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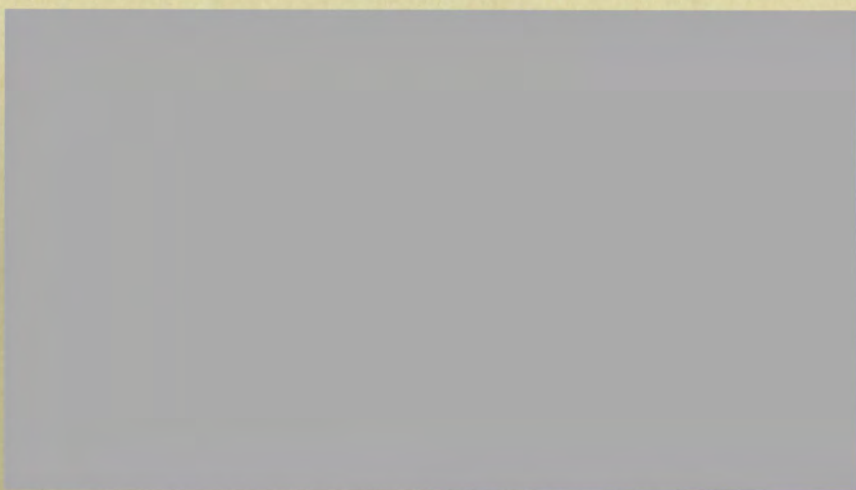
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CLAUSEN: Briefing Brazil Visit - Vol. II. Field Visits + Meetings - March 9-13, 1982

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February 26, 1982

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MR. CLAUSEN'S VISIT TO BRAZIL

March 9 - 13, 1982

VOL. II

Field Visits and Meetings

February 26, 1982

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F





February 16, 1982

Note on State of Amazonas and Bank Group Activities in Amazonas

State of Amazonas

The State of Amazonas covers an area of about 1.6 million km<sup>2</sup> or 18.5% of the Brazilian territory (three times the size of France). It represents about 45% of Brazil's 3.5 million km<sup>2</sup> Amazon region. The climate is warm and humid, with an average temperature of 25° C, an average humidity of 83%, and an annual rainfall of between 2,000 and 3,000 mm. The Amazon river is at its highest level around mid-June. The variation in river waterlevel between high and low season is about 10 meters. The month of March has an average rainfall of 300 mm with about 18 rainy days

According to the 1980 Census, the state has a population of 1.45 million, nearly half of which is concentrated in Manaus, the state capital. Migration to the state's few urban centers has accelerated over the last 20 years, fueled by worsening economic and social conditions in the rural areas, and by the high expectations created by the Manaus free-trade zone established in 1967.

Because of this zone, the share of the service sector in the state's GDP increased from 54% to 63% between 1970 and 1980, while the share of agriculture declined from 23% to 21% and that of industry from 23% to 16%. It has been estimated that the free-trade zone alone contributes more to the state's GDP than does agriculture. It is, however, considered an "enclave-type" of development which has created difficult social problems (uncontrolled urbanization of Manaus) but has not led to the expected development of ancillary industries or agricultural activities. Some 52% of the active population is engaged in agricultural activities (1980 data) which remain largely extractive (timber, wild rubber, fish and nuts). The state largely depends on food imports from other states in Brazil. Overall, physical and social infrastructure and services are poor and ill-distributed. Although the State of Amazonas is the largest in Brazil in terms of land area, it ranks among the poorest in terms of economic development and per capita income.

Bank Group activities in State of Amazonas

4. In addition to the proposed Agricultural Development Project (See Tab F.3), the Bank Group is involved in the following activities in Amazonas:

- Secondary school facilities in the city of Humaita, in the south of Amazonas, as part of the Second Education Project (Loan No. 1067-BR).
- Office facilities and a training center in Manaus for the State's extension service (Loan No. 1568-BR).
- Rubber and oil palm research activities under the First and Second Agricultural Research Projects (Loans Nos. 1249 and 2015-BR).

Attachment: IBRD Map No. \_\_\_\_\_ (State of Amazonas)

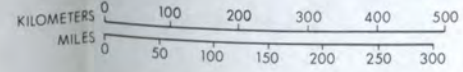


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### BRAZIL AMAZON REGION

- |  |                                   |  |                          |
|--|-----------------------------------|--|--------------------------|
|  | "Amazonia Legal" States           |  | Main Paved Roads         |
|  | Tin                               |  | Unpaved Roads            |
|  | Iron Ore                          |  | Railroads                |
|  | Manganese                         |  | Proposed Railroads       |
|  | Bauxite                           |  | Rivers                   |
|  | Cacao                             |  | State Boundaries         |
|  | Livestock                         |  | International Boundaries |
|  | Small Scale Settlement Projects   |  |                          |
|  | Flood-prone Rain Forest (Varzeas) |  |                          |
|  | Hydro Power Plants                |  |                          |





February 19, 1982

Instituto Nacional de Pesquisas da Amazonia (INPA)  
National Institute for Amazon Research

1. The National Institute for Amazon Research (INPA) was founded in 1952, subordinate to the National Scientific Research Council (CNPq). It conducts specialized scientific research, both basic and applied, on resource constraints and use in the Amazon region of Brazil. It maintains a number of forest reserves in the region, as well as to Museo Goeldi in Belem.
2. INPA is divided into a number of departments, the major ones being entymology, zoology, ecology, biology and chemistry. Research now underway includes projects on wood technology, biomass, disease vectors, water resources and the relationship between species diversification and forest size. In addition, INPA is carrying out the environmental work related to the Tucurui hydroelectric project.
3. INPA maintains an international staff of researchers, and is sometimes criticized in Brazil for its openness to the international scientific community. However, researchers with the specialization needed for such research are not easily found in Brazil.
4. INPA will receive some funds to conduct research related to the Northwest region (POLONOROESTE) Development Program in which the Bank participates. Research projects related to the Bank loan are, however, directly coordinated by CNPq.

HENRIQUE BERGAMIN FILHO  
(Director of INPA)

Dr. Henrique Bergamin Filho, 50, who recently became Director of INPA, holds degrees in both agronomy and chemistry. He joined the faculty of the Escola Superior de Agricultura "Luiz de Queiroz" of the University of Sao Paulo in 1956, rising to the rank of full professor in 1977. During his distinguished academic career, Dr. Bergamin has published widely in professional journals on both chemistry and agriculture, and in 1962-63 and 1973 pursued studies in the U. S. (University of Illinois) and Europe (Technical University of Denmark), respectively. In addition to his academic duties, he served as Chief of the Basic Sciences Department of the Centro de Energia Nuclear na Agricultura (CENA) in Sao Paulo, and as Coordinator of the Ministry of Education's Commission on Agricultural Education.





February 19, 1982

Note on Proposed Agricultural Development Project  
and Meeting with Governor Jose Lindoso

Design and Concept

The possibility of an agricultural development project in the state was first raised by Governor Lindoso during Mr. McNamara's visit to Manaus in September 1979. The Governor's close involvement has helped generate strong support for the proposed project at the federal level and accelerated its preparation.

The original project proposal submitted by the state was considered extremely ambitious by the Bank because of the state's limited capabilities, absorptive capacity, and the lack of information about the more remote areas. The proposal subsequently focussed on the development of food crop production on selected floodlands (varzeas) with the best production potential, and on selected accessible uplands, the so-called "Medio-Amazonas" region, and the rational cultivation of tree crops in the upper-Amazon (including the introduction of smallholder oil palm cultivation). These areas have a higher population density and the minimum basic administrative infrastructure required for a broader development effort.

Project Objectives

- Raise the income and living standards of some 9,500 small-scale farm families.
- Improve the food supply of the rapidly growing metropolitan area of Manaus and help slow migration from rural areas.
- Promote a sustainable and rational development of agricultural production.
- Improve agricultural and communication infrastructure and services, and improve the Government's capacity to plan and execute similar projects in other parts of the state.

Main Activities to be Financed under the Project

- Studies of natural resources and agroecological zoning;
- strengthening and expansion of adaptive agricultural research, rural extension, improved seed supply and marketing services;

- improvement of physical infrastructure including expansion of the rural telephone network, crop storage and transport facilities and improvement of feeder and farm access roads and floating mooring sites, as well as establishment of a road maintenance capability in the project area;
- implementation of the first time-slice (1800 ha) of a oil palm cultivation program for small farmers;
- strengthening of community development, education and health services and construction of rural schools; and
- establishment of project management and coordination, including monitoring, on-going evaluation and special studies.

Estimated Project Cost: US\$ 76.8 million excluding agricultural credit, which will be financed entirely by the Federal Government.

Proposed Bank Loan: US\$26 million (35% of net-of-tax project cost).

Other Financing: Federal Government will finance the remainder.

Implementation Period: Mid-1982 through mid-1987. The State Government is eager to capitalize on the existing momentum and to initiate project activities well ahead of the coming general elections scheduled for November. The state has initiated land tenure regularization since 1980 and continuous staff training since June 1981. The Appraisal team is proposing retroactive financing of up to US\$700,000 to help finance the Bank's share of these activities.

Next Steps in Processing of the Proposed Project: A post-appraisal mission visited the State of Amazonas in mid-February to clarify outstanding project issues (channelling of federal counterpart funding, arrangements for ensuring the adequate funding of project recurrent costs at the state and municipal levels, review of detailed operating agreements to be entered into among the various project implementation agencies). Loan negotiations are scheduled for April and presentation to the Bank's Executive Directors for June 1982. However, this schedule may be overly optimistic.

Topics that may be Raised During the Meeting with Governor Lindoso

Governor Lindoso is a strong advocate of a faster, more balanced and grass-roots-oriented development of his state. Bitter about the disappointing impact of the free-trade zone on the state's economy, Governor Lindoso developed the concept of "interiorização do desenvolvimento" which aims at:

- bringing basic services (education, health) to the rural communities and making these services, especially education, more responsive to the communities' felt needs.
- expanding the state's productive base through the improved use of its natural assets (forestry and fishery resources); restoring the state's rubber industry; increasing it's self-sufficiency in food; and improving the linkage between industrial development in the state and the use of state-produced raw materials.
- improving river and inland communications in support of the above objectives.

The proposed agricultural development project is in line with these objectives, although smaller in scope than the first state-proposed project which included a disproportionately large road and river transportation infrastructure component which was neither technically nor economically justifiable.

Governor Lindoso may wish to discuss the scope of the proposed project again. It could be stressed to him that this proposed first project has been designed in an attempt to ensure its replicability elsewhere in the state, if successfully implemented.

With regard to larger investments in road and river transportation, it may be stressed that additional requirements could be addressed as part of the Bank's future lending for the transport sector. Possible Bank support for river transportation activities in Brazil is under consideration but no firm plan has been made yet.



February 22, 1982

Notes on EMBRAPA/Agricultural Research Projects  
(for Meeting with EMBRAPA President, Eliseu Alves --  
Manaus Boat trip)

Background Data on Agriculture Research I Project

Total Project Cost: US\$189.4.

Bank Loan (1249-BR): US\$40 million (the foreign exchange component, 21% of project costs), US\$26.6 million disbursed as of December 31, 1981.

Other Financing: Federal Government.

Executing Agency: EMBRAPA, the national agricultural research company.

Execution Period: July 1976 - June 1981 (since extended to enable disbursements through December 1982).

Project Area: Mainly the Northeast, North and Center-West of Brazil.

Main Project Activities: Civil works as necessary, laboratory and farm equipment, libraries and documentation services, and research plot development at: 8 national commodity research centers (rice, corn/sorghum, cassava, cotton, beans, rubber, dairy/beef, and sheep/goats); 3 regional agricultural research centers (focussing on farming systems typical of the 3 project regions); and various other state of sub-regional adaptive research centers;

technical assistance and consulting services for the research programs;

a fellowship and training program;

incremental operating costs at the research stations.

Background Data on Agriculture Research II Project

Total Project Cost: US\$150.1 million.

Bank loan (2016-BR): US\$60 million (the foreign exchange component, 40% of project costs), disbursements not yet initiated as loan only recently made effective (December 1981).

Other Financing: Federal Government.

Executing Agency: EMBRAPA, the national agricultural research company.

Execution Period: Over a six-year period, beginning in late 1981.

Project Area: See attached Map No. 15234R.

Main Project Activities: Similar to Agricultural Research I Project (see above); reinforcement of previous support for the 3 regional centers and for research on rice, beans and rubber; support of new or expanded EMBRAPA research on vegetables, fruit, coconuts, oil palm, babassu, agroforestry, basic seeds, animal health, bioenergy, food technology and agricultural engineering; development of improved research planning and programming, information and documentation services, and research monitoring and evaluation, with a view to making research more responsive to national priorities and to the needs of small-scale farmers, and ensuring that research results reach these farmers promptly.

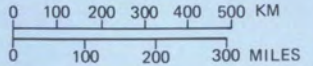
# BRAZIL

## AGRICULTURAL RESEARCH II PROJECT

### Location of Research Stations



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- ⊕ EMBRAPA HEADQUARTERS – NATIONAL CAPITAL
- AREA AGRICULTURAL RESEARCH CENTERS
- ▲ NATIONAL COMMODITY CENTERS
- UEPAE OR SATELLITE STATIONS
- STATE AND TERRITORY CAPITALS
- TOWNS
- STATE AND TERRITORY BOUNDARIES
- INTERNATIONAL BOUNDARIES
- RIVERS





G

February 22, 1982

Briefing Note for Visit to Carajas Project

1. On February 12, 1982 you met in Washington with CVRD's President, Dr. Eliezer Batista and Financial Director, Dr. Samir Zraick. They briefed you on the importance of the project for the Brazilian economy, and for the future development of the region, which will be made possible by the project infrastructure. They referred in particular to a future manganese project which would improve the rate of return on the investment. They also referred to the ample availability of hydro-power from the Tucuruí hydro-electric project (initial installed capacity of around 4,000 Mw and eventual capacity of around 8,000 MW) and on the river Xingu (15,000 MW potential). Attached is a CVRD publication entitled "Grande Carajas Program" giving some details on the plans for future development of the region.

2. The Carajas project consists of a 35 mtpy open pit integrated mining development in the "Serra dos Carajas" (in the southern part of the State of Para, in the northern Amazon region of the country), a deep water port at Ponta da Madeira (near Sao Luis in the State of Maranhao) with capacity to handle vessels up to 280,000 dwt, and an 890 km railway line connecting the mine with the port. The project is expected to be commissioned by 1985, with an initial production of 15 mtpy, increasing to 25 mtpy in 1986 and 35 mtpy in 1987. The project is expected to generate net foreign exchange earnings averaging about US\$0.6 billion p.a. in 1981 terms at a level of 35 mtpy and US\$0.8 billion p.a. at 50 mtpy (production level expected to be reached by 1993).

