2.9	2.9	2.9	
Same												
882	6,912	8,076	9,242	14,927	12,181	15,167	19,441	20,099	19,691	19,515	18,311	
-	-	-	-	-	-	-	-	-	-		-	
151	102	95	37	59	48	58	47	28	7	3	2	
90	87	82	28	44	21	34	33	21	6	3	2	
-	-	-	-	2	12	17	10	6	1	-	-	
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61	15	13	9	13	15	7	4	1	-	-		
731	6,810	7,981	9,205	14,868	12,133	15,109	19,394	20,071	19,684	19,512	18,309	
617	6,130	7,386	8,661	14,037	11,200	13,705	17,575	17,815	17,012	16,568	15,240	
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3,227												
n.a.						16,358						
1,454	3,761	6,618	8,289	10,085	12,430	7,433	7,369	7,381	7,313	7,552	7,993	
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29.6	37.6	43.0	46.2	57.2	62.7	61.0	51.1	50.	47.6	46.7	42.8	
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	132 767 137 630 - 208 -545 1.186 45 4.7 882 - 151 90 - 61 731 55 73 47 617 3,227 3,227	$\begin{array}{cccccccccccccccccccccccccccccccccccc$	1970         1975         1976           3,117         10.117         11.450           2,739         8,670         10,128           3,700         16.819         17.468           2,507         12,210         12.383           21         2         1           562         -6,700         -6,017           132         892         959           767         3,963         5,033           137         619         717           630         3,344         4.316           -         -203         -248           208         1,098         1,465           -545         950         -1,192           1,186         4,036         6,544           45         56         56           4.7         3.3         5.3           882         6,912         8,076           -         -         -           1,186         4,036         6,544           45         56         31           1,185         13         73           731         6,810         7,981           55         311         310	3,117       10,117       11,450       13,705         2,739       8,670       10,128       12,120         3,700       16,819       17,468       17,743         2,507       12,210       12,333       12,023         21       2       1       -         562       -6,700       -6,017       -4,038         132       892       959       810         767       3,963       5,033       4,630         137       619       717       940         630       3,344       4,316       3,690         -       -203       -248       -267         208       1,098       1,465       -506         -545       950       -1,192       -630         1,186       4,036       6,544       7,256         4,7       3.3       5.3       5.9         882       6,912       8,076       9,242         -       -       -       -         151       102       95       37         90       87       82       28         -       -       -       -         61       15       13	1970         1975         1976         1977         1978           3,117         10.117         11.450         13.705         14.676           2,739         8,670         10.128         12.120         12.659           3,700         16.819         17.468         17.743         20.762           2,507         12.210         12.383         12.023         13.863           21         2         1         -         71           562         -6.700         -6.017         -4.038         -6.015           132         892         953         4.630         8.845           137         619         717         940         988           630         3.344         4.316         3.690         7.857           -         -203         -248         -267         -357           208         1,098         1,465         -506         718           -545         950         -1,192         -630         -4,262           1,186         4.036         6.544         7,256         11,894           45         56         56         64         68           57         313         9.13         13	1970         1975         1976         1977         1978         1979           3,117         10,117         11,450         13,705         14,676         17,975           2,739         8,670         10,128         12,120         12,659         15,244           3,700         16,819         17,468         17,743         20,762         27,749           2,507         12,210         12,383         12,023         13,863         17,961           21         2         1         -         71         17           562         -6,700         -6,017         -4,038         -6,015         -9,757           132         892         959         810         1.071         1,505           767         3,963         5,033         4,630         8,845         5,122           137         619         717         940         988         515           133         619         71,192         -630         -4,262         3,218           1.465         -56         56         64         68         722           4.7         3.3         5.3         5.9         8.5         5.3           1.186         4,036	1970       1975       1976       1977       1978       1979       198057         3,117       10,117       11,450       13,705       14,676       17,975       21,832         2,739       8,670       10,128       12,120       12,659       15,244       20,132         3,700       16,819       17,468       17,743       20,762       27,749       34,161         2,057       12,210       12,383       12,023       13,863       17,961       22,961         562       -6,700       -6,017       -4,038       -6,015       -9,757       -12,179         132       892       959       810       1,071       1,505       1,202         767       3,963       5,033       4,630       8,845       5,122       5,451         137       6199       1,465       -506       718       508       1,459         -545       950       -1,192       -650       -4,262       3,218       3,499         1,186       4,036       6,544       7,256       11,894       9,688       6,911         4,5       56       56       57       37       59       48       58         90       87	1970       1975       1976       1977       1978       1979       1980.57       1981         3,117       10,117       11,450       13,705       14,676       17,975       21,832       26,855         2,739       8,670       10,128       12,120       12,659       15,244       20,132       24,630         3,000       16,819       17,468       17,733       20,762       27,749       34,161       38,644         2,507       12,210       12,383       12,023       13,863       17,961       22,961       26,032         21       2       1       -       71       17       150       44         132       892       959       810       1,071       1,505       1,021       11,941         137       619       717       300       988       515       1,011       14,415         -203       -224       -267       -357       -596       588       -4,002       1,058       1,082       -4,697       3.00         1,186       4,036       6,544       7,256       1,894       9,688       6,911       7,808       444       10,576       1,082       -497         1,186       4,036<	1970       1975       1976       1977       1978       1979       1980       1980       1981       1982         3,117       10.117       11.450       13.705       14.676       17,975       21,832       26,855       32,077         2,739       8,670       10.128       12,120       12,659       15,244       20,132       38,664       43,488         2,007       12,210       12,233       12,033       13,863       17,961       22,961       25,651       13,765       1,767       39,663       5,032       28,74       5,62       -6,700       -6,017       -4,038       -6,015       -9,757       -12,179       -11,748       -11,371         132       892       959       810       1,071       1,505       1,702       1,736       1,976       3,657         137       619       717       940       988       515       1,011       1,415       1,718         1033       3,44       4,316       3,660       7,857       -596       -1,082       -1,042       -1,082       -1,042       -1,082       -1,042       -1,082       -1,042       -1,082       -1,042       -1,082       -1,042       -1,082       -1,082       -1,042	$\begin{array}{c ccccccccccccccccccccccccccccccccccc$	$\begin{array}{c c c c c c c c c c c c c c c c c c c $	$ \begin{array}{ c c c c c c c c c c c c c c c c c c c$

