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Dates:	07/01/1984 - 07/01/1986
Subfonds:	Records of President A. W. Clausen
Fonds:	Records of the Office of the President
ISAD Reference Code:	WB IBRD/IDA EXC-09-3965S
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Clausen's: Brazil

Vol 2

CONFIDENTIAL

June 5, 1986

To: Mr. Clausen:

Tom,

As you know, Frank Vogl has recently been in Argentina and Brazil, gathering information and intelligence for the IPA program in Latin American during FY87.

Attached you will find his note about a conversation held with Mr. Funaro.

It was a very candid conversation and, as far as the Bank and yourself are concerned, Mr. Funaro made very positive comments.

Botafogo

Jose Botafogo G.

Meeting with Minister of Finance Funaro
in Brazil on May 24, 1986

The Minister of Finance stressed that sustained economic growth can be a reality in Brazil. The Government and the people have the will to ensure this and the strategy has started to be implemented to make this a reality. In real terms the incomes of the workers are rising for the first time in many years and supporting meaningful growth.

But the success of Brazil's economy will depend to a degree upon foreign support. To secure growth Brazil must also increase imports and this is happening, but the increase is being limited exactly to the benefit in the trade accounts accuring to Brazil from the fall in oil prices. The substantial trade surplus being registered by Brazil (minus the benefit of oil price reductions) is being totally used for foreign debt servicing. The international community should understand this -- understand the scale of the debt servicing.

In this context the support of the World Bank is vital. Brazil must be able to roll over its debt to the Bank at this time. It needs agreement on pending loans fast. It is paying the Bank back $1 billion and it knows it can get $1.2 billion under current plans. But Funaro stressed he has heard that the United States Treasury is putting pressure on the Bank not to move ahead with current loans, because Brazil does not have an agreement with the IMF. This would damage over time the relationship between Brazil and the Bank -- a relationship that has been excellent and that has seen the Bank make a major contribution to Brazil's development. The Bank needs long-term relationships with its members and it should not be subject to pressure to delay loans because of United States concern over the lack of a Brazil agreement with the IMF.

Such concern is not comprehensible for the Government of Brazil, which has shown that it can manage its own economy without the IMF. It needs to be recognized that in recent years mistakes were made by both sides, by the Government in Brazil (the former government) and the IMF in Brazil. But the IMF is politically not acceptable in Brazil today and the United States does not understand this. Moreover, what more does the international community want than a Brazil that is growing, that has killed inflation, and that is paying the international banks?

I have had good discussions with the World Bank, he said. You have an excellent program with us today in energy, power and agriculture. I know President Clausen is a very good friend of Brazil and that he understands that we do need the Bank's support at this time.

I have sought to assure Jim Baker that Brazil does not seek confrontation with the IMF, but that politically and economically we do not need the IMF.

My ~~discussions with the banks in New York have gone well~~. Not long ago I was a guest at a dinner given by the chairmen of the ten largest banks. I spoke very candidly with them. I told them what we are doing and that we are determined to work well without the international community. But I told them that we must face realities. There is no way Brazil can in one hundred years repay its $100 billion in debt. It makes no sense for us to borrow more than we need for paying interest in order to pay off principal, and we must jointly remember that. We must recall that times were different in the seventies when the bankers spent ten hours a day trying to convince the (then) Government of Brazil to take more and more foreign loans. We should not seek to put the blame on anyone, but we should recognize that that was in another age. Now we must find a way of dealing with debt servicing without having a crisis with the banks every six months. We must find ways to return to multi-year agreements with the banks. And when I said this do you know what the chairmen of the ten largest banks said? They said they understood what I was saying and they could go along with this, but on one condition: that I could assure them that Jim Baker would not call them and tell them to stop making multi-year agreements!

I need to talk more with Jim Baker. There needs to be more understanding in America, especially in the United States Treasury, of our situation. The speech made by Mr. Conrow to our business delegation visiting Washington recently was very rough and does not help secure understanding.

But we have a good relationship with the World Bank. Please send my best wishes to Tom Clausen.

FV

Frank Vogl
May 30, 1986

FV:rgw

PERSONAL AND CONFIDENTIAL

June 4, 1986

(Dictated by telephone)

Mr. Clausen:

Since I talked with you this afternoon, I have been thinking of the conversation with the Secretary. My conclusion is that, on balance, the interests of the Bank would be better served if you were to call him back and say that in the interests of helping him make the maximum effort for IDA, you would be prepared to defer bringing this matter to the Board by 90 days, i.e. the end of September, against the end of June. You could also express to him your hope that the U.S. would take a more reasonable position on the budget.

I know that this is a "scylla charybdis" choice but after much thought this would be my suggestion.

Moeen A. Qureshi

(RE: BRAZIL AG SECTOR LOAN.)

BUT WE'VE NEGOTIATED IN GOOD FAITH! BRAZIL HAS AGREED. IT'S A GOOD LOAN. CONDITIONALITY IS STRONG — WILL BRING ABOUT WHAT WE'VE ALL BEEN WANTING!

A

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: April 23, 1986

TO: Memorandum for the Record

FROM: Roberto Gonzalez Cofiño, Chief, Brazil Division, LC2

EXTENSION: 72031

SUBJECT: BRAZIL - Mr. Clausen's Meeting with Brazil's Minister of Finance, Mr. Dilson Funaro

1. Mr. Clausen met with Minister Funaro on April 10, 1986, at 9:00 a.m. Brazil's Vice-Minister of Planning, Mr. Philippe Reichstul, the President of the Central Bank, Mr. Fernao Bracher, and Messrs. Stern, Knox, Gué and Gonzalez Cofino also attended the meeting.

2. Mr. Clausen started the meeting by congratulating Minister Funaro for the Government decision to adopt last February 28 a new stabilization policy. He asked what further measures the Government was adopting or considering for consolidating the progress already made. Mr. Funaro said that the initial results of the new policy were very encouraging. Prices had actually declined in March, by nearly 2%, while employment is growing and balance of payments performance continues to be good. Mr. Funaro added that the Government intends to reduce the fiscal deficit substantially, and, if possible, to eliminate it altogether; to improve public administration; and to have the new Secretariat of the Treasury ensure that all public expenditures are consistent with the approved budget. According to Minister Funaro, further reforms are being considered concerning the financial system and the agricultural sector.

3. Mr. Clausen asked for the Minister's views on the Bank lending program for Brazil. Mr. Funaro said that Bank assistance was now more important than before. Brazilian investors were now confident, and ready to expand investment and production. Bank's financial and technical support will help to ensure that the investment required for future growth is carried out. Messrs. Funaro and Bracher added that while Brazil's current balance-of-payments position is sound, the country is likely to need commercial banks' resources in the future; in this respect, cofinancing arrangements with the Bank would help Brazil to re-establish its access to international capital markets on normal conditions.

4. Mr. Stern asked about the Government intentions concerning agricultural credit terms. Messrs. Funaro and Bracher stated that the Government is now studying the matter, and is keeping Bank staff informed of the progress being made in this respect. A final decision will have to be taken shortly, before the next crop season starts. Interest rates for official rural credit will be determined by the Government and will be higher in real terms than before. The Bank of Brazil and the country's commercial banks will participate in this rural credit program. Mr. Stern said that these interest rates, in his view, should not be far from market levels.

5. Messrs. Stern and Knox asked about the Government's intentions on the financing of the Power Sector, in connection with the proposed Sector Loan. Messrs. Funaro and Reichstul answered that the sector's revenues are expected to increase in real terms because of the elimination of inflation, and that a further increase in revenues, of about 5%, will be achieved next January, as a result of the elimination of some discounts in electricity sales. They also noted that, according to the most recent calculations, the 1986-87 sectoral rates of return would be higher than those estimated in the rehabilitation plan being analyzed by Bank staff. These recent estimates would be made available immediately to Bank staff.

Cleared with and cc: Mr. Gué, LC2

cc: Mr. Clausen's Office
Messrs. Stern
Knox
van der Meer, LCP
Pfeffermann, LCN
Quijano, LCN
Carter, LC2
Nankani, LC2
Brazil Division

RGonzalezCofino:nps

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: April 9, 1986

TO: Mr. A. W. Clausen
(through Mr. Ernest Stern)

FROM: Mr. A. David Knox

EXTENSION: 75901

SUBJECT: BRAZIL - Briefing for Your Meeting with Minister of Finance Dilson Funaro

1. On Thursday, April 10, 1986 at 9:00 a.m., you will be meeting with Mr. Dilson Funaro, Brazil's Minister of Finance. Mr. Funaro will be accompanied by Mr. Philippe Reichstul, Vice-Minister of Planning. The purpose of this memorandum is to summarize recent economic developments in Brazil, and to brief you on the major outstanding issues for the FY86/87S lending program which I suggest you raise during the meeting.

Economic Situation

2. On February 28, 1986, the Government adopted a comprehensive stabilization program to substantially reduce, and possibly eliminate, inflation. The measures included a currency reform; a temporary freeze on prices, including the exchange rate; wage adjustments to their average real value over the previous six months, with annual adjustments thereafter, at least partly indexed to inflation; prohibition of indexation of financial contracts for periods of less than a year, except for personal savings accounts; and elimination of indexation on long-term Treasury bonds for at least one year. These reforms were accompanied by plans to eliminate the fiscal deficit in 1986 and to use monetary policy to stabilize and, if possible, reduce real interest rates. A limited unemployment insurance program was also introduced.

3. Although the full implementation of the program, including supporting measures, is still being worked out, the first month's results were positive. The price index dropped by 2% in March. Interest rates on Treasury bills have fallen slightly. The price freeze is holding. While there have been some complaints, businesses are complying with the freeze, and the Government has been using its agricultural stocks and imports to regulate food supplies. Prices of some goods, particularly intermediate inputs, have declined slightly, reflecting lower financial charges. The financial sector, which stands to lose from the sharp drop in inflation, has begun taking steps to increase its operating efficiency. Popular support for the program remains high, and labor unions, initially critical of the wage-related aspects of the program, have not received widespread backing from their members.

4. At this point, the economic outlook looks favorable. GDP growth should be positive this year, in spite of the poor harvest caused by the recent drought, and the country's balance of payments should continue to

improve. The trade surplus, based on the first two months of 1986, is running at an annual level of almost US$13 billion. Additional savings will occur if oil prices average US$15 for the year and if the LIBOR stays below 8%. Consequently, even with the higher food and capital goods imports expected during the year, the current account will, at a minimum, be in balance. The exchange rate, although fixed for an undetermined period, is competitive. With previous mini-devaluations against the dollar and the decline in the dollar, there is a safety margin of 15-20%.

Operational Issues

5. Agricultural Loans. Board presentation of six agricultural loans in the FY86/87S lending program (see attachment) totalling more than US$1 billion (three rural development projects for the Northeast region, the Sao Francisco Irrigation Project, the Agricultural Credit Project, and the Second Agricultural Sector Loan) depends, inter alia, on reaching agreement with the Government on agricultural credit policy. The Government is now formulating such policy and we expect to discuss the main aspects of it early next week with a Brazilian delegation which will come to Washington for this purpose.

6. A proposal prepared by the Planning Ministry and the Central Bank is now being discussed within the Government. The proposal envisages: (a) 8-10% nominal rates in 1986 for short-term credit; and (b) 7-8% real positive rates for investment credit. The rates in the North/Northeast region, at least for small farmers, are likely to be lower. To fund rural credit, the Government is considering allowing the Bank of Brazil and the commercial banks to accept special savings deposits that would have a real interest rate of 6%. Any remaining subsidies would be financed by the fiscal budget. It should be noted that this proposal has not yet been approved, and is likely to face strong opposition from farmers.

7. The proposed lending rates would represent a substantial improvement over the levels prevailing up to last February -- negative rates in the North/Northeast and a 3% positive real rate elsewhere. In order to assess, however, whether the present proposals fully meet the requirements of the policy commitment that we have been seeking, we have requested further information from the Government concerning: (a) the implied level of credit subsidies in 1986, given proposed lending rates, funding sources and costs, and the expected volume of official credit; (b) the Government's plan for eliminating credit subsidies, except for small farmers in the North/Northeast region; and (c) in this context, the Government's plan for reducing costs of financial intermediation of the Bank of Brazil.

8. During your meeting with Minister Funaro, I suggest that you emphasize to him the importance for the Bank's agricultural lending to Brazil, of reaching agreement as soon as possible on the issues indicated in para. 7 above. An agreement by early May would permit us to present to the Board in May the two agricultural loans that have already been negotiated (Northeast III and Sao Francisco Irrigation), and in June-July, the other four agricultural loans included in the FY86-87S lending program.

171
+56

9. Power Sector Loan. The main objective of this operation is to rehabilitate the financial situation of the electric power sector through rationalization of the investment program, equity contributions and tariff increases. Investment in the past ten years financed mainly through borrowings at high interest rates and short-term maturities have resulted in a heavy debt service burden which presently exceeds the sector's internal cash generation. The basis of this operation is a medium-term (1985-1989) Rehabilitation Plan which the Bank is in the process of evaluating.

10. The February 28 freeze on tariffs has also affected the finances of the power sector, increasing the financial gap in 1986 from US$1.2 billion to US$1.8 billion. It seems, however, that despite the tariff freeze in 1986, the financial rehabilitation of the sector under the Plan will be achieved by 1989 because of substantial tariff increases during the 1987 to 1989 period, reduction of investment to acceptable minimum levels and substantial Government equity contributions (US$1.8 billion in 1986 and US$1.2 billion in 1987) to cover the financial gap of the sector in 1986 and 1987. To finance the equity contributions to the sector the Government plans to provide up to US$600 million from its fiscal budget, and has requested from the Bank a US$500 million loan and a cofinancing operation with commercial banks of about US$700 million in 1986, followed by a second loan and a second cofinancing operation for similar amounts in 1987.

12. The loan is scheduled to be presented to the Board next June, subject, inter alia, to the resolution of the following issues, which are presently under discussion: (a) prior to presenting the proposed loan to the Board we would like to receive acceptable evidence that a Government equity contribution of US$600 million would be made available from a fiscal budget that is consistent with an acceptable stabilization program; and (b) before releasing, in October or November of this year, the second tranche of the proposed loan, the Brazilians should have enacted a tariff increase of, say, 5%; as an alternative, they should at least agree with the Bank by then on an acceptable time-phased action plan which would include a specific schedule for the policy decisions required to achieve the target rate of return rate in 1987. As of today, however, the Government has not agreed yet with any of these alternatives, because of the negative impact that any decision now in this respect could have, in their view, on their new stabilization program.

13. Cofinancing. The Government has requested Bank assistance for its efforts to obtain "new money" from commercial banks through a cofinancing arrangements linked to the Power Sector Loan referred to above. The stabilization measures enacted by the Government seem to have improved substantially the probability of obtaining such cofinancing. After we resolve the policy issues referred to above in connection with the Power Sector Loan, I would propose to proceed with an informal sounding of the commercial banks to determine the extent to which they are willing to participate in this operation.

cc. Messrs. Gue, LC2DR; Pfeffermann, Quijano, LCNVP; van der Meer,
Jennings, van Gigch, LCPDR; Nankani, Carter, LC2DR.

Brazil Division

LYap/Gpapadopoulos/RRuivivar/RGonzalezCofino:nps/el/cg-p

Attachment

LATIN AMERICA AND THE CARIBBEAN REGION

COUNTRY: BRAZIL
OPERATIONS PROGRAM: FY86-90
AS OF END MARCH 1986

SECTOR			FY86	FY87	FY88	FY89	FY90	TOTAL
AGRICULTURE	PA138-NE RURAL DEVT III-A	L	171.0	.	.	.	.	171.0
	PA148-AGRICULTURAL CREDIT-	L	150.0	.	.	.	.	150.0
	PA149-UP&MDLE SAO FRNCO IR	L	56.0	.	.	.	.	56.0
	PA159-AGR EXTENSION II-A	L	155.0	.	.	.	.	155.0
	PA208-IRRIG ENGINEERING-A	L	48.0	.	.	.	.	48.0
	PA219-NE R/D V-PERNAMBUCO-	L	110.0	.	.	.	.	110.0
	PA207-NE R/D VI-CEARA-A	L	.	117.0	.	.	.	117.0
	PA220-NE R/D VII-MARANHAO-	L	.	90.5	.	.	.	90.5
	PA131-AGR SECTOR II-D	S	.	450.0	.	.	.	450.0
	PA156-NE R/D IV-PIAUI-B	S	.	90.0	.	.	.	90.0
	PA212-NE R/D VIII ALAGOAS-	L	.	.	100.0	.	.	100.0
	PA213-NE R/D IX-MIN/GER/PA	L	.	.	100.0	.	.	100.0
	PA179-LVSTK DISEASE CONT-B	S	.	.	50.0	.	.	50.0
	PA206-AGRICULTURAL CREDIT	L	.	.	.	300.0	.	300.0
	PA157-NE IRRIGATION-C	S	.	.	.	225.0	.	225.0
	PA229-IRRIGATION II-C	S	.	.	.	.	300.0	300.0
*TOTAL SECTOR AGRICULTURE			690.0	747.5	250.0	525.0	300.0	2512.5
EDUC + PHN	PA210-NE EDUC POLICY TA-C	M	.	10.0	.	.	.	10.0
	PA218-IND SKILLS VOC TRG-B	L	.	100.0	.	.	.	100.0
	PA152-NE BASIC HLTH SERV-B	S	.	57.0	.	.	.	57.0
	PA190-II NE BASIC HLTH SRV	L	.	.	115.0	.	.	115.0
	PA225-NE ENDEMIC DISEASE C	S	.	.	75.0	.	.	75.0
	PA151-EDUCATION SECTOR	L	.	.	.	150.0	.	150.0
	PA226-NW BRAZ MALARIA CTRL	S	.	.	.	150.0	.	150.0
*TOTAL SECTOR EDUC + PHN			.0	167.0	190.0	300.0	.0	657.0
ENERGY + POWER	PA137-ELEC PWR SEC (COFIN)	M	.	.0	.	.	.	.0
	PA143-RURAL ELECTR II-B	L	.	175.0	.	.	.	175.0
	PA211-ELEC PWER SCTOR II-C	L	.	200.0	.	.	.	200.0
	PA205-ELEC POWER SEC I-B	S	.	400.0	.	.	.	400.0
	PA191-POWER SECTOR III-C	S	.	.	350.0	.	.	350.0
	PA161-RURAL ELECTRIFICATIO	S	.	.	.	.	200.0	200.0
*TOTAL SECTOR ENERGY + POWER			.0	775.0	350.0	.0	200.0	1325.0
INDUSTRY + IDF	PA228-IND RESTRUC TA-C	M	.	15.0	.	.	.	15.0
	PA170-IND RESTR II-D	L	.	.	350.0	.	.	350.0
	PA186-NE SMLL & MED INDUS-	L	.	.	200.0	.	.	200.0
	PA142-FINANCIAL REFORM I-C	S	.	.	300.0	.	.	300.0
	PA189-INDUS TECH DEVT-B	S	.	.	.	100.0	.	100.0
	PA202-RURAL TELECOM-C	S	.	.	.	280.0	.	280.0
	PA188-GRANDE CARAJAS DEVT	S	.	.	.	.	250.0	250.0
	PA195-DEVT BANKING IV	S	.	.	.	.	200.0	200.0

MMCCARTHY, LCNPC
04/02/86

LATIN AMERICA AND THE CARIBBEAN REGION

COUNTRY: BRAZIL
OPERATIONS PROGRAM: FY86-90
AS OF END MARCH 1986

SECTOR			FY86	FY87	FY88	FY89	FY90	TOTAL
INDUSTRY + IDF	PA196-NW SMALL & MED INDUS	S	.	.	.	.	200.0	200.0
	PA217-IND RESTR III	S	.	.	.	.	300.0	300.0
*TOTAL SECTOR INDUSTRY + IDF			.0	15.0	850.0	380.0	950.0	2195.0
INFRASTRUCTURE	PA154-SALVADOR METRO DEVT-	L	55.0	.	.	.	.	55.0
	PA185-STA CATARINA TOWNS-A	L	24.5	.	.	.	.	24.5
	PA204-NE URBN RECON (FL'D)	L	100.0	.	.	.	.	100.0
	PA153-URBN TRNSPRT IV-A	L	.	200.0	.	.	.	200.0
	PA197-SAO PAULO STATE HWY	L	.	150.0	.	.	.	150.0
	PA194-WATER & SEWERAGE SEC	L	.	.	250.0	.	.	250.0
	PA203-FEPASA RAILWAYS-B	S	.	.	100.0	.	.	100.0
	PA163-PORTS II-B	S	.	.	.	50.0	.	50.0
	PA165-FEEDER ROADS IV-D	S	.	.	.	150.0	.	150.0
	PA166-NE RURAL WTR&SANIT-B	S	.	.	.	100.0	.	100.0
	PA184-CERRADO TRANSPORT-D	S	.	.	.	100.0	.	100.0
	PA155-WATER & SEWERAGE SEC	S	.	.	.	.	200.0	200.0
	PA171-MEDIUM CITIES URBAN-	S	.	.	.	.	50.0	50.0
	PA192-TRANSPORT SECTOR	S	.	.	.	.	275.0	275.0
	PA222-METROPOLITAN DEV-B	S	.	.	.	.	100.0	100.0
	PA223-NORTHEAST CITIES-B	S	.	.	.	.	150.0	150.0
*TOTAL SECTOR INFRASTRUCTURE			179.5	350.0	350.0	400.0	775.0	2054.5
NON-PROJECT	PA181-PUB SECTOR MGMT-B	M	.	25.0	.	.	.	25.0
	PA183-FINANC REFORM II-D	L	.	.	.	400.0	.	400.0
*TOTAL SECTOR NON-PROJECT			.0	25.0	.0	400.0	.0	425.0
*TOTAL COUNTRYNAME BRAZIL			869.5	2079.5	1990.0	2005.0	2225.0	9169.0

MMCCARTHY, LCNPC
04/02/86

OFFICE MEMORANDUM

RECEIVED
1985 DEC 30 PM 3: 28
OFFICE OF THE PRESIDENT

#408

DATE: December 26, 1985

TO: Memorandum for the Record

FROM: Roberto Gonzalez Cofino, Chief, Brazil Division, LC2

EXTENSION: 72031

SUBJECT: BRAZIL - Mr. Clausen's Meeting with Brazil's Planning Minister Joao Sayad

1. Mr. Clausen met with Minister Joao Sayad on December 17, 1985, at 3:00 p.m. Messrs. Henri Philippe Reichstul, Paulo Nogueira Batista Junior, and Luiz Felipe Lampreia from the Planning Ministry; Mr. Alexandre Kafka, Executive Director from the IMF; Mr. Avillez, Technical Assistant to the Bank's Executive Director; and Mr. Knox and the writer were also present.

2. Mr. Sayad started the meeting by referring to the Government's 1986 economic program. He believed that the fiscal adjustment envisaged by the Government, equivalent to 3% of GDP, and other aspects of the 1986 program, should provide a good basis for obtaining IMF approval. It was now politically impossible for the Government, however, to reach a standby agreement with the Fund, although other more informal agreements might be feasible. The approval by the Fund managing director of the program, for instance, would be considered desirable by Brazil.

3. Mr. Clausen asked whether Brazil considered that the Managing Director approval of the program would be enough to convince the commercial banks to provide "new money" under cofinancing arrangements with the Bank. Mr. Sayad said that it might be enough, taking into account the country's strong balance-of-payments position, and the positive performance of the Brazilian economy in 1984 and 1985. Mr. Knox indicated that, in addition to the strong balance-of-payments position, a positive element for approaching the commercial banks might be the fact that Brazil is seeking now rescheduling of debt payments for only one or two years, and not for five as previously discussed with the banks. In Mr. Knox's view, the Bank would be in a better position to try to convince the commercial banks to enter into cofinancing arrangements once we have completed our analysis of the Government's economic program. He also noted, however, that in the cases of other countries, such as Colombia, the banks had not been willing to accept the World Bank's evaluation and monitoring of the program as the only basis for providing "new money", and had insisted on having also a positive IMF assessment, as a condition for committing and disbursing their new loans.

4. Mr. Sayad asked whether the Bank could increase its lending to Brazil. Mr. Clausen answered that we have already a high level of lending to the country, which accounts now for slightly more than 10% of the Bank's overall portfolio. The Bank would be willing, however, to consider increasing somewhat its lending level, provided that an acceptable economic program was in place.

5. Mr. Sayad underlined the high priority attached by his Government to the Bank loans which are scheduled to be approved in 1986, including, in particular, the proposed loans for agriculture and power. His Government would also like to have the support of the Bank for the rehabilitation of public enterprises in several sectors, as it is already being considered for power. Finally, he stated that the Government's plans for reforming the public enterprises included the full privatization of 13 enterprises, and the sale of shares of other firms to the public.

cc: Mr. Clausen's Office
Messrs. Stern
Knox
Gue, LC2
van der Meer, LCP (o/r)
Pfeffermann, LAC
Quijano, LAC
Brazil Division

RGonzalezCofino:nev

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: December 12, 1985

TO: Mr. A. W. Clausen
(through Mr. Ernest Stern) ES

FROM: André R. ~~Qué~~, Acting Regional Vice President, LAC

EXTENSION: 72011

SUBJECT: BRAZIL - Visit of Planning Minister Joao Sayad

Push for MIGA

1. On Tuesday, December 17, 1985 at 3:00 p.m. you will meet with Mr. Joao Sayad (see Attachment 1 for biodata). Mr. Sayad will probably want to discuss the possibility of the Bank increasing its lending program to Brazil in the context of the Baker Initiative; the current status of three large operations in advanced stages of processing -- the Second Agricultural Sector Loan, the Power Sector Loan, and the Second Export Development Loan; the likelihood of further Bank assistance for the steel sector; and the Bank's role in mobilizing cofinancing with private banks. On our side, we are particularly interested in discussing with him the economic program that has just been prepared by the Government. The following paragraphs summarize our current views on these issues.

Economic Program

2. I suggest that you start the meeting by asking Mr. Sayad to outline the Government's economic program for 1986 that has just been prepared. The program targets announced last week by the Finance Minister indicates that the Government intends to achieve a substantial adjustment in 1986, including, inter alia, the reduction of the operational fiscal deficit from 2.8% of GDP in 1985 to about 0.5% of GDP in 1986. While our preliminary impression of the program is positive, neither the Fund staff nor we have received yet the information required to evaluate its viability. I suggest that you ask Mr. Sayad whether the Government would be prepared to take additional actions if the measures approved up to now prove to be insufficient to achieve the program targets. Since there is some doubt whether the Government is willing to accept enhanced surveillance by the IMF and has already said it does not intend to request a Fund Standby, you could ask Mr. Sayad what kind of relationship with the IMF the Government seeks. Q? Q?

3. I suggest also that you ask Mr. Sayad to outline the main policies that the Government intends to adopt to achieve the objectives of the 1986-89 National Development Plan -- also recently prepared -- referring, in particular to the following issues: (a) the Plan shifts the main responsibility for productive investment from the public to the private sector; in view, however, of the prevailing inflation and high real interest rates, it is not clear whether private investors would have enough incentives to play the role expected from them; and (b) the Plan highlights the need to reform Brazil's financial structure and import protection system, and to increase the efficiency of industrial production, but does not provide details on how or when these reforms would be carried out. Q?

Bank Lending

4. As indicated in para. 1 above, Mr. Sayad is likely to ask about our intentions concerning three large sector operations included in our current lending program. I suggest that you say that to proceed with these operations, we will need, inter alia: (a) to reach agreement on specific sector policies for each of these loans; and (b) to be able to support the Government's overall short- and medium-term economic program. On these two issues, you may also add the following:

(i) we have made good progress already towards reaching agreement on the policy framework for agriculture and power; concerning the export development loan, however, we will not be able to proceed until the Government spells out in detail how it is going to achieve the objective stated in the development plan of reforming its import protection system; and

(ii) to proceed with these loans, we would need also from the Government a comprehensive statement of its medium-term economic policy that we can support; our staff would be ready to cooperate, if the Government so desires, in the preparation of such statement.

5. Mr. Sayad is also likely to ask you how much we could increase our lending program for Brazil. I suggest that you tell him that the overall level of our lending will depend upon the degree to which we can reach agreement with the Government on their short- and medium-term economic program. Assuming that we reach a satisfactory agreement in this respect, and that we can approve this year the Agriculture and Power sector loans, our FY86 program could be somewhat higher than the $1.5 billion FY85 level.

Cofinancing

6. The Government has already requested that we start exploring now the possibility of cofinancing, with "new money", the proposed Power Sector Loan, and a follow-up operation in FY87. If we reach a positive conclusion on the Government's short- and medium-term economic program, we would be willing to start discussions with the commercial banks. This, however, is not likely to happen until March, and the discussions are likely to be difficult without the participation of the IMF.

Steel

7. Mr. Sayad is likely to ask the Bank to provide a sector loan -- similar to the one being processed for power -- for the financial and technical rehabilitation of the steel industry. I suggest that you answer that we have been cooperating with SIDERBRAS, since early 1984, in the preparation of a rehabilitation plan for the industry, and are willing to continue doing so. We understand that such plan would be ready by April or May, and only then would we be able to decide how ~~whether~~ the Bank could ~~con-sider financial support for~~ assist with the restructuring this industry. Such decision

would depend, inter alia, on whether we reach agreement on all relevant technical issues, and on whether the Government decides to adopt appropriate pricing policies directed towards eliminating subsidies and ensuring the financial viability of the sector. [Direct financial support is not likely only for rehabilitation of the public sector plants.] ES.

MIGA

8. Brazil has not decided yet to join MIGA and there are diverse views within the Govenment on whether it would be advisable for them to do so. You may wish to raise the issue of Brazil's participation, although it should be noted that Mr. Sayad is not likely to be able to give you a final answer on this matter.

Tom –
If steel is raised you should indicate our lack of enthusiasm. We could help with some sell-offs if any are planned (or the IFC could) but a loan for rehabilitation of public plants has much too high a political cost for us.
ES
12/13

Attachment

cc: Messrs. Knox, o/r
van der Meer, LCP (o/r)
Pfeffermann, LAC
Quijano, LAC

PTKnight/RGonzalezCofino:ac/nev

ATTACHMENT 1

JOAO SAYAD

Minister of Planning, Federative Republic of Brazil and Brazilian Governor of the Bank

1. Mr. Sayad, 40, holds a Ph.D. in economics from Yale University and was a professor of economics at the University of Sao Paulo before he became Secretary of Finance of the State of Sao Paulo in 1983 under Governor Montoro. He is a pragmatic, non-ideological economist who established a reputation as an austere administrator of Sao Paulo state's finances, and has brought with him to the Ministry of Planning (SEPLAN) a number of very talented and relatively young associates. Mr. Sayad enjoys the backing of Federal Deputy Ulysses Guimaraes, the leader of the Party of the Brazilian Democratic Movement (PMDB), the largest party in the governing Democratic Alliance. Mr. Guimaraes is first in the line of succession to the Presidency in the absence of any Vice President.

2. Mr. Sayad has an effective working relationship with Mr. Dilson Funaro, the Minister of Finance, who by virtue of his personal relationship with President Sarney and the backing of much of Brazil's business community, has become the leader of the economic team. There is a good possibility that Mr. Sayad will remain as Minister of Planning after the restructuring of the cabinet which is now expected to take place in February so that a number of the present ministers can run for elective office.

3. The bank's relationship with Mr. Sayad and the SEPLAN staff has been extremely good. SEPLAN has worked closely with the bank in the current public sector investment review, and also in the development of the Public Sector Management Project which would strengthen substantially the officers of SEPLAN dealing with the preparation and monitoring of the Public Sector Investment Program and of the Federal Government budget as well the government's economic information systems, with a view to providing policy makers with a sound and timely basis for their economic policy decisions.

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: November 27, 1985

TO: Files

FROM: Spiros T. Voyadzis, Chief, LC2VC

EXT: 72181

SUBJECT: 1985 ANNUAL MEETINGS
BRAZIL: Meeting with Mr. A.W. Clausen, and
Mr. Dilson D. Funaro, Minister of Finance
October 7, 1985

The Minister inquired whether the Bank could increase from 10% to 15% the Brazil share in the Bank portfolio. Mr. Clausen replied that, while such a big increase was difficult, "something in between" could be attained.

The FY86 lending program was then discussed; doubts were expressed as to whether a level of $1.5 billion could be achieved. The delegation agreed, as we did, that all efforts to expedite processing should be made.

Answering Mr. Clausen's question, the Minister indicated that he had decided not to conclude a program now with the IMF, but to continue discussions; he anticipated several changes in economic conditions related to the value of the US dollar and to the level of international interest rates. Therefore it was preferable for Brazil to wait and not to rush an agreement with the IMF. Mr. Funaro said that Mr. de Larosiere fully understood this approach; Brazil does not wish to be in a position, he said, "not to honor arrangements with the IMF" as had happened only too often in the past.

cleared in substance with and cc: Mr. A. Gue

cc: Messrs. Stern
Knox
van der Meer, LCPDR
Southworth, EXC
Pfeffermann, LCNVP
Gonzalez-Cofino, LC2BR
Quijano, LCNVP
Carter, LC2Dr

STVoyadzis:rjm

Wed Oct 9
7:00 pm

MANAGEMENT VERSION

ANNUAL MEETING BRIEF

Name of Country: BRAZIL Date: September 10, 1985

Meeting with: 1/

Population: 129.7M (1983); estimated growth rate 2.3% (1983)

GNP per capita: $1,890 (1983)

		(million)			(million)
Total Commitments:		$11,464.6	FY85:	Commitments:	1,523
				Disbursements:	1,054
of which:	100% Bank	$11,464.6		Amortization:	385
				Total Undisbursed:	4,490
Lending Program:	FY86-87	$2,745.0	# 1,372.5		

Background: Brazil's economy is growing at about 4-5% per year since early 1984. Balance-of-payments performance is also satisfactory. Inflation, however, continues at about 220% per year. A dispute with Planning Minister Sayad on fiscal policy precipitated the resignation on August 26 of Finance Minister Dornelles and Central Bank President Lemgruber. These changes may increase current difficulties in Brazil/IMF relations.

Summary Data	Avg 82-84	85 (est)
GDP growth	0.6%	4.5%
Export growth (current US$)	15.7%	-5.9%
Import growth (current US$)	-15.2%	-3.7%
Current Account Deficit % GDP	2.6%	1.5%
Gross Debt Service Ratio 2/	.60	.44
Annual Inflation Rate	157%	220%

Issues likely to be raised by delegation:

- Net Transfers

Issues to be raised by Bank Management:

- Stabilization Policy
- Public Sector Pricing Policy

Attachments:

FIVE YEAR LENDING PROGRAM: FY85-89 (85 actual)

Biographical Information

1/ The Government has not decided yet the composition of its delegation.
2/ As proportion of exports of goods and non-factor services. The 1982-84 average includes actual amortization of medium- and long-term debt (i.e., after re-scheduling). The 1985 estimate takes anticipated re-scheduling into account.

Background

1. The political transition in Brazil from a military-led government to civilian democratic rule was overshadowed by the death of President-elect Tancredo Neves last April. His successor, President Jose Sarney faces the difficult task of leading the country to consensus on a new Constitution, while restoring economic growth, reducing inflation and maintaining equilibrium in the external accounts. In the early months of the new Government considerable attention has been given to short-term economic management issues, including negotiations with the IMF for a Stand-By agreement to replace the EFF which was discarded last March. Negotiations are proceeding slowly, with the extent and means of reducing the deficit, currently estimated at over 5% of GDP, the main outstanding issue. The new Government is also addressing longer-term issues as it prepares the 4th National Development Plan, to be submitted to Congress in September. Increased priority to social development, already evident in the priority 1985 program for the social sectors, is likely also to be emphasized in the Plan.

2. The stabilization measures adopted thus far have included temporary price restraints and a freeze of public sector prices, adjustments to the indexation system, and plans for a large reduction in the public sector deficit. GDP appears to be growing at 4-5% in 1985, as in 1984, and the trade surplus is expected to reach US$11-12 billion, slightly below that of 1984. Differences on how to reduce the public sector deficit and inflation, which rose sharply in July and August after a significant fall over the previous three months, underlay a publicly-aired dispute between Minister of Planning Joao Sayad and former Finance Minister Francisco Dornelles, resulting in the resignation of Minister Dornelles and Central Bank President Antonio Carlos Lemgruber on August 26. Messers. Dornelles and Lemgruber were advocating stricter monetary and fiscal policies. Mr. Sayad and the main Presidential Economic Advisor, Mr. Luis Paulo Rosenberg, while supporting some expenditure reductions, were in favor of a more gradual approach which would allow for higher level of economic activity and employment, as well as a shift of priorities toward the social sectors.

3. The appointments of Mr. Dilson Funaro, a close associate of Mr. Sayad, as Finance Minister and of Mr. Fernao Bracher as President of the Central Bank appear to strengthen the position of Planning Minister Sayad as head of the economic team. However, a number of second level and advisory appointments in the Finance Ministry and the Central Bank have gone to economists of the Sao Paulo State University of Campinas, who have long advocated a more nationalistic approach to economic policy than Minister Sayad, and have strong ties to the Sao Paulo business community. It is not yet clear how the role of Mr. Rosenberg, who had become increasingly influential in view of the frequent disagreements between Messers. Sayad and Dornelles, will evolve in the forthcoming months.

4. These changes are likely to increase in the near future the current difficulties in the relations of Brazil with the IMF and the commercial banks. Minister Funaro has indicated his support, however, for an agreement reached with the banks last month by former Minister Dornelles to extend until January 1986 the temporary arrangements whereby the commercial banks have continued to roll over amortization due while Brazil has continued to pay interest at the spreads prevailing under the "phase two" debt rescheduling.

5. A supplementary memorandum, updating some aspects of this brief, and referring, in particular, to the Government's views on the future role of the Bank in Brazil, will be prepared following the visit to the country by the Chief of the Brazil Division in mid-September.

Issues Likely to be Raised by Delegation

6. Bank Resource Transfers. The Government has expressed some concern to us about recent projections showing net negative transfers on Bank lending beginning in FY89. We recommend that a number of points be made in responding to this concern. First, lending to Brazil is expected to remain at a high level of US$1.5 billion per annum over the next five years. On this basis, net disbursements can remain positive (for a much longer period). Direct IBRD lending cannot grow much beyond the US$1.5 billion level, since Brazil is already in excess of our normal 10% exposure limit. (It now stands at 10.5% and should reach about 11% within the next three years). As agreed with the Government, we tripled our disbursements between FY82 and FY84 (they reached US$1.4 billion in FY84) to assist during this critical period. But it was understood that this would inevitably involve a slowing down of disbursements in future years, within a relatively constant but high commitment level. With this large lending program we are in excellent position to help Brazil acquire the necessary foreign resources to maintain its recovery through cofinancing. It would be useful for the Government to consider greater use of Bank cofinancing facilities, so that the Bank might provide greater support for sectoral investment programs funded by commercial bank or bilateral creditors. But even achieving currently planned commitment and disbursement levels will depend on more effective planning for the lending program and policy measures which will permit sector lending.

$1.5 bil a year

Issues to be Raised by Bank Management

7. Brazil's Economic Program. Given the uncertainties regarding economic policy which now prevail, it would be useful to know what the Government intends to do to achieve its objectives of resuming sustainable growth while reducing inflation. Completing the stabilization process and paving the way for more efficient investment will be facilitated by budgetary and financial reforms. A clear and comprehensive set of economic policies will be essential for the Bank to maintain its operations program and to play a possible role in cofinancing. In particular, policies to support export growth, and to promote agricultural productivity and production will play a key role in Brazil's continued growth. If Bank policy-based lending operations to provide direct assistance in specific sectors are to be included in the Bank's operations program, we would need a clear indication by the Government of both its sectoral policy framework and its relationship to macroeconomic policies.

Q

8. Budgetary and Financial Reform. The new Government has stated its intention to unify Brazil's federal budgets (those of the Treasury, the Monetary Authorities and the state enterprises) and seems favorably disposed to redefine the roles of the National Treasury, the Central Bank, and the Bank of Brazil. The goal would be to establish a clear separation between the conduct of monetary and fiscal policy and achieve better discipline over public expenditure. These key reforms would be the starting point for a broader process of financial reform, intended to increase the financial system's efficiency and stability, which the Bank might

support in its lending program. While the 1986 budget presented to Congress integrates the fiscal and monetary budgets for the first time, financial reform is still moving at a slow pace. It would be useful to know the delegation's views on implementation of these key reforms and to stress their importance for financial sector lending such as the proposed project to strengthen financial discipline in state and regional development banks.

9. Agricultural Pricing and Trade Policy. In early September, the Government agreed in principle to reforms of agricultural pricing and trade policies which would sharply reduce Government intervention in agricultural markets and establish clearly defined rules to make any remaining interventions predictable to producers and traders. The Government intends to formalize general proposals for the reforms and related institutional changes to improve the functioning of agricultural markets in a statement of agricultural policy which would be submitted to the Bank. The detailed policy measures which would be required to implement such reforms would be formulated in consultation with the Bank. On the basis of these decisions, it might be feasible to continue processing the proposed Second Agricultural Sector Loan--a possibility that is now being examined by the Bank staff. We suggest emphasizing to the Brazilian Delegation the importance that the Bank attaches to these reforms. In this framework, it would be particularly useful to note the need to phase out the wheat subsidy--which has been increased in recent months, owing to delays in price adjustments--as well as food price controls.

10. Trade Policy for Manufactures. The proposed Second Export Development Loan would support trade policy reforms to consolidate and further improve export performance of manufactured products. These reforms would build upon the successful liberalization of the drawback system in late 1983 (supported by Bank Loan 2347-BR), and the reduction of some import restrictions in September 1984. Measures being sought by the Bank for the loan include: (a) improved access to financing for export production; (b) extension of the drawback system for indirect exporters; (c) improvements in export marketing and promotion; and (d) design and initial steps to implement a multi-year program for the rationalization and liberalization of import restrictions. The latter would consist of a generalized tariff reform, the reduction of tariff exemption schemes, and a reduction in the use of nontariff barriers. It should be emphasized that only with meaningful agreements on these measures will the Bank be able to proceed with the loan.