3. Total financing requirements for the project are around US\$4.7 billion, of which US\$1.57 billion would be from external sources. The financing plan looks as follows:

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

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

4. CVRD has made good progress in obtaining long term commitments for the purchase of iron ore from Carajas, with signed contracts, mainly with Japanese and European steel mills, totalling about 25 mtpy. This is considered a remarkable achievement in view of the current slump in the worldwide steel industry, and is a reflection of the confidence which the steel producers have in CVRD as a company and in the Carajas project.

5. The Bank has appraised this project in October/November 1981, and the Appraisal Report is currently under preparation. The Transportation Department has raised some technical questions regarding the designs for the railway and port components, and accordingly, a post-appraisal mission was recently in the field to review these components. In addition, we are reviewing the capital cost estimates. The economic rate of return on the project was calculated at 14%. While this rate of return is relatively low, it is quite firm and is within the range of most mining projects. The true economic rate is probably considerably higher than the estimated one which excludes all non iron ore benefits (other mining, regional development, etc.) which are difficult to quantify for now.

6. The Bank's participation in the project is regarded as critical in terms of mobilizing the other external financing commitments for the project. At a recent meeting of prospective lenders in Paris, it was decided that the financing plan above would be amended to include US\$200 to US\$250 million in private co-financing for the project. The precise distribution of this is not yet certain; some of it is likely to replace part of the scheduled local borrowing from the Government's development bank (BNDE) which is short of funds.

7. We have made two loans to CVRD subsidiaries: Loan No. 1411-BR for the VALEFERTIL phosphate fertilizer project (US\$82 million approved in April 1977); and Loan No. 1660-BR for the VALESUL aluminum project (US\$98 million approved in March 1979). The VALEFERTIL project has been successfully completed, and was recently transferred to a PETROBRAS subsidiary. After initial implementation delays, the VALESUL project is now proceeding with no major problems. A delay of six months and a cost overrun of 10% is expected. In addition, a US\$15 million IFC participation has supported the Trombetas (MRN) bauxite development (also in the Amazon region) in which CVRD has a 46% interest. The latter project was successfully completed.

February 18, 1982

COMPANHIA VALE DO RIO DOCE

BIOGRAPHICAL SKETCHES

ELIEZER BATISTA DA SILVA

Position: President  
Date of Birth: 4 May, 1924  
Place of Birth: Nova Era, Minas Gerais  
Profession: Electrical Engineer  
Marital Status: Married  
Name of wife: Jutta Batista da Silva

LUIZ AMARAL DE FRANCA PEREIRA

Position: Director-Vice President  
Date of Birth: 19 January, 1936  
Place of Birth: Sao Paulo  
Profession: Engineer  
Marital Status: Married  
Name of wife: Anamaria Goncalves da Trindade

SAMIR ZRAICK

Position: Financial Director  
Date of Birth: 5 March, 1941  
Place of Birth: Rio de Janeiro  
Profession: Electrical Engineer  
Marital Status: Married  
Name of wife: Vera Cristina Pucneau Zraick

RENATO MORETZSOHN

Position: Superintendent, Carajas Project  
(Project Manager)  
Date of Birth: 28 June, 1931  
Place of Birth: Minas Gerais  
Profession: Civil Engineer  
Marital Status: Married  
Name of wife: Maria Julia de Araujo Moretzsohn

MARIA LOURDES DAVIES DE FREITAS

Position: Manager of Project Department (responsible  
for urban, environmental and ecological  
components, Carajas Project)  
Date of Birth: 18 November, 1938  
Place of Birth: Rio de Janeiro  
Profession: Architect  
Marital status: Single

GUSTAVO JORGE DA CUNHA DORIA

Position: Manager, External Relations Department  
Date of Birth: 23 April, 1938  
Place of Birth: Rio de Janeiro  
Profession: Engineer  
Marital Status: Married  
Name of wife: Lucia Maria de Mattos Doria

DANILO DE GADE NEGOCIO

Position: External Relations Department  
Date of Birth: 25 March, 1938  
Place of Birth: Mossoro, Rio Grande do Norte  
Profession: Lawyer  
Marital Status: Married  
Name of wife: Solange Eulalia T. Negocio

H

February 17, 1982

Notes on State of Piaui

(for meeting with Governor Lucidio Portella  
at Teresina airport)

1. The state of Piaui is the third largest state in Northeast Brazil, with a population of about 2.1 million (1980), 60% of which is rural. Agriculture is the predominant economic activity, employing 70% of the economically active population, and average per capita income for the state is about US\$300, below the rural poverty level for Brazil as a whole (US\$330).
2. The Bank is supporting a rural development project in the state, located in the western portion along the middle and lower Parnaiba river, for which our loan of US\$29 million became effective on February 5, 1982. Project objectives include the improvement of the standard of living and socio-economic conditions for the largest group of low-income small farmers and to increase the capacity of state and local institutions to provide adequate services, particularly production related, to the rural population. A major emphasis is placed on improvement of small farmer access to land and security of tenure, through a land acquisition and redistribution program. A state land institute, INTERPI, has been set up for this purpose. Other project related activities include support for marketing and technical assistance in agriculture, fisheries development, construction of rural water supply facilities and rural access roads, and support for monitoring and evaluation activities.
3. The land redistribution feature of the project is progressing well, and the first 300 plots were given to beneficiaries at the beginning of 1982. Research, marketing, and extension programs are also progressing with pre-service training completed for extensionists and marketing consultants in place. Small scale irrigation, fishing activities, and water supply components are experiencing some delays due to start-up difficulties.
4. The current Governor, Lucidio Portella, and his political allies are facing one of the toughest electoral battles in Northeast Brazil. Both the Governor, and the former Secretary of Planning, Dr. Felipe Mendes de Oliveira (now running for state delegate to the Federal Assembly) have been strong project supporters. The project may be an important part of their campaign, particularly in rural areas.
5. Attached is a more detailed background note on Piaui and the project.

Attachment

NORTHEAST BRAZIL  
Piauí Rural Development Project

I . General Background Information on the  
State of Piauí

1. The State of Piauí is the third largest state in Northeast Brazil. It has a total population of about 2.1 million (1980), of which about 60% is estimated to be rural. Average population density is 8/km<sup>2</sup>, the lowest of any Northeastern state. Teresina, located within the project area, is the state capital and largest city with a population of about 300,000. Agriculture is the predominant economic activity, employing an estimated 70% of the economically active population and contributing over 40% of the total state GDP (1977). Average per capita income for the state as a whole is about US\$300. Income distribution is highly skewed, with the bottom forty percent receiving about seven percent of total income, while the top five percent accounts for more than sixty percent of the total. Similar to other areas of Northeast Brazil, malnutrition and illiteracy rates are high, particularly in the rural areas.

2. Much of the state is characterized by low-lying semi-arid plains and tablelands and is highly sensitive to drought. Although agriculture continues to be the state's most important economic sector, its relative importance has been declining in recent years. Principal products include livestock, babaçu nuts, carnauba wax, beans, rice, cotton, corn, and manioc. With the exception of manioc, total production and average yields for the state's main crops dropped significantly from 1977 to 1979. While recurring drought conditions are a major contributing factor, poor soil and water management, coupled with low technology levels, continue to hamper the state's agricultural development. One of the most important constraints on increasing agricultural production and productivity, particularly among small farmers, has been the state's land tenure situation. Some 88% of the state's farmers, mainly tenants and sharecroppers, own no land and have no tenure security. Some 72% (151,000) of farms are under 10 ha and account for only 3% of the state's privately held lands. At the same time, less than 1% (1,350) of farms exceed 1,000 ha and occupy 42% of the state's total agricultural area.

3. The POLONORDESTE program represents the largest single source of federal funds for the state, and POLONORDESTE funds account for over 60% of all public resources going to rural areas. There are currently six on-going POLONORDESTE projects in Piauí, including the Bank-financed project.

4. The project area, located in the western portion of the state along the middle and lower Parnaíba River, has a total area of some 24,300 km<sup>2</sup> or about 10% of total state area. While the project area currently encompasses 26 municipalities, its limits should be regarded as provisional. Land acquisition prospects may warrant expansion or the substitution of some municipalities by adjacent municipalities. The principal crops grown in the area are rice, corn, beans, and manioc. Livestock is also an important agricultural activity. Although the project



is located in the most promising agricultural area of the state, the land tenure situation and low levels of technology have hampered agricultural development.

## II . Project Objectives and Strategy

5. Within the general framework for the POLONORDESTE rural development program, the specific objectives of the Piaui project are: (a) to improve the standard of living and socio-economic conditions, including certain nutritional aspects, of a target group of low-income, small farmers and fishermen; and (b) to increase the capacity of state and local institutions to provide adequate services, particularly those which are production-related, to the rural population. A special objective of the project is the development of a simple, relatively low-cost, participatory, and technically sound approach to land redistribution and other land-related actions. This aspect could have important consequences for rural development efforts throughout Northeast Brazil.

6. In line with these objectives, project strategy during the five-year investment period focuses on the elimination of specific development constraints. The central element is the improvement of small farmer access to land and security of tenure, chiefly through a land acquisition and redistribution program. This is accompanied by a range of activities aimed at increasing agricultural production and productivity and providing certain basic physical and social infrastructure works. At the same time, similar actions are to take place involving low-income fishermen in the project's coastal areas.

7. In order to reach intended beneficiaries, the project also focuses upon increasing local and state institutional capabilities for rural development. This institution-building strategy implies: (a) the creation of new capabilities where none presently exist; (b) the strengthening of existing capabilities with their specific channeling toward low-income farmers and fishermen; (c) the promotion of new mechanisms for inter-institutional coordination and program compatibility; and (d) the involvement of organized groups of beneficiaries in project planning and implementation.

8. While based on previous experiences, the project is the first in Northeast Brazil to deal with land-related issues in a comprehensive manner and on a significant scale. The basic elements of the land-related strategy include:

- (a) The implementation of a diverse set of activities, including land redistribution, discrimination<sup>1/</sup>, and titling, to increase small farmer access to land;

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<sup>1/</sup> The detailed determination of current land claims, and the identification and demarcation of lands not legally claimed by private parties which could be subsequently redistributed.

- (b) the utilization of a variety of methods, including purchase, grants and expropriation, to acquire public and private lands for subsequent redistribution;
- (c) the close linkage of land-related activities to agricultural development activities and services; and
- (d) the establishment of a State Land Institute to deal effectively with a range of land-related matters.

Additional principles guiding the project's land strategy, and land redistribution in particular, include:

- (e) The minimization of population relocation; and
- (f) the adaptation of the land allotment process and land repayment schemes to specific local conditions and beneficiary needs.

### III . Project Activities and Beneficiaries

9. The project includes the following activities:
- (a) Land-related activities, including acquisition of public and private lands through a state-level land fund; land redistribution; land discrimination; land titling services; and assistance for the newly created State Land Institute.
  - (b) Agricultural development, including applied research, extension, seed production, marketing, and small-scale irrigation.
  - (c) Fisheries development, including provision of equipment, marketing facilities, and infrastructure; research; technical assistance; and training.
  - (d) Physical and social infrastructure, including rehabilitation and upgrading of existing rural roads, construction of new rural access roads and tracks to properties, provision of water supply facilities for selected communities, and improvements in educational services and facilities.
  - (e) Project administration, including management, monitoring and evaluation.
10. Some 11,300 families are expected to directly benefit from the productive investments over the project's five-year investment period. This includes (a) 5,000 farmers, the majority landless, to benefit from land redistribution; (b) 3,000 small owner-operators; (c) 1,500 landless farmers

not involved in the initial land distribution program; and (d) 1,800 fishermen. It is possible, however, that project land redistribution would benefit a significantly larger number of beneficiaries due to the availability of additional public land generated by discrimination activities. Similarly, improved marketing and cooperative services, rural road improvements, and water supply are expected to directly benefit a much larger percentage of the target group population and of the rural population as a whole. Indirect project benefits, derived from potential agricultural research results, fishing and agricultural extension demonstration effects, and the staff training and institution-building aspects of the project, could reach a significant portion of the state's rural population.