 $\underline{a}^{\prime}$  Net of interest on foreign exchange reserves and interest and amortization of Brazilian loans abroad.

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b/ Public debt only through 1979.

March 17, 1981

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## <u>c</u>/ Preliminary

 $\underline{d}$  / Including gold and dollar valuation adjustments.

## DETAIL OF EXPORT AND IMPORT PROJECTIONS

(Current US\$ Million)

	1980	1981	1982	1983	1984	1985	1990
Exports							
Coffee	2,773	2,574	2,655	2,986	3,371	3,795	6,36
Sugar	1,288	904	1,222	1,339	1,465	1,605	1,49
Soybeans and							
soy products	1,843	3,321	3,883	4,802	6,059	7,831	11,35
Other agricultural							
products	1,794	2,012	2,240	2,458	2,732	3,085	5,76
Iron ore	1,557	2,065	2,343	2,731	3,174	3,653	6,33
Other non-ferrous							
minerals	157	175	197	217	240	253	24
Semi-processed goods	2,026	2,637	3,259	3,802	4,379	4,818	11,96
Manufactured goods	8,408	10,633	13,318	16,533	20,483	25,302	68,34
Other goods	286	300	315	329	342	356	29
Total	20,132	24,621	29,432	35,197	42,245	50,698	112,16
Imports							
Food	1,240	1,720	2,107	2,423	2,787	3,205	5,97
Other consumer goods	1,355	1,443	1,567	1,689	1,816	1,948	1,39
Petroleum	10,210	10,982	12,255	13,053	13,902	14,806	39,08
Intermediate goods	5,804	6,432	6,442	6,926	7,338	8,449	13,33
Capital goods	4,392	5,457	6,200	7,046	7,991	9,082	13,33
Total	22,961	26,034	28,571	31,137	33,834	37,490	73,48

March 5, 1981

### Assumptions for Balance-of-Payments Projections (Base Run)

Exports. Overall annual export growth during the 1981-85 period is projected at slightly more than 10%. This is marginally higher than the 9% annual average achieved during the 1970s. The assumptions which underlie these projections are outlined below.

