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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\$300.0 MILLION
TO THE
FEDERATIVE REPUBLIC OF BRAZIL
FOR A
THIRD DEVELOPMENT BANKING PROJECT

January 10, 1985

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CURRENCY EQUIVALENTS

Calendar 1984

January 3, 1985

Currency Unit = Cruzeiro (Cr\$)

US\$1 = Cr\$1,952

US\$1 = Cr\$3,041

Cr\$1 = US\$0.000512

Cr\$1 = US\$0.000328

GOVERNMENT OF BRAZIL FISCAL YEAR

January 1 - December 31

Unless otherwise indicated, dollar equivalent figures in this report are based on the dollar-cruzeiro exchange rate as of December 31, 1983 (US\$1.00 = Cr\$984.00), the date of the base cost estimates.

GLOSSARY OF ACRONYMS

ABDE	Associação Brasileira de Bancos de Desenvolvimento (Brazilian Association of Development Banks)
BACEN	Banco Central do Brasil (Central Bank of Brazil)
BB	Banco do Brasil (Bank of Brazil)
BEFLEX	Comissão para Concessão de Benefícios Fiscais a Programas Especiais de Exportação (Special Program of Fiscal Incentives for Exporters)
BNDES	Banco Nacional de Desenvolvimento Econômico e Social (National Economic and Social Development Bank)
BNDESPAR	BNDES Participações, S. A. (BNDES Equity Participations)
BNH	Banco Nacional de Habitação (National Housing Bank)
CACEX	Carteira de Comércio Exterior (Foreign Trade Department, Bank of Brazil)
FINAME	Agência Especial de Financiamento Industrial (Special Agency for Industrial Financing)
ORTN	Obrigações Reajustáveis do Tesouro Nacional (Obligations of the National Treasury)
POC	Program of Joint Operations with Agents
SDBs	State and Regional Development Banks
SEPLAN	Secretaria de Planejamento da Presidência da República (Secretariat of Planning of the Presidency)
SMEs	Small and Medium Enterprises

BRAZIL

THIRD DEVELOPMENT BANKING PROJECT

Loan and Project Summary

- Borrower: Federative Republic of Brazil
- Executing Agency: National Economic and Social Development Bank (BNDES)
- Beneficiaries:
- National Economic and Social Development Bank
 - State and Regional Development Banks and Other Financial Intermediaries
 - Export-oriented and small- and medium-size Brazilian enterprises.
- Amount: US\$300.0 million equivalent including capitalized front-end fee of about US\$0.75 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: The Borrower would make available the proposed loan to BNDES, the executing agency, on the same terms and conditions as the Bank loan. BNDES would take the foreign exchange risk on the Bank loan and would pass this risk on to its largest customers. The loan proceeds would finance a program of direct loans to larger enterprises, and a program through state and regional development banks (SDBs), investment banks and state commercial banks, to finance principally smaller scale enterprises, at real interest rates from 6% to 12% p.a. depending upon the region, type of project, and size of enterprise financed. The principal of the subloans would be adjusted for inflation in accordance with changes in the

ORTN¹/index. The maturities of subloans would be up to 15 years (average loan term of 10 years), including up to 18 months of grace after project completion for direct operations and up to 10 years including 3 years of grace for operations through financial intermediaries.

Project Description: The proposed loan would provide funds for: (a) larger privately controlled, industrial enterprises to support a program to export or expand or reorient production for export, and (b) small and medium enterprises when resources from the Second Development Banking Project (Loan 2225-BR) are fully committed. It would help to establish in BNDES procedures and the capability for doing economic analysis of projects and continue the process started in Loan 2225-BR of extending the capability and procedures in the SDBs for doing economic evaluations for the larger projects they finance.

Risks: The major risk associated with the project arises from the fact that internal institutional opposition could undermine or delay the application by BNDES of appropriate economic criteria in project selection and evaluation. Gradual introduction of the new evaluation procedures coupled with appropriate staff training and process monitoring are designed to help mitigate this risk. Bank staff would be available to assist BNDES in the implementation of the new project evaluation procedures. There is also a risk that the Government may fail to adjust the outstanding balance of the subloans to fully reflect domestic inflation. Covenants on the indexation of financial assets included in several Bank loans would help reduce this risk. It has been further agreed that if the adjustment of the principal of BNDES' loans, together with the interest rates applicable to such loans shall, in the Bank's opinion, fail to be positive in relation to the prevailing inflation rate in Brazil, commitments and disbursements could be suspended.

¹/ ORTN - Obrigações Reajustáveis do Tesouro Nacional (Obligations of the National Treasury).

(iii)

<u>Estimated Cost and Financing Plan:</u>	Bank	BNDES	Benefi- ciaries	Total Project Cost
A. <u>Operations Through Financial Agents</u>				
Fixed assets and related working capital	98.2	49.1	96.2	245.5
Working capital only	<u>100.0</u>	<u>100.0</u>	<u>133.3</u>	<u>333.3</u>
Sub-Total	198.2	149.1	231.5	578.8
B. <u>Direct Loans to Larger Private Sector Companies</u>				
Fixed assets and related working capital	42.7	21.0	63.7	127.4
Working capital only	<u>57.3</u>	<u>57.3</u>	<u>114.6</u>	<u>229.2</u>
Sub-Total	100.0	78.3	178.3	356.6
C. <u>Technical Assistance</u>	1.0	-	-	1.0
D. <u>Front-end fee</u>	<u>0.8</u>	-	-	<u>0.8</u>
TOTAL	<u>300.0</u>	<u>227.4</u>	<u>409.8</u>	<u>937.2</u>

Estimated Disbursements:

	1985	1986	1987	1988	1989
	(US\$ million by Bank FY)				
Annual	45.0 ^{/2}	90.0	125.0	28.0	12.0
Cumulative	45.0	135.0	260.0	288.0	300.0

Rate of Return: n.a./2 Including initial deposit in Special Account and front-end fee.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATION OF THE PRESIDENT
TO THE EXECUTIVE DIRECTORS
ON A PROPOSED LOAN OF US\$300.0 MILLION
TO THE FEDERATIVE REPUBLIC OF BRAZIL
FOR A THIRD DEVELOPMENT BANKING PROJECT

1. I submit the following report and recommendations on a proposed loan to the Federative Republic of Brazil for the equivalent of US\$300.0 million to help finance the Third Development Banking project. The loan would have a term of 15 years including 3 years of grace, at the Bank's standard variable interest rate. The proceeds of the loan would be made available by the Government on the same terms as the Bank loan to the National Bank for Economic and Social Development (BNDES), which would in turn relend the funds either directly to larger enterprises or through state and regional development banks mainly to small and medium enterprises. BNDES will assume the foreign exchange risk and would pass this risk on to its largest customers. The principal of the subloans would be adjusted for inflation according to the ORTN index. The interest to the final beneficiaries will range from 6% to 12% per annum depending upon the region, type of project and size of enterprise. The maturities of subloans would vary from 3 to 15 years including up to 3 years of grace, depending upon the type of project financed.

PART I - THE ECONOMY

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 paragraphs summarize and complement the findings of that report. A subsequent economic mission visited Brazil in May-June 1984, and its report will be distributed shortly.

3. The present Government, headed by President Joao Figueiredo, completes its six-year term in March 1985. Its main economic priorities have included the growth of agriculture, the expansion of manufactured exports and reduced dependence on imported oil, and at the same time an improvement in the situation and prospects of the most economically disadvantaged people and regions, especially in the Northeast. The prime political concern has been the return to a fully democratic system of government. Much of the Government's attention, since 1980, has had to be diverted from longer-term political and economic change because of the stabilization problems confronting Brazil. In spite of the economic

recession and consequent social pressures, however, substantial progress has been made towards the structural changes needed for Brazil's next stage of development.

4. Presidential elections are scheduled for January 15, 1985, and the new Government will take office in March. In pre-election statements the two candidates have emphasized the need to restore economic growth, raise real incomes and improve income distribution. They have also recognized that growth cannot be sustained without a decline in inflation and equilibrium in the external accounts. The prospects are for a relatively smooth transition, and for a new Government also well equipped to tackle the problems still facing Brazil.

Recent Economic Performance

5. Brazil achieved a remarkable 11% annual growth in GDP in the years 1967 to 1973, with declining domestic inflation and a significant liberalization of both foreign and domestic trade. Further substantial growth occurred in the years from 1974 to 1980, at an annual average rate of 7%, but in greatly changed circumstances. Following the large increases in 1973 in the price of imported oil, the international recession, and the sharp deterioration in the terms of trade, successive Brazilian governments sought to maintain output and employment growth through policies characterized by generous credit and tax incentives for industrial and agricultural exports and import substitution; rising import barriers; investment in domestic energy resources to substitute for imported oil; the expansion of state enterprise; and heavy foreign borrowing. Between 1975 and 1980, Brazil's medium and long-term debt more than doubled from US\$23.3 billion to US\$54.9 billion. The efforts to redress the external imbalance after 1974 created strong internal pressures and increased inflation. The economy remained vulnerable to external shocks, and when further increases in oil prices occurred in 1979 and 1980, and interest rates increased, the current account deficit more than doubled to reach US\$12.4 billion, or 5.0% of GDP. Domestic inflation accelerated to 110%.

6. Stabilization measures, relying heavily on monetary policy, resulted in a decline of 1.9% in GDP in 1981, ending the long period of sustained growth. Incipient recovery was checked in 1982 by a combination of external developments, including declining world commodity prices, economic problems among some major trading partners, and regional events leading to the debt crisis of August 1982. Faced with the loss of its reserves, the reluctance of foreign banks to roll over existing loans or extend new credits, and bleak international market prospects, Brazil sought assistance from the International Monetary Fund in support of an intensified adjustment program. In February 1983 the IMF pledged financial assistance of the order of US\$5.4 billion in compensatory financing and

through the Extended Fund Facility for the years 1983-85. Associated with this were commercial bank commitments for 1983 of US\$4.4 billion in new loans, the rescheduling of US\$4.6 billion in loans due in 1983, and other measures of financial support, which were later extended into 1984.

7. The primary objective of the program was the reduction of the current account deficit and external borrowing requirements. The cruzeiro was devalued by 30% in February 1983 and subsequently adjusted in line with domestic inflation, import restrictions were increased, and tight fiscal and monetary restraints were imposed. Imports fell by 21% in 1983, and exports increased by 8.5% in spite of adverse trading circumstances, resulting in a trade surplus of US\$6.5 billion and a reduction in the current account deficit from US\$14.8 billion to US\$6.2 billion. The major source of internal disequilibrium, the public sector deficit, was also brought under control. Central Bank figures show that the consolidated operational public sector deficit was reduced from 6.6% of GDP in 1982 to 2.5% in 1983, with a small surplus expected in 1984. In addition, steps were taken to eliminate product and interest rate subsidies, adjust relative prices for fuel and other products, reduce public expenditures and increase revenues. The adjustment process continued during 1984, and, although inflation has remained high, substantial progress was made towards establishing a new basis for growth. In particular, strong export expansion during 1984 resulted in earnings in excess of US\$26 billion and a trade surplus amounting to over US\$12 billion.

8. The short-run cost of these adjustments has nevertheless been high. Inflation reached 211% in 1983 as a whole, exacerbated by shortages in the supply of tradable goods, increases in administered prices, very high real interest rates, and the effects of devaluation. Preliminary official estimates show a decline in GDP of 3.2% in 1983, concentrated in the industrial and commercial sectors. On that basis, per capita GDP declined by about 12% in 1981-83, and industrial employment by over 20%, with the largest reductions in incomes and employment concentrated in the main industrial centers.

9. Sparked by the export resurgence, GDP for 1984 is expected to grow in the 3% range, or about 1% per capita. The increase in manufacturing exports is assisting industrial recovery, despite the fact that for most sectors the proportion of total output which is exported remains relatively small. Overall expansion is still inhibited by depressed domestic market conditions, however, which can be expected to continue until there is some relaxation in the present austere demand management policies. In particular, recovery is not likely to become generalized until real interest rates fall from their present levels of 30-40%. Unless significant progress is made against inflation, the outlook is for domestic market conditions to improve only slowly. The end of the year annual inflation is estimated at 224%.

Economic Outlook

10. The short-term economic outlook for Brazil appears much more encouraging than that of a year before. The balance-of-payments situation is much stronger, some signs of recovery from the domestic recession are apparent, and inflation is no longer accelerating. In addition, the

international economic situation appears more encouraging, with at least a temporary easing of interest rates and oil prices. ^{1/} The international financial environment also appears more accommodating than a year ago.

11. The immediate prospects for the balance of payments appear quite favorable following the trade surplus of over US\$12 billion obtained for 1984. Although total imports, especially of oil, continued to fall, much of this surplus resulted from export expansion. Measured in current US dollars, total exports for the first eleven months were 23% greater than in the same period in 1983; the comparable increase for industrial exports was 35%. Reflecting the favorable trade performance, Brazil's international reserve position has also improved markedly.

12. Inflation is no longer accelerating, but reducing it under the current system of indexation and in the context of very resilient inflationary expectations is proving to be exceedingly difficult. Indexation, while making it difficult to reduce inflation, does of course mitigate some of the adverse economic and social effects commonly associated with inflation. Although the aggregate demand has been substantially reduced, as a result of the measures taken to eliminate the real consolidated public sector deficit, indexation and inflationary expectations continue to propagate the inflation. A major challenge for the new Government will be to restore confidence and, in doing so, dampen inflationary expectations. To accomplish this, a comprehensive and consistent medium-term strategy and a clearly stated and credible economic program will be essential.