#### IV . Potential Project Risks

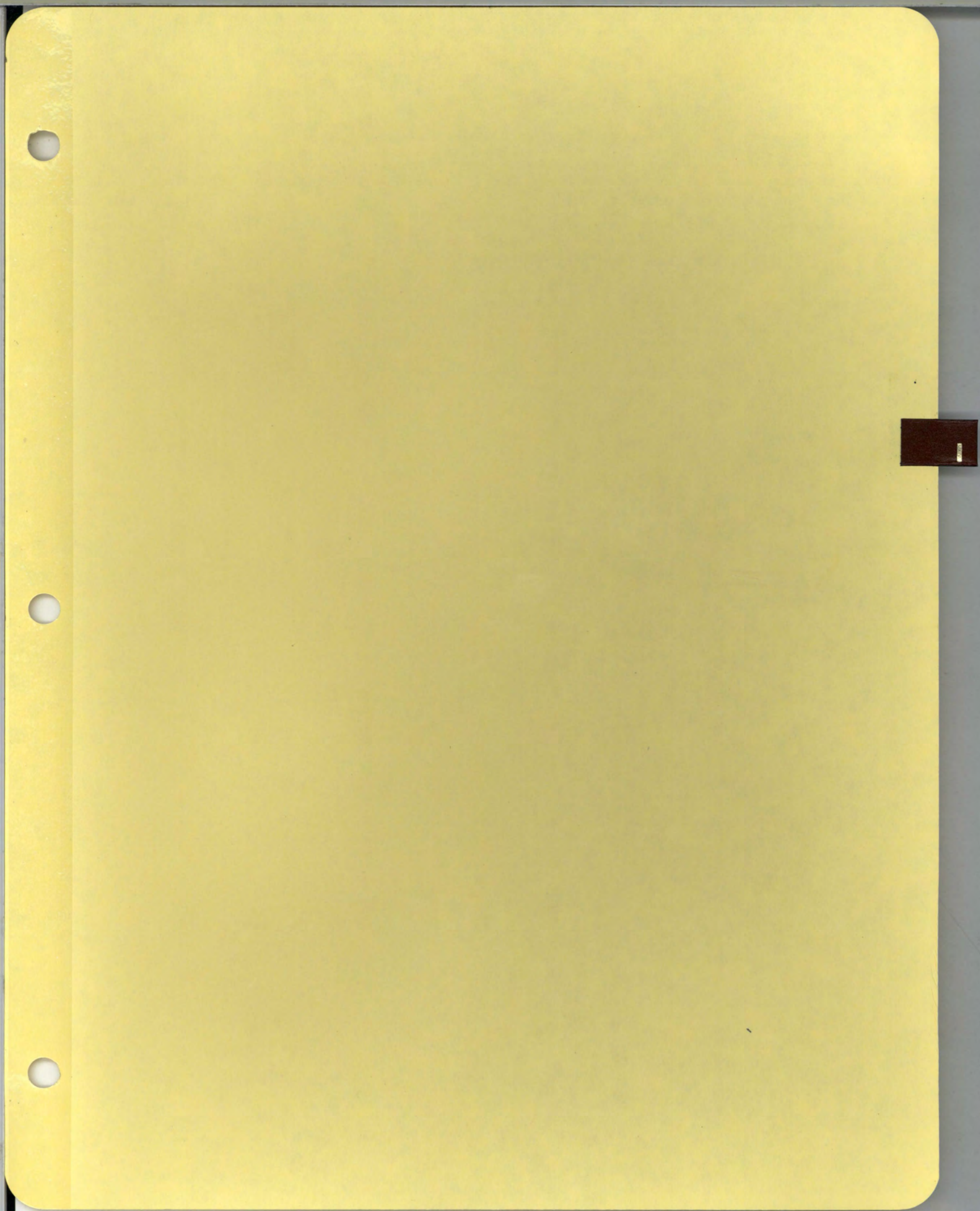
11. Various risks associated with the project were identified and carefully analysed during project preparation and appraisal. Given the important structural changes which may take place, particularly those associated with the project's land activities, social, political and technical difficulties could arise. On the technical side, provisions were made to ensure the availability of expert advice and adequate training for project staff. The strong support demonstrated for the project at the federal, state, and local levels of government would contribute to the effective handling of difficulties should they arise. In addition, beneficiary participation in project planning considerably lessens potential impediments to project success. Other risks are associated with the need for close inter-institutional coordination. These risks have been reduced by the establishment of a special project management unit and the designation of a project coordinator within each executing agency; the regular scheduling of inter-institutional project meetings at the state, regional, and local levels; the implementation of a comprehensive and continuous monitoring system of key indicators; plans for ongoing evaluation; and detailed annual planning based on local participation and information received from the monitoring and evaluation efforts. All of these elements would also allow for the continuous refinement of the technical recommendations proposed for agricultural and fisheries development, thereby reducing the risks associated with the adaptation and dissemination of improved technology and managerial practices. The uncertain availability of public and private lands for project use and the emergence of land speculation also represent potential project risks. Initial results of the land acquisition program have been encouraging, because of both the number of properties offered for sale and the lack of significant price increases as a result. It is expected that the land redistribution program could continue with public lands should land prices rise too sharply. The monitoring system thus far has kept project management well informed about land-related developments in the project area. Finally, an institutional problem which may contribute to delays in project implementation is the present situation of the POLONORDESTE program through which project funds are channeled.

## V . Current Implementation Status

12. The US\$29 million World Bank loan for the project, covering about 35% of total project costs, became effective on February 5, 1982. The project officially commenced on April 1, 1981. Although project start-up was somewhat delayed due to the late arrival of counterpart funds, implementation is thus far proceeding satisfactorily. In particular, the major feature of the project, land redistribution, is progressing well, and the first 300 plots were given to beneficiaries at the beginning of 1982. Research and extension are beginning their first year programs, and extensionists have gone through pre-service training. The first year program for marketing is off to a good start, with all of the consultants in place. Organization and management of the project are proceeding smoothly. N.B.

13. Several project activities are experiencing start-up difficulties. Implementation procedures are still at the early planning stage for small scale irrigation. Fishing activities have been hampered by credit shortages. Several wells are being perforated, but institutional arrangements for the water supply component are incomplete. Some 63 km of rural roads have been designed and construction has begun, but some modifications in design and construction standards and procedures will be necessary to bring them in line with Bank-Government agreements. Finally, INTERPI, the new state land institute, has been created and is functioning, but will need significant reinforcement and restructuring in the coming months. Land redistribution activities continue to be implemented by a special Land Group within the project technical unit. It is expected that the Land Group and its responsibilities will be transferred to INTERPI sometime during calendar year 1982.

14. The current governor, Lucidio Portella, and his political allies are facing one of the toughest electoral battles in Northeast Brazil. The former Secretary of Planning, Felipe Mendes de Oliveira, who was instrumental in the formulation of the Piaui Rural Development Project, left office in mid-February to run for State Delegate to the Federal Assembly (Deputado Federal). Both the Governor and Dr. Mendes have been strong project supporters and the project may be an important factor in their respective campaigns, particularly in the rural areas. As a consequence, media coverage of the project has been significant, but generally positive, including several strong endorsements from the President of FETAG, the State Federation of Rural Workers, a sometimes critic of the present government.





February 19, 1982

CEARA

Bank Participation in the Electric Power and Water and Sewerage Sectors

Electric Power

1. In 1976 Companhia de Eletricidade do Ceara (COELCE) was the beneficiary of a subloan of US\$10.0 million equivalent from our Loan 1300-BR to ELETROBRAS to finance expansion of its distribution system. Another subloan of US\$39.0 million is expected to go to COELCE from a proposed FY82 Bank loan to ELETROBRAS. The new loan will also finance the expansion of COELCE's power distribution system.

Water and Sewerage Sector

2. In 1979 Companhia de Agua e Escoto do Ceara (CAGECE) was the beneficiary of a subloan of US\$16.0 million equivalent from our Loan 1656-BR to the Housing Bank of Brazil (BNH) to expand water distribution in the city of Fortaleza and other small communities.





February 10, 1982

BRIEFING NOTES FOR MR. CLAUSEN FOR VISIT ON MARCH 10, 1982  
TO IBIAPABA (CEARA I) RURAL DEVELOPMENT PROJECT

Background Data on Ibiapaba Project

Total Project Cost: \$55.75 million.

Bank Loan (1488-BR) \$17 million (30% of total cost), \$4.7 million disbursed as of December 31, 1981.

Other Financing: Federal Government POLONORDESTE Program, State of Ceara

Execution Period: April 1977-March 1982 an extension of the execution period by another 2-3 years is about to be formally requested by the state to help offset time lost during project start-up and as a result of some early counterpart funding delays.

Project Area: 4,800 km<sup>2</sup>, including 7 municipalities (counties) in the Northwestern part of Ceara (see Map No. 12316 attached); mainly a high plateau ("serra") including a rapid transition down the dip slope of the topography, with a humid zone close to the scarf, passing through subhumid zone to the drier western part of the area ("carrasco") to 1,900 mm per year in the eastern highland; soils are of moderate to low quality; population in 1976 estimated to be 194,000, approximately 80% rural; an estimated 9,300 farm families in the area, of which some 24% are non-owners operators; around 75% of all farms in the area are of less than 25 ha; main production is of manioc, beans, corn, sugarcane, vegetables, bananas and other tropical fruits, coffee and livestock.

Main Project Targets: Agricultural extension and credit to increase production and incomes of some 6,000 small-scale farmers;

strengthening of production support services (agricultural research, seed production, input supply, mechanization services, marketing and cooperative support);

provision of land purchase credit to some 450 current non-owners or very small owners;

social and physical infrastructure development (370 km of access roads, rural electrification, health posts and water supply in about 62 villages, 8 multipurpose community learning centers and 50 primary schools);

project administration, monitoring, evaluation and special soil and water resource development studies.

Main Achievements  
through 1981:

Training and staffing for intensified field extension program: extensionists now numbering some 85 over pre-project level; some 6,250 small-scale farmers organized into 300 groups are now covered by a programmed system of extension;

adaptive agricultural research underway for various crops;

credit contracts (mainly working capital) to as many as 900 producers annually;

notable upturn in economic activity, especially in production and marketing of fruits and vegetables;

increased use of improved seeds (tomato, beans, corn) and fertilizer and yield improvements near or above appraisal estimates;

650 ha of land purchased and some 30 farmers settled;

construction of 435 km of access roads;  
some 30 health posts in operation; and  
about half the planned schools completed.

Main Problems:

Initial funding delays;

slow progress in several components (land purchase credit, rural electrification, health and village water supply and education) as a result both of funding delays and weak institutional arrangements;

general rural credit cut-backs, reflecting national credit squeeze.

Follow-up Projects:

Largely reflecting the generally positive experience of the Ibiapaba project, the state of Ceara prepared a broader rural development program covering other parts of Ceara and intended to assist some 60,000 small farmers through various physical and social infrastructure investments and improved agricultural support services. That project (Ceara Second Rural Development Project), with total costs of some US\$163 million, is being partly financed by Bank loan 1924-BR (US\$56 million) of January 14, 1981 and IFAD co-financing of SDR 19,450,000.

General Briefing for Visit

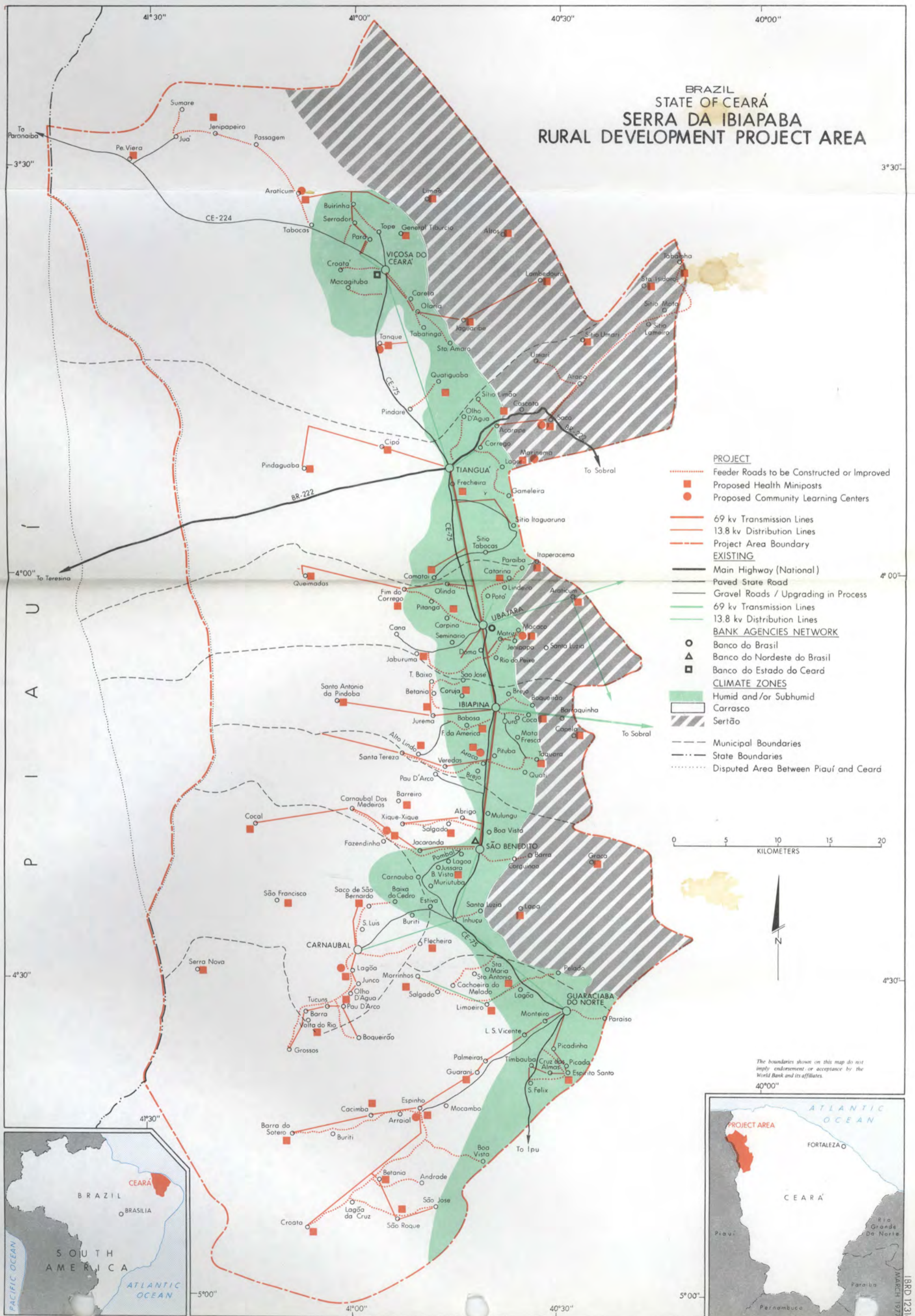
The Ibiapaba area, favored by relatively better natural conditions than much of Northeast Brazil, is one of the region's more promising "islands" of development potential. The project there has built upon the natural advantages and, through its pilot nature, has helped the state improve its planning and execution of rural development work elsewhere in the state. The project focuses on providing the infrastructural base (in this case, all-weather feeder roads have been particularly important) and services (especially rural extension) to enable the area's numerous small farm operators to use their considerable private initiative to develop production of, and to market, higher value crops.

We understand the state plans to take Mr. Clausen to visit several communities and a cross-section of the humid eastern part of this highland and the nearby drier western part. In addition to visiting typical farmer groups assisted by the project's extensionists, Mr. Clausen would probably see feeder roads, schools and health facilities constructed under the project.

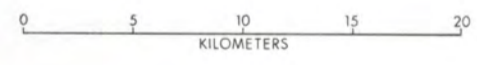
(N.B.)

The state is about to present to the Bank (by end-April) details of their proposal to extend the execution period of the project and, we understand, slightly modify the project area and components. A supervision mission is planned for May to review these proposals.