Manufactured exports are projected to grow at 16% annually in real terms, down from the more than 20% average increases of the past decade. This continued dynamic performance is based on the diversity both of Brazil's manufactured exports and its external markets, as well as its relatively small share of total world exports (slightly more than 1% in 1980). These factors should help facilitate continued rapid expansion even with potentially slower world growth.

Combined soybean and soy product exports would grow at about 12% in real terms, recovering from two poor harvests in 1978 and 1979. A less optimistic scenario under which exports of soybeans and soy products grow by only half of the projected rate would reduce merchandise export revenues by about 4% in 1985.

After reaching about 16 million bags in 1980, an increase of 34% over 1979, coffee exports are projected to grow at a 3% annual rate during the first half of the decade. This would result in 1985 exports still well below the 20 million bag annual levels achieved during the early 1970s,

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Sugar exports would remain constant at about 2 millions tons, reflecting, in part, the increased use of sugarcane for the fuel alcohol program. Other agricultural exports, which include cotton, cacao, tobacco, and wool, are projected to grow at a combined rate of 3.5% annually.

Iron ore exports, which rebounded in 1979 and 1980 after several disappointing years, are projected to grow at about 5% per year. Manganese exports rise at an annual rate of 3-4%, and foreign sales of other minerals decline slightly over the period.

Exports of semi-processed goods, which include items such as sawn wood, cocoa butter and pig iron, grew at about 12% annually during the 1970s. This rate is expected to decline to about 8% between 1981 and 1985.

<u>Imports</u>. It is assumed that efforts to restrain imports will continue, resulting in a small trade surplus by 1982 and widening thereafter. Imports as a proportion of GDP would decline slightly over the period but remain well above the compressed levels of 1977 and 1978. Petroleum imports, which averaged about 930 thousand b/d in 1980, down from 1,030 thousand b/d in 1979, would fall to about 800 thousand b/d by 1985 as a result of domestic energy substitution and conservation efforts. This projection is well above the Brazilian official projection of 500 thousand b/d in 1985. The total petroleum import bill would rise from \$10.2 billion in 1980 to nearly \$15 billion by 1985, although petroleum's share of total imports would decline from 44% to 39% over this period.

Other projections assume continued import substitution in intermediate goods, an increase in food consumption in line with income growth and historic elasticities, no real increase in other consumer goods imports, and growth of capital goods imports at a rate slightly higher than that of GDP. The principal import products with assumed average annual growth rates in parenthesis are as follows: wheat (10%), non-food consumer goods (0.7%), steel (-11%), fertilizers (-8%), rubber (6%), paper (-4%), chemicals (6%), machinery (8%), and transport equipment (5%).

Non-factor services. Trade-in non-factor services, primarily transport and travel, is expected to continue historical patterns. Exports would continue a real growth of about 6% per year, while nonfactor service imports would increase in line with the volume of merchandise imports; during the 1970s, non-factor service imports were about one-quarter of the value of non-petroleum imports, and the projection assumes this relation will be maintained. The non-factor service deficit is thus expected to go from \$1.7 billion in 1980 to over \$3 billion in 1985. In the past, non-factor service imports have proven difficult to constrain. Additional controls are unlikely over the next five years, although renewed attempts to stem Brazilian tourism expenditures abroad are not ruled out.

Factor payments abroad. Payments to foreign factors of production, <u>particularly interest on external debt</u>, will continue to be extremely important in the balance of payments. In 1980, net factor payments were almost \$8 billion and are expected to rise to \$13.7 billion by 1985. It is assumed that Brazil will pay an interest rate on financial credits averaging 1.5% over LIBOR, while earning an average of 1.5% under LIBOR on foreign reserves. LIBOR itself is projected to fall to 13% in the early 1980s.

<u>Capital account</u>. Reserve levels are now close to three months import equivalent. It is assumed that they will remain at this level throughout the period. The rate of direct foreign investment in Brazil, net of overseas investment by Brazilians, is not expected to change dramatically over the next five years. The projections assume it will remain constant as a share of GDP. Brazilian lending abroad, primarily for the purpose of financing manufactured exports, has been increasing rapidly in recent years. In 1979 it amounted to about 10% of the value of manufactured exports. It is assumed that as Brazil increases its still very small share of the world market for manufactures, it will have to increase the proportion of exports which received financing. Accordingly, gross export financing has been projected to rise to about 18% of manufactured exports by 1985.