11. Public Sector Tariff Policies. We are concerned that public sector pricing policies could result in greater Government deficits, as well as erosion of productive assets, if price adjustments continue to lag behind inflation levels. While it was understandable that price controls would be applied as an initial effort to reduce inflationary expectations, they have had an adverse effect on the ability of state enterprises to generate needed funds to maintain already reduced investment programs. In fact, lags in price adjustments in, for example, the power sector, have resulted in operating losses for many companies. Price controls alone have not effectively dampened inflationary expectations, and need to be accompanied by other stabilization policies. We should like to know more about the Government's intentions with regard to price controls and accompanying anti-inflationary measures.

Attachments

BRAZIL

Five-Year Lending Program

FY85-89

FY85:[a]	Northeast Rural Development I	61.3	
	Land Titling	100.0	
	Northeast Rural Development II	61.4	
	Science and Technology	72.0	
	Railways	200.0	
	Power Transmission	400.0	
	Power Distribution	312.0	
	Rural Water Supply	16.3	
	Development Banking	300.0	
	Total Lending	1,523.0	
	Number of Projects	9	
FY86:	Northeast Rural Development III	180.0	
	Alcohol Development II	175.0	
	Sao Francisco Irrigation	70.0	
	Salvador Urban Development	70.0	
	Northeast Rural Development IV	150.0	
	Santa Catarina Small Towns	24.5	
	Northeast Power	200.0	
	Northeast Urban Reconstruction	96.0	
	Power Sector Loan	300.0	
	Agricultural Credit	150.0	
	Total Lending	1,415.5	
	Number of Projects	10	
FY87:	Agricultural Sector II	350.0	(S)
	Rubber Development	60.0	(S)
	Export Development II	200.0	(S)
	State & Regional Development Banking	225.0	
	Rural Electrification II	175.0	
	Public Sector Management	20.0	(S)
	FEPASA Railways	100.0	
	Northeast Rural Development V	200.0	(S)
	Total Lending	1,330.0	
	Number of Projects	8	
	Reserve Projects:		
	Irrigation Engineering	45.0	
	Agricultural Research II	100.0	
	Natural Gas	50.0	
	Minas Gerais Forestry	20.0	

[a] Actual

BRAZIL - FIVE YEAR LENDING PROGRAM (FY85-89)

FY88:	Northeast Health	100.0 (S)
	Agricultural Extension	150.0 (S)
	Ports II	100.0 (S)
	Development Banking IV	300.0
	Livestock Disease	50.0 (S)
	Power Distribution II	300.0 (S)
	Transport Sector	225.0
	Rural Telecommunications	100.0 (S)
	Cerrado Transportation	100.0
	Total Lending	1,425.0
	Number of Projects	9
	Reserve Projects:	
	Agricultural Sector III	250.0
	Export Development III	250.0
	Health/Population	40.0
	Water and Sewerage	200.0
FY89:	Education Sector	150.0
	Northeast Irrigation	125.0 (S)
	Feeder Roads	150.0 (S)
	Financial Reform II	200.0 (S)
	Technology Development	100.0 (S)
	Development Banking V	300.0
	Northwest Small & Medium Industry	150.0
	Northeast Small & Medium Industry	200.0 (S)
	State Highways	150.0 (S)
	Total Lending	1,525.0
	Number of Projects	9
	Reserve Projects:	
	Urban Sector	200.0

TOTAL FY85-89:

Total Lending	7,218.5
Number of Projects	45
Reserve Projects:	
Total Amount	1,155.0
Number of Reserve Projects	9

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Personal Information

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Boards of Governors • 1985 Annual Meetings • Seoul, Republic of Korea

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SEOUL
KOREA

Telex Number:

29555 IBRD/IMF

October 7, 1985

TO: Mr. A. W. Clausen

THROUGH: Mr. Ernest Stern ES.

FROM: A. David Knox ADK

SUBJECT: BRAZIL - Meeting with Minister Dilson D. Funaro

1. I wish to inform you about the following two matters discussed during my meeting with the Brazilian delegation this morning; they may be raised again during your meeting with Minister Funaro scheduled for Wednesday, October 9.

2. On cofinancing, the delegation indicated that the Government does not for the moment wish to see the Bank actively explore with commercial banks cofinancing for the power sector or for other possible loans; it would rather wait until an overall rescheduling agreement is in place. We have agreed to hold informal discussions with commercial banks and to keep in close touch with the Government. ?

3. Following a discussion the Minister had yesterday with Mr. de Larosiere, he asked whether the Bank could consider participating in the financing of a US$1.5 billion PETROBRAS investment needed to develop a recently discovered oil field. I indicated that our policies preclude us from financing public petroleum companies although we might be able to work out something if the Government were to open the sector to private investment. We offered to send a technical mission to review the proposal and pursue the discussion.

cc: Messrs. Dherse, EGY
Gue
Gonzalez-Cofino

Wed. Oct. 9
7:00pm.

MANAGEMENT VERSION

SUPPLEMENTAL ANNUAL MEETING BRIEF

Name of Country: BRAZIL Date: September 23, 1985

Meeting with: Messrs. Dilson Funaro, Finance Minister and Governor in the IMF; Fernao Bracher, President of the Central Bank; and Andrea Calabi, Vice-Minister of Planning

Background

1. A strike of all banking sector employees started on September 11 and was settled three days later through a substantial wage increase, which is estimated by the Government at 12.5% in real terms. The bankers consider that the real increase is somewhat higher because of increases in overtime pay and fringe benefits. The authorities say that this was an exceptional case that would not be replicated elsewhere. There are, however, indications that the labor unions are ready to fight for similar or higher increases in other sectors and the possibility of strikes in the power and petroleum state enterprises is now being discussed. We suggest that you ask the delegation what are the Government views on the possibility of widespread large wage increases and on their potential inflationary effects.

Threat of widespread wage increases.

Cofinancing

2. The Government, through the Planning Vice-Minister, requested the Bank on September 19 to approach again the commercial banks on the possibility of cofinancing for the power sector. They may also wish to have cofinancing for other proposed Bank loans. We have been told by the Planning Ministry that the Brazilian delegation will be able to confirm this Government position to you in Seoul. We recommend that you confirm the Bank's willingness to promote the power sector operation, and perhaps others in the future. But you should note that ~~although noting at~~ ~~the same time that the commercial banks may be unwilling to proceed~~ in the absence of agreement between Brazil and the Fund, it will not be feasible to arrange new voluntary lending through cofinancing or through other means.

The Future Role of the Bank in Brazil

3. The Government is now considering the possibility of asking for Bank assistance to complete its medium-term development plan, and for our support of such plan vis-a-vis the international financial community. In the view of the Planning Minister, this would imply the participation of the Bank in Brazil's negotiations with the Fund and commercial banks; other high-level Government officials (including Mr. Luiz Paulo Rosenberg, the Senior Economic Advisor to President Sarney) would like to limit this additional Bank role to cofinancing. On September 19, the Government also asked the Bank to assist in the privatization of some state enterprises, starting, as a pilot case, with a steel firm. The authorities also intend

to ask you in Seoul for a substantial expansion of our lending program for Brazil. We suggest that you tell the delegation that: (a) the Bank is ready to explore the possibility of cofinancing; (b) we would be willing to consider playing a broader role vis-a-vis the international financial community, provided that full agreement is reached in this respect between Brazil, the Fund and the Bank; (c) such agreement woud have to include, *inter alia*, a viable stabilization program and a medium-term economic program which would address the reforms required in key policy areas such as trade, agriculture, financial system, public enterprises and public sector investment; (d) we are willing to consider providing assistance (in ways still to be defined) concerning the privatization of state enterprises; and (e) the possibility of increasing substantially our lending for Brazil would depend upon reaching agreement in the near future on the proposed policy-based operations (Agriculture Sector and Export Development loans) and on the other policy areas referred to under (c) above.

O.7.4
10:00

IFC

1985 ANNUAL MEETING BRIEF

BRAZIL

For many years now, Brazil is the country in which IFC is most active. As of June 30, 1985, $350 million, equivalent to 16.5% of IFC's portfolio was invested in Brazil. Including participations by commercial banks in IFC loans, the figure for Brazil reached about 19% and for equity alone about 23%.

The contacts with the Government and the private sector are close and have resulted in a substantial increase in the number of projects and in volumes over the recent years. According to the priorities of the Government, IFC has intensified its efforts to identify and support projects in the sectors and regions mentioned below:

- Manufactured goods for export and other exports
- Agriculture and Agro-industries
- Industries with high imports substitution impacts
- Energy
- Basic Industries (including Mining)
- Technology transfer of higher technology industries
- Privatization
- Industries located in the North & Northeast of Brazil

The reduction of regional imbalances in industrial development has been an important criteria for IFC. IFC has focused its efforts on the Northeast, the North, the Center and states such as Minas Gerais, Parana and Rio Grande do Sul, which are relatively less developed in comparison to Sao Paulo or Rio de Janeiro.

The new Government has indicated a strong interest in the privatization of a number of state owned enterprises. IFC may have a role in assisting the Government in its efforts to turn these enterprises into private sector operations.

Given Brazil's present external financing constraints, IFC will give priority to all export oriented projects. In addition the financial and technical restructurings of existing comanies has become an important activity. These restructuring programs include elements such as modernization of product lines, in particular to meet export market requirements, financing of increased permanent working capital needs, strengthening of the financial structure of the companies concerned through equity, convertible or straight debenture issues, often in conjunction with local investment banks and others.

To meet specific needs for equity, IFC is helping in the establishment and support of specialized financial institutions such as special sector/special region venture capital funds.

In line with IFC's present 5 year plan we foresee an investment volume of about 100 million p.a. for IFC's own account. This can be increased substantially by syndications. Equity will be an important factor in IFC's investment program.

Wed. Oct. 9
7:00 pm.

BRAZIL

Brazil was traditionally opposed to MIGA. In the aftermath of Mr. Shihata's visit in July, it has started to review its position but it must still be expected to express reservations supported in this by Mexico, Venezuela and Argentina.

You might wish to express your satisfaction about the agreement reached by the Executive Directors on the draft Convention establishing MIGA which represents a well-balanced package serving the interests of developing countries and containing adequate safeguards against any encorachment upon their sovereignty. In particular, investments would only be guaranteed with the prior approval of the host country concerned and disputes between MIGA and the host country relating to a guaranteed investment could be resolved outside the Convention on the basis of an agreement between MIGA and the host country. Such an agreement could be concluded before a country ratifies the Convention and could provide for the exhaustion of local remedies. Brazil has concluded and recently reactivated an agreement with the United States on the operations of the U.S. investment guarantee agency OPIC.

You might further wish to note that fresh efforts to stimulate investment flows are of particular importance for Brazil and other Latin American countries which have suffered particular drastic declines in foreign investment since 1981 and were in 1984 outpaced by the Asian

Pacific region as the prime host of U.S. direct investment for the first time. In addition, MIGA is specifically designed to foster investment among developing countries; Brazilian exporters of capital and technology could thus obtain MIGA's coverage for their exposures in other developing countries putting them on an equal footing with their competitors from industrial countries.

You might finally request Governor Sayad's support for the proposed resolution on MIGA, indicating that this would not commit Brazil to sign the Convention. If he is not prepared to support the resolution, you might urge him at least not to stand in the way of the other countries which are convinced that MIGA would assist them in their development efforts.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE August 27, 1985 EXR/MC85-20

TO Members of the Managing Committee

FROM Jose Botafogo G.

EXTENSION 7-2466

SUBJECT BRAZIL CPP

Given my personal knowledge of the Brazilian economic situation and of relations between the country and the Bank, I decided to put in writing some comments about Brazil's CPP.

It is very significant that I write this note on the day Mr. Dornelles, Finance Minister, quit his job, reportedly because the President did not support his "monetarism" vis-a-vis the "expansionism" approach of his colleagues in the Planning Ministry.

This is a significant development. Uncertainties about the Brazilian economic situation are closely related to this supposed dilemma between "monetarism" and "expansionism". The outcome will have a profound impact on the Bank's program. Is this dilemma real or is it only the external perception of a very complex situation the solution for which must be found elsewhere?

When the country was suffering an acute foreign currency liquidity crisis, it was obvious that the monetarist approach was the only one advisable in those circumstances. Drastic reduction in aggregate demand, exchange rate devaluation, cut in public expenditures, control of imports, change in relative prices were needed to restore balance in external account, and to get the commercial banks to agree on a system of debt re-scheduling and compulsory new financing. With the timely intervention of the IMF, the previous Brazilian government was able to accomplish a very ambitious plan of short-term external adjustment, universally recognized as a very successful one.

Nevertheless, in developing that strategy some built in distortions started to affect the performance of the Brazilian economy and to affect also the long term nature and scope of both the IMF's and Bank's programs with the country.

The basic distortion springs from the general indexation system and the best way to curb down inflation. In spite of substantive across the board cuts in the expenditure and investment budgets of the public sector as a whole (direct Administration and state companies), in spite of conservative wage policies, in spite of large reductions in subsidies to agriculture and export sectors, inflation remained high (currently 220% per annum). As is well known the Government failed to reach

4a

9-23-85

Suggested a bigger program than at Corp?

New Min of Finance FORNADO

page 21.

more rural dislusion loans. what moved n250M+

$500M+ a year for FY 86, 87 + 88

do to 570.

Keep percentage 12½ to 13%!

the monetary targets agreed with the IMF. The important question is whether persistent inflation is entirely the result of a failure to fully implement the adjustment measures agreed with the Fund and the commercial banks, or is it the result of some structural features of the Brazilian economy?

Everyone knows that because of the indexation system the public deficit perpetuates itself every three months, almost by a miracle. To finance this deficit the Central Bank taps the narrow national capital market, pushing interest rates to fantastic real levels (30% or more). An abundant amount of "scarce" domestic resources flow to the speculative financial market making almost impossible private financing for productive activities. Public financing on better terms is also not available either because public banks lack funds, or because of de-regulation of credit policies. Nevertheless, forecasts for the current year are for a 4.5% growth of GNP. How is this possible? Through inflation, of course. Obviously, inflation is the market's answer for the inconsistencies of economic policies. It is because of this that "structuralists" are proclaiming victory over the "monetarists"!

Assuming that developing countries need self-sustained non-inflationary growth, it is clear that neither the IMF nor the Bank are helping Brazil to fulfil this latter condition. Let's see if self-sustained growth is being achieved.

As the CPP correctly states, growth in Brazil in 1984 was mainly the result of the export drive made possible by the booming U.S. economy. Prospects for 1985 are good, but uncertainties also are greater. Who can predict what will happen to the pace of recovery in industrial countries, the evolution of protectionist legislation in the U.S.A. and Europe, how the dollar will behave vis-a-vis the European and Japanese currencies, what will be the level of interest rates (prime or Libor), for how long will oil prices decline or how commodity prices will perform? Depending on the combination of these factors, the Brazilian economy may benefit or deteriorate. But for a country that generates 90% of its GDP internally why should self-sustained growth be a problem even if the external situation worsens? One possible answer is that the remaining 10% is of critical importance in order to bring about the structural change in the economy which would, over time, help Brazil to more effectively counter changes in its external environment. Since these changes are structural, they will need time to bring about.

But let's see whether the IMF's or Bank's current programs are working in the right direction in giving Brazil the opportunity to restructure?

Because of import constraints, Brazil had to embark on a new, unexpected, ambitious round of import substitution. First in the energy field, by increasing domestic oil production and developing new sources of domestic energy, like alcohol, coal, charcoal, manioc, biomass in general (all regardless of costs). Given the diversified industrial structure of the country, a large proportion of imports of spare parts and components has been silently and definitely replaced by local production (almost 2 billion dollars, according to Minister Delfin Netto's estimate). The result is an economy which is much more closed than the one that existed before the crisis of the early 1980s. But is this new structure more efficient? Can we conclude that Brazil can self-sustain indefinite growth inside an inflationary environment just because it happened to do so in 1984 and maybe in 1985?

The answers to both questions are clearly no. Not at this level of inflation.

So what to do?

Modify the current strategy, both nationally and internationally.

Brazilian authorities are preparing a new development plan for four years assuming an annual growth of GDP of 5%. This seems reasonable. From that starting point the Bank could help the country to develop a consistent program of public sector investment based on an efficient utilization of domestic resources. In line with this program it should be prepared to negotiate a wide and flexible set of economic policy measures. The first element of this new approach would be a stabilization program with the IMF, from 1986 on, where the main performance criteria would be consistent with the 5% growth assumption and not quantitative targets isolated from this growth perspective as is currently the case.

Supposing the country is willing to adopt this approach, the Bank should then be prepared to play a leadership role and accept a deeper involvement with the Brazilian authorities, including the way the external debt problem is being dealt with by the international financial community. The major difference between this approach and the one Brazil has followed up to now is to have international consensus on policies to be adopted in the context of a medium term (4-year) development context rather than in the context of a short term (12 to 18 months) stabilization program. A corollary of this approach will be for the Bank and the Fund to monitor (perhaps jointly) the implementation of the macro- and micro- policies agreed upon between Brazil and its external financiers.

I'll turn now to more specific comments on the document.

Para. 37 refers to a joint research program with ERS in the area of employment, particularly of low skilled workers. This is a very good idea.

I see two other areas where ERS could be involved. The first one is de-indexation. Could ERS provide support for a de-indexation program which the Government of Brazil may decide to implement in the future? Could the Bank provide or help to provide the external financing needed to back-up such a program? I believe some work was done by the Bank in this area almost ten years ago when the consequences of indexation on economic growth in Latin America were examined. Can this work be updated?

The second one is trade policy. Could ERS provide support to a gradual and selective trade liberalization policy in the country and work with GATT and UNCTAD to produce a procedural framework to make this liberalization accountable in future trade negotiations?

Para. 38 indicates three objectives. I could not agree more with them, specially if the Brazilian Government were to ask the Bank's help in shaping a new development strategy. But one must avoid misunderstanding about the foreign investment legislation in Brazil. It dates from 1963, before the military revolution and has never been changed. Under this same legislation, Brazil received enormous amounts of foreign risk capital. How is it that now this legislation is considered an obstacle to direct foreign investment? To understand this, one has to recognize that in Brazil, in the last two and a half decades, the import substitution policy (trade regime), the industrial policy (fiscal incentives) and the foreign investment policy (law 4131-63) were the tripod over which the Governments implemented their development policy, by the way very successfully. Changes in each leg of this tripod must be consistent with changes in the other legs. None of these policies can be taken in isolation. To suggest changes in the trade system on comparative advantages assumptions, or in the industrial policy on the basis of best allocation of resources, or in foreign investment policy on better flow of external resources assumptions, without taking into consideration their interaction, will be politically damaging to a good and constructive policy-dialogue environment.

Para. 63 mentions a possible loan to the Ministry of Planning to improve the public sector management. The Bank should give top priority to this loan. Its negotiation and implementation will give the opportunity to develop the right climate for a constructive and substantial policy-dialogue, and will help to do the "home-work" in case a more ambitious approach on Bank-country relations is requested by the Brazilian government.

Paras. 65 to 67 refer to regional development and poverty alleviation. From the Brazilian point of view, this is the first priority on both political and social grounds. The present Government has launched a new program of agrarian reform to try to cope with the explosive situation in the Northeast area. Since McNamara's time the Bank has insisted on a modern structure of land ownership in Brazil in general and in the Northeast in particular. The Bank should not be afraid to promote these issues, and should be prepared to face localized reaction from the regional oligarchic structures.

Last but not least I'd like to mention the Bank's objectives in education. This is a most neglected sector. Government policies in the past were inconsistent and highly distorted. Although enormous progress was achieved in primary education, secondary and vocational education were left aside (see economic and social indicators recently published), and a large amount of public funds were concentrated on high level education (in Brazil cost-free for students). Self-sustained growth can be achieved under good internal and external policy environment. But self-sustained growth cannot be maintained with an inadequate educational system, which is unable to provide the bulk of the manpower needs at the intermediate level of skill and training. As a consequence the Bank should be much more ambitious in its education objectives in Brazil. Policy dialogue is always painful. Better to suffer this pain on educational matters than on trade policy of exchange rate issues. The results are more rewarding.

JBotafogo:sf

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: July 24, 1985 — OPS/MC85-42

TO: The Managing Committee — 4

FROM: Ernest Stern E.S.

EXT.: 72004

SUBJECT: BRAZIL Country Program Paper

1. The OPSC discussed the Brazil CPP on June 27, 1985, and concluded that the program proposed for Brazil was sufficiently important to warrant discussion by the Managing Committee. Attached are the Brazil CPP, the Agenda for the OPSC meeting, and the Postscript to the CPP.

2. The approved lending program of $1.5 million per annum will carry Brazil's portfolio share slightly above the 10% guideline throughout the program period. It was felt that this level of lending was necessary to provide a linkage between investment financing and the policy reforms the Bank believes are required for continued economic improvement and creditworthiness. This level of lending implies some risks, however, as the direction of the new Government's economic policies is not yet fully clear. The lending strategy will be re-evaluated annually.

what role for the Bank? what impact will this have on others

Attachments

cc: Mr. Southworth

See P. 21

CONFIDENTIAL

BRAZIL COUNTRY PROGRAM PAPER

Postscript

104. The OPSC Review meeting was held on June 27, 1984. The Region, reporting on recent developments in Brazil, noted that negotiations with the IMF were proceeding well, and a new agreement is expected in the near term. Assuming the IMF agreement occurs, it is expected that a rescheduling agreement with the Banks will be signed shortly thereafter. Although the cruzeiro exchange rate is set relative to the dollar and appreciated last year with the dollar relative to other currencies, the IMF is satisfied with the current exchange rate and the rate of adjustment.

105. The question of how to deepen the Bank's knowledge of the public sector in Brazil was discussed. It was questioned whether comprehensive public investment reviews for countries as large and complex as Brazil were feasible. Several members suggested that the important goal of helping to put in place the institutional mechanisms for public sector management in Brazil could be accomplished without a full scale review by the Bank. Other suggestions included concentrating on key agencies, as opposed to a cross-sectoral review. The Region agreed to take these suggestions under advisement.

106. The goals of the lending program were discussed. In particular, it was questioned whether the size and composition of the program were being influenced excessively by the concern to accelerate disbursements in the short term. The Region stressed that the program was designed to provide a flexible linkage between lending and policy reforms. The issue of how this linkage is used was raised. Some speakers noted that our leverage in Brazil in terms of policy change has been modest, although we are providing a large share of the new money. The Region indicated that most of the major policy reforms contained in last year's strategy paper had been undertaken. It was suggested that the Bank should use its leverage to encourage more commercial bank financing. A lending program of $1.5 billion per annum for the program period was approved.

107. Given the progress Brazil has made towards structural adjustment and the need for renewed fiscal discipline in Brazil, approval was given for a continuation of SAP cost-sharing ratios through FY86.

108. Given the uncertainties regarding the macroeconomic outlook and the importance of Brazil in the Bank's portfolio, it was agreed that a DCB would be prepared in one year's time and a CPP in approximately three years' time.

109. The Chairman directed that the CPP be sent to the Managing Committee for discussion.

July 23, 1985

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: June 25, 1985

TO: Operations Policy Sub-Committee

FROM: Luis de Azcarate, Director, CPD

EXT.: 60063

SUBJECT: BRAZIL CPP: OPSC Review

1. Attached is an agenda and comments on major policy issues identified by CPD and PBD for consideration by the Sub-Committee. The suggested agenda items are:

a) Recent Political and Economic Developments and Prospects;

b) The Size and Conditionality of the Lending Program;

c) Composition of the Lending Program, Supporting Activities and Staffing;

d) Cost Sharing; and

e) The Timing of Future Strategy Reviews.

2. The Review meeting will be held on Thursday, June 27, 1985 at 4:00 p.m. in Room E-1208.

Attachments

cc: Regional Office: Messrs. Gue
van der Meer
Pfeffermann
Jaspersen
Levy
Gonzalez-Cofino
Yap
Gregory

Messrs. Ryrie
Jansen
Huang

P-1867

BRAZIL COUNTRY PROGRAM PAPER

Topics for Discussion

Recent Political and Economic Developments and Prospects

1. Recent economic developments in Brazil have been mixed according to this thorough and well written CPP. The external account has improved dramatically, as export volume increased 20 percent in 1984 while imports continued to contract, allowing Brazil to finish the year with a $7 billion increase in reserves. 1/ The domestic economic performance was not so bright however. Inflation continues to increase while money supply growth and the public sector deficit were both well above the IMF targets, causing the IMF to finally suspend its program last February. In the short term, inflation control and improved fiscal discipline must be high priorities along with continued export growth, and the Region observes that these are the immediate goals of the new Government. However, the policies for the achievement of these goals in the near term are yet to be fully articulated owing to the hiatus created by the illness and untimely death of the president-elect last spring. The Region may wish to elaborate on the latest policy statements and actions of the new Government, the prospects for a quick agreement with the IMF, and the outlook for the proposed multi-year rescheduling agreement with the commercial banks.

2. The Region is cautiously optimistic about the prospects for Brazil in the medium term (Attachments 3A-C). Export growth projections are conservative; manufactured exports grow at 5.8 percent (1985-90) compared to the 1985 WDR projections of about 8% for similar countries over the same period. Imports grow faster than exports, however, which when combined with fairly high projected interest rates (12% in 1985 lowering to 9.0% in 1990) result in a small current account deficit and a financing gap of about $1 billion in 1986 increasing to $6 billion in 1993, to be financed from private sources. The projections also assume a rescheduling which rolls over all amortization due commercial banks over the period. While it is possible that exports would increase faster -- especially if the incentive structure improved (para. 23) -- and that interest rates might be lower, it is also possible that private sources might not provide the levels of net capital inflows projected, since public statements from commercial banks have not been positive in this regard. In this case (not analyzed in the sensitivity analysis), the high levels of growth projected would not be possible since the import requirements could not be met. This could have political repercussions given the social pressures already built up in Brazil. The Region might wish to discuss with the OPSC the prospects for (a) securing the projected private capital flows and (b) disciplined economic management and ultimately for improved creditworthiness of continued constraints on economic growth. The Region also might wish to clarify the scope for policy in encouraging continued strong export growth.

1/ Although nominal import value contracted, the volume numbers presented in the CPP show a real growth of 17% (Attachments 3B, 3C, text Table 1). The Region is presenting a revised estimate and a technical note to clarify these tables, which will be distributed separately.

Size and Conditionality of the Lending Program

3. The Region recommends a slight (7% nominal) expansion in the currently authorized Brazil lending program, with $1.5 billion committed each year. Under this program, net transfers would turn negative in 1989. The Region also presents an expanded program that reaches $1.8 billion in new annual commitments in FY87-89, dropping to $1.7 billion in FY91 and beyond which postpones for two years the date when net transfers turn negative (Table 4). The "recommended" program will carry Brazil's portfolio share above the maximum 10% guideline throughout the program period, while the "expanded" program further increases Brazil's portfolio share. Although a temporary exemption from the portfolio guidelines may be justified, there are also measures that could be explored by the Region which would reduce the associated portfolio risk, including the purchase of some form of loan insurance, loan guarantees and loan sales. The Region might wish to discuss the merits of the projects which could be added under the expanded program and the OPSC might wish to assess the risks to the Bank's portfolio that the recommended and expanded programs would entail.

4. The Bank's program in Brazil has been greatly expanded in recent years and the Region proposes to further expand this level slightly through the program period. The expansion was justified by the economy-wide conditionality to be achieved in a series of large, fast-disbursing sector policy loans (1983 CPP, 1984 Strategy Paper). However, since they were approved in October 1983 the first two loans have experienced problems. None were presented to the Board in FY85, two of the previously programmed sector loans have been dropped (Agriculture Sector III and Financial Reform II), while Agriculture Sector II and Financial Reform I have become financial intermediary operations. Furthermore, the somewhat similar $400 million Agro Industry loan of FY83 has not disbursed beyond the first tranche as a result of further conditions not being met. Although it is understandable that the political change of the last year affected the intensity of the policy dialogue, these program adjustments raise the question of whether there may be a weakening in the policy conditionality on which the proposed levels of lending were to be based. The Region proposes (para. 45) that these concerns be addressed through the remaining quick-disbursing operations (Export Development II and III) and through conditionality associated with the slower disbursing loans. The Region might wish to elaborate on its statements in para. 41 regarding the level of policy performance which would justify the recommended $1.5 billion program, clarifying the linkages envisioned between progress in these areas (fiscal discipline, external balance and incomes policies) and the lending program. The Region might also indicate whether these linkages have been discussed with the new Government.

5. In the downside risk case identified as a turnabout in the whole policy stance of the Government and a break with the Fund, the Region proposes a response of a reduction in the lending program (primarily in FY86-87) to about half the level of the recommended program. This contingency program is composed of traditional projects, primarily in the social sectors. Is even this reduced level of lending warranted under such circumstances?

Composition of the Lending Program, Supporting Activities and Staffing

6. The proposed lending program is a balanced one, combining traditional infrastructure projects, sector and credit loans in the productive sectors, and social sector projects. Consistent with the development policy directions as perceived by the Bank and the new Government, the proposed program devotes special

attention to the problems of regional development and poverty alleviation. Through ESW and traditional projects, the Region proposes to direct a substantial slice of Bank resources to the objective of improving the economic welfare of the poorest regions. The proposed program offers an opportunity for the Bank and Brazil to learn from the past and build a better future. Also included in the planned ESW are studies to analyze employment issues, an Achilles heel of the Brazilian economy, and extensive public sector investment (PSI) review. The PSI reviews, to be performed annually, have been allocated 120 staffweeks (and more in the first two years), about one-fourth of total Regionally-managed ESW for Brazil. The total package of lending and ESW is ambitious. The Region proposes to increase the number of projects from eight to ten per fiscal year for the recommended program, and to twelve per fiscal year for the expanded program. Some of these projects, such as the regional development areas, will likely be very staff intensive. Consequently, this proposal will require more efficient use of current staff resources and possibly a redirection of staff resources within LAC given current budgetary constraints. The Region might wish to discuss the feasibility of the total program, and to clarify its priorities should staffing constraints limit total output.

Cost Sharing

7. In light of the macroeconomic importance of improved fiscal discipline combined with the need for sustaining levels of public investment to revive the still stagnant Brazilian economy, the Region proposes to maintain the cost sharing ratios approved under the Special Action Program (SAP) at least through FY87. The existing cost sharing ratios -- 50% or the foreign exchange cost, whichever is higher, for economic as well as social projects -- is generous for a country of Brazil's income level. Brazil's fiscal situation is admittedly difficult in the short term, but it is not clear that the best way to deal with these difficulties is to finance a higher share of costs in projects whose major disbursements will not occur until the 1990s. The Region might consider conditioning the proposed cost sharing ratios for FY86-87 on the Govenment's actions to reduce the public sector deficit. The OPSC may wish to discuss a timetable for returning to pre-SAP cost sharing ratios.

Timing of Future Strategy Reviews

8. The Region proposes annual updates of the Bank's strategy in Brazil through DCBs and CPPs. Given the uncertainties regarding the macroeconomic outlook and the importance of Brazil in the Bank's portfolio, it is proposed that a DCB, covering recent macroeconomic development, creditworthiness, and the progress of the policy dialogue be reviewed annually, and the next CPP review take place in approximately three years' time.

Annex I compares the lending program for Brazil proposed in this CPP with programs previously approved.

Annex II presents a comparison of various country performance indicators.

BRAZIL

Annex 1

	FY84	FY85	FY86	FY87	FY88	FY89	FY90	Five-Year Totals FY84-88	FY85-89	FY86-90
Operations Program (No.)										
CPP, August 1983 a/	8	10	10	7	8	..	..	43	..	..
Proposed, June 1985	10	8	18	16	14	13	6	66	69	67
Lending Program (No.)										
CPP, August 1983 a/	8	10	10	7	8	..	..	43	..	..
Std. Table IVa, Nov. 1984	10	7	8	8	8	8	..	41	39	..
Proposed, June 1985	10	8	10	13	11	11	9	52	53	54
Lending Program (Cur. $m)										
CPP, August 1983 a/	1400.0	1480.0	1450.0	1070.0	1100.0	..	..	6500.0	..	..
Std. Table IVa, Nov. 1984	1604.3	1190.0	1500.0	1335.0	1475.0	1500.0	..	7104.3	7000.0	..
Proposed, June 1985	1604.3	1423.0	1500.0	1500.0	1500.0	1500.0	1500.0	7527.3	7423.0	7500.0
Lending Program (Const. FY85 $m)										
CPP, August 1983 a/	1502.1	1480.0	1352.6	935.3	906.1	..	..	6176.1	..	..
Std. Table IVa, Nov. 1984	1721.4	1190.0	1399.3	1167.0	1215.0	1170.0	..	6692.7	6141.3	..
Proposed, June 1985	1721.4	1423.0	1399.3	1311.2	1235.6	1170.0	1111.9	7090.5	6539.1	6228.0
Commitment Deflator (FY85 = 100)	93.2	100.0	107.2	114.4	121.4	128.2	134.9			

Note: November 1984 Review Group Decisions - FY85-89: IBRD $7000 million.

a/ OPSC approved only a program of $2.9 billion for FY84 plus FY85.

PBDCP
6/18/85

COMPARATIVE COUNTRY ANALYSIS

	BRAZIL	ARGENTINA	KOREA	PORTUGAL
Economic Structure				
Population 1983 (millions)	129.7	28.8	40.0	10.1
GNP Per Capita 1983	1890.0	2030.0	2010.0	2230.0
% Agriculture in GDP 1983	12.7	15.3	14.0	8.0
% Industry in GDP 1983	32.7	35.4	39.0	40.0
% Services in GDP 1983	54.6	49.2	47.0	51.0
Debt Service Ratio 1983	47.4a/	70.6	13.6	26.7
Economic Performance				
Real GDP Growth Rate 1973-83	4.8	0.4	7.5	n.a.
Gross Domestic Investment/GDP 1983	18.1	14.2	27.0	29.0
Exports GNFS/GDP 1983	11.3	14.7	37.0	32.0
Resource Balance/GDP 1983	1.9	5.7	-1.0	-13.0
Gross National Savings/GDP 1983	9.6	10.9	24.4	11.4
Recent Social Indicators				
Population Growth Rate	2.3	1.4	1.7	0.9
% Change in Crude Birth Rate 1965-83	-22.9	12.0	-36.3	-34.8
% Change in Crude Death Rate 1965-83	-28.7	1.1	-46.1	-10.0
Infant Mortality Rate (per 1,000) 1983	69.0	41.0	32.0	26.0
Life Expectancy (years) 1983	64.0	70.0	68.0	71.0
Adjusted Education Enrollment Ratio				
- Primary	96.0	119.0	100.0	121.0
- Secondary	32.0	59.0	89.0	50.0

	Brazil FY80-84	Brazil FY85-89 b/	Argentina FY80-84	Argentina FY85-89 c/	Korea FY80-84	Korea FY85-89 c/	Portugal FY80-84	Portugal FY85-89 c/
Lending Program								
Nominal IBRD US$M	5323.0	7423.0	805.0	900.0	2844.5	3200.0	574.3	850.0
p.c.p.a. Lending US$	8.2	10.8	5.6	6.3	14.2	16.0	11.2	16.5
p.c.p.a. Constant 1985 US$	9.5	9.5	6.8	5.3	16.6	14.0	14.0	15.0

Sources: Brazil and Argentina CPPs
1985 Draft World Development Indicators
Table IVa

a/ Includes payments on short term debt
b/ CPP Proposal
c/ Table IVa

Country Policy Department
June 18, 1985

REVIEW DRAFT
FOR OPERATIONS POLICY SUB-COMMITTEE

CONFIDENTIAL

Country Program Paper

BRAZIL

July 9, 1985

Latin America & Caribbean Regional Office

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REVIEW DRAFT
July 9, 1985

COUNTRY PROGRAM PAPER
BRAZIL

1983 Population: 129.7 million /a
1983 Per Capita GNP: US$1,890

Current Population growth rate: 2.3% p.a.

	FY80-84	FY85-89	FY86-90
IBRD	5,323	7,423	7,500/b
IDA	-	-	-
Total	5,323	7,423	7,500
No. of Loans/credits	40	53	54
No. of Loans/credits per million pop.	.31	.41	.42

Current Exchange Rate (May 31, 1985)
Cr$5,480=US$1.00

Average Lending Per Capita Per Annum: Current $ (Const. FY85 Commitment $)			
IBRD/IDA	8.2 (9.5)	10.8 (9.5)	11.6 (9.6)
IDA			

/a World Bank Atlas, 1985.

/b The FY85-89 lending program proposed in this CPP compares with the program for the same period approved at the last Bankwide lending program review November 1984 as follows:

	FY85-89 Lending Program Approved	FY85-89 Lending Program Proposed	Percentage Change Proposed/Approved
No. of Loan/Credits	39	53	+35.9%
Current US$ million	7,000.0	7,423.0	+6.0%
Constant FY85 Commitment $	6,141.3	6,539.2	+6.5%
Per Capita per annum (Constant FY85 Commitment $)	9.5	10.1	+6.5%

Note: Brazil's subscriptions to the Bank (see Attachment 1D) are fully up to date except for shares allocated under Board of Governors' Resolution No. 395 adopted on August 30, 1984.

I. Introduction

1. This Country Program Paper is being developed in a more promising economic environment in Brazil than that prevailing in September 1983, when the previous CPP for Brazil was reviewed by management. (A discussion of the economic situation can be found in the latest economic report, entitled "Brazil: Country Economic Memorandum" (Report N°. 5373-BR), dated February 26, 1985. The report was distributed to the Executive Directors on March 7, 1985.) This year is historic politically, as the country returns to civilian rule after 21 years of authoritarian government headed by the military. While the unexpected illness and subsequent death of President-elect Tancredo Neves was a major setback, the country remains committed to democratic rule in accordance with the Constitution and a promising start has been made by the new Government under President Jose Sarney. These factors permit and require a Bank strategy for Brazil which goes beyond adjustment and toward development more broadly conceived.

Update on Priorities of New Government

2. The restoration of growth is the central concern of the new Government, as reflected in its public statements. It recognizes, however, that neither growth nor poverty alleviation can be sustained without a decline in inflation and accepts also the need for equilibrium in the external accounts. These concerns should lead logically to policies which result in a gradual opening up of the economy, higher domestic savings and reduced reliance on external borrowing, greater productive efficiency, improved allocation and use of resources, improved management of the public sector, growth in employment opportunities, and lower inflation levels.

3. Although the new Government was slow to assume active leadership during Mr. Neves' hospitalization, the consolidation of its policies, decision-making processes, and political base is now well underway. While President Sarney, who was Mr. Neves' vice president, does not inherit Mr. Neves' extraordinary popularity, he has the backing of the country and its political leaders. The new Government's economic objectives were laid out in broad terms in Finance Minister Dornelles' policy statement to Congress on May 8 and in the general guidelines for the new development plan issued by the Planning Secretariat a week later. Its immediate priority is the reduction of inflation. Recognizing the impact of the public sector deficit on inflation, the Government plans to reduce the sizable 1985 deficit substantially. Minister Dornelles put priority on cutting spending by eliminating the deficits of public enterprises, the social security system, and state and local governments and by reducing subsidies. While some increase in tax revenues and in new domestic borrowing would also be required, he expressed reluctance to use these financing sources extensively, since they would withdraw resources from the private sector at a time when growth in output and employment is needed. As initial stabilization measures, the Government had already initiated an across-the-board cut of 10% in federal fiscal budget expenditures, a freeze on new hiring by government agencies for 1985, and a temporary freeze on new loans by official government banks. Prices for public sector products and for those privately produced goods and services which are subject to Government approval have also been frozen temporarily, although wage

indexing up to 100% of inflation can be passed on to the consumer during this period.

4. Because of a substantial monetary expansion at the end of 1984, the IMF has held up further disbursements from the 1983-85 Extended Fund Facility. The parties are discussing the basis for a new arrangement, and an agreement is expected by the end of August. The Government has also reopened negotiations with the international commercial banks on a multi-year rescheduling of the debt coming due during the remainder of the decade. Negotiations earlier in the year had almost been concluded when the IMF's decision was announced; to provide time for the new Government to reach an agreement with the Fund, the commercial banks have extended their 1984 arrangements with Brazil (for rescheduling of principal and continuation of trade and inter-bank credit lines) until August 31, 1985.

II. Country Development Perspective

Economic Background

5. The origins of Brazil's present economic problems can be traced in large part to the two oil price shocks of the past decade and to the policies adopted to deal with those shocks. Having achieved annual GDP growth rates of 11% between 1967 and 1973 together with declining inflation, Brazil, as a major oil importer, was jolted by the first petroleum price shock. Nevertheless, Brazilian authorities continued to promote a high rate of output growth, with generous credit and tax subsidies for industrial and agricultural exports and import substitution, higher import barriers, heavy foreign borrowing and substantial investment in domestic energy substitutes for imported oil. When the 1979 oil price increase occurred, the latitude for policy response was much more limited. Imports had already been severely compressed and further restrictions were more costly in terms of output and inflation. Moreover, the external debt burden and the associated debt service were much higher. The foreign debt had already grown from US$9.5 billion at the end of 1972 to US$46.4 billion at the end of 1978. At the same time, inflation was accelerating in response to a combination of continued high demand, the monetary impact of the rapid reserve build-up in 1977 and 1978, and two successive poor agricultural harvests. The inflation momentum picked up further in 1979, as the second oil shock hit, the public deficit grew, a large number of previously controlled prices were freed, and the cruzeiro was devalued some 30% at year end.

6. An unsuccessful attempt to dampen inflationary expectations in 1980, through prefixation of monetary correction and the adjustment of the exchange rate, resulted in an overvalued currency and reduced demand for financial assets. As international lenders increasingly expressed concern, stabilization policies--primarily restrictive monetary and credit policies--were put into effect at the end of 1980, substantially raising real interest rates and triggering the recession in 1981. The sharp increase in international interest rates compounded Brazil's problems, by almost doubling interest payments on its growing debt between 1980 and 1982.

7. Faced with declining world commodity prices, economic problems affecting some of its major trading partners, and the reluctance of foreign banks to roll over existing loans or extend new credits following Mexico's crisis in August 1982, Brazil sought assistance from the International Monetary Fund, in the form of compensatory financing and a three-year Extended Fund Facility for 1983-85. The adjustment program was intended primarily to reduce the current account deficit, external borrowing requirements and inflation. This was to be achieved by eliminating the operational public sector deficit--6.6% of GDP in 1982--by 1984, through revenue measures, elimination of product and interest subsidies, and tighter expenditure and borrowing controls; limiting increases in the money supply; fixing external borrowing limits; and frequent exchange rate devaluations equal to domestic inflation. While the program envisaged gradual liberalization of price, export and import controls, most import restrictions have remained in place because of the serious overall shortage of foreign exchange.