BRAZIL  
STATE OF CEARÁ  
**SERRA DA IBIAPABA**  
RURAL DEVELOPMENT PROJECT AREA



- PROJECT**
- Feeder Roads to be Constructed or Improved
  - Proposed Health Miniposts
  - Proposed Community Learning Centers
  - 69 kv Transmission Lines
  - 13.8 kv Distribution Lines
  - Project Area Boundary
- EXISTING**
- Main Highway (National)
  - Paved State Road
  - Gravel Roads / Upgrading in Process
  - 69 kv Transmission Lines
  - 13.8 kv Distribution Lines
- BANK AGENCIES NETWORK**
- Banco do Brasil
  - △ Banco do Nordeste do Brasil
  - Banco do Estado do Ceará
- CLIMATE ZONES**
- Humid and/or Subhumid
  - Carrasco
  - ▨ Sertão
- Municipal Boundaries  
- - - State Boundaries  
⋯ Disputed Area Between Piauí and Ceará



The boundaries shown on this map do not imply endorsement or acceptance by the World Bank and its affiliates.





February 11, 1982

Note on Polonordeste (for meeting with Governors of Northeast States)

Background on the Bank's Rural Development  
Activities in Northeast Brazil

1. The nine states of northeast Brazil (Maranhao, Piaui, Ceara, Rio Grande do Norte, Paraiba, Pernambuco, Alagoas, Sergipe and Bahia) have a combined population of about 35 million (in 1980), about half of which is rural. Over the 1970-80 period, the regional population grew at a net rate of 2.2% per year and currently accounts for about 45% of Brazil's agricultural labor force. Much of the region has a semi-arid climate with severe periodic droughts, and there are extensive areas of poor soils. The northeast is nonetheless, a significant agricultural region, with a large share of the national production of cocoa, cotton, manioc, beans and sugar. Although some crops are grown predominantly on large farms, basic food crops are produced mainly by small farmers who lack access to adequate production services and inputs. Insecurity of land tenure and lack of access to land have compounded these difficulties and in many areas constitute the basic constraint on increasing production and productivity among small farmers.

2. The Bank has actively participated in the rural development effort in northeast Brazil since 1973, especially through the POLONORDESTE program. This program, initiated in 1974, is designed to improve the productivity of small farmers and to raise the standard of living of the rural poor in the northeast. Bank assistance to the program aims at helping the Government to better focus its efforts on behalf of the rural poor and to better integrate development activities, especially on the productive side. The initial strategy called for concentrating development activities within selected geographical areas while promoting the establishment of an effective administration for the program. This latter expectation, however, has been frustrated by the financial difficulties and administrative shortcomings that have plagued the Superintendency for the Development of the Northeast (SUDENE), the federal agency entrusted with the overall management of the program. While a number of shortcomings in organization and funding mechanisms are being remedied, SUDENE remains a weak, underfunded, and inadequately staffed agency. In contrast, good progress has been made by several of the northeast states in improving their planning and execution capability for rural development projects. Competent technical units have been established in most states and a significant group of experienced managers has been developed.

3. The Bank has to date made eight loans for area development projects in six different northeast states with diverse agricultural, ecological, economic and social characteristics: Rio Grande do Norte (1976), Paraiba and Bahia (1978), Sergipe and Pernambuco (1979), and Ceara (two loans in 1977 and 1980 respectively). A rural development project in the state of Maranhao, which is at an advanced stage of preparation, would

N.B.  
and Piaui (1981)

place a special emphasis on land issues. Although it is too early to assess the overall impact of Bank-assisted rural development activities in the northeast, there is a general impression that they have significantly contributed to orienting productive components toward small farmers and services toward the rural poor.

#### Possible Topics for Discussion with the Governors of the Northeast States

4. Many of the problems plaguing the implementation of the rural development projects, such as delayed disbursements of counterpart funding and agricultural credit, are beyond the control of the state Governments. These implementation problems are being discussed with Federal Government authorities and some progress is being made, albeit slowly.

5. Political will on the part of the states is critical for the success of the land issue. While the Federal Government appears to be committed to solving this issue, support from the state government authorities has been uneven, for reason of local political sensitivities.

6. There has been an uneven performance of some project-executing agencies, especially those responsible for the social service components (health, water supply, education). Such components tend to lag behind the productive components not for the lack of demand for these services, but because of administrative and coordination shortcomings.

#### Further Rural Development Projects in the Northeast

7. Preparation is underway for a second Bahia rural development project scheduled for FY83. Other state-based rural development projects in our reserve lending program include a possible second Rio Grande do Norte Rural Development project and a project in the state of Alagoas. However, for several years we have been hoping to move to a region-wide sector approach, channelling funds through a central institution (probably SUDENE). To this end we have consulted from time to time with the Government about the creation, within SUDENE, of the capacity to prepare, appraise and supervise rural development subprojects. While there has been some institutional strengthening of SUDENE over the past two years, further progress is needed before we can contemplate a sector loan. We have programmed such a loan for FY84, but may have to fall back on a continuation of state projects, now held in reserve in the lending program. Pressure to move faster on the region-wide sector approach is coming primarily from the Federal Government authorities (Minister Andreazza during his December 15, 1981 visit). It is still unclear whether this approach would be viewed favorably by the state governments. Therefore, the initiative of raising such an issue should be left to the Governors and our reaction should be interested but non-committal. It can be noted that such matters as (i) counterpart funding availability; (ii) coordination among (and possibly some consolidation of) the various Government special programs in the region; (iii) organizational and staffing improvements at SUDENE (if that is to be the umbrella organization); as well as (iv) agreement on subproject preparation and selection criteria will all need to be addressed as we pursue this option.

W.H.S.





BIOGRAPHICAL SKETCHES

J



February 17, 1982

Briefing Notes for Mr. Clausen's Meeting with Minister Delfim Netto

1. As mentioned in the "Background Note on The Economy" (Tab D.2), recent policy dialogue between the Bank and Brazilian authorities has been largely concerned with trade, exchange rate and domestic interest rate policies, and the public sector investment program. You and Mr. Ardito Barletta have had an opportunity on two recent occasions (the Annual Meetings in September 1981 and the signing of the Brazil Northwest Region Development loans in December 1981) to discuss the above issues with Brazil's economic management team, and we are reasonably convinced that policies in these areas are moving in the right direction. Summaries of your and Mr. Ardito Barletta's recent meetings with Ministers Delfim and Galveas are included under Tab E).

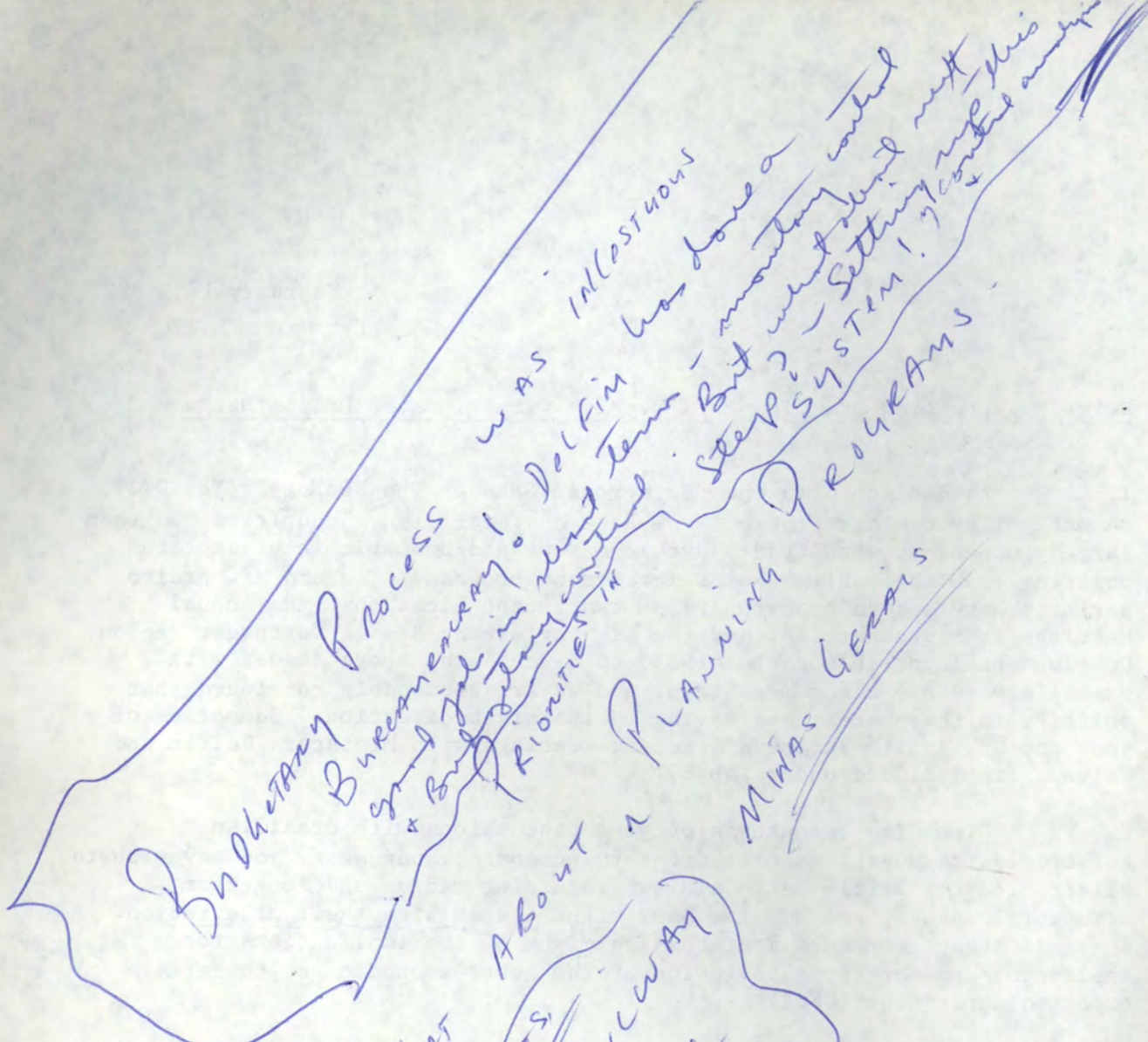
2. Given the recentness of your discussions with Brazilian authorities on questions of short-term economic management, you may wish to elicit Minister Delfim Netto's views regarding medium and long-term structural issues, and how the Bank might assist with their alleviation. A suggested theme for such a discussion might be the implications for employment and poverty alleviation of the lower economic growth rates expected during the 1980s. 1/

REMEMBER IT IS AN ELECTION YEAR

3. Creating new employment opportunities for a workforce increasing at an estimated 2.8% p.a. is undoubtedly one of the most critical issues now facing Brazil. Some of the constraints in this area are: (i) an industrial sector whose most dynamic subsectors tend to be capital and technology intensive; (ii) a domestic market limited by a skewed distribution of income; (iii) a fiscal and credit system which tends to distort factor prices in favor of capital over labor; and (iv) increasing mechanization in agriculture which, when combined with a concentrated pattern of land ownership, has limited employment growth in rural areas, thus contributing to rapid rural-to-urban migration. You may wish to ask Minister Delfim how the Government plans to promote the expansion of employment over the medium and long terms, given expected lower economic growth rates and other constraints such as those listed above. You may also want to inform the Minister that matters relating to employment and industrial policies will receive high priority in the Bank's economic and sector work program over the coming years, and that we would welcome the further development of collaborative efforts in these areas. (A note on our Economic and Sector Work Program is included under Tab D.4).

1/ During the period 1967-80, Brazil's GDP grew at an average annual rate of 9%. Average growth rates over the 1980s are expected to be in the range of 4-6% p.a..

Industrial Grant  
Credit --- \$500 mil  
Subsidies



WHAT ABOUT A PLANNING PROGRAMS  
BIG PROJECTS  
RAILWAY  
STEEL  
NUCLEAR

4. Although considerable progress in poverty alleviation has been achieved in recent years, much still needs to be accomplished. As of 1978, about 43% of all Brazilian families had a total income of less than two minimum wages (approximately \$216 per month) -- a level considered to be at or near the poverty line. Moreover, wide interregional disparities are much in evidence. The average per capita income of the Northeast, for example, is only about 40% of the national average. You may wish to request from Minister Delfim the Government's priorities and vision of the future in the areas of poverty alleviation/basic needs satisfaction and the reduction of interregional disparities. You may also want to assure the Minister that the Bank, through its lending program and economic and sector work, looks forward to an intensification of its involvement in these areas. 2/

★  
Re: Campaign -  
very good to go to  
Board w/o joining some thing  
in Steel industry & steel  
project context!  
Good that you want put work on  
for is. steel is many 50/60%  
company. there is 1.5 billion.  
will know it 1/5 weeks.  
★  
Hope will be forthcoming  
could.

What is GOO'S doing in Political year  
ELECTION YEAR?  
What about the medium term?  
employment? Exports? Balance  
payments disequilibrium?  
What will be the action  
employment?  
What about policy  
re wages?  
★ Counterpart funds  
are delayed. Let's make  
on it. might also look  
at steel!

2/ For further details on the Bank's poverty-oriented lending program, and the economic and sector work on poverty-related issues, see Tabs D.3 and D.4.

February 21, 1982

ANTONIO DELFIM NETTO

(Minister of Planning and Governor of the Bank)

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





February 21, 1982

Note for Meeting with Minister of Industry and Commerce

Joao Camilo Penna

Minister Camilo Penna will attend the luncheon in Brasilia. By way of background you may wish to review the note on Brazil's industrial policies (Tab D.8) and the description of our difficulties with our loans in the steel sector, set out at paras. 11-15 of the note on Bank Lending Operations (Tab D.3). You may wish also to review the note prepared for the meeting with the BNDE President (see Tab L.2) scheduled for Saturday in Rio de Janeiro. BNDE is under the Ministry of Industry and Commerce.

February 21, 1982

JOAO CAMILO PENNA

(Minister of Industry and Commerce)

Mr. Camilo Penna, 56, a civil engineer, has had a distinguished career with Centrais Eletricas de Minas Gerais - CEMIG, of which he was elected President in March 1969. Since 1953 the Bank has had a close relationship with CEMIG having made six loans to it totalling US\$207 million. In 1975, Mr. Penna left CEMIG to join the Minas Gerais state government. After holding posts such as Interim Secretary of Planning and then of Administration. Mr. Penna became the State Secretary of Finance, a post he held until he joined President Figueiredo's government in March 1979. Over the years Mr. Penna has been a good friend of the Bank's and is expected to work closely with us in developing programs for the alternative use of energy.