External Assistance and Creditworthiness

13. The medium-term economic prospects for Brazil are generally encouraging, assuming the continuation of the recovery now becoming evident. This recovery depends, however, both upon the economic policies pursued by the Government and a number of external economic conditions outside the control of Brazilian policy-makers. The level of international interest rates, oil prices, continued recovery in the OECD, the avoidance of additional trade barriers for Brazil's exports, and the willingness of the international commercial banks to increase their nominal exposures are all critical for Brazil. At the same time, much will also depend upon the conduct of national economic policies by the incoming Government. The present situation requires a comprehensive and integrated, medium-term, strategy for structural adjustment and economic recovery. This strategy should focus on greater production efficiency, an improved allocation of economic resources, reduced inflation, increased investment and savings, further export promotion, and a reduced reliance on external borrowing.

^{1/} Over three quarters of Brazil's external debt carries variable interest rates, or is short-term, so that a change of 1% in average interest rates means a balance-of-payments gain or loss of about US\$750 million. Similarly, a dollar per barrel change in average annual oil prices has an impact of up to US\$300 million on the trade balance.

14. On the basis of relatively cautious assumptions relating to the international environment, and the projected domestic economic recovery, Brazil could achieve substantial improvements in its balance of payments situation, external debt outlook, and creditworthiness indicators. The resource balance, which turned positive in 1983 with the large trade surplus of that year, would continue to grow, resulting in a further reduction of the current account deficit. This deficit, which amounted to US\$6.2 billion in 1983 (equal to about 3% of GDP) and an estimated US\$2.6 billion in 1984, is projected at US\$2.4 billion in 1990. The debt would grow at much more modest rates than in the past. Total medium and long-term debt is projected to grow, in nominal terms, at an annual rate of 4.8% from 1983 to 1990, below the projected rate of international inflation. The projections assume that gross disbursements would rise from US\$14 billion in 1985 to about US\$22 billion in 1990 in current prices, and amortization from US\$10 billion to about US\$15 billion in the same period, with net disbursements averaging approximately US\$6 billion annually. For private M< debt, the projections are consistent with reductions of total real commercial bank exposure in Brazil and a reduced share of Brazilian loans in total commercial bank lending portfolios. Nevertheless, continued new lending will be required for the foreseeable future.

15. Creditworthiness indicators for Brazil would improve substantially over the projection period. The total debt service ratio is projected to fall from 82% in 1983 to a plateau of 69-70% for 1984-86, and then decline gradually to about 46% in 1990. In the absence of any further rescheduling, there would be an amortization bulge in 1986. The total external debt as a multiple of total goods and non-factor service exports is projected to decline continually, after having reached a high of 3.9 in 1982. By 1990 the ratio is projected to have fallen to 2.0.

16. One striking feature of the balance-of-payments projections is the magnitude of the projected net financial medium- and long-term resource transfers (excess of interest over net new borrowing) from Brazil to its creditors. This transfer would amount to almost US\$8 billion in 1985. The net resource transfer over the entire projection period would average 3% of GDP annually. Even with these transfers, however, economic growth of a reasonable magnitude could occur.

17. Base case projections, with the component sectors of GDP projected on the basis of assumed economic policies and individual sectoral prospects, show a gradual recovery from 1985 on, with GDP growth increasing from a projected 4.3% in 1985 to 6.6% in 1989. Throughout the 1984-90 period an average increase in real per capita consumption of 3.0% annually is projected. Even so, it would not be until 1989 that the 1980 level of per capita income would be restored.

18. Alternative projections assuming a more vigorous pursuit of export promotion policies produce more favorable results suggesting the possibility, with eased foreign exchange constraints, of GDP growth exceeding 7% a year by 1990. On the other hand, adverse changes in the LIBOR, oil prices, and particularly in export growth (whether through restraints by trading partners, adverse international economic conditions, or inappropriate domestic economic policies) could undermine and delay the recovery.

19. Any projection results must be viewed cautiously because of the enormous uncertainties regarding future international market conditions. Nevertheless, some conclusions may be drawn. First, the success of Brazilian development strategy over the foreseeable future will depend upon the country's success in expanding exports. Second, given the seriousness of the external constraints, Brazil's economic growth over the period 1984-90 will be more modest than during the 1970s. Third, to sustain that more modest rate of growth will require both a continued net inflow of external financing, at least in nominal terms, and a greatly improved savings effort from the domestic economy. Finally, despite the clear difficulties and risks inherent in the current situation, Brazil has the economic strength, with the support of its lenders, to work its way out of the present liquidity situation and resume a satisfactory rate of growth while continuing to meet its international obligations. Thus, Brazil should remain creditworthy for new borrowing on conventional terms in the magnitudes indicated above.

Poverty Alleviation Programs

20. Although Brazil continues to be characterized by severe income inequality, the Government over the past decade 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 programs have been strengthened and extended to rural areas, and upgrading and expanding 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. In part as a reflection of these and other programs, there are 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. 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 present economic difficulties on output and employment, however, there is a possibility that some of these gains could have been seriously eroded in the present crisis. Slow growth in employment opportunities, at the rates of GDP growth currently postulated for the 1980s, emerges as a potentially serious problem. Large unemployment and underemployment would persist well after the recession, unless strategies favoring more labor-intensive activities or technologies are pursued.

PART II - BANK OPERATIONS IN BRAZIL

21. By September 30, 1984 the Bank had made 134 loans to Brazil, amounting to US\$9,725.3 million (net of cancellations), of which 69 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,

US\$764 million in FY83, and US\$1,405.0 million in FY84. The undisbursed amount as of September 30, 1984 was US\$3,782.9 million. Annex II contains a summary statement of Bank loans.

22. Over the FY77-83 period, Bank lending to Brazil ranged from US\$425 million to over US\$1,457 million per year. In FY84, 10 loans totalling US\$1,573.8 million were approved. They were US\$52.7 million for a market towns improvement project in the State of Parana, US\$352 million for an export development project, US\$303 million for an agricultural credit and export development project, US\$65.2 million for the third phase of the Northwest region development program, US\$222.8 million for a rural electrification project, US\$250.6 million for a power distribution project, US\$20.0 million for a technician training project, US\$40.0 million for an urban basic education project in the North-Centerwest regions, US\$210 million for the rehabilitation and maintenance of the federal highway network, US\$55.5 million for basic health care in the State of Sao Paulo and US\$2.0 million for national health studies. In addition, a total of US\$30.5 million of supplemental financing for on-going agricultural and rural development projects was approved in FY84. No loan has been approved so far for Brazil in FY85. Work is relatively advanced however for a US\$72 million loan for science and technology project, and for loans for a second agricultural sector project, for electric power, for rural water, and for three rural development projects in the Northeast of Brazil.

23. Brazil's external medium- and long-term public and private debt outstanding and disbursed is estimated to have been US\$81 billion at the end of 1983. The Bank's share in this total is estimated at 4.3% while its share in total debt service is estimated at 3.5%.

24. As of September 30, 1984, IFC commitments to Brazil totalled US\$1,019.53 million, of which US\$662.20 million had been sold, repaid or cancelled. Of the balance of US\$357.33 million, US\$278.79 million represent loans and US\$78.54 million equity. A summary of IFC's investments as of September 30, 1984 is given in Annex II.

Lending Strategy

25. 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.

26. 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 third agro-industries project, financing of a higher share of project

costs of recently approved projects in social sectors, supplemental financing amounting to US\$30.5 million for two on-going agricultural and rural development projects, and amending existing loans where warranted to provide for higher Bank disbursement rates during the period covered by the Bank's Special Action Program. Also, greater use is being made 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.

27. 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. The proposed loan, following up on two previous loans to BNDES, aims at strengthening industrial development along these lines. Sector loans to industry and agriculture, envisaging a restructuring of incentive and trade policies in support of Government initiatives, have been approved by the Executive Directors. Follow-up loans designed to support the next steps in this adjustment process are under preparation.

28. 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. Further 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.

29. 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 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. Following up on a nutrition research and development project and a first health project for the northwest region, a basic health care project in the state of Sao Paulo and a national health studies project are helping promote efficiency, cost effectiveness and equity in the delivery of health services in Brazil.

Several projects for rural and urban development, for health and for rural water supply and sanitation, directed mainly to the needs of the lowest income groups in the Northeast, are under preparation.

30. Institution-building and improving the operations of the public sector remain important components of the Bank strategy for Brazil and would be a prominent feature of the proposed project. 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. Co-financing opportunities have been rather limited in Brazil in the last two years, as the volume and terms of commercial bank financing have been determined within the framework of the debt rescheduling package. Co-financing could become more important in the near future, however, and as evidenced by the recently approved Bank participation in a syndicated guarantee facility for the Carajas Iron Ore Project (Loan 2196-BR), the new co-financing instruments developed by the Bank could play a role in encouraging commercial banks to provide Brazil with better financing terms and possibly additional lending for high priority projects.

PART III - THE INDUSTRIAL SECTOR AND ITS FINANCING

Industrial Growth and Structural Change

31. In the 30 years up to and including 1980, Brazil secured high and occasionally spectacular rates of GDP growth largely because of the expansion and diversification of its manufacturing sector. In the 1950s and 1960s, high rates of industrial growth averaging about 8% annually were attained primarily through import substitution with high import protection and the encouragement of foreign direct investment. The distortions emerging in this process, including high production costs in some areas, low labor absorption, high levels of capital intensity as reflected in both product mix and technology choice and discrimination against the agriculture sector and exports, led the Government, in the late 1960s, to introduce some trade policy liberalization measures. These measures included increased export incentives, a reduction in import restrictions, and improved exchange rate management. Exports began to grow rapidly, and in 1971-73, GDP and industrial growth reached about 13% and 14% per annum, respectively.

32. The first petroleum price shock of 1973-74 led to renewed import restrictions and further import substitution efforts with increased reliance on public sector enterprises. Manufacturing continued to expand,

and its share in GDP reached 28.6% in 1980, more than in most middle-income developing countries. While the share of manufacturing in total exports increased, only about 7% of total manufacturing output was exported in the 1970s.

33. Until 1980, producers of capital goods and durable consumer goods benefitted strongly from demand for machinery and equipment from Government sponsored infrastructure and basic industry projects as well as from rapidly rising consumer incomes. By 1979, these subsectors accounted for over one-third of manufacturing employment, production and value added. Industries producing non-durable consumer goods have lost much of the dominance which prevailed at the initiation of the high growth period, although they were still the largest industrial category in 1979.

34. About 1,600 of the 118,000 manufacturing enterprises covered by the 1980 industrial census are considered to be large-scale according to the definition employed by BNDES.^{2/} They employ 50% of the country's 4.6 million industrial workers and generate two-thirds of manufacturing output. The trend toward increased industrial concentration, which has affected particularly the metal products and equipment industries since 1967, may have come to a halt during the current recession. Sub-sectors with a high share of small and medium enterprises, particularly those producing non-durable consumer goods, have been less affected by declining demand than the capital goods industry which is dominated by large firms.

35. Many large manufacturing plants are owned by foreign or public sector enterprises. Public enterprises dominate in the steel, oil refining and basic chemicals industries; foreign firms in the automotive, machinery and equipment, and pharmaceuticals industries and several sub-sectors of the food processing industry. Some 530 foreign or publicly owned manufacturing enterprises control about 40% of industrial production. However, the current recession and the redirection of industrial policy in Brazil are reducing the incentives for growth of public enterprises.

36. Brazil's manufacturing industry is concentrated in the South-East, particularly in the Sao Paulo area where most of Brazil's metal working, machinery and automotive industries are located. Government incentive and investment policies have had only moderate success in locating industry in the less developed North-Eastern part of Brazil. The region increased its production share from 6.5% in 1975 to 7.6% in 1980.

37. While manufacturing was favored during the long period of high economic growth, it has also suffered a more severe set-back than other sectors during the current recession. While GDP fell by an estimated 6.0% in 1980-83, manufacturing output has fallen by about 16%, mainly in the capital goods and durable consumer goods industries which had benefitted during the growth period from high import protection and strong demand from public sector projects. Capital goods production has declined since 1980 by about 30% and capacity utilization is below 60%. Intermediate and

^{2/} BNDES defines small and medium enterprises as firms with fixed assets not exceeding 500,000 ORTN (about US\$3.7 million).

non-durable consumer goods industries are suffering less in the current crisis, partly because of their higher competitiveness which permits diversion of production toward export markets. Overall, industrial production during the third quarter of 1984 was still 13% below the 1980 level; manufacturing capacity utilization in Sao Paulo as estimated by the Sao Paulo Federation of Industries, was 72%, compared to over 84% in 1980; and industrial employment in the state of Sao Paulo (which generates more than half of Brazil's industrial GDP) had declined by 23% since December 1980.

38. The moderate recovery of industrial production during 1984 can almost wholly be attributed to a strong export performance. While total exports are growing at an annual rate of about 25%, exports of manufactures are rising at 34% in 1984. The export share of manufacturing output is currently estimated at over 15%, over twice the average of the 1970s. In 1980 over 4,000 firms were exporting part of their production and an additional 1,000, mostly Brazilian-owned private enterprises, have started exporting since 1980.