8. Although inflation remains exceptionally high (225% for 1984), substantial progress has been made in the management of the external accounts. Exchange rate policy contributed to strong export expansion during 1984, particularly of industrial exports, resulting in a trade surplus of about US$13.0 billion for 1984 and a marked improvement in Brazil's international reserve position. As indicated earlier, the Government has been negotiating with the commercial banks on a multi-year rescheduling of their debt with substantially longer maturities and lower spreads, subject to reinstatement of an IMF program. Domestically, the public sector deficit (excluding the monetary adjustment of the debt) has been reduced, but not eliminated, by a reduction in price and credit subsidies and other Government spending, revenue-generating measures, and more realistic pricing policies. In addition, signs of recovery from the domestic recession are now apparent. Sparked by the export resurgence, GDP for 1984 grew 4.5%, or about 2% per capita. A doubling of manufacturing exports in real terms in 1984 relative to the historic peak in 1981 accounts for the first noticeable increase in manufacturing output since 1981, despite the fact that for most industries the proportion of total output which is exported remains relatively small. While a similar performance is not likely to materialize in 1985, exports have recovered enough from their dip in the first quarter of the year to generate a substantial trade surplus for the year.

9. However, the short-term cost of Brazil's adjustment has been high. Per capita GDP declined by about 12% in 1981-83, and industrial employment by over 20%, with the largest reductions concentrated in the industrial areas of the Center-South region. Public services and social expenditures have been curtailed. Inflation has roughly doubled since 1981, and real wages for those who have remained employed have fallen. Economic recovery, moreover, is not assured. Overall expansion is still being inhibited by depressed domestic market conditions. In addition, recovery may become stalled if funds for fixed and working capital have to be obtained at current real short-term interest rates, now at 30-40% in the free segment of the market.

10. Moreover, the risk of accelerated inflation is a dominating concern. Reducing inflation under the current system of indexation is proving to be very difficult, and the Government faces strong pressures to restore real wage levels and spending programs. While indexation makes inflation more tolerable and less threatening to growth, rates in excess of 200% (especially if rising) carry the risk of domestic and international reactions incompatible with faster growth. A reduction in this rate--or, at the minimum, maintenance of a stable inflation rate--is a critical element in the effort to promote new and sustained economic growth.

Demographic Trends and Poverty Alleviation

11. The socio-economic setbacks of the current recession follow a decade of considerable progress in poverty alleviation. Although the distribution of income did not change substantially during the 1970s, real income and consumption gains were observed in all regions, along with some modest reductions in the regional income disparities which continue to characterize the country. All decile groups participated in the 80% real increase in average incomes estimated for the 1970s. The broadly distributed increases in average incomes were accompanied by gains in educational attainment, access to basic services, and ownership of consumer durables. Between 1970 and 1980 the literacy rate, for example, rose from 51% to 61% and the primary school enrollment rate rose from 80% to 90%. Access to safe water and sewerage facilities, a factor closely related to health conditions, also improved. The proportion of households with piped water increased from 33% to 53%, and those connected to a sewerage network or with a septic tank, from 27% to 46%. Finally, by 1980, 50% of all households possessed a refrigerator (vs. 13% in 1970), 55% a television (vs. 15% in 1970), and 22% an automobile (vs. 10% in 1970).

12. Important demographic changes have also accompanied Brazil's economic development. There has been substantial migration from the countryside to the cities, and from the Northeast to the Southeast and frontier regions. The rural population fell in absolute terms for the first time during the 1970s, and now accounts for only a third of the total, about equal to the population in the major metropolitan areas. The population growth rate of Brazil has also fallen dramatically over time, from 2.9% per annum in the 1960s and 2.5% in the 1970s to 2.3% currently. This is due primarily to an acceleration of the decline in fertility rates. Since 1960, the expectation of life at birth has increased from about 55 years to about 65 years, reflecting a reduction in the death rate from about 13 to about 8 deaths per thousand population. In the same period the total fertility rate declined from 6.2 to 3.9 children per woman and the birth rate fell from 43 to 31 births per thousand population. Reductions in fertility were possibly due to a higher participation of women in economic activities outside the home, higher educational achievement, urbanization, a lower infant mortality rate, and greater use of contraceptives. Further reductions in fertility will be more difficult, even if the Brazilian Government allows the provision of contraceptive services by the public health care delivery system.

Medium-Term Prospects

13. The Political Dimension. Despite the expected continuity of policies, the change of government inevitably introduces uncertainties for

Brazil's recovery and growth prospects, and a potentially difficult transitional stage. As a civilian President, Mr. Sarney will need to secure consensus in order to maintain consistent, effective economic policies. While commendable efforts are being made to ensure a smooth transition, the change in regime has resulted in basic changes in ministerial and administrative positions and a substantial learning process for many key officials. The initial uncertainty about Mr. Neves' recovery introduced additional delays. In addition, the release of wider political forces could result in modifications to trade, wage, pricing or other policies which could impede progress toward stabilization and the resumption of economic growth. To date, however, wage settlements have been modest and Government actions have supported the objective of restraining public sector spending. Finally, a process of decentralization of authority and governmental responsibility appears probable, reflecting wider political participation and reaction to the concentration of power at the federal level of the outgoing Government, especially during the economic crisis.

14. Development Policy Directions. While the present stabilization program is occupying the new Government's attention initially, growth-related issues are also being addressed. As indicated above, Brazil's tight external and domestic resource constraints have and will continue to dominate economic decision-making for the next several years. Externally, therefore, the new Government must secure through further export growth the resources both to service debt and provide for GDP growth, with allowance for the degree of import liberalization needed to solidify Brazil's ability to compete in world export markets. The restoration of direct foreign investment inflows would assist this process through technology transfer,while also contributing modestly to the balance of payments. The management of the external debt will require constant attention. There will be little scope for external financing in the proportions mobilized during the 1970s, even if voluntary lending resumes.

15. The generation of internal resources presents equivalent challenges. Containing the fiscal deficits at federal, state and municipal levels will be a challenge for the Government, even if inflation diminishes and revenues recover after the recession. The federal revenue base has been severely eroded by transfers, subsidies and incentive payments, so that while taxation averaged 24% of GDP in 1980-82, "net" revenues left for direct Government spending amounted to less than 11% of GDP. Therefore, fiscal reform, involving both the taxation and incentive systems and the mechanisms for revenue sharing, is a Government priority.

16. Even so, the Government recognizes that careful demand management and more efficient use of scarce public sector resources will continue to be required. Brazil's large public sector, with its numerous semi-autonomous state enterprises, has compounded Brazil's present difficulties. The Government has stated its intention to reduce the size of the public sector, relying more on private sector expansion, and has emphasized the need to exercise more effective control over the state enterprises. While the scope for new investment projects in the public sector is expected to increase gradually, it will still be relatively limited, especially in the near term. The Government has indicated its

intention to stop investment projects which are not justified, and will establish investment priorities in the context of the national development plan. Since funds for internal borrowing by or transfers to public enterprises will also be limited, they will need to generate more of their own resources through appropriate pricing policies and improve their operating efficiency. Price and credit subsidies which contributed to past public sector deficits have been greatly reduced, and every effort should be made to avoid a return to these costly forms of market intervention and to insure that government-sponsored credit is offered, at a minimum, at interest rates which cover costs.

17. Because the public sector will be so constrained, economic growth will depend heavily on private sector initiative. Consequently, reductions in real interest rates and increased access to investment funds secured through financial sector and banking reforms are essential. While a significant decline in real interest rates depends on a reduction of inflation and inflationary expectations, reducing financial market segmentation and administrative costs and taxes on borrowing, as well as promoting competition among lenders, would help. More emphasis on use of market mechanisms is expected. There are strong pressures for decentralization, "debureaucratization", and deregulation. Such actions would have potentially large benefits for the Brazilian private sector, which has shown its flexibility and responsiveness to market incentives in the growth of new agricultural and manufactured exports.

18. The sectoral emphasis seems likely to continue to be on manufactured export growth which, apart from providing external resources, will improve quality, prices and productivity of production for the domestic market; on agriculture, where more rational pricing, credit and marketing policies could boost production growth; and on energy, where the emphasis needs to be on efficiency in import substitution, given the new trends in world oil prices and the limits to borrowing for public sector energy investments.

19. Much of the impact the Government will have in the area of poverty alleviation will depend on improvements that can be made at federal, state and local levels in education finance and management, the delivery of health services, and the provision of urban and rural water supply, sewerage, housing, transport, and communications. Transferring more responsibilities and revenues to state and local governments is a priority of the Government; however, the management issues are complex and federal resource requirements so large that decentralization is likely to progress rather slowly until later in the decade.

20. Satisfactory employment growth, a major requirement for poverty alleviation and greater equity in Brazil, provides a further rationale for changes in growth strategy. On past experience, capital-intensive growth would not provide enough new employment opportunities, and GDP growth would have to be at least 6% per year, even with changes in strategy, both to absorb new entrants to the labor force and reduce the unemployment and underemployment generated by the recession. Nevertheless, a more dynamic and less regulated private sector in agriculture, manufacturing and services could increase employment generation. Exporting, in addition to relieving the foreign exchange constraint on growth generally, tends to be

more employment-intensive than manufacturing as a whole. Programs for maintenance and rehabilitation of the country's infrastructure could make a useful, if temporary, contribution to employment. The possibilities do exist, therefore, for an increase in employment if the Government pursues economic policies which would also promote a pattern of growth adapted to the changed external situation. The cost of labor relative to capital has already fallen substantially since the late 1970s; maintenance of a ratio which favors the use of labor could also raise employment levels.

III. External Assistance and Creditworthiness

21. Brazil's stabilization program has greatly improved its balance of payments. Between 1982 and 1984 the trade surplus increased from less than a billion dollars to US$13.0 billion. Merchandise exports increased from US$20.1 billion to US$27.0 billion, while merchandise imports declined from US$19.4 billion to US$13.9 billion. The 1983 maxi-devaluation, maintenance of a realistic exchange rate policy, the existence of domestic idle capacity, and the economic recovery in the U.S. largely explain this export surge. On the import side, non-oil imports were cut substantially. However, because of substitution for imported oil and a drop in oil prices, 58% of the import decline came from the drop in oil imports.

22. Reflecting the trade performance and the decline in world interest rates, the current account improved dramatically between 1982 and 1984. From a deficit of US$14.0 billion in 1982, the current account moved to a surplus of approximately US$0.6 billion in 1984. This improvement, in conjunction with World Bank and IMF borrowing and the commercial bank "new money" and debt rescheduling facilities, eased the country's external financial constraint and allowed the replenishment of its international reserves and elimination of its payment arrears.

23. For 1985, the attainment of the balance of payments goals depends in large measure on the performance of exports. Exports in the first quarter of 1985 were about 10% lower than exports for the same period in 1984, although April's total was much improved. Several factors are involved. The continued strength of the dollar, to which Brazil's exchange rate is tied, has raised the cost of Brazilian products in European markets. The elimination of an export subsidy (credito premio) in March, with a phasing out period which began last fall, apparently prompted exporters to advance sales abroad from early 1985 to the end of 1984. In addition, the expected improvement in the domestic market in 1985 will probably make exporting relatively less attractive. Consequently, these factors will make it difficult to expand exports in 1985. We are projecting total exports of US$26.7 billion, permitting a trade surplus of US$11 billion and a growth of non-oil imports of 28% (see Attachment 3C). Initially, about US$1.5 billion in new commercial bank lending was estimated to be needed, to compensate for slow export growth, low IMF disbursements, and a LIBOR of 12% in 1985. However, now that the 1985 LIBOR is expected to be 10% instead of 12%, the EPD-projected rate, the shortfall will be closer to US$0.5 billion. The Government might decide to request new money from the commercial banks. However, it could finance

this shortfall from its replenished foreign exchange reserves of US$7-8 billion, if commercial bank reluctance to commit new funds would jeopardize the multi-year rescheduling agreement.

24. With the expected continuation of satisfactory stabilization and growth policies by the new Government, Brazil's economic prospects are encouraging. In the next five years, the Bank expects positive and rising real GDP growth, manageable current account deficits, and improving debt service ratios. Table 1 shows the projected rates of economic growth for 1985-90 and the increase in savings needed to grow and to service the debt. By 1987, GDP growth of 6% would be sufficient both to employ new entrants to the labor force and to begin to absorb a substantial part of the unemployed and underemployed from the long recession. However, investment and savings need to be increased substantially, requiring a lowering of real interest rates from present levels in order to stimulate investment while maintaining incentives to save.

25. Table 2 shows the external financing requirements and the sources of funds for 1985-90. Gross inflows averaging US$18.7 billion per year would be required over the period, if principal on private debt is not rescheduled. The rescheduling of all private debt through 1990, however, would reduce gross inflows to an average US$6.4 billion for the period.1/ Although new lending would be required, external debt would grow at a much more modest rate than in the past. Between 1985 and 1990, medium and long-term debt outstanding and disbursed is projected to grow in nominal terms at 4.3% annually, well below the projected rate of international inflation of about 7.5% per year. By 1990, total medium and long-term DOD would be about US$114.0 billion and short-term debt, an additional US$6.6 billion. Net new borrowing would average US$4.2 billion per year for the rest of the decade. If the multilateral institutions provide about US$1.0 billion net, and official export agencies and private suppliers lend an equivalent amount, then commercial banks would need to lend about US$2.2 billion per year, thus increasing their nominal exposure by 3% per year.

26. Creditworthiness indicators for Brazil would thus improve substantially over the projection period. The debt service ratio without rescheduling is projected to fall steadily from a peak of 73% in 1985 to 48% in 1990. Total debt (disbursed and undisbursed) as a fraction of GDP woud fall from 43% in 1985 to 27% in 1990. However, existing financial commitments would need to be rescheduled for several more years in order to reduce the level of debt service to one compatible with economic recovery. Between 1986 and 1990, Brazil will face a large amortization bulge of US$14-16 billion per year. If the portion owed to private creditors were rescheduled, the debt service ratio would fall to 47% in 1985 and 27% in 1990, magnitudes more compatible with restoring growth. Rescheduling of at least the commercial bank and Paris Club portions of Brazil's debt for

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1/ This is a rough estimate of the effect of rescheduling. Not all private debt, which consists of suppliers credits and commercial bank loans, is being rescheduled at this point. However, some official debt--the bilateral obligations associated with Paris Club lenders--is being rescheduled. Because of the difficulty of projecting amortization from each source, only aggregate projections, which themselves are subject to considerable error, are used here.

Table 1: MACROECONOMIC PERFORMANCE AND PROJECTIONS - BASE RUN
(Annual Real Growth Rates - %)/a

	Actual			Estimated		Projected	
	1975-80	1981	1982	1983	1984	1985-90	1990-93
GDP	6.8	-1.6	0.9	-3.2	4.5	6.6	7.5
Agriculture	4.5	6.4	-2.5	2.2	3.9	4.2	4.5
Industry	7.5	-5.2	0.8	-6.8	5.8	8.5	9.4
Services	6.5	-0.2	1.7	-1.5	3.7	5.6	6.5
Consumption	7.2	0.2	3.3	-2.0	2.6	6.4	7.8
Fixed Investment	3.5	-15.9	-4.2	-17.5	4.5	9.4	7.5
Savings (GNS)	3.6	-16.6	-10.6	-3.4	22.6	11.1	7.5
Imports (GNFS) /d	0.9	-13.4	-5.2	-17.2	17.3	9.4	8.0
Petroleum	4.3	-5.0	-2.6	-10.6	-13.0	2.2	3.9
Exports (GNFS)	8.5	20.9	-8.4	13.6	20.0	5.2	6.5
Manufactures	18.2/b	40.6	7.4	43.5	30.8	5.8	8.0
Marginal Savings Rate/c	0.15	1.04	-5.8	0.41	0.63	0.30	0.22

/a The constant value indices are in 1970 prices (the national accounts are only available in real terms in 1970 prices).

/b 1975-80 estimates include manufactured and other non-primary exports; 1981-90 estimates are only for manufactured exports.

/c Defined as the ratio of the change in gross national savings/change in gross national income over the relevant period.

/d See Attachment 3A, footnote /g, concerning the use of 1970 weights in the constant value index for imports.

July 9, 1985

Table 2: EXTERNAL FINANCING REQUIREMENTS - BASE RUN
(US$ Million)

	Actual		Projected								
	1983	1984 /a	1985	1986	1987	1988	1989	1990	1991	1992	1993
Requirements											
Current Deficit	6,142	-654	3,641	1,589	1,593	778	581	755	264	480	862
Amortization /b	10,061	8,191	11,111	14,114	14,700	14,750	15,664	15,093	13,615	12,528	10,812
Official			1,497	1,485	1,486	1,572	2,519	3,191	3,533	3,809	3,272
Private			9,614	12,628	13,214	13,178	13,145	11,902	10,082	8,719	7,540
Brazilian Export Credits Abroad (Net)	-122	-801	-0-	1,400	1,800	2,400	3,000	3,046	3,454	3,917	4,442
Reserve Additions	-24	7,027	500	761	951	991	1,344	1,596	1,484	1,699	1,942
Total	16,057	13,763	15,252	17,864	19,044	18,919	20,589	20,490	18,817	18,624	18,058
(Total with Rescheduling of Private Debt)			(5,638)	(5,236)	(5,830)	(5,741)	(7,444)	(8,588)	(8,735)	(9,905)	(10,518)
Sources											
Direct Investment (Net)	664	1,047	732	802	890	1,076	1,260	1,442	1,593	1,752	1,879
Gross Disbursements, M&LT Debt	15,002	16,571	14,841	16,860	18,938	18,946	20,803	20,432	18,322	17,685	16,676
Official	3,618	4,509	3,492	3,078	2,968	2,896	2,825	3,414	3,663	3,729	3,128
Private/c	11,384	12,062	11,348	13,782	15,970	16,050	17,978	17,018	14,659	13,956	13,548
Other Capital/d	391	-3855 /e	-321	202	-784	-1,103	-1,474	-1,384	-1,098	-813	-497
Total	16,057	13,763	15,252	17,864	19,044	18,919	20,589	20,490	18,817	18,624	18,058
(Total with Rescheduling of Private Debt)			(5,638)	(5,236)	(5,830)	(5,741)	(7,444)	(8,588)	(8,735)	(9,905)	(10,518)

/a Preliminary.

/b Gross disbursements and amortizations include debt rescheduled. Amortization in 1983 also includes commercial bank bridge Loans.

/c Private sources consist of suppliers' credits and commercial bank loans. If principal on all private debt were rescheduled, net private disbursements would be as follows:

1985	1986	1987	1988	1989	1990	1991	1992	1993
1,734	1,155	2,756	2,872	4,833	5,116	4,577	5,237	6,008

/d Includes payment arrears, errors and omissions, changes in monetary authorities' short-term liabilities, short term capital, net IMF borrowing and other capital.

/e The large negative figure reflects payment of US$2.3 billion of arrears from 1983 and US$3.4 billion in short-term bridge loans.

Source: Attachment 3C

June 3, 1985

the rest of the decade would make amortization payments easier for the country to bear in the 1990s. As Table 2 indicates, amortization payments in the early 1990s fall from their 1989-90 peak, on the assumption that all new and rescheduled commercial bank lending from 1986 on is at terms of fifteen years maturity and five years of grace. For Paris Club loans, the terms were assumed to be nine years maturity and five years of grace, which applied to the last Paris Club rescheduling.

27. If real export growth continues to increase gradually (from 6% in 1990 to 6.6% by 1993), Brazil's balance of payments situation will remain satisfactory beyond 1990 and the country should be able to begin repaying at least some of the amortization now being rescheduled. The normal five-year projection period has been extended to 1993 to illustrate the country's expected continued improvement. As shown in Table 2, the current account deficit remains below US$1 billion through the early 1990s as the trade surplus begins to exceed US$20 billion. New medium- and long-term borrowing is projected to increase slowly--from US$5.3 billion in 1990 to US$5.9 billion in 1993, substantially below the rate of GDP and export growth--and creditworthiness indicators would continue to improve. (See Attachment Table 3C for the debt service ratio and the full balance of payments for 1993.) If these projections are accurate, Brazil would again be relying on private sources for the bulk of their international borrowing by the early 1990s. In the 1990s, according to these projections, Brazil would be able to sustain GDP growth rates of 7% per year and trade surpluses exceeding US$20 billion annually, with government policies supporting both growth and stabilization. New private borrowing from suppliers and commercial banks is projected to increase slowly in nominal terms, from US$5.1 billion in 1990 to US$6.0 billion in 1993.

28. The projections depend not only on continuation of satisfactory domestic economic policies but also on reasonably favorable external conditions now being projected by EPD. The LIBOR projection for 1985--12% as opposed to the now more likely rate of 10.2%--is the exception. For the base case, the LIBOR is assumed to fall gradually from its 1985 level to 9% in 1989 and 8% in 1991. The spread over LIBOR that Brazil pays on its floating rate debt is assumed to drop from 2% to 1.5% beginning in 1986, to reflect the lower spread now being negotiated with commercial banks. Petroleum prices would remain at their 1984 level of US$28.40 per barrel in nominal terms until 1986, and increase subsequently to US$40 per barrel by 1990 and US$53 by 1993. This trend corresponds to an average real price decline of 1.4% per year for 1984-90 and a real increase of 5% beyond 1990. The annual real growth rate of manufacturing exports is relatively conservative. It has been set at 5% in 1986-87, 6% in 1988-89, 7% in 1990 and 1991, and 8% thereafter. Agricultural export growth would tend to be lower, ranging from less than 2% per year for coffee and sugar to 5% per year for soy products. These rates would be consistent with projected OECD growth rates of 3% per annum but would require that Brazil's exports remain competitive and relatively unaffected by any increasing protectionism in Europe and the U.S.

29. The substitution of domestic petroleum and other energy sources for imported petroleum allows space for gradual import liberalization. In

the model, oil imports are estimated as the difference between domestic consumption and production, allowing for some exports of oil derivatives. Domestic petroleum production is assumed to increase from 474,000 bpd in 1984 to 600,000 bpd in 1988, with a gradual increase to 680,000 bpd by 1993. Domestic consumption is a function of GDP; the elasticity falls from 1.0 in 1985 to 0.6 by 1991.

Sensitivity Analysis, 1986-90

30. Brazilian export performance could be even better than that projected in the base case, with a more aggressive pro-export stance by the Government and more rapid growth in the world economy. Such a situation obviously would be beneficial to the economy, permitting more rapid GDP and employment growth. For example, a one-percentage point increase in the growth of manufacturing and semi-processed exports beginning in 1987 would improve the current account approximately US$1.5 billion by 1990, changing the deficit to a surplus, and would reduce the need for new foreign borrowing by about the same amount. Summary balance of payments indicators are shown in Table 3. However, because the downside risk is so important to Brazil's creditworthiness and because of the uncertainty of future OECD growth, it seemed prudent to use a more conservative export growth rate for the base case.

31. In general, the sensitivity analysis is directed toward less favorable conditions than are implicit in the base case. Sensitivity analyses for a higher LIBOR, higher petroleum prices, and lower manufacturing export growth were carried out. The values for these variables and the results are summarized in Table 3 and presented in more detail in Attachment 3D. While creditworthiness indicators do deteriorate under these less favorable conditions, the changes relative to the base case are not large and would not materially affect our assessment of Brazil's capacity to service its external debt. However, the country would need to borrow more from the commercial banks. Total net M&LT borrowing would increase from about US$4.0 billion per year in the base case to US$5.0 billion annually if manufactured export growth were 1% lower than in the base case and to US$6.0 billion if the LIBOR were two points higher. If multilateral institutions, official export agencies, and suppliers provided about US$2.0 billion net per year, then the commercial banks would be asked to increase their new lending from US$2.0 billion to US$3-4 billion annually. While these higher amounts represent a 5% annual increase in the nominal exposure of the banks, a small real decline in exposure is involved.

32. The sensitivity analysis above is only intended to illustrate the effect of a possible change in each key factor on the balance of payments projections and creditworthiness indicators. GDP growth was not changed. In fact, a worsening of the international economic environment would affect a number of variables simultaneously. Consequently, a scenario representing continuing OECD recession until 1988, with improvement thereafter, is also presented in Table 3 and Attachment 3D. It combines the effects of a higher LIBOR with lower oil prices and manufacturing export growth, and allows GDP to vary. With lower OECD growth, Brazil's per capita GDP is 10% lower by 1990 than in the base case, and

Table 3: BALANCE OF PAYMENTS SENSITIVITY RUNS

Simulations	Current Account Deficit as % of GDP 1986	1990	Gross Debt Service Ratio/c % 1986	1990	Total Debt/d US$ Bill 1990	% GDP 1990
1. Base Case/a	0.6	0.2	75	48	130.1	27
2. High LIBOR	1.1	0.7	80	53	140.1	29
3. Low Manufactured Export Growth	0.7	0.6	76	50	134.7	28
4. High Oil Price	0.8	0.5	75	49	135.7	28
5. High Manufactured Export Growth	0.6	0.2/b	75	47	127.0	26
6. Low OECD and Brazilian Growth Scenario	0.9	0.7/b	80	51	122.0	28

/a Sensitivities start in 1986. For 1985, the creditworthiness indicators for the base case and all the sensitivities are as follows: the current account deficit is 1.5% of GDP; the gross debt service ratio is 80%, and total debt is 46% of GDP.

/b Current account surplus.

/c Amortization of M&LT debt plus interest on short-term debt and M&LT debt as percentage of exports of goods and non-factor services.

/d Includes M&LT debt outstanding and disbursed (DOD), undisbursed M&LT debt, and short-term debt.

Notes: Major Assumptions:

Base Case	1985	1986	1987	1988	1989	1990
LIBOR (%)	12.0	10.0	10.0	9.5	9.0	9.0
Crude Oil Price (US$/bbl)	28.4	28.4	30.9	33.7	36.7	39.9
Real Mft. Export Growth Rates (%)	-7.0	5.0	5.0	6.0	6.0	7.0
GDP Growth Rates (%)	4.3	5.4	6.2	6.7	7.1	7.3
Oil Import Growth Rates (%)	-1.0	1.1	1.3	-1.6	5.9	6.1
High LIBOR						
LIBOR (%)	12.0	12.0	12.0	11.5	11.0	11.0
Lower Manufactured Export Growth						
Real Mft. Export Growth Rates (%)	-7.0	4.0	4.0	5.0	5.0	6.0
High Oil Price						
Crude Oil Price (US$/bbl)	28.4	31.2	34.0	37.0	40.4	43.9
Higher Manufactured Export Growth						
Real Mft. Export Growth Rates (%)	-7.0	5.0	6.0	7.0	7.0	8.0
Low OECD Growth Scenario						
LIBOR (%)	12.0	12.0	12.0	10.0	10.0	9.0
Crude Oil Price (US$/bbl)	28.4	28.4	30.0	32.0	34.0	37.0
Real Mft. Export Growth Rates (%)	-7.0	4.0	2.0	3.0	4.0	6.0
GDP Growth Rates (%)	4.3	3.0	4.0	4.2	4.8	6.0
Oil Import Growth Rates (%)	-1.0	-2.5	-2.0	-5.3	2.5	4.6

creditworthiness indicators deteriorate slightly relative to the base case. However, the country's balance of payments improves relative to the base case, less new commercial bank borrowing is needed, and external debt in 1990 is slightly lower. Although exports are lower, a trade surplus is generated because of the reduction of both oil and non-oil imports and the lower oil price. Consequently, while Brazil's economic growth is linked directly to international economic conditions, Brazil could weather a delay in OECD recovery.

IV. World Bank Strategy

Bank Response to Brazil's Economic Crisis

33. After a long period of conventional, relatively large scale project lending to Brazil, the Bank's strategy changed radically in response to the debt crisis facing Brazil (and other borrowers) late in 1982. The Special Action Program provided the means to raise disbursements to Brazil in order to support policy adjustments required by the crisis. As shown in Attachment 1C, commitments doubled from $722 million in FY82 to $1,458 million in FY83, increasing further to $1,604 million in FY84. Disbursements also accelerated, reaching $1,405 million in FY84 (almost three times the FY82 rate) through quick-disbursing loans for export development and agriculture, and other SAP actions including loan increases and supplements and special account operations. The Bank's positive response in a critical initial stage of the Brazilian adjustment program transformed its relationship with a major borrower, establishing a close policy dialogue and eliciting a positive response from the previous Government, many of whose second and third level officials have remained in place, to policy-based lending. The challenge now is to renew this relationship with the new Government in circumstances in which Bank lending, while providing a substantial proportion of new external resources, will not be as crucial to the economy.

Bank Strategy for FY86-90

34. At this point, the broad objectives of the new Government are expected to be similar to those of the previous Government--to develop and carry out a medium-term program to restore economic growth while seeking equilibrium in the external accounts and attending to the country's social needs. The Bank will continue to support these objectives, focusing its efforts on (1) pressing for and supporting the policies and structural changes needed to create the appropriate climate for growth, (2) giving more attention gradually to policies and programs which, while helping the growth process, would also alleviate poverty more effectively and improve the distribution of real incomes, and (3) helping the Government obtain the required external resources needed to carry out the development program.

35. For at least the next two years, we propose to maintain the present focus on economic adjustment and recovery. The emphasis will be on directly productive activities and related infrastructure support with immediate returns. Accordingly, we will continue using fast-disbursing and

medium-disbursing lending operations to support macro-oriented policies for export promotion and agricultural development. We will also employ a series of financial operations to improve the mobilization and allocation of resources, and continue our support for maintaining and expanding needed infrastructure, particularly in the energy and transport sectors. Then, provided that Brazil continues to grow and improves its balance of payments, the fast-disbursing loans will end in FY87, allowing space for the Bank to support other aspects of the development process and to return to more traditional project lending. Specifically, rehabilitation and expansion of the supporting physical and social infrastructure and poverty alleviation will assume more importance, although some loans for these purposes are included even in the early years. In addition, a broad, concerted effort to assist the Northeast and North/Northwest regions in contributing to, and benefiting from, a strong economy will be introduced in FY87, becoming a major focus of Bank operations by the end of the decade.

36. While these more traditional loans have always been a part of the Bank's program, their relative importance in the lending portfolio--in spite of continuing lending for rural development in the Northeast--has had to be reduced in the past two years in order to concentrate on structural adjustments. Government expenditures in these areas have also been curtailed, as part of the effort to reduce the public sector deficit. However, over the long run, sustained output growth and a viable democratic system of government require a trained work force, adequate infrastructure and public services, and more balanced growth. Consequently, as economic circumstances permit, support of these areas will receive more attention by both the Government and the Bank. A strong economic and sector work program, focused on annual overall economic reports and public sector investment reviews and on comprehensive, updated regional development studies for the Northeast and North/Northwest, would provide the underpinnings for the Bank's return to traditional lending.

37. Employment is a major concern. The Government has few means to stimulate employment growth in a resource-constrained environment except by promoting economic growth. By supporting export and agricultural development, the Bank's strategy will have a positive impact on employment. Both are relatively labor-intensive types of activities and would also alleviate the foreign exchange constraint on growth. The emphasis of the strategy on rehabilitation and maintenance of the nation's physical and social infrastructure is also likely to increase employment. It is difficult to recommend more at this point. However, we will continue to monitor the situation and are planning a joint research program with ERS to identify specific policy changes which would increase employment, particularly of low-skilled workers, in the medium-term. While the program is only in the planning stage, it may involve examination of the employment impact of the minimum wage, union practices, and reductions in the cost of labor relative to that of capital.

38. We also expect to play a more active role in encouraging and targeting the required external resources which Brazil needs to grow at a satisfactory rate. Development of co-financing opportunities to obtain commercial bank financing for priority investment projects, on better terms than would otherwise be given, is one means. A second is developing the Bank role as a source of reliable information and evaluation of the country's development performance and public investment program. In addition, we plan to assist the Government in its public investment programming, and will encourage the development of a longer-term external debt management policy particularly for the public sector, which would set criteria for borrowing consistent with both economic growth, balance of payments viability, and improved creditworthiness. Finally, we will explore further the possibility and desirability of reducing the legal restrictions on direct foreign investment to Brazil, which fell from over US$1.5 billion annually in 1979-82 to an estimated US$0.7 billion in 1983-84.

Adjusting to Risks

39. With the risks inherent in the return to elected government (see para. 13) and the uncertainty surrounding the agreement with the Fund, close interaction between the new Government and the Bank in building new and renewing existing relationships, in reaching consensus on policy directions and changes at an early stage, and in understanding the linkages between the Government's stabilization and development programs will be essential. Our contacts with the new Government have been quite encouraging. We plan to intensify in the immediate future the economic policy dialogue with the Government, supported by a well-integrated lending program and economic and sector work agenda. An update of these discussions will be provided at the management review of the CPP.

40. Flexibility would also be built into the lending program to handle different kinds of risk. Problems with the transition in government could lead to slippage in the FY86 recommended lending program, especially in the fast- and medium-disbursing policy-based operations. In this situation, standby and reserve projects would be used to partially offset this slippage, provided that overall macro-policies as well as policies in the sectors where we would lend continue to be acceptable.

41. Another risk is the possibility of deterioration in macro-economic policies, although Government actions to date have been in directions supported by the Bank. The recommended lending program explained in Section V is based on the continuation of a policy framework conducive to growth and on a stabilization agreement with the Fund, at least through 1985. The Bank would require satisfactory policy performance in three main areas. First, high priority must continue to be given by the Government to domestic stabilization. High and variable inflation can inhibit growth and reduce confidence in economic management. It also increases the risk that future adverse developments would precipitate hyper-inflation. However, bringing inflation under control must be recognized as an exceptionally difficult task for Brazil. Inflation is not completely within the Government's control, nor can it be reduced very

quickly, especially with wide-spread indexation and prevailing inflationary expectations. Consequently, we may have to accept a period of inflation rates at around current levels, provided that the Government is following through on its intentions to eliminate the public sector deficit, including that of the state enterprises, to restrict the monetary aggregates, and to address the other underlying causes of inflation. Changes in the indexing system may also be required in order to reduce inflation. Several possibilities have been discussed in Brazil. However, there is a consensus that actions to eliminate the fiscal deficit and keep the monetary aggregates under control should precede such a change. A second requirement is to pursue trade and exchange rate policies that continue to promote exports while also allowing for import liberalization as the balance-of-payments and debt service situation permit. Finally, although public pressures to restore real incomes will be strong, we would expect any incomes policy adopted by the new Government to be consistent with the requirements of internal and external stability.

42. With such a macro-policy framework, lending is to be maintained above pre-crisis historical levels to support policy actions in trade liberalization, agricultural development and financial and fiscal reform with a combination of fast-disbursing operations and more slowly disbursing sector loans. A deterioration in selected policies--provided the overall framework remains acceptable--would put the related operations at risk. For example, if the Government reversed its current policy of reducing agricultural credit subsidies, the Agricultural Sector II Project (FY86) and subsequent agricultural credit operations would be cancelled. Government initiation of investments for large, uneconomic projects would seriously jeopardize the proposed loans in the affected sectors. Furthermore, tariff adjustments for key, publicly operated sectors which do not permit reaching financial targets would prevent the Bank from approving new loans in those areas. Sectors like electric power, railroads, and water supply and sanitation are among the sectors which could be affected. In the extreme case--a breakdown in the key areas stated in the previous paragraph--the entire policy-based portion of the program would be withdrawn, with large reductions in lending in FY86-FY87, and the rest of the program would be restructured to press for policy changes in the problem areas. Details on the recommended lending program, and the proposed reduction in the lending program if a deterioration in economic policies should occur, are given in Section V.

43. The point at which Brazil will no longer be subject to binding resource constraints which seriously limit its growth cannot be accurately pinpointed. In developing the five-year strategy for Brazil, it has been assumed that Brazil will recover sufficiently from the current crisis by FY88 to warrant a shift in Bank lending toward a more social and anti-poverty orientation, with an emphasis on development of the lagging regions. If the recovery process takes longer, the lending strategy for Brazil will be modified accordingly. Annual updates would occur through Divisional Country briefs and future CPPs.

V. WORLD BANK LENDING PROGRAM

44. To support the Bank's strategy for Brazil, a recommended lending program of US$1.5 billion per year, for a total of US$7.5 billion for FY86-90, has been developed. It represents an average 7% nominal increase over the FY85-89 program authorized last November. There will also be an increase in the number of projects from eight to about ten per fiscal year. The proposed program would have the following main objectives: (a) to support Brazil's economic program as the economic situation stabilizes and the country moves toward self-sustaining growth, shifting gradually to a broader development focus late in the decade which would include greater emphasis on the Northeast, and, to a lesser extent, in the North and Northwest; and (b) to reduce Brazil's share of debt in the Bank's portfolio to 10% by FY92 while maximizing the possibilities of commercial bank co-financing in selected areas. The Bank's lending program in the initial years is designed to help the Government continue the process of adjustment during a period of severe resource constraints. Toward the end of the decade, following Brazilian economic recovery, the Bank's share of Brazil's net external borrowing will fall significantly as international commercial banks once again resume voluntary lending.

45. In line with the proposed strategy, macro-oriented policy changes will be supported by two fast-disbursing operations directed toward export development in FY86-87 and a number of more slowly-disbursing credit-related operations to support agricultural pricing and financial reform. Since last year's strategy memorandum, the number of fast-disbursing operations with highly visible policy conditionality has been reduced, although the macro-policy changes to be supported by the lending program remains essentially unchanged. The policy loans for agricultural and export development which were originally planned for FY85 have slipped to FY86, because the outgoing Government was unwilling to commit its successor to any policy changes, and the new Government was not ready to approve the loans within three months of taking office. Moreover, while the new Government agrees in principle with many of the Bank's recommendations on export, agricultural, and banking reform policy, it has indicated that it would be politically inadvisable to have its policies tied to conditions imposed by international institutions. Consequently, the proposed lending program for Brazil will continue to provide financial support for important policy actions undertaken by the Government. However, the emphasis on policy conditionality will be less explicit and the highly visible fast-disbursing operations reduced in favor of sector lending which look more traditional but have a strong policy focus. Financial reform projects and industrial and agricultural credit (including the second Agricultural Sector Loan) fall into this category, as well as infrastructure sector loans. These loans are expected to disburse in 4-5 years.

46. We propose that the number of projects which are considered by the Board for Brazil be increased from eight to an average of ten operations per year. This would enable the use of co-financing instruments for several loans each year, as needed and deemed desirable. The additional projects would also be used in making the transition from the Bank's present macro-oriented adjustment strategy to one oriented toward broader development goals. As the Bank becomes involved in new sectors and state level projects, and begins to focus its efforts on Northeast and frontier development, a number of smaller projects will be required in addition to large, policy-based operations. Furthermore, with the change in government and the expected breadth of the conditionality to be associated with our policy-based operations, the resource transfer to Brazil will be less negatively affected by possible delays in preparing certain operations if there are a larger number of projects, for varying amounts, with a mixture of fast-disbursing and more normal-disbursing operations.

47. The Government's effort to eliminate the public sector deficit, which is now estimated to be running at 5-6% of GDP, will seriously affect its ability to invest. The lack of sufficient counterpart resources could also jeopardize the implementation of the Bank's lending program, especially in FY86-87, when the deficit reductions will be largest. Therefore, we propose to maintain during FY86 and probably FY87 the higher disbursement percentages obtained under the Special Action Program for projects which lack the counterpart funds for timely implementation. For social projects, we recommend a cost-sharing ratio of 50%. For "economic" projects, the ceiling would be set at 50% or limited to the foreign exchange component, in the few cases where foreign exchange costs exceed 50%; however, the ratio would be set on a case-by-case basis, with most somewhat below this ceiling. These higher ratios would be reexamined in May 1986, at the management review of the DCB. In addition, sectors which are presently in severe financial difficulty and which are adopting significant corrective measures--such as electric power--may also need to have interest financed during construction for projects approved in FY86-87. This decision would be made on a case-by-case basis, depending on the financial position and debt profile of the sector, the Government's commitment to improving the sector's finances, and its ability to transfer resources to the sector.

Portfolio Management

48. A Bank lending program of US$1.5 billion per year would raise Bank exposure in Brazil from below 11% in FY85 to slightly above 11% of the projected total portfolio in the late 1980s, before dropping to 10% in 1992. (These projected portfolio shares use an average 11% growth rate in Bank's DOD incurred by other countries and employ fairly conservative assumptions about disbursement profiles for other countries.) With this volume of lending, the elimination of fast-disbursing loans after FY87,

increased emphasis on 4-5 year disbursing policy-based sectoral lending, and a renewed emphasis on more traditional project loans, we expect to maintain positive net disbursements into the 1990s. The level of net disbursements, however, will fall as private sources of funding become more readily available. Brazil's interest payments to the Bank are not expected to exceed net disbursements until 1990, by which time the country should be in a relatively strong growth and resource position. Details are given in Table 4. 2/

49. If Brazil's portfolio share had to be reduced to 10% by 1990 instead of 1992, it would be possible to maintain lending levels of US$1.5 billion only if traditional projects with 8-year disbursement profiles were substituted for all fast- and medium-disbursing loans in the recommended lending program. (The implied portfolio shares are shown in parentheses under the recommended program in Table 4.) However, this alternative would give the Bank less leverage in pressing for important macro-oriented policy changes. An even less desirable way to reduce Brazil's portfolio share by 1990 would be to reduce total lending substantially in the first few years of the program. This option is illustrated by the contingency program in Table 4, in which new commitments drop to US$600 million in FY86 and US$775 million in FY87, and reach US$1.5 billion only in 1990. In this option, Brazil's portfolio share falls steadily from the FY85 peak of almost 11%, reaching 9% by 1990.

50. If additional lending can be accommodated within the overall Bank lending policy, consideration should be given to increasing lending above US$1.5 billion per year to permit more projects with a large social content throughout the period. Such an alternative, expanded program is set out in Attachment 1D; it contains additional education, health, water supply and Northeast urban and transportation infrastructure projects. The portfolio implications are shown in Table 4. The expanded program would increase commitments to an average of US$1.7 billion per year in FY86-90 (and to FY92) and the average number of operations from 10 to 12 per year. The Brazil share of the portfolio would be maintained at almost 12% through FY90 with a decline to 11% by FY92.