February 22, 1982 (R)

Note for Meeting with Minister of External Relations  
Ramiro Elysio Saraiva Guerreiro

1. You will be meeting Ambassador Ramiro Elysio Saraiva Guerreiro, the Foreign Minister, at a luncheon in Brasilia on Thursday, March 11. A career diplomat best known for his administrative skills, Dr. Saraiva Guerreiro has been the Minister of External Relations since 1979.
2. Brazilian foreign policy, implemented by a diplomatic corps known for its professionalism, has been consistent in its aims over the past 15 years. Regarded as pragmatic, Brazil's foreign policy has been oriented to the pursuit of an independent course with its highest priority that of promoting Brazil's economic interests. It is atypical that in 1965 Brazil contributed troops to the OAS military intervention in the Dominican Republic. Under the present foreign policy orientation such actions on the part of the Brazilian government would be most improbable. The primary policy focus has been to attend to purely Brazilian considerations and avoid involvement in the concerns of other countries. 1/
3. While Brazil is increasingly looked on to play a leadership role in North-South relations, the Brazilian government has proved reluctant to take on such a function. Reflecting its circumstances as a semi-industrial country with interests both of a developed and a less developed country, Brazil's foreign policy vis-a-vis North-South issues appears schizophrenic. At times, when it is in its interests to do so, Brazil identifies itself strongly with the prevalent South position, as frequently articulated by the UNCTAD. On other questions, most notably those dealing with private financial flows, Brazil finds itself most frequently tacitly aligned with the more developed countries.
4. One major concern of Brazilian foreign policy has been international trade policy and the international rules concerning trading arrangements. While ~~this concern~~ has stemmed directly from Brazilian interests seen as affecting its own export promotion efforts, the Brazilian government has contributed in a positive way to international efforts to more clearly delineate the rules regarding acceptable trade practices within the general framework of the GATT. Brazil played a major role in the 1977-79 Multilateral Trade Negotiations (MTN) held in Geneva, particularly in the drafting of the Subsidies Code. M/B

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1/ For a U.S. perspective on Brazilian-U.S. relations see the State Department statement included as Tab C.2.

A.B.

5. We suggest that you congratulate Dr. Saraiva Guerreiro on this positive role played by Brazil in international trading arrangements and emphasize the Bank's commitment to a liberalized international trading system. The Brazilian government is very concerned about protectionism in the industrialized countries, and expressions of Bank concern and willingness to cooperate in the search for solutions would be most welcome. It might be possible, with Bank cooperation and assistance, to explore for ways in which Brazil could maximize the receipt of trade concessions in exchange for any reforms, undertaken for other reasons, of its own trade and incentive policies.

6. In order to better secure its access to African oil supplies and to promote its own commercial interests, Brazil is rapidly expanding its activities and sphere of influence in Africa. Brazilian trade flows with Africa have dramatically increased, as have Brazilian investments and the sales of Brazilian services in Africa. There are numerous cases where Brazilian technology and technical assistance are being provided, particularly in Nigeria and the Portuguese speaking countries. Much in the way of Brazilian technology and capabilities are well suited for African conditions.

7. We suggest that you inquire as to the interests of the Brazilian government in possibly undertaking Bank-Brazilian collaborative efforts for the provision of technical and other assistance to African countries. In addition to better promoting African development, such collaboration would have the additional benefits of fostering a closer Bank-Brazilian relationship, increasing Brazilian international prestige and confidence, and better preparing Brazil for its future role in the international economic order subsequent to its eventual World Bank graduation.

Q.

February 21, 1982

Ramiro Elysio Saraiva Guerreiro

(Minister of Foreign Affairs)

Mr. Saraiva Guerreiro, 63 has served in numerous posts during his career in the Brazilian Foreign Service. He has held posts in the countries of Uruguay, Spain, Bolivia and the United States. He also worked closely with Brazilian delegations to the United Nations in both Geneva and New York. He has a degree in Law and Social Sciences from the Federal University of Rio de Janeiro.

February 19, 1982

Briefing for Meeting with Minister of Agriculture  
Angelo Amaury Stabile

Minister Stabile (pronounced STAH-bee-lee) succeeded Minister Delfim Netto as Agriculture Minister in September 1979, when the latter moved to the planning Ministry. Minister Stabile is generally considered to be a close associate of Minister Delfim's.

Background\*

Agriculture shares with energy and export industry this Government's highest sectoral priority. Agriculture remains the source of some 60% of Brazilian exports, a rapidly increasing proportion of which is in processed form; it provides Brazil with self-sufficiency in most foodstuffs (the major exception is wheat, which is imported in large quantities); alcohol from sugarcane has expanded rapidly as a substitute for gasoline in automobile transport; the sector accounts for about 11% of GDP and employs some 30% of the labor force.

Since the end of World War II, agricultural value added has grown at an average annual rate of 4.5% despite a macroeconomic policy context strongly favoring import-substitution industrialization. An over-valued exchange rate, price controls, export taxes, quotas and prohibitions and other market interventions discriminated against agriculture, shifting income toward the urban, industrial sector. The primary vehicle used by successive governments, particularly since the late 1960s, to compensate this "taxation" of agriculture has been subsidized credit. By the late 1970s, however, these subsidies had become so large as to constitute a major factor in the accelerating domestic inflation. The minimum price guarantee program as well as expenditures on research, extension and infrastructure have also expanded rapidly over the past decade.

Good!

Bank Involvement in the Agriculture Sector

To date the Bank has made 22 loans totaling US\$868.6 million for agriculture and rural development in Brazil. Of these, eleven were for rural development; two each for irrigation, livestock, agro-industries, and agricultural research; and one each for land settlement, agricultural extension, and grain storage. (Two of these loans were to EMBRAPA, the national agricultural research agency, and one to EMBRATER, the national extension service. Both are agencies of the Agriculture Ministry, whose

\* A review of sectoral performance and policies is found behind Tab D.7.

presidents may attend the meeting.) In addition, loans for fertilizer production, nutrition research and development, secondary and feeder roads, basic education in the Northeast, and the alcohol program are having an important impact on agriculture and rural development. Additional projects are currently at advanced stages of preparation to support agricultural development efforts in the States of Mato Grosso, Maranhao, and Amazonas, and new settlements in Rondonia. (The Rondonia project would be executed by the Colonization and Land Reform Institute -- INCRA -- an agency of the Agriculture Ministry.) The Bank does not currently lend for agricultural credit, mainly because of the interest rate subsidies granted.

N.B.  
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Suggested Talking Points

1. Point. You might express your satisfaction regarding recent efforts to reduce the sector's dependence on credit subsidies and ask the Minister what further steps are anticipated toward that end.

Background. Agricultural credit grew five-fold in real terms over the 1970s, equaling in the second half of the decade more than three fourths of the sector's value added. Adjustments of administered interest rates lagged far behind inflation, leading to an even more rapid growth of subsidies. Only about one fourth of Brazil's farmers received credit from the formal system, however. The subsidies, which are believed to have contributed to a worsening of income and land distribution as well as some misallocation of resources, also are an important factor in monetary expansion. Over the past two years, the Government has raised interest rates on official agricultural credits and reduced the proportion of large farmers' expenditures eligible for such credits, thereby reducing the subsidy element, but it remains substantial.

2. Point. You might ask the Minister the current status of the Government's national reforestation program and the law for the protection of forests in the Amazon.

Background. A few years ago, the Bank was approached by the State of Minas Gerais to appraise a reforestation project intended to produce charcoal for the local pig iron and steel industry. The federal Government subsequently requested, however, that the project be broadened in the context of a national reforestation program for energy production. Formulation of the latter was delayed, however, and the Government then authorized us to go forward with the Minas Gerais project as a pilot for the larger program to follow. Meanwhile, the state-level program has been stalled, principally because of an apparent lack of demand for credit for reforestation at positive real interest rates. Whether or not preceded by the Minas Gerais project, we are still interested in collaboration on a multi-state or national program. Such an effort could have major energy substitution and forest conservation benefits. As regards the Amazon, a major concern regarding the accelerating population and development of the region is the potential for large-scale destruction of the forest with

grave consequences for the Amazon's fragile ecology. A law to demarcate and protect forest preserves has long been pending but now appears to have been set aside under pressure from the development interests involved. INCRA (the Colonization and Land Reform Institute) has also reportedly opposed the legislation.

3. Point. You might ask the Minister's views regarding the agricultural problems and prospects of the Northeast and, particularly, the progress being made in land tenure regularization and titling.

Background. The Bank's lending program for agriculture is heavily concentrated in the Northeast, where, despite a variety of special programs, productivity and incomes lag far behind the South-Southeast regions of the country. (A Bank economic report reviewing these programs is currently in preparation.) One serious structural problem is the large proportion of farmers who hold their parcels under uncertain and disputed titles, thus inhibiting investment incentives and limiting access to credit and other services. The Government (INCRA) has increased its efforts in recent years to regularize tenure and to distribute public lands to small holders. Several of the Bank's rural development projects include a components for land titling and distribution of lands to smallholders. We are also currently reviewing with the concerned ministries (Agriculture, Interior, and Planning) vehicles for future support of rural development in the Northeast.

4. Point. You might ask the Minister if there are prospects for further reduction of the restrictions on unprocessed agricultural exports.

Background. Raw agricultural exports such as soybeans, cocoa, and hides, are regularly limited by quotas or absolute prohibitions intended to insure supplies to domestic processors, whose exports in turn receive subsidies not available to raw materials producers. As a consequence, the proportion of agricultural products exported in processed form has grown rapidly over the past decade, but the market restrictions on farmers reduces their incentives. Moreover, in the cases of cocoa and soybeans it appears that net foreign exchange earnings would have been greater from the export of the commodities in natura. The Government has recently extended the value-added tax rebate on exports to raw agricultural commodities; this incentive had previously been limited to processed goods.



February 21, 1982

ANGELO AMAURY STABILE

(Minister of Agriculture)

Mr. Amaury Stabile, 55, an economist trained at the Univeristy of Sao Paulo and New York University, assumed his position as Minister of Agriculture in 1980, following Minister Delfim's move from the Ministry of Agriculture to the Ministry of Planning (Minister Stabile had been Secretary General in the Ministry of Agriculture under Delfim). He has previously been President of the State Bank of Minas Gerais, a Director of the State Bank of Sao Paulo, and a Director of the Bank of Brazil. Since 1975 he has also been associated with Sharp Industries in its various activities in Brazil.

February 21, 1982

MARIO DAVID ANDREAZZA

(Minister of Interior)

Mario Andreazza, 63, a career army officer, served as Minister of Transport in the Medici Government when the Bank was embarking on a large highway lending program in Brazil. This program was successfully implemented and the Bank's technical assistance is now no longer considered necessary by the Brazilian Government in this sector. After his last cabinet post he joined the private sector and became President of the Naval Industrial Equipment Company. He then moved to the Atlantica Boa Vista Insurance Group as Vice President before being appointed to his present post in the Figueiredo Government in March of 1979. Mr. Andreazza is a dynamic decision maker and is well known for his ability to get things done.

February 21, 1982

ELISEU RESENDE

(Minister of Transport)

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



February 23, 1982

Briefing Note for Mr. Clausen's Meeting with Finance Minister Ernane Galveas and Central Bank President Carlos Langoni

1. In your meeting with Minister Delfim, it was suggested you focus mainly on some of the medium and longer-term structural issues (see Briefing Note under Tab J.1). You may in this meeting wish to emphasize some of the main issues of short-term economic management outlined in the general note on the Brazilian economy (see Tab D.2). Although a discussion of long-term economic strategies should not necessarily be omitted, this range of topics would be more appropriately raised with Minister Delfim. The following paragraph highlights some current issues in these fields.

Monetary Policy

2. The parameters of Brazilian monetary policy are given in the Annual Monetary Budget, formulated by the National Monetary Council (chaired by Mr. Galveas) and monitored by the Central Bank. Credit volumes contracted in real terms in 1980 and 1981 as part of the Government's stabilization policy, but segmentation of the financial markets intensified. Some three-fourths of total institutional credit moves through official credit mechanisms, much of this at subsidized interest rates. The sectors currently favored by these programs are agriculture, export industries, and energy. With the elimination in 1981 of interest rate controls in the narrow free market, restoration of full monetary correction, and continued heavy public sector borrowing, non-priority private borrowers have been badly squeezed, paying real interest rates on domestic credits of 30% or more. Long-term credit has all but disappeared. Some firms are able to borrow abroad, but this option is not typically open to small and medium-sized firms. You might want to ask about the prospects for further reductions of credit subsidies, eventual unification of the financial markets, and the domestic borrowing requirements of the public sector. M.B.

3. For reasons not yet clear from the data available, there was a marked acceleration of credit expansion in December 1981 and the first two months of 1982. The major borrowers are thought to have been the public enterprises. In any event, the sudden expansion has thrown the Government's monetary program for 1982 into early doubt. You might inquire about the sources of the sudden expansion and its implications for the Government's ability to meet its monetary targets for the rest of the year. 20

Foreign Sector

4. After devaluing the cruzeiro by 30% in December 1979, the authorities pre-fixed the cumulative exchange rate adjustment for 1980 at 50% in an effort to dampen inflationary expectations. Instead, inflation accelerated, resulting in a substantial real appreciation of the cruzeiro. Although the crawling peg was accelerated to keep up with domestic inflation in 1981, the cruzeiro remains over-valued relative to the dollar, which in turn has appreciated vis-à-vis other major world currencies. Brazilian manufactured exports have continued to expand rapidly but at the cost of increasing tax and credit subsidies which complicate monetary and fiscal management and are meeting increasing resistance from Brazil's trading partners. The Government has indicated its intention to adjust the Cruzeiro fully to domestic inflation in 1982 (resulting in some real devaluation when international inflation is taken into account). No maxi-devaluation is contemplated because of its expected inflationary impact and the large amount of dollar debt in the system. You may want to reiterate the Bank's concern that Brazil's exports remain competitive in world trade but inquire about the prospects for reducing the heavy fiscal and monetary costs of the present subsidies.

W.H.P.

M.B.

5. You might also inquire about the prospects for reducing and simplifying over time the heavily red-taped import and export control system administered by CACEX (the foreign trade agency attached to the Bank of Brazil).

Q.

6. In addition to its approximately US\$65 billion of M&LT debt, Brazil has accumulated some \$5-10 billion of short-term debt over the past three years. Although international lenders appeared satisfied with the policies carried out in 1981 and the improvement achieved in the current account balance, Brazil's heavy debt and foreseeable need for large additional amounts of foreign borrowing leave it vulnerable to the perceptions of, and competing demands made on, the international bankers. We estimate that Brazil would require about US\$17 billion of gross capital inflows (\$10 billion in net) in 1982. You might inquire whether the authorities foresee any difficulties in attracting these funds and whether any trends toward a narrowing or widening of spreads has been apparent in recent borrowings.

