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REPORT AND RECOMMENDATION

OF THE

PRESIDENT OF THE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED LOAN

IN AN AMOUNT EQUIVALENT TO US$303.0 MILLION

TO THE

FEDERATIVE REPUBLIC OF BRAZIL

FOR AN

AGRICULTURAL CREDIT AND EXPORT DEVELOPMENT PROJECT

September 15,1983

CURRENCY EQUIVALENTS

Calendar 1982	September 7, 1983
Currency Unit = Cruzeiro (Cr$)	
US$1 = Cr$179.80	US$1 = Cr$668.00
Cr$1 = US$0.0056	CR$1 = US$0.0015

GOVERNMENT OF BRAZIL FISCAL YEAR

January 1 - December 31

GLOSSARY AND ACRONYMS

ACC	Adiantamentos sobre Contratos de Cambio (Advances on Export Contracts)
BdB	Banco do Brasil (Bank of Brazil)
BACEN	Banco Central do Brasil (Central Bank of Brazil)
CFP	Companhia de Financiamento da Producao (Company for Production Financing)
INPC	Indice Nacional de Precos ao Consumidor (National Consumer Price Index)
INPES	Instituto Pesquisa (Research Institute, Economic Planning Institute, SEPLAN)
LIBOR	London Interbank Rate
MCR	Manual de Normas e Instruccoes Credito Rural (Rural Credit Manual)
ORTN	Obrigacoes Reajustaveis do Tesouro Nacional (Readjustable Obligations of the National Treasury)
PNPE	Programa Nacionale Pesquisa Economica (National Economic Research Program)
PRO-EXPORT	Programa Pre-Financiamento Exportacoes (The Agricultural Pre-Export Financing Facility)
PRO-INVEST	Programa de Investimentos Agricola (Rural Investment Program)
SEPLAN	Secretaria de Planejamento da Presidencia da Republica (Secretariat of Planning of the Presidency)

BRAZIL

AGRICULTURAL CREDIT AND EXPORT DEVELOPMENT PROJECT

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BRAZIL

AGRICULTURAL CREDIT AND EXPORT DEVELOPMENT PROJECT

Loan and Project Summary

Borrower:	Federative Republic of Brazil
Beneficiaries:	The Central Bank of Brazil Private and Public Financial Intermediaries Brazilian Agricultural Enterprises Brazilian Agricultural and Agro-Industrial Exporters
Amount:	US$303.0 million equivalent including capitalized front-end fee of US$0.8 million.
Terms:	Repayable over 15 years on a fixed amortization schedule, including 3 years of grace, at the Bank's standard variable interest rate.
Relending Terms:	US$300 million of the Bank loan would be relent in cruzeiros by the Central Bank through the Brazilian banking system to finance: (a) rural investment credit (US$100 million); and (b) pre-financing for exporters of agricultural and agro-industrial products (US$200 million). US$200 million would be made available by the Government, on the same terms as the Bank loan, to the Central Bank to create a revolving fund in US dollars for export pre-financing credits. The Central Bank would relend these funds in US dollars at the 180-day LIBOR rate prevailing two days before subloan commitment, plus a 0.25% spread for the Central Bank, to rediscount up to 35% of the eligible export pre-financing subloans disbursed by participating banks. The participating banks would convert these dollar subloans into cruzeiros with the Central Bank at the rate prevailing on the date of subloan commitment to be onlent for up to 390 days at a market-determined spread over the Central Bank rate. Subloan repayments by the final borrowers would be in cruzeiros at the exchange rate prevailing at the date of the subloan disbursement. Payments to the revolving fund by participating bankswould be in US dollars. Participating banks would be repaid directly by the export

purchaser in the currency of contract and would assume the third currency risk if the underlying export contract were not in US dollars.

The US$100 million for rural investment credit loans would be made available by the Government to the Central Bank at the final on-lending rates for subloans minus a four percent spread for the participating banks. Financial charges for subloans would follow a schedule agreed with the Bank for the phasing out of rural credit subsidies. The schedule adjusts rural credit financial charges from 85% of monetary correction in 1983/84 (70% in the North/Northeast), to 100% of monetary correction by 1985/86, 85% in the North/Northeast. All credits would carry nominal interest rates of 3% in addition to monetary correction.

US$2.25 million of the loan would remain with the Government to finance an agreed program of studies and technical assistance on agricultural policies, planning and services and investment program preparation.

Project Description: The project would provide financing for new agricultural investments and working capital for agricultural and agro-industrial exports. It would also finance a series of studies aimed at strengthening agricultural policies, services and institutions. The project would support the Government in adopting critical reforms in the agricultural credit system, guarantee at least a minimum flow of investment resources to the agricultural sector this year and help strengthen and stabilize the domestic credit market for agricultural exports. It would also contribute to ongoing efforts to streamline the rural credit system and support joint Bank-Brazilian efforts to reassess and rationalize the policy environment for agricultural development. The project is one of several loans prepared under the Bank's Special Action Program.

Estimated Cost and Financing Plan:

	US$ million Equivalent 1/		
	Local	Foreign	Total
Estimated Costs			
Rural Investment	365.0	50.0	415.0
Export Credit	572.0	0	572.0
Studies and Fee	1.5	1.5	3.0
Total Costs	938.5	51.5	990.0

1/ Taxes on farm implements, equipment and inputs, the main items expected to be financed under the project, are negligible.

Financing Plan:	Local	Foreign	Total
Bank Loan			303.0
Rural Investment	50.0	50.0	100.0
Export Credit	200.0	0	200.0
Studies	1.50	.75	2.25
Fee	0	.75	.75
Central Bank			
Rural Investment	200.0	0	200.0
Participating Banks			
Export Credit	372.0	0	372.0
Beneficiaries			
Rural Investment	115.0	0	115.0
Total Financing	938.5	51.5	990.0

Estimated Disbursements:	US$ million by Bank FY	
	1984	1985
Annual	270.0	33.0
Cumulative	270.0	303.0

Rate of Return: n.a.

Staff Appraisal Report: No staff appraisal report has been prepared for this project.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATION OF THE PRESIDENT
TO THE EXECUTIVE DIRECTORS
ON A PROPOSED LOAN OF US$303.0 MILLION
TO THE FEDERATIVE REPUBLIC OF BRAZIL FOR AN
AGRICULTURAL CREDIT AND EXPORT DEVELOPMENT PROJECT

1. I submit the following report and recommendations on a proposed loan to the Federative Republic of Brazil for the equivalent of US$303.0 million including a capitalized front-end fee of US$0.8 million to help support the adoption of critical agricultural sector policy reforms and to help finance rural investment credits and agricultural exports during a period of difficult economic adjustments.

PART I - THE ECONOMY1/

2. An economic report entitled "Economic Memorandum on Brazil" (Report No. 4674-BR dated August 22, 1983) was distributed to the Executive Directors on August 22, 1983. The following paragraph, as well as the country date sheets attached as Annex I, summarize some of the principal findings of that report.

3. The present Government, headed by President Figueiredo, took office on March 15, 1979, for a six-year term. While the process of political redemocratization has been its prime concern, much of the Government's attention has necessarily been devoted to grappling with inflation and a difficult balance-of-payments situation. Major economic priorities of the Government include the growth of agriculture, reduced dependence on imported petroleum, expansion of manufactured exports, and increasing domestic savings, while at the same time improving the situation of Brazil's economically most disadvantaged population. Success on these fronts is crucial to the solution of the inflation and balance-of-payments problems, as well as to the sustained improvement of living standards and better income distribution. In mid-November of 1982, Brazil held its first major elections since the mid-1960s. Opposition candidates captured the governorships of several key states, including Sao Paulo, Rio de Janeiro, and Minas Gerais. A presidential election is scheduled for November 1984.

1/ Part I of this report is substantially the same as in the President's Report on the Parana Market Towns Project (Report No. P-3560-BR dated August 4, 1983). It is identical to the corresponding section of the President's Report for the Export Development Project (Report No. P- -BR) being distributed at about the same time as this report.

Recent Economic Performance

4. Prior to the sharp worsening of its terms of trade in 1973, occasioned by the quadrupling of the price of imported oil, Brazil had enjoyed a period of rapid economic growth in the context of declining domestic inflation and a significant liberalization of both foreign and domestic trade. After 1973 successive Brazilian governments attempted to cope with the constraints placed on the economy by the worsened terms of trade, while maintaining a high rate of growth of output and employment. Although aggregate demand management was somewhat erratic, the general policy tendency through 1980 was characterized by large credit and tax incentives to industry and agriculture, particularly for export expansion and import substitution; growing direct state economic activity; intermittent controls on prices and interest rates; rising import barriers; heavy foreign borrowing; and an intensifying effort to reduce the growth in energy consumption and substitute domestic energy resources for imported petroleum.

5. Although reduced from the 11% annual growth of the 1967-1973 period, GDP grew at a still remarkable 7% average annual rate from 1974 through 1980. The merchandise trade deficit, which had ballooned to US$4.7 billion in 1974, was eliminated by 1977 as a consequence of a 52% nominal increase in exports and an absolute reduction in imports. Over the entire 1974-1980 period, nominal exports rose 153% as compared to an 82% increase in imports. Non-oil imports rose only 32%. However, the rapid accumulation of external debt, which rose more than 3-1/2 times, the compression of real imports, and the intensification of inflationary pressures increased the economy's vulnerability to the further sharp increase in petroleum prices and the rise in interest rates which occurred in 1979 and 1980. Thus, over those two years, the current account deficit more than doubled to reach US$12.4 billion, and international reserves fell by US$5 billion. Domestic inflation accelerated to 110%.

6. In response to the deteriorating balance-of-payments and rising domestic inflation, the primary immediate objective shifted from growth to stabilization. Monetary correction and exchange rate adjustment, which had lagged behind inflation in 1980, were brought back into line with inflation. Interest rate controls were removed from commercial bank lending, and the rate of credit expansion was severely limited. The intention was both to dampen aggregate demand and to encourage external capital inflows. Although still highly subsidized, the interest rates charged on official loans were also increased. The previously eliminated tax incentive to exports was temporarily restored, and the financial transactions tax applied to foreign exchange operations for imports was raised from 15% to 25%.

7. As a consequence of these measures, GDP declined by 2% in 1981, with the industrial sector in and around Sao Paulo being particularly hard hit by high interest rates and declines in capital goods and consumer durables purchases. But the trade balance improved from a negative US$2.8 billion in both 1979 and 1980 to a positive US$1.2 billion, and the current account deficit was reduced, despite a US$3 billion increase (to US$9.2

billion) in net interest payments abroad. Contributing to the trade surplus was a 33% increase in manufactured exports and the further contraction of petroleum imports. International reserves rose US$687 million, to the equivalent of 4 months of goods imports (compared to 3.6 months coverage at the end of 1980). Domestic inflation fell to 95%. The policy measures introduced and the ensuing balance-of-payments improvement served to sustain the confidence of the international banks, and no problems were experienced in raising the US$10 billion in required net borrowing during 1981.

8. The slowdown of international trade caught up with Brazil in 1982, with declining commodity prices and severe difficulties in several of the theretofore fastest growing markets for its manufactures. As a result, nominal exports declined by 13% in 1982 relative to 1981. Imports were also down, resulting in a US$767 million trade surplus, which, however, was significantly below earlier expectations. At the same time, the international financial community reduced its lending to Brazil following first the war in the South Atlantic and, later, the Mexican liquidity crisis, and Brazil was forced to increase its short term borrowing and draw down its reserves in the last quarter of 1982. The current account deficit for 1982 totaled US$14.5 billion, the highest in the country's history, mostly reflecting record high interest payments. These interest payments (US$8.5 billion) plus amortization of existing medium and long term (M&LT) loans (US$8.7 billion) exceeded net disbursements of new M&LT loans (US$15.2 billion), constituting a negative net M&LT resource transfer.

9. The 1981-82 stabilization effort in Brazil has placed heavy reliance on monetary policy. The money supply in real terms fell, and the Government has relied on the sale of indexed bonds to finance its large fiscal deficits. Restrictive monetary and credit policies, alongside the large public sector deficit and the channeling of available financial resources into certain priority areas, have resulted in very high real interest rates in the relatively free portions of Brazil's segmented financial market. Real interest rates of 40-50% have become common. As a result, private investment has fallen dramatically, contributing in a major way to the continuing recession, now in its third year. Reflecting the depressed domestic economic conditions, manufacturing employment in the State of Sao Paulo fell by over 20% between November 1980 and April 1983. For 1982, GDP fell by about 1%, while inflation continued at just below 100%.

10. In late 1982, the rundown of Brazil's international reserves, the reluctance of international commercial banks to roll over existing loans and to extend further credits, and deteriorating international market conditions led Brazil to seek assistance from the International Monetary Fund in support of its adjustment program. Adverse external circumstances have considerably complicated Brazil's economic situation and have rendered short-term adjustment both more compelling and more arduous. To support the Government's 1983 austerity program, in February 1983 the IMF pledged financial assistance on the order of US$5.4 billion (including both compensatory financing and the Extended Fund Facility) over 1983-85. Coupled with this financing package were commitments by the international commercial banks for 1983.

1983 and Prospects for the Future

11. The country faces a difficult period of adjustment in 1983-84. A major objective for 1983 is to generate an unprecedented trade surplus of US$6 billion, thereby reducing its current account balance of payments deficit and its external borrowing requirements. In order to increase the chances of attaining the ambitious US$6 billion trade surplus target, the cruzeiro was devalued by 30% in February 1983. The cruzeiro will continue to be devalued in line with domestic inflation, implying some additional real depreciation as external prices rise. Simultaneously, the Government has temporarily imposed stricter, emergency-oriented, import restrictions. Despite a slow start and continuing adverse international market conditions, Brazil appears to be on target in attaining the US$6 billion trade surplus for 1983. By the end of June the cumulative trade surplus for the first half of the year had reached US$3 billion. While much of the surplus is attributed to reductions in imports, export performance in the past few months has improved considerably. June 1983's exports exceeded those of June 1982 by 19%, pushing up the cumulative growth in relation to the first six months of 1982 to 6%. Reaching the US$6 billion trade surplus will mean that Brazil's current account deficit will be about US$8 billion or some 3% of GDP.

12. Less success has been achieved in attaining the 1983 internal stabilization targets. In the beginning of 1983 measures were announced to: (a) reduce the consolidated federal public deficit through both expenditure cuts and revenue increases; (b) restrain monetary and credit expansion; (c) decrease credit and commodity subsidies; and (d) reduce overall wage indexation to less than 100% of cost-of-living increases. According to the Government estimates of the consolidated federal deficit, the program announced in early 1983 and embodied in the internal credit and financing ceilings in Brazil's agreement with the IMF, if fully complied with, would have brought about the reduction of the deficit as a percentage of GDP from 6% in 1982 to a surplus of 1% in 1983.[2/] By May 1983 it had become apparent that this ambitious target, involving a 7% change in the deficit as a percentage of GDP, was not being met. Because of the failure to comply with the associated public sector financing requirements in the Fund's agreement with Brazil, the IMF suspended the second disbursement of its EFF of US$411 million scheduled for May. Negotiations between the Brazilian Government and the IMF are currently underway to revise the stabilization program and the ceilings in the Fund agreement with Brazil.

2/ The IMF computes the public sector's borrowing requirements, which are much higher than the operating deficit. The discrepancy derives from definitional and conceptual differences rather than statistical ones. The Brazilian Government estimates of the consolidated public sector deficit relate to current expenditures and do not incorporate the accrued monetary correction of the federal internal debt as a current expenditure. The IMF, on the other hand, for this purpose prefers to treat the monetary correction on the debt as a current expenditure and to express the public sector's financing requirements in nominal values. Thus, the respective concepts can be translated into each other, once the rate of inflation is given.

13. In June 1983 the Government announced a new package of stabilization measures. The stabilization program during the first half of 1983 had been complicated by a reacceleration of the inflation, in part attributed to the February devaluation, and a growing climate of economic uncertainty. Renewed efforts have been directed at reducing the consolidated public sector deficit. A more rapid phase-out of agricultural credit subsidies was announced. Prices of goods and services produced or marketed by the public sector such as petroleum derivatives and wheat, were substantially increased, reducing implicit consumer subsidies and the accompanying public enterprise deficits. The control agency for the federal public enterprises has been strengthened, and a new public enterprise budget has been implemented, involving a further 20% cut in the investments of such firms. At the same time, wage policy has been modified to provide less than full cost-of-living indexing to wages and salaries.

14. Continued support of the international financial community, and particularly the commercial banks, is necessary for Brazil to achieve the objectives of the IMF-sanctioned austerity program for 1983 and beyond. To this end, the Government completed negotiations for a four-point financial assistance plan with foreign commercial banks at the end of February. The banks agreed to: (a) extend new loans available in the aggregate of US$4.5 billion; (b) roll over for an additional 8 years US$4.6 billion of medium- and long-term loans falling due in 1983; (c) make available up to US$9.4 billion in short-term commercial credits; and (d) restore to approximately US$7.5 billion the level of deposits held by foreign banks in overseas branches of Brazilian banks (falling short of the original US$10 billion target for interbank credits). Once these arrangements had been made, IMF assistance was approved on February 28, 1983. Particular problems have been experienced with the interbank lending component. The smaller banks have been especially anxious to reduce their Brazilian exposure; as a result by July 1983 interbank credits to Brazil amounted to only about US$5.8 billion. Because of this shortfall, a reduction of expected foreign direct investment, higher than anticipated interest payments, and other contingencies, it is expected that Brazil will require an additional US$3-4 billion for 1983. Despite acute short-term liquidity difficulties during the last year, Brazil, unlike several other countries, has not resorted to commercial bank interest payment suspensions or unilateral bank debt rescheduling measures. A new external financing package from the commercial banks for the remainder of 1983 and 1984 is expected as a subsequent part of a renegotiated agreement between the Brazilian Government and the International Monetary Fund.

15. Brazil's balance of payments would benefit from a continuing fall in the LIBOR and in world petroleum prices. Because about 70% of the country's medium- and long-term debt bears variable interest rates, each 1% drop in LIBOR would mean a savings of about US$500 million. For each dollar reduction in the price of a barrel of oil, the imported oil bill, which accounted for about 50% of total imports for 1982, would fall by US$300 million at current consumption levels.

16. Savings on imported oil could be even greater as domestic oil production increases and energy conservation continues. Since 1973 Brazil has made major efforts to reduce petroleum imports. Investments in oil exploration have been accelerated, with additional steps taken to develop the nation's hydroelectric potential and to substitute alcohol for gasoline. Efforts are also being made to induce energy conservation, particularly through pricing policies. As a result of these and other policies, domestic gasoline consumption was reduced by more than 10% between 1979 and 1982, and domestic petroleum production increased by about 50% over the same period. Petroleum and petroleum derivative imports, which totaled US$10 billion in 1982, have been reduced to an annual level of US$7-8 billion in the first half of 1983.