Industrial Policy

39. Background. On the basis of a large domestic market and ample resources, Brazil followed for most of the 1970s a development strategy of expanding production primarily for the domestic market. As noted, this involved high import protection and fiscal and financial incentives for industry oriented to the domestic market, while incentives provided for export production were generally inadequate to offset this bias. As a result, the Brazilian economy remained relatively closed and lack of import competition created some areas of inefficiency.

40. The main problem has been that effective domestic market protection was high and widely disparate across different sectors and industries. The average rate of effective protection for manufacturing in 1980-81 was estimated at 44%, with capital goods obtaining the highest effective protection, exceeding in some cases 100%. Tariff rates vary from zero to 205% but are subject to pervasive exemptions and tariff reductions: in the first half of 1983 only about 8% of imports were subject to the full specified duty, and duty collections were only 5.1% of import values. Non-tariff restrictions are more important protective devices than tariffs. Until September 9, 1984, import licenses had been suspended for practically all products produced in Brazil, and the bulk of imports were being made under special import systems (including Government import programs which have been severely cut back). About 24 special import programs are currently in operation.

41. Changes in Import Policies. Substantial changes in the import regime are now being made. After liberalizing the duty drawback system in 1983 under the Bank's first Export Development Project,^{3/} the Government has taken additional steps in the direction of trade and import liberalization. In September 1984, the Government took the following

^{3/} Report No. P-3646-BR of September 15, 1983.

measures: (a) the list of products subject to suspended import licenses was reduced from about 4,000 to about 2,000 items; (b) the need to establish the unavailability of local supply to import externally financed goods was eliminated; (c) minimum external financing requirements for imports were lowered to reflect international credit conditions; and (d) import surcharges were replaced by considerably lower import duties; as a result, the average nominal import duty of items subject to surcharges was reduced from 145% to 75%. Further measures under consideration are: (i) the expansion of the duty drawback system to include indirect exporters; (ii) further actions to be taken in the near future to rationalize and reduce import restrictions; and (iii) preparation of a medium-term, phased program of measures to continue import liberalization.

42. Exchange Rate. Since the maxi-devaluation of February 1983 (and the coincidental growth of import demand in the United States) manufactured export growth has sharply accelerated. The 1984 trade surplus will exceed the US\$9 billion target by more than US\$3 billion and will be, by far, the highest surplus ever achieved by Brazil. The Government is currently maintaining a policy of mini-devaluation against the US dollar in line with domestic inflation, and has indicated that this policy will continue for the present. This would establish the basis for further export growth and a continuation of the export-led recovery, which depend critically on an exchange rate regime that keeps exports competitive in world markets.

43. Fiscal Incentives are contributing to manufactured export profitability. Export production is exempted from taxation, including the corporate tax on income from exports. Exporters of manufactured goods also receive a negotiable tax credit certificate of currently 9% of FOB export value. However, this incentive, the credito premio, is being gradually phased-out and will be completely eliminated by April 1985. Finally, there are two systems which provide imports of production inputs and machinery at reduced import duty. The duty drawback system is already an effective export promotion system and the Government is taking steps to expand it so that domestic suppliers of production inputs to export manufacturers can also import their inputs duty free. The Special Program of Fiscal Incentives for Exporters (BEFLEX) system permits imports of machinery at reduced duty rates for manufacturers entering into long-term export commitments with the Government. Currently, more than 250 enterprises maintain long term BEFLEX contracts, and about 30% of manufactured exports (US\$4.0 billion) are expected under such contracts in 1984.

44. Preferential financing from credit lines operated by public sector institutions is provided for both export and priority domestic market manufacturing. In line with the severe credit restrictions imposed by the Government, the 1984 resources for export financing have been cut. Consequently a major part of the export financing must be obtained on commercial terms which are extremely high (exceeding 25% in real terms). The pre-shipment credit system for manufactured exports was discontinued in

August 1984 and replaced by a new system under which the Government is to grant an interest rate subsidy (interest equalization) to commercial banks, equivalent to 10%-15%, for qualifying exporters. It should be noted that these exporters will still have to pay a 10-15% real interest rate on the pre-shipment credits that they may obtain from the banking system. BNDES and the State Development Banks are the most important sources of long-term financing. Details of the credit programs operated by the development banking system are described in paragraphs 62 through 66 below.

45. Industrial Policy Reform. As noted above, industrial policies in Brazil are currently undergoing substantial changes towards increased market orientation. Nevertheless, some price distortions, particularly those supporting relatively capital-intensive techniques of production, could continue to exist. The scheduled abolishment of some export incentives for revenue purposes may also partly restore an anti-export bias and provide support for import-intensive industrial production unless there are compensating changes in other policies. Because of such concerns, the Government has launched, in cooperation with the Bank, a series of studies for a broad-based policy reform. Important studies on export and industrial financing as well as on the import protection system are already underway. Policy measures emanating from these studies would be considered for implementation in the future and could be instrumental in correcting price distortions remaining in the system.

46. Outlook. Brazil's manufacturing sector has the potential to resume its role as the leading sector in the economy, if industrial policies continue to be adjusted toward increased market orientation and new investment is channelled into activities that make good use of Brazil's ample human and raw material resources. Recent steps and those contemplated to reduce subsidies and liberalize trade should help to achieve a more efficient allocation of investment resources. The introduction of economic project evaluation procedures in BNDES and other investment decision making institutions which would be supported under the proposed project, would also contribute to more efficient resource use.

47. At the present time, there are relatively few supply problems to restrict industrial growth. There is idle productive capacity in practically all industries, and labor at all skill levels is also readily available. Export-oriented enterprises can acquire imported production inputs and machinery under the duty drawback and the BEFIEX systems without major difficulty. On the demand side, however, there exist serious problems for Brazilian manufacturers because of the lack of domestic demand and protectionist pressures which have become apparent in a number of the foreign markets in which Brazil sells. Yet, the evidence suggests that exporters have had some success in adjusting to the requirements of foreign markets. Provided that Brazilian manufacturers obtain the financial

support necessary for upgrading product quality and design, large foreign markets could be opened up, particularly for agro-industrial products, metal products and equipment.

48. Industrial Sector Financing Requirements and Brazil's Financial System. GDP growth is expected to be over 3% in 1984, because of the export-led industrial recovery experienced during this year. In 1985, manufacturing is expected to grow by at least 5% to 6% and manufactured exports by double this rate. In spite of the idle capacity in Brazil's manufacturing sector, these growth rates would generate a substantial need for investment in fixed assets for new or improved products and permanent working capital, particularly in export-oriented industries. The most recent data, of 1979, show that fixed investment in manufacturing was US\$8.6 billion of which US\$2.8 billion were invested by small and medium enterprises, US\$2.3 billion by large Brazilian private enterprises and US\$3.5 billion by public and foreign enterprises. Fixed investment during 1985 and 1986 will probably be only about one-half of 1979 levels, corresponding to about US\$6.0 billion p.a. in current dollar values. Fixed investment by Brazilian private manufacturing enterprises would, in these circumstances, amount to around US\$3.5 billion in each year, though this could increase rapidly if the recovery gathers momentum.

49. Working capital requirements were shown in the 1979 census data to average about 15% of the value of manufacturing production. Recent low demand and the current high cost of finance have led manufacturers to reduce inventories to abnormally low levels. Consequently, there exists a need to meet minimal working capital requirements in 1985 and 1986 in spite of the expected prevailing high interest rates. Assuming a temporary ratio of working capital to total output of 25%, and an annual increase of around US\$20.0 billion in the current value of production, the incremental needs for working capital for Brazilian private manufacturing enterprises could amount to about US\$2-3 billion per annum in 1985 and 1986. The US\$300.0 million loan proposed in this report would finance a relatively small but important part of these fixed and working capital requirements in 1985 and 1986. The project would finance investments totalling about US\$937.0 million shared between SME and large firms, and would meet about 8% of their total requirements, including around 11% of working capital needs.

50. The Financial System. Brazil's complex financial system is organized in two tiers.^{4/} The first consists of the Central Bank (BACEN) and the Bank of Brazil (BB) (which form the Monetary Authority), the National Economic and Social Development Bank (BNDES), and the National Housing Bank (BNH). Except for BACEN, these institutions lend directly and also pass on funds for relending to the group of second-tier financial intermediaries: the commercial and investment banks, the State Development Banks (SDBs), the finance companies, and the savings and loan institutions.

^{4/} An analysis of Brazil's financial system can be found in the World Bank report: Brazil - Financial System Review (Washington, D.C. 1984). See also World Bank, Brazil - Economic Memorandum, 1983 (Washington, D.C. 1984), Chapter 2, for an analysis of the flow of funds and the financing of the public sector.

51. In addition to having most of the responsibilities and functions of a central bank, BACEN also supplies funds for various Government programs. BNDES, the national development bank, is the main source of long term financing for the industrial sector. There are 107 commercial banks of which 81 are private and 21 are owned by state governments. They concentrate on short term credit, although on a limited scale they act as intermediaries for term lending by the federal banks. The 37 investment banks lend mostly for working capital, but also channel term funds, mainly from BNDES. However, they play an important role in assisting larger clients raise long-term capital through the placement and underwriting of corporate debt and equity. The SDBs are government-owned state and regional development banks, acting principally as agencies for BNDES term credit to the industrial, service and distribution sectors.

52. Private pension funds have been the most rapidly growing component of the long term capital market and currently have assets of US\$4.4 billion. The corporate debenture market grew rapidly until recently, owing to severe bank credit limits and wide spreads in the banking system, and in 1981 issues totaled some US\$1.7 billion. Issues in this market virtually ceased at the end of 1983 when the tax law was changed making yields unattractive to investors. Leasing companies have expanded in real terms at a rapid rate since the mid-1970s. In response to the recent restrictive credit limits, a large volume of non-negotiable inter-company borrowings has developed.

53. Recent Financial Policies and Conditions. By the end of 1983, after Brazil had experienced three years of negative per capita growth and inflation reached 211% for the year, debate intensified on the need for a change in economic strategy, including a major reform of the financial system which would establish BACEN as the sole Monetary Authority, transfer its development banking functions to BB and/or BNDES, and curtail the use of credit subsidies, which would have to be financed from the Federal budget subject to Congressional control.

54. In 1984, inflation remained high, exceeding 200% for the second year in a row. A continued tight monetary policy, government imposed credit ceilings and the short maturities of liabilities have created serious liquidity problems for many industrial enterprises. Domestic interest rates have been on the order of 25% p.a. and above in real terms. By the third quarter of the year, there were, however, clear signs of an export-led recovery in economic activity. Nevertheless, maxi-devaluations in December 1979 and February 1983 have increased the indebtedness of firms with foreign obligations and a combination of depressed output and very high domestic interest rates have resulted in losses, eroded equity and increased short-term indebtedness. Some firms in highly cyclical industries such as capital goods or construction, especially those which entered the recessionary period with substantial indebtedness, are in significant financial distress. From a long run point of view, many of these companies are efficient. When growth resumes and real interest rates fall to normal levels, these firms should be financially viable.

Unfortunately, in the interim, high financial charges and operating losses have eroded equity to the point where bankruptcy has occurred. Under current conditions, there is an extreme need for long-term debt and equity finance by Brazilian industrial firms to strengthen their financial positions: Equity finance is needed because balance sheets have become more leveraged; long-term finance is needed to refinance excessive short term borrowings, reduce current debt service obligations and undertake new capital investments. The proposed loan would help meet the need for long-term finance to support investments by export firms and SMEs.

Past Lending and Bank Strategy

55. The Bank's first loan to BNDES to finance SMEs dates back to February 1976 (First Development Banking Project, Loan 1206-BR, US\$85.0 million). The loan was not fully committed mainly because, between 1976 and 1980, the bulk of BNDES lending programs for SMEs carried heavily subsidized and negative real interest rates. Furthermore, because of budgetary constraints and other priorities, BNDES was also unable to fully comply with its institution-building undertakings under the loan. In 1980, after about 37% of the loan had been disbursed, the balance (US\$53.8 million) was cancelled. This project is the subject of a Project Completion Report dated November 30, 1981. A Project Performance Audit Report, under preparation, is expected to be submitted to the Bank's Executive Directors shortly. A draft of this Audit Report concluded that the project, while making only a small contribution to improving the systems and procedures of BNDES and the SDBs, nevertheless helped sensitize BNDES to the necessity of strengthening the national system of development banks. The report also pointed to the need for further improving the appraisal and supervision work of some SDBs, particularly the introduction of economic analysis. These institutional improvements are being pursued in the Second Development Banking Project (para. 56) and are also a principal focus of the proposed project.

56. In May 1982, the Bank's Industrial Sector Report (No. 3766-BR of July 2, 1982) was discussed with the Government. The Government expressed its agreement with the report's scope and main recommendations including such areas as export subsidy reductions, interest rate policy and domestic price controls, where important policy improvements were being initiated by the Government. This improved policy framework and dialogue and the fact that the specific problems that affected Loan 1206-BR had been rectified, led the Bank to approve, on December 21, 1982, a Second Development Banking Project loan for US\$220.0 million (Loan 2225-BR). This loan is helping BNDES to finance mainly small and medium enterprises (SME) through the SDBs and is further contributing to strengthening the institutional capabilities of SDBs, some of which are now applying economic analysis for at least the larger projects they finance.