] Q.

February 21, 1982

ERNANE GALVEAS

(Minister of Finance)

Dr. Ernane Galveas, 59, who became Minister of Finance in the Figueiredo Government in early 1980, has degrees in economics and law, and did post-graduate work at Yale University. From 1963-65, Dr. Galveas was the Finance Director of the Merchant Marine Commission. In 1966 he became head of the Department of Foreign Trade (CACEX) of 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. Galveas was formerly Governor of the Bank. He was replaced in this position by Minister Delfim Netto.

None

February 21, 1982

CARLOS GERALDO LANGONI

(President, Central Bank of Brazil -  
Alternate Governor of Bank and Fund)

Mr. Langoni, age 37, who became President of the Central Bank in early 1980, and was previously Director of the Central Bank, has a Ph. D. in Economics from Chicago University (1970). Since 1971 Mr. Langoni has been teaching at Fundacao Getulio Vargas (FGV) and at the Institute of Economic Research of the University of Sao Paulo. From 1974-79 he was Director at the post-graduate school of Economics at FGV, the position he left to assume the position of Director of the Central Bank. Since 1970, Mr. Langoni has been doing considerable research on various aspects of the Brazilian economy. His best work has been on income distribution, as a result of which, he was elected "Economist of the Year" in 1975 by the National Syndicate of Economists.





February 17, 1982

Note for Meeting with President Figueiredo

1. President Figueiredo came to power in March 1979 and his term extends through March 1985. He suffered a minor heart attack late last year, from which he has apparently recovered well. As described in the note on the political situation (Tab D.1), elections are scheduled November 15, 1982 for state and local officials and for the national and state legislatures. President Figueiredo's successor is expected to be elected indirectly at year-end 1984 by the officials elected in the 1982 elections. The principal point to be conveyed to him, we suggest, is that we have confidence in the program designed by the present economic team, and that we would hope that in this election year, when the temptation to concentrate on political advantage will be high, the Government would still give its full support to the policies, painful as they may be, of the economic team. You may also wish to tell President Figueiredo that, in the decade ahead, the Bank stands ready to assist the Government of Brazil with the implementation of its program of long-run development and poverty alleviation.

2. We suggest you congratulate President Figueiredo for having assembled around him, an eminent economic team which is squarely facing up to the requirements of a difficult economic situation. In discussions with the economic team it became clear that inflation is coming down and that the balance of payments situation is getting under control. Admittedly, a high price is being paid: Brazil is suffering from a recession (growth for 1981 appears to have been negative) and unemployment has risen. However the policy of stimulating manufactured exports, increasing agricultural production and mobilizing additional savings internally to finance programs intended to reduce dependence on imported energy is correct, and should lay the basis for further economic advance. Thus, the continuation of the adjustment policies should be aimed for, in the view of the Bank, but we understand too that the political cost is there.

3. Other concerns which were discussed with the economic team include the implication of the future lower economic growth rate for absorbing new entrants into the labor force and for programs designed to help the lower-income population groups and less-developed regions. The Bank would stand ready to assist the Government of Brazil with its efforts to maintain and, perhaps, deepen these programs.

4. You could also note that in the 70s there has been a decline in the population growth rate, <sup>1/</sup> but that Brazil's population was still growing rapidly which could complicate the process of economic development, particularly since the economic growth rate in the future was expected to be lower. You may wish to ask for President Figueiredo's views on future demographic trends.

1/ From 3% in the 60s to an estimated 2.5% in the 70s.

Recommendation

February 21, 1982

JOAO BAPTISTA OLIVEIRA FIGUEIREDO

(President of the Federative Republic of Brazil)

President Joao Baptista Figueiredo, 64, was born in Rio de Janeiro. He has made a long and distinguished career in the military, in which he began to serve as an officer in 1937. Among his commands were Commander of the First Cavalry Regiment, Chief of Staff of the Third Army, Chief Military Adviser to the President, and Minister for the National Information Service (SNI). In 1978 he was made General of the Army, and in 1980 was personally selected by then President Geisel as his successor. President Figueiredo is popularly viewed as a strong defender of the political opening now underway in Brazil, and as an effective moderator between civilian and military leaders. He is also well known for his love of horses.

February 21, 1982

ANTONIO AURELIANO CHAVES DE MENDONCA

(Vice-President of the Federative Republic of Brazil)

Vice-President Aureliano Chaves, 53, was born in Minas Gerais and is trained as an engineer. He is the highest ranking civilian leader, and has previously served as a state deputy in the Minas Gerais legislature for the UDN party. After 1964, he served as a federal representative for Minas Gerais in the legislature, as a member of the ARENA party. Immediately prior to becoming Vice-President, he was Governor of the State of Minas Gerais. He has published various works on economics, power and energy, and education and development. Most recently, he quite adeptly substituted for President Figueredo for some months during the President's recuperation from a heart attack. As Vice-President, Aureliano Chaves is also head of the National Energy Council, an inter-ministerial body with overall responsibility for formulating energy policy.

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February 18, 1982

Briefing for Mr. Clausen's Visit to Brazil

Alcohol and Biomass Energy Development Project

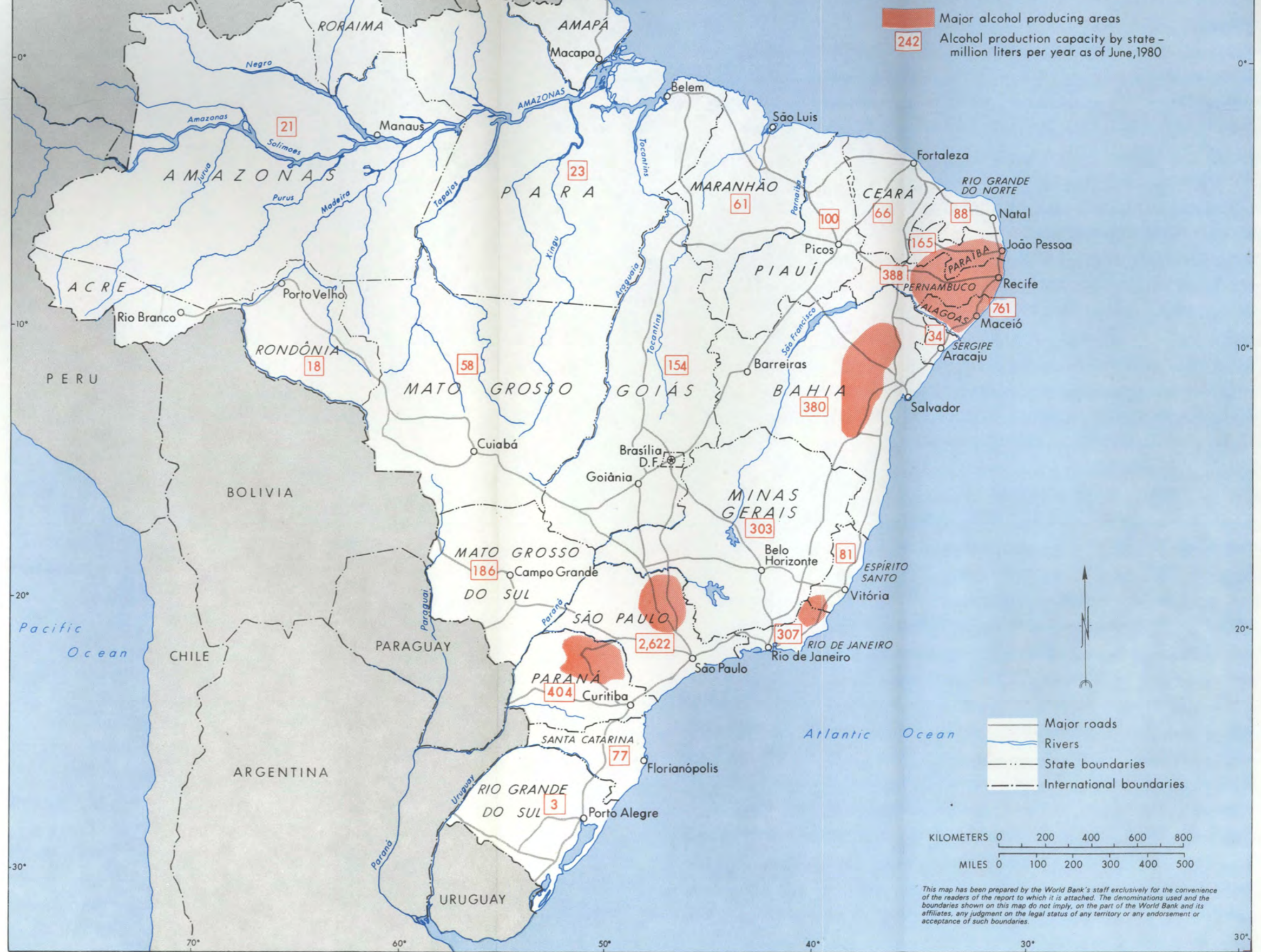
1. In April 1981, the Bank approved a \$250 million loan to Brazil for an Alcohol and Biomass Energy Development Project, to partly finance the 1981-83 time slice of Brazil's 1981-85 National Alcohol Program. A second Bank loan of \$250 million is proposed in FY84, subject to satisfactory progress of the first project.
2. The Alcohol Program (PROALCOOL) is a unique effort by Brazil to take advantage of its vast agricultural resources, ready availability of local technology and rural labor to create usable premium energy (alcohol) to substitute for imported energy. The Program is an integral part of Brazil's comprehensive strategy to reduce the mounting cost of imported petroleum which in 1980 reached US\$10.2 billion, the equivalent of 50% of the country's export earnings. Brazil's goal is to produce 10.7 billion liters of alcohol from sugarcane and cassava by 1985 (compared to 1 billion in 1977 and 4.3 billion last year) to substitute for 45% of the projected gasoline consumption, equivalent to about 148,000 barrels of petroleum per day or 5% of the forecast 1985 national energy consumption. The capital investment requirements of the 1981-85 program are estimated at US\$7.4 billion equivalent in current terms, of which US\$2.3 billion would be in foreign exchange. The Government expects to raise at least US\$250 million (and possibly up to US\$1 billion) from foreign commercial banks in co-financing with the Bank loan. Remaining financing will come from local private investors who sponsor the alcohol facilities, and local banks.
3. The overall scope and direction of the Program through 1985 is well conceived and reasonable, and the production of alcohol from sugarcane (and molasses) is economically attractive. Retail alcohol sales in Brazil now generate substantial net revenues to the Government, with future investments to increase capacity being financed mainly by contributions from alcohol consumers and investors. PROALCOOL is also generating jobs in the economy, increasing capacity utilization of the domestic equipment manufacturing industry and has put Brazil in the forefront of renewable energy technology providing a basis for a new export industry in that country.
4. The Project resulted from a Bank review of the Brazilian Alcohol and Biomass Energy sector as part of a comprehensive Bank assessment of the Brazilian energy sector. The Project consists of (i) an Alcohol Production Component of approximately 250 alcohol units to increase Brazil's alcohol production from 3.4 billion liters in 1980 to 10.7 billion liters by 1985; (ii) a Technology Development Component to improve raw material yields and processing technologies; and (iii) creation of a Monitoring and Evaluation System for planning the future development of the Alcohol Program taking into account its impact on the energy, industry and agriculture sectors. Overall, the progress of the Project during the past year has been satisfactory. Alcohol production during the season ending April 1982 is

expected to be 4.3 billion liters, an increase of 26% over the year before. By December 31, 1981, the number of pure-alcohol cars on the road had increased to 440,039, compared to 287,000 a year earlier. The Government has so far approved about 400 individual alcohol projects sponsored by private investors, increasing the total installed and approved annual capacity to 8.9 billion liters, an increase of 2.6 billion since the Bank loan was approved. It is also considering 174 additional projects, with a total capacity of 3.5 billion liters/year.

5. The Program has faced certain problems recently. First, because of the quicker than anticipated development of the Program in 1981 and the supplementary financial allocations which this necessitated, and the large cuts in the total investment funds available resulting from the Government's efforts to control inflation, there has been a major debate within Brazil about the future pace of the Program. We understand that the 1982 budget includes US\$900 million for the Alcohol Program, which should be adequate to maintain the pace necessary to meet the 1985 production target. Second, after an initial rush to buy the newly introduced alcohol cars, consumers have in the recent months shown some resistance to them, because of (a) the general collapse of all automobile sales in 1980, (b) reduced Government incentives for the purchase and use of alcohol cars (as urged by the Bank), and (c) technical problems with some models of the cars. The Government is actively discussing with the automobile industry steps needed to overcome these problems; as a result, in 1982 it expects alcohol car sales to total 150,000 accounting for 30% of the total sales. Finally, the Brazilian Government and public are increasingly recognizing, as was highlighted during our review of the program, that alcohol would replace only gasoline and that it will not offer a general solution to the country's petroleum import problem until effective and economic substitutes for diesel are available. These efforts are being supported through the Technology Development Component of the Project. We are actively following the progress of this project, and a supervision mission will be in Brazil at about the time of your own visit.



### BRAZIL ALCOHOL AND BIOMASS ENERGY DEVELOPMENT PROJECT MAJOR ALCOHOL PRODUCING AREAS (JUNE 30, 1980)





February 22, 1982 (R)

The Tietê-Parana Inland Waterway

1. In its search to find different modes of transportation that might reduce consumption of oil, the state of Sao Paulo has been considering over a number of years, to develop the Tietê and Parana rivers for navigation. The Tietê river is a tributary of the Parana river and runs diagonally through most of the state. At present only short stretches of the Tietê and the Parana are navigable; however, the State plans ultimately to make the Tietê navigable through its entire length from Guaira to Sao Paulo (about 1,500 km). In a first stage, for which Bank assistance has been requested, it is planned to develop navigation on the Tietê from Piçacicoba and Jaras to the confluence with the Parana (about 600 km).

2. Cargo to be handled on the inland waterway will consist mainly of agricultural products, cereals, sugarcane, cotton, timber, limestone, phosphate rock, livestock and petrochemical products. SANDOTECNICA, a Brazilian consulting firm, as part of its work to prepare a transport master plan for the State of Sao Paulo has done a preliminary economic evaluation of the project. The traffic forecast shows 1.6 million tons of cargo for 1980 rising to 3.0 million tons in 1990. The cost of the project was estimated at about US\$200 million in 1978 prices. SANDOTECNICA calculated the economic rate of return at about 11%. However, the Bank review of the analysis indicated that the benefits were overstated and the capital costs of the project significantly understated. Taking both factors into account it would lower the estimated 11% rate of return to a marginal one if not an unfeasible one. In view of the above the Bank informed the State of Sao Paulo in 1979 that the investment was a risky one.

