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STAFF APPRAISAL REPORT

BRAZIL

FOURTH AGRO-INDUSTRIES CREDIT PROJECT

May 23, 1988

Country Department 1
Latin America and the Caribbean Regional Office

CURRENCY EQUIVALENTS

Currency Unit	=	Brazilian Cruzado (Cz$)
US$1.00	=	Cz$ 151.20[1]
Cz $1.00	=	US$0.006614
Cz $1 million	=	US$6,614

WEIGHTS AND MEASURES

The metric system is used throughout this report.

ABBREVIATIONS

BB	-	Bank of Brazil
BNDES	-	National Economic and Social Development Bank
CB	-	Central Bank of Brazil
CLC	-	Credit Limit Committee
DEFIB	-	Department of Banking within the Central Bank
DEORI	-	Department of International Organizations and Agreements within the Central Bank
DESPE	-	Department of Industrial Credit and Special Programs within the Central Bank
OTN	-	Obligations of the National Treasury
PB	-	Participating Bank
SEAE	-	Economic Secretariat Group of the Ministry of Finance
STN	-	Treasury of the Ministry of Finance

GOVERNMENT'S FISCAL YEAR

January 1 - December 31

1/ Exchange rate as of May 17, 1988

FOURTH AGRO-INDUSTRIES CREDIT PROJECT

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Map IBRD No. 20444

This report is based on the findings of an appraisal mission which visited Brazil during December, 1987. The mission comprised Messrs. M. Staab (mission leader), F. M. Crowe, B. Argyle, Ms. A. de Leon (Bank) and Mr. A. Marsaioli (Consultant).

BRAZIL

FOURTH AGRO-INDUSTRIES CREDIT PROJECT

I. LOAN AND PROJECT SUMMARY

Borrower: The Federative Republic of Brazil.

Beneficiaries: Accredited participating banks.

Loan Amount: US$300 million equivalent.

Terms: Repayable in 15 years on a fixed amortization schedule, including 5 years of grace, at the Bank's standard variable interest rate.

Onlending Terms: The terms of onlending between the Government and the participating banks (PBs) have been designed to enable the Government to recover from the PBs the full costs, including foreign exchange risks, of the Bank loan plus the administrative costs. The onlending terms to final subborrowers would be a market outcome as these would be the result of negotiations between the PBs and their customers.

Project Objectives: To facilitate an expansion of commercial (unsubsidized) term credit to finance productive agro-industrial investments and, at the same time, enable the Government to contract the supply of official (interest rate-controlled) credit which is exacting a heavy fiscal toll on the Government.

Project Description: Bank loan funds would be used by the Treasury (STN) to refinance (discount) subloans given by participating banks (PBs) to agro-industrial enterprises to finance their fixed investment and associated working capital requirements. All banks in Brazil which are accredited by the Central Bank (CB) as being financially sound and having the appropriate loan appraisal/management capability would be eligible to participate. World Bank funds would finance up to 50% of subproject investment and associated working capital costs; PBs and subborrowers would finance the balance, with their respective shares being negotiated between them.

Risks: The main risk to the project is a further erosion of investor confidence due to uncertainty in the economic environment. Should this happen, credit uptake, hence, disbursements, would be slower than estimated. However, recent Government commitments to reducing the fiscal deficit and the renewed dialogue with the IMF are encouraging signs. Another risk is the resurgence of official (subsidized) credit which could also reduce the demand for the project's commercial credit funds; however, the Government is committed to reducing the supply of official credit and has begun to implement a program to contract the supply of official credit to the agricultural sector -- a program that will be regularly monitored and reviewed annually with the Bank.

	US$ million
Estimated Costs:	
Investments and associated working capital	600
Financing Plan:	
IBRD	300
Participating banks and subborrowers	300

Estimated Disbursements:

Bank FY	1989	1990	1991	1992
Annual	60	75	80	85
Cumulative	60	135	215	300

Economic Rate of Return: NA

Map: IBRD No. 20444

II. THE SECTOR CONTEXT

A. Agriculture in the Economy

2.01 During the 1970s the total area planted to crops in Brazil rose at 3.3% per year and sectoral GDP grew at an annual average rate of 6%. This high growth rate was fueled primarily by the development of export crops (soybeans, citrus, tobacco, coffee and cocoa) and, in the latter part of the decade, by sugarcane production for the alcohol program. Total agricultural exports rose from US$2.09 billion in 1970 to US$9.43 billion in 1980. Production was particularly dynamic in the expanding frontier states of the Center-West (Goias, Mato Grosso do Sul and parts of Minas Gerais) but also grew steadily in the traditional agricultural states of the South.