57. The implementation of the Second Development Banking Project is proceeding satisfactorily. As of October 31, 1984, US\$175.0 million equivalent of the loan had been committed, and US\$171.0 million had been disbursed (including the US\$25.0 million advance in a Special Account in the Central Bank). The loan has disbursed rapidly since March 1983 when the Bank, as part of the Special Action Program, agreed to increase its

financing from 50% to 67% of subloans for fixed assets and related working capital and from 12.5% to 50% of subloans for permanent working capital only, and to finance 50% of subloans for financial restructuring operations in certain cases to improve the maturity structure of the debts of basically sound firms with liquidity problems. Some 55% of loan commitments as of June 30, 1984 had been used for working capital and financial restructuring loans for SMEs to rebuild inventories, to maintain or regain capacity utilization and employment levels, or to restructure a firm's debt by making a term loan at a reasonable interest rate. Disbursements in these restructuring cases were limited to purchases of inventories in the preceding six months. The remaining 45% of loan commitments have been used for fixed assets and permanent working capital financing. The loan is expected to be fully committed by March 1985 and fully disbursed by late 1985.

58. As noted above, dialogue between the Government and the Bank on industrial and financial policies has expanded in recent years and a number of policy measures have been adopted by the Government with a view to expanding manufacturing exports, increase industrial efficiency and allow the financial system to mobilize and allocate resources more effectively. Improvements in exchange rate and trade policies adopted in 1983 have been strengthened and broadened by import liberalization measures adopted in the past few months. At the same time, current tight credit restrictions, which can be expected to continue for some time, are hampering efforts by soundly-managed and efficient small and medium enterprises and export manufacturers to adjust to the new policy environment and contribute to Brazil's export drive. The proposed loan would continue the Bank's support for the policy reform efforts by helping to ease the credit constraints imposed on private industry.

PART IV - THE PROJECT

59. The project was identified by the Bank in September 1983 and was prepared by BNDES with the help of Bank staff. It was appraised in May/June 1984 and the appraisal mission's report (No.5277-BR dated January 1984 entitled "Staff Appraisal Report - Third Development Banking Project") is being distributed separately. Annex III contains a Supplementary Project Data Sheet. Negotiations of the loan took place in Washington from December 10 through December 15, 1984. The Brazilian delegation was headed by Mr. Bernardo Frydman of BNDES.

Project Objectives

60. The basic objectives of the project would be as follows:

- (a) to provide term credit on reasonable terms to enable larger manufacturing companies to initiate a program to export or increase exports; to this effect, the project would help finance purchases introduction of quality control systems to reorient production or adapt it to the needs of foreign markets;

- (b) to provide additional resources for small and medium enterprises after Loan 2225-BR is fully committed; and
- (c) to establish within BNDES the procedures and capabilities for doing economic analysis, to begin using economic analysis in project selection and evaluation, and to continue the process started in Loan 2225-BR of expanding the capability and procedures in the state and regional development banks for doing economic evaluation of the larger projects they finance.

The project is expected to be carried out over a period of about four years beginning April 1985.

Project Execution

61. The Federative Republic of Brazil would be the Borrower and would make the resources of the loan available to BNDES through the Central Bank (BACEN). Appropriate arrangements satisfactory to the Bank for channeling the loan resources to BNDES would be a condition of loan effectiveness (Section 6.01(c) of the draft Loan Agreement). BNDES would make the Bank resources for SMEs available to eligible financial intermediaries through the Program of Joint Operations with Agents (POC) of BNDES' Projects Department III (AP-III), and resources for direct operations with larger export companies available through BNDES' Projects Department I (AP-I). For the most part, these institutional arrangements have been patterned after those for the Second Development Banking Project which have proven satisfactory. BNDES' lending terms and conditions would be in accordance with its policies and procedures for the respective operations which are satisfactory (para. 74).

BNDES Operations and Performance

62. The BNDES System ^{5/} is one of the principal channels for term credit and investment capital for both private and public companies in Brazil. The system comprises BNDES and its two subsidiaries: FINAME, which finances the acquisition of machinery and equipment fabricated in Brazil, and BNDESPAR into which three former subsidiaries, which operated in the capital goods, basic inputs, and consumer goods sectors, were recently merged. Until May 1982, BNDES financed its operations principally from two social funds (the resources of which it administered for a fee), domestic and foreign borrowings, capital contributions of the Federal Government, retained earnings, and resources supplied by the Government for special programs. In May 1982, it was given the responsibility for administering a new social fund (FINSOCIAL), financed by an earmarked 0.5% turnover tax, to be used to finance projects in food, low cost housing, health, education and small scale farming and was again made responsible to

^{5/} Banco Nacional de Desenvolvimento Economico e Social (BNDES), Agencia Especial de Financiamento Industrial (FINAME), and BNDES Participações, S.A. (BNDESPAR).

SEPLAN as it had been prior to 1979 when it was placed under the responsibility of the Ministry of Industry and Commerce. In June 1983 it was made the financial agent of the Merchant Marine Fund with responsibility for disbursing funds for projects approved by the Merchant Marine Council.

63. Between 1979 and 1983, the BNDES System approved loans and investments totaling US\$19.6 billion equivalent, principally for industry but also for energy and transportation and since 1982 for social programs through FINSOCIAL. Although the Southeast Region, and principally the most highly developed area of Sao Paulo and Rio de Janeiro, has benefited most from BNDES resources, BNDES has allocated its funds on a broad geographical basis. Most BNDES operations are direct loans, equity participations and guarantees, and loan operations through financial intermediaries; however, it also has programs to capitalize private national companies by loans to investors and investment bankers to subscribe for shares or debentures of national enterprises. At the end of 1983 BNDES had total assets of US\$15.5 billion. Over the years, BNDES has managed its operations on a profitable basis. However, in 1983 it suffered large losses from the maxi-devaluation of the cruzeiro both on its own uncovered foreign exchange position and that of its subsidiaries and affiliates. BNDES passes on most of the foreign exchange risk on its borrowing to its larger customers and is taking steps to have its foreign exchange exposure completely covered by the end of 1986. BNDES agreed during negotiations to take measures, as necessary, to ensure that its foreign exchange exposure is minimized (Section 2.01(b) of the draft Project Agreement). Although BNDES' provision for bad debts is small, i.e. about 0.3% of its outstanding portfolio, BNDES considers, and its external auditors agree, that the provision is sufficient since BNDES holds adequate real guarantees on its loans.

64. BNDES' AP-III is responsible for the analysis, contracting and supervision of operations and programs through financial intermediaries, namely, the state and regional development banks, the state commercial banks with development portfolios, and the investment banks. AP-III also supervises the performance of these financial intermediaries and coordinates the provision of technical and managerial assistance to SDBs. AP-III had 110 staff at the end of June 1984. Staff are generally well qualified, with a number of years of experience working with financial intermediaries. AP-III's main program of operations is its Program of Joint Operations through financial intermediaries (POC) which the proposed loan would support. In recent years as the SDB system has matured, AP-III has shifted from mainly reviewing specific subprojects and programs financed through financial intermediaries, to giving greater emphasis on the institutional, organizational and financial condition of the intermediaries.

65. There are two project areas responsible for direct operations: Project Areas I and II (AP-I and AP-II). AP-II deals with projects in energy, regional and agricultural development, and infrastructure. BNDES' AP-I is responsible for the analysis, contracting and supervision of the direct industrial operations of BNDES. It has three departments for Chemical Industries, Metallurgy and Mining, and Traditional Capital Goods Industries. At the end of June 1984 it had 141 qualified and competent staff. AP-I resources are normally used to finance civil works, working capital and financial restructuring, often jointly with FINAME (equipment) and BNDESPAR (equity participations). BNDES follows the priorities established by the Government for selecting projects and emphasizes financial rather than economic evaluations of projects. BNDES would gradually introduce cost-benefit analysis and economic rate of return calculations for industrial projects it finances along the lines described in paras. 67 through 69 below.

The State and Regional Development Banks

66. The system of financial intermediaries consists of the SDBs (the 12 state development banks, 4 regional development banks, and 11 state commercial banks with development portfolios) and the 37 private investment banks. Although a number of the SDBs only started to operate in the 1970s, they have proved to be dynamic instruments which the federal and state authorities use for implementing their economic development policies. At the end of 1983 the SDBs had assets totalling US\$5.0 billion. Because of the severe recession and the recent limitations placed on the flow of resources to public enterprises, the loan portfolios of the SDBs have deteriorated seriously and some have suffered losses and a rise in debt/equity ratios. AP-III is attempting to assist the SDBs by: providing more term resources to the SDBs for investments and the financial strengthening of their customers; making loans to the state governments when the financial condition of the state governments improves for equity participations in the SDBs; and supporting the training of SDB staff to strengthen their project evaluation and administration capabilities. The proposed project would support BNDES' efforts to strengthen the intermediaries institutionally and financially. During negotiations the Bank agreed with BNDES on a Plan of Action for strengthening the SDBs financially and operationally including a program of training and technical assistance to be carried out through the Association of Development Banks (ABDE) and on increases in the onlending rates and financial spreads on AP-III programs. It was also agreed that Bank funds would not be used to finance subprojects of SDBs which do not meet the financial standards established by the Central Bank e.g. debt not in excess of fifteen times equity (Sections 2.07 and 2.01(c) of the draft Project Agreement).

Institutional Strengthening of the Brazilian National System of Development Banks

67. The key institution-building objective of the proposed project is to upgrade economic analysis capabilities within BNDES for making more use of economic analysis in project selection and evaluation. A Project Evaluation Plan for these purposes has been prepared by BNDES in consultation with the Bank and agreed during loan negotiations. It calls for a gradual introduction of cost-benefit analysis and economic rate of return calculations into BNDES project analysis over a period starting April 1, 1985 and ending September 30, 1986. As an initial step, BNDES would complete, not later than March 10, 1985, a review of the methodologies and experience of similar institutions in doing economic cost-benefit analysis, define the methodology to be introduced in BNDES and the parameters and criteria for its application, select the sectors and sequence in which the methodology will be applied, and identify the operating procedures, organizational arrangements, training and technical assistance requirements for implementing the new methodology. A detailed Project Evaluation Plan based on the findings of the review would be discussed with the Bank and submitted to BNDES' Board for approval. A condition of loan effectiveness would be approval by BNDES' Board of the detailed Project Evaluation Plan (Section 6.01(b) of the draft Loan Agreement).

68. Over the period starting April 1, 1985 and ending March 31, 1986, BNDES would complete the introduction of cost-benefit analysis in accordance with the defined methodology, parameters and criteria for projects in the initial sectors identified following the review referred to above. From February 1, 1986 to March 31, 1986, BNDES would carry out an evaluation of its experience with cost-benefit analysis in accordance with terms of reference agreed upon with the Bank in order to take into account lessons learned for applying the analysis in the remaining sectors. Over the period starting April 1, 1986 and ending September 30, 1986, BNDES would complete the introduction of cost-benefit analysis for projects in the remaining sectors including industrial projects which it finances directly and which are above a total project cost of 500,000 ORTN (about US\$3.7 million).

69. No later than June 30, 1986, direct industrial subprojects submitted by BNDES for Bank financing would include a cost-benefit analysis. Until such a requirement is met the Bank would normally authorize only direct industrial subprojects for firms which have demonstrated their efficiency by exporting at least 10% of their production in one or more of the preceding three years. Until the Bank has received satisfactory evidence that BNDES has begun using cost-benefit analysis and rate of return calculations for AP-I subloans, following the initial review and evaluation referred to in paragraph 68 above, the Bank would limit its approvals for disbursement to subloans totalling not more than US\$50.0 million for BNDES directly financed industrial subprojects and not more than US\$100.0 million for SMEs. Moreover, if BNDES fails to carry out the Project Evaluation Plan on terms satisfactory to the Bank, the Bank may

suspend the right of BNDES to present subloan applications under the project. The above understandings are reflected in Section 2.03(d) and in Schedule 2 to the draft Project Agreement.

Cost and Financing

70. The loan would support an investment program (of about 24 months) totalling about US\$937.0 million. Bank and BNDES resources combined would cover about 60% of the total cost of eligible subprojects for SMEs, and 50% for projects with larger enterprises. Project beneficiaries would finance the rest of subproject cost from their own resources. The Bank loan would cover 67% of BNDES' disbursements for subprojects for fixed assets and permanent working capital and 50% of subprojects for permanent working capital only. The Bank loan would finance about 32% of the cost of eligible subprojects. This is above the estimated foreign exchange component of 20%, but is justified so that the Bank can make a reasonable contribution to subproject financing. The proposed US\$300.0 million loan includes the capitalized front-end fee of US\$0.75 million and US\$1.0 million to cover the cost of training and technical assistance to introduce economic project analysis.

Loan Features

71. Eligible sub-borrowers would be (a) small and medium Brazilian-owned or controlled private enterprises with fixed assets, including the new investment being financed, not exceeding 500,000 ORTN ^{6/} (about US\$3.7 million), in all productive, distributive and service activities except agriculture and housing; and large Brazilian-owned or controlled industrial enterprises for investments not exceeding 1.5 million ORTN (about US\$11.0 million) financed through financial agents; and (b) large, private, Brazilian owned or controlled industrial enterprises which receive resources directly from BNDES to initiate a program to export or increase exports. Subloans would be for fixed assets and permanent working capital to expand facilities and for working capital only to expand production.