Modifications for Country Risks

51. The lending program would need to be modified downward if delays occur as a result of the current transition in Government or if policies are adopted which are not consistent with growth and balance of payments improvements. With the unwillingness of the outgoing administration to commit the new one to policy changes and the unavoidable delay in putting

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2/ The disbursement profiles assumed are, in percent per annum:

Year	1	2	3	4	5	6	7	8
Fast-disbursing	30	60	10	-	-	-	-	-
Medium (sector loans)	15	25	35	15	10	-	-	-
Other	5	12	18	20	20	15	8	2

Table 4: BRAZIL - IMPLICATIONS OF ALTERNATIVE LENDING PROGRAMS ON IBRD RESOURCE FLOWS
(US$ million)

	Fiscal Years							
	1985	1986	1987	1988	1989	1990	1991	1992
Recommended Program /c								
Commitments	1,423	1,500	1,500	1,500	1,500	1,500	1,500	1,500
of which Fast-Disbursing:	-	250	250	-	-	-	-	-
Disbursements								
Gross	1,157	1,002	1,412	1,760	1,675	1,709	1,626	1,469
Net of Amortization	794	574	850	1,094	894	799	598	334
Net Transfer /a	361	109	299	439	152	-20	-275	-570
DOD	4,286	4,859	5,709	6,804	7,697	8,496	9,094	9,428
Brazil Share of IBRD Debt Portfolio /b	.107	.104	.106	.112	.113	.112	.109	.102
(Share with all slow-disbursing loans)/d	(.107)	(.104)	(.103)	(.103)	(.101)	(.100)	(.098)	(.096)
Expanded Program to Raise Social Content /c								
Commitments	1,423	1,500	1,800	1,800	1,800	1,725	1,700	1,700
of which Fast-Disbursing:	-	250	250	-	-	-	-	-
Disbursements								
Gross	1,157	1,002	1,462	1,856	1,832	1,843	1,839	1,774
Net of Amortization	794	574	900	1,191	1,051	933	786	590
Net Transfer /a	361	109	343	518	277	69	-150	-400
DOD	4,286	4,859	5,759	6,950	8,001	8,934	9,719	10,309
Brazil Share of IBRD Debt Portfolio /b	.107	.104	.107	.114	.117	.117	.115	.112
(Share with all slow-disbursing loans)/d	(.107)	(.104)	(.103)	(.104)	(.104)	(.104)	(.104)	(.103)
Contingency Program /c								
Commitments /e	1,423	600	775	1,200	1,300	1,500	1,500	1,500
Disbursements								
Gross	1,157	1,002	1,121	1,154	1,131	1,316	1,340	1,394
Net of Amortization	794	574	559	489	350	481	447	419
Net Transfer /a	361	109	44	-77	-254	-172	-249	-316
DOD	4,286	4,859	5,418	5,907	6,257	6,738	7,185	7,605
Brazil Share of IBRD Debt Portfolio /b	.107	.104	.101	.099	.094	.091	.088	.085

/a Net disbursements less interest payments and commitment fees.

/b IBRD DOD of all other countries is projected by PBD as follows: US35.8 billion (FY85), US$41.8 billion (FY86), US$48.0 billion (FY87), US$54.0 billion (FY88), US$60.4 billion (FY89), US$67.3 billion (FY90), US$74.4 billion (FY91), and US$81.9 (FY92).

/c Described in Attachments 1A and 1D.

/d Assumes that all loans in FY86-90 have an 8-year disbursement profile.

/e No fast-disbursing loans.

July 9, 1985

into place the new Government's economic program, a slippage in FY86 due to procedural complications is becoming more likely. Such a slippage would be most likely to occur in the policy-based export and agricultural development loans; it would be offset in part by advancing traditional projects from FY87. If both operations now recommended for FY86 were to slip, for example, the Urban Transport IV, Power Transmission, and Ports Projects (totalling US$325 million) could be advanced and the total lending level reduced from US$1.5 billion to US$1.2 billion. Subsequent processing slippages, which may occur as projects become more complicated to prepare and the policy conditionality broader in scope, would be handled by having 5-6 stand-by operations and three reserve projects each year.

52. The adoption of policies inconsistent with stabilization and development would have a bigger negative effect on the size and composition of the lending program. At this point, the Government's position on economic policies has been encouraging. As noted earlier, it acted immediately to dampen inflationary expectations, has encouraged wage restraint, and has publicly announced the broad outlines of its stabilization program, which involves substantial cuts in public expenditures and subsidies. It has also continued trade and exchange rate policies which are designed to keep Brazil competitive in international markets. Nonetheless, the Government's full economic program has not been made public yet, and Congressional backing for the program has not been fully tested. Consequently, its position on one or more of the above policies could be reversed in future months. As explained in paras. 41-42, a deterioration in selected policies would be accompanied by elimination of the related policy operation(s) in the lending program, thereby reducing the size of the program. In the extreme case, a turnabout in the whole policy stance of the Government, including a break with the Fund, the lending program to Brazil would have to be quite different and much smaller. The contingency lending program, presented in Attachment 1D and summarized in Table 4, would be one response to such an extreme situation in the next two years, with gradual improvement in policies beginning in FY88. In this case, the large policy-based operations for agricultural and export development and for financial reform in FY86 and FY87 would be eliminated without replacement by any traditional projects, and lending levels would drop sharply in FY86-87. We would continue to lend for traditional projects and would gradually build the lending program back to a level of US$1.5 billion in FY90, using sectoral infrastructural and credit operations designed to disburse over 4-5 years, as the basis for seeking policy changes at the sectoral level and reopening the broader macroeconomic dialogue.

Sectoral and Regional Distribution

53. The sectoral distribution of the recommended lending program is summarized in Table 5. Lending for the directly productive sectors, industry and agriculture (including rural development), comprises 50% of the program for FY86-90, while infrastructure projects with immediate economic impacts--transportation, telecommunications, electric power, and

Table 5: BRAZIL - SUMMARY OF FY86-90 LENDING PROGRAM BY SECTOR
(US$ Million)

	Total	%	No. of Projects
Agriculture	2,086.0	28	14
(of which fast-disbursing operations)	(350.0)	(5)	(1)
Industry and Mining	1,550.0	21	9
(of which fast-disbursing operations)	(500.0)	(7)	(2)
Telecommunications	100.0	1	1
Transportation	775.0	10	5
Electric Power	950.0	13	5
Other Energy	425.0	6	4
Education	325.0	4	4
Water and Sewerage	200.0	3	2
Urban Development	540.0	7	5
Health	150.0	2	2
Other (Public Sector Management, Financial Reform, and Fiscal Reform)	445.0	6	3
TOTAL	7,546.0	100	54
(of which Regional Development)	(1,901.0)	(25)	(16)

Source: Attachment 1A.

April 13, 1985

other energy--and financial and fiscal reform account for another 35% of the program. The social infrastructure projects, especially education, water supply and health, and the regional development projects in the recommended program are phased in gradually in accordance with the strategy and in recognition of the Government's present difficulties in providing counterpart funds. Regional development lending to the Northeast, North and Northwest would rise gradually to 37% by FY90, when all three areas would be receiving Bank assistance, backed by ESW programmed for these regions.

Economic Adjustment and Recovery

54. The focus on directly productive activities and supporting infrastructure in the initial years will contribute to economic recovery in the short-run and to sustained growth in the longer-run. The planned lending operations for trade liberalization, increasing use of market incentives to stimulate agricultural production, and financial and fiscal reform have a strong macro-policy orientation and will expand investment and export credit to the private sector.

55. Agriculture - While overall growth of Brazil's agricultural sector has been impressive when compared with most other countries, there is ample evidence that the sector is operating below its potential given its resource base and rapidly evolving agricultural technology. The key to sustainable long-term agricultural growth is to make agriculture profitable without the extensive credit subsidies prevailing until the end of 1983, when they were sharply reduced. This involves allowing a greater degree of freedom in agricultural markets than had previously been allowed by governments accustomed to price controls for basic foodstuffs and to export taxes, quotas, and prohibitions. It also requires an agricultural credit system capable of mobilizing and allocating resources efficiently.

56. To date, the Bank has made 30 loans, totalling over US$1.8 billion, for agriculture and rural development in Brazil. Bank strategy in the agricultural sector has supported and will continue to support the development of policies conducive to expanded production for domestic and world markets, while assisting in rural poverty alleviation. These objectives will be pursued both by a policy-based lending operation in FY86 and by more conventional projects for agricultural development both in the Northeast and in other parts of the country, for the creation and delivery of improved technology to farmers through the national research and extension system, and for the provision of agricultural credit through the national financial system.

57. The Agriculture Credit and Export Development Project, signed in October 1983, supported the reduction of rural credit subsidies. The loan required the Government to raise the rate of most rural credit operations to full monetary correction plus 3% interest over a three-year period. In fact, the full change was made in one step, almost two years ahead of schedule. The Second Agricultural Sector Loan (US$350 million), scheduled for FY86, would support the freeing of trade for several major agricultural products (soy and soy bean products, maize, and cotton) with appropriate market safeguards, and provide for elimination of the wheat subsidy to

producers and consumers. While agreement in principle on commercial policy was reached with the outgoing Government, the loan was not finalized before the end of its term. Discussions have been initiated with the new Government. We expect it to take the recommended commercial policy actions by August, in connection with establishing prices and marketing rules for the next harvest. However, Government verification of its intended actions is still needed before processing of the loan can continue. Liberalization and simplification of the agricultural credit system will be sought within the broader framework of financial sector reform (see paras. 60-61).

58. Industry and Trade - Industry has been a leading sector in Brazil's economic growth. Prior to the current recession, industrial output grew an average 9.4% per year during 1965-80. The sector presently accounts for about 35% of GDP, over 65% of total exports, and employs almost 25% of the labor force. Because of its role in the economy and potential for export growth, it has been a priority sector in the Bank's adjustment-oriented lending program since the crisis began. Since mid-1982, three loans totalling almost US$900 million have been approved--the First Export Development Loan, which supported a major step by the Government to liberalize the drawback system, and two Development Banking Projects, to provide long-term funds for investment and working capital at reasonable interest rates.

59. To attain a more solid base for sustaining economic growth in the future, the Bank will continue to support economic policies in the industrial sector directed toward: (a) the assurance of the competitiveness of Brazilian exports in international markets and improvements of efficiency in import-competing production; (b) reducing policy biases against export as opposed to domestic market sales; and (c) the restructuring of incentive policies across sectors in ways consistent with better exploiting Brazil's comparative advantage. The Government's exchange rate policy is designed to maintain export competitiveness. The Government has also taken other steps to reduce the anti-export bias of trade policies and to open up the Brazilian goods market to international competitive forces. However, further measures are still required. Improvements in the export credit and insurance systems, development of quality standards for export products, and simplification of export regulations are among the measures needed. Gradual import liberalization, through the replacement of quantitative restrictions by tariffs and the gradual reduction in the overall level and dispersion of tariffs, will also be required to reduce the anti-export bias. Two fast-disbursing Export Development Loans in FY86 and FY87, each for US$250 million, would be used in support of these policies.

60. Financial and Fiscal Reform - Expansion of the major production sectors cannot be sustained without a supportive financial and fiscal structure to mobilize and allocate resources efficiently. Brazil's financial system needs improvement. It is characterized by market segmentation of credit lines, extensive administrative direction of credit flows, the coexistence of assets bearing monetary and/or exchange correction with assets denominated in nominal cruzeiros, extensive state

financial intermediation, and dual monetary authorities (the Central Bank and the Bank of Brazil). While a substantial increase in credit at moderate real interest rates cannot occur in the absence of an effective stabilization effort, simplifying and rationalizing the financial system are also required. Consequently, the Bank plans to introduce a series of lending operations for financial reform, building upon the stated intentions of the Government to undertake these reforms.

61. The first loan in the series, to strengthen state development banks (FY86, US$300 million), would support the Government's plan to separate the conduct of monetary policy from that of fiscal policy, permitting more transparency and better control over public expenditures. This would be accomplished by unifying Brazil's federal budgets and by redefining the roles of the Treasury, Central Bank, and Bank of Brazil along more traditional lines. The loan would help to restructure the finances and improve the administration of state development banks, with a view to improving their capability to provide long-term investment credit to private borrowers. In addition, two agricultural credit operations (FY87, US$200 million; FY89, US$300 million), would be used to support other aspects of the reform process and to encourage longer-term lending and equity financing. Complementary IFC operations and an operation with the National Housing Bank (FY88R) might also be undertaken. To complement these credit operations, two loans to the National Development Bank (FY88 and FY89) would be used to make available long-term resources to small and medium-sized industrial enterprises at reasonable positive real interest rates.

62. Fiscal reform would be directed toward increasing the efficiency and equity of the tax and transfer systems, as well as shifting some of the federal responsibilities to state and local governments. The new Government has declared its intention to review both the tax system and the distribution of expenditure responsibilities between the different levels of Brazil's federal system. A fiscal reform loan in FY89 (US$125 million) would support reforms in this area, with the resources used to augment the investment programs of state governments which improve their managerial and fiscal capability.

63. Improved management of Brazil's large public sector investment program is also important to the country's development. While strenuous efforts have been made to bring public expenditure, including that of the state enterprises, under control, a medium-term investment program consistent both with the Government's sectoral and general development priorities and projected overall resource constraints is needed. With Government approval, the Bank plans to review Brazil's public investments annually, in order to assist the Government in preparing an effective investment program and to design a Bank lending program responsive to Brazilian priorities. A proposed public sector management loan in FY86 would also help to improve medium-term economic programming and budgeting in the Ministry of Planning.

Broadening the Development Effort Later in the Decade

64. Given Brazil's present economic difficulties, a major way to improve the welfare of the population is to restore growth. However, because of the significant deterioration in incomes and living standards as a result of the long recession, increase in inflation, and deferred maintenance of public service infrastructure systems, special attention will be given to poverty alleviation and infrastructure improvements in the latter part of the FY86-90 period. Infrastructure projects which also have an immediate impact on production and export--particularly freight transportation and electric power--are included in the early years as well. Improving the delivery of public services in a cost-effective manner at the state and local level is particularly critical, since the country is apt to be operating under resource constraints for some time. More balanced regional development would also spread the benefits of growth more equitably.

65. Regional Development - The Northeast, known for its periodic droughts and pervasive poverty, has the potential for growth. In the 1970s, the region's economic growth rate was close to the national rate, and substantial progress was made in reducing poverty. However, per capita income in the Northeast is still about 40% of the national average; regional health, nutrition, and educational attainment indicators also are below national levels; and land distribution remains highly skewed.

66. Since 1975, 12 of the Bank's 19 loans to the Northeast have been for rural development. All of the projects have experienced implementation and disbursement delays. With the assistance of the Bank, the Government's approach to rural development in the region has been modified to deal with the difficulties. The revised strategy involves a regionwide rural development program which would concentrate on production-oriented activities, complemented with a series of sectoral projects in areas such as health, water supply, education, and irrigation. In support of this program, the Bank is planning a series of four rural development projects, two of which were approved in FY85, covering seven Northeast states.

67. Because poverty alleviation ultimately cannot be separated from economic growth, Bank lending in FY86-90 for rural development and economic and social infrastructure will be coupled with expansion of the economic base to provide continued growth in output and employment. In order to formulate such a coordinated approach to Bank lending in the Northeast, two ESW missions are scheduled to update and expand our knowledge of the region's development prospects and problems. The first mission, scheduled for July 1985, would examine the magnitude and characteristics of the region's recent industrial growth, the impact of both regional and national policies on this growth, and the potential for further expansion of industrial output and exports. The second mission, scheduled for Fall 1985, would examine the possibilities for development of other economic activities, notably agriculture, tourism, and perhaps mining, fisheries, and natural gas production and use. Complementary transportation, irrigation, education, health, water supply, and urban infrastructure investments to support economic expansion and improve living standards would also be identified.

68. Our support to the region will be confined to cost-effective economic and social investments. Tentatively, twelve projects, totalling US$1.3 billion, are in the FY86-90 lending program for Northeast development with the majority scheduled for FY88-90. They will be more fully defined and altered, if warranted, in line with the results of the two ESW missions referred to above.

69. In the Northwest, the Bank is supporting the agricultural development of the states of Rondonia and Mato Grosso in line with the recommendations of a comprehensive regional study conducted in 1980. The non-infrastructure components, particularly environmental and Amerindian protection, forestry development and small farmer agricultural development, are either not reaching or are departing significantly from their original objectives. In contrast, implementation of the infrastructure components, for which there has been a stronger Government commitment, has proceeded relatively smoothly. Redressing these imbalances and consolidating the gains already made are to be given the highest priority over the next two to three years.

70. On the assumption that current implementation difficulties will be overcome, further Bank lending for the development of the Northwest region is planned for the outer years of the lending program. The Greater Carajas area in the North will also be included. For this purpose, a North/Northwest Regional Report is planned for FY87 to provide the framework for the Bank's dialogue with the Government on development of the two regions and to identify the main areas for possible Bank support. Bank involvement carries the challenge of organizing development in two largely undeveloped regions with significant mining, forestry, and water resources and a small but growing population. Development, however, needs to be consistent with appropriate protection of the environment and native Amerindian groups. Given the experience in the earlier projects, more emphasis than before should be put on consolidating or reinforcing development in already settled areas, rather than on new settlements.

71. Although Bank lending for these regions cannot be defined fully until the regional report is completed, three projects to support agricultural, industrial and mineral development are now included in the FY86-90 program. Lending for physical and social infrastructure would be incorporated in FY91, beyond the horizon of this CPP, although some of these projects may eventually be brought forward to FY89/90.

72. Transport - Before the mid-1970s, the Bank's primary concern in the transport sector was to support Government efforts to expand the capacity of the system in line with demand growth. From 1968 to 1975, the Bank contributed to the development of Brazil's network of primary highways and to substantial improvements in the operations of the railways. After 1975, Bank lending shifted, in the highway subsector, from highway construction to maintenance and rehabilitation, and to the improvement and construction of feeder roads to support agricultural development. In the present period of adjustment, provision of reliable freight transportation at competitive rates is crucial for Brazil's economic recovery and expansion of exports. Therefore, the emphasis of Bank transport lending

will be on facilitating agricultural and manufactured exports by improving the efficiency of the export corridor and port systems, and on supporting agricultural development by ensuring adequate transport services.

73. In the Federal Railway-Export Corridor Project (FY85), the Second Port Project (FY87S), and the Cerrados/Southeast Corridor Transport Project (FY88S), the Bank will work toward establishing an appropriate policy and institutional framework for commercially viable operation of railways and ports, rationalizing the operations of the responsible Government agencies, and improving the financial position and cost-recovery policies of the subsectors. The State Highways Maintenance Project (FY89S) would be directed toward rehabilitation and maintenance of major freight and passenger routes. Finally, the proposed Transport Sector Projects (FY88 and FY90) would build on these and earlier subsector projects to foster intermodal (and inter-agency) coordination and strengthen sectoral planning and management.

74. Energy Development and Conservation - Given Brazil's resource constraints and the prospects of stable or even declining real oil prices in the next few years, Bank energy projects will emphasize cost-effective development of domestic energy resources, including completion of priority projects interrupted for lack of resources and cost reductions in existing plants, where possible. Energy conservation, which would reduce required investment, is another Bank priority. In FY86-90, continued Bank participation in electric power and in alcohol development, and entry into the natural gas area are planned. In addition, two energy conservation projects--one directed toward transit systems in large cities (FY87) and the second tentatively identified for diesel conservation (FY89)--will complement the conservation components in the power, alcohol, and natural gas projects.

75. Electric Power - Electric power now accounts for over 30% of total energy consumption in Brazil and is likely to displace petroleum as the country's principal energy source within the next ten years. The Bank has been heavily involved in the sector's development; to date, 37 loans for power, totalling US$2.4 billion, have been approved. The Bank should now assist Government and sector authorities in their efforts to improve the financial condition of the sector through realistic investment and financial policies. Its present financial difficulties can be traced back to the mid-1970s, when the sector embarked on an ambitious investment program which relied extensively on external borrowing and which could not be completed on schedule as resources became very limited.

76. The Investment Program and Financial Plan for 1984-88, which has the general agreement of the sector authorities and the Bank but needs the approval of the new Government, is directed toward the financial rehabilitation of the sector. It would bring tariffs in line with long-run marginal costs, and provide for a balanced allocation of resources for generation, transmission, and distribution to meet demand requirements with a reasonable degree of system reliability. The plan, together with annual updates of its targets and investments, serves as the basis for four planned distribution and transmission loans in FY85-87 for priority investments. The sectoral operations in FY88 and in FY90 would finance

time slices of the revised sectoral investment program, in return for agreement on investment priorities, appropriate demand management, and suitable tariff and other policies for continued financial improvement of the sector.

77. Alcohol - The alcohol program in Brazil, which the Bank has been financing, is economically viable in the biggest producing areas of the country, though not in the traditional sugar-producing areas in the Northeast. The continued economic viability of the program depends largely on continued increases in efficiency of ethanol production, especially with the present uncertainty about future international crude oil and gasoline prices. The second Alcohol Project (FY86) is directed toward reducing costs, by emphasizing productivity increases in existing operations and expansion in new areas only when economically justified. Efficiency gains in the growing of cane for alcohol as well as in the industrial part of the production process are feasible. A gradual reduction in present incentives to consumption of alcohol, the retail price of which is now 65% of the price of gasoline, is needed in order to promote conservation and thus reduce the need for future investments.

78. Natural Gas - With recent natural gas discoveries near Sao Paulo and in the Jurua Basin in the North and with increased use of the country's associated gas, natural gas is emerging as a potentially large and relatively inexpensive energy source for Brazil over the long-run. Early assistance by the Bank would assure that planning for the development and use of the fuel would utilize economic criteria, be consistent with the development of other fuels (especially electricity and petroleum), and support the country's medium-term economic program.

79. Since it will take time to build up working relationships with the agencies involved in gas development, two sequential operations are proposed. A pilot project (FY87S) would provide the framework for developing a long-term gas strategy and appropriate pricing policies, identify the industrial market for natural gas, and improve the institutional capability, where necessary, for implementing such a strategy. Depending on Government preference, Bank funds would be used for delivering gas from the nearby Santos Basin to the city of Sao Paulo and/or the proving of reserves in Jurua. The second operation (FY88) would be determined on the basis of priorities emerging from the gas strategy and the proving of reserves in Jurua. In both operations, the Bank would support private sector development, to the extent feasible.

80. Telecommunications - The Bank has an opportunity to influence the development of telecommunications for industrial and agricultural use. In the proposed FY87 project, the first Bank operation in the sector, the Bank would help to develop specific lines of service (e.g. rural telecommunications), while reviewing sectoral investment priorities, policies and operations management.

81. Education - While substantial improvements in literacy rates and enrollment ratios for basic education occurred in the 1970s, the quality of basic education is still low and formal technical training courses,

relatively limited. Poor management at federal, state, and local levels, limited resources especially in states with a low tax base, and difficulties in allocating and using resources efficiently are contributory factors. Consequently, raising educational quality and technical skills and improving financial and managerial capability are important objectives for the Bank's education projects in FY86-90. However, it will be difficult to undertake projects until the country's financial position improves, given the present limited availability of counterpart funds.

82. The proposed education projects build on substantial Bank experience in the sector. Efforts to improve the quality of basic education have already been undertaken in two regional projects currently being implemented in the Northeast and North/Centerwest. A follow-up project for basic education in the Northeast is scheduled for FY88; depending on the results of the North/Northwest regional study, a basic education project may also be undertaken there at the end of the decade. The Science and Technology I Project, approved in FY85, is providing funds for research and human resource development projects in six scientific areas, for improving the functioning of scientific service systems, and for building institutional capability within the subsector. Science and Technology II is planned as a FY89S project, although the exact timing will depend on the speed and success of implementation of the first project. A skills development project in FY89 follows two earlier training projects; however, this project would be directed toward training the unskilled, particularly in the Northeast, to increase their probability of finding remunerative, permanent employment. Finally, a sectoral operation in FY90 would recommend changes in the education finance and management system to improve educational services. Sector work planned for FY86 and FY87 would provide the basis for these recommendations.

83. Water and Sewerage - In the past two decades, Brazil has made great strides in expanding its water supply and sewerage services (see para. 11). Beginning in the 1960s, the Federal Government assumed responsibility for the sector which had traditionally been managed, albeit inefficiently, by local administrations and municipalities. The National Housing Bank was given overall responsibility for the sector. State Water Companies (SWCs) were formed in all of Brazil's states, to plan and extend sector services. In 1971, the Government launched the National Sanitation Plan (PLANASA), to improve water supply and sanitation throughout Brazil. A national tariff system to support PLANASA objectives was established in 1978 and has worked effectively since. However, most PLANASA activity has been directed to urban areas. In rural areas, population service coverage is very low and there is no cohesive system for planning, financing, and implementing subsector activities. Responsibility for service delivery is spread across several agencies, with little coordination between them.

84. The ten existing Bank operations in the sector have played an important role in the development of urban water and sewerage systems. In the next five years, we will support Government efforts to extend water and sanitation services to the rural population. A FY85 loan, to assist the Government in establishing a coordinated policy and an institutional, financial, and operational framework for providing rural water and sanitation services, will be followed by a Northeast rural water project in FY88 and a national project for rural investments in FY90.

85. Urban Development - The Government's urban policy has been aimed at improving deteriorated living conditions resulting from the influx of people to urban centers while attempting to deflect migration away from metropolitan areas. Beginning in 1982, socially-oriented programs such as those in the urban portfolio were severely cut back in the Government's efforts to contain its budget deficit. At the same time, the lending capacity of BNH, Brazil's largest urban financial intermediary, declined as its revenues were adversely affected by macro-economic conditions. Consequently, the Government is having to revise its strategy toward urban development, giving less emphasis to investments with primarily social objectives in favor of those with quicker, economic returns.

86. The Bank's urban strategy should be directed to assisting the Government in its refocusing of urban policy. An urban policy consistent with present constraints should recognize the importance of contributing to macro-economic objectives of economic growth, balance of payments equilibrium, and containment of the public sector deficit. In addition, a more decentralized policy is called for in the new political climate and in view of the difficulty of controlling the state and local governments involved in urban planning and service delivery. The Federal Government should give more attention to assisting these entities improve their financial and management capacity to provide the services which they deem necessary and desirable. In order to reduce the cost of providing urban services, maintenance of existing infrastructure rather than new construction, better cost recovery, and use of low-cost technology are essential. Accordingly, four of the five urban projects in FY86-90--for small town improvements in the state of Santa Catarina and for urban development in the Northeast--are directed toward these goals.

87. Population, Health, and Nutrition - The rapid decline in population growth rates in the past 25 years (see para. 12) reflects, among other factors, a significant improvement in the health status of the population. Nonetheless, Brazil's health situation is still poorer than that of other countries with similar per capita incomes, and substantial work is needed to eliminate disparities across regions, particularly by income level. Infant mortality is still relatively high--about 73 deaths per thousand live births--and there is evidence that malnutrition remains a contributory factor.

88. Bank involvement in health is directed toward promoting greater effectiveness, cost-efficiency, and equity in the health care system. In the large urban centers of the Southeast, there is already a health care system which provides high-cost, hospital-based fee for service care. The challenge here is to develop more cost-effective solutions to health care which provide greater access to disadvantaged groups, as is being done in the FY84 Sao Paulo Health Project. At the other extreme, in the outlying rural areas, particularly in the Northeast, health services are rudimentary, the health status of the population is as bad as in low-income countries, and fertility and mortality rates are still relatively high. Here, the provision of minimal low-cost services, including infant care and nutrition, is needed. This is the purpose of the two Northeast Health Projects scheduled for FY87 and for FY89.

89. Involvement in population policy has been limited by the reticence of previous Governments to discuss family planning with the Bank, and by the diffusion of responsibility across federal ministries and states of varying institutional capability. Nevertheless, we are using health loans as a vehicle for both improving institutional capability and coordination and for trying to open a dialogue with the Government on population policy.

VI. SUPPORTING ACTIVITIES

90. Successful implementation of the proposed strategy and associated lending program requires the effective use of resources within the Bank and cooperation with other institutions. In this section, the supporting economic and sector work program, co-financing possibilities, and staff and operational implications within the Bank are discussed, together with expected support from IFC and areas for cooperation with the IMF, IDB, and UNDP.

Economic and Sector Work

91. The economic and sector work program is designed to strengthen the basis for the policy dialogue with the Government and for the elaboration and review of the Bank's country strategy; identify possible areas for Bank assistance; support the policy focus of the lending operations; and carry out the macroeconomic and sectoral analyses required for the Bank to take a more active role in encouraging voluntary commercial bank lending. In order to improve the coordination of the sectoral analyses with the assessment of overall economic performance, a substantial part of this work will be incorporated into several major ESW tasks:

(a) annual economic reports, which will integrate policy recommendations for industry, agriculture, energy development, and employment and the public sector investment reviews with the macroeconomic assessment;

(b) annual public sector investment reviews, which will cover the major sectors financed directly by the Federal Government and Federal state enterprises;

(c) comprehensive regional reports on the Northeast and the North and Northwest frontier regions, encompassing sectors such as industry, agriculture and irrigation, mining (where relevant), exports, urban development and tourism, health, education, water supply and transportation; and

(d) selected sector policy studies, particularly in agriculture, industry and energy, to provide the framework for proposed sector and project loans.

Summing across all four tasks, sector-specific analyses in the priority areas of the policy dialogue and lending program (agriculture, industry and trade, and physical and social infrastructure) are being allocated substantial staff resources in the FY86-90 ESW program. Table 6 shows the proposed FY86-90 ESW program, together with the FY85 budget, by task. The FY85-87 figures are taken from the approved FY85-87 program (see Attachment 4).

92. Annual economic reporting will be the main instrument for the policy dialogue and assessments not directly related to lending operations. Assessments of macroeconomic performance and prospects could be made available to commercial banks, if the Government agrees. For internal Bank purposes, CPPs or country briefs will be used to provide an annual update on the economic outlook and changes in the Bank's strategy.

93. Two ESW tasks are particularly relevant to Brazil's present circumstances. The annual public sector investment reviews would help Brazil improve public sector resource allocation at both federal and other levels. They would also bring the Bank's general and sectoral knowledge, particularly for the petroleum and the social sectors and specific industries, up to the standards required for lending development and advice on policies and programs. At this point, they are expected to absorb about 25% of ESW resources. However, an evaluation will be made after the completion of the first full review, to determine the best way to schedule and structure future reviews. It should be noted that only a partial review occurred in FY85, because the new Government was not prepared to receive a large Bank mission. Another part of the ESW program deals with the problem of satisfactory employment growth, a matter of national concern. We propose to address this issue through a coordinated research effort with Programs and ERS participation.

94. Efforts are being made to improve the coordination of the ESW on Brazil. Special emphasis is now being given by the Brazil Country Team to detailed, fully integrated planning of ESW in FY86. Sub-groups have been or are being established for industry; agriculture; public sector management and investment analysis, including fiscal and financial questions; and human resources. In addition, we are working to integrate some of the Bank's ESW with the economic work undertaken by the Government. Several Brazilian institutions are actively collaborating with the Bank in a number of subject areas. Besides continuing work in industrial and trade policies and in agriculture, and a study on diesel consumption which will be used in energy pricing and conservation policy discussions, collaborative work in macro-modeling has also begun. Arrangements are being made to transfer the macro-model for Brazil now being developed by CPD to the Government, with joint work in extending the model to follow. In addition, studies on administrative, tax, and other fiscal reforms will be undertaken by Brazilian researchers, as part of the proposed public sector management loan. Collaborative work will be intensified in the coming years, and a review made on the best arrangements for improving the dissemination and use of the results of the studies.

Table 6: BRAZIL - ECONOMIC AND SECTOR WORK, FY85-90
(Staff Weeks)

Tasks	FY85	FY86	FY87	FY88	FY89	FY90
I. Regionally Managed						
A. Economic Reports (ERA)						
1. Economic Memos	50	59	50	60	70	70
2. Forecasting/Planning						
a. Project Evaluation Criteria	-	-	10	-	-	-
b. Macro-Modeling I	18	-	-	-	-	-
c. Macro-Modeling II	-	5	10	-	-	-
d. Macro-Modelling III	-	-	-	10	10	10
3. Financial Sector Reform	16	-	-	-	-	-
4. Tax Reform	-	-	-	40	20	10
5. Poverty Alleviation, Employment, Population						
a. Employment Policies Review	20	-	-	-	-	-
b. Labor Market Structure	-	13	-	-	-	-
c. Population Strategy	10	-	-	-	-	-
d. Poverty Profile Update	5	-	-	-	-	-
e. Employment Studies Follow-up	-	-	-	10	10	10
6. Regional Development						
a. Northeast Region	-	67	-	-	-	-
b. Northeast Industry	22/c	22/c	-	-	-	-
c. North/Northwest Region	-	-	95	-	-	-
d. Northeast Follow-up	-	-	-	20	10	10
e. North/Northwest Follow-up				10	10	10
Sub-total:	141	166	165	150	130	120
B. Public Sector Investment Review /a	148/b	129	119	120	120	120
C. Additional Sector Work						
1. Agriculture						
a. Incentive Policies	10	-	-	-	-	-
b. Agricultural Sector Review	20	40	15	-	-	-
c. Pricing Policy	-	12	-	-	-	-
d. Agricultural Sector Follow-up	-	-	-	25	30	30
2. Industry and Trade						
a. Industrial Sector Strategy	17	-	-	-	-	-
b. Industrial Sector Follow-up	13	13	13	25	30	30

(continuation)

Table 6: BRAZIL - ECONOMIC AND SECTOR WORK, FY85-90
(Staff Weeks)

Tasks	FY85	FY86	FY87	FY88	FY89	FY90
3. Transportation						
a. Transport Sector Review	8	-	-	-	-	-
b. Transport Systems, Cerrado Region	-	10	10	-	-	-
c. Transport Sector Follow-up	-	-	-	10	10	10
4. Education						
a. Education Management/Finance	-	5	15	-	-	-
b. Education Sector Follow-up	-	-	-	10	10	10
5. Urban Development						
a. Urban Sector Strategy	13	-	-	-	-	-
b. Urban Sector Follow-up	-	5	15	10	10	10
6. Energy						
a. Sector Strategy	-	-	30	-	-	-
b. Energy Sector Follow-up	-	-	-	-	10	10
Sub-Total	81	85	98	80	100	100
D. CPP	25	25	25	25	25	25
E. Other Economic Work (EWO)	80	80	78	80	80	80
F. Other Sector Work (SWO) /d	5	5	5	40	40	50
TOTAL:	480	490	490	495	495	495
II. COPD Managed						
A. Sector Reports						
1. Social Security Financing	10	15	-	-	-	-
2. Gas Sector Update	-	10	-	-	-	-
TOTAL:	10	25	-	-	-	-
III. Research						
A. Income Distribution: Comparative Study /e	-	25	25	-	-	-
B. Labor Markets: Comparative Study /e	-	20	25	25	-	-
TOTAL:	-	45	50	25	-	-

/a To be coordinated with CEM schedule.

/b Because the new Government was not prepared to receive the full mission in FY85, less than 50% of the staff weeks budgeted will be used.

/c The main NE industry mission is now expected to take place in July 1985. Consequently, about 10 staff weeks now programmed for FY85 will actually be used in FY86.

/d Including unidentified tasks.

/e Proposed comparative research projects.

June 3, 1985

Co-Financing

95. Two co-financing initiatives have been undertaken recently. Supplementary co-financing for the Carajas iron ore project to provide joint bank guarantees for a European Coal and Steel Community loan was approved in June 1984. Preliminary preparation for a possible co-financing operation to support the power sector's rehabilitation program has been undertaken. The Government's decision to proceed with this operation could come soon, once a new agreement is reached with the Fund. This operation would be a test of the willingness of commercial banks to lend new funds to Brazil for priority projects which have the World Bank's support. If there is strong interest in co-financing from commercial banks, further operations could be undertaken on a priority basis, subject to agreement with the Government. These operations would be expected to be targeted to high priority projects and programs, preferably with revenue-generating capacity, in power, transport and other infrastructure sectors, supplementing direct Bank lending; and to augment investment finance for industrial development and export agriculture. In some instances, parallel co-financing with export credit agencies may also be appropriate.

Implementation of the Bank Program

96. The Bank's strategy for Brazil will require more staff resources than the sixty staff years now being used per fiscal year. To deliver two additional projects per fiscal year, about four additional staff years per fiscal year, virtually all from Projects staff, would be required, with additional time needed for supervision. Initially, there seems to be scope for absorbing the additional projects. Not all of the additional staff resources would need to come from LAC Projects divisions; five of the proposed projects would be prepared by COPD, whose involvement in regional projects has been falling in recent years. Within the region, the IDF Division would have the biggest increase in workload. At this point, it expects to be able to handle the additional work. Although every effort will be made to streamline project preparation, it should be recognized that entry into new sectors and emphasis on regional development lending in the recommended program are likely to require a greater average input than repeater projects in sectors in which the Bank has close institutional relationships and analytical background. Moreover, given the scope of the program and the advent of a more democratic and decentralized Government, and depending also on the evolution of the policy dialogue with Brazil, the establishment of a resident mission might have to be considered fairly soon.

97. Effective use of Bank resources will also be needed, in order to ensure that the policy dialogue is consistent on a cross-sectoral basis and compatible with macroeconomic objectives, and that operations which overlap in conditionality are mutually supportive. In order to achieve the objectives of the lending program, we recommend that some changes in program management be introduced. First, it is likely that a number of Bank missions, including some oriented towards policy-based lending operations, will need to be multi-sectoral in nature. We recommend that these operations be prepared under a task budget, with a leader and resources which cover staffing from several divisions. The recently established Country Team for Brazil will provide the forum for discussion

of policy issues on a multi-sectoral basis, and may be useful in also identifying particular budgetary needs for staff allocation to carry out some lending operations, such as the loans for financial and fiscal reform and for rationalization of the alcohol program. It should be noted, however, that the increased emphasis on multisectoral missions does not necessarily imply a shift from Projects-managed to Programs-managed sector work. A number of those missions--including the public investment reviews--may better be managed by appropriate Projects staff with inputs from Programs. Moreover, Projects-managed sector policy reviews, linked to proposed sector and project lending operations, will continue to be an important part of the overall ESW program.

98. Second, the Bank should continue to seek means to streamline project preparation and appraisal, as well as implementation of projects, to maintain the resource flow to Brazil. Recent efforts to introduce such changes have been promising. Special accounts for projects in Brazil have reduced the time for reimbursement of project expenditures by the Bank, and should be continued. Their use should be extended to cover reimbursements of foreign exchange expeditures, which is currently not the case. Semi-annual Bank/Government project implementation reviews should also be continued in order to treat those issues which affect implementation of Bank operations (such as budget allocations, import restrictions and procurement issues, as well as operation of Special Accounts and disbursement matters). These reviews may be broadened to include policies affecting the key sectors receiving Bank assistance. In addition, new procedures for loan processing which are being tested on a trial basis (such as the shift of loan processing activities to the Projects Department for the recent Federal Railway Project) should also be evaluated and adopted where they prove to be constructive. Here again, the Country Team will be employed.

IFC Operations

99. For many years, Brazil has been the most important country for IFC activity. About 16% of IFC's portfolio is now invested in Brazil, a figure which rises to about 20% if participations by commercial banks in IFC loans are included. Sectoral investment priorities have been and continue to be: agriculture and agro-industry, energy, and efficient export-oriented and import-substituting manufacturing. Consistent with the Government's policy to reduce the geographical concentration of industrial development, regional priorities encompassing the Northeast, Northwest, Amazon, and Southeastern states other than Sao Paulo and Rio de Janeiro have also been established.

100. Within the context of Brazil's ongoing adjustment process, sound export-oriented projects will receive highest priority, independent of sector and location. Possibilities exist in various manufacturing subsectors, particularly pulp and paper, and for agro-industries. To facilitate exports, the establishment of trading and other export related service companies will also be considered. Close IFC and Bank collaboration in this area is expected. For import substitution, emphasis will be placed on fine chemicals, which Brazil should be able to produce efficiently. In line with IFC's new five-year plan and Brazil's need to improve the efficiency of its existing industrial sector, IFC has begun to

undertake several restructuring projects (primarily comprehensive asset, organization, management, and financial restructurings) and is working with the Bank on ESW and lending in the financial sector. As the crisis subsides, IFC's assistance in the establishment and support of specialized financial institutions, in particular venture capital and similar equity funds, will increase. Syndications of Brazil credits will complement IFC's program when commercial banks return to voluntary lending to Brazil.

Cooperation with the IMF, IDB and UNDP

101. We shall seek to maintain close cooperation with the IMF in implementing the Brazil country program, both on operational matters such as the fiscal and monetary provisions required for projects supported by the Bank and the wider policy and economic management issues of common interest and concern. As stated above, the recommended lending program assumes that the new Brazilian Government will reach agreement with the Fund and that the agreement will permit the stabilization and recovery program to proceed with broad international support. As the recovery gathers momentum and the focus shifts towards the medium-term, we would expect the IMF role to become less central and that of the Bank to be at least maintained, if not expanded. Enhanced responsibilities for the Bank are implicit in the growth projections and the growing need for development finance, including cofinancing or other support for new commercial bank lending. The ESW program will strengthen our capacity for comprehensive annual reporting on the Brazilian economy, complementing that of the Fund.

102. The Brazil program of the Inter-American Development Bank, like those for Argentina, Mexico and Venezuela, operates within a 4-year maximum of US$1 billion in new external commitments (equivalent to US$250 million a year), although recycling of previously committed funds expands the effective program to about US$320 million annually. Net disbursements are expected to turn negative within a few years. The emphasis of IDB lending is on agricultural and rural development, energy, including power distribution, and transport. The IDB is prepared to respond flexibly to new policies and priorities of the Government, including increased emphasis, if desired, on social and employment programs. Close contacts will continue to be maintained with the IDB on policy and lending operations. Similarly, we shall work wherever operational and ESW interests coincide with the United Nations Development Program, particularly in agriculture, education, and employment and social policy areas.

VII. CONCLUSIONS

103. While Brazil's economic problems remain serious and the momentum of the new civilian Government has been interrupted by Mr. Neves' death, there has been considerable improvement since the last CPP. The country's balance of payments has improved, recovery from the recession has begun, and a number of domestic policy changes have been made which should have a beneficial effect on future growth. While it is too early to be certain,

the new Government is expected to give priority to both stabilization and growth. Consequently, the proposed country strategy continues to focus on structural adjustment and resource transfer for the next two or three years but shifts gradually to broader economic and social development as Brazil's resource constraints become less severe.