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### BRAZIL

### ECONOMIC AND SECTOR WORK PROGRAM, FY81-83

1. Economic and sector work form the basis for the Bank's close ongoing dialogue with the Brazilian Government on the country's economic policies and prospects. This work will be particularly important over the next few years because of both the critical nature of short-term economic policy developments and the prospective increases in the size and scope of Bank lending to Brazil. The planned economic and sector missions will provide important insights which will assist the Bank in meeting its overall objectives and help focus policy makers' attention on some critical issues related to the future evolution of the Brazilian economy.

2. Recent work on Brazil has already begun to examine some of these issues. It has included: a survey of the capital goods industry; a working paper on the distribution of income; a special study of human resources; an economic survey of the Northwest region to assess its development potential and to evaluate government programs; an analysis of the Brazilian financial system and its overall macroeconomic impact, particularly the effects of subsidized credits; and a review and evaluation of agricultural policies.

3. Energy is one of the most critical issues facing Brazil. The country's vulnerability to external petroleum developments and the importance of secure and expanding energy supplies to its future economic wellbeing are widely known facts. An energy report, currently being finalized, analyzes upcoming needs and alternative sources of supply and provides a framework for ongoing discussions with the Brazilian Government. This sector offers considerable potential for mutually beneficial cooperation in light of the Bank's heightened interest in energy related activities and possible additional resources for financing such projects.

4. The latest economic memorandum, now being processed for grey cover, reviews recent macroeconomic policies and developments, and scrutinizes the quality of economic management under the Figueiredo Government, particularly since the ascension of the new Planning Minister in August 1979. In view of the continuing economic difficulties, more frequent BTOR economic updates will be prepared and an economic mission during the first half of FY82 will obtain the background information for a new economic memorandum.

5. Two additional points should be made concerning the economic and sector work program. First, staff constraints will make it extremely difficult to achieve this program according to the proposed schedule and virtually impossible to bring forward some important work, such as the tax incidence study, desirable as that would be. The total manpower requirements for regionally-managed economic and sector work in FY82 (401 staffweeks) are 15% above those of FY81 (347 staffweeks). This expanded work program mainly results from the heightened need to monitor short-term policy developments.

### ATTACHMENT 4 Page 2 of 11

However, the estimated input of country economists to the proposed FY82 economic and sector work program, 167 staffweeks, represents more work than can be handled by the present staff of three country economists. Accordingly, if the work program proposed for FY82 is to be maintained, an additional country economist will be required in the Brazil Division.

6. Second, the determination of priorities and resource commitments for DPS research and economic and sector work on Brazil have not been fully coordinated in the past. Although considerable progress has been made in this regard, greater efforts will need to be made in the future to ensure that both DPS research and ESW conforms to country priorities and operational needs. Toward this end, it has been proposed by the Region, and agreed by the DPS, that a joint review of our priorities and resources availabilities, based on the program presented here, be initiated shortly. This type of joint review should become a regular feature of ESW and research programming.

7. A summary of the principal economic and sector work proposed for the FY82-83 period is shown on the following pages. Manpower requirements are given in a separate table. The program differs slightly from that in the most recent Indicative Statement (December 12, 1980): the study on state and local finances has been shifted from FY81 to FY82 because of staff constraints, and a study on internal migration has been added in FY83. This latter study is included because of the importance of migration for rural and urban development patterns and their implications for the Bank's lending strategy in Brazil.