2.02 After 1980, the sector entered a period of relative stagnation and slow growth, caused in part by sector-specific Government intervention (trade and price controls), overall macroeconomic management difficulties and by falling world commodity prices. The total area planted to crops in Brazil grew at only 1.7% per year between 1980 and 1986 (compared to 3.3% in the previous decade), and the output of many basic food crops (wheat, maize, cassava, potatoes, rice, beans, meat and milk) remained relatively constant and rose only modestly in 1984 and 1985, with the result that per capita food production declined significantly and food imports increased. Agricultural exports exhibited a similar pattern, with virtually little or no growth since 1980, except in 1984 when coffee and orange juice were aided by favorable price movements. In 1987, rising domestic agricultural prices, coupled with favorable weather conditions, contributed to a record grain harvest of 65 million mt. Presently agriculture accounts for about 12% of GDP, 30% of employment and 33% of exports.

B. Agro-Industry

2.03 Agro-industrial enterprises play an important role in the Brazilian economy, accounting for about 50% of the total industrial establishments in the country and 31% of the labor employed in the manufacturing sector (Annex 1, Table 1). These enterprises also account for about 26% of the total value added by the manufacturing sector. To support these enterprises, Brazil has advanced engineering and construction industries and an extensive commercial banking system. In recent years, several agro-industries, including soybean products, orange juice and poultry, have demonstrated their ability to compete in world markets.

2.04 Agro-industry in Brazil may be divided into the following major categories: food processing, beverages, textiles, timber, paper and cardboard, natural rubber, leather and tobacco, of which food processing clearly dominates, accounting for about 59% of the total number of establishments and about 39% of the total value added (Annex 1, Table 2); most of the food processing establishments are small to medium in size. In general, the geographical distribution of agro-industries conforms closely to the location of primary agricultural production, with the Southeast accounting for 55% of the total number of agro-industrial establishments,

the South approximately 23%, the Northeast 18%, the North 3%, and the Center-West 1% (Annex 1, Table 3).

2.05 The value of agro-industrial production in real terms over the first half of the 1970s grew at an annual rate of about 14%. Since the mid-70s that growth has slowed to around 7% (Annex 1, Table 3). This growth pattern generally reflects the overall performance of the economy, and of the agricultural (paras. 2.01 and 2.02) and manufacturing sectors during this period. Export earnings from agro-industry throughout the first half of the 1980s have remained fairly constant, both in absolute terms and as a percentage of total Brazilian exports (about 50%) (Annex 1, Table 4).

C. Banking and Credit

2.06 Brazil has an extensive and well developed banking system. There are about 100 banks in Brazil, of which about 80 are private and 20 are owned by the federal and state governments. Supervision of the banking system is the responsibility of the Central Bank (CB). The CB has improved the quality of its supervisory work in the last several years by focusing attention on the overall solvency positions of the banks and not just on their compliance with CB regulations. Further progress is needed, however, in providing improved regulations for the classification of loans by default risk, for the provision of potential loan losses and for the treatment of interest accruals on doubtful loans. In addition, financially troubled state banks often do not comply with CB regulations. These weaknesses have been identified in the context of the Bank's current sector work and are intended to be addressed in a proposed financial sector operation now under preparation.

2.07 All credit in Brazil is of two major types: "official" which is interest rate-controlled and administratively allocated and, therefore, subject to various political pressures; and "commercial" which is supplied voluntarily at market determined rates. Official credit comprises nearly 90% of all rural credit to farmers. The principal sources of official credit for industry, including agro-industries, have been: (i) the federal development bank (BNDES), which supplies subsidized credit funds to industry either directly or indirectly through other financial intermediaries; and (ii) the discount facilities of the Central Bank (CB), often with the assistance of bilateral and multilateral funds. In the case of agriculture (i.e. farmers), the principal sources have been: (i) Government funds channelled mainly through the federal commercial bank -- Bank of Brazil (BB); (ii) Central Bank discounts; (iii) the compulsory application system in which commercial banks (federal, state and private) are required to apply a fixed percentage of their sight (demand) deposits to rural credit at subsidized (official) rates; and, (iv) more recently (since 1987), the interest-bearing rural savings deposits held in BB and a few other federal and regional banks. Under today's extremely uncertain macroeconomic conditions, commercial term lending in Brazil for any purpose, including agro-industry, has virtually disappeared. Consequently, most medium- and long-term credit is being supplied by the official system.