101. In order to implement this strategy, we are seeking management's approval of the following:

(a) adoption of the recommended lending program of US$1.5 billion per year for a total of US$7.5 billion for FY86-90 (para. 44); and agreement to introduce the expanded lending program (para. 50) if it can be accommodated within the overall Bank lending policy;

(b) an increase in the number of projects from eight to ten per fiscal year for the recommended program, and to twelve per fiscal year for the expanded program (paras. 46, 50);

(c) a gradual shift in the focus of the lending program, consistent with improvements in the Brazilian economy, from quick-disbursing operations to more traditional lending which emphasizes physical and social infrastructure rehabilitation and expansion, poverty alleviation, and regional development, especially for the Northeast (paras. 35, 44); and

(d) continuing high cost-sharing in FY86 to compensate for the lack of counterpart funding: 50% for social projects, and up to 50% or the foreign exchange cost (in the few cases in which it would exceed 50%) for other projects which are subject to severe resource constraints (para. 47). The higher cost-sharing would be continued in FY87, subject to approval at the management review of the DCB in May 1986.

Attachments

Population: 129.7 million (1983)
GNP per Capita (current $): US$1,890 (1983)
Area: 8,512,000 Km

Attachment IA
Page 1 of 4

BRAZIL - ACTUAL AND PROPOSED PROGRAM OF LENDING OPERATIONS THROUGH FY 90
(US$ Million)

		Through	Actual					Current	Program					Total	Total	Total	Total	Reserve
		1979	FY80	FY81	FY82	FY83	FY84	FY85	FY86	FY87	FY88	FY89	FY90	FY78-82	FY80-84	FY85-89	FY86-90	Projects
Seventeen Agricultural Projects	IBRD	628.7																
Integrated Rural Development	IBRD																	
- Ceara II	IBRD			56.0														
- Amazonas I	IBRD				26.4													
- Bahia II	IBRD					67.8												
- Maranhao	IBRD				42.7													
- Piaui	IBRD			29.0														
- Northeast I	IBRD							61.3										
- Northeast II	IBRD							61.4										
- Northeast III	IBRD								180.0									
- Northeast IV	IBRD									150.0								
- Minas Gerais - Rural Dev. II	IBRD		63.0															
CODEVASF Irrigation	IBRD								25.0									
Agricultural Research II	IBRD			60.0														
Agricultural Research III	IBRD										100.0*							
Agricultural Extension II	IBRD									75.0*								
Agro-Industries III	IBRD					400.0												
Rubber Development	IBRD								60.0									
Agric. Credit & Export Dev.	IBRD						303.0											
Agricultural Credit I	IBRD									200.0*								
Agricultural Credit II	IBRD											300.0						
Northwest Dev. I - Agriculture	IBRD				67.0													
Northwest Development II	IBRD				26.4													
Northwest Development III	IBRD						65.2											
Agriculture Sector II	IBRD								350.0									
N. W. Agriculture	IBRD												150.0					
N. E. Agriculture	IBRD												100.0*					
Supplementary Loan - Agric. Proj./a	IBRD						30.5											
Land Titling I	IBRD								100.0									
Land Titling II	IBRD										100.0							
Irrigation Sector Loan	IBRD												250.0*					
Livestock Disease Control	IBRD									50.0								
Soil Conservation	IBRD																	50.0 (87)
CODEVASF	IBRD																	100.0 (90)
Tree Crops	IBRD																	100.0 (90)
One Nutrition Project	IBRD	19.0																
Health Northwest Development	IBRD				13.0													
Sao Paulo Basic Health Care	IBRD						55.5											
National Health Studies	IBRD						2.0											
N. E. Health I	IBRD									75.0								
N. E. Health II	IBRD											75.0						
Three Education Projects	IBRD	63.9																
Education IV - Northeast	IBRD		32.0															
Educ. VI - C.W. & North Basic Educ.	IBRD						40.0											
Education VII - Science & Tech.	IBRD							72.0										
Education V - Agric. & Tech.	IBRD						20.0											
Education Sector Loan	IBRD												100.0					
Northeast Education II	IBRD										75.0*							
Skills Development	IBRD											50.0						
Education - Science & Tech. II	IBRD											100.0*						
Three Urban Transport Projects	IBRD	251.0																
Urban Trans. III - Med. Siz. Cities	IBRD			90.0														
Integrated Urban Dev. II - Recife	IBRD				123.9													
N. E. Metropolitan Dev. Eng.	IBRD					8.9												
Parana Market Towns	IBRD						52.7											
N. E. Small and Medium-Sized Cities	IBRD										150.0							
N. E. Metropolitan Development	IBRD									100.0								
Urban Transport IV	IBRD									100.0*								
Santa Catarina Small Towns	IBRD								40.0									
Northeast Small & Med. Sized Towns	IBRD												150.0*					
Medium Size Cities	IBRD																	100.0 (86)
BNH II	IBRD																	150.0 (88)
Six Water Supply & Sewerage Proj.	IBRD	323.0																
Water Supply & Sew. - M. Gerais III	IBRD		139.0															
Sewage Treatment - Sao Paulo II	IBRD																	
Water Supply & Sew. - Multistate	IBRD			180.0														
Water Supply & Sew. - South	IBRD		130.0															
Water Supply & Sew. - Sector I	IBRD					302.3												
Rural Water Supply & Sanitation NE	IBRD										100.0*							
Rural Water Supply & Sanitation	IBRD												100.0*					
Pilot Rural Water & Sewerage	IBRD							16.3										
Water and Sewerage Sector II	IBRD																	150.0 (88)
Two DFC (BNB and BNDES) Projects	IBRD	110.0																
DFC - S. Paulo Indus. Poll. Control	IBRD		58.0															
DFC - Development Banking II	IBRD					220.0												
DFC - Development Banking III	IBRD							300.0										
DFC - Development Banking IV	IBRD										200.0							
DFC - Development Banking V	IBRD											200.0						
State Development Banking	IBRD								300.0									
Twelve Industrial & Mining Projects	IBRD	798.0																
Iron Ore - Carajas	IBRD					304.5												
Industry - Fuel Alcohol I	IBRD			250.0														
Alcohol Rationalization	IBRD								175.0									
Export Development I	IBRD						352.0											
Export Development II	IBRD								250.0									
Export Development III	IBRD									250.0								
Telecommunications	IBRD									100.0								
Technology Development	IBRD											100.0*						
Northeast Industry	IBRD										100.0							
Northwest Small & Medium Industries	IBRD											150.0						
Northeast Small & Medium Industries	IBRD											150.0*						
Grande Carajas	IBRD												150.0					
Steel Financial Restructuring	IBRD																	100.0 (87)
Industrial Restructuring	IBRD																	150.0 (88)
Thirty-one Power Projects	IBRD	1,401.1																
Power XXXII - Distribution (CEEE)	IBRD		114.0															
Power XXXIII-Sys. Coord. ELETROBRAS	IBRD			54.0														
Power XXXIV - Trans. (ELETROSUL II)	IBRD			125.0														
Power XXXV - Distr. (ELETROBRAS I)	IBRD				182.7													
Power XXXVI - Distr. (ELETROBRAS II)	IBRD						250.6											
Power XXXVII - Rural Elect. I	IBRD						222.8											
Power XXXVIII - Rural Elect. II	IBRD									100.0								
Power XXXIX - Transmission	IBRD							400.0										
Power XL - Conservation, Distr.	IBRD							312.0										
Natural Gas Pilot	IBRD									50.0*								
Natural Gas	IBRD										100.0							
Energy Conservation	IBRD											100.0						
Power Sector I	IBRD										250.0*							
Power Sector II	IBRD												300.0*					
Power XLI - Transmission	IBRD									150.0*								
Northeast Power	IBRD																	150.0 (86)
Energy Sector	IBRD																	150.0 (88)
Fifteen Transport Projects	IBRD	1,024.0																
Highways VII - Rehab. & Resealing	IBRD						210.0											
Cerrados/S. E. Corridor Trans.	IBRD										100.0*							
State Highway Maintenance	IBRD											150.0*						
Secondary and Feeder Roads III	IBRD					154.0												
Highways Northwest Development	IBRD				240.0													
Railways - Urban transport	IBRD		159.0															
Ports II	IBRD									100.0*								
Railways	IBRD							200.0										
Transport Sector I	IBRD										225.0*							
Transport Sector II	IBRD												200.0					
Sao Paulo Railways	IBRD																	100.0 (87)
Feeder Roads IV	IBRD																	150.0 (89)
Fiscal Reform and Management/b	IBRD																	
Fiscal Reform	IBRD											125.0*						
Public Sector Management	IBRD								20.0									
Public Sector Management II	IBRD																	40.0 (89)
Lending Programs (current US$ mil.)	IBRD	4,618.7	695.0	844.0	722.1	1,457.5	1,604.3	1,423.0	1,500.0	1,500.0	1,500.0	1,500.0	1,500.0	3,640.1	5,322.9	7,423.0	7,500.0	
No.		90	7	8	8	7	10	8	10	13	11	11	9	41	40	53	54	
Lending Programs (const FY85 US$mil)	IBRD		870.9	1,045.9	867.9	1,667.6	1,721.4	1,423.0	1,399.3	1,311.2	1,235.6	1,170.1	1,111.9		6,173.7	6,539.2	6,228.1	
No.																		
Commitment deflator (1985=100)/c			79.8	80.7	83.2	87.4	93.2	100.0	107.2	114.4	121.4	128.2	134.9					
*Standby Projects									675.0	850.0	625.0	900.0						
No.									6	6	5	5						

/a Not counted as a project.
/b These loans may be absorbed, at some later date, in other sectors.
/c Price Deflators source: PBD.

Country Programs Department II
Latin America and Caribbean
Regional Office

June 3, 1985

ATTACHMENT 1 B

BRAZIL - SUMMARY OF BANK GROUP AND OTHER OFFICIAL LENDING

	Through 1979	FY80	FY81	FY82	FY83	FY84	Current FY85	FY86	FY87	FY88	FY89	FY90	FY78-82	FY80-84	FY85-89	FY86-90
SECTORAL DISTRIBUTION OF BANK GROUPS COMMITMENTS (%)																
Agriculture and Rural Development	13.6	9.1	17.2	22.5	32.1	24.9	8.6	47.7	31.7	13.3	20.0	33.3	17.7	23.3	24.5	29.2
Energy (excluding Power)	-	-	-	-	-	-	-	-	3.3	6.6	6.7	-	-	-	2.0	2.0
Industry and Development Banking	19.7	8.3	29.6	-	36.0	21.9	21.1	48.3	23.3	20.0	40.0	10.0	13.5	22.3	30.7	28.3
Power	30.3	16.4	21.2	25.3	-	29.5	50.0	-	16.7	16.7	-	20.0	19.6	17.8	17.7	12.0
Population, Health, and Nutrition	.4	-	-	1.8	-	3.6	-	-	5.0	-	5.0	-	.3	1.3	2.0	2.0
Transportation	22.2	22.9	-	33.2	10.6	13.1	14.1	-	6.7	21.7	10.0	13.3	17.1	14.3	10.3	10.3
Urban Development	5.4	-	10.7	17.2	.6	3.3	-	2.7	13.3	10.0	-	10.0	12.8	5.2	5.3	7.2
Water Supply and Sewerage	7.0	38.7	21.3	-	20.7	-	1.1	-	-	6.7	-	6.7	18.1	14.1	1.6	2.8
Education	1.4	4.6	-	-	-	3.7	5.1	-	-	5.0	10.0	6.7	.9	1.7	4.0	4.3
Fiscal Reform and Management	-	-	-	-	-	-	-	1.3	-	-	8.3	-	-	-	1.9	1.9
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
BANK GROUP DISBURSEMENTS (US$M)																
IBRD O/S including undisbursed /a	4,400.6/b	4,961.1/c	5,262.4/d	5,651.7/e	6,868.0/f	7,931.5/g	7,253.0*	9,748.1	10,686.1	11,521.1	12,240.1	12,830.2	5,651.7	7,931.5/g	12,240.1	12,830.2
excluding undisbursed /a	2,104.4/b	2,385.1/c	2,227.4/d	2,398.5/e	2,929.4/f	3,807.3/g	4,285.5*	5,031.5	6,021.8	7,056.3	7,794.9	8,561.0	2,398.5	3,807.3/g	7,794.9	8,561.0
IBRD gross disbursements	2,264.8	318.0	377.6	471.5	763.8	1,405.3	1,156.7	1,174.0	1,552.3	1,699.5	1,519.6	1,676.0	1,713.6	3,336.2	7,102.1	7,621.4
less amortization	554.2	99.3	120.0	173.7	214.6	321.2	362.9	428.0	561.9	665.1	780.9	909.9	546.1	928.8	2,798.8	3,345.8
equals net disbursements	1,710.6	218.7	257.6	297.8	549.2	1,084.1	793.8	746.0	990.4	1,034.4	738.7	766.1	1,167.5	2,407.4	4,303.3	4,275.6
less: interest and charges	794.9	170.0	184.7	192.4	208.7	318.4	433.2	516.9	603.4	706.7	777.0	848.7	820.5	1,074.2	3,037.2	3,452.7
equals: net transfer	915.7	48.7	72.9	105.4	340.5	765.7	360.6	229.1	386.9	327.8	-38.3	-82.6	347.0	1,333.2	1,266.1	822.9

	Calendar Year Actual						Calendar Year Projected					
	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
IBRD EXPOSURE (%)												
IBRD disbursement/total gross disbursements	2.5	3.2	2.4	4.2	11.1	6.9	9.7	8.3	7.6	7.9	7.4	7.5
IBRD DOD/total DOD	3.6	3.7	3.6	3.7	4.6	5.2	6.0	6.8	7.2	7.5	7.6	7.6
IBRD debt service/total debt Service	2.1	2.1	2.1	2.5	4.2	3.8	4.1	4.5	5.6	6.3	6.8	7.4
COMMITMENTS FROM OFFICIAL SOURCES (US$M)												
Grants and Concessional Loans	-	-	-	-	-	-	-	-	-	-	-	-
Non-Concessional Loans	1,469.3	1,853.4	2,435.7	2,567.6	3,263.3	5,135.0	4,075.0	2,775.0	2,750.0	2,750.0	2,750.0	2,650.0
Total bilateral	489.1	764.5	1,072.1	1,106.0	839.6	3,360.0	2,300.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0
Total multilateral	980.1	1,088.9	1,363.7	1,461.6	2,423.7	1,775.0	1,775.0	1,775.0	1,750.0	1,750.0	1,750.0	1,650.0
IBRD	784.0	820.0	1,039.0	1,089.5	2,066.9	1,500.0	1,500.0	1,500.0	1,500.0	1,500.0	1,500.0	1,400.0
Regional Development Banking	196.1	268.9	324.7	372.1	356.8	275.0	275.0	275.0	250.0	250.0	250.0	250.0
Other	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL COMMITMENTS	1,469.3	1,853.4	2,435.7	2,567.6	3,263.3	5,135.0	4,075.0	2,775.0	2,750.0	2,750.0	2,750.0	2,650.0

* Includes actual figures for first half of fiscal year. Total debt for FY85 is slightly lower than for FY84, because (a) a downward adjustment was made to reflect the exchange rate of December 30, 1984 and (b) no new debt is assumed to be incurred in FY85 (the loans approved in FY85 are not expected to become effective until FY86) while some repayment is occurring. The PBD model was used for the FY85-90 projections.

/a As of the end of the fiscal year
/b The exchange adjustment of $393.8 million as of June 30, 1979 has been included in these figures.
/c " " " " $444.9 " " " " ", 1980 " " " " " " with an increase of 51.1 million since FY79
/d " " " " $ 21.3 " " " " ", 1981 " " " " " " " a decrease " 423.6 million since FY80
/e " " " "-$100.0 " " " " ", 1982 " " " " " " " " " " 121.3 million since FY81
/f " " " "-$100.0 " " " " ", 1983 " " " " " " " " " " 10.0 million since FY82
/g " " " "-$301.60 " " " " ", 1984 " " " " " " " " " " 191.6 million since FY83

May 10, 1985

Note: All data in this table reflect O/S amounts and transactions of loans sold to Third Parties.

Attachment 1C

BRAZIL

IBRD Disbursements
(Millions of US Dollars)

	Fiscal Years 1980	1981	1982	1983	1984
1. Undisbursed balance at July 1 /a	2,296	2,287	2,946	3,253	3,939
2. Commitments during FY	695	844	722	1,458	1,604
3. Total disbursements during FY	318	378	472	764	1,405
4. Disbursement rate 3:1-%	13.85	16.53	16.02	23.49	35.67
Comparators %					
(a) Disbursement rate for total of all other countries in the region	26.85	28.97	25.91	19.98	22.45
(b) Bankwide IBRD/IDA average disbursement rate	21.65	22.21	24.08	23.70	25.00
(c) Selected comparators average disbursement rates /b					
Argentina	12.66	13.61	19.20	8.05	8.44
Mexico	37.71	39.91	23.82	21.35	26.90
Turkey	23.05	33.26	31.94	29.34	25.02

/a Undisbursed balance includes loans approved but unsigned, and signed but not effective.

/b Excludes exchange adjustments.

June 3, 1985

Attachment 1D

BRAZIL: STATUS OF SUBSCRIPTIONS TO THE WORLD BANK

Authorizing Resolution	Number of Shares		Amounts Paid In or To Be Paid		Effective Date
	Allocated	Subscribed	US$	Local Currency (Equiv. in US$)	
Initial	1,050	1,050	2,100,000.00	18,900,000.00	01/14/46
Res. 98	450	450	900,000.00	8,100,000.00	09/18/56
Res. 128	1,500	1,500	0.00	0.00	09/29/59
Res. 132	733	733	733,000.00	6,597,000.00	01/25/60
Res. 314	1,668	1,668	2,012,189.42	18,109,704.75	01/07/81
Res. 346	5,055	5,055	4,573,574.44	41,162,169.94	06/30/82
Res. 347	250	250	0.00	0.00	06/30/82
Res. 380	88	88	79,619.10	716,571.90	09/10/84
Res. 395	1,054	--	1,112,556.29	10,013,006.59	--

Note: Payments prior to May 1972 are in 1944 US$.

June 3, 1985

BRAZIL - EXPANDED FY86-90 LENDING PROGRAM
(US$ million)

FY85

Development Banking III		300.0
Science and Technology		72.0
Power Sector Cofinancing		-
Power Transmission		400.0
Power Distribution		312.0
Railways		200.0
NE Rural Development I		61.3
NE Rural Development II		61.4
Pilot Rural Water & Sewerage		16.3
No. of Projects		8
TOTAL		1,423.0

FY86			FY86R	
Land Titling I		100.0	Medium Size Cities	100.0
Agricultural Sector II		350.0	Northeast Power	150.0
CODEVASF Irrigation		25.0		
Rubber Development		60.0		
Alcohol Rationalization		175.0		
NE Rural Development III		180.0		
Export Development II*		250.0		
State Development Banking		300.0		
Public Sector Management		20.0		
Sta. Catarina Small Towns		40.0		
No. of Projects		10		
TOTAL		1,500.0		

FY87			FY87R	
Development Banking IV		300.0		
Livestock Disease Control	(S)	50.0	Steel Fin. Restructuring	100.0
Urban Transport IV	(S)	75.0	Soil Conservation	50.0
Agric. Extension II		75.0	Sao Paulo Railway	100.0
Ports II	(S)	100.0		
Telecommunications I		100.0		
Natural Gas Pilot		50.0		
NE Rural Develop. IV	(S)	150.0		
NE Health I	(S)	75.0		
NE Metropolitan Development		100.0		
Export Development III*		250.0		
Agricultural Credit I		250.0		
Power Transmission	(S)	125.0		
Rural Electrification		100.0		
No. of Projects		14		
TOTAL		1,800.0		

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* Fast-disbursing operations.

BRAZIL - EXPANDED FY86-90 LENDING PROGRAM (continued)
(US$ million)

FY88			FY88R	
State Hways. Maintenance	(S)	150.0	Energy Sector	150.0
Agricultural Research III	(S)	100.0	BNH I	150.0
Fiscal Reform	(S)	200.0	Industrial Restructuring I	150.0
NE Rural Water & Sanitation		100.0		
Land Titling II		100.0		
Power Sector		250.0		
Transport Sector		225.0		
Natural Gas		100.0		
Cerrado/SE Corridor Transp	(S)	100.0		
NE Industry		200.0		
NE Small&Med. Size Cities	(S)	150.0		
NE Education II		75.0		
N&CW Education II	(S)	50.0		
No. of Projects		13		
TOTAL		1,800.0		

FY89			FY89R	
Agricultural Credit II		300.0	CODEVASF II	100.0
Technology Development	(S)	100.0	Public Sector Management II	40.0
Development Banking V	(S)	250.0	Technology Development II	100.0
Energy Conservation		100.0		
NE Water & Sew. Sector II	(S)	150.0		
NE Transport	(S)	150.0		
Rural Water & Sanitation		100.0		
NW Small & Med. Industries		150.0		
NE Urban Infrastructure		100.0		
NE Small & Medium Industry		150.0		
Skills Development	(S)	50.0		
NE Health II		100.0		
Science & Technology II		100.0		
No. of Projects		13		
TOTAL		1,800.0		

FY90			FY90R	
State Highways II	(S)	150.0	Feeder Roads IV	150.0
Education Sector		100.0	Ind. Restructuring II	150.0
National Health Project		100.0	Tree Crops	100.0
Irrigation/Drainage Sector	(S)	250.0		
Power Sector II		300.0		
Transport Sector II		200.0		
Grande Carajas		150.0		
NW Agriculture		150.0		
NE Agriculture	(S)	100.0		
NE Small & Med. Towns	(S)	150.0		
NE Education III	(S)	75.0		
No. of Projects		11		
TOTAL		1,725.0		
Total No. of Projects FY86-90		61		
TOTAL FY86-90		8,625.0		

BRAZIL - CONTINGENCY LENDING PROGRAM, FY86-90
(US$ million)

FY86

Land Titling I	100.0
CODEVASF Irrigation	25.0
Rubber Development	60.0
Alcohol Rationalization	175.0
NE Rural Development III	180.0
Public Sector Management	20.0
Santa Catarina Small Towns	40.0
No. of Projects	7
TOTAL	600.0

FY87

Urban Transport IV	100.0
Agricultural Extension II	100.0
Ports II	100.0
NE Rural Development IV	150.0
NE Health I	75.0
NE Metropolitan Development	100.0
Livestock Disease Control	50.0
Rural Electrification	100.0
No. of Projects	8
TOTAL	775.0

FY88

Agricultural Research III	100.0
Technology Development	100.0
Land Titling II	100.0
Transport Sector	225.0
Natural Gas	100.0
Cerrado/SE Corridor Transport	100.0
NE Industry	250.0
NE Medium Size Cities	150.0
NE Education II	75.0
No. of Projects	9
TOTAL	1,200.0

BRAZIL - CONTINGENCY LENDING PROGRAM, FY86-90 (continued)
(US$ million)

FY89

NE Rural Water & Sanitation	150.0
Development Banking IV	200.0
Energy Conservation	125.0
Feeder Roads IV	150.0
State Highways Maintenance	150.0
Skills Development	50.0
NW Small & Medium Industries	150.0
NE Irrigation	100.0
NE Industry	150.0
NE Health II	75.0
No. of Projects	10
TOTAL	1,300.0

FY90

Education Sector	100.0
Rural Water & Sanitation	100.0
Irrigation/Drainage Sector	250.0
Power Sector	300.0
Transport Sector II	200.0
Grande Carajas	150.0
NW Agriculture	150.0
NE Agriculture	100.0
NE Small & Medium Towns	150.0
No. of Projects	9
TOTAL	1,500.0

Total No. of Projects FY86-90	43
TOTAL FY86-90	5,375.0

TABLE 3A

BRAZIL - SOCIAL INDICATORS DATA SHEET

	BRAZIL 1960/b	BRAZIL 1970/b	BRAZIL MOST RECENT ESTIMATE/b	REFERENCE GROUPS (WEIGHTED AVERAGES) /a (MOST RECENT ESTIMATE) /b MIDDLE INCOME LAT. AMERICA & CAR	MIDDLE INCOME EUROPE
AREA (THOUSAND SQ. KM)					
TOTAL	8512.0	8512.0	8512.0	.	.
AGRICULTURAL	1636.4	1981.2	2352.7	.	.
GNP PER CAPITA (US$)	330.0	600.0	2240.0	2108.6	2345.3
ENERGY CONSUMPTION PER CAPITA					
(KILOGRAMS OF OIL EQUIVALENT)	264.0	412.0	740.0	995.5	1122.8
POPULATION AND VITAL STATISTICS					
POPULATION,MID-YEAR (THOUSANDS)	72594.0	95847.0	126806.0	.	.
URBAN POPULATION (% OF TOTAL)	44.9	55.8	68.8	66.5	46.8
POPULATION PROJECTIONS					
POPULATION IN YEAR 2000 (MILL)			181.1	.	.
STATIONARY POPULATION (MILL)			303.6	.	.
POPULATION MOMENTUM			1.8	.	.
POPULATION DENSITY					
PER SQ. KM.	8.5	11.3	14.6	35.7	82.9
PER SQ. KM. AGRI. LAND	44.4	48.4	52.7	92.4	158.9
POPULATION AGE STRUCTURE (%)					
0-14 YRS	43.6	42.7	40.9	39.9	31.6
15-64 YRS	53.8	54.3	55.6	56.0	61.1
65 AND ABOVE	2.6	3.1	3.5	4.1	7.1
POPULATION GROWTH RATE (%)					
TOTAL	3.1	2.8	2.3	2.4	1.6
URBAN	5.7	5.0	4.1	3.6	3.7
CRUDE BIRTH RATE (PER THOUS)	42.7	35.0	31.2	31.3	23.4
CRUDE DEATH RATE (PER THOUS)	12.9	10.3	8.1	8.1	8.8
GROSS REPRODUCTION RATE	3.0	2.4	1.9	2.0	1.6
FAMILY PLANNING					
ACCEPTORS, ANNUAL (THOUS)	..	111.0	203.6 /c	.	.
USERS (% OF MARRIED WOMEN)	..	..	..	40.3	..
FOOD AND NUTRITION					
INDEX OF FOOD PROD. PER CAPITA (1969-71=100)	89.0	102.0	133.0	114.3	114.5
PER CAPITA SUPPLY OF					
CALORIES (% OF REQUIREMENTS)	106.0	104.0	107.0	110.6	128.6
PROTEINS (GRAMS PER DAY)	64.0	62.0	60.0	67.3	89.7
OF WHICH ANIMAL AND PULSE	35.0	34.0	36.0 /d	34.1	34.5
CHILD (AGES 1-4) DEATH RATE	19.4	12.5	8.0	5.7	5.2
HEALTH					
LIFE EXPECT. AT BIRTH (YEARS)	54.7	58.9	63.8	64.7	67.4
INFANT MORT. RATE (PER THOUS)	118.2	98.6	73.4	60.6	54.2
ACCESS TO SAFE WATER (%POP)					
TOTAL	..	55.0	77.1 /e	65.4	..
URBAN	..	78.0	88.8 /e	78.1	..
RURAL	..	28.0	56.8 /e	46.2	..
ACCESS TO EXCRETA DISPOSAL (% OF POPULATION)					
TOTAL	..	58.0	64.8 /e	52.9	..
URBAN	..	85.0	83.7 /e	67.0	..
RURAL	..	24.0	31.7 /e	24.5	..
POPULATION PER PHYSICIAN	2210.0	2130.0	..	1917.7	1065.8
POP. PER NURSING PERSON	2810.0	1120.0	..	815.8	764.4
POP. PER HOSPITAL BED					
TOTAL	310.0	270.0	250.0 /e	367.2	326.3
URBAN	250.0	320.0	..	411.5	201.5
RURAL	..	..	..	2636.3	..
ADMISSIONS PER HOSPITAL BED	..	18.4	..	27.3	20.0
HOUSING					
AVERAGE SIZE OF HOUSEHOLD					
TOTAL	5.1	4.8	4.9 /e	..	..
URBAN	..	4.6	4.7 /e	..	..
RURAL	..	5.2	5.3 /e	..	..
AVERAGE NO. OF PERSONS/ROOM					
TOTAL	..	1.1	..	..	..
URBAN	..	1.0	..	..	..
RURAL	..	1.2	..	..	..
ACCESS TO ELECT. (% OF DWELLINGS)					
TOTAL	38.7	47.6	67.4	..	..
URBAN	..	75.6	88.5	..	..
RURAL	..	8.4	20.6	..	..

TABLE 3A

BRAZIL - SOCIAL INDICATORS DATA SHEET

BRAZIL	1960 /b	1970 /b	MOST RECENT ESTIMATE /b	REFERENCE GROUPS (WEIGHTED AVERAGES) /a (MOST RECENT ESTIMATE) /b MIDDLE INCOME LAT. AMERICA & CAR	MIDDLE INCOME EUROPE
EDUCATION					
ADJUSTED ENROLLMENT RATIOS					
PRIMARY: TOTAL	95.0	84.0	93.0 /f,g	105.4	101.1
MALE	97.0	84.0	93.0 /f,g	106.3	105.5
FEMALE	93.0	84.0	93.0 /f,g	104.5	96.7
SECONDARY: TOTAL	11.0	26.0	32.0 /g,h	43.2	59.1
MALE	11.0	26.0	29.0 /g,h	42.3	68.9
FEMALE	10.0	27.0	35.0 /g,h	44.5	50.6
VOCATIONAL (% OF SECONDARY)	18.6	16.7	59.2 /h	33.6	21.6
PUPIL-TEACHER RATIO					
PRIMARY	33.0	28.0	26.0 /f	30.1	25.1
SECONDARY	13.0	13.0	14.0 /h	16.8	20.5
ADULT LITERACY RATE (%)	61.0	66.2	76.0 /f	79.5	75.6
CONSUMPTION					
PASSENGER CARS/THOUSAND POP	7.6	16.6	48.9	46.0	54.7
RADIO RECEIVERS/THOUSAND POP	65.4	108.4	165.1	225.6	164.9
TV RECEIVERS/THOUSAND POP	16.5	44.3	119.7	107.2	123.8
NEWSPAPER ("DAILY GENERAL INTEREST") CIRCULATION PER THOUSAND POPULATION	52.9	35.6	44.0 /h	63.5	96.3
CINEMA ANNUAL ATTENDANCE/CAPITA	4.4	2.0	1.8 /h	2.8	2.9
LABOR FORCE					
TOTAL LABOR FORCE (THOUS)	23326.0	30411.0	40365.0	.	.
FEMALE (PERCENT)	17.2	20.1	23.2	23.2	34.5
AGRICULTURE (PERCENT)	51.9	45.6	29.9	31.5	40.7
INDUSTRY (PERCENT)	14.8	18.3	24.4	23.9	23.3
PARTICIPATION RATE (PERCENT)					
TOTAL	32.1	31.7	31.8	32.2	42.9
MALE	52.7	50.3	48.9	49.3	54.7
FEMALE	11.2	12.8	14.8	15.2	31.0
ECONOMIC DEPENDENCY RATIO	1.4	1.4	1.4	1.4	0.9
INCOME DISTRIBUTION					
PERCENT OF PRIVATE INCOME RECEIVED BY					
HIGHEST 5% OF HOUSEHOLDS	..	..	..	..	..
HIGHEST 20% OF HOUSEHOLDS	60.0	63.5	62.0 /c	..	..
LOWEST 20% OF HOUSEHOLDS	3.8	3.2	2.8 /c	..	..
LOWEST 40% OF HOUSEHOLDS	10.8	9.0	9.4 /c	..	..
POVERTY TARGET GROUPS					
ESTIMATED ABSOLUTE POVERTY INCOME LEVEL (US$ PER CAPITA)					
URBAN	..	..	..	288.2	..
RURAL	..	..	150.0 /d	184.0	..
ESTIMATED RELATIVE POVERTY INCOME LEVEL (US$ PER CAPITA)					
URBAN	..	..	465.0 /d	522.8	..
RURAL	..	..	332.0 /d	372.4	..
ESTIMATED POP. BELOW ABSOLUTE POVERTY INCOME LEVEL (%)					
URBAN	..	..	..	..	..
RURAL	..	..	..	..	..

.. NOT AVAILABLE
. NOT APPLICABLE

NOTES

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

/b Unless otherwise noted, "Data for 1960" refer to any year between 1959 and 1961; "Data for 1970" between 1969 and 1971; and data for "Most Recent Estimate" between 1980 and 1982.

/c 1975; /d 1977; /e 1976; /f 1979; /g Beginning 1973 primary and secondary education cover age groups 7-14 and 15-17 instead of 7-10 and 11-17 in earlier years; therefore, most recent estimates are not comparable with earlier data; /h 1978.

JUNE, 1984

DEFINITIONS OF SOCIAL INDICATORS

Notes: Although the data are drawn from sources generally judged the most authoritative and reliable, it should also be noted that they may not be internationally comparable because of the lack of standardized definitions and concepts used by different countries in collecting the data. The data are, nonetheless, useful to describe orders of magnitude, indicate trends, and characterize certain major differences between countries.

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

AREA (thousand sq.km.)
- Total - Total surface area comprising land area and inland waters; 1960, 1970 and 1981 data.
- Agricultural - Estimate of agricultural area used temporarily or permanently for crops, pastures, market and kitchen gardens or to lie fallow; 1960, 1970 and 1981 data.

GNP PER CAPITA (US$) - GNP per capita estimates at current market prices, calculated by same conversion method as World Bank Atlas (1980-82 basis); 1960, 1970, and 1982 data.

ENERGY CONSUMPTION PER CAPITA - Annual apparent consumption of commercial primary energy (coal and lignite, petroleum, natural gas and hydro-, nuclear and geothermal electricity) in kilograms of oil equivalent per capita; 1960, 1970, and 1981 data.

POPULATION AND VITAL STATISTICS
- Total Population, Mid-Year (thousands) - As of July 1: 1960, 1970, and 1982 data.
- Urban Population (percent of total) - Ratio of urban to total population; different definitions of urban areas may affect comparability of data among countries; 1960, 1970, and 1982 data.
- Population Projections
  - Population in year 2000 - Current population projections are based on 1980 total population by age and sex and their mortality and fertility rates. Projection parameters for mortality rates comprise of three levels assuming life expectancy at birth increasing with country's per capita income level, and female life expectancy stabilizing at 77.5 years. The parameters for fertility rate also have three levels assuming decline in fertility according to income level and past family planning performance. Each country is then assigned one of these nine combinations of mortality and fertility trends for projection purposes.
  - Stationary population - Is one in which age- and sex-specific mortality rates have not changed over a long period, while age-specific fertility rates have simultaneously remained at replacement level (net reproduction rate=1). In such a population, the birth rate is constant and equal to the death rate, the age structure is also constant, and the growth rate is zero. The stationary population size was estimated on the basis of the projected characteristics of the population in the year 2000, and the rate of decline of fertility rate to replacement level.
  - Population Momentum - Is the tendency for population growth to continue beyond the time that replacement-level fertility has been achieved; that is, even after the net reproduction rate has reached unity. The momentum of a population in the year t is measured as a ratio of the ultimate stationary population to the population in the year t, given the assumption that fertility remains at replacement level from year t onward. 1980 data.
- Population Density
  - Per sq. km. - Mid-year population per square kilometer (100 hectares) of total area; 1960, 1970, and 1981 data.
  - Per sq. km. agricultural land - Computed as above for agricultural land only; 1960, 1970 and 1981 data.
- Population Age Structure (percent) - Children (0-14 years), working-age (15-64 years), and retired (65 years and over) as percentage of mid-year population; 1960, 1970, and 1982 data.
- Population Growth Rate (percent) - total - Annual growth rates of total mid-year population for 1950-60, 1960-70, and 1970-82.
- Population Growth Rate (percent) - urban - Annual growth rates of urban populations for 1950-60, 1960-70, and 1970-82.
- Crude Birth Rate (per thousand) - Annual live births per thousand of mid-year population; 1960, 1970, and 1982 data.
- Crude Death Rate (per thousand) - Annual deaths per thousand of mid-year population; 1960, 1970, and 1982 data.
- Gross Reproduction Rate - Average number of daughters a woman will bear in her normal reproductive period if she experiences present age-specific fertility rates; usually five-year averages ending in 1960, 1970, and 1982.
- Family Planning - Acceptors, Annual (thousands) - Annual number of acceptors of birth-control devices under auspices of national family planning program.
- Family Planning - Users (percent of married women) - Percentage of married women of child-bearing age who are practicing or whose husbands are practicing any form of contraception to all married women. Women of child-bearing age are generally women aged 15-49, although for some countries contraceptive usage is measured for other age groups.

FOOD AND NUTRITION
- Index of Food Production per Capita (1969-71=100) - Index of per capita annual production of all food commodities. Production excludes seed and feed and is on calendar year basis. Commodities cover primary goods (e.g. sugarcane instead of sugar) which are edible and contain nutrients (e.g. coffee and tea are excluded). Aggregate production of each country is based on national average producer price weights; 1961-65, 1970, and 1982 data.
- Per capita supply of calories (percent of requirements) - Computed from energy equivalent of net food supplies available in country per capita per day. Available supplies comprise domestic production, imports less exports, and changes in stock. Net supplies exclude animal feed, seeds, quantities used in food processing, and losses in distribution. Requirements were estimated by FAO based on physiological needs for normal activity and health considering environmental temperature, body weights, age and sex distribution of population, and allowing 10 percent for waste at household level; 1961-65, 1970 and 1980 data.
- Per capita supply of protein (grams per day) - Protein content of per capita net supply of food per day. Net supply of food is defined as above. Requirements for all countries established by USDA provide for minimum allowances of 60 grams of total protein per day and 20 grams of animal and pulse protein, of which 10 grams should be animal protein. These standards are lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Supply; 1961-65, 1970 and 1980 data.
- Per Capita protein supply from animal and pulse - Protein supply of food derived from animals and pulses in grams per day; 1961-65, 1970 and 1977 data.
- Child (ages 1-4) Death Rate (per thousand) - Annual deaths per thousand in age group 1-4 years, to children in this age group; for most developing countries data derived from life tables; 1960, 1970 and 1981 data.

HEALTH
- Life Expectancy at Birth (years) - Average number of years of life remaining at birth; 1960, 1970 and 1982 data.
- Infant Mortality Rate (per thousand) - Annual deaths of infants under one year of age per thousand live births; 1960, 1970 and 1981 data.
- Access of Safe Water (percent of population) - total, urban, and rural - Number of people (total, urban, and rural) with reasonable access to safe water supply (includes treated surface waters or untreated but uncontaminated water such as that from protected boreholes, springs, and sanitary wells) as percentages of their respective populations. In an urban area a public fountain or standpost located not more than 200 meters from a house may be considered as being within reasonable access of that house. In rural areas reasonable access would imply that the housewife or members of the household do not have to spend a disproportionate part of the day in fetching the family's water needs.
- Access to Excreta Disposal (percent of population) - total, urban, and rural - Number of people (total, urban, and rural) served by excreta disposal as percentages of their respective populations. Excreta disposal may include the collection and disposal, with or without treatment, of human excreta and waste-water by water-borne systems or the use of pit privies and similar installations.
- Population per Physician - Population divided by number of practicing physicians qualified from a medical school at university level.
- Population per Nursing Person - Population divided by number of practicing male and female graduate nurses, assistant nurses, practical nurses and nursing auxiliaries.
- Population per Hospital Bed - total, urban, and rural - Population (total, urban, and rural) divided by their respective number of hospital beds available in public and private general and specialized hospital and rehabilitation centers. Hospitals are establishments permanently staffed by at least one physician. Establishments providing principally custodial care are not included. Rural hospitals, however, include health and medical centers not permanently staffed by a physician (but by a medical assistant, nurse, midwife, etc.) which offer in-patient accommodation and provide a limited range of medical facilities.
- Admissions per Hospital Bed - Total number of admissions to or discharges from hospitals divided by the number of beds.

HOUSING
- Average Size of Household (persons per household) - total, urban, and rural - A household consists of a group of individuals who share living quarters and their main meals. A boarder or lodger may or may not be included in the household for statistical purposes.
- Average number of persons per room - total, urban, and rural average number of persons per room in all urban, and rural occupied conventional dwellings, respectively. Dwellings exclude non-permanent structures and unoccupied parts.
- Access to Electricity (percent of dwellings) - total, urban, and rural - Conventional dwellings with electricity in living quarters as percentage of total, urban, and rural dwellings respectively.

EDUCATION
- Adjusted Enrollment Ratios
  - Primary school - total, male and female - Gross total, male and female enrollment of all ages at the primary level as percentages of respective primary school-age populations; normally includes children aged 6-11 years but adjusted for different lengths of primary education; for countries with universal education enrollment may exceed 100 percent since some pupils are below or above the official school age.
  - Secondary school - total, male and female - Computed as above; secondary education requires at least four years of approved primary instruction; provides general, vocational, or teacher training instructions for pupils usually of 12 to 17 years of age; correspondence courses are generally excluded.
- Vocational enrollment (percent of secondary) - Vocational institutions include technical, industrial, or other programs which operate independently or as departments of secondary institutions.
- Pupil-teacher ratio - primary, and secondary - Total students enrolled in primary and secondary levels divided by numbers of teachers in the corresponding levels.
- Adult literacy rate (percent) - Literate adults (able to read and write) as a percentage of total adult population aged 15 years and over.

CONSUMPTION
- Passenger Cars (per thousand population) - Passenger cars comprise motor cars seating less than eight persons; excludes ambulances, hearses, and military vehicles.
- Radio Receivers (per thousand population) - All types of receivers for radio broadcasts to general public per thousand of population; excludes unlicensed receivers in countries and in years when registration of radio sets was in effect; data for recent years may not be comparable since most countries abolished licensing.
- TV Receivers (per thousand population) - TV receivers for broadcast to general public per thousand population; excludes unlicensed TV receivers in countries and in years when registration of TV sets was in effect.
- Newspaper Circulation (per thousand population) - Shows the average circulation of "daily general interest newspaper," defined as a periodical publication devoted primarily to recording general news. It is considered to be "daily" if it appears at least four times a week.
- Cinema Annual Attendance per Capita per Year - Based on the number of tickets sold during the year, including admissions to drive-in cinemas an mobile units.