### SUMMARY OF PRINCIPAL ECONOMIC AND SECTOR STUDIES, FY82-83

I. Regionally Managed Work

PUBLIC FINANCE

Task:	Public Sector Investment Survey
Staffweeks Required:	5 (FY81), 50 (FY82), 25 (FY83)
<u>Description:</u>	The lack of a consolidated public sector spending and investment program has been an important impediment to economic management and a subject for some time in our dialogue with the Government. The study would build upon work begun during FY80-81 and would also incorporate the relevant findings of the work on tax incidence (FY82-83) and those of the planned surveys on education, health, transport, and urban sectors (FY81-83). It would review future government spending plans and prior- ities, including sources of funds, and analyze the effectiveness of the planning and budgeting process with particular attention to progress in rectifying institutional problems that have impeded control over the budgets of the autarkies and state enter- prises (which account for the bulk of public sector investment). The work schedule for FY82-83 is still tentative, and its realization will depend upon further progress by the Government in the elaboration of a consolidated, multi-year investment program.
Task .	State-Local Finances

Task:

State-Local Finances

64 (FY82) Staffweeks Required:

Description:

State and local governments, particularly in poorer regions, are experiencing difficulties in financing services for which they bear legal responsibility. Many are unable to cover their current expenditures from their own resources and all but a few are heavily dependent on transfers from the Federal Government. This study would investigate the basic causes and implications for public sector resource allocation of this fiscal imbalance. Emphasis would be placed on the financing of education, health and transportation -- sectors in which a shortage of local counterpart funds has frequently impeded the timely implementation of Bank-financed projects.

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Task:

### Tax Incidence

Staffweeks Required: 4 (FY82), 36 (FY83)

Description:

The Brazilian tax structure is characterized by a large number of fiscal incentives, poor tax administration, and heavy reliance on indirect taxes. Little is known regarding the net impacts of these features on resource mobilization and allocation and the distribution of the tax burden among income classes, economic sectors and regions. This study would quantitatively measure tax incidence with a view to recommending ways to improve the equity, neutrality and resource mobilizing capacity of the national tax system in line with structural adjustment objectives. It would be carried out in collaboration with the IMF and Brazilian institutions (principally the Institute for Economic and Social Planning - INPES) having experience in this field.

### AGRICULTURE

Task:

Tree Crops Survey

Staffweeks Required: 18 (FY82)

Description:

Current Bank involvement with projects in the Amazon and pre-Amazon regions (i.e., Northwest Integrated Development, Amazonas Rural Development and Maranhao Rural Development) has indicated the potential of agricultural development based on tree crops like cocoa, rubber and oil palm. Such crops, in contrast to most annuals, are ecologically suitable for the regions in question and offer a sustainable-source of income and employment for the population. This study would emphasize government policies, including production targets, pricing and special credit lines, in respect to selected tree crops. The findings of this study would provide inputs to the economic evaluation of projects in areas where the role of the selected crops is predominant and would complement our ongoing work on policy analysis.

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Northeast Region Agricultural Studies Task: 83 (FY81), 9 (FY82), 40 (FY83) Staffweeks Required: Although the Bank has played a significant Description: role in the past (and will continue to do so in the future) in financing rural development in the Northeast, little sector work has been carried out on this topic since 1975. The first of this series, now underway, is investigating general socioeconomic trends and policies since 1975, with an emphasis on the progress of the POLONORDESTE program. Subsequent work will concentrate on specific problem areas identified through the first study in the series. Selected Agricultural Policies and Programs Task:

Staffweeks Required: 32 (FY83)

Description:

The precise nature of this work has not yet been defined. However, several issues have been identified through ongoing project work and through sector work carried out in FY81 on agricultural policies, energy resources and financial markets. These topics, which could be organized as separate informal studies, include: an analysis of issues related to national agricultural planning (the efficacy of institutions and mechanisms), energysubstituting crops (including the possibilities of using vegetable oils as fuels and the possible trade-offs with production of food crops) and rural credit markets (the nature of delivery systems and the economic impact of interest subsidies). The manpower input listed above is our current estimate of what will be needed to carry out studies on all three of the proposed topics.

### INDUSTRY AND TRADE

Task:

Trade Policies Review

10 (FY81), 44 (FY82) Staffweeks Required:

Description:

Trade policies have played a key role in the recent evolution of the Brazilian economy, with export promotion and import restraints being the primary mechanisms with which the Government has confronted the balance-ofpayments problem. Trade protection is now

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very high and uneven across sectors and, along with the exchange rate and incentive policies in recent years, does not appear conducive to longer term industrial competitiveness and sustained export expansion. The proposed review would analyze exchange rate policies, tariff and non-tariff barriers, and related fiscal and credit incentives in the context of the need for medium-term structural adjustment of the industrial sector. This study, which would also draw upon the work and expertise of the Brazilian Center for Foreign Trade Studies, parallels and complements the recently completed review of pricing and other policies affecting agriculture and the proposed study of the tax structure.