17. In view of the balance of payments constraint, Brazil must continue to experience a period of careful demand management. Maintenance of international competitiveness through the exchange rate, and realistic prices and interest rates should help to promote more efficient resource allocation favorable to both export growth and efficient import substitution. Public investments will continue to be constrained by reduced resource availabilities over the next several years, and foreign lenders, including the Bank, should be prepared to finance a higher proportion of project costs, including, when necessary, a part of local costs. The development of domestic energy sources, export promotion, agriculture, and the stimulation of domestic savings will continue to require priority attention.

External Assistance and Creditworthiness

18. With reduced but reasonably satisfactory access to external capital, Brazil may aim for some growth in 1983-87, with an expected GDP decrease in 1983 of about 3.5% followed by recovery in 1984 and gradually increasing growth to about 5% by and beyond 1986. Such a scenario is compatible with a falling current account deficit through 1987.

19. The Government expects gross M&LT commercial bank borrowings to be limited to US$10 billion in 1983, a reduction of 20% relative to 1982. Such borrowings imply projected net M&LT borrowings of US$6.5 billion, constituting a 9% increase in Brazil's gross M&LT external debt. In the event of greater external resource availability, some build-up of reserve levels and/or relaxation of import restrictions is expected. By 1985, projected net M&LT borrowings will fall below the 1983 level and the net M&LT debt service ratio is expected to decline from 82% in 1982 to approximately 69% in 1986.

20. The sensitivity of Brazil's balance of payments to exogenous factors such as petroleum prices, international interest rates, and world market conditions makes projections subject to a wide margin of error. Also, the present scenario depends on Brazil's ability to reduce the consolidated public sector deficit, expand manufactured exports in a weak world economy, and attain continued access to international commercial bank lending. These objectives will not be easily achieved. Moreover, tangible results of the austerity program are not likely to be seen until the latter

part of 1983. Instances of short-term cash flow problems, therefore, cannot be ruled out. However, the Brazilian economy remains dynamic, diversified, and relatively resilient, and policy-makers have repeatedly demonstrated their ability to adjust to changing circumstances. With the Government's commitment to the austerity program in 1983 and with IMF support, Brazil should be able to make the adjustments needed to cope with adverse international circumstances and to reorient the economy toward a more efficient development path for the remainder of the decade. Thus, Brazil remains creditworthy for new borrowing on conventional terms in the magnitudes described above.

Poverty Alleviation Programs

21. Although Brazil continues to be characterized by severe income inequality, the Government has made substantial efforts to relieve poverty. The educational system has been rapidly expanded, giving rise to increased enrollment rates and reduced illiteracy. Social security health programs have been strengthened and extended to rural areas, and upgrading and expanding previous health services for the poor have received much Government attention. Increased Government efforts have also been directed to low-cost housing programs for the poor and the improved provision of water and sewerage services.[3/] In part as a reflection of these and other programs, there are some indications, based upon preliminary estimates from the 1980 demographic census, of substantial living standard and welfare improvements during the 1970s. Considerable absolute real income gains were realized by all income decile groups. Unlike the 1960s, the poor do not seem to have been left behind by the rapid economic growth experienced during the 1970s. Non-income gains, as reflected by improved access to public services, declining infant mortality, and increased durable consumer goods possession by households, also attest to significant poverty reduction during the decade. Given the impact of the stabilization program on the economy and the necessity to increase the number of jobs so as to absorb new entrants into the labor market, it is likely that the austerity measures currently pursued by the Government impose a disproportionate burden on the poor, particularly in urban areas.

PART II - BANK OPERATIONS IN BRAZIL

22. By March 31, 1983 the Bank had made 119 loans to Brazil, amounting to US$7,672.9 million (net of cancellations), of which 65 were not yet fully disbursed. During FY70-75, disbursements averaged US$150 million per year, reaching US$202 million in FY76, US$472 million in FY82,

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3/ For a more detailed account of these efforts, see "The Distribution of Income in Brazil" (Staff Working Paper No. 356, dated September 1979) and "Brazil - Human Resources Special Report" (Report No. 2604-BR, dated July 13, 1979).

and US$764 million in FY83. The undisbursed amount as of March 31, 1983 was US$3,773.8 million. Annex II contains a summary statement of Bank loans.

23. Over the FY77-81 period, Bank lending to Brazil ranged from US$425 million to over US$800 million per year. In FY81, eight loans totaling US$844 million were approved. In FY83, seven loans totaling US$1,457.5 million were approved. They included US$8.9 million for a project to help finance the preparation of future investment projects in the metropolitan region of Fortaleza and Salvador in Northeast Brazil, US$304.5 million for an iron ore mining project in the Serra dos Carajas, US$154.0 million for a third secondary and feeder roads project, US$220.0 million for a second development banking project, US$302.3 million for a water and sewerage sector project, US$67.8 million for a second rural development project in the State of Bahia, and US$400.0 million for a Third Agro-Industries credit project. For FY84, documents for a US$52.7 million loan for a market towns development project in the State of Parana are expected to be distributed to the Executive Directors shortly. The documents for a US$352 million industrial export development project are being distributed at about the same time as those for this project. Work is advanced on the third phase project of the Northwest region development program, a rural electrification project, a power distribution project, supplemental financing for on-going agricultural and rural development projects, and a primary health care project in the State of Sao Paulo.

24. Within the agricultural sector, the Bank has so far made 27 loans, totalling US$1,431.9 million. These include three, totalling US$519.2 million for agro-industries, two totalling US$60.5 million, for livestock development; one for US$18.2 million for grain storage; two, amounting to US$100 million for agricultural research; one for US$100 million to improve agricultural extension services; and 20, totalling US$689.7 million for various settlement, irrigation and rural development projects, 13 of which are located in the Northeast. In addition, Bank loans for fertilizer production, nutrition research and development, are having a direct impact on agricultural production and rural development. The Completion and Project Performance Audit Reports issued for the grain storage and livestock development projects noted significant differences which developed between the Government and the Bank regarding interest rate policy, leading to partial cancellation and/or early repayment of the loans. Completion and Project Performance Audit Reports have been recently issued for the first agro-industries credit project and the Alto Turi land settlement project. It appeared that implementation of the agro-industries credit project was hampered by frequently shifting Government policies which included, especially after 1973, the rapid development of subsidized competing credit programs. These problems, however, have since been corrected and a follow-up project is proceeding satisfactorily. The Alto Turi settlement project was found to have benefited a substantial number of settlers, raising their cash incomes beyond initial expectations. The project was less successful on such aspects as environmental protection, community organization and strengthening of credit and marketing cooperatives. These shortcomings are being addressed under a follow-up project.

25. Brazil's external medium and long-term public and private debt outstanding and disbursed is estimated to have been US$68 billion at the end of 1982. The Bank's share in this total is estimated at 9% while its share in total debt service is estimated at 4%.

26. As of March 31, 1983, IFC commitments to Brazil totaled US$921.09 million, of which US$602.62 million had been sold, repaid or cancelled. Of the balance of US$318.47 million, US$248.89 million represent loans and US$69.58 million equity. A summary of IFC's investments as of March 31, 1982 is given in Annex II.

Lending Strategy

27. Brazil is now undergoing a difficult adjustment period, in large part due to external events. At the same time, it faces the challenge of developing a longer-term development strategy compatible with lower average economic growth rates and reduced availability of external resources, while satisfying the country's vast unmet social needs. These present and prospective adjustments are being accompanied by complementary changes in the Bank lending strategy for Brazil.

28. In the short-run, the Bank will try to help ease Brazil's current external financing constraint through accelerated resource transfers coupled with support for the major policy changes required by the austerity program and necessary for longer-term growth and lower inflation. In support of these efforts, several modalities of the Bank's Special Action Program, approved by the Executive Directors on February 22, 1983 are being reflected in our operations. These include working capital financing under the recently approved Third Agro-Industries Project, financing of a higher share of project costs during the initial implementation years for the Second Rural Development in the State of Bahia, and greater use and streamlining of the operation of Project Special Accounts into which Bank funds are deposited in advance in order to reduce the need for the Government to prefinance Bank's share of project costs, and which allow disbursements of Bank funds to be made at the exchange rate prevailing on the date of expenditure. A supplemental financing loan for ongoing agricultural and rural development projects is also under discussion with the Government. The proposed industrial export development project and the agricultural credit and export development project presented in this report, are consistent with the Guidelines established under the Special Action Program and have been developed as part of that program.

29. The Bank's longer-run lending strategy is directed toward helping Brazil resume efficient and sustainable growth. One focus of the lending program is on structural transformation and efficient resource use. Expanding export capacity in industry and agriculture will ease the foreign exchange constraint on development while promoting efficiency through exposure to international competition. Several loans to BNDES to strengthen industrial development along these lines have already been made,

and much of Bank-assisted investment in the transport sector--railways, ports and highways--is designed to facilitate the economic flow of exports. Sector loans to industry, envisaging a restructuring of incentive and trade policies in support of Government initiatives, are now being considered. Given agriculture's large potential contribution to export growth and import substitution and poverty alleviation, adjustments in this sector will be crucial to Brazil's transition from stabilization to growth. The steps already initiated to eliminate the subsidy element in rural credit, if continued and complemented by appropriate measures for rationalizing sectoral policies, would permit a major increase in Bank lending for agriculture over the next several years. The proposed project, conditioned upon the elimination of rural credit interest rate subsidies and linked to a joint review of agricultural policies, is expected to be the first in a series of policy-based operations designed to support Brazil's longer-term agricultural and rural development.

30. Another lending priority is the development of domestic energy resources on a cost-effective basis and energy conservation. Lending for the electric power sector, which encouraged the development and use of hydroelectric energy, and the alcohol and biomass energy development project have addressed the need to reduce petroleum imports. Future lending will be based on appropriate pricing of energy, so as to provide incentives to producers and encourage conservation by consumers while reducing government subsidies to the energy sector.

31. A third lending objective in Brazil is to help intensify the efforts of the Government to increase the productivity of the lowest income segments of the population, to broaden the opportunities open to those groups, and to improve their living conditions. Previous loans for nutrition, primary education, vocational training, agricultural research, agricultural extension, polder construction in the lower Sao Francisco river basin, and integrated rural development were designed to assist low-income groups in rural areas, especially those in the Northeast and the Northwest. Loans for water supply and sewerage projects in the state of Minas Gerais, in greater Sao Paulo, in the Northeast and in the South, loans for urban transport in several major cities, a loan for sites and services and low-cost housing, and a loan for urban development in medium-sized cities are assisting the improvement of the living conditions of the urban population, particularly of the urban poor.

32. Institution-building and improving the operations of the public sector remain important components of the Bank strategy for Brazil. The Bank also serves as a catalyst in stimulating the inflow of resources. Continued lending by the Bank in Brazil is regarded by the international financial community as a sign of confidence in Brazil's development prospects. In some sectors, especially in electric power and industry, Bank participation has helped Brazil obtain additional resources in greater amounts from bilateral credit agencies and private financial institutions than may otherwise have been provided. Since 1976 through June 30, 1982, ten co-financing operations for about US$560 million have been arranged and

signed with private financial institutions. Cofinancing opportunities are rather limited in Brazil for the time being, as the volume and terms of commercial bank financing available to Brazil are determined within the framework of the debt rescheduling package. Cofinancing could become more important in future years, however, and the new cofinancing instruments developed by the Bank could play a role in encouraging commercial banks to provide Brazil with additional lending on appropriate terms.

PART III - THE AGRICULTURAL SECTOR

Agriculture in the Economy

33. Brazil's agriculture sector[4/] employs about 36% of the country's economically active population, and contributes about 10% of gross domestic product and half of export earnings. Aggregate agricultural performance has been remarkably good since World War II. With the growth of sectoral value added averaging about 5% per year, agriculture has been a principal earner of foreign exchange at the same time that it has provided raw materials, foodstuffs, savings and labor to urban industry. Agricultural exports, including processed farm products, have grown 17% per year in nominal terms since 1965 and have accounted for two-thirds to three-fourths of total exports through the post-war period. More recently, agriculture has been called upon, in addition to its traditional developmental role, to make a major contribution, through the creation of energy-producing biomass,[5/] to reducing Brazil's heavy dependence on imported petroleum. In addition, the Third National Development Plan (1980-1985) stresses agriculture's importance as a source of new employment opportunities, thus contributing to the relief of both rural and urban poverty.

34. While aggregate agricultural performance has been satisfactory, there have been variations in the relative performances of the major product groups and among the several regions of the country. Most of the output gains, expanded production areas, and increased market integration experienced in the recent past have occurred in the south and Center-West of the country, while the North and Northeast have largely continued to use traditional agricultural practices with rudimentary technology. New investments in agricultural research and special regional development programs should permit a more balanced growth, but a rapid closing of the regional disparities is unlikely.

4/ For further discussion of the agricultural sector, see A Review of Agricultural Policies in Brazil Report 3305-BR of September 11, 1981.

5/ The Bank is participating in this program through Loan 1989-BR, President's Report No. P-3039-BR of April 23, 1981.

35. In the post-war period, the composition of Brazil's agricultural production has undergone a significant transformation. The relative decline of coffee, cotton and the major traditional cereal crops was paralleled by the relative increase of soy beans, followed by wheat, citrus, fruits and vegetables. This transformation mirrors the evolution of export patterns in a sector historically characterized by a series of export "booms," the most recent example being Brazil's success in penetrating world markets for soy beans, poultry and orange juice. These achievements have resulted from sophisticated agricultural research combined with entrepreneurship highly responsive to new technological opportunities. These forces are now turning to new opportunities ranging from non-traditional exports to improvements in food crop productivity that promise further expansion in the sector.

Agricultural Policies

36. Agricultural policies since 1970 have supported the multiple goals of expanding exports of processed and manufactured products while restraining prices of retail foods and of inputs for processing or import substitution activities. Retail food prices have risen little relative to general price levels in this period, while agricultural farmgate prices for many primary agricultural products, at least until 1980, rose considerably. Public policy protected the consumer through an array of retail price controls and subsidies, facilitated by productivity improvements in production, processing and services. Most price controls on agricultural products (except milk and wheat) were removed during the last quarter of 1979, and the minimum price program was revised with the intention of improving farm incentives. A new system of crop credit insurance was introduced, a special plan and incentives for the expansion of alcohol production were put into effect, a reform of land tax legislation was introduced, and increased attention was to be given to investments in infrastructure and research. Since 1980, increases in the prices of some non-export crops have been held below the rate of inflation by a series of indirect interventions designed to protect the urban consumer, constrain urban labor costs and limit overall inflation. The principal direct agricultural price intervention of the Government applies to wheat, for which the Government is the sole importer and purchaser. The wheat subsidy, originally designed to stimulate production expansion to reach self-sufficiency, became a major consumer subsidy, costing Cr$422 billion (about US$2.3 billion equivalent) in 1982. Subsidies for sugar also grew substantially in this period in parallel with the alcohol energy substitution program.

37. To sustain export growth and maximize domestic value added, limitations (export taxes, quotas, quality controls, prohibitions and supply guarantees for local processors) were placed on unprocessed agricultural products while tax exemptions and credit subsidy programs were introduced or expanded for manufactured exports. Exports of unprocessed agricultural products were thus constrained, even though offering in some cases higher economic return, while their financing became almost entirely dependent upon foreign credit lines. These policy actions were consistent with a post-war pattern generally viewed as giving priority to local industry over agriculture.

Agricultural Credit

38. The principal incentives to agriculture have been the provision of credit and the minimum price guarantee program, both at preferential interest rates which were viewed as compensation for an overvaluation of the cruzeiro, the higher input costs associated with an industrial policy of import-substitution, and rising rural wages. These subsidies facilitated shifts in land use and increasing farm mechanization, but they also had other, negative, effects discussed below.

Institutional Framework for Rural Credit

39. Rural credit in Brazil has long been dominated by official, or publicly managed, credit arrangements, in terms of institutions, resources and lending policies, including the obligation to charge officially-mandated interest rates. The rural credit system, as officially defined, is composed of four federal banks (Bank of Brazil (BdB), Bank of the Northeast, Bank of Amazonas, and the National Cooperative Credit Bank), 21 state commercial, savings and development banks and 81 private commercial banks, together comprising more than 8,500 branches. Agricultural credit policy is determined, as are monetary and credit policies generally, by the National Monetary Council, chaired by the Minister of Finance. Control over the execution of policy is vested in the Central Bank.

40. Rural credit is funded through three primary channels. The system is dominated by Bank of Brazil (para 42-44), which has provided more than 65% of total rural credits in each of the last ten years, funded from its "own" resources which originate primarily from the Central Bank through the large floating debt (conta de movimento) the former holds with the latter. Secondly, most regulated financial institutions, particularly commercial banks but recently including investment banks, are obliged to provide rural credits in amounts representing significant shares of their portfolios. The importance of this source of funds has increased from 12% in 1980 to some 28% in 1982, as the Monetary Council has increased the mandatory allocations to rural credit lending. At present, the obligatory rural lending of these institutions equals 25% of their total credit outstanding or 35% of total sight deposits, whichever is larger, and must carry official interest rates. In 1982, commercial and investment banks were also obliged to lend up to 10% and 5%, respectively, of their outstanding portfolios for rural investment credits carrying rates of 100% of monetary correction plus 8% to 12% nominal interest. Finally, about 8% of 1982 credits were provided through Central Bank on-lending (repasse) to public and private commercial banks for the large number of special credit programs for particular regions, groups or activities. These credits are allocated through the Monetary Budget and funded through federal budget transfers, Central Bank advances, monetary emission and external borrowings. Thus, the federal deficit or the money supply absorb the cost of credit subsidies inherent in Central Bank repasse or Bank of Brazil lending, as well as the obligatory subsidies in the rural credit operations of public commercial banks, while the private banks pass on the impact of obligatory subsidized credits through higher interest rates in the unregulated sector.

41. Credit Delivery. In terms of delivery, rather than funding, the official banks, including BdB, provide upwards of 85% of total rural credit. Bank of Brazil's share in investment credit delivery has been increasing as the responsibility for delivery of seasonal credit has been gradually shifted to the private commercial banks. Short-term credits (seasonal and marketing) have represented at least 70% of all private commercial bank lending to agriculture. Bank of Brazil, along with other public banks, has also increasingly assumed much of the responsibility for reaching small and medium producers, who have represented more than two thirds of BdB's rural beneficiaries since 1977. In terms of value, however, credits to small producers have represented less than 20% of total rural credit and in few areas of Brazil do more than one-third of such producers participate in the institutional credit system. Credit has also been concentrated in the more developed center and southern regions of the country, with the North/Northeast regions receiving only 20% of total rural credit.