LABOR FORCE
- Total Labor Force (thousands) - Economically active persons, including armed forces and unemployed but excluding housewives, students, etc., covering population of all ages. Definitions in various countries are not comparable; 1960, 1970 and 1982 data.
- Female (percent) - Female labor force as percentage of total labor force.
- Agriculture (percent) - Labor force in farming, forestry, hunting and fishing as percentage of total labor force; 1960, 1970 and 1981 data
- Industry (percent) - Labor force in mining, construction, manufacturing and electricity, water and gas as percentage of total labor force; 1960, 1970 and 1981 data.
- Participation Rate (percent) - total, male, and female - Participation or activity rates are computed as total, male, and female labor force as percentages of total, male and female population of all ages respectively; 1960, 1970, and 1981 data. These are based on ILO's participation rates reflecting age-sex structure of the population, and long time trend. A few estimates are from national sources.
- Economic Dependency Ratio - Ratio of population under 15 and 65 and over to the working age population (those aged 15-64).

INCOME DISTRIBUTION
- Percentage of Private Income (both in cash and kind) - Received by richest 5 percent, richest 20 percent, poorest 20 percent, and poorest 40 percent of households.

POVERTY TARGET GROUPS
The following estimates are very approximate measures of poverty levels, and should be interpreted with considerable caution.
- Estimated Absolute Poverty Income Level (US$ per capita) - urban and rural - Absolute poverty income level is that income level below which a minimal nutritionally adequate diet plus essential non-food requirements is not affordable.
- Estimated Relative Poverty Income Level (US$ per capita) - urban and rural - Rural relative poverty income level is one-third of average per capita personal income of the country. Urban level is derived from the rural level with adjustment for higher cost of living in urban areas.
- Estimated Population Below Absolute Poverty Income Level (percent) - urban and rural - Percent of population (urban and rural) who are "absolute poor."

Comparative Analysis and Data Division
Economic Analysis and Projections Department
June 1984

ATTACHMENT 3A

BRAZIL - ECONOMIC INDICATORS

Population: 129.7 million (mid-1983)
GNP Per Capita: US$1,890 (1983)

Indicator	Amount US$ Million at Current Prices 1983/e	Annual Growth Rates (%) Actual 1975	1980	1981	1982	1983/d	1984/e	Projected 1985	1986	1987	1988	1989	1990	1993
National Accounts														
Gross Domestic Product/a	209,800	5.4	7.2	-1.6	0.9	-3.2	4.5	4.3	5.4	6.2	6.7	7.1	7.3	7.6
Agriculture	23,766	4.9	6.2	6.4	-2.5	2.2	3.9	3.0	4.0	4.0	4.0	4.5	4.5	4.5
Industry	61,192	5.9	7.9	-5.2	0.8	-6.8	5.8	5.7	7.0	8.0	9.0	9.0	9.1	9.4
Services	102,173	6.7	7.3	-0.1	1.7	-1.5	3.7	3.5	4.5	5.2	5.5	6.1	6.4	6.4
Consumption	167,800	0.8	3.5	0.2	3.3	-2.0	2.6	7.1	3.3	5.3	7.1	7.6	7.7	7.8
Gross Investment/b	37,974	11.7	12.1	-15.9	-4.2	-17.5	4.5	4.3	17.1	11.5	6.7	7.1	7.3	7.6
Exports of GNFS	23,628	11.9	22.7	20.9	-8.4	13.6	20.0	-4.5	4.6	4.6	5.3	5.3	5.9	6.6
Imports of GNFS	19,594	-4.5	1.8	-13.4	-5.2	-17.2	17.3 /g	18.4	12.6	9.4	8.2	9.0	9.2	8.1
Gross National Savings	20,043	15.8	11.6	-16.6	-10.6	-3.4	22.6	-0.7	24.5	12.4	8.4	7.5	7.3	7.3
Prices														
GDP Deflator (1970=100)		305	2,955	5,844	11,480	28,241	90,541							
Exchange Rate (average,cr$/US$)		8.1	52.7	93.1	179.5	577.0	1,846.9							

	Share of GDP at Market Prices (%) (At Constant 1970 Prices) 1975	1980	1985	1990	1993	Average Annual Increase (%) (At Constant 1970 Prices) 1975-80	1980-85	1985-90	1988-93
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0	6.8	0.8	6.6	7.4
Agriculture	8.5	7.7	8.3	7.5	6.8	4.5	2.2	4.2	4.5
Industry	32.4	33.6	31.9	34.8	36.7	7.5	-0.3	8.5	9.3
Services	43.2	42.9	43.9	41.9	40.7	6.5	1.3	5.6	6.4
Consumption	70.6	72.1	74.7	73.5	74.0	7.2	-1.8	6.4	7.7
Gross Investment/b	32.1	27.5	18.0	21.0	21.0	3.5	-4.2	9.4	7.4
Exports GNFS	7.3	7.9	13.5	12.7	12.3	8.5	14.5	5.2	6.2
Imports GNFS	10.0	7.5	6.2	7.2	7.3	0.9	-1.8	9.4	8.5
Gross National Savings	27.3	23.3	16.4	20.9	20.7	3.6	-4.5	11.1	7.5

Public Finance (Central Government)	As % of GDP (At Current Cruzeiro Prices) 1970	1975	1979	1980/f	1981/f	1982/f
Current Revenue	16.6	19.8	20.8	20.1	18.9	21.2
Current Expenditure	14.4	15.8	17.6	19.8	20.2	25.4
Surplus (+) or Deficit (-)	2.2	4.0	3.2	0.3	-1.4	-4.2
Capital Expenditure	2.6	3.8	3.7	4.1	3.5	3.4
Financing (Net)	0.4	-0.2	0.5	3.9	4.9	7.6

Other Indicators	1975-80	1980-85	1985-90	1988-93
GNP Growth Rate (%)	6.5	0.5	6.9	7.6
GNP Per Capita Growth Rate (%)	4.0	-1.9	4.5	5.4
Energy Consumption Growth Rate (%)	6.5	—	—	—
ICOR	3.3	20.7	3.1	2.8
Marginal Savings Rate	0.0	0.5	0.3	0.2
Import Elasticity	-0.2	-2.4	1.4	1.1

/a At market prices; components are expressed at factor cost and will not add due to exclusion of net indirect taxes and subsidies.

/b 1975-80 estimates are for gross investment; estimates for subsequent years are for fixed investment, with changes in stocks included in consumption.

/c Projected years at constant prices.

/d Preliminary.

/e Estimate.

/f 1980-82 include government expenditures effected through the monetary budget and minor government funds, as well as tranfers to the federal enterpises.

/g With a 1970 base, the weighted real import growth rate in 1984 was strongly positive. Although 1984 petroleum imports fell in volume terms, there was a volume increase in metals, fertilizers, and almost all other major raw material categories; in transportation equipment; and in consumer goods. Therefore, because the price of petroleum in 1970 was very low relative to the prices of other commodities, the weighted real growth rate of imports for 1984, using a 1970 base, reflects the positive growth of the non-petroleum imports more than the decline in petroleum imports. If a 1984 base were used instead, total imports in 1984 would have fallen by 8% in real terms.

July 9, 1985

BRAZIL - External Trade

Indicator	Amount US$ million at Current Prices (1983)	Annual Growth Rates (%) - (at constant 1970 prices)												
		Actual						Projected						
		1975	1980	1981	1982	1983	1984/c	1985	1986	1987	1988	1989	1990	1993
External Trade														
Merchandise Exports	21,898	23.9	21.2	9.9	-3.0	27.5	20.1	-4.5	4.6	4.6	5.3	5.3	6.0	6.6
Primary/a	8,960	30.7	20.4	46.8	-10.1	14.3	9.0	-1.3	4.2	4.2	4.4	4.5	4.7	4.7
Manufactures/b	10,873	0.0	22.5	40.6	7.4	43.5	30.8	-7.0	5.0	5.0	6.0	6.0	7.0	8.0
Merchandise Imports	15,429	-15.0	1.4	-9.4	-20.3	-15.9	29.1	18.4	12.6	9.4	8.2	9.0	9.2	8.1
Food & Consumer Goods	1,670	8.2	13.2	-54.8	-1.2	-8.1	112.0	7.6	3.1	5.3	7.3	7.8	8.0	8.0
Petroleum	8,607	-3.8	-9.8	-5.0	-2.6	-10.6	-13.0	-0.9	1.1	1.3	-1.6	5.9	6.1	4.0
Machinery and equipment	1,895	9.8	6.4	-6.9	-32.2	-13.0	35.4	23.9	25.7	13.8	8.1	8.5	8.8	7.6
Others	3,257	-30.6	-2.2	3.8	-20.3	-20.3	20.9	23.5	9.8	9.0	10.1	10.2	10.3	9.0
Prices														
Export Price Index		176	290	252	225	192	197	204	220	238	258	280	303	349
Import Price Index		242	431	474	522	493	343	329	331	350	368	395	425	499
Terms of Trade Index		72	67	53	43	39	57	62	66	68	70	71	71	70

	Composition of Merchandise Trade (%) (at current Prices)					Average Annual Increase (%) (at constant 1970 prices)			
	1975	1980	1985 /d	1990 /d	1993 /d	1975-80	1980-85	1985-90	1988-93
Exports	100.0	100.0	100.0	100.0	100.0	5.8	11.0	5.1	6.2
Primary/a	62.7	44.8	46.2	44.5	42.2	1.1	8.6	4.4	4.6
Manufactures/b	37.3	55.2	53.8	55.5	57.8	18.2 /a	23.2	5.8	7.5
Imports	100.0	100.0	100.0	100.0	100.0	-1.4	-2.7	9.4	8.5
Food and Consumer Goods	9.8	11.1	15.7	13.3	13.3	17.5	- 4.5	6.4	7.9
Petroleum	25.4	44.4	8.5	6.1	5.4	4.3	-7.3	2.2	4.6
Machinery and Equipment	26.5	15.4	28.8	33.0	32.5	-7.5	-3.4	11.9	8.0
Others	38.3	29.1	47.0	47.6	48.8	-1.9	-3.1	9.8	9.5

	Share of Trade with Industrial Countries (%)			Share of trade with Developing Countries (%)			Share of trade with capital Surplus oil Importers (%)		
Direction of Trade	1975	1980	1983	1975	1980	1983	1975	1980	1983
Exports	60.2	57.3	62.3	23.5	28.5	21.8	0.8	1.1	2.2
Imports	67.3	46.6	38.5	8.7	16.0	17.4	13.2	14.1	19.3

/a For the period 1981-1990, Primary Products include semi-processed goods plus iron ore.
/b For the period 1975-1980, manufactures include other goods.
/c Preliminary.
/d Projected years at constant 1970 prices.

BALANCE OF PAYMENTS, EXTERNAL CAPITAL AND DEBT
(US$ Millions at Current Prices)

Population: 129.7 million (mid-1983)
GNP Per Capita: US$1,890 (1983)

	Actual						Projected						
	1975	1980	1981	1982	1983	1984 /d	1985	1986	1987	1988	1989	1990	1993
Net Exports of Goods and Services	-6,702	-12,564	-11,192	-14,747	-6,250	482	-3,641	-1,589	-1,593	-779	-581	-756	
Exports of Goods	8,670	20,132	23,293	20,175	21,899	27,005	26,708	30,161	34,176	38,979	44,484	51,106	71,045
Imports of Goods	12,210	22,955	22,091	19,395	15,429	13,937	15,725	17,803	20,594	23,447	27,459	32,217	47,788
Net Factor Income	-1,733	-6,621	-9,531	-11,938	-10,313	-10,872	-12,021	-10,627	-11,135	-11,506	-11,833	-12,719	-13,764
(of which interest payments on M&LT debt)	(2,042)	(6,331)	(7,966)	(9,326)	(8,473)	(9,382)	(10,880)	(9,512)	(9,817)	(10,005)	(10,097)	(10,705)	(11,524)
Net Non-Factor Services	-1,429	-3,120	-2,863	-3,589	-2,407	-1,714	-2,603	-3,320	-4,040	-4,805	-5,773	-6,926	10,355
Net Transfers	13	126	188	-10	108	172	0	0	0	0	0	0	0
Current Account Balance	-6,689	-12,438	-11,004	-14,757	-6,142	654	-3,641	-1,589	-1,593	-779	-581	-756	-862
Direct Private Investment	892	1,121	1,585	991	664	1,047	732	802	890	1,076	1,260	1,442	1,879
M&LT Loans (Net)	3,951	4,807	9,908	8,986	4,941	8,380	3,729	2,746	4,237	4,197	5,139	5,339	5,864
Official	n.a.	n.a.	921	1,012	1,736	3,488	1,995	1,592	1,482	1,324	306	222	-144
Private	n.a.	n.a.	8,987	7,974	3,205	4,892	1,734	1,154	2,755	1,873	4,833	5,117	6,008
Brazilian Loans Abroad (Net)	-190	-27	-921	-594	122	801	0	-1,400	-1,800	-2,400	-3,000	-3,046	-4,442
Net IMF	-	91	87	-	2,152	1,796	359	202	-783	-1,103	-1,474	-1,383	-497
Other Capital (including errors and omissions)	808	3,057	1,194	1,219	-1,761	-5,651	-679	0	0	0	0	0	0
Change in Reserves (- indicates increase)	1,228	3,389	-849	4,155	24	-7,027	-500	-761	-951	-991	-1,344	-1,596	-1,943
International Reserves /a	5,719	6,912	7,505	3,250	3,757	10,476	10,976	11,737	12,688	13,680	15,024	16,620	21,746
(of which gold)	56	1,143	905	65	207	-	-	-	-	-	-	-	-
Reserves as Months of Imports (GNFS)	3.3	3.0	3.3	1.6	2.3	6.8	6.5	6.0	5.6	5.3	4.9	4.6	4.1
External Capital and Debt													
Gross Disbursements	6,912	11,313	16,045	14,983	10,902	18,883	14,841	16,860	18,938	18,947	20,803	20,432	16,676
Official Grants	-	-	-	-	-	-	-	-	-	-	-	-	-
Concessional Loans	102	19	19	180	4	76	74	70	48	18	10	7	-
DAC	87	16	17	180	3	60	60	57	38	10	4	3	-
OPEC	-	-	-	-	1	15	9	5	1	0	0	0	-
IDA	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	15	3	2	-	-	1	5	8	9	8	6	4	-
Non-Concessional Loans	6,810	11,294	16,026	14,803	10,898	18,807	14,767	16,790	18,890	18,929	20,793	20,425	16,676
Official Export Credits	311	612	885	842	1,099	3,307	1,688	1,338	1,196	1,109	1,000	1,000	1,440
IBRD	250	343	389	623	1,204	1,294	1,433	1,396	1,448	1,501	1,546	1,537	1,436
Other Multilateral	119	188	190	331	217	269	297	274	276	268	269	270	252
Private	6,130	10,151	14,562	13,007	8,378	13,937	11,349	13,782	15,970	16,051	17,978	17,618	13,548
External Debt													
Debt Outstanding and Disbursed	23,441	56,499	64,625	73,034	79,580	88,615	92,343	95,090	99,327	103,524	108,663	114,002	129,730
Public/Publicly Guaranteed	13,849	39,894	44,833	49,911	58,068	69,387	76,420	82,618	90,148	97,425	104,847	111,339	127,652
Private Non-Guaranteed	9,592	16,605	19,792	23,123	21,512	19,228	15,923	12,472	9,179	6,099	3,816	2,663	2,078
Undisbursed Debt	3,761	11,028	12,643	14,322	13,917	13,727	12,520	10,791	9,997	9,483	9,426	9,477	9,904
Debt Service													
Total Service Payments /b	3,670	13,141	15,333	16,825	11,206	20,978	22,978	24,389	25,281	25,485	26,458	26,496	22,967
Interest	1,498	6,321	7,938	9,341	7,672	10,739	11,867	10,275	10,581	10,735	10,794	11,403	12,155
Interest as % Exports (GNFS)	n.a.	28.9	31.0	42.5	32.5	37.0	41.3	31.7	28.8	25.6	22.6	20.8	15.9
Total Payments as % Exports (GNFS)	38.8	60.0	60.0	76.5	47.4	72.3	80.0	75.3	68.9	60.9	55.4	48.3	30.1
Average Interest Rate on New Guaranteed Loans (%) /c	8.7	12.7	15.3	12.7	11.4	11.9	12.0	9.9	9.9	9.7	9.5	9.5	9.0
Official	8.0	9.1	10.8	10.9	10.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Private Source	8.9	13.6	16.3	13.1	11.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Average Maturity of New Guaranteed Loans (Years) /c	9.0	9.7	9.7	10.9	9.3	9.6	10.1	11.6	11.6	11.5	11.5	11.5	11.4
Official	18.4	12.7	12.6	13.7	12.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Private Source	6.9	8.9	9.0	10.2	8.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

	As % of Debt Outstanding December 1982
Maturity Structure of Public Debt Outstanding	
Maturities due within 5 years	59.
Maturities due within 10 years	95.
Interest Structure of Debt Outstanding	
Interest due within the first year	n.a.

/a Does not include gold and dollar valuation adjustment.

/b Interest on short, medium and long term debt.

/c Public Debt only for 1975.

/d Preliminary.

n.a. = Not available.

June 3, 1985

Attachment 3C

Projection Assumptions

1. For 1985 the GDP growth rate is expected to be approximately equal to last year's rate. Following the economic recovery, growth is expected to reach 7% by the end of the decade and 7.5% by 1993, with industry growing substantially faster than agriculture.

2. With respect to exports, separate projections were made for the major agricultural commodities - coffee, sugar, soybean products, and cocoa --as well as for iron ore and manufactured, semi-processed, and other goods. The volume increase in agricultural exports is expected to be relatively modest, with coffee, sugar, and cocoa growing at less than 3% per year for most of the period and soybean meal growing at 5% between 1986-90. For the 1985-93 period exports of primary commodities are expected to increase at an annual rate of 4.5%. Prices for all commodities and volume projections for non-industrial products are based on EPD projections. Manufactured exports are expected to decline in 1985, and increase between 5-7% per year between 1986-90 and 8% per year between 1990-93, a more moderate increase than that of the late 1970s and early 1980s. Semi-processed goods, which consist of agricultural-based and iron products, are expected to follow the growth of manufactured products rather than agricultural commodities. Prices for non-primary commodities are assumed to follow the international price index (IPI).

3. After 1985 all import commodity groups except petroleum are endogenously determined. Growth of food and other consumer goods imports is linked to growth in private consumption; metals and metal products, to GDP growth; fertilizers, to agricultural sector growth; other intermediate goods, to industrial sector growth; and capital goods, to fixed investment. The growth in domestic oil consumption is a function of GDP growth. Domestic oil production is estimated to increase from 530,000 bpd in 1985 to 600,000 bpd in 1988, remaining at the level until 1990. By 1993 oil production is expected to reach 680,000 bpd. Oil imports are obtained as a residual. EPD estimates were used for the projection of import prices. The import price indices for food, other intermediate goods, and capital goods move with the IPI - or about 6-7% per year. Metal prices move with EPD's metal and minerals price index - which increase about the same as IPI-and fertilizer prices, with the potash price index - which increase more than the IPI.

4. The rest of the balance of payments is projected in the following manner. Exports and imports of non-factor services are assumed to increase at the same rate as commodity exports and imports, respectively. Factor services receipts are largely composed of interest receipts on foreign reserves; however, there is a small additional component which is assumed to increase slowly. Foreign investment income payments are a function of direct foreign investment in the previous period. Net Brazilian lending abroad increases with exports of manufactured goods. Net direct foreign investment follows the GDP trend. Foreign reserves change with the increase in imports of goods and non-factor services. After 1986, the stock of short-term capital will be maintained at that year's level.

SIMULATION FOR BALANCE OF PAYMENTS PROJECTIONS UNDER DIFFERENT SCENARIOS, 1990

(US$ Billions)

	Base Case	High LIBOR	Low Manufactured Export Growth	High oil Price	High Manufactured Export Growth	Low OECD Growth Scenario
Balance of Payments						
Exports (Goods)	51.1	51.1	49.6	51.1	52.3	48.1
Imports (Goods)	32.2	32.2	32.2	33.3	32.2	27.0
Trade Surplus	18.9	18.9	17.4	17.8	20.1	21.1
Interest Payments	-11.4	-14.0	-11.7	-11.8	-11.2	-11.0
(M&LT)	(-10.7)	(-13.2)	(-11.0)	(-11.1)	(-10.5	(-10.3)
(Short Term)	(-0.7)	(-0.8)	(-0.7)	(-0.7)	(-0.7)	(-0.7)
Current Balance	-0.8	-3.4	-2.7	-2.3	0.8	3.1
Disbursements, M&LT (Net)	5.3	8.0	7.1	6.9	3.9	0.9
Gross Disbursements	(20.4)	(23.1)	(22.2)	(22.0)	(19.0)	(16.0)
Amortization	(-15.1)	(-15.1)	(-15.1)	(-15.1)	(-15.1)	(-15.1)
External Debt						
Total Debt	130.1	140.1	134.7	135.7	127.0	122.0
M&LT Outstanding & Disbursed (DOD)	114.0	124.0	118.6	119.6	110.9	106.1
Official	20.3	20.3	20.3	20.3	20.9	20.3
Private	93.7	103.7	98.3	99.3	89.9	85.7
Undisbursed M&LT Debt	9.5	9.5	9.5	9.5	9.5	9.3
Short-term Debt	6.6	6.6	6.6	6.6	6.6	6.6
Rate of Growth of Debt, (1984-1990) (%)						
Total Debt	2.9	4.2	3.5	3.7	2.5	1.8
M&LT Debt	4.3	5.8	5.0	5.1	3.8	3.1
Official	6.4	6.4	6.4	6.4	6.9	6.4
Private	3.9	5.6	4.7	4.9	3.2	2.3
Credit Worthiness Indicators						
Debt Service/Exports GNFS (%)	48.3	53.1	50.3	49.1	46.8	50.5
DOD/Exports GNFS (%)	2.2	2.4	2.4	2.3	2.1	2.2
M&LT	2.1	2.3	2.2	2.2	2.0	2.1
Short-term	0.1	0.1	0.1	0.1	0.1	0.1
DOD/GDP (%)	25.0	27.1	26.0	26.2	24.4	25.8
M&LT	23.6	25.7	24.6	24.8	23.0	24.3
Short-term	1.4	1.4	1.4	1.4	1.4	1.5

Notes: Major Assumptions:

	1985	1986	1987	1988	1989	1990
Base Case						
LIBOR (%)	12.0	10.0	10.0	9.5	9.0	9.0
Crude Oil Price (US$/bbl)	28.4	28.4	30.9	33.7	36.7	39.9
Real Mft. Export Growth Rates (%)	-7.0	5.0	5.0	6.0	6.0	7.0
GDP Growth Rates (%)	4.3	5.4	6.2	6.7	7.1	7.3
Oil Import Growth Rates (%)	-1.0	1.1	1.3	-1.6	5.9	6.1
High LIBOR						
LIBOR (%)	12.0	12.0	12.0	11.5	11.0	11.0
Lower Manufactured Export Growth						
Real Mft. Export Growth Rates (%)	-7.0	4.0	4.0	5.0	5.0	6.0
High Oil Price						
Crude Oil Price (US$/bbl)	28.4	31.2	34.0	37.0	40.4	43.9
Higher Manufactured Export Growth						
Real Mft. Export Growth Rates (%)	-7.0	5.0	6.0	7.0	7.0	8.0
Low OECD Growth Scenario						
LIBOR (%)	12.0	12.0	12.0	10.0	10.0	9.0
Crude Oil Price (US$/bbl)	28.4	28.4	30.0	32.0	34.0	37.0
Real Mft. Export Growth Rates (%)	-7.0	4.0	2.0	3.0	4.0	6.0
GDP Growth Rates (%)	4.3	3.0	4.0	4.2	4.8	6.0
Oil Import Growth Rates (%)	-1.0	-2.5	-2.0	-5.3	2.5	4.6

REVISION

BRAZIL

ECONOMIC AND SECTOR WORK PROGRAM, FY85-87

Economic Situation

1. Brazil is now emerging from almost four years of recession. Led by a strong export performance, GDP is expected to grow 3-4% in 1984. A record trade surplus of US$12.5 billion is expected, cutting the current account deficit from US$6.3 billion in 1983 to a projected US$2.0 billion in 1984. Substantial progress has been made in adjusting to the changed domestic and external circumstances. The public sector's operational deficit has been brought under control, monetary policies have tightened, and a number of major price, interest rate, and other corrective measures have been implemented which promise more efficient resource allocation in the future. Yet progress is uneven, and the imminent change in Government has caused some uncertainty. Inflation has been over 200% since 1983, after three years at around 100%. The domestic market remains depressed, although there are recent signs of increasing sales. Employment, which has fallen by 15-20% since 1980, is lagging behind output growth at this point in the cycle, and real wages have fallen substantially, as a result of the increase in inflation and partial wage de-indexation in 1983.

2. The new Government will face a major challenge in ensuring a consistent economic program, compatible with falling inflation, in the face of social and political pressures. Nevertheless, Brazil's medium-term prospects are good. GDP growth rates are expected to rise to about 6% annually by the end of the decade, and using fairly conservative assumptions concerning the external economic environment, the external debt constraints are expected to become less severe, with a reduction in current account deficits and improved creditworthiness in the rest of the 1980s. Key elements to these projections are the continued emphasis on export growth and maintenance of large and growing trade surpluses, as well as domestic resource mobilization in both the public and private sectors. Future economic growth must also occur in a context of careful demand management and efficient use of resources. Public investments will continue to be limited by reduced resource availabilities, probably for several more years. Agricultural and industrial production and exports are receiving high priority, as is the further development of domestic energy resources. International competitiveness through appropriate exchange rate management, and realistic pricing and interest rates for the domestic economy, must be maintained in order to promote more efficient resource allocation favorable to both export growth and cost-effective import substitution. Employment growth also needs to be given priority. The projected growth in employment associated with 6% GDP growth, using employment elasticities of the 1970s, would be insufficient to absorb both new entrants to the labor force and those who lost their full-time jobs during the recession.

3. While continued new commercial bank lending is required, the expected increase in commercial bank debt for the rest of the 1980s would represent a real reduction in commercial bank exposure in Brazil. As Brazil's exports increase, the debt service ratio is expected to decline substantially. A multi-year rescheduling of commercial bank debt with substantially longer maturities than Brazil is now receiving would free up the resources needed to both service the debt and finance the imports needed to maintain GDP growth of about 6% per year.

4. The World Bank's program for Brazil has focused on supporting the macroeconomic and sectoral policy changes needed to facilitate the resumption of economic growth within a constrained balance of payments framework. Since the crisis, the Bank has pressed for and supported -- through its lending and ESW programs -- foreign trade, agricultural credit, and banking reforms, agricultural and energy pricing adjustments to reduce market distortions, and better use of economic criteria and planning in the allocation of domestic resources. The Special Action Program has been employed to mitigate the negative effects of the recession and resource shortage, particularly for projects with a social content. In addition, a major co-financing operation to complete priority investments and bring about the financial rehabilitation of the electric power sector is now being considered, in response to a Government request for assistance.

Country Strategy

5. A new civilian Government will be inaugurated in March 1985. The Bank's strategy for Brazil involves assisting the new Government in developing and implementing a medium-term program to restore economic growth and social development to levels consistent with the country's potential. This requires simultaneous action to intensify the economic policy dialogue with the Government, and develop a lending program and economic and sector work agenda in support of that dialogue. Because the Bank's direct lending is limited and attention must be given to balancing the short-term goal of accelerating disbursements with the long-term resource transfer and Bank portfolio management requirements, an added dimension to Bank involvement in Brazil will be encouraging voluntary commercial bank lending to the country. We shall strive to play a leadership role in guiding commercial bank financing toward priority investment projects, preferably on better terms than would otherwise be given, through co-financing and, if deemed desirable and appropriate, through providing regular, comprehensive assessments of the country's overall economic performance and public sector investment program.

6. The Bank's direct lending is oriented toward policy-based operations or policy conditionality tied to sector operations. Some operations--for exports, agricultural and industrial production, and development of domestic energy sources-- would directly stimulate economic activity and increase foreign exchange earnings or savings. Others, for financial sector reform and improved public sector management, would be directed toward resource mobilization and deployment, in support of economic expansion. A series of coordinated regional-level loans to the Northeast and North/Northwest regions would seek to increase the contribution to and participation in the benefits of economic growth by the population outside the major industrial and agricultural areas. Finally,

as long as the country is operating under severe resource constraints, poverty alleviation and social infrastructure projects which also have positive macroeconomic linkages will be given priority over those which do not.

7. External and internal developments will continue to be followed closely. A faltering of the current domestic recovery, failure to maintain sufficient trade surpluses to service the debt and support GDP growth, or acceleration of inflation are possible risks for Brazil, given the political pressures facing the new Government and the continued uncertainty about the speed of international economic recovery and about interest rates. Any of these problems would require changes in the Bank's economic dialogue with the Government and policy-oriented lending in order to focus on those parts of the country's economic program which are in difficulty and to tailor assistance to support needed policy modifications.

Economic and Sector Work

8. The economic and sector work program is designed to:

(a) provide the basis for the policy dialogue with the Government and for the elaboration and review of the Bank's country strategy;

(b) support the policy focus of the lending operations; and

(c) carry out the macroeconomic and sectoral analyses required for the Bank to encourage voluntary commercial bank lending and co-financing (subject to the approval of the Government and Bank Management).

9. Sector-specific analyses in the priority areas of the policy dialogue and lending program (agriculture, industry and trade, and, to a lesser extent, energy development) have been allocated a substantial number of staffweeks in the Economic and Sector Work Program for FY85-87. However, in order to improve the coordination of the sectoral analyses with the assessment of overall economic performance, a substantial part of this work is being incorporated into several major ESW tasks:

(a) annual economic reports, which will integrate policy recommendations for industry, agriculture, and energy development with the macroeconomic assessment;

(b) annual public sector investment reviews, which will cover the major sectors financed directly by the Federal Government and Federal state enterprises; and

(c) comprehensive regional reports on the Northeast and the North/Northwest frontier region, encompassing industry, agriculture and irrigation, exports, urban development and tourism, health, education, and transportation.

10. The industrial, agricultural, energy, and regional studies reflect a long-term Bank interest in these subjects. The new industrial and trade research will emphasize export promotion and import

liberalization, updating and expanding the analysis on "Brazil: Industrial Policies and Manufactured Exports" (1983), and complementing ongoing work in Brazil on industrial and trade policies. The review of industrial policies in the Northeast will provide an in-depth examination of a region that has been directly and indirectly affected by national fiscal and trade policies. The planned agricultural ESW builds upon "A Review of Agricultural Policies in Brazil" (1981), which pointed out the serious destabilizing macro-economic and sectoral effects of agricultural credit subsidies, and upon the 1983-84 review, undertaken jointly by the Bank and Brazilian researchers, on agricultural pricing policies. The energy sector update in FY87 will review the changes which have occurred in the energy sector since the publication of "Brazil: Energy Issues and Prospects" (1982), "Oil and Gas Sector Review" (1983), and "Brazil: World Bank Lending Strategy for Energy Conservation and Development" (1983 unpublished). Finally, the regional studies, while more extensive than their predecessors, will make use of two earlier reports, "Rural Development Programs for Brazil's Northeast: An Interim Assessment" (1983), and "Brazil: Integrated Development of the Northwest Frontier" (1981).

11. The concern about adequate employment growth and resource mobilization in the medium-term is reflected in studies on both subjects. The FY86 employment follow-up study will supplement the FY85 study on employment growth associated with alternative macroeconomic strategies by focusing on problems where more information is needed. The recommendations of the financial reform study in FY85-86[1/] -- itself a follow-up of the "Financial Systems Review" (1984) -- will be the basis of a project loan in FY86.

12. The recession is believed to have had a significant negative effect on poverty levels and living standards, which extends to the deterioration of physical infrastructure, including urban public service systems. A poverty profile update will be included in the FY86 CEM, and studies on health and education financing and on selected urban topics are included in the ESW program in order to document these effects and lay the basis for future lending and policy discussions. The income distribution study to be carried out by the Research Department will provide a longer perspective (1970-80) in which to view the more recent developments.

13. The consolidation of the ESW described in para. 8 has required a reprogramming of the FY85 ESW and modifications to the planned FY86-87 agenda.[2/] In addition to shifting part of the ESW for industry and agriculture to the economic reports, investment reviews, and regional surveys, the Greater Carajas Regional Survey has been incorporated into the North/Northwest Regional Survey, and the Educational Management and Finance

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1/ The FY86 portion of the study will be covered under loan preparation.

2/ Several previously planned ESW activities have been reduced substantially within the reprogramming of FY85-86 work, in order to accommodate Public Investment Reviews and other priority activities. Should the additional responsibility for a formal monitoring of Brazil's economic program be assumed by the Bank, additional staff resources would be required (estimate given in Table 1, footnote /c).

studies have been partially merged into the Public Sector Investment Review, with emphasis on issues relevant for an appropriate assessment of the sector investment program.

14. Reserve provisions have been made against the contingency that agreement is not reached with the new Government on the full PSIRs scheduled for FY85 or 86. In that case the intention is to mount separate sectoral investment studies, either as part of sector work tasks already in the program or, for the energy sector, telecommunications and state industrial enterprises, as new elements of the program, in both categories using staff resources now assigned to the PSIRs. These tasks would be projects-managed, under a coordinated approach to be agreed between the programs and projects Divisions. The reserve components are shown in brackets in Table 1.

15. The process of programming and coordinating effectively the economic and sector work on Brazil will be advanced further in 1986. For this purpose, a special subgroup of the already established "Country Team" will undertake, before the beginning of FY86, a detailed programming of the work to be done on each major sector, as well as on two major regions -- the Northeast and North/Northwest -- and on general macroeconomic issues. The resulting detailed ESW program should provide the framework for the close coordination of its execution during the year by the "Country Team". This detailed programming may require some adjustments of the amount of resources now allocated to each specific task and the consolidation of some of those tasks in order to increase the efficient use of available staff time. However, no significant changes either in total ESW on Brazil or in sectoral work allocations are expected. Finally, the detailed programming and coordination of ESW subsequently would be integrated with a similar process for our lending activities in the framework of a "Country Budget". We will start working immediately in this direction with the objective of having a fully operational "Country Budget" for FY87.

16. The Bank's ESW is being augmented by work at several Brazilian institutions, in collaboration with the Bank. Besides continuing work in industrial and trade policies and in agriculture, a study on diesel consumption, which will be used in energy pricing and conservation policy discussions, is being carried out at the Government's Institute for Economic and Social Research (INPES). Collaborative work in macro-modeling has also begun. Arrangements are being made to transfer the general equilibrium model for Brazil now being developed by CPD to the Government, with joint work in extending the model to follow. In addition, studies on administrative, tax, and other fiscal reforms will be undertaken by Brazilian researchers, as part of the proposed public sector management loan. Collaborative work will be intensified in the coming years, and a review made on the best arrangements for improving the dissemination and use of the results of the studies.

17. Some 80 staff weeks have been included in EWO, a major part of which will be used to follow external and internal developments. As indicated earlier, while Brazil's short-term difficulties in servicing its debt have become less critical, the evolution of its export growth, debt management and restructuring, and economic policies need to be followed closely. Furthermore, the imminent change in government and subsequent need to establish contact and explore the basis for Bank involvement with the new Government will also require time and flexibility in the scheduling of ESW tasks.

BRAZIL - COUNTRY SUMMARY TABLE 1

ECONOMIC AND SECTOR WORK BY TASK, FY85-87
(Staff Weeks)

Tasks	Loans which ESW Task Supports	Other Aims and Coverage	Audience /a	Planned FY85	Current FY85	FY86	FY87
I. Regionally Managed							
A. Economic Reports (ERA)							
1. Economic Memos (1984, 1985, 1986)		Economic update; analysis of medium-term prospects, consistency between country economic objectives and public sector investment program; policy recommendations.	S,B,G	25	50	59	50
2. Forecasting/Planning							
a. Project Evaluation Criteria		Reestimate equilibrium exchange rate, shadow price of capital, labor	S,G	10	-	-	10
b. Macro-Modeling I		Develop model(s) (for Bank, Government use) for improved forecasting, evaluation of macro-policy impacts.	S,G	20	18	-	-
c. Macro-Modeling II		FY85 task focuses on development of a general equilibrium model; FY86 tasks, on extensions to the model.	S,G	-	-	5 (8R)	10
3. Financial Sector Reform	Financial Reform FY86, 87	Update, expansion of Brazilian financial system report (July 1984) with recommendations for reform	S,B,G	-	16	-	-
4. Poverty Alleviation, Employment, Population							
a. Employment Policies Review		Medium-term employment projections under alternative growth strategies, with associated recommendations.	S,B,G	6	20	-	-
b. Labor Market Structure		Analyze relationship between wage and labor costs, output structure on employment, growth, internal mobility.	S,B,G	-	-	13	-
c. Population Strategy		Assessment of Government policy, recommendations for Bank involvement based on 1970-80 demographic trends.	S,G	10	10	-	-
d. Poverty Profile Update		National update, including effects of 1980-84 recession.	S,B,G	9	5	0/b	-
5. Regional Development							
a. Northeast Region	NE loans (including NE Rural Development, FY86, 87; CODEVASF Irrigation, FY86R; NE Health, FY87; NE Small & Medium Industry, FY88; NE Metropolitan, FY88).	Comprehensive examination of agriculture, industry, trade, social and physical infrastructure and employment, and the effect of national policies on the region. Industry to be analyzed in separate mission.	S,B,G	-	-	67	-
		(Increase agriculture component: R)		-	-	(4R)	-
b. Northeast Industry	See above.	Review of progress, policies, problems in industry in the Northeast.	S,B,G	-	22	22	-
c. North/Northwest Region	N/NW loans (including Rubber Development, FY87S; Carajas Development, FY88R; NW Small & Medium Industry, FY89).	Comprehensive review of development potential for the region and national, regional policies for growth.	S,B,G	-	-	-	95
Sub-total				110/e	141	166	165

Tasks	Loans which ESW Task Supports	Other Aims and Coverage	Audience /a	Planned FY85	Current FY85	FY86	FY87
B. Public Sector Investment Review /j		Annual review/update, monitoring of Federal investment program (direct, public enterprises, and on-lending), to be linked to Economic Memoranda.	S,B,G				
1. Agriculture				-	20	9	8
2. Urban (transport, housing)				-	12	9	8
3. Education				-	18/c	9	8
4. Health				-	10	9	8
5. Transportation				-	10	10	10
6. Water Supply				-	10	9	8
7. Electric Power				-	6	10/d	10
8. Alcohol				-	2	6	7
9. Other Energy				-	17	12	11
10. Telecommunications				-	10	9	8
11. Steel				-	7	9	8
12. Petrochemicals				-	7	9	8
13. Fertilizers				-	7	9	8
14. Mining (non-fuel)				-	12	10	9
Sub-total				0	148	129	119
C. Additional Sector Work (SRA)							
1. Agriculture							
a. Incentive Policies	Agricultural Sector, FY85		S,G	-	10	-	-
b. Agricultural Sector Review	Agricultural Sector, FY87S	Coordinate, supplement the work of the Brazilian Agricultural Sector Working Group as input to dialogue.	S,B,G	45	20	40	15
		(Evaluate public investment issues: R)		-	(20R)	(5R)	-
c. Pricing Policy	Agricultural Sector, FY87S		S,G	-	-	12	-
2. Industry and Trade							
a. Industrial Sector Strategy	Export Development Loans, FY86, FY87		S,G	14	17	-	-
b. Industrial Sector Follow-up	Export Development Loans, FY86, FY87	Coordinate, supplement the work of Brazilian Industrial Sector Working Group as input to dialogue.	S,G	50	13	13	13
(c. Public Sector Industry Survey: R)		(Review of investment in steel, petrochemicals, fertilizer, mining: R)		-	(33R)	(37R)	-
3. Transportation							
a. Transport Sector Review	Input to Ports II, FY87; Transport Sector, FY88S	Integration of FY82-85 sector work, implications for Bank sector strategy.	S,G	8	8	-	-
		(Evaluate investment program: R)		-	(10R)	(10R)	-
b. Transport Systems, Cerrado Region	Cerrado Transport, FY87R	Supplement to Government study on transportation systems to support agricultural development in the region.	S,G	-	-	10	10
4. Education							
a. Education Management/ Finance	Education Sector, FY89	Focus on increasing resources and distribution of resources for basic education.	S	20	-	5	15
		(Assess investment program: R)		-	(18R)	(9R)	-

Tasks	Loans which ESW Task Supports	Other Aims and Coverage	Audience /a	Planned FY85	Current FY85	FY86	FY87
5. Urban Development							
a. Urban Sector Strategy	Urban loans (including Sta. Catarina Small Towns, FY87R; NE Metropolitan, FY88S; Urban Transport, FY90S; Medium Cities Urban Management, FY90S)	Identify sectoral issues, Bank priorities.	S,G	10	13	-	-
		(Assess investment program: R)		-	(22R)	(18R)	-
b. Urban Sector Follow-up	Same as 5a.	Analysis of major issues identified in sector strategy paper.	S,G	-	-	5	15
6. Energy Sector Strategy	Power Distribution, FY88; Rural Electrification, FY90S; Gas Exploration/ Development, FY88	Coordinated update of recent energy development issues as input into policy dialogue, Bank lending program.	S,B,G	-	-	-	30
		(Undertake investment review: R)		-	(25R)	(28R)	-
(7. Telecommunications)		(Investment review: R)		-	(10R)	(9R)	-
Sub-total				167/e	81	85	98
D. CPP				25	25	25	25
E. Other Economic Work (EWO)				77	80	80	78
F. Other Sector Work (SWO)				57	5	5	5
TOTAL				436/e	480/f	490/f	490/f
II. COPD Managed							
A. Sector Reports							
1. Social Security Financing	Health/Population, FY88R	Analyze adequacy, problems of present financing through social security.	S,G	30	10/i	15/i	-
		(Investment considerations: R)		-	(10R)	(9R)	-
2. Gas Sector Update	Gas Exploration/Development, FY88	Update of Gas Sector Report (1983).	S,G	-	-	10	-
TOTAL				40 /g	10	25	-
III. Research							
Income Distribution		Comparison, 1980 vs 1970 distribution, and reasons for recent changes.	S,B,G	17	13	12	-
TOTAL				22 /h	13	12	-

/a S,B,G = Bank staff, Board, and Government, respectively.