### EDUCATION

Task:

Sector Survey

Staffweeks Required: 12 (FY81), 54 (FY82), 30 (FY83)

Description:

Given this sector's considerable needs and potential benefits, a larger Bank lending program may be possible. Sector work is therefore planned to proceed, over the FY81-83 period, in four areas which require closer analysis: (1) basic education for the urban poor (to assemble and analyze existing data); (2) industrial-commercial training (to gather information on the supply of middle-level manpower and on the functioning of the labor market at this level); (3) agricultural training (our rural development project work has indicated the need for a systematic review of training for extensionists); and (4) higher education (certain areas of this sub-sector -- possibly training of university teachers -- may warrant Bank support, but a survey of the major issues is required). Much of the work would be carried out by Brazilian institutions experienced in the specific sub-sectors.

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TRANSPORT

Task:

Description:

Special Studies and Sector Survey 20 (FY81), 10 (FY82), 64 (FY83) Staffweeks Required:

The significant changes since the early 1970s in the availability and relative prices of various energy sources, as identified in the energy resources sector survey (FY81), have had profound impacts on the transport sector. Accordingly, the general theme of sector work over the FY81-83 period will be to investigate the policy implications of these new energy parameters. Ongoing informal work on road freight transport and intermodal alternatives will be carried over to FY82. At the request of the Government, there is a possibility that aviation, a subsector about which little is known in the Bank, will also be studied in FY82. Work completed in FY82 would be brought together in a sector survey to be carried out in FY83. Overall transpor policies would be evaluated (emphasizing pricing and investment decisions) with a view to exploring future opportunities for Bank lending.

URBAN

Task:

Sector Study

24 (FY83) Staffweeks Required:

Description:

This study has three principal objectives: (1) to update and consolidate our general understanding of the sector including urban growth and distribution trends, deficiencies in urban services and employment, and national urban development policy; (2) to investigate the extent to which institutional arrangements, financing procedures (including cost recovery mechanisms) and other factors act as constraints on the effective implementation of urban policy; and (3) to recommend actions that might improve the way in which Government carries out urban policy and areas in which Bank intervention

through loans for urban investments would be most productive. This study would emphasize the poverty objectives of Bank lending for the urban sector and would supplement the study on state and local finances (FY82) and the DPS work on industrial location (FY81-82).

### MIGRATION

## Staffweeks Required: 45 (FY83)

Description:

Little is known about the extent and causes of internal migration in Brazil during the decade of the 1970s except for scattered studies carried out for specific localities. However, Bank experience with projects in the Northeast and Amazon regions, as well as the preliminary results of the 1980 Census, suggest that significant changes in the size and direction of migratory flows have occurred during the past ten years. This study would analyze the migration phenomenon, primarily on the basis of census data, with a view to measuring the principal flows and identifying the factors causing these flows. The findings of this study would have important implications for future Bank strategy in rural and urban development and would supplement sector work in these areas planned for FY82-83.

### II. COPD - Managed Work

HEALTH

Task:

### Sector Survey

Staffweeks Required: 44 (FY82), 10 (FY83)

Description:

Bank activity in this sector has been limited so far to the inclusion of health components in several rural development projects. In order to increase and diversify our participation in this sector, more needs to be known about general health conditions and trends as well as government policies and programs. This study would expand and update the work on health in the "Brazil Human Resources Special Report" and followup the ongoing work on health in the Northeast. Health indicators would be assembled and analyzed, and government policies and programs would be evaluated with a view to defining future lending opportunities in the sector.

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#### DPS Research III.

INDUSTRIAL LOCATION

Task:

National Spatial Policies

Staffweeks Required: 200 (FY81), 185 (FY82)

Description:

Much concern has been expressed in Brazil about the diseconomies of urban concentration and the need to decentralize economic activity. This study, now underway, is assembling existing data on infrastructure and labor force on various sized cities in the most developed states in additon to carrying out a survey of 600 industrial firms making locational decisions in the state of Sao Paulo during 1977-79. The principal objective is to determine the impacts of various government policies on industrial location decisions. The findings of this study would provide an input to the work on state-local finances and to the informal urban sector survey scheduled for FY82 and FY83, respectively.