72. In accordance with its Project Evaluation Plan BNDES would not be required to include a cost-benefit analysis in the direct industrial subprojects submitted to the Bank for financing until June 30, 1986. Until this requirement is met, the Bank would finance only large enterprises which had demonstrated their efficiency by exporting at least 10% of their sales in one or more of the preceding three years. Moreover, subproject evaluations would be required to include detailed financial forecasts and financial rate of return calculations. After June 30, 1986 the Bank would finance large privately controlled industrial enterprises which have a program to export or expand or reorient production for export. The Bank would require a cost-benefit analysis of the first five direct industrial subprojects submitted for financing. On the basis of the quality of these evaluations and BNDES progress in carrying out the Project Evaluation Plan, BNDES and the Bank would discuss establishing a free limit for such subprojects (Section 2.12 of the draft Project Agreement).

^{6/} Provided they do not belong to a group with equity above one million ORTN.

73. For SMEs, financial intermediaries would be responsible for preparing subprojects. AP-III sets its own free limits for the financial intermediaries depending upon their experience and the quality of their project evaluations. For subloans through financial intermediaries for investment projects above 350,000 ORTN (about US\$2.5 million), BNDES would send to the Bank its evaluation and the financial agent's evaluation, which would include, after June 30, 1986, an appropriate economic evaluation of the investment project. Until June 30, 1986 subloan applications for projects costing more than 350,000 ORTN would include detailed financial forecasts and a financial rate of return calculation. For projects costing less than 350,000 ORTN where BNDES' subloans exceeds BNDES' free limit with the financial agent, BNDES would send the financial agent's evaluation (without an economic evaluation) and its evaluation. For other smaller subloans through AP-III, the Bank would be sent a copy of BNDES' project summary. It is expected that overall the Bank would review about 30 to 35 subprojects representing about 40% of the Bank loan.

Relending Terms

74. The proposed Bank loan would be made to the Federative Republic of Brazil at the Bank's standard variable interest rate. It would be repayable over 15 years on a fixed amortization basis, including three years of grace. Loan proceeds would be made available to BNDES on the same terms and conditions as the Bank loan, and BNDES would take the foreign exchange risk on the Bank loan. For SME subloans BNDES would onlend the proposed loan to participating intermediaries at rates from 1% to 9.5% p.a. in real terms ^{7/} depending upon the region, type of project and size of enterprise financed. Financial intermediaries would charge spreads of 2.5% to 5% p.a. and onlend to final beneficiaries at rates from 6% to 12% p.a. The final intermediaries would take the credit risk on all subloans. For subloans to large enterprises BNDES would onlend at 6% to 10% p.a. depending upon the sector or at BNDES cost of resources plus a 2% p.a. spread. In order to protect itself from foreign exchange risks, BNDES' policy is to pass on the risk on its foreign borrowings to its larger clients. The principal of all subloans would be corrected for changes in inflation according to the ORTN index. Interest rates are expected to be positive in real terms over the life of the subloans and would be reviewed periodically between BNDES and the Bank and would be revised in order to maintain a reasonable relationship between BNDES' rates and market rates in Brazil (Section 2.09 of the draft Project Agreement). Subloan maturities would be up to 10 years, with up to three years of grace for SME loans and for up to 15 years including up to 18 months of grace after project completion for loans to larger companies.

Disbursements and Procurement

75. The Bank loan is expected to be committed in about 24 months, and disbursed in about 30 months for SME projects (as in 2225-BR) and in about

^{7/} Rates favor the poorer regions, with the Northeast at the lower end of the range.

four years for projects with the larger enterprises, in accordance with BNDES' experience. The final date for submission of subloan proposals would be December 31, 1987, and the closing date December 31, 1989. The Bank would reimburse BNDES for a share of its disbursements on the basis of certificates of expenditure, and BNDES external auditors would, as part of BNDES' annual audit, give an opinion as to whether statements of expenditure can be relied upon to support disbursement applications. In any case, especially for the large direct BNDES operations, Bank supervision missions would check a sample of statements of expenditure against supporting documentation. In order to reduce the interval during which BNDES would finance the Bank's share of subloans, a Special Account would be opened in the Central Bank with an initial deposit of up to US\$35.0 million from the loan account. The Bank would replenish the Special Account on the basis of withdrawal applications sent by the Central Bank after it had paid BNDES.

76. Bank resources would finance principally civil works and inventories as most machinery and equipment included in subprojects would be financed, not with Bank resources but through FINAME, a BNDES subsidiary which finances domestically manufactured equipment with more than 85% Brazilian content. Such machinery and equipment would not be eligible for Bank financing under the loan. However, machinery and equipment financed directly by BNDES (which would be mainly imported) would be eligible for financing under the loan. Contracts for the procurement of machinery and equipment, estimated to cost the equivalent of US\$2.0 million each or more will be awarded through international shopping involving at least three (including at least two foreign) bids. Other procurement for subprojects would be in accordance with standard practice for loans to DFCs and would follow normal commercial practices of private sector enterprises, the beneficiaries of the proposed loan. These practices and BNDES' procedures are adequate to assure that the goods and services it finances are obtained in an economic and efficient manner. In the case of civil works, the Brazilian construction industry is highly developed and as a result few, if any, foreign contractors would bid except on very large civil works contracts and many would be dissuaded even in these cases from bidding because of the low capacity utilization of the Brazilian construction industry. In the case of inventories, Brazilian companies obtain their raw materials in most cases from established domestic or foreign sources of supply or engage in domestic or international shopping as a matter of established business practice.

Project Benefits and Risks

77. The proposed loan would supplement the limited resources of BNDES which is at present practically the only financial institution that provides medium- and long-term financing to industry. By improving access by efficient small- and medium-scale enterprises and export manufacturers to term credit on reasonable terms, the project would support the reorientation of production needed to raise the export competitiveness of Brazilian manufacturers. It would make a significant contribution to sustaining the incipient export-led recovery of industrial production and employment. The upgrading of economic analysis capabilities within BNDES and the SDBs and the changes in procedures in these institutions to make

more use of economic analysis in project selection and evaluation, besides representing a major institutional change in the Brazilian national system of development banks, would greatly contribute to improving overall allocation of investment resources in Brazil.

78. The major risk associated with the project arises from the fact that internal institutional opposition could undermine or delay the application by BNDES and other investment decision-making institutions of appropriate economic criteria in project selection and evaluation. Gradual introduction of the new evaluation procedures coupled with appropriate staff training and process monitoring are designed to help mitigate this risk. Bank staff would be available to assist BNDES in the implementation of the new project evaluation procedures. There is also a risk that the Government may fail to adjust the ORTN to fully reflect domestic inflation. This occurred for several months during the latter part of 1983, but the Government resumed full indexation following discussions with the Bank and the realization of the negative impact of their action in the financial markets. Covenants on the indexation of financial assets included in many Bank loans would help reduce this risk. It has been agreed that if the adjustment of the principal of BNDES' loans, together with the interest rates applicable to such loans shall, in the Bank's opinion, fail to be positive in relation to the prevailing inflation rate in Brazil, commitments and disbursements could be suspended (Section 2.03(d)(ii)(A) of the draft Project Agreement and Section 5.01(c) of the draft Loan Agreement).

PART V - LEGAL INSTRUMENTS AND AUTHORITY

79. The draft Loan Agreement between the Federative Republic of Brazil and the Bank, the draft Project Agreement between the Bank and the National Bank for Economic and Social Development (BNDES), and the Report of the Committee provided for in Article III, Section 4(iii) of the Articles of Agreement are being distributed to the Executive Directors separately. Conditions of effectiveness will be the execution of appropriate arrangements satisfactory to the Bank between the Federative Republic of Brazil and BNDES for transferring the Bank resources to BNDES and approval by BNDES' Board of Directors of the detailed Project Evaluation Plan for introducing cost-benefit analysis and economic rate of return calculations into BNDES' project analysis. Until the large industrial projects submitted for Bank financing include a cost-benefit analysis and economic rate of return calculation, loan commitments would be limited to US\$50.0 million for loans to larger enterprises and US\$100.0 million for loans to SMEs.

PART VI - RECOMMENDATIONS

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

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

A. W. Clausen
President

Attachments
January 10, 1985
Washington, D.C.

BRAZIL BRAZIL	- SOCIAL INDICATORS DATA SHEET				
				REFERENCE GROUPS (WEIGHTED AVERAGES) /a	
	1960/b	1970/b	MOST RECENT ESTIMATE/b	MIDDLE INCOME LAT. AMERICA & CAR	MIDDLE INCOME EUROPE
AREA (THOUSAND SQ. KM)					
TOTAL	8512.0	8512.0	8512.0	-	-
AGRICULTURAL	1636.4	1981.2	2352.7	-	-
GDP PER CAPITA (US\$)	330.0	600.0	2240.0	2108.6	2345.3
ENERGY CONSUMPTION PER CAPITA (KILOGRAMS OF OIL EQUIVALENT)	264.0	412.0	740.0	995.5	1122.8
POPULATION AND VITAL STATISTICS					
POPULATION, MID-YEAR (THOUSANDS)	72594.0	95847.0	126806.0	-	-
URBAN POPULATION (% OF TOTAL)	44.9	55.8	68.8	66.5	46.8
POPULATION PROJECTIONS					
POPULATION IN YEAR 2000 (MILL)			181.1	-	-
STATIONARY POPULATION (MILL)			303.6	-	-
POPULATION MOMENTUM			1.8	-	-
POPULATION DENSITY					
PER SQ. KM.	8.5	11.3	14.6	35.7	82.9
PER SQ. KM. AGRI. LAND	64.4	48.4	52.7	92.4	158.9
POPULATION AGE STRUCTURE (%)					
0-14 YRS	63.6	62.7	40.9	39.9	31.6
15-64 YRS	53.8	54.3	55.6	56.0	61.1
65 AND ABOVE	2.6	3.1	3.5	4.1	7.1
POPULATION GROWTH RATE (%)					
TOTAL	3.1	2.8	2.3	2.4	1.6
URBAN	5.7	5.0	4.1	3.6	3.7
CRUDE BIRTH RATE (PER THOUS)	42.7	35.0	31.2	31.3	23.4
CRUDE DEATH RATE (PER THOUS)	12.9	10.3	8.1	8.1	8.8
GROSS REPRODUCTION RATE	3.0	2.4	1.9	2.0	1.6
FAMILY PLANNING					
ACCEPTORS, ANNUAL (THOUS)	..	111.0	203.6 /c	-	-
USERS (% OF MARRIED WOMEN)	..	..	..	40.3	..
FOOD AND NUTRITION					
INDEX OF FOOD PROD. PER CAPITA (1969-71=100)	89.0	102.0	133.0	114.3	114.5
PER CAPITA SUPPLY OF					
CALORIES (% OF REQUIREMENTS)	106.0	104.0	107.0	110.6	128.6
PROTEINS (GRAMS PER DAY)	64.0	62.0	60.0	67.3	89.7
OF WHICH ANIMAL AND PULSE	35.0	34.0	36.0 /d	34.1	34.5
CHILD (AGES 1-4) DEATH RATE	19.4	12.5	8.0	5.7	5.2
HEALTH					
LIFE EXPECT. AT BIRTH (YEARS)	54.7	58.9	63.8	64.7	67.4
INFANT MORT. RATE (PER THOUS)	118.2	98.6	73.4	60.6	54.2
ACCESS TO SAFE WATER (ZPOP)					
TOTAL	..	55.0	77.1 /e	65.4	..
URBAN	..	78.0	88.8 /e	78.1	..
RURAL	..	28.0	56.8 /e	46.2	..
ACCESS TO EXCRETA DISPOSAL (% OF POPULATION)					
TOTAL	..	58.0	64.8 /e	52.9	..
URBAN	..	85.0	83.7 /e	67.0	..
RURAL	..	24.0	31.7 /e	24.5	..
POPULATION PER PHYSICIAN	2210.0	2130.0	..	1917.7	1065.8
POP. PER NURSING PERSON	2810.0	1120.0	..	815.8	764.4
POP. PER HOSPITAL BED					
TOTAL	310.0	270.0	250.0 /e	367.2	326.3
URBAN	250.0	320.0	..	411.5	201.5
RURAL	..	..	..	2636.3	..
ADMISSIONS PER HOSPITAL BED	..	18.4	..	27.3	20.0
HOUSING					
AVERAGE SIZE OF HOUSEHOLD					
TOTAL	5.1	4.8	4.9 /e	..	..
URBAN	..	4.6	4.7 /e	..	..
RURAL	..	5.2	5.3 /e	..	..
AVERAGE NO. OF PERSONS/ROOM					
TOTAL	..	1.1	..	..	..
URBAN	..	1.0	..	..	..
RURAL	..	1.2	..	..	..
ACCESS TO ELECT. (% OF DWELLINGS)					
TOTAL	38.7	47.6	67.4	..	..
URBAN	..	75.6	88.5	..	..
RURAL	..	8.4	20.6	..	..