/b To be included in CEM FY86.

/c Includes work on educational management and finance which is needed to assess the investment program for education.

/d It is assumed that the power division will spend about 20 additional staff weeks supervising the cofinancing operation. If the cofinancing operation does not go through, modification of the ESW budget will be made.

/e Total includes studies which have been dropped (public sector management), completed (financial policies follow-up, Northeast rural development, science and technology, basic education) or combined with other tasks (fertility and population trends combined with population strategy, educational management with finance(.

/f If formal monitoring of Brazil's economic program is approved, this activity would require 25 additional staff weeks in FY85, and 90 SW annually for FY86 and FY87.

/g Total includes study on energy conservation in industry, which has been dropped.

/h Total includes study on wage-inflation modeling, which has been dropped.

/i To be coordinated with CEM schedule.

/j Reserve components of the program (to substitute if necessary for PSIRs in FY85 and 86) are shown in parentheses and marked R. They would utilize staffweeks programmed for the PSIRs and are therefore not included in totals.

January 28, 1985

BRAZIL - COUNTRY SUMMARY TABLE 2

ECONOMIC AND SECTOR WORK BY MANPOWER SOURCE, FY86
(Staff Weeks)

	Managing Dept./Div.	Programs	Projects	OPS	EIS	ERS	Consultants Programs	Consultants Projects	IFC	Total
I. Regionally Managed										
A. Economic Reports (ERA)										
1. Economic Memo	LC2BR	43	11					5		59
2. Forecasting/Planning										
a. Macro-Modeling II	LC2BR	5		0 /a	0	4				15
3. Poverty Alleviation, Employment, Population										
a. Labor Market Structure	LC2BR	2					11			13
4. Northeast Regional Development	LC2/LCP /d	15	37				10	5		67
B. Public Sector Investment Review	LC2BR									
1. Agriculture		1	8							9
2. Urban		1	8							9
3. Education		1	8							9
4. Transportation		1	9							10
5. Water Supply		1	8							9
6. Electric Power		1	9							10
7. Alcohol		0.5			5.5/c					6
8. Other Energy		1.5			10.5/b					12
9. Telecommunications		1			8 /c					9
10. Steel		1			8 /c					9
11. Petrochemicals		1			8 /c					9
12. Fertilizers		1			8 /c					9
13. Mining		1			9 /c					10
14. Health		1		8						9
C. Additional Sector Work (SRA)										
1. Agricultural Sector Review	LCPAB		40							40
2. Pricing Policy	LCPAB		12							12
3. Industrial Sector Follow-Up	LCPI1	5	3		5 /c					13
4. Northeast Industry	LCPI1	2	10		7 /c			3		22
5. Transport Systems, Cerrado	LCPT1		7					3		10
6. Education Management and Finance	LCPED		5							5
7. Urban Sector Follow-Up	LCPUR		5							5
D. CPP	LC2BR	20	5							25
E. Other Economic Work (EWO)	LC2BR	80								80
F. Other Sector Work (SWO)	LCP	___	5	___	___	___	___	___	___	5
Sub-Total		186	190	8	69	0	21	16	0	490
II. COPD-Managed										
Sector Reports				15	10					25
III. Research						12				12

/a CPD.

/b Energy.

/c Industry.

/d The responsibility for coordinating this work will be determined later, and will depend on availability of qualified personnel.

January 28, 1985

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AUGUST 1983
BRAZIL
COLOMBIA
VENEZUELA
GUYANA
SURINAME
FRENCH GUIANA
PERU
BOLIVIA
CHILE
PARAGUAY
ARGENTINA
URUGUAY
ATLANTIC OCEAN
PACIFIC OCEAN
RORAIMA
AMAPÁ
AMAZONAS
PARÁ
MARANHÃO
CEARÁ
RIO GRANDE DO NORTE
PARAÍBA
PERNAMBUCO
ALAGOAS
SERGIPE
PIAUÍ
BAHIA
ACRE
RONDÔNIA
MATO GROSSO
GOIÁS
MATO GROSSO DO SUL
MINAS GERAIS
ESPÍRITO SANTO
SÃO PAULO
RIO DE JANEIRO
PARANÁ
SANTA CATARINA
RIO GRANDE DO SUL
Disputed State Boundary
Boa Vista
Macapá
Belém
São Luis
Manaus
Fortaleza
Teresina
Natal
João Pessoa
Recife
Maceió
Aracaju
Salvador
Porto Velho
Rio Branco
Cuiabá
Federal District
BRASÍLIA
Goiânia
Campo Grande
Belo Horizonte
Vitória
São Paulo
Rio de Janeiro
Curitiba
Florianópolis
Porto Alegre
Marajó Island
L. dos Patos
Sobradinho Reservoir
Tres Marias Reservoir
Furnas Reservoir
R. Negro
R. Branco
R. Padauari
R. Trombetas
R. Otori
R. Jari
Rio Amazonas
R. Japura
Rio Putumayo
R. Napo
R. Amazonas
Rio Solimões
R. Javari
Rio Juruá
Rio Purus
R. Purus
Rio Madeira
R. Aripuanã
R. Ji-paraná
Rio Tapajós
R. Teles
R. Juruena
R. Arinos
R. Xingu
R. Iriri
R. Curuá
Rio Araguaia
Rio Tocantins
R. Pindaré
Rio Parnaíba
Rio São Francisco
R. Grande
R. Paranapanema
Rio Paraná
Rio Paraguai
Rio Uruguay
70°
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40°
30°
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10°
20°
KILOMETERS 0 100 200 300 400 500
MILES 0 100 200 300
National capital
State capitals
State boundaries
International boundaries
Rivers
SOUTH AMERICA
BRAZIL
Brasília
PACIFIC OCEAN
ATLANTIC OCEAN
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THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: May 20, 1985

TO: Memorandum for the Record

FROM: Roberto Gonzalez Cofino, Chief, Brazil Division, LC2

EXTENSION: 72031

SUBJECT: BRAZIL - Mr. Clausen's Meeting with Brazil's Finance Minister, Mr. Francisco Dornelles

1. Mr. Clausen met on May 9, 1985, at 1:30 p.m., with Brazil's Finance Minister, Mr. Francisco Dornelles. The meeting was also attended by Messrs. Joao Batista Abreu (Secretary for Economic Affairs, Finance Ministry), Alvaro Alencar (Secretary for International Affairs, Finance Ministry), Alexandre Kafka (Executive Director, IMF), Eimar Avillez (Technical Assistant to the Executive Director, World Bank) and Knox, Gué and Gonzalez Cofino, from the Bank.

2. Mr. Dornelles started the meeting by indicating the importance given by the Brazilian Government to the assistance provided by the Bank. He hoped to maintain, and if possible increase, the level of such assistance in the future. Mr. Clausen said that the Bank attaches high priority to the meeting scheduled to take place in June of Bank staff with Minister Dornelles and his advisors, to discuss priorities for Bank lending in FY86 and beyond. Mr. Clausen stated that a substantial change in the composition of the FY86 program may cause a reduction in lending next year. Mr. Dornelles confirmed that the meeting will take place on schedule, in late May or early June.

3. Messrs. Clausen and Knox referred to the likely reduction of Bank disbursements in 1985 caused mainly by delays in Government decisions concerning the proposed Export Development and Agricultural Sector loans. It was agreed that the possibility of processing these loans would be discussed further in the June meeting referred to above.

4. Mr. Knox asked when the Government would approve the negotiated documents for the Railways, Power Transmission and Power Distribution loans. Mr. Dornelles said that the Government had approved already these three loans as negotiated. Mr. Knox asked what was the Government position concerning the increases in power tariffs envisaged in covenants of several ongoing power loan agreements which, for the rest of 1985, implied that tariffs would be adjusted to compensate for inflation. Mr. Dornelles said that tariffs would be increased in the amounts required to achieve that objective.

5. Mr. Clausen indicated that the Bank was concerned about the decline in exports during the first quarter of 1985, and asked Mr. Dornelles to explain what measures the Government intends to take in this respect. Mr. Dornelles said that the Government attaches the highest priority to the promotion of exports; the new indexing formula being used to adjust the exchange rate is already resulting in a real devaluation, and further export promotion measures would be taken if necessary. Concerning

other aspects of economic policy, Mr. Dornelles said that the price controls established in April were a temporary measure directed toward avoiding excessive price increases and changing inflationary expectations. Such controls would be abolished within the next three months; by then, the fiscal adjustment being prepared by the Government would already be in place. He expected to reach agreement with the Fund within the next two months and to finalize the rescheduling agreement with commercial banks shortly afterwards.

6. At the end of the meeting, Mr. Dornelles said that his Government needed not only Bank loans but, also, our advice on economic policy. Mr. Clausen assured him of the Bank's willingness to assist Brazil's development efforts as much as possible.

cc: Mr. Clausen's Office
Messrs. Stern
Knox, o/r
Gué, LC2 (o/r)
van der Meer, LCP
Pfeffermann, LCNVP
Quijano, LCNVP

RGonzalezCofino:nev

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1985 MAY 24 PM 5: 04
OFFICE OF THE PRESIDENT

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

CONFIDENTIAL

DATE: May 7, 1985

TO: Mr. A. W. Clausen
(through Mr. Shahid Husain, Acting Senior Vice President, Operations)

FROM: A. David Knox

EXTENSION: 75901

SUBJECT: BRAZIL - Briefing for your Meeting with Minister Francisco Dornelles, of Thursday, May 9, 1985

1. On Thursday, May 9, at 1:30 p.m., you will be meeting with Dr. Francisco Neves Dornelles, Minister of Finance for Brazil. Messrs. Gué and Gonzalez Cofino, along with myself, will be present from the Latin American Region. The purpose of this memorandum is to inform you of recent developments in Brazil and to suggest some issues for you to raise with Dr. Dornelles. The primary purpose of Dr. Dornelles' visit to the United States is to discuss Brazil's international financing program. He will meet with Mr. de Larosiere, to start policy discussion on a new IMF arrangement, and with Messrs. Paul Volker, George Schultz, and William Rhodes.

Political and Economic Situation

2. The change in government has been considerably complicated by the illness and death of President-elect Tancredo Neves. The new President, Dr. Jose Sarney, is attempting to assert his leadership and take effective control of the Government. However, Mr. Sarney does not have the stature, popularity, or broad political support of Mr. Neves. As such, there are some doubts that he will be able to hold together the diverse governing coalition stitched together by Mr. Neves. This diversity is reflected in the cabinet appointed by Mr. Neves and retained by President Sarney. Moreover, in the period before Mr. Neves' death, economic decision-making (including completion of key second-level appointments) was almost paralyzed. Further, the lack of a strong presidential figure has resulted in renewed jockeying for position among key economic Ministers. There are some doubts on whether Dr. Dornelles, who is a strong advocate for continued economic austerity, may have the power required to become an effective leader of the economic team. For the time being, Dr. Dornelles is functioning as such a leader: for instance, he has just been given, through a Presidential Decree, sole responsibility for negotiations with the Fund and with commercial banks.

3. The uncertain political climate has been mirrored by the lack of a clear economic policy and strategy. Exports fell by 12% in the first quarter of 1985 (as compared to 1984), and the balance-of-payments outlook, while still positive for 1985, is less so than three months ago. Also, labor unrest is growing. In an attempt to dampen such unrest, the Government announced the half year adjustment of the minimum wage incorporating a real increase of over 5%. In addition, it has cut budgeted federal expenditures, continued a federal hiring freeze, and declared a moratorium on new government programs. Most dramatically, it

has tightened domestic price controls and instituted a temporary price freeze for government administered prices. As a result of these price restraints, the monthly inflation rate for April fell to 7.2%, from 12.7% for March. These ad hoc measures do not yet seem to be part of any consistent overall program. Dr. Dornelles, however, has indicated that he will announce additional policy decisions in a speech that he is scheduled to deliver to Congress on May 8, just before leaving for Washington. Dr. Dornelles will formally initiate a new round of discussions with the IMF in this climate. Over the past month, Fund staff have been in Brazil for the purpose of collecting information and carrying out some exploratory talks. At this point, according to Fund staff, the positions of the Fund and the Government regarding the targets in a renewed IMF program appear to be considerably apart. The commercial banks, meanwhile, maintain that they are unwilling to go ahead with the multi-year rescheduling package, which was agreed with the previous Government, in the absence of a Fund program.

The Future Role of the Bank in Brazil

4. Preliminary contacts with key Ministers indicate that they give high priority to relations with the Bank. However, there are different views as to how to best use Bank resources. The Planning Minister, Dr. Joao Sayad, for example, would prefer that Bank operations be concentrated in agriculture, social sectors, and employment generation. Although the definition of "employment generation" could be fairly extensive and thereby allow broad sectoral coverage, it would imply that the Bank reduce its operations in key infrastructural sectors. Other Ministers have preliminarily indicated a desire for the Bank to continue to be involved in sectoral rehabilitation (such as in the power and financial sectors). In any case, it was agreed with Mr. Gonzalez Cofino during his recent (March 26-April 3) visit to Brazil that a meeting with the Ministers of Finance and Planning would be held in Brazil in early June to discuss these issues. We expect the Government to indicate its priorities and how Bank assistance could fit with those objectives. This meeting will also be used to discuss the Government's economic policy intentions and strategy, on the basis of the recently completed CEM.

Lending Program and Disbursements

5. Our lending program for FY85 and FY86, with total amounts, respectively, of US$1.4 and US$1.5 billion, is shown in the Attachment to this memorandum. There are still three loans to be approved by the Executive Directors in FY85: Railways (US$200 million), Power Transmission (US$400 million), and Power Distribution (US$312 million). The first two are scheduled to be considered by the Executive Directors on June 4, and the last one on June 11, provided that the ongoing negotiations for the two Power loans are satisfactorily completed (the Railways loan has been negotiated already) and that the final approvals by the Government are received on time. Calendar 1985 disbursements are expected to be about US$950 million, down from the US$1.3 billion of CY1984, largely because agreement has not been reached on two fast disbursing policy loans (para. 6d).

Issues to be Raised with Dr. Dornelles

6. It is clear that the Government's economic team, including Dr. Dornelles, has not yet structured a coherent economic strategy or agreed on the best way to utilize Bank assistance. I recommend that you refer to the following matters:

(a) FY85 Lending Program. I suggest that you initiate the meeting by indicating to Dr. Dornelles that the Bank appreciates the efforts being made by the Government, under trying circumstances, to take the decisions required to complete the pending FY85 loans. I also suggest that you indicate to Dr. Dornelles the need to obtain the final approval of the three pending FY85 loans by May 14 (for Railways and Power Transmission) and May 21 (for Power Distribution).

(b) Economic Policy. I suggest that you ask Dr. Dornelles for his views on an economic strategy for stabilization, adjustment, and recovery. How does the Government intend to reduce inflation and sustain economic recovery at the same time? Also, you might inquire what measures could be expected to follow the present temporary application of price controls, and what policies will be adopted to promote export growth.

(c) Overall Bank Assistance and Lending Levels. You should express to Dr. Dornelles that, in response to Brazil's economic difficulties over the last 2-3 years, and to support the Government's response to deal with these problems, the Bank increased its lending and disbursements dramatically. This was possible in view of the strong effort by the Government to pursue objectives and policies consistent with the needs of adjustment. Continued lending by the Bank at these levels would depend on a clear definition of Government policies in light of existing and forcast circumstances as well as agreement on the role of the Bank to support resumption of sustainable growth.

(d) FY86 Lending Program. You should indicate that the Bank looks forward to hearing how the Government would like the Bank to assist Brazil over the coming years and that we will carefully study any proposals, either general or specific, coming from the Government. The Bank, of course, will tailor its lending activities in accordance with Government interests and priorites. However, you should advise Dr. Dornelles that project preparation on our part is a lengthy process. Therefore, any major change in the FY86 lending program may result in something less than the target US$1.5 billion level. I also suggest that you indicate to Dr. Dornelles the need for quick Government decisions concerning two proposed FY86 policy-based operations (the Agricultural Sector II Loan, which slipped from FY85 and the Export Development II Loan), as well as for the proposed Alcohol Development Loan II.

Attachments

cc: Mr. Ernest Stern o/r

WTyler:NTcheyan:RGCofino:kmc

Record Removal Notice

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File Title	Barcode No.
Country Files: Brazil - Correspondence 02	1774604

Document Date	Document Type
[undated]	CV / Resumé

Correspondents / Participants

Subject / Title
BIOGRAPHY Francisco Neves Dornelles (Minister of Finance)

Exception(s)
Personal Information

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Shiri Alon	February 16, 2023

Archives 01 (March 2017)

Table A.2: BRAZIL - FY85-FY86 LENDING PROGRAM
(US$ million)

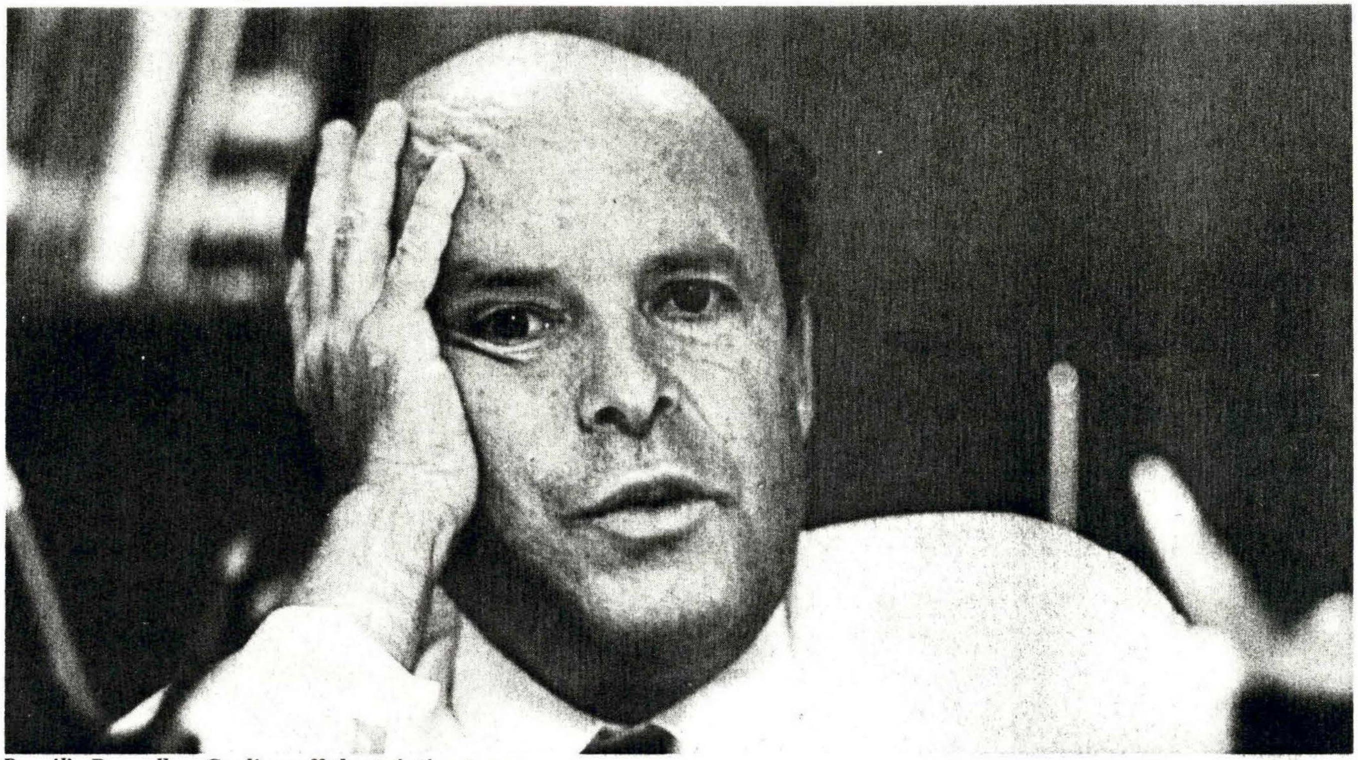
FY85

Development Banking III	300.0	
Science and Technology	72.0	
Power Sector Cofinancing	-	
Power Transmission I	400.0	407
Power Distribution	312.0	312
Railways	200.0	187
NE Rural Development	61.8	
NE Rural development II	64.7	
Pilot Rural Water & Sewer.	16.3	
No. of Projects	8	
TOTAL	1,426.8	

FY86

Land Titling I	100.0
Agricultural Sector II	350.0
CODEVASF Irrigation	25.0
Rubber Development	60.0
Alcohol Rationalization	175.0
NE Rural Development III	180.0
Export Development II	250.0
State Development Banking	300.0
Public Sector Management	20.0
Sta. Catarina Small Towns	40.0
No. of Projects	10
TOTAL	1,500.0

Can Brazil's new economic team tame the public sector?



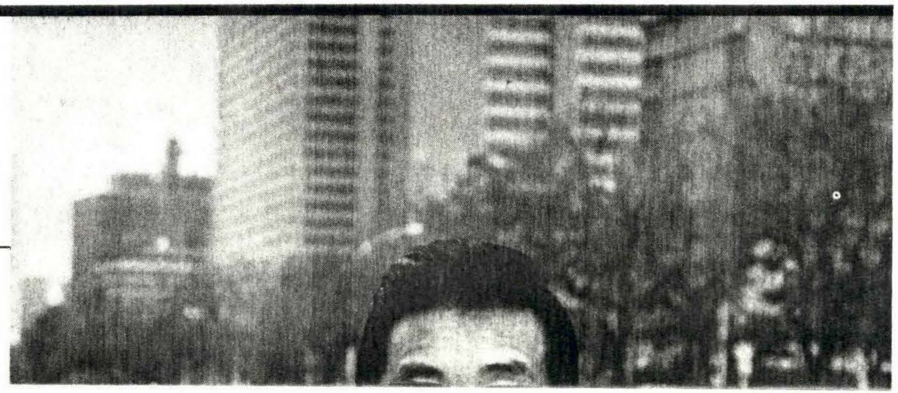
Abril/Gamma-Liaison

Brazil's Dornelles: Cooling off the printing press

The point man in Brazil's forthcoming negotiations with the International Monetary Fund and with foreign bankers on new debt reschedulings will be **Francisco Dornelles,** the country's new finance minister. A nephew of Brazilian President Tancredo Neves, Dornelles, 50, is a Harvard-educated tax lawyer whose tough views on the nation's budget ought to play well with the international financial community. Notes one American banker, "It will be comforting for the fund to work with someone anxious to cool off the printing press and manage the public sector debt."

His partner in that venture will be new Planning Minister **João Sayad,** 39, whose biggest task, perhaps, will be taming the giant state companies responsible for two thirds of Brazil's foreign debt. Sayad, a Keynesian economist who graduated from Yale University, has been an outspoken critic of his predecessor, Antônio Delfim Netto.

Japan's Gyohten: Green light for offshore banking?



The combined clout of Bank of Japan governor Satoshi Sumita (a former vice minister of finance) and **Toyoo Gyohten,** director general of the MoF's international

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

129

DATE: April 17, 1985

TO: Memorandum for the Record

FROM: Roberto Gonzalez Cofino, Chief, Brazil Division, LC2

EXTENSION: 72031

SUBJECT: BRAZIL - Meeting of a Brazilian Delegation with Mr. Clausen

1. Mr. Clausen met on April 16, 1985 at 5:00 p.m. with a Brazilian delegation formed by Messrs. Antonio Carlos Lemgruber, President of the Central Bank; Gilberto Velloso, Secretary for International Affairs of the Planning Ministry; and Sergio de Freitas, Director of the International Department, Central Bank. The meeting was also attended by Messrs. Alexandre Kafka (Executive Director, IMF), Eimar Avillez (Technical Assistant to the Executive Director, World Bank) and Stern, Knox, Gue and Gonzalez Cofino, from the Bank.

2. Mr. Clausen started the meeting expressing his deep sympathy to Brazil for the difficulties emerging from the sickness of the President Elect, Mr. Tancredo Neves. Messrs. Lemgruber and Velloso said that the situation had indeed made it difficult to conduct economic policy properly, and that this was also reflected in some problems related to the proposed FY85 loans. Mr. Lemgruber stated that the current deficit of the balance of payments is likely to reach US$2.5-3.0 billion in 1985, most of which would have to be financed "by non-commercial sources". Mr. Knox indicated that while Bank disbursements were still high, our ability to maintain a level close to the current one depended mainly upon the timely processing of the loans scheduled to be approved in the near future.

3. Mr. Velloso said that it had not been possible for the Government to reach a decision on the policy framework of the proposed Agricultural Sector Loan. The Government was interested, however, to obtain immediate Bank support for agriculture, and would welcome a Bank mission that could examine other agricultural loan possibilities as soon as possible. Messrs. Stern and Knox indicated that, in view of this situation, it would be better to advance the proposed power distribution loan to FY85, which would make it possible to maintain the proposed lending level to Brazil in spite of the likely slippage of the agricultural sector loan.

4. Mr. Velloso also referred to the difficulties that had emerged concerning procurement for the cartography component of the proposed land tenure project. Brazilian law requires the association of foreign firms with Brazilian firms as a prerequisite for allowing foreigners to participate in the bidding process, while Bank guidelines call for free participation of foreign firms in ICB. It was agreed that the issue would be discussed further by the Brazilian delegation with Bank staff.

5. Mr. Velloso referred to tariff policy as a possible issue concerning the forthcoming negotiations of the proposed railways and power loans. After Mr. Stern clarified that, for the rest of 1985, the Bank was only requesting tariff increases equal to the rate of inflation, Mr. Lemgruber said this would be acceptable to Brazil.

6. Mr. Clausen said that the Bank was aware of the efforts being made by the new Brazilian Government to solve all the issues related to our operations in the framework of a very difficult political transition. He assured the delegation that the Bank will continue to assist Brazil as much as possible in the execution of its recovery and development programs.

cc: Mr. Clausen's Office
Messrs. Stern
Knox
Gue, LC2
van der Meer, LCP
Pfeffermann, LCNVP
van Gigch, LCP
Quijano, LCNVP
Strombom, PPDPC

RGonzalezCofino:nev

meeting cancelled due to Pres Neves' illness. 4/15

MYRA BRAZIL MYA FILE 4-16-85

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: April 12, 1985

TO: Mr. A. W. Clausen
(through Mr. Ernest Stern) ES

FROM: A. David Knox ADK

EXTENSION: 75901

SUBJECT: BRAZIL - Briefing for your Meeting with Minister of Planning, Joao Sayad, on Tuesday, April 16, 1985 at 5:00 p.m.

1. On Tuesday, April 16, 1985 at 5:00 p.m. you will be meeting with Minister Joao Sayad, Minister of Planning for Brazil. Messrs. Gué and Gonzalez Cofino, along with myself, will be present from the Latin America Region. The purpose of this memorandum is to inform you of recent developments in Brazil and to suggest some issues for you to raise with Mr. Sayad.

SAYAD DID NOT COME TO D.C. GOVERNOR LEMGRUBER DID COME

Political and Economic Situation in Brazil

2. The transition in administration has been complicated by the prolonged illness of President-elect Mr. Tancredo Neves. Mr. Neves continues to remain near death; there is little hope that he will survive and eventually assume office. The Vice-President,and Acting President, Mr. José Sarney has been attempting to maintain sufficient support to effectively govern the country. However, Mr. Sarney does not have the stature or the broad political support of Mr. Neves. As a result, competition from prominent politicians -- such as Mr. Ulysses Guimaraes, President of the Chamber of Deputies -- may substantially undercut Mr. Sarney's ability to manage conflicting political and economic currents. The Brazilian Constitution does provide that the Vice-President assumes office -- although he would need to be confirmed as President by Congress -- in case the President cannot govern. This factor carries considerable weight in favor of Mr. Sarney's assumption of the Presidency, because any other solution would be a perceived weakening of constitutional rule, and could provoke a crisis. The key factor in determining the ease with which the country adapts to Mr. Neves's demise will be the capacity of the main political parties to reach some kind of consensus on how the President would conduct policy, since no individual commands the same broad support Mr. Neves enjoyed. Thus, considerable uncertainty still exists.

3. The formulation and execution of economic policy has obviously suffered the effects of the situation referred to above. While it had been expected that the new Government would quickly adopt a set of important policy initiatives, its economic strategy has not yet emerged. For the time being, the Government has placed the highest priority on the need to avoid further increases in the rate of inflation which was about 40% in the first quarter of 1985 compared with about 34% in the same period last year. It has instituted widespread price "controls" which are, in practice, not much more than guidelines to avoid price increases exceeding the overall index used for "monetary correction". It has frozen public enterprises' prices for 30 days; is pressing private entrepreneurs to reduce their price increases, and has introduced some relatively minor

changes in the indexation system. Other related policy measures are still being formulated.

4. There is an urgent need, meanwhile, for the adoption of a clear and suitable economic strategy. Exports, which had increased by more than 23% last year, declined by about 10% in January-March. Inflation rates have been going up since November, and quite a few labor unions are threatening to strike if they cannot obtain substantial real wage increases. Unless appropriate policies are put in place soon, the foreign exchange reserves accumulated in 1984 would be likely to disappear rather quickly, in which case Brazil would be facing soon another financial crisis. Finance Minister Dornelles is obviously aware of this situation and seems decided to take the required actions. Among them, he would like to reach an early and sustainable agreement with the IMF within the next few weeks, although the political feasibility of this is also uncertain. Mr. Dornelles' leadership may also be weakened without Mr. Neves, inasmuch as Mr. Dornelles was considered to be very close to Mr. Neves (he is a nephew) but has no strong independent base of political support.

The Future Role of the Bank in Brazil

5. Preliminary contacts with the new Government indicate that the Government will give high priority to its dialogue and operations with the Bank. However, there are different views as to how the Bank can best fit within the Government's emerging strategy. Mr. Sayad, for example, would prefer that Bank operations be concentrated in agriculture, social sectors, and employment generation. Although the definition of "employment generation" could be fairly extensive and thereby allow broad sectoral coverage, it would imply that the Bank reduce considerably its operations in key infrastructural sectors, unless perhaps they were maintenance-type operations. Other ministers have preliminarily indicated a desire for the Bank to continue to be involved in sectoral rehabilitation (such as in the power and financial sectors). In any case, it was agreed with Mr. Gonzalez Cofino during his recent (March 26-April 3) visit to Brazil that a meeting with the Ministers of Finance and Planning would be held in June to discuss these issues; the Government would indicate at that time what its strategy would be and how Bank assistance would be supportive of their objectives. [illegible]

Lending Program

6. The discussions with the new Government of our lending program are still in a preliminary stage. During Mr. Gonzalez Cofino's visit to Brazil in early April, it was agreed that a discussion of the composition of the FY86 and beyond lending program would take place in June (see para. 5). There is not likely to be any problem with rural development and social sector-type projects; some proposed infrastructural operations, however, could be reconsidered by the Government. Our approved FY85 program totals $1.27 billion, and our approved FY86 program totals US$1.52 billion. You will find attached:

(a) The approved FY85-89 lending program; I should note in this respect that the amount and composition of our lending in FY85 will depend upon decisions that the Government will have to make in the immediate future. As things stand now, it seems that the proposed FY85 Agricultural Sector Loan (with which the new Government may not agree fully) is likely to slip to FY86, while the proposed FY86 Railways and Power Distribution loans could be advanced to FY85, provided that we reach quick agreement on policy conditions. Under these assumptions, our FY85 lending could reach about $1.5 billion.

(b) The Aide Memoire agreed upon by the Brazilian authorities with Mr. Gonzalez Cofino last week, concerning the schedule of negotiations and other discussions required for processing our FY85 program; and,

(c) A biography of Minister Sayad.

Issues to be raised with Mr. Sayad

7. During the discussions held in Brazil last week by Mr. Gonzalez Cofino, it became clear that the Government's economic team, including Mr. Sayad, has not been able yet to structure a coherent economic strategy or to think through the best way to utilize Bank assistance. It would not be timely, therefore, to try to reach firm conclusions with Mr. Sayad on any specific operational issue. I recommend that you refer, instead, to the following general matters:

(a) Economic Policy. I suggest that you ask Mr. Sayad for his views on what measures could be expected to follow the present temporary application of price controls, and what policies will be adopted to promote export growth.

(b) Priorities for future Bank assistance. Mr. Sayad may repeat to you that the Bank should concentrate its lending in agriculture and in the "social projects". I recommend that you tell him that we will, of course, accommodate the Government's priorities, but that a radical immediate change in priorities may cause our FY86 lending to fall substantially below the target $1.5 billion level, thereby reducing resource transfers.

(c) FY85 Lending Program. I suggest that you indicate to Mr. Sayad that the Bank appreciates the efforts being made by the Government to take on time the decisions required to process the proposed FY85 loans.

(d) Northwest. I also recommend that: (i) you show our appreciation for the attention already given by the new Government to the solution of the problems affecting the ongoing Northwest projects, related to the required protection of the environment and of the Amerindian population; and (ii) you tell Mr. Sayad that we indeed attach high priority to the rapid solution of these problems.

Attachment

NOTcheyan/RGCofino:cgm

FIVE YEAR LENDING PROGRAM AS OF 12/31/84 BRAZIL
RUN ON 01/04/85

MID-82 POPULATION: 122,722,000 GNP PER CAPITA: 2,310

	FY 85 - 86 IBRD	FY 85 - 86 IDA	IDA ALLOCATIONS FY 85 - 87	IDA ALLOCATIONS FY 88 - 90	FY 85 - 89 IBRD	FY 85 - 89 IDA
REVIEW GROUP 11/08/84	2690.0	.0	.0	.0	7000.0	.0
CUR REV GROUP 11/08/84	2690.0	.0	.0	.0	7000.0	.0
LAC PROGRAM	2754.0	.0	.0	.0	7064.0	.0

AVG. ANNUAL PER CAPITA LENDING

	FY 85 - 86	FY 85 - 89
REVIEW GROUP	10.96	11.41
CURRENT REVIEW GROUP	10.96	11.41
LAC PROGRAM	11.22	11.51

CODE	FISCAL YEAR	PROJECT NAME	RESERVE PROJECTS BANK/IDA	SOURCE	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
AA02	85	AGRICULTURAL SECTOR II		IBRD	350.0					
AD25	85	N. E. RURAL DEVT I		IBRD	50.0					
AD27	85	LAND RESOURCES/TITLING		IBRD	100.3 ← CARTOGRAPHY ISSUE					
AD38	85	NE RURAL DEVT II		IBRD	54.7					
DS05	85	DEVELOPMENT BANKING III		IBRD	300.0					
EE07	85	EDUCATION VII-SCIENCE & TECH		IBRD	72.0					
PP01	85M	POWER SECTOR FIN REHAB-B LOAN		NONE						
PP03	85	POWER TRANSMISSION		IBRD	300.0					
TR06	86S	RAILWAYS		IBRD		187.0				
WU02	86S	RURAL WATER & SEW PILOT		IBRD		20.0				
AD36	86	NE RURAL DEVT III		IBRD		130.0				
DD04	86	EXPORT DEVT II		IBRD		250.0				
IC06	86	ALCOHOL DEVT II		IBRD		150.0				
MX01	86	FINANCIAL REFORM I		IBRD		350.0				
PD17	86	RURAL ELECTRIFICATION II		IBRD		200.0				
PP04	86	POWER SECTOR-CONSV/DIST I		IBRD		200.0				
UU14	86	STA CATARINA SMALL TOWNS		IBRD		40.0				
AI01	86R	CODEVASF IRRIGATION	30.0	IBRD						
AL04	86R	LIVESTOCK DISEASE CONTROL	50.0	IBRD						
ZZ02	86R	PUBLIC SECTOR MGMT TA	20.0	IBRD						
AD34	87S	NE RURAL DEVT IV		IBRD			150.0			
AP01	87S	RUBBER DEVELOPMENT		IBRD			60.0			
UU12	87S	URBAN DEVT-N E METROPOLITAN		IBRD			125.0			
AC03	87	AGRIC SECTOR III		IBRD			250.0			
DS06	87	EXPORT DEVT III		IBRD			250.0			
MX02	87	FINANCIAL REFORM II		IBRD			200.0			
NN03	87	NE HEALTH-PRIMARY CARE		IBRD			100.0			
TP07	87	PORTS II		IBRD			200.0			
TH18	87R	CERRADO TRANSPORT	100.0	IBRD						
AR04	88S	AGRICULTURAL RESEARCH III		IBRD				100.0		
DS08	88S	DEVT BANKING IV		IBRD				200.0		

FIVE YEAR LENDING PROGRAM AS OF 12/31/84 BRAZIL
RUN ON 01/04/85

CODE	FISCAL YEAR	PROJECT NAME	RESERVE PROJECTS BANK/IDA	SOURCE	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
PP05	88S	POWER SECTOR-CONSV/DIST II		IBRD				300.0		
TT02	88S	TRANSPORT SECTOR		IBRD				250.0		
AI03	88	IRRIGATION SECTOR		IBRD				125.0		
DS03	88	NE SMALL & MED INDUSTRY		IBRD				200.0		
GS01	88	GAS EXPL/DEVT		IBRD				200.0		
IY02	88	TECHNOLOGY DEVT		IBRD				100.0		
IM05	88R	GRANDE CARAJAS DEVT	200.0	IBRD						
NF03	88R	HEALTH/POPULATION	40.0	IBRD						
AR05	89S	AGRICULTURAL EXTENTION II		IBRD					100.0	
TH17	89S	FEEDER ROADS IV		IBRD					150.0	
TH19	89S	STATE HIGHWAY MGMT		IBRD					150.0	
AC04	89	AGRICULTURAL CREDIT II		IBRD					300.0	
DS09	89	DEVT BANKING V		IBRD					400.0	
DS10	89	NW SMALL & MED INDUSTRY		IBRD					150.0	
EE08	89	EDUCATION SECTOR		IBRD					150.0	
WW14	89	RURAL WATER & SANITATION		IBRD					100.0	
AP02	90S	OIL PALM DEVT		IBRD						100.0
PD18	90S	RURAL ELECTRIFICATION III		IBRD						200.0
UT07	90S	URBAN TRANSPORT		IBRD						100.0
UU08	90S	MEDIUM CITIES URBAN MANAGEMENT		IBRD						50.0
WW08	90S	WATER & SEWERAGE SECTOR II		IBRD						200.0

COUNTRY TOTAL	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
IBRD	1227.0	1527.0	1335.0	1475.0	1500.0	650.0
	7	9	8	8	8	5
IDA	.0	.0	.0	.0	.0	.0
	0	0	0	0	0	0
TOTAL	1227.0	1527.0	1335.0	1475.0	1500.0	650.0
	7	9	8	8	8	5
OF WHICH 'S'		207.0	335.0	850.0	400.0	650.0
		2	3	4	3	5

A I D E   M E M O I R E

This Aide Memoire summarizes informally the results of discussions held from April 1st to April 3 between the Brazilian authorities and a World Bank mission led by Mr.Roberto Gonzâlez Cofino, Chief of the Bank's Brazil Division, and formed also by Mr. William Tyler, Senior Economist of the Brazil Division. Mr.Guy Pfeffermann, Chief Economist for Latin America and the Caribbean, participated in several of the discussions, including the April 3 meeting with Ministers Dornelles and Sayad.

Lending operations scheduled for approval in the next four months.

There was general agreement on the convenience to process quickly the projects that are tentatively scheduled to be submitted to the Bank's Executive Directors during the next four months, with a view to ensure, interalia, that the Bank's FY85 lending program for Brazil maintains at least a level similar to that of the last two years. The following paragraphs refer to the discussions held on each of these loans:

National Land Administration Program.

The Brazilian authorities indicated that it would not be feasible to change in the near future the legislation governing procurement for the cartography component of this proposed loan. They indicated, however, that they would consider the possibility of using International Competitive Bidding procedures which would include a requirement for association with local firms of the foreing firms participating in the bidding process. The authorities also indicated that they would also: a) work towards streamlining the procedures to be followed to allow participation of foreign firms in the bidding process; and b) agree to tranching the cartography component of the loan, with a view to reviewing the effectiveness of the procurement procedures used until Dec.31,1986. The Bank delegation indicated that, according to the information available to it, this proposal would not be acceptable to the Bank. The delegation agreed, however, to convey again the proposed solution to the Bank Management.

Northeast Rural Development I and II.

Also, because of the difficulties associated with changing now procurement practices, the Brazilian authorities indicated their intention to finance with Government resources the small dams components of these projects. Since this would constitute a small component of the projects, which can be implemented by Brazilian firms, the Bank delegation agreed with this procedure, which would imply a corresponding reduction of the proposed Bank loans. The authorities indicated their intention to approve the documents by April 9. The Bank would submit the loans to its Executive Directors immediately afterwards.

Rural Water and Sanitation Pilot Project.

The Brazilian authorities indicated their intention to fulfill the requirements for Board presentation of this loan, including the final approval of the negotiated documents, by April 9. The documents would be distributed then to the Bank Executive Directors.

Agricultural Sector II Loan.

The Brazilian authorities indicated that they would have to consider the proposed loan in detail, in order to ensure its consistency with the Government's overall policies. They expect to adopt a position on this matter by April 15, which would then be communicated to the Bank. If it is agreed then that there is a basis for it, negotiations could be held in the week of April 22.

Railways.

There was an agreement to negotiate this loan during the week which starts April 15.

Electric Power Transmission and Distribution Loans

The authorities stated that they are prepared to send a letter to the Bank indicating that the Government intends, in principle, to implement the 1984-88 Power Sector Rehabilitation Program and its financial plan, subject to the results of a review to be undertaken, not later than July 31,1985. This would enable the Government to introduce the changes that might be necessary in the framwork of the overall economic and financial program that is being prepared. The results of this overall review would be discussed with the Bank. The authorities also agreed with the proposed review with the Bank in January 1986 of the results of the ongoing market studies, and to consider then actions that might be required to make demand consistent with the expected supply of electricity. Annual reviews and updating of the 5 year sector program, would be undertaken also in this regard, in consultation with the Bank. On this basis, it was agreed -- subject to approval by Bank Management -- that negotiations for the proposed Transmission and Distribution Loans could start, respectively,on April 22 and 29.

Other FY86 Loans

There was an agreement to postpone until next June the discussion of other possible FY86 operations. The Bank should continue however, the process of identifying, preparing and appraising the loans now included in the lending program for FY86.