42. Bank of Brazil. Bank of Brazil is a Monetary Authority, along with the Central Bank. Until 1964, these two institutions were combined within BdB. It is also Brazil's largest commercial bank and ranks as the nineteenth largest commercial bank in the world. Eight-five percent of BdB shares are held by the Government, which also appoints its management, but 15% are held by the public, and BdB shares are among the most actively traded in Brazil. Its total assets at the end of 1982 were US$86 billion equivalent, and equity totalled US$10.6 billion equivalent. Fifty percent of its operations, or approximately US$9.6 billion equivalent in 1982, were in rural credit, followed in importance by export credits. BdB maintains a network of 1,828 agencies and 427 advance rural credit posts in Brazil, through which it tries to achieve the Government objective of bringing banking and public services to the interior of the country. Bank of Brazil's financial statements are presented in Annex IV.

43. BdB continues to perform a variety of services for the Government, from lending for priority activities to administering the export incentive/import drawback program and the rural retirement and savings system. More than 2,000 of its 119 thousand employees are on secondment to state and federal government departments and banks. It is generally considered to have among the best trained and best quality staff of any public organization in Brazil. BdB retains an open non-interest bearing account with the Central Bank, the conta da movimento, which automatically advances funds or creates money, as necessary, to cover BdB's operations. The conta has permitted BdB to steadily expand its subsidized credits and execute the often otherwise unfunded programs in the Monetary Budget. The automatic nature of this account, and BdB's status as a monetary authority, have subjected its operations in recent years to severe credit controls by the Monetary Council. Bank of Brazil has pioneered in the simplification and "debureaucratization" of rural credit in Brazil through the decentralization of operations and management, while keeping credit arrears at levels of 6-9% through effective supervision.

44. Monetary Budget. The monetary budget officially authorizes all operations undertaken or funded by the two Monetary Authorities. Bank of Brazil traditionally executes many non-banking functions as a service to the Government, a role which has actually increased both in relative and absolute terms since 1979. Many of these functions executed by BdB, such as the wheat or petroleum subsidy, are actually fiscal expenditures although they never appear in the fiscal budget. The monetary budget has become an alternative expenditure budget, but without a revenue or deficit constraint, depending upon BdB's money creating powers to fill any resource gap. This practice has accelerated significantly since 1979. In 1980, the total monetary budget equaled 75% of that year's fiscal budget (orcamento da uniao). By 1982, the monetary budget, which totaled Cr$5,411 billion (US$30 billion equivalent), equaled 155% of the fiscal budget. In 1982, only one-third of the expenditures authorized by the monetary budget were actually funded by resources allocated for this purpose; the balance was funded by money emission or credit creation. Almost 80% of the 1982 monetary budget was quasi-fiscal expenditures (intra-Government transfers, rural credit, minimum prices, sugar, wheat, petroleum subsidies, financial expenses of the Treasury). Several major costs implicit in monetary budget operations are not even noted in the monetary budget, particularly the subsidies implied by negative interest rates for authorized credits, further increasing the unacknowledged monetary budget "deficit". This system has made monetary, and therefore inflation, control extremely difficult. Introducing adequate costing and funding arrangements into the monetary budget, particularly the funding of its "fiscal expenditures" from the fiscal budget, to minimize the "monetarization" of these expenditures and credits and to ensure basic financial control, has been a primary concern of the Bank for many years.

Credit Volumes and Subsidies

45. In 1979, a renewed appreciation of agriculture's importance to Brazil's growth was borne out of a heightened sense of vulnerability to external shocks. Support for the sector was expressed in sharply expanded rural credit. Rural credit volumes rose some five times in real terms between 1969 and 1979 as compared to a 2.7 fold increase in the net value added of agricultural output. Although most credits in Brazil's indexed financial system have carried monetary correction linking them to movements in inflation, agricultural interest rates have been set at fixed rates infrequently adjusted and unlinked to monetary correction. In 1969, agricultural interest rates ranged from 14% to 18% in nominal terms, with annual inflation at 20.1%. By 1979, with inflation reaching 77% per year, rural credit interest rates ranged from 7% nominal for special credit programs in the Northeast Region to 13-30% nominal for conventional credits in the Center-South area, depending on loan size. Concurrently, the number of these special credit programs, usually carrying preferential interest rates, multiplied, such that, by 1979, there were at least 170 such programs. By 1980, to constrain the growing cost of the subsidies in the face of accelerating inflation, itself partly fed by the fiscal and monetary impact of these subsidies, the Government slowly began to reduce the real volume of available rural credit. Rural credit interest rates were increased but continued to lag behind inflation.

46. From 1979 to 1982, total rural credit declined in real terms by about 18%. To protect the flow of short-term planting credits, which were considered essential to maintain production levels, these reductions were achieved through drastic restriction in investment credit supplies, which fell by more than 50% in real terms between 1979 and 1982. Seasonal credit continued to expand. In 1979, investment credit represented 42% of recorded agricultural credit, with 40% for seasonal and 18% for short-term marketing (principally minimum price support) credit. By 1982, investment credit had fallen to 27% of the total, seasonal credit representing 50% and marketing credit the remaining 23%. Restrictions finally began also to be imposed on crop production credit in 1982. Also, as noted above, an increasing share of the responsibility for rural credit was shifted from the Bank of Brasil to the private commercial banks in an effort to reduce its monetary impact.

47. Nevertheless, with nominal interest rates ranging from 5% for some special programs in the Northeast to 45% for conventional credits in the Center-South, and inflation at 96.7%, rural credit subsidies expanded further in 1982. Concurrently, free market interest rates, bearing full monetary correction, soared to real levels of 30% to 40% by mid-1982, with some short-term rates reaching annualized levels of 260% or more, due to the combined effect of monetary controls, compulsory lending requirements and inflationary fears.

48. Agricultural marketing credits in Brazil primarily relate to the minimum price program, which provides short-term financing against federally specified minimum prices in the post-harvest period, following repayment of seasonal credit. Such credits are tied to an elaborate series of regulations for participation in the minimum price program which has restricted participation to more sophisticated producers and to processors of the major cash crops (cotton, rice, corn and, particularly, soybeans), although the program covers some 42 commodities. Since 1981, minimum prices, set at planting, have been indexed until harvest. 1982 nominal unindexed interest rates for minimum price credits were fixed at 35% in the North/Northeast and 45% in the rest of the country. Participants in the minimum price program have the option, not only of government-subsidized borrowing against minimum prices, but also of selling their inventory to the Government at the minimum price. Since 1982, crop purchase resources have been increased at the expense of the credit program. 1982 outlays for minimum price program credits totaled some Cr$147 billion (about US$0.8 billion equivalent) and for minimum price program crop purchases some Cr$229 billion (about US$1.3 billion), both funded through the federal monetary budget. BdB was solely responsible for executing the minimum price programs until 1980, when commercial banks were also allowed to offer these services. The Interministerial Working Group on Agricultural Policy (para 63) is presently reviewing the minimum price program for possible improvement and reform.

49. By 1982, nearly 70% of the domestic financial assets of the monetary authorities were earning negative real interest rates. Total rural credit outstanding in 1982 was about Cr$2.7 trillion (US$15.1 billion equivalent). The implicit fiscal cost of all outstanding credit subsidies in the system was in the order of Cr$3 trillion (US$16.7 billion equivalent) or

5.6% of GDP, of which rural credit subsidies were responsible for about two-thirds. As most of this cost was financed through the emission of ORTNs[6] (long-term, interest bearing, fully indexed government obligations), the public sector accounts will long continue to bear the burden of these subsidies.

50. As a result of pressures to satisfy short-term credit requirements while remaining within agreed monetary targets, almost no rural investment credits have been made available so far in 1983 through the Bank of Brazil (BdB) or the repasse system, except through selected special programs. Most commercial bank rural credit has also been concentrated in short-term operations. The impact of the near elimination of investment credit on the development of the agricultural sector has already been felt in the slowing improvement of agricultural productivity.

Recent Agricultural Policy Changes

51. The Government's 1983 austerity program (paras 11-17) has brought with it a series of critical policy changes affecting the agricultural sector. In order to meet absolute quarterly ceilings on the growth of the unified fiscal budget and official borrowings, various subsidies, including the substantial subsidies for wheat, are being drastically reduced.[7] To help meet targeted reductions in the current account deficit and achieve the 1983 trade surplus objective of US$6 billion, long standing taxes on, and limitations to, the export of unprocessed agricultural products have been reduced, relaxing the bias in favor of processing and import substitution while reinforcing the export promotion impact of the February 1983 maxi-devaluation. However, by far the most critical of the policy reforms underway is the phasing out of subsidies in rural credit.

52. In January 1983, the Government increased rural credit interest rates for "normal" credits in the Center-South Region from an unindexed rate of 45% to an indexed rate of 70% of the Consumer Price Index (INPC) plus 5%

6/ Readjusted Obligations of the National Treasury, the primary vehicle for long-term government borrowing and the primary public debt instrument in recent years. The ORTN bond carries the option of inflation or exchange rate correction of the loan principal. Change in the market value of the ORTN bond is therefore generally considered the most reliable index of monetary correction for financial instruments. For fuller discussion of ORTN index and monetary correction, see Staff Appraisal Report, Brazil: Third Agro-Industries Credit Project, Report No. 4363-BR, of April 1, 1983 and Brazil: Financial Systems Review, Report No. 2790a of November 18, 1980.

7/ The 1983 wheat subsidy is budgeted at Cr$346.7 billion (US$0.6 billion), down 75% from its 1982 levels, as a result of 306% increase in retail prices to be achieved by the end of the year.

nominal interest.[8] The INPC was estimated at 78%, and a fixed interest rate determined on the basis of this forecast, yielding an effective interest rate of 60%. Concurrently, the percentage of estimated credit needs of larger farmers to be met from official credit lines carrying these rates was reduced to 50% for large producers and 70% for medium producers, the balance of these borrowers' credit requirements to be met through compulsory rural credits (para 40) from private banks at monetary correction plus 8%. In this manner, the Government hoped to bring the average marginal cost of rural credit in the Center-South, which absorbs 80% of total rural credit, to at least equal actual inflation, in line with a proposal included in Brazil's first Letter of Agreement with the IMF, signed in February 1983. This mechanism sought to satisfy critics of low rural credit interest rates without implying any commitment about future levels of official interest rates, or limits to their fiscal or monetary impact. Volumes of official credit disbursed at the negative interest rates were reduced somewhat. However, inflation soon exceeded the forecasts implied in these new interest rates and the actual savings achieved by these policy changes were small. Nevertheless, this first effort to index rural credit interest rates proved a starting point for further discussion of credit policy reforms.

53. Recent Understandings Reached with the Bank. The rationalization of agricultural credit policies, particularly the phasing out of credit subsidies, has long been a major issue in the Bank's dialogue with Brazilian authorities on agricultural and macroeconomic policies. In 1980, the Bank ceased financing agricultural credit components of new rural development projects and preparing a long-proposed small farmer rural credit project until substantial reductions in credit subsidies could be agreed.

54. In February 1983, discussions were reopened on renewed Bank support for agricultural credit in the context of a timetable for the elimination of subsidies. The agreement now reached, which is the principal basis for the proposed project, provides for achieving full monetary correction for the majority of credits, those provided in the Center-South of Brazil, by July 1985, with parallel movements, as shown below, in the politically more contentious interest rates for the North/Northeast regions, both for normal and special credit programs. The phasing out program provides for adoption of movements in the ORTN index as the monetary correction index for rural credit. The ORTN has traditionally been used as the index of choice for financial obligations. The phasing-out program applies to all three types of rural credit, production (custeio), marketing and investment.

55. The interest rate schedules prevailing in 1982, those adopted in January 1983, and those agreed to date with the Bank, are all shown below. It should be noted that the new rates for rural credits in the Northeast are, for the first time, indexed and linked within a close band to national rates. Further, interest rates for nearly all special programs are being unified at the "normal" regional rates. Special rates remain for only seven special programs, for the particularly disadvantaged Northeast and North regions. These programs (Sertanejo, Polonordeste, Prohidro, Procanor,

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8/ At the same time, rate changes were announced for normal rural in North/Northeast region, to take effect July 1, 1983, raising rates from 35% unindexed to 55% of the INPC, calculated on the ex ante forecasts, plus 5%.

Probor, Proterra and Poloamazonia) represent about US$74 million in rural credit allocations out of the total 1983 rural credit budget of US$6.7 billion and had carried fixed nominal interest rates of 5% to 12% without monetary correction. Under the agreement, financial charges for these programs are being raised to approximately 80% of the phasing out schedule for "normal" credits in the North/Northeast.9/ The increased subsidy resulting from this differential for these six programs is expected to be no more than US$10.5 million equivalent by 1985/86.10/ Concurrently, financial charges for investment credits for amounts greater than US$3,500 equivalent for farm equipment, vehicles, cattle and forestry in all regions have been set at 100% of monetary correction plus a 3% interest rate.

Rural Credit Interest Rate Schedules

Rates Prevailing in 1982

	% Monetary Correction	Interest Rate
Normal credits, North/Northeast	-	35%
Normal credits, other areas	-	45%
Special Programs, North/Northeast	-	5-12%
Special Programs, other areas	-	35%

Rates Announced for January 1983

	% Monetary Correction (INPC) (Calculated *ex ante*)	Interest Rate
Normal credits, North/Northeast	-	35%
Normal credits, other areas	70%	5%
Special Progams, North/Northeast	-	5-12%
Special Programs, other areas	-	35%

9/ For the purposes of rural credits, the North/Northeast region comprises: the legally defined areas of SUDENE (the states of Maranhao, Piaui, Ceara, Rio Grande do Norte, Paraiba, Pernambuco, Alagoas, Sergipe and Bahia) and SUDAM (the legal Amazon, including Amapa, Para, Amazonas, Roraima, Acre, Rondonia, Mato Grosso and the North of Goias), the state of Espirito Santo and the Vale de Jequitinonha in the State of Minas Gerais.

10/ The amount of subsidy obviously varies with inflation, given partial indexation of these rates. This estimate assumes 1982 inflation levels.

Phasing-Out Schedule
Agreed with the Bank

	% Monetary Correction (ORTN, Calculated expost)			
	7/83-6/84	7/84-6/85	7/85-6 6	Interest Rate
Normal credits, North/Northeast	70	80	85	3%
Normal credits, other areas	85	95	100	3%
Special Programs, North/Northeast	70	80	85	3%
Special Programs, other areas	85	95	100	3%
Seven Excepted Special Programs, North/Northeast	55	65	70	3%
Farm equipment, vehicles, cattle, forestry	100	100	100	3%

56. The "phasing-out" interest rate schedule described above was adopted by the Monetary Council on June 9, 1983. At the same meeting, the Northeast, Espirito Santo and Northern municipalities identified by the Ministry of Interior as within the area covered by the "five year drought emergency," were, however, exceptionally authorized to continue to carry, on a temporary basis, 1982 rates for rural credit.[11/] Credits disbursed in these municipalities in 1982 totaled about 11% of national rural credit (i.e., Cr$ 139 billion or US$775 million equivalent). The increased subsidy resulting from excepting these credits from the phasing out for the Northeast is approximately US$295 million equivalent in the 1983/84 crop year. The drought-affected communities will join the phasing-out interest rate schedule, at whatever point it is in the timetable, at the first planting following the first post-drought harvest.

57. This exception for the drought-affected municipalities is an emergency program, which happens to be channeled through the banking system. The banks, which have the widest network of outlets with financial control capabilities, have executed similar programs in the past. Most of the "credits" finance farmer subsistence and small irrigation works. To budget and control these costs more accurately, the Government has agreed that, beginning with the 1984 fiscal and monetary budgets, this subsidy expense will be an explicit line item in the monetary budget and matched with specific transfers from the fiscal budget to the monetary budget sufficient to cover these outlays. For the remainder of 1983, the Government has substantially increased fiscal transfers to levels (Cr$ 2.5 trillion, US$4.1 billion equivalent) more than adequate to cover remaining credit subsidies. With the adoption of these accounting and funding arrangements, this temporary and geographically limited exception is consistent with the overall policy of moving toward the elimination of credit subsidies on a firm timetable.

11/ Carta Circular 901, published July 11, 1983 by the Central Ban
the municipalities experiencing drought emergency conditions.

58. Even with these commitments, normal credits in the North/Northeast region are not scheduled to carry full monetary correction, necesssary to protect at least the principal value of the resources applied, by the end of the phasing-out schedule and will in fact remain 15 percent of monetary correction below the charges prevailing in the rest of Brazil. Therefore, from 1985 until such time as full monetary correction can be introduced, the Government has agreed to budget in both the fiscal and monetary budgets the full cost of this monetary correction differential and to finance this subsidy fully and exclusively from these fiscal budget allocations (Section 4.02c of the draft Loan Agreement). This arrangement will avoid the monetarization of these subsidies and permit budgetary control of their cost. Perhaps more important, this arrangement for the first time makes explicit in the budgeting process the real cost of this preferential treatment, estimated at approximately US$130 million for 1984. Concurrently, a study will be undertaken to determine how these interest rate preferences can be substituted by more effective means of channeling these resources into North/Northeast development, to permit the elimination of these subsidies within a short period. It is the Government's intention to discuss the findings and recommendations of this study no later than June 30, 1984.

59. As part of its recent negotiations with the IMF, the Government has sought to constrain the compounding effect of indexation on accelerating inflation by purging from its indexes the immediate effects of the sudden elimination of subsidies, such as those for wheat, sugar, gasoline and credit. Toward this end, the ORTN index in July will be allowed to increase 4.5% slower than recorded inflation. It is expected that this will be the only such "purge" to affect the ORTN this year. The agreement provides that this index will remain within 90% of actual inflation as measured by the General Price Index over the previous twelve months (Section 5.01f of the draft Loan Agreement). Under these conditions, the risk of further manipulation of the index seems sufficiently limited to not affect the integrity of the phasing-out policy agreement.

60. The Monetary Council also adopted another positive policy change: monetary correction for investment loans will be computed every six months, as will be interest, and both will be capitalized during grace periods. For short-term credits, particularly those for less than six months, monetary correction would now be calculated ex-post at the time of repayments and based on actual inflation in the period. The previous system was based on ex-ante inflation forecasts, which have tended to underestimate real inflation, thus increasing the effective subsidy.