2.08 The volume of official credit to the agricultural sector by source for the last couple of years is shown in Annex 2, Table 1. Recent real levels of official credit have been relatively low (US$8.2 billion in 1987 -- a decrease of 41% in real terms compared to 1986), owing to the reduced availability of funds (sight deposits) for compulsory applications and the erosion of credit portfolios in the banks during most of 1986 and the early part of 1987 when indexation of financial assets was suspended for a short time, and, after it was applied, fell well short of inflation. The country's heavy dependence on official (interest rate-controlled) credit has not only distorted resource allocation decisions and imposed a significant fiscal burden on the Government,[1] but, contrary to stated objectives, it has not benefitted the small borrowers.

2.09 Faced with major fiscal problems and unable to sustain large credit subsidies, the Government is keenly interested in reducing this burden and has indicated it would welcome Bank assistance at this time to help liberalize credit markets in the agricultural sector, where credit subsidies continue to exact a large fiscal toll on the Government. To this end, the Government has requested Bank assistance in expanding the supply of commercial credit to the agricultural sector (the proposed project being a first step), while the Government does its part to reduce permanently the supply of official credit to the sector. With regard to the contraction of official credit to the sector, the Government has begun to implement a program which is detailed in Annex 2, Table 2.

2.10 As can be seen from Annex 2, Table 2, the Government's program to contract official credit to the agricultural sector over the next three years (1988-1990) represents a significant move in the right direction, with cuts in real terms in 1990 (compared to 1987 -- an already relatively low base year) reaching 22% for long-term (investment) rural credit, 12% for short-term (inputs and marketing) rural credit, 19% for agro-industrial investment credit supplied by BNDES and the complete elimination of the Government's discount facility for supplying subsidized agro-industrial credit. The Government's own contributions to long- and short-term official rural credit in 1990 compared to 1987 are planned to be cut by 80% and 15%, respectively. This program will be updated annually, with a view to achieving deeper cuts, and is intended to become a three-year rolling plan. Assurances were obtained at negotiations that the Economic Secretariat of the Ministry of Finance (SEAE) would prepare and submit to the Bank quarterly reports on the status of this program's implementation and the Government would meet with the Bank each year to review and update the program.

2.11 In its effort to exercise greater control over the supply of official credit, the Government recently transferred the management of all

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1/ In 1986 and 1987, the cost to the Government (calculated as the difference between controlled interest rates and the yield on Government Treasury bonds multiplied by the volume of official rural credit supplied by the Government) is estimated to have been approximately US$557 million and US$285 million, respectively. In 1986 these interest subsidies accounted for about 6% of the fiscal deficit. Furthermore, the official credit resources channelled through the Government-owned banks are not being recovered by the Treasury.

official credit lines to the Treasury (STN), including those previously administered by the Central Bank (CB). The newly established Credit Limit Committee (CLC), comprised of a representative from the CB, STN and SEAE, now makes all credit allocation decisions for official credit currently administered by STN. In addition, all such credit lines will now be included in the Government's fiscal budget instead of the monetary budget as was the practice in the past -- a measure aimed in part at more effectively controlling, as well as increasing the transparency of credit subsidies.

D. Agro-Industrial Credit Demand

2.12 The demand for agro-industrial investment credit is potentially very large. A review of the pipelines of only four major banks, undertaken by the CB at the request of the Bank, revealed an agro-industrial investment demand of over US$1 billion equivalent that would appear to be eligible for financing under the project. In addition, surveys of prospective investors conducted by Bank staff in late 1987 and early 1988 indicate that there is considerable interest in the proposed credit line.

E. Experience with Bank Lending

2.13 To date, the Bank has made 47 loans totalling US$3,652 million for agricultural and rural development in Brazil. These loans include: two sector operations -- the Agricultural Credit and Export Loan for US$303 million, approved in October 1983, and the Credit and Marketing Reform Loan for US$500 million, approved in June 1986; supplemental financing of US$31 million under the Special Action Program; three loans totaling US$504 million for agro-industrial credit; three loans totaling US$112 million for livestock; one loan for US$18 million for grain storage; two loans totaling US$100 million for agricultural research; two loans totaling US$255 for agricultural extension and training; one loan for US$100 million for land tenure improvement; one loan for US$49 million for forestry development; and 32 loans totalling US$1,681 million for various settlement, irrigation and rural development projects.