BRAZIL		- SOCIAL INDICATORS DATA SHEET				
BRAZIL		REFERENCE GROUPS (WEIGHTED AVERAGES) /a				
		MOST RECENT ESTIMATE /b			(MOST RECENT ESTIMATE) /b	
					MIDDLE INCOME	MIDDLE INCOME
					LAT. AMERICA & CAR	EUROPE
		1960 /b	1970 /b			
EDUCATION						
ADJUSTED ENROLLMENT RATIOS						
PRIMARY:	TOTAL	95.0	84.0	93.0 /f,g	105.4	101.1
	MALE	97.0	84.0	93.0 /f,g	106.3	105.5
	FEMALE	93.0	84.0	93.0 /f,g	104.5	96.7
	SECONDARY: TOTAL	11.0	26.0	32.0 /h,i	43.2	59.1
	MALE	11.0	26.0	29.0 /h,i	42.3	68.9
	FEMALE	10.0	27.0	35.0 /h,i	44.5	50.6
	VOCATIONAL (% OF SECONDARY)	18.6	16.7	59.2 /h	33.6	21.6
	PUPIL-TEACHER RATIO					
	PRIMARY	33.0	28.0	26.0 /j	30.1	25.1
	SECONDARY	13.0	13.0	14.0 /h	16.8	20.5
	ADULT LITERACY RATE (%)	61.0	66.2	76.0 /j	79.5	75.6
CONSUMPTION						
	PASSENGER CARS/THOUSAND POP	7.6	16.6	48.9	46.0	54.7
	RADIO RECEIVERS/THOUSAND POP	65.4	108.4	165.1	225.6	164.9
	TV RECEIVERS/THOUSAND POP	16.5	44.3	119.7	107.2	123.4
	NEWSPAPER ("DAILY GENERAL INTEREST") CIRCULATION PER THOUSAND POPULATION	52.9	35.6	44.0 /h	63.5	96.3
	CINEMA ANNUAL ATTENDANCE/CAPITA	4.4	2.0	1.8 /h	2.8	2.9
LABOR FORCE						
	TOTAL LABOR FORCE (THOUS)	23326.0	30411.0	40365.0	-	-
	FEMALE (PERCENT)	17.2	20.1	23.2	23.2	34.5
	AGRICULTURE (PERCENT)	51.9	45.6	29.9	31.5	40.7
	INDUSTRY (PERCENT)	14.8	18.3	24.4	23.9	23.3
	PARTICIPATION RATE (PERCENT)					
	TOTAL	32.1	31.7	31.8	32.2	42.9
	MALE	52.7	50.3	48.9	49.3	54.7
	FEMALE	11.2	12.8	14.8	15.2	31.0
	ECONOMIC DEPENDENCY RATIO	1.4	1.4	1.4	1.4	0.9
INCOME DISTRIBUTION						
PERCENT OF PRIVATE INCOME RECEIVED BY						
	HIGHEST 5% OF HOUSEHOLDS	..	..	..	..	..
	HIGHEST 20% OF HOUSEHOLDS	60.0	63.5	62.0 /c	..	..
	LOWEST 20% OF HOUSEHOLDS	3.8	3.2	2.8 /c	..	..
	LOWEST 40% OF HOUSEHOLDS	10.8	9.0	9.4 /c	..	..
POVERTY TARGET GROUPS						
ESTIMATED ABSOLUTE POVERTY INCOME LEVEL (US\$ PER CAPITA)						
	URBAN	..	..	..	268.2	..
	RURAL	..	..	150.0 /d	184.0	..
ESTIMATED RELATIVE POVERTY INCOME LEVEL (US\$ PER CAPITA)						
	URBAN	..	..	465.0 /d	522.8	..
	RURAL	..	..	332.0 /d	372.4	..
ESTIMATED POP. BELOW ABSOLUTE POVERTY INCOME LEVEL (%)						
	URBAN	..	..	..	..	..
	RURAL	..	..	..	..	..
..	NOT AVAILABLE					
.	NOT APPLICABLE					

NOTES

- /a The group averages for each indicator are population-weighted arithmetic means. Coverage of countries among the indicators depends on availability of data and is not uniform.
- /b Unless otherwise noted, "Data for 1960" refer to any year between 1959 and 1961; "Data for 1970" between 1969 and 1971; and data for "Most Recent Estimate" between 1980 and 1982.
- /c 1975; /d 1977; /e 1976; /f 1979; /g Beginning 1973 primary and secondary education cover age groups 7-14 and 15-17 instead of 7-10 and 11-17 in earlier years; therefore, most recent estimates are not comparable with earlier data; /h 1978.

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 (i) the same country group of the subject country and (ii) a country group with somewhat higher average income than the country group of the subject country (except for "High Income Oil Countries" 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 coverage of one indicator to another. These averages are only useful in comparing the value of one indicator at a time among the country and

AREA (thousand sq.m.)

Total - Total surface area comprising land area and inland waters; 1960, 1970 and 1981 data.

Agricultural - Estimate of agricultural area used temporarily or permanently for crops, pastures, market and kitchen gardens or of the fallow; 1960, 1970 and 1981 data.

GDP PER CAPITA (USD) - GDP per capita calculated at current market prices, calculated by same conversion scheme as World Bank (1980-82 basis); 1960, 1970, and 1982 data.

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

POPULATION AND VITAL STATISTICS

Total Population, by Year (thousands) - As of July 1; 1960, 1970, and 1982 data.

Urban Population (percent of total) - Ratio of urban to total population; differences definition of urban areas may affect comparability of data among countries; 1960, 1970, and 1982 data.

Population Projections

Population in year 2000 - Current population projections are based on 1980 total population by age and sex and their mortality and fertility rates. Projections are based on fertility rates comparable of those female assuming life expectancy at birth (assuming with country's per capita income level, and female life expectancy stabilizing at 72.5 years). The parameters for fertility rate also have these levels assuming decline in fertility according to income level and past family planning performance. Each country is then assigned one of three sets of assumptions of mortality and fertility trends for projection purposes.

Stationary population - In one to which age- and sex-specific mortality rates have not changed over a long period, while age-specific fertility rates have simultaneously remained at replacement level (net reproduction below). In such a population, the birth rate is constant and equal to the death rate, the age structure is also constant, and the growth rate is zero. The stationary population size was estimated on the basis of the projected characteristics of the population in the year 2100, and the rate of decline of fertility rate to replacement level.

Population Momentum - Is the tendency for population growth to continue beyond the time that replacement-level fertility has been achieved; that is, a time after the net reproduction rate has reached unity. The momentum of a population in the year t is measured as a ratio of the difference stationary population to the population in the year t, given the assumption that fertility remains at replacement level from year t onward; 1980 data.

Population Density

Per sq. km. - Average population per square kilometer (100 hectares) of total area; 1960, 1970, and 1981 data.

Per sq. km. agricultural land - Computed as above for agricultural land only; 1960, 1970 and 1981 data.

Population Age Structure (percent) - Children (0-14 years), working-age (15-64 years), and over (65 and over) as percentage of mid-year population; 1960, 1970, and 1982 data.

Population Growth Rate (percent) - total - Annual growth rate of total mid-year population for 1950-60, 1960-70, and 1970-81.

Population Growth Rate (percent) - urban - Annual growth rate of urban population 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 1982 data.

Crude Death Rate (per thousand) - Annual deaths per thousand of mid-year population; 1960, 1970, and 1982 data.

Crude Replacement Rate - Average number of daughters a woman will bear to replace herself and her husband if all daughters present age-specific fertility rates; usually five-year averages ending in 1960, 1970, and 1982.

Family Planning - Acceptors, equal (thousands) - Annual number of acceptors of birth-control devices under auspices of national family planning program.

Family Planning - Users (percent of married women) - Percentage of married women of child-bearing age who are practicing or whose husbands are practicing any form of contraception to all married women. Users of child-bearing age are generally women aged 15-49, although for some countries contraceptive usage is measured for other age groups.

FOOD AND NUTRITION

Index of Food Production per Capita (1960=100) - Index of per capita annual production of all food commodities. Production includes seed and food and is on calendar year basis. Commodities cover primary goods (i.e., commodities involving no or only minor processing) such as wheat, rice, coffee and tea are included. Aggregate production of each country is based on national average producer price weights; 1961-65, 1970, and 1982 data.

Per Capita Supply of Calories (percent of requirements) - Computed from energy equivalents of net food supplies available in country per capita per day. Available supplies include domestic production, imports less (a) coffee and tea are excluded. Aggregate production of each country is based on national average producer price weights; 1961-65, 1970, and 1982 data.

Per Capita Supply of 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 FAO provide for minimum allowances of 60 grams of total protein per day and 20 grams of animal and milk protein, of which 10 grams should be animal protein. These standards are lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Supply; 1961-65, 1970 and 1980 data.

Per Capita Protein Supply from animal and fish - Protein supply of food derived from animals and fishes to grams per day; 1961-65, 1970 and 1982 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 streams, springs, and cisterns) as percentage of their respective populations. In an urban area a public fountain or standpipe 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 household 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 Sewage Disposal (percent of population) - total, urban, and rural - Number of people (total, urban, and rural) served by organized disposal or percentage of their respective populations. Sewage disposal may include the collection and disposal, with or without treatment, of human excreta and urine either by other-human species or the use of pit latrines 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 - private general and specialized hospital and rehabilitation centers. Hospitals are establishments permanently staffed by at least one physician. The establishments providing principally medical 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.

Hospital per 1,000 population - 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 costs equally. A boarder or lodger who or who not be included in the household for statistical purposes.

Average Number of Rooms per Person - 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 conventional dormitories.

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

Adults (15 years and over) Literate (percent) - Gross total, male and female enrollment of all ages at the primary level as percentage of respective primary school-age population; normally includes children aged 4-11 years but adjusted for different lengths of primary education; for countries with universal education enrollment may include 100 percent since some pupils are below or above the official school age.

Secondary school - total, male and female - Consists on above; secondary education requires at least four years of approved primary instruction; provides general, vocational, or teacher training instruction for pupils usually of 12 to 17 years of age; correspondence courses are generally excluded.

Non-tertiary enrollment (percent of secondary) - Vocational institutions include technical, industrial, or other programs which operate independently or as appendages of university institutions.

High-teacher ratio - primary, and secondary - Total students enrolled in primary and secondary levels divided by number of teachers in the year, teaching levels.

Adult literacy rate (percent) - Literate adults (able to read and write) as a percentage of total adult population aged 15 years and over.

COMMUNICATION

Passenger Cars (per thousand population) - Passenger cars excludes motor cars seating less than eight persons; excludes ambulances, hearse, and military vehicles.

Radio Receivers (per thousand population) - All types of receivers for radio broadcasts to general public per thousand of population; excludes collection sets in countries in which use is restricted and in some cases registration of radio sets use is effected; data for recent years are not comparable since most countries abolished licensing.

TV Sets (per thousand population) - TV receivers for broadcast to general public per thousand population; excludes collection TV receivers in countries in which use is restricted and in some cases registration of radio sets use is effected.

Newspaper Circulation (per thousand population) - Means 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.

City Annual Advertisements per Capita per Year - Based on the number of tickets sold during the year, including advertisements in direct-response on public utility.

LABOR FORCE

Total Labor Force (thousands) - Economically active persons, including armed forces and unemployed but excluding householders, students, etc.; covering population of all ages. Definitions in various countries are not comparable; 1960, 1970 and 1982 data.

Female (percent) - Female labor force as percentage of total labor force.

Agriculture (percent) - Labor force in farming, forestry, hunting and fishing as percentage of total labor force; 1960, 1970 and 1981 data.

Industry (percent) - Labor force in mining, construction, manufacturing and electricity, water and gas as percentage of total labor force; 1960, 1970 and 1981 data.

Participation Rate (percent) - total, male, and female - Participation or activity rates are computed as total, male, and female labor force as percentage 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-structure of the population, and long time trend. A few countries are from national sources.

Economic Dependency Ratio - Ratio of population under 15 and 65 and over to the working age population (those aged 15-64).

INCOME DISTRIBUTION

Percentage of Private Income (both in cash and kind) - Received by richest 5 percent, richest 10 percent, poorest 20 percent, and poorest 40 percent of households.

POVERTY THRESHOLD

The following indicators are very approximate measures of poverty levels, and should be interpreted with considerable caution.

Adjusted Absolute Poverty Income Level (USD per capita) - urban and rural - Absolute poverty income level is that income level below which a typical nutritionally adequate diet plus essential non-food requirements is not affordable.

Relative Absolute Poverty Income Level (USD per capita) - urban and rural - Relative poverty income level is estimated as 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.

Adjusted Relative Poverty Income Level (percent) - urban and rural - Percent of population (urban and rural) who are absolute poor.