61. The implicit cost of credit subsidies, before and after the phasing-out agreement, are shown in Annex V. These calculations are based on the amounts of actual new rural credit disbursed in 1982 and the 1982 inflation rate of 99.7%. As 1983 inflation is expected to be at least 138%, actual subsidies under either 1982 or phasing-out interest rates would be substantially higher than those calculated for 1982. However, the subsidies would have been much higher under the old, fixed rates than under the new partially indexed rates. Thus, the relative subsidy for 1983/84 would be substantially smaller than that incurred in 1982, although the severe increase in inflation has increased the absolute cost of the remaining interest differential. 1983 credit volumes are likely to be smaller in real

terms. Estimated annual savings due to the phasing out would be in the order of US$2.9 billion equivalent in 1983/84 and US$3.7 billion equivalent by 1985/86, even with the drought exception (see Annex V). The savings in 1983 represent almost 1.0% of forecast GDP. By 1985/86, the total annual fiscal cost of new rural credit subsidies would be US$1.3 billion, even in the unlikely case that the drought continues, as compared with US$5 billion in 1982. Of this total, US$795 million would represent subsidies for credits in the North/Northeast region, including US$636 million for the drought.

62. Agricultural Incentives and Policy Formulation Review. Rural credit subsidies have long been the principal vehicle for stimulating agricultural development in Brazil, while pricing, trade and other decisions affecting the sector were often determined largely in response to short-term macro-economic pressures or the needs of other sectors. An appropriate analytical framework and institutional mechanism which would permit policy-makers to focus on sector economics and efficiency have been lacking within the fragmented policy management structure and rapidly changing economic environment. With the phasing out of the credit subsidies, it becomes essential to remedy any disincentives to agricultural expansion and productivity improvements and to ensure the necessary preconditions for efficient and balanced sectoral development.

63. Toward this end, the Bank and the Brazilian Government with Bank support, has initiated a review of agricultural sector policies and incentives. The study is designed to review the entire framework of agricultural incentives and policy. The critical issues to be examined in the initial phase of this review are: structural reforms needed for the rural financial system; price formation and price intervention policies in agriculture; reassessment of the minimum price system; and comparative advantage and appropriate commercial policies for agriculture. Studies undertaken by Brazilian and Bank-sponsored experts are to be completed in October 1983 resulting in an integrated policy paper. This paper is to be reviewed with the Bank in late 1983, and is expected to influence price, trade and credit policy decisions to be taken in 1984 and thereafter. In the meantime, it is essential that the flow of resources to the sector be maintained at an adequate level to permit it to achieve its contribution to the near-term adjustment process. The proposed project was developed with Brazilian authorities as the most appropriate mechanism to support this objective.

PART IV: THE PROJECT

Introduction and Objectives

64. The purpose of the proposed project is to support Brazil in the adoption of critical reforms in agricultural policies by providing resources which could be quickly disbursed for priority agricultural sector credit on-lending mechanism for investment credit. The project would also support Brazil's agricultural exports by establishing a rediscount system for agricultural export credits and would help to improve agricultural policies, services, institutions and investment planning through a program of studies and technical assistance. These objectives are consistent with the Bank's

strategy for supporting development and attempting to minimize the economic and social cost to countries undertaking structural and policy adjustments in the face of adverse external circumstances. The project is a first step in a long-term cooperative effort to strengthen agricultural sector policy and planning.

65. The proposed project was identified in February 1983. An appraisal mission was conducted in March/April, 1983. Negotiations for the proposed project were held in August 1983. The Brazilian negotiating team was headed by Dr. Marcelo Nonnenberg of SEPLAN. The Loan and Project Summary at the front of this report provides a brief description of the main project characteristics. There is no separate Staff Appraisal Report. Further details on the project are presented in Annexes VI and VII.

Project Description

Project Costs and Financing

66. The proposed Bank loan of US$303.0 million would support the following activities:

(a) US$100 million would support the establishment of a general agricultural investment credit line (Pro-Invest) in the Central Bank (Part A of the Project);

(b) US$200 million would help establish a revolving fund, Pro-Export, to rediscount prefinancing credits for exporters of agricultural and agro-industrial products (Part B of the project);

(c) US$2,240,000 would finance studies, consultancies and other technical assistance for the review and improvement of agricultural policies (Part C of the project); and

(d) the remaining US$760,000 would represent the capitalized front-end fee on the loan.

67. The total cost of activities (a) and (b), based on prevailing credit ceilings and lending policies, plus the estimated cost of (c) and (d), is expected to be about US$990 million. Activity (a) would have a total cost of US$415 million for rural investments. Taxes equivalent on the items expected to be financed in this credit program are negligible, as farm equipment and implements are almost entirely exempt from both federal and state tax in Brazil. Total costs are presented in the Summary, page ii.

68. The proposed loan would cover the entire foreign exchange component of US$51.5 million, including US$.8 million for the capitalized front-end fee, along with US$251.5 million in local costs. This local cost element includes US$200 million for Pro-Export, to cover working capital needs of exporters.

69. Retroactive financing of up to US$30 million equivalent would be permitted to reimburse 30% of Pro-Invest subloans committed and disbursed under the phasing-out lending terms from August 11, 1983, the date of publication of Central Bank Circular No. 809, regulating Pro-Invest. This circular was reviewed by, and is acceptable to, the Bank.

70. The following table provides a summary of project cost and financing estimates. The Bank loan would represent about 31% of total estimated project costs.

Project Cost and Financing Plan
(in US$ million equivalent)

	Bank	Central Bank/ Monetary Budget	Commercial Banks	Beneficiaries	Totals
A-Rural Investment Credit	100.0	200.0	0	115.0	415.0
B-Export Pre-Finance	200.0	0	372.0	NA	572.0
C-Studies/Technical Assistance	2.240	0	0	0	2.240
Front-end Fee	0.760	0	NA	NA	0.760
Total	303.0	200.0	372.0	115.0	990.0
Shares of Financing	30.6	20.2	37.6	11.6%	100%

The Government would be the borrower and would assume the exchange risk on all but Part B of the Project, for which the final borrower would assume any US dollar/cruzeiro exchange risk and the participating commercial bank would assume any third currency exchange risk (as explained in para 85 and Annex VII).

Rural Credit Component

71. US$100 million under the project would be allocated to reimburse one-third of the rural investment credits committed and disbursed by Pro-Invest, under conditions and regulations, specifically including the interest rate arrangements discussed in para 55, agreed with the Bank (Sections 4.02 and Schedule of the draft Project Agreement). Pro-Invest was established by the Monetary Council on June 9, 1983, as a separate repasse credit line in the Central Bank under the General Fund for Agriculture and Industry (FUNAGRI) in the annual monetary budget. In establishing this credit line, the Monetary Council has transferred to Pro-Invest as lending resources Cr$150 billion (approximately US$300 million equivalent) in investment credit resources allocated to Bank of Brazil in the 1983 Monetary Budget but unutilized due to the current restraints on BdB's operations as a monetary authority. It appears that Pro-Invest will represent almost the entirety of the rural investment resources available in Brazil for 1983.

72. Financing would be available through all banks participating in the rural credit system (see para 39). The resources in Pro-Invest will initially be allocated among these banks according to their recent patterns of rural investment credit lending activity. The allocations proposed will be reviewed with the Bank. Further allocations would reflect the speed of

the respective institutions in their use of these funds, so that all institutions which could efficiently utilize these resources will have access to them. Pro-Invest will follow usual <u>repasse</u> (on-lending) procedures: the Central Bank will authorize each participating bank to commit and disburse credits for authorized purposes, for refinancing by the Central Bank, against reimbursement requests submitted periodically by the banks. In the case of Pro-Invest, such requests would be submitted weekly and also serve as disbursement requests to the Bank.

73. The proceeds of Part A of the loan would be made available by the Government to the Central Bank for Pro-Invest at the same terms as those on which the Central Bank is to on-lend the funds minus a 4% spread to be paid to the participating banks on the loans disbursed. The entire cost of any differential between the cost of Bank funds to the Government and the Central Bank on-lending terms would be absorbed by the Government (Section 3.01f of the draft Loan Agreement). The Central Bank would require no spread on these loans. Participating banks would assume the credit risk. Credit procedures would be consistent with those specified in the Rural Credit Manual (MCR).

74. <u>Rural Investment Component Management</u>. Part A of the project would be managed by the Rural Credit Department of the Central Bank. The Department's responsibilities in the project are essentially those of allocating and collecting funds, monitoring disbursements and data collection, tasks fully consistent with their responsibilities for the last 15 years and of which they are fully capable. The Central Bank and BdB will follow their standard field inspection procedures, which are considered adequate to ensure that subloans are used for the purposes agreed.

75. <u>Subloans Characteristics and Impact</u>. As specified in the Pro-Invest Circular, which has been reviewed and agreed with the Bank and published August 11, 1983, (Section 2.01d,i, and Schedule B of the draft Project Agreement), Pro-Invest subloans would finance 100% of proposed total investment costs for small producers, 70% of proposed total investment costs for medium producers and 50% for large producers, using the definitions of producer size specified in the MCR. For equipment and other loan categories carrying 100% monetary correction, however, Pro-Invest would finance 90% of investment costs for medium and large producers. For irrigation and land reclamation investments, consistent with the national PRO-VARZEAS and PROFIR programs, Pro-Invest would finance 80% of investment costs for medium and large producers. Maximum subloan amount for equipment credits would be US$200,000, except where an integrated package of varied heavy equipment for a single farm is purchased, in which case the ceiling would be US$400,000. Relatively few such packages are expected. In exceptional cases, after consultation with the Central Bank and the Bank, larger loans may be considered. No beneficiary could have more than one subloan outstanding from Pro-Invest at any given time. A summary of these on-lending and eligibility conditions and loan maturities are presented in Annex VI. These arrangements, while still complex, represent a substantial simplification and standardization of current requirements which differ widely by loan purpose, beneficiary and funding source.

76. Given the absence of almost any rural investment credit resources for any purpose for several years, and the excessive multiplication of

special purpose credit lines, it has been agreed that Pro-Invest should be open to any type of rural investment credit authorized by the Rural Credit Manual (MCR). It is impossible, therefore, at this time to forecast precisely the types of rural investments for which the subloans will be used. Nor is any a priori allocation of credits by purpose proposed, to permit flexible response to market demand. However, the Government has given priority to, and expects demand to be concentrated in, the categories of farm equipment, land clearing, soil amendment, soil erosion control and land reclamation, for which resources have been particularly scarce in recent years and for which substantial unsatisfied demand has developed. Substantial potentially attractive investments requiring land clearing financing have been initiated but are delayed by scarcity of appropriate credits. Brazil's stock of farm equipment has not been significantly renewed or upgraded for several years. Soil amendment and erosion control investments in the Center-South and frontier regions, as well as the North and Northeast states, are of critical importance to maintaining, as well as expanding, Brazil's agricultural production, particularly in light of severe recent floods in southern Brazil's prime production areas.

77. Pro-Invest, a permanent revolving fund for rural investment credit, would be expected to finance about 4,500 subloans of an average size of about US$65,000 for investment operations of an average cost of about US$90,000. It is assumed that 10% of the volume of the credit line would finance small producers; 40%, equipment for medium and large producers; and 50%, miscellaneous on-farm investments, half of it for medium producers and half for large producers.

78. Subloan Appraisal Standards. The MCR, including the Circular describing Pro-Invest, defines the eligibility and financing conditions for each of the several types of rural investment credits. Within this framework, the participating banks, which assume the credit risk on these loans, determine their own appraisal standards. As most of the authorized investment transactions are quite traditional and straightforward, with well established lending criteria common among most Brazilian financial institutions, project appraisal quality is expected to be satisfactory. The Bank has worked closely in its rural development and agro-industry projects with the institutions likely to utilize the majority of Pro-Invest resources, including Bank of Brazil, the state and regional financial institutions and the major private commercial banks, and considers their loan processing and appraisal procedures and capabilities satisfactory.

79. Given the extremely low level of agricultural investment in recent years, it is reasonable to assume that the marginal rate of return on the subloans to be financed out of this relatively small fund would be substantial. To ensure that Pro-Invest funds are used for sound investments, the Pro-Invest Circular sets a minimum standard of real financial rates of returns of 12% (Schedule of the draft Project Agreement) for these investments by medium and large producers. It is not intended in this operation, nor is it considered appropriate, to request the participating banks to calculate economic rates of return on these transactions. There is every reason to expect that economic returns to these investments would be substantially higher than the financial returns. At present, the most important remaining economic distortion is perhaps over-priced labor,

accompanied by high levels of unemployment. Foreign exchange is not expected to be seriously overvalued during the disbursement period. Recent Government policy adjustments have eliminated most other distortions. Consideration of economic costs for labor in sub-project analysis would only improve upon the 12% minimum financial rate of return required.

80. Review Procedures. It is not the practice of the Central Bank to request prior review of repasse subloans. The Rural Credit Department has no capacity for such review, and the development of such capacity at this time, while overall rural credit financing arrangements are being reviewed, does not appear appropriate. Nor does Bank review of numerous, relatively small loan proposals to purchase standard packages of farm equipment, to clear land or add nutrients, appear justified. The Central Bank would, however, collect as standard data from each bank, along with disbursement data, data on the purpose and financial rate of return for each subloan (Section 2.01f of the draft Project Agreement). Such information would be sent to the Bank monthly for subloans greater than US$$200,000. In addition, supervision missions would undertake spot checks of subprojects in the field. The Bank would moreover be consulted on any equipment loan in excess of US$400,000 equivalent (Schedule of the draft Project Agreement).

Agricultural Export Pre-Financing

81. The primary instrument for working capital financing to exporters in Brazil is the export contract advance (adiantamento sobre contrato de cambio), commonly referred to as an ACC. An ACC is a discounted export receivable, roughly comparable to the transaction underlying a bankers acceptance, with a maximum maturity of 390 days but an average maturity of typically no more than 90 days. While industrial exports benefit from a wide array of special credit arrangements, agricultural exports, and most agro-industrial exports, have been financed mainly through commercial credit lines. However, since export contracts are typically denominated in the currency of the contract of payment, usually US dollars, and therefore carry exchange exposure (see para 85), such financing has relied on often undependable foreign credit lines or Central Bank exchange coverage. A sizable funding gap in these resources is threatening to undermine Brazil's export capability at the time when it is most essential for financial stabilization. The market for domestic financial resources to support these exports also has been quite thin and variable. Strengthening and stabilizing the financial arrangements for these exports, perhaps as a prelude to the eventual creation of an internal banker's acceptance market, is important for the maintenance of Brazil's agricultural exports and development of their growth potential. The credit market for agricultural exports is described in more detail in Annex VII.

83. US$200 million of the proceeds of the loan would be made available, at the Bank's standard terms, to the Central Bank for the Agricultural Export Pre-Financing Facility (Pro-Export) which would reimburse up to 35% of commercial banks' ACCs for exports of agricultural and agro-industrial products. The entire counterpart for this loan allocation would be provided by the eligible financial operations of the participating commercial banks. No Central Bank or other Government resources would be involved in

Pro-Export. Pro-Export would be established by vote of the Monetary Council. Beneficiaries would be agricultural producers, processors or traders.

84. The rediscount facility would be a permanent revolving fund, continually replenished by repayments and fees and maintained in US dollars. In operating Pro-Export, no disbursement will be made for transactions that at any point exceed 35% of the total value of eligible transactions, as explained in Annex VII. An eligible transaction would be any ACC supported by an export contract for an agricultural or agro-industrial product. Following current standard practice, an ACC could finance up to 100% of such contracts. Formal establishment of Pro-Export in the Central Bank and receipt by the Bank of satisfactory guidelines for the facility, specifying arrangements for operation in conformity with this rule, including norms for proposed accounting and control systems, would be a condition for Board Presentation (Section 2.01c of the draft Project Agreement). It is expected that the disbursement of the Bank loan allocation for the first revolution of Pro-Export would be completed satisfactorily within 45 days of loan effectiveness, after which it would revolve for the agreed purposes as resources become available from repayments.

85. An ACC advance is a foreign exchange transaction for the commercial bank which executes the operation. A conventional ACC represents three separate transactions for the bank. The first transaction, with the exporter, is:

- buy US$ forward (the export contract, which is endorsed over to the commercial bank), selling Cr$ spot (the advance, made in cruzeiros), at the prevailing exchange rate.

In Brazil, as in most countries, commercial banks are not allowed to maintain uncovered foreign exchange positions, to discourage currency speculation. The above transaction created an exposed US$ "bought" position for the bank, which it must cover by the end of the day, in currency if not in maturity, but "selling" US$. The bank must also raise Cr$ to fund the ACC it has authorized. Since the bank does not have in hand these US$, and the interbank currency market is only a spot market by law, also to avoid speculation by financial institutions, the bank must seek a foreign credit line to provide US$ spot in exchange for the export contract, a forward asset. The second transaction is therefore:

- borrow US$ spot from a foreign credit line, to be repaid with the proceeds of the export contract, when realized.

With these US$ spot in hand, the bank can then complete the transaction:

- sell US$ spot on the interbank market, for Cr$ spot to fund the ACC.

This last transaction covers the bank's US$ bought exposure, in currency if not in maturity. The commercial bank assumes the inter-maturity US$ exchange risk in its foreign credit line transaction, although with the current crawling peg system this risk is negligible. The last transaction also provided the Cr$ for the ACC. Thus, the export pre-financing system is dependent on foreign credit lines, or some other mechanism to provide Cr$ spot for forward US$ exposure. A funding gap of at least US$2 billion, and possibly as high as US$3.5 billion, is projected in foreign credit lines to cover 1983-84 exports, 60% of which would finance agricultural or agro-industrial products.[12/] The proposed component would help fill this gap, serving the purpose of both the foreign credit line and the interbank market, selling the bank dollars "spot" and immediately converting these into cruzeiros. The ACC transactions which will be financed by the commercial banks as counterpart to Pro-Export will be financed in the conventional manner, with existing foreign credit lines and the interbank market. In both cases, the proceeds of the export sale will be paid directly in foreign exchange to the commercial banks through their foreign correspondent banks. For the proposed component, the commercial bank would be obligated to repay the Central Bank from these proceeds, but in US dollars. Thus, if the currency of the export contract is other than US dollars, the commerical bank would assume this exchange risk. If the export sale is not realized, the borrower (exporter) must cover the commercial bank's resulting exchange imbalance, which usually means providing cruzeiros sufficient to buy US dollars on the spot interbank market at the then current exchange rate.