Proposed Cofinancing Operation for the Power Sector

After considering different aspects of the proposed cofinancing operation that would support the Power Sector Rehabilitation Program, the Government indicated that it would let the Bank know by April 16, whether it should proceed to consult the Bank Executive Directors and start formal discussions with commercial banks on this matter. This would require that, before finalizing the agreement with commercial banks, the Government decides also to give its final approval to the Program and its Financing Plan, particularly concerning the financing of the 1985 section of the program.

Project Implementation Review

It was agreed to hold the next Project Implementation Review in the second half of May,1985.

Economic and Sector Work

There was an agreement that the Brazilian authorities would inform the Bank, if possible, before April 15 of their intentions regarding the precise timing and scope of the proposed public sector investment review mission (Phase I). The Brazilian authorities also agreed to organize a discussion of the recent World Bank Country Economic Memorandum on Brazil, on the occasion of the review meeting mentioned in the following paragraph. Finally, the Government agreed also to organize a technical group responsible on a continuous basis for the technical level interaction with the Bank's economic and sector work.

Overall review of Bank Activities

It was felt that periodic comprehensive reviews of all Bank activities in Brasil are a feature to be continued. The next such review would take place in June 1985. At that time, the Government will also indicate its views on the future role of the Bank in Brazil. The first review would include a discussion of: a) the possible composition of the Bank lending program in FY86 and subsequent years; b) priorities for future Bank activities; c) the results of the project implementation referred to above; and d) the 1985 Bank economic report.

April 3, 1985

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File Title	Barcode No.
Country Files: Brazil - Correspondence 02	1774604

Document Date	Document Type
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Correspondents / Participants

Subject / Title
Joao Sayad
(Minister of Planning)

Exception(s)
Personal Information

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Shiri Alon	February 16, 2023

BRAZILIAN REPRESENTATIVES WHO WILL ATTEND MEETING WITH MR. CLAUSEN

(APRIL 16, 1985 AT 5 P.M.)

Antonio Carlos Lemgruber, President, Central Bank

Paulo Nogueira Batista, Secretary for Economic Affairs, Planning Ministry

Gilberto Veloso, Secretary for International Affairs, Planning Ministry

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Alexandre Kafka, Executive Director, IMF

Eimar Avillez, Technical Assistant to the Executive Director, World Bank

Antonio Carlos Lemgruber

(President, Central Bank)

Antonio Carlos Lemgruber, about 40 years old, has a Ph.D. in economics from the University of Virginia. He left the International Vice Presidency of Banco Boavista, a small bank with headquarters in Rio de Janeiro, to become the President of the Central Bank. In the late 1970s, he was Editor-in-Chief of Conjuntura Econômica, monthly economics magazine put out by the Getulio Vargas Foundation. Known as a strict monetarist, he has no prior public sector experience, and was chosen by Finance Minister Francisco Dornelles after at least two other candidates (Affonso Celso Pastore and Carlos Antonio Rocca) turned down the job.

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

File

DATE: February 21, 1985

TO: Memorandum for the Record

FROM: Roberto Gonzalez Cofino, Chief, Brazil Division, LC2

EXTENSION: 72031

SUBJECT: BRAZIL - Mr. Clausen's Meeting with Brazil's President-Elect, Mr. Tancredo Neves

1. Mr. Clausen met with Mr. Neves on February 2, 1985, at 10:00 a.m., in the Madison Hotel. Messrs. Paulo T. Flecha de Lima (Brazil's Undersecretary of Foreign Affairs); A. Alencar (Brazil's representative in the UN organizations located in Geneva); Sergio Correa da Costa (Brazil's Ambassador to the U.S.); E. Avillez (Technical Assistant to Brazil's Executive Director); other Brazilian officials; and Messrs. Knox and Gonzalez Cofino were also present.

2. Mr. Clausen started the meeting by indicating the Bank intention to continue supporting Brazil's development efforts. He referred to the recent increases of loan commitments and disbursements; noted the importance of the proposed cofinancing operation and loans for the power sector, and asked for Mr. Neves' views on them. Mr. Clausen also pointed out the need for continuing the ongoing economic policy dialogue, and praised Brazil's export performance and the recent substantial reduction in Government subsidies. He asked for Mr. Neves' opinion concerning Brazil's main economic problems and development priorities.

3. Mr. Neves emphasized that Brazil's relations with the Bank should be widened and deepened in all aspects, including, in particular, the policy dialogue. The main economic problems faced by the country were inflation and unemployment. He would seek the agreement of all sectors of Brazil society to bring inflation gradually under control. He also considers it essential to achieve, simultaneously, an acceleration of economic growth, in order to reduce unemployment. He pointed out that Brazil could not afford the unemployment insurance schemes utilized by richer countries. Mr. Neves said that his Government would attach the highest priority to the development of agriculture, power, export industries and essential social services. At the regional level, the development of the Northeast would receive his closest personal attention because both, economic and social reasons; he thought that agriculture and agrarian reform should continue to have high priority in the development of that region.

4. Concerning external debt, Mr. Neves hoped that it could be renegotiated satisfactorily by the present Government, because it would be politically more difficult for him to do so in the first few months of his Administraton. Mr. Clausen noted that the forthcoming meeting of the Development Committee has in its agenda, for the first time, the foreign debt problems, and encouraged Mr. Neves to utilize that meeting to discuss the debt issue at the international level.

5. Mr. Knox referred to the importance of avoiding slippages in the processing of loans which are scheduled to be approved by the Bank Executive Directors in the near future. Mr. Neves indicated that he was aware of the large size of the Bank lending program and of the need for its timely implementation. He said that, immediately after taking over the Presidency, he would appoint persons responsible for ensuring that the required actions are adopted on schedule for this purpose.

6. Mr. Neves invited Mr. Clausen to visit Brazil in the near future, in which opportunity he would like to meet with him again. He repeated that Brazil values highly the support provided by the Bank, not only financially but also technically, in matters such as development planning and high-priority economic policy areas. Mr. Clausen said that he would be glad to visit Brazil again at a mutually convenient date, and assured again Mr. Neves of the Bank's firm decision to cooperate fully with his Government's development efforts.

cc: Mr. Clausen's Office
Messrs. Stern
Knox, o/r
Gue, LC2
van der Meer, LCP
Pfeffermann, LAC
Quijano, LAC
Levy, LC2
Brazil Division

RGonzalezCofino:nev

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: January 31, 1985

TO: Mr. A. W. Clausen
(Through A. David Knox, Acting Senior Vice President) ADK

FROM: André R. Gué, Director, LC2DR

EXTENSION: 72011

SUBJECT: BRAZIL - Briefing for your Meeting on February 2, 1985 with His Excellency Tancredo Neves, President-Elect of the Federative Republic of Brazil

1. On February 2, 1985, at 10:00 a.m., you will be meeting with His Excellency Tancredo Neves, President-Elect of Brazil. Mr. Neves was elected president on January 15, 1985, as the candidate of the Party for Democratic Movement (PMDB), which has been the opposition party to the ruling Social Democratic Party (PDS) since 1964. Mr. Neves was elected with 480 out of a total 686 electoral college votes, thereby defeating Mr. Paulo Maluf, the ex-governor of Sao Paulo and PDS candidate. Mr. Neves's overwhelming victory in the electoral college is mirrored by very strong public support since he is the first elected president of Brazil since the military took power in 1964.

Brazil's Economic Situation

2. Brazil is now emerging from almost four years of recession. Led by a strong export performance, GDP is expected to grow by almost 4% in 1984. A record trade surplus of US$13.0 billion was achieved, cutting the current account deficit from US$6.3 billion in 1983 to US$2.0 billion in 1984. The public sector's operational deficit has been reduced but not as much as had been hoped in early 1984, and a number of major price, interest rate, and other corrective measures have been implemented which promise more efficient resource allocation in the future. However, inflation was over 200% in 1984, sustained in part by indexation throughout the economy. The domestic market remains depressed, although there are recent signs of increasing sales. Employment has fallen by 15-20% since 1980 and real wages have fallen substantially, as a result of the increase in inflation and partial wage de-indexation in 1983. Nevertheless, Brazil's medium-term prospects are good. GDP growth rates are expected to rise to about 6% per annum by the end of the decade, and, using fairly conservative assumptions concerning the external economic environment, foreign debt constraints are expected to become gradually less onerous, with a reduction in current account deficits and improved creditworthiness indicators. This will require continued emphasis on export growth to maintain large trade surpluses, and improved domestic resource mobilization in both the public and private sectors. Future economic growth must also occur in a context of careful demand management and efficient use of resources, partly because public investments will continue to be limited by reduced resource availabilities. Appropriate exchange rate management and realistic pricing and interest rates must be maintained in order to promote more efficient resource allocation favorable to both export growth and cost-effective

import substitution. Employment growth also needs to be given priority to absorb both new entrants to the labor force and those who lost their full-time jobs during the recession.

Political Environment

3. Mr. Neves' victory, which was greeted nationwide with celebration, ends a twenty-year period of military rule in Brazil. Nevertheless, Mr. Neves will need to use his well developed skills as a political leader to maintain this initial unified support. A dissident group of prominent PDS politicians, known as the "Liberal Front", supported Mr. Neves instead of Mr. Maluf, and this may result in a reorganization of the PDS party. Likewise, Mr. Neves' own party, the PMDB, is ideologically heterogeneous, and, now that Mr. Neves has been elected, may split into several smaller parties that would also absorb some parts of the PDS. Finally, existing small left-oriented parties may become more vocal in Brazil. Thus the selection of Mr. Neves' cabinet and advisors will be important in building a base for effective political leadership.

4. Mr. Neves is keenly aware of the challenge ahead. He has, in public statements since his election, articulated three priorities for his government. First, he intends to call a constitutional assembly to determine the timing for his succession (probably to be reduced from six to four years) and to establish direct elections. Second, he has indicated that he will follow economic policies which are oriented towards growth and production and employment. And finally, he has stated that the reduction of inflation is essential to the resumption of growth. Further, Mr. Neves has rejected a policy of debt moratorium, and has stated that he will honor those agreements which have been reached with the international financial community by the outgoing government. The economic priorities to which he has referred are consistent, in general terms, with the Bank's recommendations for macroeconomic management. Further, some specific measures -- such as reform of the banking system and increased resource allocation to the poorer Northeast region -- have also received his early endorsement.

Recent Bank Contacts

5. The Bank has maintained contact with some of the key persons managing Mr. Neves' transition team until he takes office on March 15, 1985. In general, these contacts have been very positive, suggesting that the Bank's role will continue to be important in Brazil. There have been some indications that the new government may consider asking the Bank to play a larger role than in the past with regard to monitoring the performance of the economy and negotiations between the government and the international financial community. If Mr. Neves indicates such an interest, I suggest you indicate that, while the Bank would want to do whatever is feasible to support Brasil's continued adjustment and resumption of growth, the IMF is better equipped to monitor the short-term performance of the economy. The Bank's role in assessing the medium- and long-term perspective, and possible modes of assistance with international financial negotiations, could be discussed if this is deemed desirable by the new government.

6. As an example of the kinds of issues, related to the Bank, which Mr. Neves may need to address early in his term, you may wish to suggest consideration of the proposed power sector co-financing operation, which would support the sector investment program prepared by Eletrobras with Bank technical support. Inasmuch as this operation would utilize the "new money" committed by commercial banks in 1984 and which are not included in the ongoing financial negotiations, this operation provides the occasion to discuss an easing of interest rates and maturities for those funds included in the co-financing. In addition, the sector investment program would provide the basis for the Bank to lend an additional US$600 million to the sector to support a power distribution project and a power transmission project.

NTcheyan:dd/cg-p

BIOGRAPHY

President-Elect of Brazil, His Excellency Tancredo Neves

Mr. Tancredo Neves, was born in Minas Gerais and is now 74 years old. He is one of Brazil's most distinguished political leaders, and has served in almost all of Brazil's major governments since 1950. He began his career as president of the Municipal Assembly in Sao Joao do Rei of Minas Gerais, and served as a state deputy in 1946. From 1952-54 he was Minister of Interior and Justice to then President Getulio Vargas. In 1961, after the resignation of President Janio Quadros, Mr. Neves served as prime minister in the ill-fated government of President Joao Goulart. From 1964 to 1982, Mr. Neves patiently remained out of political office, serving as a key leader of the opposition party to the military government. In 1982, he was elected as Governor of Minas Gerais, a post he relinquished in mid-1984 to campaign for the Presidency. In addition, Mr. Neves has served as a director in BNDES and the Bank of Brazil. He has been married for 47 years, and has three children.

RUN 12/03/84

L A C REGIONAL LENDING PROGRAM FY85-89 (COUNTRY BREAKDOWN)
($ MILLIONS)

FISCAL	-85-		-86-			-87-			-88-			-89-			-5YR-	
PROJECT	BANK	IDA	PROJECT	BANK	IDA	PROJECT	BANK	IDA	PROJECT	BANK	IDA	PROJECT	BANK	IDA	BANK	IDA
COUNTRY PROGRAM II																
DIVISION 2A																
BRAZIL																
LENDING																
AGRICULTURAL SECTOR	350.0	.0	NE RURAL DEVT III	130.0	.0	S AGRIC SECTOR III	250.0	.0	IRRIGATION SECTOR	125.0	.0	AGRICULTURAL CREDIT	300.0	.0		
N. E. RURAL DEVT I	53.0	.0	EXPORT DEVT II	250.0	.0	S NE RURAL DEVT IV	150.0	.0	S AGRICULTURAL RESEARC	100.0	.0	S AGRICULTURAL EXTENTI	100.0	.0		
LAND RESOURCES/TITLI	110.0	.0	ALCOHOL DEVT II	150.0	.0	S RUBBER DEVELOPMENT	60.0	.0	NE SMALL & MED INDUS	200.0	.0	DEVT BANKING V	400.0	.0		
NE RURAL DEVT II	57.0	.0	FINANCIAL REFORM I	350.0	.0	EXPORT DEVT III	250.0	.0	S DEVT BANKING IV	200.0	.0	NW SMALL & MED INDUS	150.0	.0		
DEVELOPMENT BANKING	300.0	.0	RURAL ELECTRIFICATIO	200.0	.0	FINANCIAL REFORM II	200.0	.0	GAS EXPL/DEVT	200.0	.0	EDUCATION SECTOR	150.0	.0		
EDUCATION VII-SCIENC	70.0	.0	POWER SECTOR-CONSV/D	200.0	.0	NE HEALTH-PRIMARY CA	100.0	.0	TECHNOLOGY DEVT	100.0	.0	S FEEDER ROADS IV	150.0	.0		
POWER SECTOR FIN REH	.0	.0	S RAILWAYS	200.0	.0	PORTS II	200.0	.0	S POWER SECTOR-CONSV/D	300.0	.0	S STATE HIGHWAY MGMT	150.0	.0		
POWER TRANSMISSION	250.0	.0	S RURAL WATER & SEW PI	20.0	.0	URBAN DEVT-N E METRO	125.0	.0	S TRANSPORT SECTOR	250.0	.0	RURAL WATER & SANITA	100.0	.0		
												NIT				
7	1190.0	.0	8	1500.0	.0	8	1335.0	.0	8	1475.0	.0	8	1500.0	.0	7000.0	
RESERVE																
.	.	.	CODEVASF IRRIGATION	30.0	.0	CERRADO TRANSPORT	100.0	.0	GRANDE CARAJAS DEVT	200.0	.0	.	.	.		
.	.	.	LIVESTOCK DISEASE CO	50.0	.0	STA CATARINA SMALL T	40.0	.0	HEALTH/POPULATION	40.0	.0	.	.	.		
.	.	.	PUBLIC SECTOR MGMT T	20.0	.0	.	.	.	.	.	.	.	.	.		
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THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: October 3, 1984

TO: Memorandum for the Record

FROM: Roberto Gonzalez Cofino, Chief, Brazil Division, LC2

EXTENSION: 72031

SUBJECT: BRAZIL - Mr. Clausen's Meeting with the Brazilian Delegation to the 1984 Annual Meeting

1. Mr. Clausen met on September 22 at 6:30 p.m. with the Brazilian delegation headed by Finance Minister Ernane Galveas. Messrs. A. Pastore (President of the Central Bank), J. Serrano (Director of International Operations of the Central Bank), A. Kafka (Brazil's ED in the IMF) and E. Avillez (Technical Assistant to Brazil's ED in the Bank), as well as Messrs. Knox, Gue and Gonzalez Cofino from the Bank, also attended the meeting.

2. Minister Galveas referred to the discussions held that week by the Interim Committee. He asked what were the prospects for cooperation between the Fund and the Bank in dealing with long-term economic issues, including possible joint meetings of the Interim and Development Committee. Mr. Clausen said that the Fund and the Bank should work together in preparing a joint paper on these matters. Such paper could be discussed subsequently by the Development Committee, which is sponsored by both institutions.

3. Mr. Clausen asked whether there were any outstanding economic policy issues related to proposed Bank loans. Mr. Knox added that some decisions were still needed, concerning, inter alia, the agricultural sector and trade policy. Minister Galveas pointed out that the Government and the Bank had been working together for several months on these and other issues, including the change in relations between the Bank of Brazil and the Central Bank, and other financial reform proposals. Since the Government fully agrees with the conclusions reached in this joint work, they should not be regarded as Bank conditions but, rather, as Government decisions supported by the Bank. Mr. Galveas also said that in view of the changes introduced recently in the export credit system, the Government and the Bank will have to consider during the next few months new possible ways to proceed with the proposed Export Development Loan.

4. Concerning cofinancing, Messrs. Pastore and Galveas pointed out that the government will decide shortly the size and composition of the power sector investment program and its financing plan. The plan will include equity investments by the Government; money provided in 1984 by commercial banks, which would be used under the cofinancing arrangement being discussed with the Bank, and other resources. Mr. Knox asked whether, in the Government's opinion, the commercial banks will be willing to improve substantially the conditions of loans already negotiated. Mr. Pastore believed that they would be, in view of the tax advantage that they would achieve by converting their loans to the Central Bank into loans to specific enterprises such as those operating in the power sector.

5. Mr. Clausen congratulated the Government for the substantial progress being achieved by it in dealing with important economic problems. Mr. Galveas indicated that such progress had been made possible, in part, because of the Bank's effort in increasing its commitments and disbursements, and in finding new ways to provide effective financial support in the midst of a very difficult economic situation.

Cleared with cc: Mr. Gue, LC2

cc: Mr. Clausen's Office
Messrs. Stern
Knox
van der Meer, LCP
Pfeffermann, LCNVP
Quijano, LCNVP
Levy, LC2
Brazil Division

RGonzalezCofino:nev

Brazilian delegation

Ernane Galveas - Min. of Finance

Affonso Celso Pastore - Pres. of Central Bank

(and possibly 4 others!)

Tony Romualdez

Alexandre Kafka - ED - IMF

From the Bank

Ernie Stern

David Knox

Andre Gue

Roberto Gonzalez-Cofino

Brazil

Multilateral Investment Guarantee Agency

Brazil has been opposed in the past to international investment insurance schemes not only for ideological reasons but also because the Brazilians have thought that such insurance will distort the flow of investment from countries like Brazil to those with a less favorable investment climate. Foreign investment in Brazil has declined considerably over the last two years and Brazil could now benefit from MIGA. In addition, Brazil could benefit from the insurance of Brazilian investments in other LDCs. You might want to mention the greater attractiveness to LDCs of the proposed MIGA as compared to previous schemes in that it would operate separately from the Bank, would have its own capital resources, would be controlled equally by developing and developed countries and would pay particular attention to the promotion of investments and trade among LDCs.

0 9/21

SUPPLEMENT TO THE ANNUAL MEETING BRIEF
DATED AUGUST 27, 1984

BRAZIL

September 18, 1984

1. The following notes supplement the information on several current operational issues included in page 3 of the August 27 Annual Meeting Brief:

(a) Agriculture Sector Loan: Late in August, the National Monetary Council issued new policy directives for agricultural trade and banking reform, as called for under the proposed conditionality for this loan. Specific measures to implement the new agricultural trade policy, including the definition of safeguards against extreme price movements, are being worked on and should be in final form late this month. Specific measures for implementing the banking and financial reforms are also in preparation and are expected to be ready by late November or early December. The prospects for completing discussions of these policy changes and processing the proposed loan before the present Government leaves office are good, but hinge critically on the timely completion of and agreement with the Bank on the specific measures, especially those concerning agricultural trade liberalization. We recommend that you impress this point on the delegation. Loan negotiations are tentatively scheduled for December with Board presentation in February.

(b) Import Liberalization: The Government has indicated its agreement with the conditionality on import liberalization proposed for a second export development loan, but considers that the counterpart funds required for credit to exporters would not be manageable within the limitations of its 1985 monetary budget. Instead, it proposes to grant an interest equalization subsidy to commercial banks, which would have a smaller impact on the monetary budget. It is not clear whether this mechanism would work satisfactorily. It is now unlikely that the export development project can be processed within this fiscal year. We therefore intend to postpone it until FY86 but will maintain the dialogue with this Government and the next on trade and export promotion policies.

(c) Cofinancing: The Bank recently completed its evaluation of a 1984-88 plan for the rehabilitation of the electric power sector proposed by ELETROBRAS. The investment program is reasonably satisfactory but it appears that financing for about US$3.1 billion (net of rollover of debt amortizations) would be required for 1984-85. The main issues are:

(i) The Government has not endorsed the plan as a whole nor presented to the Bank a proposal for closing the 1984-85 financing gap. This would be likely to involve some combination of loans, equity contributions, and tariff increases. The delegation should be reminded that both the endorsement of the plan and a proposal acceptable to the Bank for closing the 1984-85 financial gap are required for the cofinancing to proceed.

(ii) The Government has requested that the Bank consider cofinancing (under the contingent obligation option) with the already committed 1984 commercial bank funds rather than those to be committed in 1985. We have told the Brazilians that this would be acceptable to us only if the commercial banks accept to improve substantially the already agreed terms and conditions, which now seems quite unlikely. If the banks agree only to minor improvements (for instance, a 1-2 year lengthening of the repayment period), we could consider a less-costly cofinancing option, like guaranteeing some maturities of the commercial banks' loans. We suggest that you confirm this Bank position to the Brazilians. We also recommend that you tell them that we still believe that the possibility of cofinancing under the contingent obligation option would be likely to help them obtain, under appropriate conditions, the "new money" required for 1985.

(iii) The Brazilians have also requested that the cofinancing be increased from US$1 to 1.5 billion to help close the financing gap. A positive Bank response would depend on whether the structure of the Government's financial plan is satisfactory to the Bank.

(d) Suspension of Power Loan: The balance of the CEEE Power Distribution loan was not cancelled on September 15, as a plan for the rehabilitation of the company has been sent to the Bank. The final decision on this matter will depend on whether the plan -- which is now being reviewed by our staff -- is acceptable to the Bank.

2. In addition, you should know that the Government has reached an agreement with the IMF on stabilization program targets for the third and fourth quarters of this year, although the Fund has not yet received the Letter of Intent. This will facilitate negotiations with the commercial banks for the rescheduling of debt and for the 1985 "new money".

9/21

ANNUAL MEETING BRIEF

BRAZIL

August 27, 1984

Population:	128 million (1983)
GNP per capita:	$1,890 (1983)
Total Bank Commitments:	$8,233.21 million
FY84: Commitments:	$1,604.3 million
Disbursements:	$1,405.0 million
Amortization:	$336.14 million
Lending Program FY85-86:	$2,490.0 million 1,250 per year.

Background

1. The successor to President Joao Figueiredo is to be elected in January 1985 by an electoral college and to begin his term in March. President Figueiredo, whose principal objective was to manage the transition from military to civilian democratic government, is concluding his term in an atmosphere of uncertainty over the political future of the country. The Government PDS party has chosen as its candidate Federal Deputy Paulo Maluf, the ex-governor of Sao Paulo, a strong party politican who has little popular support. The main opposition party, the PMDB, along with the dissident "Liberal Front" of the PDS, is supporting Governor Tancredo Neves, whose experience and moderate views extend his popularity well beyond his state of Minas Gerais. His vice-presidential candidate is Senator José Sarney, until recently national president of the PDS. With Governor Neves emerging as the "concensus" candidate, the prospects of avoiding a divisive and difficult transition have improved. This will be important to maintain social peace, which has so far withstood a continuing recession, declining real incomes, rapid inflation, and more recently a lack of confidence in the nation's economic managers. The present economic team is hoping to complete the year by maintaining the thrust of stabilization measures, and to complete, with international cooperation, the negotiation of the 1985 financing program with the commercial banks. Commercial banks may wish to move somewhat more slowly, until the political situation is clarified and some indication of the new Government's willingness to accept the agreements is apparent.

2. The present year marks the fourth consecutive year of recession in Brazil, during which per capita income has declined to 1976 levels. The reductions in aggregate economic activity have been brought about by austerity-oriented economic policy measures undertaken for balance-of-payments adjustment and price stabilization purposes. Brazil is pursuing a stringent economic program for 1984, directed externally to attaining an unprecedented US$9 billion surplus in commodity trade (as compared to the record trade surplus of US$6.5 billion in 1983). Internally, the program is directed to a continued substantial reduction in real money balances and the generation of a surplus equivalent to 0.3% of GDP in the public sector's operational budget (as compared to a deficit of 2.5% in 1983). So far this year, the program appears to be on track in meeting these objectives. Our preliminary indications are that the Government is in essential compliance with the performance requirements in the IMF program for the second quarter. The balance-of-payments performance has been highly satisfactory, with exports growing by more than 20% in the first half of 1984 as compared with the same period a year before. Our present projection is that the trade surplus for the year will be around US$10.5 billion. Reserves have accumulated more than anticipated, providing a greater foreign exchange cushion and increasing the country's bargaining position vis-à-vis the IMF and the commercial banks, while presenting, however, at the same time, some difficulties for domestic monetary control.

3. The internal results of the stabilization program are thus far less encouraging than those for the external side. While substantial reductions in the operational deficit of the public sector and in real money balances have occurred, inflation (currently running at a cumulative rate of 220%) has not fallen. The economy's high degree of indexation and the resilience of inflationary expectations greatly reduce the effectiveness, and raise the costs in terms of output and employment, of efforts to break inflation via aggregate demand management. The failure of inflation to fall despite the prolonged recession has helped to undermine the Government's credibility and eroded its ability to mobilize support for policy initiatives.

Issues to Be Raised by Management

4. This may be the last occasion on which you confer with the current economic leaders, and provides the opportunity for reference to their great efforts to overcome the economic crisis, to the high degree of cooperation achieved in difficult circumstances between Brazil and the Bank, and to the challenges still facing both. The Bank has sought in its policy-based operations over the past two years to support structural adjustment measures and promote new growth. The Government's preoccupation with short-term economic management has limited its ability to develop medium-term strategies, but some recent work has been done. It would be useful to have the delegation's perspectives on the medium term and the role of the Bank, as well as on the prospects for 1985.

5. The following issues are current:

(a) Agriculture Sector Loan. The Government has made substantial progress towards the liberalization of agricultural trade and banking. We are still reviewing with the Government some of the specific measures it is planning to take towards that end. You will be briefed before the meeting on the latest position.

(b) Import Liberalization. An export-financing scheme involving about US$1.3 billion, supported by the proposed second export development loan, is in preparation. The associated policy conditionality calls for short-term measures to relax import restrictions and lower tariffs and an indicative program and timetable for further import liberalization beginning in 1985. Agreement has been reached at the technical level, but Government ratification will be required, and it may be necessary to pursue this with the delegation. You will be briefed on this issue prior to the meeting.

(c) Cofinancing. After preliminary discussions, we are planning to pursue cofinancing for the power sector (totalling US$1.0 billion). An updated note will be prepared for the annual meeting.

(d) Monetary and Fiscal Budget for 1985. We need assurance from the Brazilians that adequate allocations will be made to allow implementation of Bank projects and to achieve their disbursement objectives. Both monetary and fiscal budgetary restrictions have adversely affected disbursements this year. The domestic budgetary allocations needed for our projects have been reduced, to the extent possible, by providing Special Action Program measures. The needed counterpart funding should be a part of whatever understandings are reached with the IMF.

(e) Suspension of Power Loans. We have recently suspended and will cancel the remaining balance (about US$80 million) for Loan 1824-BR (CEEE Power Distribution) by September 15, 1984, unless by that time the Government has remedied its failure to provide us with a reasonable plan for rehabilitation of the company. The delegation could be reminded that our plans for substantial and continuing assistance to Brazil depend on the Government's willingness to take the needed actions to meet our agreements, particularly in sectors such as power where our commitments are very high and cofinancing is planned.

Attachments

Record Removal Notice

File Title		Barcode No.
Country Files: Brazil - Correspondence 02		1774604
Document Date	**Document Type**	
[undated]	CV / Resumé	

Correspondents / Participants

Subject / Title
BRAZIL BIOGRAPHICAL SKETCHES OF SENIOR DELEGATION OFFICIALS

Exception(s)
Personal Information

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Shiri Alon	February 16, 2023

LENDING PROGRAM FY85-89
(US$ millions)

	FY85 IBRD	FY86 IBRD	FY87 IBRD	FY88 IBRD	FY89 IBRD	Total IBRD
Structural Adjustment and Technical Assistance						
Techn. Assist. - Public Sector Mgmt.	20.0					20.0
Sub-Total						20.0
Agriculture						
Agriculture Sector II	350.0					350.0
Northeast Rural Development I	100.0					100.0
Land Resources/Titling		50.0				50.0
Agricultural Sector III		250.0				250.0
Northeast Rural Development II		140.0				140.0
Rubber Development		60.0				60.0
CODEVASF Irrigation			60.0			60.0
Agricultural Credit I			250.0			250.0
Agricultural Extension II			150.0			150.0
Northeast Rural Development III				100.0		100.0
Irrigation Sector				125.0		125.0
Agricultural Research III				100.0		100.0
Sub-Total						1,735.0
Industry						
Export Development II	250.0					250.0
Development Banking III	250.0					250.0
Alcohol Development II		200.0				200.0
Export Development III			250.0			250.0
Sub-Total						950.0
Social Infrastructure						
Education VII - Science & Technology	100.0					100.0
Rural Water and Sewerage - Pilot		22.0				22.0
Education Sector			100.0			100.0
Northeast Metropolitan Development			100.0			100.0
Northeast Health - Primary Care			100.0			100.0
Medium-Sized Cities II				150.0		150.0
Rural Water and Sanitation				125.0		125.0
Sub-Total						697.0
Infrastructure						
Urban Transport			100.0			100.0
Water and Sewerage Sector II			250.0			250.0
Road Maintenance				75.0		75.0
Ports II				100.0		100.0
Feeder Roads IV					150.0	150.0
Sub-Total						675.0
Energy						
Power Sector Rehabilitation	150.0					150.0
Rural Electrification II		250.0				250.0
Energy Substitution		300.0				300.0
Energy Conservation II				250.0		250.0
Energy Conservation III					250.0	250.0
Rural Electrification III					250.0	250.0
Sub-Total						1,450.0
Grand Total	1,220.0	1,272.0	1,360.0	1,025.0	650.0	5,527.0

LENDING PROGRAM FY85-89
(US$ millions)

	FY85 IBRD	FY86 IBRD	FY87 IBRD	FY88 IBRD	FY89 IBRD	Total IBRD
Structural Adjustment and Technical Assistance						
Techn. Assist. - Public Sector Mgmt.	20.0					20.0
Sub-Total						20.0
Agriculture						
Agriculture Sector II	350.0					350.0
Northeast Rural Development I	100.0					100.0
Land Resources/Titling		50.0				50.0
Agricultural Sector III		250.0				250.0
Northeast Rural Development II		140.0				140.0
Rubber Development		60.0				60.0
CODEVASF Irrigation			60.0			60.0
Agricultural Credit I			250.0			250.0
Agricultural Extension II			150.0			150.0
Northeast Rural Development III				100.0		100.0
Irrigation Sector				125.0		125.0
Agricultural Research III				100.0		100.0
Sub-Total						1,735.0
Industry						
Export Development II	250.0					250.0
Development Banking III	250.0					250.0
Alcohol Development II		200.0				200.0
Export Development III			250.0			250.0
Sub-Total						950.0
Social Infrastructure						
Education VII - Science & Technology	100.0					100.0
Rural Water and Sewerage - Pilot		22.0				22.0
Education Sector			100.0			100.0
Northeast Metropolitan Development			100.0			100.0
Northeast Health - Primary Care			100.0			100.0
Medium-Sized Cities II				150.0		150.0
Rural Water and Sanitation				125.0		125.0
Sub-Total						697.0
Infrastructure						
Urban Transport			100.0			100.0
Water and Sewerage Sector II			250.0			250.0
Road Maintenance				75.0		75.0
Ports II				100.0		100.0
Feeder Roads IV					150.0	150.0
Sub-Total						675.0
Energy						
Power Sector Rehabilitation	150.0					150.0
Rural Electrification II		250.0				250.0
Energy Substitution		300.0				300.0
Energy Conservation II				250.0		250.0
Energy Conservation III					250.0	250.0
Rural Electrification III					250.0	250.0
Sub-Total						1,450.0
Grand Total	1,220.0	1,272.0	1,360.0	1,025.0	650.0	5,527.0

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

For MC Consideration July 30/84
Mr. Clausen E-1227

OPS/MC84-37

DATE: July 27, 1984

TO: Managing Committee

FROM: S. Shahid Husain, Acting Senior Vice President, Operations

EXTENSION: 72283

SUBJECT: BRAZIL - Cofinancing 1985 "New Money" Needs

7-30-84

Introduction

1. On Monday, July 30, 1984, Brazil's Minister of Planning, Mr. Antonio Delfim Netto, and the President of the Central Bank, Mr. A. Pastore, will meet with Mr. Clausen and other members of the Bank's senior management in order to discuss the possible role which cofinancing might play in meeting Brazil's 1985 new money needs. (While no precise estimate is yet available on the total size of these needs, the indicative order of magnitude is believed to be around US$4 billion.)

2. The purpose of this note is to brief members of the Managing Committee on the background to this visit, the status of the discussions to date with the various parties involved (Brazil's authorities, the IMF, commercial banks, supervisory authorities) and to list some of the key issues involved. In order to provide guidance for carrying forward the discussions, this note also outlines a posture for the Bank to adopt in discussions with the Brazilian ministerial team, on which the views of the Managing Committee are invited.

Background

3. Earlier this year, discussions took place between the Bank and Brazil's authorities about the possible role of cofinancing in helping Brazil restore its position with the international banking community. At that time, opinion within the Brazilian Government was divided. However, consent was given to proceed with the guarantee cofinancing for CVRD which was approved by the Board in May 1984 and which channelled a part of the involuntary lending agreed between commercial banks and Brazil for 1984. In June, Mr. Stern authorized the LAC Region to discuss the role of cofinancing further with the Brazilian authorities in connection with several large possible operations. More specifically, the Brazilians were sounded out on the possibility of the Bank using its "contingent obligation option", thereby providing Brazil with level service streams on its cofinanced loans as a way to defer the impact of any increase in interest rates during the grace and amortization periods of the loans. Messrs. Delfim Netto and Pastore reacted positively; they expressed a wish to try to include the highest possible proportion of 1985 "new money" in cofinancing arrangements with the Bank. The stated aim of the Brazilian authorities was to use these cofinancing arrangements to improve the terms on which the "new money" could be obtained, in comparison with what Brazil -- and other countries -- would achieve without cofinancing. Because firm proposals would be needed in September or October, it was agreed that there would be a technical mission sent to Washington (with whom discussions are currently under way) prior to the ministerial visit.

4. In view of this reaction, Mr. Stern asked the Region to give priority attention to sector operations -- particularly those in power and industry -- where the investment basis and policy objectives could be most clearly identified, and to give a lesser priority to a possible Export Development Fund operation. He also indicated that, tentatively, the order of magnitude of the total cofinanced amount could reach a level of between 1/2 and 2/3 of the 1985 "new money". In general, he asked that the Bank team remain as flexible as possible in relation to all key issues.

Current Status of Discussions

5. (a) with the Brazilians:

A Brazilian technical team which is now in Washington has held exploratory discussions. The regional and cofinancing staff has discussed this week three possible cofinancing operations, in the power, industrial and highways sectors, which could provide vehicles for cofinancing a substantial part of "new money" needs up to $2.0-2.5 billion, if such a proportion were desired. The Brazilians have also been informed -- by their ED in the IMF -- of some of the doubts that the IMF staff have on the advisability of substantial cofinancing operations with the Bank for 1985. The technical team indicated yesterday to the Region's staff that they are reassessing their position -- apparently in view of the IMF staff position and of possible limitations to Bank's involvement. They said that they are unable now to indicate to us whether the Government would agree at all to use the Bank's new cofinancing instruments or in which amounts and for which purposes. They will discuss these matters on Monday with Messrs. Delfim Netto and Pastore, who would let Mr. Clausen know what the Government's position would be.

(b) with commercial banks:

In view of the interest expressed in cofinancing by the Brazilian authorities, and in order to prepare for the current round of discussions with the Brazilians, exploratory soundings have been made with a few key members of the Steering Committee of commercial banks for Brazil.1/ The results of the soundings were positive. However, it could not be expected that those consulted would give a considered reaction to the many issues involved.

1/ Banks sounded include: Citibank (Chairman of Steering Group), Morgan Guaranty Trust (Vice Chairman), Chase Manhattan, Manufacturers Hanover Trust, Bank of America, Bank of Tokyo. (In addition, Lloyds (Vice Chairman) and Deutsche Bank have also been informed.)

(c) with Supervisors:

To date only the U.S. supervisors (Federal Reserve Bank and the New York Federal Reserve) have been consulted. The reaction is positive.

(d) with the IMF:

Two meetings have been held with the IMF (Mr. David Finch and staff). At these meetings the IMF has expressed several concerns. The IMF's main concerns appear to be as follows:

- the IMF would not wish to see a World Bank cofinancing feature for the 1985 "new money" package disrupt the current institutional arrangements for mobilizing "new money" in which the IMF plays a central role and the Bank is not involved; why?

- the IMF would wish to see clear sectoral policy objectives achieved through the cofinanced operations with conditions which fit within the IMF's own macro-economic conditions on, for example, domestic credit expansion, size of public expenditure program, etc.;

- the IMF (and the banks) have drawn attention to the issue of cross-conditionality between the IMF and the Bank which could complicate draw-down arrangements, as well as relations between the two institutions; ?

- the IMF would regard it as an undesirable complicating factor if the Bank were to try to extend a "preferred" status to the cofinanced loans with the intent to try to hold them out of future reschedulings; and why?

- the IMF has cautioned about the possible ramifications for the Bank both in relation to follow-up operations in future years for Brazil and in extending this technique to other countries.

Because of the many issues involved, the advice of the Fund staff is that the Bank should start in a relatively small way, with a cofinancing of around US$1 billion.

6. Position Adopted by Bank Staff on Key Issues

(a) Cofinancing in the "new money" package

The cofinanced loans would be an integral part of the 1985 "new money" package. The loans would be drawn down in 1985. Having a part of the package cofinanced with the Bank and a part not cofinanced could be disruptive to the process of putting together the package.[2/] On the other hand, key banks are concerned about the erosion of support amongst smaller, as well as non-U.S., banks. They also appear to welcome a Bank-approved use of the proceeds of the "new money" package, rather than to have it going to general balance-of-payments support. Therefore, whether a cofinancing feature would be divisive, or, on the contrary, promote greater cohesion, can only be tested through a process of further consultations.

(b) Policy Objectives

The Bank would hope to achieve policy objectives in the main through prior action by the Brazilians. Draw-down under the cofinanced loans would therefore not risk being suspended because of non-compliance. However, the amount of our liability under our contingent obligation could be reduced if draw-downs were cancelled by non-compliance with Fund conditions. Where programs envisage continuing reform non-performance would negatively affect the Bank's future operations.

(c) Preferred status to the cofinancing

For various reasons, including the Fund's concern (which we share) of dividing the new money package by trying to offer a preferred asset in competition with a non-preferred asset, it seems desirable not to try to extend the Bank's non-rescheduling umbrella over these cofinancings. The attractiveness would therefore depend on the assurance given by the Bank's "good housekeeping" seal on the end use of the loans and the contingent obligation of the Bank.

(d) Replication

Such cofinancings cannot be mounted unless the Bank has the necessary depth of sector knowledge and appropriate policy dialogue with the borrower and unless the borrower itself is willing to consider cofinancing in its approach to the banking community. At present there would be few countries other than Brazil which might fit these criteria, nor can we be sure that Brazil would meet them in future years.

2/ In this connection, Fund staff has suggested the possibility that the Bank's cofinancing be contingent on participation of particular banks in the non-cofinanced part so as to tie the two elements together.

Guidelines for Further Discussion

7. In view of the discussions which have taken place so far with the Brazilian authorities, and in view of the fact that only tentative judgments can be made at this point pending further discussions with the borrower, commercial banks and the Fund, and pending soundings with members of the Board and supervisory authorities in major banking centers, we are not yet in a position to take a firm stance on many of the issues involved. However, subject to modification in the light of these further consultations, the following working guidelines are suggested:

- the scale of cofinancing might be in the range of US$1-2 billion; and

- the size of the Bank's own maximum potential exposure should be limited to around US$500 million, or 25% of the face amount at the $2 billion level. (This would mean that the degree of protection which the Bank could offer would depend on the total size of the cofinancings.)

8. If we do proceed along these lines, and if the Brazilians and commercial bankers confirm their interest, it will be important to alert the Executive Directors to what is happening at the earliest opportunity. We can expect close questioning, especially on the interest rate "capping" aspect of the proposal. European governments, as well as the U.S. authorities (apart from the Federal Reserve), were very unenthusiastic about the "capping" concept when they were approached informally by the Fund in connection with a possible interest financing facility.

Conclusion

9. Neither the Brazilians nor the Bank are in a position to make a firm judgment on the many issues involved in working out a cofinancing package as part of the 1985 "new money" operation. The Brazilians are likely to continue to regard discussions with the Bank as exploratory, as we ourselves should. In arriving at the final position on the extent of Bank participation, if any, the following considerations would, however, seem decisive:

(a) the operation should be replicable in principle;

(b) the operation must not risk disruption of the new money package;

(c) Bank involvement must help the Brazilians improve the overall terms of the "new money" facility; and

(d) the Bank, in consultation with the IMF, must be satisfied with the conditions and policy understandings to be reached with Brazil which would accompany the loans.

cc: Mr. Stern