ECONOMIC INDICATORS

Population: 126.8 million (1982)
GDP Per Capita: US\$2,240 (1982)

Indicator	Amount (Million US\$ Current) 1983 ^{b/}	Average Annual Increase (%) (at Constant 1970 Prices)				Share of GDP at Market Prices (%) (at Current Prices)		
		1965-70	1970-75	1975-80	1981-86	1970	1975	1983 ^{b/}
		National Accounts						
Gross Domestic Product ^{a/}	209,801	7.7	10.6	6.9	1.9	100.0	100.0	100.0
Agriculture	21,189	1.9	5.7	4.7	2.2	10.2	10.9	10.1
Industry	77,417	9.2	11.6	7.6	1.9	35.8	37.2	36.9
Services	111,195	8.0	10.7	6.8	1.8	54.0	51.9	53.0
Consumption	168,632	7.7	9.8	5.7	0.8	77.8	71.9	80.3
Gross Investment	37,135	9.4	14.6	5.2	-0.4	22.7	32.1	17.7
Exports of Goods and NPS	23,628	8.2	11.2	7.3	11.8	6.7	7.4	11.3
Imports of Goods and NPS	19,594	14.5	17.2	2.8	1.2	7.2	11.4	9.3
Gross Domestic Savings	41,169	7.9	12.9	6.1	2.7	22.2	28.1	19.7

Indicator	Amount (Million US\$ Current) 1983	Average Annual Increase (%) (at Constant 1970 Prices)			Composition of Merchandise Trade (%) (at Current Prices)		
		1970-75	1975-80	1981-86	1970	1975	1983
		Merchandise Trade					
Merchandise Exports	21,899	11.1	7.7	12.4	100.0	100.0	100.0
Primary ^{c/}	10,603	8.3	1.1	6.1	76.7	62.7	48.4
Manufactures ^{d/}	11,296	28.2	18.2	19.5	22.5	34.8	51.6
Merchandise Imports	15,429	14.8	-3.3	-0.6	100.0	100.0	100.0
Food cereals ^{e/}	968	-6.7	17.5	-1.3	4.5	3.0	6.3
Petroleum	8,179	7.6	4.3	-8.7	11.2	25.4	53.0
Machinery and Equipment ^{e/}	2,505	15.2	-7.5	-0.3	36.2	32.2	16.2
Other	3,777	28.4	-1.9	1.3	48.1	39.4	24.5

	1975	1976	1977	1978	1979	1980	1981	1982	1983
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	28,272.4
Exchange Rate (Cr\$/US\$)	8.1	10.6	14.1	18.1	26.9	52.7	93.1	180.0	577.1
Export Price Index (1970 = 100)	176.0	192.0	226.0	228.0	266.0	290.0	252.0	225.1	191.7
Import Price Index (1970 = 100)	242.0	255.0	286.0	317.0	389.0	431.0	474.0	522.0	493.5
Terms of Trade Index (1970 = 100)	72.0	75.0	79.0	72.0	68.0	67.0	53.0	43.1	38.8

Indicator	As % of GDP (at Current Constant Prices)			1980 ^{g/}	1981 ^{g/}	1982 ^{g/}
	1970	1975	1979			
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

Indicator	1965-70	1970-75	1976-80	1981-86
	Other Indicators			
GDP Growth Rate (%)	7.7	10.7	6.6	1.8
GDP per Capita Growth Rate (%)	4.6	7.7	4.0	-0.6
Energy Consumption Growth Rate (%)	7.2	8.7	6.8	-
IGOR	2.9	2.2	4.3	13.0
Marginal Savings Rate ^{f/}	20.5	27.9	7.8	38.7
Import Elasticity ^{f/}	2.2	1.6	-0.1	0.6

^{a/} At market prices; converted at average exchange rate.

^{b/} Estimate.

^{c/} Includes coffee (beans and soluble), other agricultural products, and minerals.

^{d/} Includes manufactured and semi-processed products.

^{e/} Includes transportation materials.

^{f/} The 1981-86 projections are calculated using the least squares method.

^{g/} 1980-1982 include government expenditures effected through the monetary budget and some minor government funds, as well as transfers to the federal enterprises.

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

Annex I
Page 5 of 7

Population: 126.8 million (1982)
GDP Per Capita: US\$2,240 (1982)

	ACTUAL									PROJECTED ^{h/}		
	1973	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Balance of Payments												
Net exports of Goods and services	-6,702	-6,018	-6,037	-6,086	-10,039	-12,364	-11,173	-16,850	-4,171	-2,635	-4,165	-3,500
Exports of goods	8,670	10,128	12,120	12,656	15,244	20,132	23,293	26,164	21,899	26,311	30,331	34,942
Imports of Goods	-12,210	-12,303	-12,023	-13,603	-18,084	-22,955	-22,080	-19,397	-15,429	-16,337	-17,013	-20,372
Net factor income (of which net interest payments) ^{a/}	-1,733	-2,189	-2,356	-3,257	-4,821	-6,621	-8,349	-12,408	-10,313	-12,330	-13,716	-13,257
Net non-factor services	(-1,498)	(-1,810)	(-2,103)	(-2,896)	(-4,149)	(-6,311)	(-9,179)	(-11,059)	(-9,333)	(-9,901)	(-11,709)	(-11,185)
Net transfers ^{b/}	2	1	-	71	18	168	197	-	-	-	-	-
Current account balance	-6,700	-6,017	-6,037	-6,015	-10,021	-12,396	-10,976	-16,850	-4,171	-2,635	-4,165	-3,500
Direct private investment ^{c/}	892	939	810	1,071	1,491	1,121.0	1,569	991	657	700	732	802
M&T loans (net)	4,830	5,542	5,650	10,018	5,287	3,475.0	9,483 ^{d/}	6,464	1,797	8,147	3,439	1,295
Disbursements	(6,982)	(8,160)	(9,283)	(15,144)	(11,728)	(10,085)	(17,339)	(13,777)	(7,131)	(17,073)	(13,993)	(19,362)
Amortization	(-2,152)	(-2,618)	(-3,633)	(-5,144)	(-4,431)	(-6,610.0)	(-7,856)	(-7,133)	(-3,534)	(-8,343)	(-10,136)	(-14,067)
Brazilian loans abroad (net)	-190	-248	-267	-337	-610	416	-702	-196	123	-406	-1,000	-1,400
Other capital n.e.c. ^{e/}	218	956	-1,526	-635	628	4,063	1,313	4,011	1,576	-1,412	1,649	-
Change in reserves (-/increase) ^{f/}	950	-1,192	-630	-4,282	3,215	3,321	-687	4,000	20	-3,800	-1,075	-1,197
International Reserves ^{g/}	4,041	6,344	7,256	11,895	9,699	6,913	7,600	3,600	3,580	7,380	6,455	9,652
reserves as months of imports ^{h/}	4	8.3	7.2	10.3	6.4	3.6	4.1	2.2	2.2	4.7	4.4	4.1

	ACTUAL								
	1975	1976	1977	1978	1979	1980	1981	1982	1983 ^{h/}
External Debt									
Total M&T debt outstanding and disbursed	23,298	28,483	34,601	46,636	51,342	54,865	67,612	70,400	79,500
Public and publicly guaranteed	13,706	17,349	21,595	30,284	35,478	38,246	43,820	47,389	58,068
Official sources	3,959	4,431	4,717	5,601	5,889	6,416	7,244	8,178	10,038
IBRD	(1,093)	(1,217)	(1,413)	(1,602)	(1,627)	(2,069)	(2,319)	(2,724)	(3,655)
Other	(2,864)	(3,214)	(3,304)	(3,799)	(4,082)	(4,367)	(4,923)	(5,454)	(6,403)
Private sources	9,747	12,918	16,878	23,683	29,589	31,844	36,376	39,611	48,010
Private non-guaranteed	9,592	11,133	13,005	16,152	18,864	16,465	19,762	23,011	21,512
Undisbursed debt (public only)	3,879	6,620	8,411	10,209	12,448	14,041	16,995	15,087	13,916
Gross Disbursements									
Total gross disbursement of M&T loans	6,981	8,160	9,282	15,144	11,728	10,085	15,059	12,739	7,330
Public and publicly guaranteed	3,788	4,921	5,422	10,116	9,152	6,893	8,997	7,015	7,095
Official export credits	428	405	169	480	448	467	28	670	1,102
IBRD	250	173	208	275	302	343	387	623	1,204
Other multilateral	119	113	92	136	206	192	189	214	218
Private sources	2,991	4,233	4,662	9,216	4,197	7,892	8,393	6,616	4,571
Private non-guaranteed	3,194	3,239	3,461	3,048	2,376	3,192	6,061	4,844	235
Debt Service									
Total debt service payments	4,195	4,322	5,642	4,252	11,147	13,168	14,869	16,629	11,208
Interest (net)	(1,977)	(1,423)	(1,651)	(2,437)	(3,355)	(5,413)	(7,778)	(9,286)	7,672
Payments as % of Exports of Goods	45.0	38.7	42.3	34.8	46.8	66.0	58.1	75.6	47.4
Payments as % of GDP	2.9	2.6	3.0	3.7	4.3	4.8	5.4	5.3	3.6
Average interest rate on new public debt (%) ^{i/}									
Official sources	8.7	7.6	8.3	9.9	11.2	12.3	13.2	12.7	11.4
Private sources	7.7	7.9	8.0	7.5	8.3	9.1	9.8	10.9	10.5
Average maturity of new guaranteed loans									
Official sources	9.0	11.3	10.0	10.0	11.5	9.8	9.7	10.9	9.3
Private sources	18.4	16.3	16.1	14.5	14.0	12.9	13.6	13.7	12.9
Private non-guaranteed	7.0	9.3	8.7	9.3	11.2	8.7	8.9	10.2	8.4
IBRD Exposure									
IBRD DDU/Total	4.7	4.3	4.1	3.4	3.6	3.8	3.6	3.9	4.6
IBRD disbursements/total gross disbursements (%)	3.3	2.1	3.2	1.8	2.6	3.4	2.6	4.9	16.4
IBRD debt service/total debt service (%)	2.5	3.2	3.7	2.7	2.2	2.1	2.2	2.5	4.6

As % of total M&T debt outstanding
at the end of December 1982

Debt Structure	
Maturity structure of M&T debt outstanding	
Maturities due within 5 years	59
Maturities due within 10 years	95

- ^{a/} Includes interest on short term and M&T loans.
- ^{b/} Net transfers after 1981 are included in net non-factor services.
- ^{c/} Excluding re-invested profits.
- ^{d/} Includes payment arrears and errors and omissions.
- ^{e/} Excluding dollar valuation adjustments and monetization of domestic gold.
- ^{f/} Including gold and dollar valuation adjustments through 1981.
- ^{g/} Goods only.
- ^{h/} Preliminary; information on private non-guaranteed debt incomplete.
- ^{i/} Public debt only.
- ^{j/} Includes IMF and short-term borrowing.
- ^{k/} Brazil standard model (World Bank).

Source: Banco Central do Brasil; External Debt Data, 1978-83 (EPD); IMF.

December 20, 1984

THE STATUS OF BANK GROUP OPERATIONS IN BRAZIL

A. SUMMARY STATEMENT OF LOANS
(As of September 30, 1984)

<u>Loan #</u>	<u>Year</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount less Cancellations (US\$ Millions)</u>	<u>Undis- bursed</u>
Sixty-five loans fully disbursed				2,619.4	
1075	1975	Brazil	Roads	110.0	6.9
1151	1975	Companhia Siderurgica Nacional	Industry	95.0	1.7
1152	1975	Companhia Siderurgica Paulista	Industry	60.0	12.3
1195	1976	Brazil	Rural Development	12.0	2.3
1207-5	1976	Brazil	Feeder Roads	55.0	2.7
1317	1976	Brazil	Agro-Industry	83.0	27.0
1362	1977	State of Minas Gerais	Rural Development	42.0	2.2
1406	1977	Petrobras Fertilizantes	Fertilizer	52.0	.5
1411	1977	Fertilizantes Vale do Rio Grande S.A. - VALEFERTIL	Fertilizer	55.0	.7
1452	1977	Brazil	Education	32.0	12.6
1488	1977	Brazil	Rural Development	11.0	3.0
1525	1978	Banco Nacional da Habitacao	Sewerage	110.0	57.6
1537	1978	Brazil	Rural Development	24.0	14.8
1538	1978	ELETROBRAS	Power	130.0	22.7
1557	1978	Brazil	Roads	114.0	27.7
1562	1978	COPEL	Petrochemicals	85.0	.9
1568	1978	Brazil	Agric. Extension	100.0	26.1
1589	1978	Brazil	Rural Development	37.0	18.0
1654	1979	Banco Nacional da Habitacao	Sites and Services	93.0	11.7
1656	1979	Banco Nacional da Habitacao	Water and Sewerage	100.0	22.3
1714	1979	Brazil	Rural Development	26.0	18.5
1720	1979	Brazil	Urban Development	70.0	29.4
1721	1979	COPEL	Power	109.0	31.4
1728	1979	Brazil	Rural Development	40.0	24.9
1729	1979	Brazil	Irrigation	28.0	7.3
1730-5	1979	Brazil	Roads	110.0	33.8
1822	1980	Brazil/BNDE	Pollution Control	58.0	56.8
1823	1980	Banco Nacional da Habitacao	Water Supply	130.0	31.3
1824	1980	CEEE	Power	114.0	73.2
1839	1980	Brazil	Urban Transport	159.0	53.0
1850	1980	Banco Nacional da Habitacao	Water Supply	139.0	42.4
1867	1980	Brazil	Education	32.0	23.4
1877	1980	State of Minas Gerais	Rural Development	63.0	52.8
1895	1980	ELETROSUL	Power	125.0	92.6
1924	1981	Brazil	Rural Development	56.0	30.2
1939	1981	ELETROBRAS	Power	54.0	44.8