86. Resources in Pro-Export would be on-lent by the Central Bank at a fixed rate based on the 180-day London Interbank (LIBOR) Rate posted by the Central Bank two days prior to the respective rediscount transaction. The Central Bank will receive a 0.25% spread over the applicable LIBOR Rate on each transaction to cover the costs of administering Pro-Export. The final rate to beneficiaries would be market-determined. Terms and conditions for these on-lending arrangements are reflected in Schedule A to the draft Project Agreement.

87. The resources in the facility would be allocated daily among the 84 banks eligible to conduct foreign exchange transactions. This allocation arrangement is essential to permit the banks to manage their currency and credit exposures. These allocations would be reviewed regularly to reflect market demand and experience. This allocation mechanism, already well defined, is explained in Annex VII.

88. Subloan Characteristics and Impact. It is estimated that Pro-Export would directly finance an additional US$600 million per year in agricultural and agro-industrial exports, assuming an average financing of 100% of contracted value, with three revolutions per year and an average maturity of 90 days. Even more importantly, the facility is expected to induce a larger number of local financial institutions to enter this market,

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12/ Brazil has interbank trade credit commitments of about US$10 billion, with half earmarked to finance imports. Assuming about 2.5 revolutions annually (3 for agricultural products, 2.5 for manufactured products), this US$5 million would finance about US$13 billion of Brazil's average US$22 billion in exports, leaving a funding gap of up to US$3.5 billion for 1983/84. The Central Bank estimates the final funding gap at about US$2 billion, expecting more efficient use of available resources and higher Central Bank exchange coverage from its limited available reserves.

providing at least 65% of total financing against Pro-Export's 35% direct contribution, as a condition for refinancing. Thus, Pro-Export should indirectly stimulate financing of a further US$1.1 billion in exports. It cannot be accurately estimated at this time specifically which of Brazil's agricultural or agro-industrial exports are likely to be submitted for financing by the facility. Periodic Central Bank reports should provide sufficient data to assess its impact (para 100).

89. Pro-Export Management. Part B of the project would be managed by the Exchange Department of the Central Bank, whose staff have been involved in the design of Pro-Export, and who are fully competent.

90. Subloan Appraisal and Review. Detailed criteria for financing of ACCs are defined in numerous Central Bank manuals and are acceptable. ACC financing is a traditional Brazilian commercial banking activity, in which all the 84 banks eligible to conduct these transactions are well-experienced and in the supervision of which the Central Bank has developed substantial expertise. The existing procedures, together with those proposed for Pro-Export, are considered adequate. No prior Bank review of these transactions, for which rapid disbursement is expected, is proposed. Regular Central Bank reports to be submitted with disbursement requests for Pro-Export would indicate the product financed, export arrangement, subloan terms and other data as mutually agreed.

91. The adequacy of Pro-Export's on-lending interest rates (in the light of movements in comparable international market and domestic rates) and other terms and conditions of the facility and the performance of Pro-Export in subsequent rotations would be reviewed with the Bank at least bi-annually, to identify any required adjustments (Section 2.03a of the draft Project Agreement). In the course of these consultations, but within three years from the date of loan singature, when it is agreed that the Government can maintain Pro-Export with its own resources, the allocation for Pro-Export under the loan would be transferred to the support of rural investment credit, under terms and conditions acceptable to the Bank and similar to those of Pro-Invest (Sections 3.02(iv) of the draft Loan Agreement and 2.03a of the draft Project Agreement).

Studies and Technical Assistance Component

92. The Brazilian Government with the assistance of the Bank has initiated a multi-phase work program to review and strengthen agricultural policies and planning (paras 62-63). The first part of this work program, to be completed in November 1983, is focusing on the urgent macro-economic issues of credit, pricing and trade policies. Part C of the project, representing US$2,240,000 of the proceeds of the loan, would finance up to 100% of the costs of studies, technical assistance and foreign and local consultancies for the second phase of this work program, covering a period of up to 18 months. This phase of the program would seek to develop a longer term planning and policy framework for the agricultural sector, to strengthen policy making and planning capacity, to review certain priority sub-sector issues related to future investments and to support longer-term investment planning for the sector.

93. Management. Part C of the project would be managed by the Secretariat of Planning of the Presidency (SEPLAN-PR). SEPLAN is now managing Phase I of the joint Policy Review which has been progressing quite satisfactorily. SEPLAN would create a working group and name an overall coordinator for the work, in consultation with the Bank (Section 3.01d of the draft Loan Agreement). Terms of reference for all activities under this component would be reviewed and approved by the Bank prior to their undertaking. The Government would afford the Bank a reasonable opportunity for reviewing and commenting on the conclusions and recommendations of these studies and exchange views with the Bank on its plans for implementing study conclusions and recommendations (Section 3.01e of the draft Loan Agreement).

94. This component would also include a substantial institution-building program for agricultural sector institutions, in the form of technical assistance (including consultants' fees, travel, training and support services) to both reinforce policy formulation, planning, management and implementation capacity in the sector and to improve essential public agricultural services.

95. This component would be organized as a series of quarterly agricultural policy and planning consultations, to be managed by SEPLAN and to which the timetable for review of study findings and milestone reports would be linked. Study outputs or progress reports are expected to be scheduled in three, six and twelve-month phases. As initial findings are examined, subsequent studies and issues and technical assistance needs will be defined and agreed. In this manner, by October 31, 1984, terms of reference for all the activities to be financed out of this component are expected to have been defined (Section 3.01f of the draft Loan Agreement).

96. The estimated cost of this program of studies is estimated at US$2 million, and is expected to require 180 staff-months of consultant services and technical assistance and the cost of local transportation, technicians and some other minor items. The average staff-month cost (including individual's fees, international travel and local allowances) is US$8,250; the average local manmonth cost is US$3,500 and the average foreign staff-month cost is US$13,000. The foreign input would provide for international experts in such areas as agricultural planning and modeling, and commodity market management as well as various sub-sector specialities.

97. The loan allocation for the policy review program is based on the preliminary estimates of the costs of undertaking a series of major sector studies, which would include the following subjects:

(a) formulation of a general model for the agricultural sector in Brazil;

(b) price stabilization policies;

(c) agricultural planning and development strategy for the medium term;

(d) coordination of agricultural policy formulation, policy management, planning and related institutional issues;

(e) integration of regional and national sector development strategies and policies;

(f) expansion of the agricultural frontier;

(g) marketing of agricultural products;

(h) agricultural technology and factor use;

(i) integration of production and resource conservation policies; and

(j) development of an agricultural data base.

Detailed budgeted proposals, representing approximately US$750,000, have been presented for these studies and are being reviewed. Approximately US$1.3 million remains to finance further studies and technical assistance, to be agreed in the course of the project.

98. The Government would be authorized to contract with the Research Institute (INPES) of SEPLAN and the Agricultural Research Enterprise (EMBRAPA) of the Ministry of Agriculture to conduct specific studies or perform specific services (i.e., administrative or support services, data processing) for a fee under this component. Both of these institutions are budgetarily autonomous (EMBRAPA has already been the borrower for two Bank loans) and have a history of undertaking contract research. Moreover, they have the most suitable staff for several of the proposed studies (e.g., formulation of general model, development of agricultural data base, integration of production and conservation policies). Utilizing and enhancing the expertise of these institutions in these areas would help to strengthen overall agricultural policy-making and planning. Other similar institutions which strictly meet these standards may also be considered for specific studies to be financed under the component, after consultation with the Bank.

99. About US$200,000 of the proceeds of this component would support the creation of an agricultural section under the National Economic Research Program (PNPE), to finance economic research projects relating to agricultural policy. The PNPE is the major source of funding for advanced academic research work in economics in Brazil. Although the program is administered by INPES, selection of research projects is made by a panel of Brazil's most respected university economists and carries a great deal of prestige and recognition. It is expected that this research program would stimulate a substantial broadening of interest in the sector among Brazil's professional economists and promising students. It is estimated that this allocation could support five awards a year, at an average cost of US$15-20,000 equivalent. PNPE funds would supplement and complement Bank funds where necessary and could maintain this support after Bank financing ceases. PNPE currently supports twelve projects per year in its overall competition covering all fields of economics. The administration of this sub-program would follow current arrangements for PNPE awards, which are acceptable.

Project Reporting, Audit, Procurement and Disbursement Arrangements

100. Reporting. The Central Bank would submit to the Bank quarterly reports for the first 12 months, and semi-annual reports thereafter, on the utilization of funds in both Parts A and B of the project by the participating banks and subloan beneficiaries, and the status of respective subloan principal and interest payments. Progress reviews under Part C of the project would be conducted quarterly with SEPLAN (Section 2.02 of the draft Project Agreement and Section 3.02 of the draft Loan Agreement).

101. Auditing. The Central Bank would cause the project account and the accounts of the funds established in Parts A and B of the project to be audited annually by an independent auditor of the National Monetary Council and would, promptly after the audit and not later than four months after the close of its fiscal year, transmit to the Bank certified copies of the accounts, together with a certified copy of the auditors' report, including a description of the audit procedures. The participating banks would have their accounts audited by independent professional auditors. Copies of the annual accounts of the participating banks, together with the auditors' opinion, would be submitted to the Central Bank, within six months after the end of each financial year. The independent auditors engaged by participating banks would, during the course of their annual audits, carry out selected checks of the implementation of internal controls over project transactions. The checks would specifically include, in the case of participating banks, the preparation of statements of expenditure supporting disbursement requests.

102. Procurement. Considering that rural investment credit would be disbursed mainly in small, disparate and dispersed subloans, that local trade channels are relatively competitive and that most major foreign manufacturers are represented in Brazil, procurement under Part A of the project would be in accordance with standard practice for agricultural credit loans and would follow normal local commercial practice. Three quotations would be sought in purchase of equipment generally. In those cases, expected to be few, in which loans for equipment exceed US$400,000, agreement with the Bank on procurement arrangements would be required. Procurement arrangements are not a relevant concern for Part B of the loans as loan resources are intended to finance export working capital operations, which would not involve procurement of new goods and services with the proceeds of the loan. Consultant recruitment for the agricultural policy reviews under Part C of the project would be in accordance with standard Bank Guidelines for the Use of Consultants of August 1981.

103. Disbursements. The proceeds of the loan would be disbursed as follows: (a) one-third of the Central Bank's disbursements for Pro-Invest (30% of disbursements made before loan signature and 35% of disbursements made after loan signature); (b) 100% of the disbursements made by Pro-Export, but totaling no more than 35% of the eligible credits made by participating banks individually; (c) 100% of the cost of consultants and contract researchers, including fees, salaries, travel, services and equipment for agreed studies and technical assistance. Full documentation to evidence eligible expenditures would be required for Bank disbursements under

Part C. All other disbusements would be made against statements of expenditure. The statements of expenditure submitted by the Central Bank to the Bank, and by the participating banks to the Central Bank, along with the internal controls and procedures involved in their preparation, would be covered by project auditing arrangements. Supporting documentation would be retained by the banks and would be available for review by Bank supervision missions (Section 2.01 of draft Loan Agreement).

104. Based on estimated rural investment financing requirements for 1983, and the scarcity of alternative sources of funds, it is expected that most of Pro-Invest resources (Part A) would be disbursed within a period of twelve months after loan effectiveness (expected in the first quarter of FY84). Resources for Part B of the loan would be disbursed within 45 days of effectiveness. Resources under Part C of the loan are expected to be disbursed within 24 months of effectiveness. Up to US$30 million of the proceeds of the loan may be disbursed retroactively to reimburse Pro-Invest subloans (para 69).

105. In order to reduce the interval during which the Central Bank finances the Bank's share of project costs with its own resources, the Government may request the Bank to make advance payments into two Special Accounts in the Central Bank, a Pro-Export account and a conventional Special Account for Parts A and C of the project. The initial deposits to these accounts would be US$90 million and US$30 million, respectively. The Central Bank would be entitled to make withdrawals from these accounts at the exchange rate applicable on the day it disbursed its funds (Schedule of the draft Loan Agreement). This large amount of initial deposit into Pro-Export is necessitated by the speed with which the export facility is expected to be disbursed. The Bank would replenish these accounts on the basis of withdrawal applications forwarded by the Central Bank. Shortly before Board Presentation, disbursement arrangements and documentation would be reviewed on site by appropriate Bank staff.

106. Annex VIII provides the estimated schedule of loan disbursements. Since a majority of loan funds would be disbursed for short-term working capital financing for exporters, and a substantial amount of rural credit is expected to be disbursed retroactively, the estimates of disbursement periods used as a basis for the disbursement projection in Annex VIII differs considerably from the Bank's standard agricultural credit disbursement profile.

Project Benefits and Risks

107. The major benefit of the project is to provide immediate support to Brazil in undertaking critical policy reforms during a very difficult period. The preparation of this project has initiated a dialogue on the entire range of agricultural policy issues which should have a lasting impact on sectoral development and efficiency.

108. The annual fiscal savings achieved by the agreed phasing-out of agricultural credit subsidies are approximately US$2.9 billion equivalent in the first year of the three-year phasing-out program and US$4.1 billion by the third year. In addition to this major macro-economic benefit, the

expectation that rural credit will carry positive real interest rates is already intensifying concern for agricultural efficiency and productivity at all levels of the sector.

109. The project itself would support about US$360 million in productive agricultural investments, and an annual expansion of agricultural exports in excess of US$600 million. The project should have a lasting impact on the local financial market for agricultural exports, inducing an expansion of these services equal to several times Pro-Export's allocation in this loan, through the creation of a permanent rediscount fund for this purpose.

110. The project thus yields significant direct productive benefits while contributing to improving the long-term policy environment for agricultural development in Brazil.

Risks

111. The main project risk is that political pressure and accelerating recession could undermine the commitment to phase-out agricultural credit subsidies. The announced rates might be changed, or the monetary correction index might be manipulated, either to restrain inflation or to hold down interest rates. The Bank would quickly become aware of either action through its various operations and continuing policy and economic discussions with the Government. The monetary correction index would be monitored under the project to ensure it adjusts in close relation to actual inflation (para 59). Moreover, the Government is anxious to constrain the fiscal cost of the credit subsidies which, it is widely realized, cannot possibly continue at anywhere near the present scale. Past attempts to manipulate the monetary correction index have proven to be counterproductive, undermining confidence in the financial markets and increasing nominal interest rates. Thus, the probability of actions which would undermine the subsidy reductions in a significant manner is small.

112. There is risk that the investment credit component will disburse more slowly than expected if the recession worsens. Moreover, the introduction of higher and variable interest rates for rural credit is expected to discourage credit demand as farmers adjust to the new system. However, Pro-Invest is still expected to disburse within the time horizon allowed, as these resources are really quite limited in comparison with the scale of Brazil's agricultural sector, and similar investment credit resources have not been available for nearly three years to complete and maintain prior investment commitments or to implement essential productivity improvements. There is a small probability of any delay in disbursement of the export financing component because such resources are also scarce and represent a relatively small share of the overall market for these funds.

113. The Government is, however, deeply concerned with the risk that this sudden increase in interest rates will lead to a dramatic decline in production and an increase in food prices, undermining its efforts to constrain inflation and increase exports. Concern for this risk was the impetus for the urgent study, being undertaken with Bank participation (para 63), to formulate alternative, more efficient, production incentives through pricing and trade policies. Results of this study are expected to be in place by early 1984. Within this context, overall project risks are considered manageable and limited.

PART V - LEGAL INSTRUMENTS AND AUTHORITY

114. The draft Loan Agreement between the Federative Republic of Brazil and the Bank, the draft Project Agreement between the Central Bank and the Bank, the Report of the Committee provided for in Article III, Section 4(iii) of the Articles of Agreement, and the draft Resolution approving the proposed loan, are being distributed to the Executive Directors separately.

PART VI - RECOMMENDATION

115. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank.

116. I recommend that the Executive Directors approve the proposed loan.

A.W. Clausen
President

Attachments
September 15, 1983
Washington, D.C.

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 & CARIB	MIDDLE INCOME EUROPE
AREA (THOUSAND SQ. KM)					
TOTAL	8512.0	8512.0	8512.0	.	.
AGRICULTURAL	1621.3	1981.2	2209.5	.	.
GNP PER CAPITA (US$)	330.0	610.0	2220.0	2088.2	2453.6
ENERGY CONSUMPTION PER CAPITA (KILOGRAMS OF COAL EQUIVALENT)	385.0	577.0	1102.0	1407.6	1580.8
POPULATION AND VITAL STATISTICS					
POPULATION, MID-YEAR (THOUSANDS)	72594.0	95847.0	120507.0	.	.
URBAN POPULATION (% OF TOTAL)	46.1	55.9	68.2	65.9	47.8
POPULATION PROJECTIONS					
POPULATION IN YEAR 2000 (MILL)			176.7	.	.
STATIONARY POPULATION (MILL)			299.0	.	.
YEAR STATIONARY POP. REACHED			2110	.	.
POPULATION DENSITY					
PER SQ. KM.	8.5	11.3	13.9	35.6	82.0
PER SQ. KM. AGRI. LAND	44.8	48.4	53.6	93.2	157.2
POPULATION AGE STRUCTURE (%)					
0-14 YRS	43.6	42.7	41.1	40.1	31.9
15-64 YRS	53.8	54.3	55.4	55.8	60.9
65 AND ABOVE	2.6	3.1	3.5	4.1	7.2
POPULATION GROWTH RATE (%)					
TOTAL	3.1	2.8	2.1	2.3	1.6
URBAN	5.5	4.7	3.9	3.7	3.4
CRUDE BIRTH RATE (PER THOUS)	42.7	35.0	30.5	31.5	25.0
CRUDE DEATH RATE (PER THOUS)	12.9	10.3	8.2	8.1	9.1
GROSS REPRODUCTION RATE	3.0	2.4	1.9	2.0	1.7
FAMILY PLANNING					
ACCEPTORS, ANNUAL (THOUS)	..	111.0	203.6/c	.	.
USERS (% OF MARRIED WOMEN)	..	..	..	..	..
FOOD AND NUTRITION					
INDEX OF FOOD PROD. PER CAPITA (1969-71=100)	89.0	102.0	128.0	113.0	108.4
PER CAPITA SUPPLY OF					
CALORIES (% OF REQUIREMENTS)	106.0	104.0	109.0	111.3	129.6
PROTEINS (GRAMS PER DAY)	64.0	62.0	61.0	67.9	92.3
OF WHICH ANIMAL AND PULSE	35.0	34.0	36.0/d	34.1	34.6
CHILD (AGES 1-4) DEATH RATE	19.4	12.5	6.9	5.3	10.4
HEALTH					
LIFE EXPECT. AT BIRTH (YEARS)	54.7	58.9	63.6	64.6	67.2
INFANT MORT. RATE (PER THOUS)	118.2	98.6	75.4	62.6	71.4
ACCESS TO SAFE WATER (%POP)					
TOTAL	..	55.0	77.1/e	64.8	..
URBAN	..	78.0	88.8/e	77.8	..
RURAL	..	28.0	56.8/e	44.3	..
ACCESS TO EXCRETA DISPOSAL (% OF POPULATION)					
TOTAL	..	58.0	64.8/e	54.6	..
URBAN	..	85.0	83.7/e	69.8	..
RURAL	..	24.0	31.7/e	29.8	..
POPULATION PER PHYSICIAN	2670.0	2130.0	1700.0/f	1776.0	1094.8
POP. PER NURSING PERSON	2810.0	1120.0	820.0/f	1012.2	762.5
POP. PER HOSPITAL BED					
TOTAL	310.0	270.0	250.0/e	477.0	334.0
URBAN	260.0	320.0	..	667.5	216.0
RURAL	..	..	..	1921.6	..
ADMISSIONS PER HOSPITAL BED	..	18.4	..	27.2	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	..	..