3. However, it may be argued that the project would induce industrial and/or agricultural development which would result in the generation of river traffic which would otherwise not materialize. This was not considered in the economic analysis done by SANDOTECNICA. To establish this, evidence should be presented of specific plans or policies affecting these sectors if the Tietê river becomes navigable.

4. Should the Brazilians request again the Bank's participation in this project you may wish to indicate that the Bank would look at it provided of course the project is considered a priority by the Federal Government. Up to now interest in the project was expressed only by the State of Sao Paulo.



February 17, 1982

Note on Proposed Sao Paulo Health Project

1. The Sao Paulo State Government has presented to the Bank a project proposal to expand primary health care in the periphery of Greater Sao Paulo, which would benefit about 8 million persons, of whom 50 percent are considered poor. The project would consist of: (1) constructing and/or equipping and staffing 40 150-bed hospitals and 392 health centers; (2) expanded and improved training of paramedical staff; and (3) improved interagency coordination for primary health care delivery and referral services. The total investment cost of the project has been tentatively estimated by Bank staff at US\$150 million, and total recurrent costs would be approximately US\$100 million per year when the entire system is functioning. A Bank loan of around US\$50 million is being considered.

2. The project's emphasis on primary health care, including prevention and health education, in the periphery of Greater Sao Paulo is in sharp contrast to the present trend in Brazil toward high cost, specialized curative services concentrated in the city centers. The project also comes at a time when INAMPS, the national health service in the Ministry of Social Security, is facing rapidly rising medical costs and is examining possibilities for cost containment. The project represents an opportunity to improve health services for the urban poor through the introduction of a primary health care module, and also to provide an important means of containing medical costs by shifting away from intensive medical care to health prevention and promotion. However, the following important issues still need to be resolved:

a) In order to establish the proposed decentralized state/municipal management system, the Sao Paulo State Secretariat of Health must assume a strong leadership role and reach agreements with municipalities and with INAMPS to coordinate operations.

b) The financing of recurrent costs has not been determined yet. Given their size, it is likely that INAMPS will need to cover a substantial portion.

c) Staffing requirements will be large and will probably involve different arrangements than are usually made in the public sector. In particular, full-time positions with adequate salaries for physicians and auxiliary staff will be required, instead of the usual part-time arrangements.

3. If you are asked, I suggest you indicate that the Bank is in principle interested in supporting an urban health project of the kind envisaged for Sao Paulo, if the issues outlined under para 2. above can be satisfactorily resolved.

4. In the past the Government of Brazil has clearly indicated that it does not want the Bank involved in family planning activities (although good progress is in fact being made in this area, particularly in the more developed southern and southeastern regions). While the facilities to be established under the Sao Paulo Health Project would also dispense family planning services, this element would be given little visibility. Given the political sensitivity of family planning in Brazil, it is probably best for the Bank not to be publicly associated with it, although opportunities to provide support indirectly would be seized.

February 17, 1982

Note on Sao Paulo Sewage Collection and Treatment Project (SANEGRAN)

1. Since 1971, the Bank has been assisting the State of Sao Paulo in its efforts to improve environmental and health conditions in the Greater Sao Paulo Area. Three loans totalling US\$145 million have been made to date. The first two (US\$22 million and US\$15 million) were directed at increasing the water supply and sewage collection services respectively. A third loan for US\$110 million, for which Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP) is the executing agency, was signed in March 1978 to finance part of the first stage of SANEGRAN, estimated to cost US\$1,200 million. The project also included a financial scheme sponsored by the State of Sao Paulo to assist industries in the reduction of their wastes' toxic components to make them suitable for connection to the sewerage system and treatment facilities. In this connection, a Bank loan for US\$58 million was signed in 1980 to help finance Sao Paulo's Industrial Pollution Control Project. (See Note on Industrial Pollution Control Project under this Tab). The loan for the SANEGRAN finances the equipment for three sewage treatment plants and pumping stations as part of an integrated collection and treatment project.

2. Construction of the sewage treatment plants is progressing satisfactorily and these are expected to be completed, as scheduled, by 1983. However, other components of the project are likely to be delayed with considerable cost overruns. Construction difficulties, as well as political interference in those municipalities which have not adhered to PLANASA are adversely affecting project execution. The FY82-86 lending program includes a loan of US\$200.0 million in support of the second phase of the SANEGRAN project.

February 17, 1982

Note on Sao Paulo Industrial Pollution Control Project

Amount of Loan : US\$58 million

Loan effective: January 15, 1981 (air component only)

The loan would provide financing to existing industries in the Greater Sao Paulo area for investments in air pollution control systems to reduce particulate matter emissions, and water pollution control systems to pretreat or fully treat their effluents. Technical assistance is also included to strengthen the technical and operational capability of the environmental protection agency of the State of Sao Paulo (CETESB). Demand for funds is generated by the CETESB's enforcement program. Technical aspects of subprojects are reviewed by CETESB, while the state development bank (BADESP) is responsible for a credit review, disbursements and collections. Project implementation for the air component has proven to be slower than expected due to the longer lead times necessary to create demand by enforcement. The water component has not yet been declared effective, because the participation of the National Housing Bank (BNH) in the project's financing plan awaits legislative approval.

*Sao Paulo*

*Pollution*

*\$ 58*

*Rail Road*

*Water supply*

*Sanitary  
ST treatment*

*Alcohol (hot oil)*

*Investment  
in Sao Paulo*

*COSEGA*

*Steel*

*\$ 60*

*278*

*338*

*145*

*\$ 278.000*

*250 M*





February 21, 1982

Note on Sao Paulo Urban Issues

Greater Sao Paulo, with 12.7 million residents, is the largest urban agglomeration in Brazil. Containing about half of the state's population and one tenth of the country's population, Greater Sao Paulo has been one of the most dynamic metropolitan areas in the country. Its industrial sector accounts for 40 percent of the nation's industrial output. Population growth has averaged over 4.5 percent per year for the past thirty years, considerably higher than the national growth rate, and the metropolis has attracted migrants from both the state of Sao Paulo and the rest of the country.

Sao Paulo's rapid economic development has given rise to urban problems similar to those experienced by most other rapidly growing metropolitan areas around the world. Public services have failed to expand with population increases, especially in the outlying municipalities, where population and economic activity have grown most rapidly in recent years. Consequently, housing shortages, inadequate mass transportation, and traffic congestion are noticeable, and existing water supply and sewerage facilities are not adequate. Living conditions for the urban poor are especially acute, particularly in the periphery, where new residents have been settling. High land and construction costs have made it increasingly difficult to house the low income population at affordable prices, and unserviced, often illegal, settlements have sprung up. Education and health care facilities for the poor have also grown very slowly in newly settled areas. Unemployment is becoming an issue as a result of the industrial slowdown during 1981, with an estimated 7 percent of the labor force unemployed and a much larger percentage underemployed.

Adverse environmental effects have also been felt. Air and water pollution in the most densely populated and industrialized parts of the metropolitan area has reached a level harmful to public health. Air pollution, attributable primarily to vehicles and industry, is exacerbated by air stagnation caused by the area's topography and climatic conditions. Water pollution is also a problem, due to the inability of the current water supply network and sewage treatment facilities to handle the needs of residents and business. Bank loans for water supply and sewerage (the so-called SANEGRAN program), and for industrial pollution control, are helping to address some of these problems (see notes under Tab D.3).

The state and municipal governments have made continuous efforts to increase housing and public services. However, with 37 semi-autonomous municipalities comprising the metropolitan area, it has been difficult to implement rational metropolitan planning and coordinated delivery of services. In many cases, insufficient budgetary appropriations for public services have been a compounding factor. Urban management policies for pollution control are also beginning to emerge. Following Federal pollution control legislation in the mid-1970s, Sao Paulo has instituted a system which regulates both air and water pollution levels. Metropolitan area growth has also begun to slow down, thereby tempering the pressures of earlier years. However, Greater Sao Paulo must still deal with the disparity between its industrial sophistication and technology and the lagging quality of life.





L



February 22, 1982

Meeting with President of BNDE

1. You will be meeting in Rio de Janeiro with Mr. Luis Antonio Sande de Oliveira, President of Banco Nacional de Desenvolvimento Economico (BNDE), the national bank for economic development.

2. We have a variety of points of contact with BNDE, of which the most significant are our previous and proposed new involvement in development banking projects through the state and regional development banks, and our involvement in feeder roads projects (described respectively at paras. 5-8 and 9-12 below). In addition, BNDE is cofinancing with us a number of other projects, including our loans for the steel sector (Loans 1151-BR and 1152-BR), for VALESUL (aluminium) (Loan 1660-BR), and for COPESUL (the southern petrochemical pole) (Loan No. 1562-BR). BNDE is a channel for our loan for the Sao Paulo Industrial Pollution Control Project (Loan No. 1822-BR), and has made a commitment to finance about US\$1.1 billion of the local costs of the proposed Carajas iron ore project (see Tab No. G). In addition, the federal government (and the government of the State of Minas Gerais) have requested us to finance a reforestation program in Minas Gerais (primarily for charcoal production for the pig iron and steel industry) which would be cofinanced by BNDE. <sup>1/</sup> Finally, BNDE and its affiliate FIBASE are cofinancing a number of IFC projects.

3. Because of ceilings imposed on public sector expenditures in 1981 and 1982 and declining revenues, BNDE has been and will continue to be under severe budgetary constraints, and has been unable to meet fully its commitments to on-going projects, including our steel projects and the COPESUL petrochemical project. Notwithstanding the high priority being accorded by the Government to the Carajas Project, there is some doubt that BNDE will be in a position to meet fully its US\$1.1 billion commitment to that project, particularly during 1982. It is partly to cover for this eventuality that we have agreed with CVRD to include in the financing plan for Carajas US\$200-250 million in private commercial bank cofinancing. For its part, BNDE has a target for 1982 of borrowing about US\$1.2 billion in foreign markets to support its operations.

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<sup>1/</sup> One of the difficulties with our proposed involvement in this reforestation project (for which a loan of US\$60 million is included in the FY83 lending program) is that an existing BNDE credit line for the same purpose apparently has few if any takers at positive real interest rates. We have indicated to the Minas Gerais government that we would not proceed with the proposed reforestation loan until at least 50% of BNDE's existing credit line is committed to at least 8 borrowers.

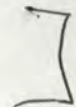


4. It is suggested you ask Mr. Sande about the 1982 budgetary outlook for BNDE, as well as the extent of availability of subsidized credit for various purposes and in various regions of the country, and his views regarding the outlook for industrial investment credit in the future. You may also wish to enquire about Dr. Sande's views on the issues raised in the note on Industrial Policies included under Tab D.8.



Development Banking Projects

5. An \$85 million first Development Banking Project (Loan 1206-BR) approved in 1976, was intended to finance small and medium scale industry (SMI), to strengthen the Brazilian system of state and regional development banks (SDBs), and to improve the National Development Bank's (BNDE) capabilities to assist SDBs in their institutional development. Only 37% of that loan was committed and disbursed before the balance was cancelled in 1980 mainly because between 1976 to 1980 the bulk of this type of lending carried heavily subsidized and negative real interest rates. Because of budgetary constraints and other priorities, BNDE was also unable to fully comply with its institution building undertakings under this loan.



6. The Bank has maintained a close dialogue with the new management of BNDE that took office in the spring of 1979, first to attempt to remedy the problems that affected Loan 1206-BR and then to develop a new project that would retain the basic objectives of the first loan. A preappraisal mission for a new loan of US\$250 million equivalent visited Brazil in February of this year and appraisal is scheduled to start in the second half of April.

N.B.

7. The basic objectives of the new project would be to: (i) complement the medium and long-term resources currently available to SDBs and also private investment banks for investment in the industrial sector. In recent years resources available to the sector, particularly SMI, have been insufficient to meet sector needs and large firms especially have increasingly borrowed abroad. SMI, however, do not have such access to overseas credit and have suffered the most from the shortage of term resources; (ii) help strengthen further the institutional capabilities of SDBs and of BNDE's own efforts to assist SDBs; (iii) assure a more rigorous economic analysis of at least the larger projects; (iv) provide a tangible signal of the Bank's endorsements of the Government's recent moves to eliminate most interest rate subsidies in term lending; and (v) further encourage the Brazilian government in its current efforts to eliminate existing industrial policy distortions. An as yet undetermined amount of cofinancing could also be considered to assure full funding for the industrial programs expected to be covered.

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8. A proposal is being prepared for Bank management consideration under which: (i) the proposed loan would be the first in a series of credit operations to the industrial sector and (ii) the pace of subsequent lending would be linked to progress in the Government's implementing certain industrial policy reforms. A recently completed industrial sector report would constitute the basis for reaching a formal understanding with the Government on this approach prior to making this first loan. Agreement would also be reached on a detailed sector work program (to be carried out by the Brazilians and Bank Staff) including the monitoring of the effects of the ongoing measures and specification of measures for the future.

BNDE Feeder Road Projects ✕

9. The Bank has made two loans (US\$55 million in 1976 and US\$110 million in 1979) to support the BNDE Feeder Road Program. The loan proceeds are used to re-finance about 50% of subloans made by BNDE to states to finance specific subprojects. The economic and technical criteria used by BNDE to assess the soundness of individual subprojects are recorded in a Manual. The program is providing a reliable source of funds for economically justified feeder road investments. The discipline induced by the Manual is having a major impact in the modus operandi of States highway departments, especially in planning.

10. The two loans are fully committed to subprojects providing for the construction or improvement of about 11,000 km of roads and 300 bridges in 16 states. Disbursements for the two loans combined represent about 20% of the amounts committed and are now progressing normally after a slow start.

11. BNDE has requested financing for a third loan to support subprojects for which funds would have to be committed over the next three years. The Bank is now appraising the third loan with emphasis on: (i) the rationalization of feeder road programs supported by federal funds; (ii) formulation of policies and programs to induce the states and the municipalities to strengthen their maintenance capability; and (iii) tightening up of the program by introducing mandatory time limits on preparation and in the implementation period for each subproject.