INCOME DISTRIBUTION

Task:

Studies on Income Distribution and Growth Staffweeks Required: 98 (FY81), 40 (FY82), 100 (FY83)

Description:

Relatively little is known about the socioeconomic characteristics of households in Brazil. Research now underway is assembling detailed data from the 1970 census and 1976 household survey (PNAD) with a view to analyzing the evolution of income distribution in Brazil, with particular attention to the determinants of labor supply, the demand for schooling, and infant mortality. Related research now under consideration includes an evaluation of the 1974-75 household survey (ENDEF) as part of the larger cross-country "Living Standards Measurement Study" and a project to derive a macroeconomic model from available household, industrial and agricultural surveys and other micro-level information. The findings of these studies will help define poverty groups in Brazil and better understand their behaviors. This should facilitate the targeting of Bank lending operations in such sectors as education, health and rural and urban development and should also throw greater light than heretofore available on the distributional impacts of Brazil's rapid growth. Finally, an important component of this work is an effort to upgrade the analytical capacity of Brazil's own statistical institution.

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## COUNTRY SUMMARY TABLE

# BRAZIL: ECONOMIC AND SECTOR WORK BY TASK, FY81-83\*

					Tot	al Staffwe Required		Formal (F) or Informal (I) and
Tas	k		At	udience*	FY81	FY82	FY83	Year of Completion
I.	Reg	ional	lly Managed					
	А.	Econ	nomic Work					
		1. 2. 3. 4.	Economic Memorandum Economic Memorandum Economic Update (BTOR) Special Economic Studies	S-B-G S-B-G S-B-G	22	15 18	21	F ('81) F ('83) I ('82)
			<ul><li>a. Financial Markets Survey</li><li>b. N.W. Regional Survey</li><li>c. Public Sector Investment</li></ul>	S-B-G S-B-G	4 25			F ('81) F ('81)
			d. State-local Finances e. Tax Incidence Study f. Trade Policies Review	S-B-G S-B-G S-B-G S-B-G	5 10	50 64 4 44	25 36	F ('81, '83) F ('82) F ('83) F ('82)
	в.	Sec	tor Work					
		1.	Agriculture	×				
			<ul> <li>a. Agri. Policy Review</li> <li>b. Tree Crops Survey</li> <li>c. N.E. Agri. Studies</li> <li>d. Selected Agri. Pol. and Prog.</li> </ul>	S-B-G S-B-G S-B-G S-B-G	6 83	18 9	40 32	F ('81) F ('82) F ('82, '83) F ('8 <b>3</b> )
		2.	Education					
			a. Sector Survey	S-B-G	12	54	30	F ('83)
		3.	Transport					
			a. Special Stud.and Sec. Survey	S-B-G	20	10	64	I ('82), F ('83)
		4.	Urban					
			a. Urban Transit b. Sector Survey	S S	12		24	I ('81) I ('83)
		5.	Energy					
			a. Energy Resources b. Power Sector Memo	S-B-G S-B-G	40 3			F ('81) F ('81)
		6.	Migration	S-B-G			45	F ('83)

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			l Staffwe Required		Formal (F) or Informal (I) and
Task A	udience*	FY81	FY82	FY83	Year of Completion
C. <u>CPP</u>		25	25	25	
D. Other Economic and Sector Work (EWO and SWO)	rk	_80	_90	100	
TOTAL		347	401	442	
II. <u>COPD - Managed</u>					
1. Health Sector 2. Refinery Subsector Review T O T A L	S-B-G S-B-G	0	44 5 49	10	F ('82) I ('82)
III. DPS Research					
1. National Spatial Policies 2. Inc.Dist.and Growth T O T A L	S S	200 <u>98</u> 298	$\frac{185}{40}$	$\frac{100}{100}$	I ('82) I ('82, '83)
IV. GRAND TOTAL (I + II + III)		645	675	552	
			•		

\* S-B-G = Bank Staff and Management, Board, and Government, respectively

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