BRAZIL - SOCIAL INDICATORS DATA SHEET

	BRAZIL			REFERENCE GROUPS (WEIGHTED AVERAGES) /a (MOST RECENT ESTIMATE) /b	
	1960 /b	1970 /b	MOST RECENT ESTIMATE /b	MIDDLE INCOME LAT. AMERICA & CARIB	MIDDLE INCOME EUROPE
EDUCATION					
ADJUSTED ENROLLMENT RATIOS					
PRIMARY: TOTAL	95.0	84.0	93.0/g	105.0	102.2
MALE	97.0	84.0	93.0/g	106.3	107.2
FEMALE	93.0	84.0	93.0/g	103.6	97.9
SECONDARY: TOTAL	11.0	26.0	32.0/g,h	40.0	56.5
MALE	11.0	26.0	29.0/g,h	38.6	63.4
FEMALE	10.0	27.0	35.0/g,h	41.2	48.9
VOCATIONAL (% OF SECONDARY)	18.6	16.7	59.2/g,h	34.0	22.4
PUPIL-TEACHER RATIO					
PRIMARY	33.0	28.0	26.0	30.7	24.7
SECONDARY	13.0	13.0	14.0/h	16.7	22.1
ADULT LITERACY RATE (%)	61.0	66.2	76.0	79.5	69.7
CONSUMPTION					
PASSENGER CARS/THOUSAND POP	7.6	16.6	50.1	45.6	52.9
RADIO RECEIVERS/THOUSAND POP	65.4	108.4	169.3	228.2	165.5
TV RECEIVERS/THOUSAND POP	16.5	44.3	122.7	108.3	124.2
NEWSPAPER ("DAILY GENERAL INTEREST") CIRCULATION PER THOUSAND POPULATION	39.1	35.6	44.6/h	64.1	96.3
CINEMA ANNUAL ATTENDANCE/CAPITA	4.4	2.0	1.9/h	2.9	2.9
LABOR FORCE					
TOTAL LABOR FORCE (THOUS)	23326.0	30411.0	35254.0	.	.
FEMALE (PERCENT)	17.2	20.1	28.5	24.8	34.5
AGRICULTURE (PERCENT)	51.9	45.6	29.9	31.3	40.7
INDUSTRY (PERCENT)	14.8	18.3	24.4	23.9	23.4
PARTICIPATION RATE (PERCENT)					
TOTAL	32.1	31.7	29.3	31.3	42.0
MALE	52.7	50.3	50.9	49.8	55.2
FEMALE	11.2	12.8	14.1	14.3	29.1
ECONOMIC DEPENDENCY RATIO	1.4	1.4	1.5	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	..	..	..	289.8	..
RURAL	..	..	150.0/c	184.5	..
ESTIMATED RELATIVE POVERTY INCOME LEVEL (US$ PER CAPITA)					
URBAN	..	..	465.0/d	519.8	..
RURAL	..	..	332.0/d	372.1	409.0
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 1979 and 1981.

/c 1975; /d 1977; /e 1976; /f 1974; /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.

May 1983

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 among the country and reference groups.

AREA (thousand sq.km.)
Total – Total surface area comprising land area and inland waters; 1960, 1970 and 1980 data.
Agricultural – Estimate of agricultural area used temporarily or permanently for crops, pastures, market and kitchen gardens or to lie fallow; 1960, 1970 and 1980 data.

GNP PER CAPITA (US$) – GNP per capita estimates at current market prices, calculated by same conversion method as World Bank Atlas (1979–81 basis); 1960, 1970, and 1981 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 coal equivalent per capita; 1960, 1970, and 1980 data.

POPULATION AND VITAL STATISTICS
Total Population, Mid-Year (thousands) – As of July 1; 1960, 1970, and 1981 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 1981 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 – In a stationary population there is no growth since the birth rate is equal to the death rate, and also the age structure remains constant. This is achieved only after fertility rates decline to the replacement level of unit net reproduction rate, when each generation of women replaces itself exactly. 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.
Year stationary population is reached – The year when stationary population size will be reached.
Population Density
Per sq. km. – Mid-year population per square kilometer (100 hectares) of total area; 1960, 1970, and 1980 data.
Per sq. km. agricultural land – Computed as above for agricultural land only; 1960, 1970 and 1980 data.
Population Age Structure (percent) – Children (0-14 years), working-age (15-64 years), and retired (65 years and over) as percentages of mid-year population; 1960, 1970, and 1981 data.
Population Growth Rate (percent) – total – Annual growth rates of total mid-year population for 1950-60, 1960-70, and 1970-81.
Population Growth Rate (percent) – urban – Annual growth rates of urban populations for 1950-60, 1960-70, and 1970-81.
Crude Birth Rate (per thousand) – Annual live births per thousand of mid-year population; 1960, 1970, and 1981 data.
Crude Death Rate (per thousand) – Annual deaths per thousand of mid-year population; 1960, 1970, and 1981 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 1981.
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 (15-44 years) who use birth-control devices to all married women in same age group.

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 1981 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 Survey, 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 1981 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 to 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. For statistical purposes urban hospitals include WHOs principal/general hospitals, and rural hospitals, local or rural hospitals and medical and maternity centers. Specialized hospitals are included only under total.
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 and 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 1981 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 total labor force.

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

POVERTY TARGET GROUPS
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".

Economic and Social Data Division
Economic Analysis and Projections Department
May 1983

ECONOMIC INDICATORS

Population : 119.[illegible] million (1980)
GNP per Capita: US$2,050 (1980)

Indicator	Amount (Million US$ Current) 1982 b/	Average Annual Increase (%) (at Constant 1970 Prices) 1965-70	1970-75	1975-80	1981-86	Share of GDP at Market Prices (%) (at current Prices) 1970	1975	1982 b/
National Accounts								
Gross Domestic Product /a	289,000	7.7	10.6	6.9	2.0	100.0	100.0	100.0
Agriculture	35,333	1.9	5.7	4.7	4.5	10.2	10.9	14.3
Industry	78,391	9.2	11.6	7.6	.08	35.8	37.2	31.8
Services	133,106	8.0	10.7	6.8	4.1	54.0	51.9	53.9
Consumption	215,940	7.7	9.8	5.7	3.3	77.8	76.6	74.7
Gross Investment	60,755	9.4	14.6	5.2	3.6	22.7	21.3	21.0
Exports of Goods and NFS	22,180	8.2	11.2	7.3	6.5	6.7	7.5	7.7
Imports of Goods and NFS	24,613	14.5	17.2	2.8	4.4	7.2	11.4	8.5
Gross Domestic Savings	58,317	7.9	12.9	6.1	-	22.2	23.4	20.2

	Amount (Million US$ Current) 1982	Average Annual Increase (%) (at Constant 1970 Prices) 1970-75	1975-80	1981-86	Composition of Merchandise Trade (%) (at Current Prices) 1970	1975	1980
Merchandise Trade							
Merchandise Exports	20,164	11.1	7.7	2.8	100.0	100.0	100.0
Primary c/	8,914	8.3	1.1	0.8	76.7	62.7	38.3
Manufactures d/	10,983	28.2	18.2	5.6	22.5	34.8	57.1
Merchandise Imports	19,397	14.8	-3.3	1.2	100.0	100.0	100.0
Food (cereals)	1,000	-6.7	17.5	8.8	4.5	3.0	4.8
Petroleum	10,126	7.6	4.3	-11.0	11.2	25.4	51.3
Machinery and Equipment e/	3,272	15.2	-7.5	2.0	36..	32.2	18.2
Other	4,999	28.4	-1.9	4.3	48.1	39.4	25.7

	1975	1976	1977	1978	1979	1980	1981	1982
Prices and Terms of Trade								
GDP Deflator (1970 = 100)	305.1	444.3	632.7	892.5	1,399.4	2,724.6	5,696.8	11,108.8
Exchange Rate (CrS/US$)	8.1	10.6	14.1	18.1	26.9	52.7	93.1	180.0
Export Price Index (1970 = 100)	176.0	192.0	226.0	228.0	266.0	290.0	252	220.0
Import Price Index (1970 = 100)	242.0	255.0	286.0	317.0	389.0	431.0	474	522.0
Terms of Trade Index (1970 = 100)	73.0	75.0	79.0	72.0	68.0	67.0	53	42.0

	As % of GDP (at Current Cruzeiro Prices) 1970	1975	1979	1980 g/	1981 g/	1982 g/
Public Finance (Central Government)						
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

	1965-70	1970-75	1975-79	1981-86
Other Indicators				
GNP Growth Rate (%)	7.7	10.7	5.8	2.1
GNP per Capita Growth Rate (%)	4.6	7.7	3.0	-0.5
Energy Consumption Growth Rate (%)	7.2	7.3	6.5	-
ICOR f/	2.9	3.0	3.9	3.2
Marginal Savings Rate f/	20.5	25.7	22.7	24.0
Import Elasticity f/	2.2	1.6	0.3	-0.6

a/ At market prices; components are net domestic products expressed at factor cost and will not add due to exclusion of depreciation and indirect taxes less subsidies.
b/ Estimate.
c/ Includes: coffee (beans and soluble), other agriculture and minerals
d/ Includes: manufactured and semi-processed
e/ Includes: transportation materials
f/ the 1981-86 projections are average arithmetic mean of the six-year
g/ 1980 and 1981 include government expenditures effected through the monetary budget and some minor government funds, as well as transfers to the federal enterprises.

August 3, 1983

Source: Conjuntura Economica FJV Banco Central do Brazil, Brazil Standard Model (World Bank)

BALANCE OF PAYMENTS, EXTERNAL CAPITAL AND DEBT
(million US$ at current prices)

Population: 119 Million (1980)
GNP Per Capita: US$2,050 (1980)

	ACTUAL								PROJECTED 1/			
	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Balance of Payments												
Net exports of goods and services	-6,702	-6,018	-4,037	-6,086	-10,039	-12,566	-11,173	-14,697	-7,197	-5,197	-6,029	-6,197
Exports of goods	(8,670)	(10,128)	(12,120)	(12,659)	(15,244)	(20,132)	(23,293)	20,175	23,000	26,000	29,000	33,000
Imports of Goods	(-12,210)	(-12,383)	(-12,023)	(-13,683)	(-18,084)	(-22,955)	(-22,080)	(-19,400)	(-17,000)	(-18,000)	(-20,000)	(-26,000)
Net factor income	-1,733	-2,189	-2,556	-3,257	-4,821	-6,621	-9,549	-13,003	-11,197	-11,000	-10,774	-10,897
(of which net interest payments) /a	(-1,498)	(-1,810)	(-2,103)	(-2,696)	(-4,185)	(-6,311)	(-9,179)	(10,800)	(11,000)	(9,000)	(9,300)	(9,500)
Net non-factor services	-1,429	-1,176	-1,578	-1,805	-2,378	-3,120	-2,837	-2,669	-2,000	-2,197	-2,255	-2,300
Net transfers	2	1	-	71	18	168	197	197	197	197	197	197
Current account balance	-6,700	-6,017	-4,037	-6,015	-10,021	-12,396	-10,976	-14,500	-7,000	-5,000	-3,832	-4,000
Direct private investment /b	892	959	810	1,071	1,491	1,121.0	1,569	1,491	1,763	1,961	2,206	2,666
M&LT loans net	4,830	5,542	5,650	10,018	5,297	3,475.0	9,571 1/	8,492	5,686	6,039	4,096	4,633
Traditional source	(955)	(1,167)	(1,059)	(1,450)	1,442	(1,452.4)	(4,314)	(6,224)	(3,125)	(3,965)	(3,881)	(3,314)
Financial credits	(6,027)	(7,011)	(8,224)	(13,716)	(10,286)	(8,632.3)	(13,113)	(12,458)	(10,000)	(11,310)	(10,482)	(13,206)
Amortization	(-2,152)	(-2,636)	(-3,633)	(-5,146)	(-6,431)	(6,610.0)	(-7,856)	(-7,190)	(-7,449)	(-9,236)	(-10,369)	(-12,086)
Brazilian loans abroad (net)	-190	-248	-267	-357	-610	416	-702	-1,045	-1,146	-1,500	-1,966	-2,298
Other capital n.e.i.	218	956	-1,526	-455	628	4,063	1,393.0	1,362	2,297	-	-	-
Change in reserves (-=increase) /c	950	-1,192	-830	-4,262	3,215	3,321	-855	4,000	-1,900	-1,500	-500	-600
International Reserves /d	4,041	6,544	7,256	11,895	9,689	6,913	7,505	3,000	4,900	6,400	6,900	7,500
Reserves as months of imports /e	4	6.3	7.2	10.3	6.6	3.6	4.1	1.8	3.5	4.3	4	3.4

	ACTUAL							
	1975	1976	1977	1978	1979	1980	1981	1982
External Debt								
Total debt outstanding and disbursed	23,298	28,483	34,601	46,436	51,342	56,865	61,400 /f	68,400 /f
Public and publicly guaranteed	13,706	17,369	21,595	30,284	35,478	38,260	-	-
Official source	3,959	4,431	4,717	5,401	5,889	6,416	-	-
IBRD	(1,093)	(1,217)	(1,413)	(1,602)	(1,827)	(2,069)	-	-
Other	(2,866)	(3,214)	(3,304)	(3,799)	(4,062)	(4,347)	-	-
Private source	9,747	12,938	16,878	23,883	29,589	31,844	-	-
Private non-guaranteed	9,592	11,11[illegible]	13,005	16,152	15,864	16,605	-	-
Undisbursed debt (public only)	3,879	6,020	8,411	10,209	12,448	14,041	-	-
Gross Disbursements								
Total gross disbursement of M&LT loans	6,981	8,160	9,282	15,164	11,728	10,085	-	-
Public and publicly guaranteed	3,788	4,921	5,422	10,116	9,152	6,893	-	-
Official export credits	428	405	169	490	448	467	-	-
IBRD	250	173	298	275	302	343	-	-
Other multilateral	119	113	92	136	206	192	-	-
Private source	2,991	4,233	4,862	9,216	8,197	5,892	-	-
Private non-guaranteed	3,194	3,239	3,861	5,048	2,576	3,192	-	-
Debt Service								
Total debt service payments	4,195	4,322	5,662	8,252	11,147	13,168	15,556	17,990
Interest (net)	(1,677)	(1,423)	(1,651)	(2,[illegible]7)	(3,555)	(5,612)	-	-
Payments as % of Exports and NFS	43.0	38.7	42.3	5[illegible].[illegible]	66.8	60.0	61.0	81.0
Payments as % of GNP	2.9	2.6	3.0	3.7	4.3	4.8	-	
Average interest rate on the public debt (%) /g	8.7	7.6	8.3	9.9	11.2	12.3	-	
Official sources	7.7	7.9	8.0	7.5	8.3	8.7	-	
Average maturity of new guaranteed loans	9.0	11.3	10.0	10.0	11.5	10.3	-	
Official source	18.6	16.3	16.1	14.5	16.0	13.6	-	
Private source	7.0	9.3	8.7	9.3	11.2	9.5	-	
IBRD Exposure								
IBRD DOD/Total	4.7	4.3	4.1	3.4	3.6	3.8	-	
IBRD disbursements/total gross disbursements (%)	3.5	2.1	3.2	1.8	2.4	3.6	-	
IBRD debt service/total debt service (%)	2.5	3.2	3.7	2.7	2.2	2.1	-	

	As % of total debt outstanding at end of December 1980 /h
Debt Structure	
Maturity structure of debt outstanding	
Maturities due within 5 years	67
Maturities due within 10 years	33

/a Since 1984 on, it refers only to interest on M&LT loans
/b Excluding re-invested profits
/c Excluding dollar valuation adjustments and monetization of domestic gold
/d Including gold and dollar valuation adjustments
/e Goods only
/f Details unavailable
/g Public debt only
/h Preliminary
/i IMF
/j Brazil standard model (World Bank)

February 28, 1983

Source: Banco Central do Brasil; External Debt Data (EPD): 78-81 (World Bank)
IMF source

THE STATUS OF BANK GROUP OPERATIONS IN BRAZIL

A. SUMMARY STATEMENT OF LOANS
(As of March 31, 1983)

Loan #	Year	Borrower	Purpose	Amount less Cancellations (US$ Millions)	Undis-bursed
Fifty-four loans fully disbursed				1,050.1	
923	1973	Furnas Centrais Eletricas - Itumbiara	Power	125.0	1.2
1008	1974	Cia. Hidro Eletrica do Sao Francisco - CHESF	Power	81.0	12.4
1067	1974	Brazil	Education	21.2	1.1
1075	1975	Brazil	Roads	110.0	9.4
1151	1975	Companhia Siderurgica Nacional	Industry	95.0	5.5
1152	1975	Companhia Siderurgica Paulista	Industry	60.0	15.3
1153	1975	Brazil	Agriculture	23.0	0.3
1171	1975	FEPASA - Ferrovia Paulista	Railways	75.0	6.5
1195	1976	Brazil	Rural Development	12.0	5.4
1207	1976	Brazil	Feeder Roads	55.0	18.9
1249	1976	Brazil	Agriculture	40.0	0.3
1300	1976	ELETROBRAS	Power	50.0	0.2
1302	1976	Brazil	Nutrition	19.0	0.2
1317	1976	Brazil	Agro-Industry	83.0	42.5
1343	1977	ELETROSUL	Power	82.0	11.8
1362	1977	State of Minas Gerais	Rural Development	42.0	6.2
1406	1977	Petrobras Fertilizantes	Fertilizer	52.0	1.7
1411	1977	Fertilizantes Vale do Rio Grande S.A. - VALEFERTIL	Fertilizer	55.0	1.6
1452	1977	Brazil	Education	32.0	19.8
1488	1977	Brazil	Rural Development	17.0	10.8
1525	1978	Banco Nacional da Habitacao	Sewerage	110.0	62.3
1537	1978	Brazil	Rural Development	24.0	18.3
1538	1978	ELETROBRAS	Power	130.0	40.5
1557	1978	Brazil	Roads	114.0	79.1
1562	1978	COPESUL	Petrochemicals	85.0	4.9
1563	1978	Brazil	Urban Transport	88.0	17.1
1568	1978	Brazil	Agric. Extension	100.0	60.6
1589	1978	Brazil	Rural Development	37.0	25.1
1654	1979	Banco Nacional da Habitacao	Sites and Services	93.0	42.8
1656	1979	Banco Nacional da Habitacao	Water and Sewerage	100.0	58.7
1660	1979	Valesul Aluminio S.A.	Aluminum	78.8	0.1
1714	1979	Brazil	Rural Development	26.0	21.5
1720	1979	Brazil	Urban Development	70.0	48.3
1721	1979	COPEL	Power	109.0	57.9
1728	1979	Brazil	Rural Development	40.0	31.5
1729	1979	Brazil	Irrigation	28.0	13.7
1730	1979	Brazil	Roads	110.0	77.9