A. SUMMARY STATEMENT OF LOANS (Continued)
(As of September 30, 1984)

<u>Loan #</u>	<u>Year</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount less Cancellations (US\$ Millions)</u>	<u>Undis- bursed</u>
1965	1981	EBTU	Urban Transport	90.0	63.4
1970	1981	Banco Nacional da Habitacao	Water Supply	180.0	120.9
1989	1981	Brazil	Alcohol Development	250.0	139.2
2015	1981	Brazil	Agriculture	29.0	19.0
2016	1981	Brazil	Agriculture	60.0	27.2
2060	1982	Brazil	Agriculture	67.0	39.5
2061	1982	Brazil	Health	13.0	6.9
2062	1982	Brazil	Highways	240.0	88.5
2116	1982	Brazil	Agriculture	26.4	18.0
2138	1982	ELETRORRAS	Power	182.7	152.9
2163	1982	Brazil	Agriculture	26.4	21.2
2170	1982	Brazil	Urban Development	123.9	107.4
2177	1982	Brazil	Rural Development	42.7	34.9
2193	1982	Brazil	Urban Development	8.9	6.8
2196	1982	CVRD	Iron Ore	304.5	148.8
2224	1982	Brazil	Feeder Roads	154.0	137.7
2225	1982	BNDES	Development Banking	220.0	50.3
2249	1983	Banco Nacional da Habitacao	Water Supply	302.3	251.8
2268	1983	Brazil	Agro-Industries	400.0	374.0
2269	1983	Brazil	Rural Development	67.8	61.8
2343	1983	Brazil	Urban Development	52.7	48.7
2347	1983	Brazil	Export Development	352.0	85.8
2348	1983	Brazil	Agriculture	303.0	10.0
2353	1983	Brazil	Agriculture	65.2	61.0
1729-1	1983	Brazil	Agriculture	7.7	7.7
2060-1	1983	Brazil	Agriculture	22.8	22.7
2364	1983	Eletrobras	Power	250.6	227.9
2365	1983	Eletrobras	Power	222.8	202.0
2366	1983	Brazil	Education	20.0	19.9
2412/1	1984	Brazil	Education	40.0	40.0
2446/1	1984	Brazil	Federal Highways	210.0	210.0
2447/1	1984	State of Sao Paulo	Health	55.5	55.5
2448/1	1984	State of Sao Paulo	Health Studies	2.0	2.0
Total				9,725.3 /2	
Of which has been repaid to the Bank				1,588.2	
Total now outstanding				8,137.1	
Amount sold			45.8		
Of which has been repaid			45.8	0.0	
Total now held by Bank				8,137.1	
Total undisbursed					<u>3,782.9</u>

/1 Not yet effective.

/2 No IDA credits have been made to Brazil.

Note: The status of the projects listed in Part A is described in a separate report on all Bank/IDA financed projects in execution, which is updated twice yearly and circulated to the Executive Directors on April 30 and October 31.

I. STATEMENT OF IFC INVESTMENTS (as of September 30, 1984)

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	Gilchrist, 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	Willis-Owland do Brasil, S. A. - Industria e Comercio	Motor Vehicles	2.45	-	2.45
1959	Companhia Mineradora de Clamato Fortaleza, S. A.	Quarry	1.20	-	1.20
1959	Companhia Celulosa, 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 Celulosa 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	Polioléfina, 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 Celulosa do Sul	Pulp	4.90	-	4.90
1972/1973/1981	Companhia de Clamato Nacional de Minas	Quarry	169.14	6.70	175.84
1973/74/77/81/83/84	Companhia Siderurgica de Guanabara - COSIDA	Steel	76.97	12.27	89.24
1973	Capital Market Development Fund - FIDCAF	Capital Market Development	5.00	-	5.00
1973/1978/1983	Empresa de Desenvolvimento de Recursos Minerais - GERMIN, S. A.	Mineral 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 Têxtilo Tatama, S. A.	Textiles	31.00	-	31.00
1973/1979	Capasa Carbonos Industriais Ltd.	Carbon Black	6.18	1.19	7.37
1975	Oxiteno Nordeste, S. A.	Petrochemicals	10.00	-	10.00
1976	Servista Industria - Têxtil do Nordeste, S. A.	Textiles	6.45	1.00	7.45
1976/1980	Tacapor S. A. - Têxtil Catarinense do Nordeste	Textiles	16.20	-	16.20
1977	FIM S. A. Producao Metalurgica	Iron and Aluminum Castings	20.00	-	20.00
1977	Mineração Rio do Norte S. A.	Mining	15.00	-	15.00
1978	Clamato Siderurgia S. A.	Iron and Steel	7.00	3.00	10.00
1979	Volvo do Brasil Motociclos e Veiculos, S. A.	Motor Vehicles	60.00	5.27	65.27
1980	Hering do Nordeste S. A. - Nálhas	Ready-made Garments	2.00	-	2.00
1980	Dande do Para S/A - Danpass - Agricultura, Industria e Comercio de Oleaginosas	Palm-Oil	3.50	1.00	4.50
1980	Villares Industrias de Base S. A. - VIMSA	Iron and Steel	5.00	-	5.00
1980	FIM - Companhia Industrial de Polipropileno	Chemicals and Petrochemicals	15.00	2.00	17.00
1980	Destilaria Clamato S. A.	Chemicals and Petrochemicals	-	0.25	0.25
1980	Sucava Associação Quimica e Mineral S/A	Fertilizers	35.00	6.00	41.00
1980	Poliunil 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 - COBRAE	Food and Food Processing	5.50	3.00	8.50
1981	Triunfo	Chemicals and Petrochemicals	46.00	4.00	50.00
1982	Clamato CNE	Quarry and Construction Materials	40.00	5.00	45.00
1982	Aplicamag S. A.	Money Capital Market	30.00	0.65	30.65
1983	Cia. Mineirana de Participações (CMP)	Money Capital Market	-	0.06	0.06
1983	Atlas Frigorifico	Food and Food Processing	13.00	-	13.00
1983	Companhia Dande do Amapa (CODEPA)	Palm Oil	6.10	-	6.10
1983	FISA - Papel de Impressão S.A.	Pulp & Paper Products	58.02	5.17	63.19
1983	Sococo/S.A.	Food and Food Processing	3.0	2.50	5.50
1983	CIORG	Quarry and Construction Materials	35.00	-	35.00
1984	Companhia Alcoolquimica Nacional	Chemicals and Petrochemicals	20.00	4.00	24.00
	Total Gross Commitments		925.86	93.67	1,019.53
	Less Cancellations, Liquidations, Repayments and Sales		647.07	15.13	662.20
	Total Commitments Now Held by IFC		278.79	78.54	357.33
	Total Undisbursed		136.55	13.49	150.04

BRAZIL

THIRD DEVELOPMENT BANKING PROJECT

SUPPLEMENTARY DATA SHEET

Section I - Timetable of Key Events

- (a) Time taken to prepare project : 8 months
- (b) Agencies which prepared project: BNDES
- (c) First presentation to the Bank : September 1983
- (d) First mission to review project: September 1983
- (e) Departure of appraisal mission : May 20, 1984
- (f) Completion of negotiations : December 15, 1984
- (g) Planned date of effectiveness : April, 1985

Section II - Special Bank Implementation Action

None.

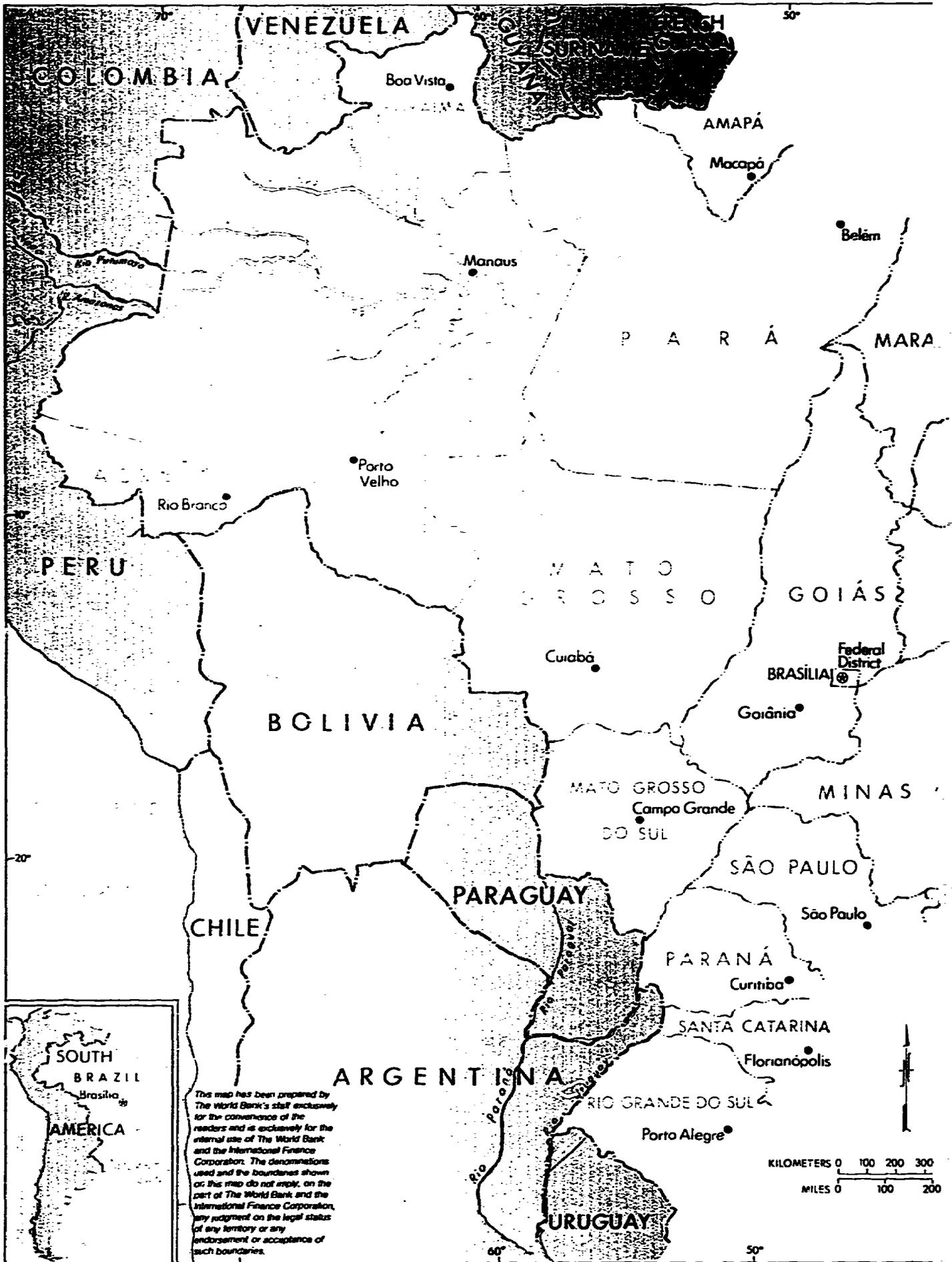
Section III - Special Conditions

- (a) BNDES to implement a Plan of Action for assisting the SDBs to strengthen their operational procedures and financial management and performance; such Action Plan to provide for extending the capability and procedures of SDBs for doing economic evaluation of the larger projects they finance (para. 66);
- (b) BNDES to complete, over the period starting April 1, 1985 and ending September 30, 1986, the introduction of cost benefit analysis into its project selection and evaluation procedures (paras. 67 and 68);
- (c) until a cost-benefit analysis is included in BNDES directly financed industrial subprojects submitted for Bank financing, only subprojects for firms which exported at least 10% of their production in each of the preceding three years would be authorized. The Bank would limit its approvals for disbursement to subloans totalling not more than US\$50.0 million for BNDES directly financed industrial projects and US\$100.0 million for SME subprojects until BNDES has established satisfactory arrangements for the introduction of economic analysis in accordance with a Project Evaluation Plan satisfactory to the Bank (paras. 68, 69);
- (d) interest rates to be reviewed periodically between BNDES and the Bank and to be revised in order to maintain a reasonable relationship between BNDES' rates and market rates in Brazil (para. 74);

- (e) commitments and disbursements of loan could be suspended if interest on subloans fail to be positive in relation to the prevailing inflation rate in Brazil (para. 78); and
- (f) The Bank may suspend authorizations or approvals of subloans if BNDES fails to carry out the Project Evaluation Plan in terms satisfactory to the Bank (para. 69).

Section IV - Conditions of Effectiveness

- (a) Execution of satisfactory arrangements between BNDES and the Federal Republic of Brazil for transferring the Bank resources to BNDES; and
- (b) approval by BNDES' Board of Directors of the detailed Project Evaluation Plan for introducing economic analysis into BNDES' project analysis procedures.



VENEZUELA

COLOMBIA

PERU

BOLIVIA

CHILE

ARGENTINA

URUGUAY

SURINAME

AMAPÁ

PARÁ

MATO GROSSO

GOIÁS

MATO GROSSO DO SUL

SÃO PAULO

PARANÁ

SANTA CATARINA

RIO GRANDE DO SUL

Boa Vista

Manaus

Porto Velho

Rio Branco

Curabá

Corumbá

Belém

Macapá

Federal District

Brasília

Goiânia

Campo Grande

São Paulo

Curitiba

Florianópolis

Porto Alegre

Rio Amazonas

Rio Parana

70° 50° 60° 50°

20°

0 100 200 300

0 100 200

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