12. BNDE has requested that the Bank loan be made in three "tranches" (so as to reduce commitment charges and comply with the Government's regulation that for programs supported by foreign financing, financial institutions like BNDE do not initiate projects with their borrowers until they have secured foreign financial resources). We have indicated that this would not be possible, and we are discussing the possibility of having two or three smaller loans as part of a six-year investment program.

N.B.




February 11, 1982

Meeting with President of ELETROBRAS

1. You will be meeting with General Jose Costa Cavalcanti, President of ELETROBRAS, and also president of Itaipu. General Costa Cavalcanti is considered by many as a possible successor to President Figueiredo.

The Electric Power Sector and the Bank's Role and Participation in it

1. Though complex and one of the largest in the world, the sector is well organized and the policies well formulated and applied. The Departamento Nacional de Aguas e Energia Eletricas (DNAEE) performs all regulatory functions, grants licenses for generating plants, assigns concessions, sets tariffs and approves expansion plans, and Centrais Eletricas Brasileiras S.A. (ELETROBRAS), a holding company for the utilities owned by the federal Government, administers public funds for use by its subsidiaries and state owned utilities and coordinates external borrowings, expansion plans for major generating and transmission facilities, and operation of interconnected systems in the country's network. The Bank has made 34 loans in the sector totalling about US\$1.5 billion. They have been for hydroelectric plants, associated transmission facilities and distribution systems in the southern, southeastern and northeastern regions. 

2. Bank participation has contributed to improved sector organization and planning, and has facilitated foreign commercial financing for the sector. The Bank has also sought, through its power lending program, the implementation of a tariff policy which would enable the sector to contribute a sufficient portion of the funds required for sector investment.

3. During the years 1979, 1980 and 1981 the Brazilian power companies failed to meet the rate of return covenants in our power loans (10% on revalued assets). The matter was the subject of a long dialogue with the Brazilian authorities since early 1980. Following an informal threat by the Bank last July to suspend disbursements on all the Bank power loans to Brazil, the Government and the Bank reached agreement last September on a program of real tariff increases leading to the progressive financial rehabilitation of the sector. The Government has agreed to grant annual increases in the level of electricity tariffs of not less than 3% in real terms in 1982 and 5% in 1983 and thereafter until the 10% rate of remuneration has been achieved and shortfalls in such remuneration that occurred since 1978 have been fully recovered. It is suggested you express your satisfaction and support for this agreement.

4. In 1981 ELETROBRAS prepared and the Bank appraised a project for the expansion of the distribution networks of a number of state utilities. This project was held back pending the resolution of the sector financial issues. This project has now been reappraised and we expect to present a loan of US\$180.0 million for this project to the Executive Directors in

FY82. Meanwhile, we have agreed with ELETROBRAS to undertake a review of the sector's long term investment program to identify projects that would maintain an appropriate Bank presence in the sector. If suitable projects can be identified, future Bank lending in the power sector need not be restricted to distribution projects as it has been in the recent past but could also support rural electrification, generation or transmission projects. For the present, in addition to the distribution project mentioned above, we have included two more power projects in the lending program for which loans totalling US\$350.0 million to ELETROBRAS are envisaged. In this respect you may wish to emphasize that, as the power sector is particularly suited for cofinancing, we would expect the Brazilian power sector to increase the level of cofinancing for projects in which the Bank would participate with its financing.



February 22, 1982

Note for Meeting with CAEMI Chairman

Augusto Trajano de Azevedo Antunes

1. Mr. Antunes, 75, is one of Brazil's leading industrialists. He is founder and Chairman of the CAEMI group of companies, a Brazilian holding company whose principal activity is manganese ore mining and exporting through ICOMI (in the State of Amapa) and iron ore mining and exporting through MBR (in the State of Minas Gerais). CAEMI also has interests in steelworks, meat packing, pulp and paper, and insurance.
2. Mr. Antunes' original training was as an engineer, from the Sao Paulo Polytechnic Institute. He has earned, over his long and active career, the respect of both public and private sector leaders, and is a key figure in the development of Brazilian relations with multinational corporations. Mr. Antunes is known as a somewhat formal but unpretentious man. He enjoys easy access to the highest levels of government in Brazil.
3. In August 1971 the Bank made a loan of \$50 million to MBR to finance the development of the Aguas Claras iron ore deposit in the State of Minas Gerais, for export; Hanna Mining has a 25% interest in the project, and National Bulk Carriers (Mr. Daniel Ludwig's company) a 10% interest. The project was successfully completed and MBR's performance was considered to have been excellent.
4. MBR is now planning an expansion from 15 mtpy to 30 mtpy, to come on stream by 1986/87, and has requested IFC to participate.
5. Recently, Antunes has led a consortium of Brazilian industrialists to take over from his friend, Daniel Ludwig, Ludwig's Jari project. Jari, you may recall, is a pulp and paper venture started by Mr. Ludwig some ten years ago, involving an area of some 1.5 million hectares of land (an area the size of the State of Connecticut) on the Jari River, a tributary of the Amazon. The project ran into political and apparently, also technical difficulties. IFC considered (and turned down) an investment in Jari some years ago. Subsequently, at Mr. Ludwig's and the Government's request, the Bank looked into Ludwig's expansion plans for Jari (involving a proposal for us to finance a hydro-electric project on the Jari River to supply power to a planned newsprint mill), but his plans never received Government approval and nothing came of our proposed involvement. Now that Jari has become a Brazilian venture, there may be a possible role for IFC or the Bank. There have been no discussions of this, however.





February 18, 1982

Meeting with Mr. Shigeaki Ueki, President of PETROBRAS  
(Brazil's state-owned oil company)  
Mr. Ueki was Minister of Mines and Energy in the Geisel Government

### Energy and Petroleum

1. Brazil is fortunate in being richly endowed in energy resources. It possesses the second largest hydro-electric potential in the world, the second largest oil shale resources in the world, and very large thorium and uranium reserves. There are also sizeable reserves of coal, though of low grade and unfavorable geographic location in terms of distance from demand centres, and sizeable biomass energy resources. It is only in the area of petroleum that the energy resource endowment can be considered poor.

The major increases in the price of imported oil since 1973 have had serious effect on both the rate and mode of Brazil's economic development and especially on its balance-of-payments position. [Of the US\$60 billion which will be invested in the energy sector in the 1980-85 period, 25% will be allocated to petroleum (including oil shale), 60% will go to the power subsector, 6% to ethanol, 4% to coal, 3% to nuclear and 1% to wood and charcoal.] Proven recoverable reserves of crude oil are estimated at 1.2 billion barrels and recoverable natural gas reserves are estimated at 1.5 billion ft<sup>3</sup>. At the end of 1981 PETROBRAS had 51 rigs drilling onshore and 29 rigs drilling offshore in a huge effort to increase reserves. Figures on private sector drilling activities at the end of 1981 are not available but are considered to include at least 30 onshore rigs.

2. Brazil's situation as regards petroleum is described in the note on Brazil's energy situation and prospects (Tab D.6). In summary, Brazil is dependent on imports for about 80% of its petroleum requirements (imports of about 900,000 barrels of oil per day), thus making it the largest net importer of petroleum among the oil importing developing countries. Its 1980 oil import bill of around US\$10 billion represented almost half of its total 1980 export earnings. Brazil is making a concerted effort to increase domestic production and to promote conservation and substitution. The Government's target is to increase production from about 240,000 bpd in 1981 to 500,000 bpd by 1985 and to reduce imports from about 1,000,000 bpd in 1980 to 500,000 bpd by 1985. These targets seem achievable.

### Institutional Framework of the Petroleum Sector

3. All petroleum sector activities in Brazil are carried out by or under the control of state entities. The petroleum industry in Brazil was nationalized in 1938. The key institutions in the petroleum sector are the National Petroleum Council (CNP), Petroleo Brasileiro, S. A. (PETROBRAS) and

the Ministry of Mines and Energy. The CNP is an autonomous body directly subordinated to the President of the Republic which authorizes, regulates, and controls all industry activities, including imports, exports, exploration, production, refining, transportation, and marketing, and which also has the power to set petroleum product prices and to process changes in the taxation affecting oil activities. Thus the CNP is the regulating agency and PETROBRAS and its subsidiaries are executing agencies.

4. PETROBRAS was established in 1953 as the state monopoly for exploration, production, refining, and transportation of petroleum. Existing refinery and pipeline companies were allowed to continue to function but their operations were limited to the level reached in 1953 and PETROBRAS acquired a controlling interest (51%) in each. As of June 30, 1981, PETROBRAS had assets of US\$13 billion including 11 refineries capable of refining a total of 1.5 million barrels per day, their gross revenues were running at a rate of US\$8 billion per year with net profits of US\$349 million and they had about 50,000 employees including about 7,000 professionals.

5. While we have not lent directly to PETROBRAS, the Bank has outstanding 3 loans to a PETROBRAS subsidiary (PETROFERTIL) for fertilizer projects (US\$50 million for the Araucaria [ammonia/urea] fertilizer project; US\$52 million for the Sergipe [ammonia/urea] fertilizer project; and US\$55 million for the Valefertil [phosphate] fertilizer project). The loan for the Valefertil project was originally made to a subsidiary of Companhia Vale do Rio Doce (CVRD). PETROFERTIL acquired ownership of the project in 1980, thus consolidating all development of fertilizer operations within the PETROBRAS group. These projects either were or are expected to be completed at or close to their original schedules and at or below estimated costs. In addition, we have made a loan of US\$85 million (co-financed with Chase and BNDE) for the COPESUL petrochemical complex at Porto Alegre, Rio Grande do Sul, jointly owned by a PETROBRAS subsidiary (PETROQUISA) and a BNDE subsidiary (FIBASE).

6. Under heavy pressure to increase domestic production, Brazil abandoned its policy of a Brazilian-only exploration program in 1975, and since then PETROBRAS has offered exploration service contracts to foreign oil companies to accelerate petroleum exploration, principally in difficult regions. Six rounds of international bidding have been completed and 102 "risk contracts" have been signed covering 258,000 square miles both onshore and offshore. More than US\$450 million has been spent to date in shooting thousands of miles of seismic lines and drilling 38 exploration wells. Current commitments under the risk contracts are to shoot 43,000 miles of seismic lines and drill 54 exploration wells for a total minimum expenditure of US\$940 million. The program of risk contracts has not resulted in any commercial discoveries. Contractors have complained that PETROBRAS has assigned only marginally attractive acreage to them, and there is a risk that they will not want to continue unless better acreage becomes available to them. You may want to ask Mr. Ueki about his opinion on this matter.

7. In previous meetings with Bank staff, Mr. Ueki has complained that the World Bank has not taken a sufficient lead in facing the world energy crisis. He has suggested that the Bank should participate in meetings of OPEC countries and in other world forums where problems of energy are discussed. It is quite possible that Mr. Ueki may wish to discuss this point again in your meeting with him.

8. With the exception of diesel, naphta, and LPG, petroleum derivative prices in Brazil are at or above world market prices. Gasoline prices are among the highest in the world. It is suggested you ask Mr. Ueki regarding the prospects for eliminating the present subsidies on diesel, naphta and LPG.

#### Bank Involvement in Petroleum Sector

9. The Bank has not lent for petroleum development in Brazil. An identification mission in September 1981 returned with a list of possible projects in the petroleum sector including development of the Campos oil fields, development of gas fields in the Amazon region and exploration programs. The list also includes a possible gas pipeline from Bolivia <sup>1/</sup> and a possible oil shale project (see para. 10 below). A Bank decision will have to be taken whether, and if so on what basis, we should begin lending for this sector. A strategy paper for lending in the petroleum sector is under preparation. A main issue would be the Bank's role in such lending. Other important issues may relate to the Government's pricing policies for some derivatives (diesel, naphta, LPG).

#### Proposed Oil Shale Project

10. We have been discussing with PETROBRAS possible Bank support for an oil shale project in Sao Mateus do Sul (Parana), and a loan of US\$200 million is included in the FY85 lending program. The principal issues relate to a low financial rate of return, the Government's pricing policy for some petroleum derivatives, and the very large financial requirements (around US\$2.5 billion). PETROBRAS is trying to interest foreign partners in the project, but this will be extremely difficult as long as the financial rate of return (around 3% on the basis of derivative prices prevailing in 1980) is not increased (through more realistic pricing policies). The financial viability of the project is being reassessed in

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<sup>1/</sup> The Bank has previously financed a gas confirmation drilling program in Bolivia, in the expectation that should the reserves be proven, the gas pipeline project would go ahead, and the Bank would help finance it. The drilling program is well advanced and all indications are that the reserves will in fact be proven. Engineering studies for the pipeline are in progress, and it is expected that a final decision on the pipeline could be reached by mid-1982. In the meantime, however, Brazil has announced discovery of major new gas reserves of its own which may reduce its interest in the Bolivian (as well as a potential Argentine) connection.

the light of current derivative prices which are higher than when the analysis was first carried out. The "Petrosix" process developed by PETROBRAS is considered to be at the technological frontier, and the Bank has a considerable interest in becoming familiar with it. We have recently signed "Secrecy Agreements" with PETROBRAS to enable us to make a full technical assessment. The Government is keenly interested in our assessment. A number of multinational oil companies has shown interest in acquiring the Petrosix technology. A Bank technical mission is scheduled for early March 1982.



February 22, 1982

Rio de Janeiro

Biography

MARIO HENRIQUE SIMONSEN

Minister of Planning (March 1979 to August 1979)

Mr. Mario Henrique Simonsen, age 46, was the only Minister from the Geisel Government to serve in the Figueiredo Government which took office in March 1979. He served as Minister of Planning until August 1979 when he was succeeded by Antonio Delfim Netto. He is presently professor of Economics at the Getulio Vargas Foundation. Mr. Simonsen has graduate degrees in engineering and economics. At the age of 23, Mr. Simonsen was appointed professor at the Institute of Pure and Applied Mathematics at the National Engineering School. In 1964, he assisted the then Minister of Planning, Roberto Campos, in drawing up the new Government's Economic Plan of Action. Before becoming Minister of Finance in the Geisel Government in March 1974, he was Director of the Movimento Brasileiro de Alfabetizacao (MOBRAL), the nationwide adult literacy organization. He was also on the Board of Directors of about ten other organizations, including Mercedes Benz and the National Housing Bank. Mr. Simonsen is the author of about 25 books or articles on political economy, most famous of which is probably "Brazil 2001", based on a series of articles Mr. Simonsen wrote in answer to Herman Kahn's futurology projections.