A. SUMMARY STATEMENT OF LOANS (Continued)
(As of March 31, 1983)

Loan #	Year	Borrower	Purpose	Amount less Cancellations (US$ Millions)	Undis-bursed
1822	1980	Brazil/BNDE	Pollution Control	58.0	57.4
1823	1980	Banco Nacional da Habitacao	Water Supply	130.0	82.8
1824	1980	CEEE	Power	114.0	105.8
1839	1980	Brazil	Urban Transport	159.0	153.0
1850	1980	Banco Nacional da Habitacao	Water Supply	139.0	84.9
1867	1980	Brazil	Education	32.0	29.2
1877	1980	State of Minas Gerais	Rural Development	63.0	58.6
1895	1980	ELETROSUL	Power	125.0	120.3
1924	1981	Brazil	Rural Development	56.0	45.4
1939	1981	ELETROBRAS	Power	54.0	50.0
1965	1981	EBTU	Urban Transport	90.0	82.4
1970	1981	Banco Nacional da Habitacao	Water Supply	180.0	142.4
1989	1981	Brazil	Alcohol Development	250.0	244.8
2015	1981	Brazil	Agriculture	29.0	24.1
2016	1981	Brazil	Agriculture	60.0	51.8
2060	1982	Brazil	Agriculture	67.0	54.6
2061	1982	Brazil	Health	13.0	10.1
2062	1982	Brazil	Highways	240.0	198.8
2116	1982	Brazil	Agriculture	26.4	23.9
2138	1982	ELETROBRAS	Power	182.7	180.0
2163	1982	Brazil	Agriculture	26.4	23.7
2170	1982	Brazil	Urban Development	123.9	114.1
2177 /1	1982	Brazil	Rural Development	42.7	42.7
2193	1982	Brazil	Urban Development	8.9	8.2
2196	1982	CVRD	Iron Ore	304.5	280.3
2224 /1	1982	Brazil	Feeder Roads	154.0	154.0
2225	1982	BNDES	Development Banking	220.0	216.8
2249 /1	1983	Banco Nacional da Habitacao	Water Supply	302.3	302.3
		Total		7,672.9 /2	
		Of which has been repaid to the Bank		1,120.0	
		Total now outstanding		6,552.9	
		Amount sold	45.8		
		Of which has been repaid	45.8	0.0	
		Total now held by Bank		6,552.9	
		Total undisbursed			3,773.8

/1 Not yet effective.
/2 No IDA credits have been made to Brazil.

B. STATEMENT OF IFC INVESTMENTS (as of March 31, 1983)

Fiscal Year	Obligor	Type of Business	Amount in US$ million Loans	Equity	Total
1957	Siemens do Brasil Cia. de Electricidade	Electrical Equipment	2.00	-	2.00
1958	Olinkraft, S. A. Celulose e Papel	Pulp and Paper	1.20	-	1.20
1958	D. L. R. Plasticos do Brasil, S. A.	Automotive Parts	0.45	-	0.45
1958	Willys-Overland do Brasil, S. A. - Industria e Comercio	Motor Vehicles	2.45	-	2.45
1959	Companhia Mineira de Cimento Portland, S. A.	Cement	1.20	-	1.20
1959	Champion Celulose, S. A.	Pulp	4.00	-	4.00
1966/1968/1972	Acos Villares, S. A.	Steel	8.00	1.93	9.93
1966/1969	Papel e Celulose Catarinense, S. A.	Pulp and Paper	3.78	3.41	7.19
1967/1972	Ultrafertil, S. A. - Industria e Comercio de Fertilizantes	Fertilizers	8.22	3.03	11.25
1969	Petroquimica Uniao, S. A.	Petrochemicals	5.50	2.88	8.38
1970	Poliolefinas, S. A. Industria e Comercio	Petrochemicals	5.50	2.88	8.38
1971	Oxiteno, S. A. Industria e Comercio	Petrochemicals	4.60	1.44	6.04
1971	Rio Grande - Companhia de Celulose do Sul	Pulp	4.90	-	4.90
1972/1975/1981	Companhia de Cimento Nacional de Minas	Cement	169.14	6.70	175.84
1973/1974/1977/1981	Companhia Siderurgica da Guanabara - COSIGUA	Steel	76.97	11.22	88.19
1973	Capital Market Development Fund - FUMCAP	Capital Market Development	5.00	-	5.00
1973/1978/1983	Empresa de Desenvolvimento de Recursos Minerais - CODEMIN, S. A.	Nickel Mining and Refining	85.00	8.74	93.74
1974	Industrias Villares, S. A.	Elevators and Industrial Equipment	6.00	-	6.00
1974	Fabrica de Tecido Tatuape, S. A.	Textiles	31.00	-	31.00
1975/1979	Capuava Carbonos Industrias Ltd.	Carbon Black	6.18	1.19	7.37
1975	Oxiteno Nordeste, S. A.	Petrochemicals	10.00	-	10.00
1976	Santista Industria - Textil do Nordeste, S. A.	Textiles	6.45	1.00	7.45
1976/1980	Tecanor S. A. - Textil Catarinense do Nordeste	Textiles	16.20	-	16.20
1977	EMB S. A. Productos Metalurgicos	Iron and Aluminum Castings	20.00	-	20.00
1977	Mineracao Rio do Norte S. A.	Mining	15.00	-	15.00
1978	Cimetal Siderurgia S. A.	Iron and Steel	7.00	3.00	10.00
1979	Volvo do Brasil Motores e Veiculos, S. A.	Motor Vehicles	60.00	5.27	65.27
1980	Hering do Nordeste S. A. - Malhas	Ready-made Garments	2.00	-	2.00
1980	Dende do Para S/A - Denpasa - Agricultura, Industria e Comercio de Oleaginosas	Palm-Oil	3.50	1.00	4.50
1980	Villares Industrias de Base S. A. - VIBASA	Iron and Steel	5.00	-	5.00
1980	PPH - Companhia Industrial de Polipropileno	Chemicals and Petrochemicals	15.00	2.00	17.00
1980	Destilaria Clanorte S. A.	Chemicals and Petrochemicals	-	0.25	0.25
1980	Sotave Amazonia Quimica e Mineral S/A	Fertilizers	16.00	4.00	20.00
1980	Polisul Petroquimica	Chemicals and Petrochemicals	43.00	5.00	48.00
1981	Brasilpar	Money and Capital Markets	-	1.50	1.50
1981	Companhia Brasileira de Agropecuaria - COBRAPE	Food and Food Processing	5.50	3.00	8.50
1981	Triunfo	Chemicals and Petrochemicals	46.00	4.00	50.00
1982	Cimento CAUE	Cement and Construction Materials	40.00	5.00	45.00
1982	Iochpe Agro Industrial S.A.	Money Capital Market	30.00	0.45	30.45
1983	Cia Riograndense de Participaçoes (CRP)	Money Capital Market	-	0.36	0.36
1983	Atlas Frigorifico	Food and Food Processing	13.00	-	13.00
1983	Companhia Dende do Amapa (CODEPA)	Palm Oil	6.10	-	6.10
1983	PISA - Papel de Imprensa S.A.	Pulp & Paper Products	47.50	3.50	51.00
	Total Gross Commitments		838.34	82.75	921.09
	Less Cancellations, Terminations, Repayments and Sales		589.45	13.17	602.62
	Total Commitments Now Held by IFC		248.89	69.58	318.47
	Total Undisbursed		190.88	15.24	206.12

April 15, 1983

BRAZIL

AGRICULTURAL SECTOR LOAN

Supplementary Data Sheet

Section I - Timetable of Key Events

(a)	Time taken to prepare project:	2 months
(b)	Agency which prepared project:	SEPLAN/BACEN
(c)	First presentation to the Bank:	February 1983
(d)	First mission to review project:	February 1983
(e)	Departure of Appraisal Mission:	March 1983
(f)	Completion of negotiations:	September 1983
(g)	Planned date of effectiveness:	October 1983

Section II - Special Bank Implementation Action

NONE

Section III - Special Conditions

(a) The schedule for phasing out agricultural credit subsidies would be implemented as agreed (paras 55, 71 and draft Loan Agreement Section 4.02);

(b) Adoption of norms, regulations and conditions of operation of Pro-Invest, including the applicable interest rate schedule would be agreed with the Bank and such agreement would be a condition for retroactive financing (paras 69 and 71 and Section 2.01 and Schedule of the draft Project Agreement);

(c) US$300 million equivalent in investment credit resources would be transferred to Pro-Invest on its establishment and disbursement of such funds as needed would be agreed (para 71 and Section 3.01b of the draft Loan Agreement);

(d) The Agricultural Export Pre-financing Facility (Pro-Export) would be established in the Central Bank by a vote of the Monetary Council. Norms and conditions for the proposed Agricultural Export Rediscount Facility would be agreed with the Bank and such agreement would be a condition of Board Presentation. Participating commercial banks would assume any third currency risk (paras 83-84 and Section 2.01 and Schedule of the draft Project Agreement);

(e) As soon as, but no later than 3 years from the date of approval of this loan, the Government and the Bank agree that Pro-Export could be maintained by Government resources, the loan proceeds allocated to Pro-Export would be re-allocated to rural investment credit under terms and conditions acceptable to the Bank (para 92 and Sections 3.02(iv) of the draft Loan Agreement and 2.03a of the draft Project Agreement);

(f) Movements in the ORTN monetary correction index would reflect at least 90% of annual actual inflation (para 59 and Section 5.01f of the draft Loan Agreement); and

(g) Any costs associated with maintaining financial charges for normal rural credits in the North/Northeast regions below monetary correction prevailing in the rest of Brazil will be clearly identified within Brazil's fiscal budget and will be fully and exclusively financed from these allocations from the fiscal budget beginning in the 1985 fiscal year (para 58 and Section 4.02c of the draft Loan Agreement).

BRAZIL

Bank of Brazil

Financial Statements 1980-1982
(in thousands of cruzeiros)

ASSETS	1982	1981	1980
Current Assets	7,628,024,809	4,113,010,660	1,913,857,463
Cash	219,462,704	77,730,714	49,717,539
Credit Operations	2,258,987,910	1,235,352,138	726,871,285
Due from Banks and Branches	467,609,013	351,389,248	107,071,736
Sundry Receivables	4,666,786,146	2,441,752,937	1,026,320,828
Securities	14,202,184	6,311,765	3,289,800
Prepaid Expenses	976,852	473,858	586,275
Long-Term Assets	1,709,792,047	978,768,174	623,890,320
Credit Operations	1,212,674,318	818,904,964	452,557,973
Sundry Receivables	379,871,509	157,099,960	169,666,524
Securities	117,246,220	2,763,250	1,665,823
Permanent Assets	459,129,205	219,001,337	102,674,741
Investments	208,267,950	112,866,620	56,413,214
Fixed	245,618,960	104,869,341	45,611,807
Deferred Charges	5,242,295	1,265,376	649,720
TOTAL	9,796,946,061	5,310,780,171	2,640,422,524

LIABILITIES	1982	1981	1980
Current Liabilities	4,589,355,638	2,752,579,923	1,303,719,982
Deposits	1,473,598,633	763,407,195	434,419,088
Due to Banks and Branches	351,193,341	142,685,422	76,522,848
Funds Borrowed	399,294,170	331,597,773	183,805,489
Taxes Collected on Behalf of Government Agencies	54,377,000	33,782.485	19,210,519
Sundry Commitments	2,310,892,494	1,481,107,048	589,762,038
Long-Term Liabilities	4,037,154,039	2,008,480,195	1,102,235,077
Deposits	35,447,413	-	-
Funds Borrowed	827,842,759	410,079,864	212,646,000
Sundry Commitments	3,173,863,867	1,598,400,331	889,589.077
Shareholders' Equity	1,170,436,384	549,720,053	234,467,465
Capital Stock	202,106,680	88,128,000	58,752,000
Capital Reserves	331,137,497	140,150,979	54,457,508
Revaluation Reserves	18,995,497	16,366,598	4,382,406
Income Reserves	135,114,912	96,07[illegible],558	44,025,150
Retained Earnings	483,081,598	209,002,918	72,850,401
TOTAL	9,796,946,061	5,310,780,171	2,640,422,524

BRAZIL

Bank of Brazil

Income Statement
(in thousands of cruzeiros)

	1982	1981	1980
Operating Income	1,432,678,957	679,146,529	293,802,127
Operating Expense	877,141,181	392,639,191	189,778,741
Net Operating Income	555,537,776	286,507,338	104,023,386
Non-Operating Income	82,807,861	61,828,823	8,114,051
Non-Operating Expense	950,141	138,352	67,798
Net Non-Operating Income	81,857,720	61,690,471	8,046,253
Net Monetary Correction	(339,279,671)	(135,313,870)	(42,102,140)
Income Before Tax	298,115,825	212,883,939	69,967,499
Income Tax Provision	120,486,649	88,957,349	20,704,052
Net Income	177,629,176	123,926,590	49,263,447
Earning Per Share	Cr$ 6.05	Cr$ 4.22	Cr$ 1.68

1982 Rate Schedule Compared with Phasing Out Schedule
(US$ millions)

	Annual Subsidy Cost at 1982 Rates	Annual Subsidy Cost at 1983/84 Phasing Out Rates	Annual Subsidy Cost at 1984/85 Phasing Out Rates	Annual Subsidy Cost at 1985/86 Phasing Out Rates
1. Center/South Normal Credit: 70% Total Credit, US$4.97 billion equivalent	3350.0	1240.0	729.0	481.0
2. Center/South Special Programs: 10% Total Credit, US$710 million, equivalent	550.0	177.0	104.0	70.0
North/Northeast without Drought				
3. N/NE Normal Credit, US$1,045 million	809.2			
4. N/NE Special Programs, without "excepted Programs", US$205 million equivalent	226.0	564	382.6	317.2
5. "Excepted" Programs, US$74 million equivalent	74.0	40.0	32.5	28.8
TOTAL (if no drought exception)	5016.0	2021.0	1248.0	897.0
North/Northeast Drought Exception				
6. Normal Credit in Non-Drought Areas, US$548 million equivalent	439.0	224.0	171.0	142.0
7. Excepted Programs in Non-Drought Areas, US$42 million equivalent	41.0	23.0	18.7	16.5
8. Drought Area Credits, US$775 million	636.0	636.0	636.0	636.0
TOTAL Subsidies, with	5016	2147	1659	1346

Credit Subsidy Saving, 1983/84 vs. 1982 = US$2.9 billion with drought
Credit Subsidy Saving, 1984/85 vs. 1982 = US$3.4 billion with drought
Credit Subsidy Saving, 1985/86 vs. 1982 = US$3.7 billion with drought
= US$4.1 billion without drought exception

Assumptions:
1) 1982 Inflation Rate, 99.7%
2) Real Cost of Funds to Government = Return to ORTN bonds, 100% Monetary Correction plus 8%
3) Total New Credits Disbursed in 1982, Approximately US$7.1 billion equivalent

RURAL INVESTMENT CREDIT TERMS

General

1. Rural seasonal (custeio) credit is intended to cover short-term production costs, under a formula based on the seasonally calculated valor basico de custeio (VBC) for each financed crop, variable by region. While generally presented as covering 100% of typical production costs, the VBC typically equals less than 70% of such costs. Repayment terms range from six months to two years depending on the crop and activity being financed. Marketing credits, usually linked to the minimum price system, provide short-term (about 3 months) financing in the post-harvest period, following repayment of the seasonal credit. Investment credits are available for terms ranging typically from five to twelve years depending on the nature of the asset or activity, as described below.

Financing Limits

2. Financing limits at official rates, for short-term credits1/ are as follows:

	Beneficiary	Financing Limit General	Northeast
(1)	Mini and Small Producer (up to US$7,000, equivalent in annual production)	90%	100%
(2)	Medium Producer (US$7,000 equivalent to US$100,000 equivalent in annual production)	60%	70%
(3)	Large Producer	40%	50%
(4)	Cooperative with at least 70% small and mini producers	80%	100%
(5)	Other cooperatives	60%	70%

1/ Financing limits under the minimum price program are set by crop and region by CFP twice a year.

3. Investment credit terms are as follows:

	Beneficiary	Current Financing Limit	Proposed Pro-Invest Financing Limit
(1)	Mini-and small producer	100%	100%
(2)	Medium producer	70% (80% for soil improvement)	70% (80% for land reclamation and irrigation)
(3)	Large producer	50% (80% for soil improvement)	50% (80% for land reclamation and irrigation)
(4)	Small farmer cooperatives	100%	100%
(5)	Other cooperatives	70%	60%
(6)	Credits for machinery, tractors, equipment, vehicles, cattle and reforestation (with 100% monetary correction):		
	- mini-and small producers	100%	100%
	- medium and large producers	100%	90%

4. A variety of special program credit lines carry special financing limits. The fully-corrected commercial and investment bank credits with 8-12% interest rates finance 100% of proposed investments.

Investment Categories

5. Regulations distinguish between credits destined for "fixed capital" and "semi-fixed capital." Investments in all the following categories (both fixed and semi-fixed capital) will be eligible for Pro-Invest financing, except land reclamation in the three states in which the Inter-American Development Bank is already providing confinancing. Fixed capital investments can finance:

(a) reservoirs;

(b) acquisition of equipment and machinery with an expected life superior to 5 years;

(c) construction rehabilitation or expansion of improvements and permanent installation;

(d) land clearing, consistent with Forestry Code;

(e) destumping;

(f) drainage, protection and recuperation of the soil;

(g) rural electrification;

(h) rural telephone;

(i) forestation or reforestation;

(j) planting permanent crops;

(k) pasture; and

(l) irrigation.