2.14 The first of the three agro-industrial credit projects financed by the Bank was approved in 1973. The third loan (Loan 2268-BR) for US$400 million, which was approved in 1983, is now almost fully committed and is expected to close on schedule at the end of 1988. Over the years, these projects have expanded the range and variety of the activities financed as well as the types of financing available. In the third loan, financing has covered a wide range of activities including: primary processing of foodstuffs such as soybeans, oranges, meat, fish and poultry, as well as hides and fibers such as cotton; vertically integrated operations, extending back to primary production or forward to secondary processing (e.g., textiles, margarine and soap); the production of agricultural inputs such as fertilizers and implements; and storage facilities, packaging materials and other marketing operations.

2.15 With respect to the terms of financing in these agro-industrial credit projects, there has been a steady progression towards commercial lending. Under recent amendments to the Third Agro-Industries loan, the full cost of the Bank loan, with the exception of the foreign exchange risk

and the commitment fee, which are borne by the Government, are being passed on to the participating banks and, through them, ultimately to the final subborrowers. Under the proposed project, the progression towards commercial lending terms would be fully completed.

III. THE PROJECT

A. Origin and Rationale for Bank Involvement

3.01 The proposed project originated with the approaching full commitment of Loan 2268-BR (Third Agro-Industries Credit Project) and with the continuing demand from agro-industrial enterprises for investment finance. Such term finance has virtually disappeared under the present uncertain economic conditions. Term credit for industry, including agro-industry, is being supplied largely through the official system in which interest rates are controlled and credit is administratively allocated (para. 2.07). This dependence on official subsidized credit results in large distortions in credit (investment) allocation decisions, a heavy fiscal drain on Government and highly regressive income distributional effects.

3.02 The proposed project is an integral part of a strategy aimed at transferring dependence from the official credit system to voluntary commercial lending in the agricultural sector. The Bank's involvement in this process is essential, both from the standpoint of supplying long-term commercial credit during the present difficult period when private term finance (whether domestic or external) is not available, and in providing the support needed by Government to prepare and implement a program for permanently contracting the supply of official credit (para. 2.10).

3.03 While the proposed line of credit is reserved for agro-industries and in another proposed credit operation (the Agricultural Credit Project), the line of credit is reserved for farmers, the Bank's objective is to move as quickly as possible to a single line of credit for the entire agricultural sector. The intention is to approach this objective in a series of discrete steps -- the first step being to consolidate all Bank support for agricultural credit into only two credit lines -- one for farmers and one for agro-industries and to discontinue the practice of financing a multiplicity of credit lines through credit components in larger projects in which credit is earmarked for specific investment purposes (e.g. irrigation), or for particular farmers (e.g. as in the region-specific rural development projects). At this stage, two lines of credit, which is already a substantial improvement over past practice, is judged to be preferable to one in view of the politically more sensitive nature of farm credit. Historically, farm credit in Brazil has been seen as a subsidized activity, a position supported by strong political constituencies. Consequently, introducing a commercial credit line for farmers is a major political as well as economic reform which, if combined with the agro-industry line at this stage, might subject the latter to the same political risks. However, after these two projects, in which the advantages of relying on commercial credit have been demonstrated and supporting constituencies created, all future Bank assistance for credit in the agricultural sector is envisaged to be channeled through a single credit line.

B. Project Objectives

3.04 The main objectives of the project are to facilitate an expansion of commercial (unsubsidized) term credit to finance productive agro-industrial investments and, at the same time, enable the Government to contract the supply of official (interest rate-controlled) credit.

C. Summary Description

3.05 Bank loan funds would be used by the Government to refinance subloans made by accredited participating banks to agro-industrial enterprises to finance the latter's investment and associated working capital requirements. The terms on which the Treasury (STN) of the Ministry of Finance would refinance these subloans would be designed to enable the Government to recover from the participating banks (PBs) the full costs of obtaining and administering the Bank loan. The terms on which the PBs would lend to their customers would be a market outcome and, therefore, based essentially on the PB's refinancing costs plus a spread as determined by the market.

D. Detailed Features

1. Accrediting Participating Banks

3.06 All banks in Brazil would be eligible to apply to participate in the proposed program, but only those which are accredited would, in fact, qualify to participate. This accreditation procedure is of critical importance because the PBs would perform the basic line management function under the project (para. 3.21). Accreditation, therefore, has been designed to ensure that only those banks which are financially sound and able to appraise agro-industrial subloans would participate. The CB would be responsible for accrediting PBs under the project. Assurance was obtained at negotiations that the CB, in accrediting the PBs, would apply the following criteria:

(i) the existing Operational Limits required by the CB covering debt to equity ratios, exposure to individual loans and foreign debt borrowing and lending (agreement was obtained at negotiations that the Government would promptly notify the Bank of any change in the Operational Limits);

(ii) arrears as a percentage of the total outstanding loans would not exceed 10%, with arrears defined as either principal or interest which is overdue for six months or more, including those overdue payments that have either been capitalized, refinanced or rolled over into a new loan; and

(iii) the number and qualifications of staff for appraising and managing agro-industrial subloans would be judged satisfactory.