Credits destined to "semi-fixed" capital can finance:

(a) acquisition of animal for production, reproduction, fattening or service;

(b) acquisition of machines, equipment, tools and installations with a useful life of up to 5 years;

(c) acquisition of vehicles, boats and planes; and

(d) acquisition of equipment employed in crop measurement.

These categories are all to be included in Pro-Invest, except as noted.

Maturities

6. Maximum maturities on the categories listed above are 5 years for semi-fixed capital and 12 years for fixed capital, with the following exceptions:

	Maximum Maturity
Land clearing, destumping, rehabilitation of installations, intense fertilization, terracing, pasture recuperation	5 years
Acquisition of harvesters, road tractors or other heavy equipment with more than 5 years of useful life	8 years, including up to 2 years of grace
Trucks with more than 12-ton capacity	2 years
- if used in service "proprio" for the entire year and with special license	5 years

	Maximum Maturity
Acquisition by mini, small and medium producers of cattle for reproduction, as part of integrated project	8 years, depending on payment capacity
Animals for fattening	1 year

AGRICULTURAL EXPORT FINANCING

Agricultural Exports

1. Brazil's total agricultural and agro-industrial exports increased from US$2.1 billion in 1970 to US$10.6 billion in 1981. Brazil has been extraordinarily successful since 1970 in the introduction of new export products. In 1970, coffee, cocoa and sugar represented 43% of total agricultural related exports, with meat products, soy and orange juice products representing another 6.1%. By 1982, coffee, sugar and cocoa represented 12.8% of the total; soy, meat products, and orange juice 14.7%, while other, often non-traditional, especially processed, exports represented 69% of total 1982 agricultural-related exports. This trend continues, as opportunities for export of processed and frozen fruits and vegetables and fiber products are explored.

Financing for Agricultural Exports

2. The supply and terms of credit available to exporters determines to a major degree the volumes of merchandise which can be traded and their competitiveness. Various Brazilian Government programs (e.g., FINEX in Bank of Brazil) provided subsidized credits to exporters of industrial products, but agricultural exporters have depended almost entirely on commercial banking credit lines and are in fact the predominant users of these lines. The phase in which financing is most critical to exporters, especially exporters of unprocessed or semi-processed goods, is the period between the order date and the receipt of payment from the importer. These credits are used to acquire and finance inventory, for immediate resale or for processing, as well as to cover transaction costs, preparation, packing, documents and shipping. This phase is called "pre-export financing" (although it translates in Portuguese as "export pre-financing").

3. The major commercial pre-export financing instrument in Brazil is an advance against foreign export account receivables held by exporters of Brazilian products. The Brazilian term for such instrument is adiantamentos sobre contratos de cambio (ACC). An ACC advance is applied against "exchange contracts" (foreign currency denominated purchase contracts by foreign importers), hence the terms "contrato de cambio." Acceptances are usually denominated in the currency of the contract, to avoid a forward exchange exposure. In Brazil, by regulation, nearly all ACCs are denominated in US dollars, which is the primary currency of trade.

4. ACCs provide working capital to exporters from the date of the export order to embarkation. They typically have a maximum maturity of 180 days. ACCs are usually packaged with a second instrument, an adiantamento no contrato do exportacao, or ACE, which provides an additional 180 days financing from the date of embarkation, plus 30 days for transfer of documents. The entire package is typically referred to as an "ACC" financing, with a stated maximum maturity of 390 days. However, given the perishability of most agricultural products and the sophistication of international trade in these goods, these financings tend to be liquidated in an average of 90 days.

5. An ACC is essentially the same transaction as that underlying a "bankers acceptance," a widely traded instrument on the international money market which is essentially a negotiable commercial bank note (such as a certificate of deposit (CD) but, unlike a CD, secured by a self-liquidating trade operation. As such, these trade credits are among the most traditional and secure of commercial operations and money market instruments. In most countries, these instruments are eligible to serve as security for Central Bank borrowings. Often the definition by respective central banks of eligibility criteria for this purpose has been an important first step in the evolution of a secondary market for these instruments, as these definitions provide a presumed quality standard for these notes.

6. The international bankers acceptance market provides an interesting model of an active, efficient trade financing market. The principal secondary markets for "bankers acceptances" are in the U.S. and U.K. and instruments traded in these markets must be denominated in the currency of the respective market. (The U.S. market alone has an outstanding volume of about US$70 billion). Thus, transactions destined for the U.S. market must be funded or matched with US dollar resources. Brazilian banks participate in the U.S. market indirectly by reselling their "acceptances" to American banks who then resell them in the U.S. market under their own names. This practice is increasingly frowned upon because an element of safety in this market is presumed to be the guarantee and quality of the bank whose name supports this paper and which is presumed to have made the underlying transaction. Some Brazilian enterprises also participate in this market by obtaining financing through branches of U.S. banks. The rates for bankers acceptances in the U.S. secondary market are usually a spread over the prevailing "bankers acceptance rediscount rate" which, on June 7, 1983, was 8.90% per annum for a 180-day acceptance.

7. "Bankers acceptances," per se, do not as yet exist in Brazil as negotiable instruments on the inter-bank market, for several reasons. First, transformation of these instruments in Brazil into negotiable, tradable instruments would require special legislation as the law governing credit instruments, written in the 19th century, did not foresee such a transaction. Secondly, a bankers acceptance in this context would be essentially a commercial bank CD secured by a transaction denominated in a foreign currency (an ACC). In no country at this time is trade allowed in foreign currency denominated acceptances, although it is not inconceivable that eventually the markets would develop the sophistication to operate with such an instrument (the Brazilian ORTN bond, for example, carries implicit dollar, or cruzeiro devaluation, equivalency). Such financial market developments, which are clearly in the medium to long-term, should be considered in the light of an overall review of legislation and regulation governing commercial and financial transactions, within the framework of the financial sector work currently being planned in the Bank.

8. Domestic financing for ACCs in Brazil has always been quite limited, as appropriate resources are scarce and there has been little effort to develop secondary markets or innovative sources of funding. As a result, the major source of financing for these transactions for Brazil has

been trade credit lines extended by international banks to Brazilian commercial banks. Since September 1982, international banks have severely reduced the volume of such lines extended through Brazilian banks. This cutback significantly restricted the flow and increased the cost of credit for exports, weakening Brazil's export capabilities at the very time that export expansion had become a critical necessity. Thus, at a critical moment the underlying weaknesses of this system have become a severe problem.

9. Export pre-financing terms in Brazil seem much less favorable than those offered for similar transactions elsewhere. For example, comparable "bankers acceptance" financing for exporters of comparable products in other countries seem to provide greater flexibility in the maturity of the transactions, including either greater exporter working capital or allowing some lag in importers' payments. Most Brazilian transactions seem in practice to have required payment on embarkation. The cost of the same transactions in Brazil are priced several points higher than the equivalent transaction on the international market. The price differential is somewhat understandable. Brazilian banks have far fewer funding options for these transactions than do banks elsewhere. For example, many international banks have a variety of options for reselling these instruments, either to their respective central banks, to investors or to other financial institutions, while the Brazilian bank would have to fund these transactions from deposits or CDs, or other internally-generated resources, with little opportunity for refinancing except for those few transactions acceptable to international banks for resale in the U.S. and British markets. Therefore, the Brazilian bank would have far fewer resources for these transactions and the transactions individually would have to be more profitable.

10. Institutional Framework for Export Financing. Eighty-four commercial banks are authorized by the Central Bank to undertake foreign exchange operations and therefore to finance ACCs. Bank of Brazil is an important factor in this highly competitive market, with several major private banks each claiming significant (10-15%) shares. The market appears fairly efficient. However, rates, which are priced off the 180-day LIBOR base rate, are quite high (1.3% per month in July 1983, or about 23% p.a., with the cost of funds averaging LIBOR plus 1-1.75 points plus assorted fees adding up to 6-9 points). These high rates partly reflect the current scarcity of funds.

11. Resources have been extremely limited this year. Although the larger private banks and, lately, Bank of Brazil seem to have been able to maintain their external credit lines, small banks have suffered in the cutback of external credit lines. The Central Bank has allowed several banks to increase their foreign exchange exposures, with implicit Central Bank protection, to permit use of internal resources for these transactions. A resource gap is expected in the last quarter of the year as export volumes reach their seasonal high levels.

12. The total outstanding volume of ACCs in Brazil on December 31, 1982, was US$4.5 billion, falling to about US$2.0 billion in mid-July 1983. Although specific sectoral distribution data are not available,

agricultural and agro-industrial products, which represent up to 60% of total exports, probably represent a larger share of ACC volumes. Thus, current ACC volume for these exports certainly exceeds US$1 billion.

The Proposed Rediscount Facility

13. The proposed project component would seek to strengthen and stabilize the internal banking market for ACCs by helping to develop a secondary source of funds for these transactions in the Central Bank. Essentially, the proposed component would seek to convert the current crisis into an opportunity for substantial institution-building and innovation in Brazil's financial system while providing significant support for agricultural trade. ACCs are not considered new credits for the purpose of the IMF agreement and therefore agreed targets on the expansion of monetary assets of the monetary authorities will not restrict the incremental expansion of this market. The proposed rediscount facility, Pro-Export, would stand ready to refinance up to 35%, or US$200 million equivalent, of the eligible ACCs disbursed daily by commercial banks. A major objective of the establishment of the rediscount facilities for ACCs would be to increase the competitiveness and liquidity of the market for these transactions, as well as to encourage more flexibility in their design. Such strengthening of the internal market for export financing instruments would significantly assist Brazil in achieving its external sector targets and would also be a critical stimulus to the development of agricultural export production.

14. The Mechanism Proposed. Under a system already quite precisely detailed, the Foreign Department of the Central Bank would telex to each participating bank each day its maximum funding level for that day's ACC refinancing. This would be handled much as daily foreign exchange exposures are managed and funding levels would be determined on the basis of the available resources in Pro-Export and recent ACC financing patterns of the banks. A participating bank would be authorized to seek refinancing for up to 35% of the total eligible ACC transaction it finances that day, up to the funding limit specified. An eligible ACC would be an ACC covered by an export contract for agricultural or agro-industrial products. The Central Bank would concurrently, by telex, post the 180-day LIBOR rate applicable for its relending, subject to a 0.25% spread. At the end of each day, each participating bank would telex the Central Bank the list of all eligible ACCs financed that day, identifying those within its ceiling, up to 35% of the value of the total it wishes to submit for refinancing. These selected transactions would then each be 100% rediscounted, by Pro-Export, with the participating bank still retaining the credit risk. Whatever the currency of the contract, the participating bank would have to repay US dollars to Pro-Export, at a rate determined at the time of refinancing. If the export contract is cancelled, the exporter would be obligated to repay his bank in US dollars plus the substantial penalties due on unrealized ACC transactions, in accordance with current law, and the bank would have to repay the Central Bank. This entire system, as well as the management of accounts within Pro-Export, will be managed by computer, for which a program is currently being prepared. An operating manual is also under preparation and the system's accounting and control systems have already been developed. Draft guidelines and manuals for the system have been reviewed by the Bank and are satisfactory.

ANNEX VIII

BRAZIL

AGRICULTURAL SECTOR LOAN

Forecast Disbursement Schedule
(US$ millions)

FY	Quarter Ending	Estimated Disbursements	Cumulative Disbursements
1984	Sept. 30	-	-
	Dec. 31	230.0	230.0
	Mar. 31	20.0	250.0
	June 30	20.0	270.0
1985	Sept. 30	21.00	291.0
	Dec. 31	11.0	302.0
	Mar. 31	0.50	302.5
	June 30	0.50	303.0
1986	Sept. 30	-	-

Closing Date: 09/30/85

ANNEX IX

DOCUMENTS IN PROJECT FILE

Resolution of National Monetary Council for Pro-Invest and Interest-Rate Phasing Out

Draft Central Bank Circular for Pro-Invest

Central Bank Circular for Implementation of Phasing Out

Circular Pertaining for Drought Emergency and Estimation 1982 Credits in Region.

Draft Manual, Control and Accounting System for Pro- Export

Draft Central Bank Circular for Pro-Export

Rural Credit Manual

Laws and Regulations Pertaining to ACCs

Laws and Regulations Pertaining to Agricultural Exports

Central Bank Annual Reports and Quarterly and Annual Rural Credit Reports

1982 and 1983 National Monetary Budget and Amendments

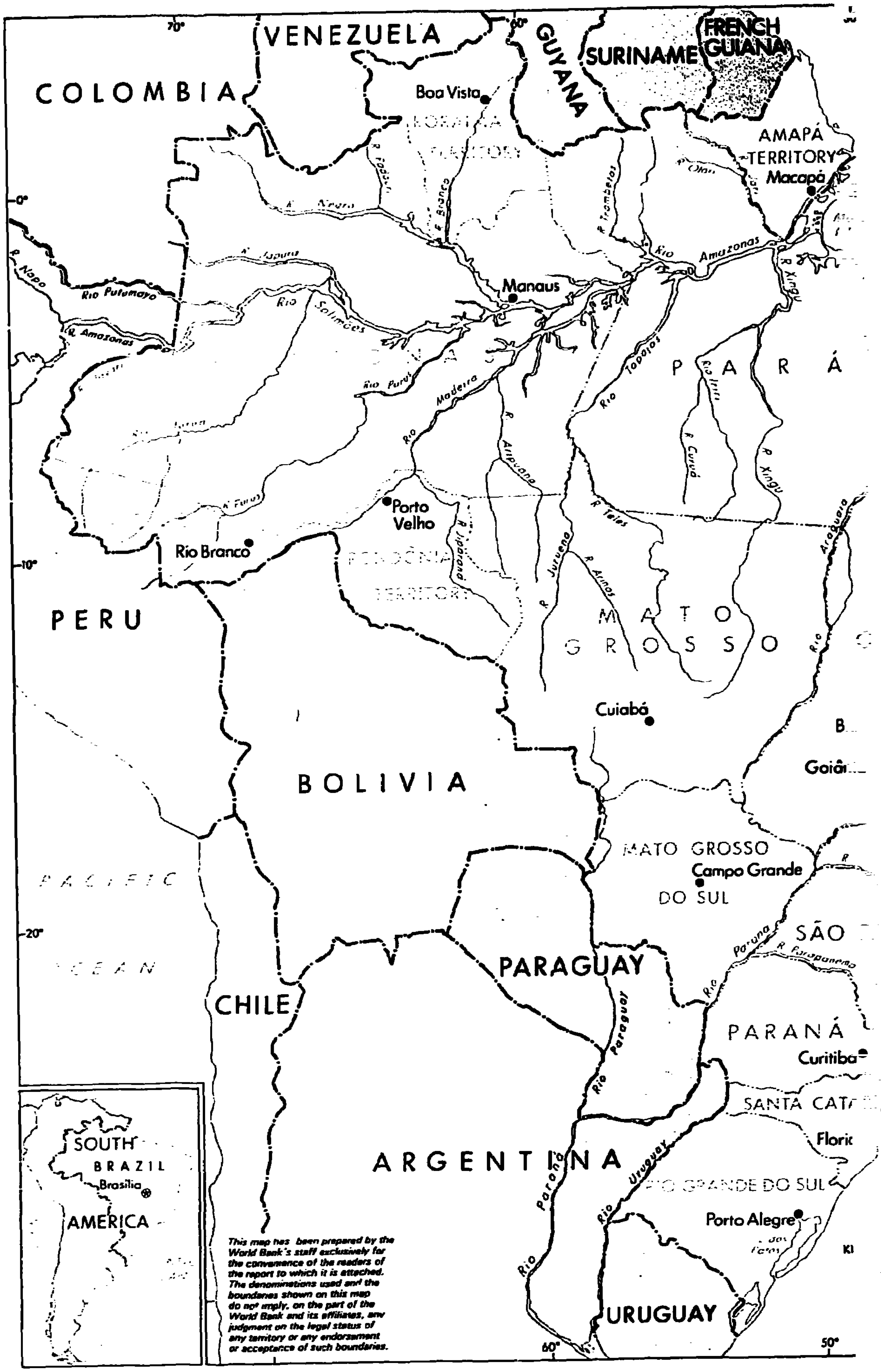
Letters of Agreement with IMF

Bank of Brazil Annual Reports and Quarterly and Monthly Rural Credit Reports

Terms of Reference and Convenios for Joint Agricultural Policy Review, Phase I

Draft Work Program, Joint Agricultural Policy Review, Phase II

Rules of Operation of National Economic Research Program


VENEZUELA
COLOMBIA
GUYANA
SURINAME
FRENCH GUIANA
Boa Vista
AMAPÁ TERRITORY
Macapá
Manaus
Rio Amazonas
Rio Putumayo
R. Napo
R. Amazonas
Rio Solimões
Rio Purus
Rio Madeira
Rio Tapajós
R. Xingu
R. Teles
R. Juruena
PARÁ
Porto Velho
Rio Branco
PERU
MATO GROSSO
Cuiabá
BOLIVIA
MATO GROSSO DO SUL
Campo Grande
PARAGUAY
Rio Paraguai
CHILE
PARANÁ
Curitiba
R. Paranapanema
ARGENTINA
Rio Paraná
Rio Uruguay
Porto Alegre
URUGUAY
SOUTH AMERICA
BRAZIL
Brasília
70°
60°
50°
0°
10°
20°
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APRIL 1981
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FRENCH GUIANA
AMAPA TERRITORY
Macapá
Belém
São Luís
Fortaleza
MARANHAO
Teresina
Natal
João Pessoa
Recife
PIAUÍ
Maceió
Aracaju
SERGIPE
BAHIA
Salvador
GOIÁS
Federal District
BRASÍLIA
Cuiabá
Goiânia
MINAS GERAIS
Campo Grande
Belo Horizonte
ESPIRITO SANTO
Vitória
RIO DE JANEIRO
Rio de Janeiro
São Paulo
Santos
Curitiba
Florianópolis
Porto Alegre
URUGUAY
Rio Paraguai
Rio Uruguay
ATLANTIC OCEAN
ATLANTIC OCEAN
BRAZIL
National capital
State and territory capitals
State and territory boundaries
International boundaries
Rivers
KILOMETERS 0 100 200 300 400 500
MILES 0 100 200 300
50°
40°
30°
0°
10°
20°