2. Eligibility and Approval for Refinancing

3.07 The types of investment activity which would be eligible for refinancing would include:

(i) any primary and subsequent transformation including storage, cleaning, grading, processing and packaging of an agricultural raw material from the time it is harvested until immediately before retail; and

(ii) the manufacture of farm inputs, equipment and machinery, including tools, silos, tractors and combines.

3.08 In addition, the working capital costs associated with the above types of investment, up to 50% of the investment cost to be financed by the Bank loan, would also be eligible for refinancing. Also a single subborrower would not be permitted to borrow in total more than 5% of the Bank loan (i.e., not more than US$15 million). Assurance that all of the above eligibility criteria would be followed was obtained during negotiations.

3.09 For subloans below prescribed free limits (US$5.0 million), accredited PBs would have the sole right of approval. The PB would only need to inform STN that the subloan has been made by submitting the appropriate subloan documentation and, at the appropriate time, submit a request for disbursement of the credit funds. Therefore, no agency in Government would need to exercise any discretionary authority in approving subloans for refinancing. This is consistent with one of the main objectives of this operation which is to eliminate administrative allocation decisions and to rely instead on the banks' and subborrowers' willingness to pay market interest rates as the basis for determining who does and does not receive credit. Second-guessing of the market result is neither needed nor desirable. However, for those few subloans at or above the free limit, the PB's, through STN, would submit proposals to the Bank for approval. In addition, STN would send to the Bank for its review, the documents on the first four subloans made. Assurances that the above procedures would be followed were obtained during negotiations.

3. Refinancing Terms

3.10 The refinancing terms are the terms under which the Government would refinance PB subloans. These terms have been designed to enable the Government to recover from the PBs the full costs, including foreign exchange risks, of the Bank loan, plus the administrative costs to the Government.

3.11 Foreign Exchange Risk. The easiest and most straightforward method for treating the foreign exchange risk is to have the PBs assume this risk in exactly the same form that the Government borrows from the Bank. Under the Bank's currency pooling system, IBRD borrowers like Brazil receive loans denominated in a basket of currencies which the Bank uses for disbursement purposes. Variations in the value of the basket (which depends on relative changes in the value of the different currencies in the basket and on the currency composition of the basket) are then used to

adjust the outstanding principal owed the Bank by the borrower. Hence, IBRD borrowers assume a cross-currency, as opposed to a single exchange rate risk. This system has definite advantages for IBRD borrowers, but it also, at the same time, poses difficulties in passing this foreign exchange risk on to financial intermediaries and ultimately to final subborrowers. If the cross-currency or basket risk is included in the refinancing terms, some subborrowers, particularly the smaller and financially less sophisticated ones, may be discouraged from borrowing.

3.12 Generally PBs and their customers will incur risk in a form in which they are reasonably familiar and against which they believe they can hedge. Therefore, in order to make the proposed credit line as marketable a product as possible, a few alternative options for denominating the refinancing terms have been developed. Each option has been designed to yield approximately the same cost (in present value terms over the life of the average subloan) as the basket option. The PBs would be given the choice of denominating their refinancing terms in one of the following three forms:

(i) in the Bank's basket of currencies, in which case the PB would take the foreign exchange risk in exactly the same form that the Government does, and the applicable interest rate would be the six-month adjustable interest rate the Bank charges IBRD borrowers (currently 7.72%); or

(ii) in US$, thus taking the Cz$-US$ exchange rate risk as compared to the basket or cross-currency risk in (i) above, in which case the interest rate in (i) above would be adjusted either upward or downward to compensate for the difference in foreign exchange risk between these two options; the differential between the weighted average market yield on Bank bonds denominated in the currencies of the basket and the market yield of US$ Bank bonds (based on publicly traded bonds with a remaining maturity of 5 to 10 years) would be used to reflect the difference in risk and added to or subtracted from the interest rate in (i) above; for the calculation of the weighted average market yield on the basket, bonds denominated in five currencies (the US Dollar, Deutsche Mark, Swiss Franc, Japanese Yen and Netherlands Guilder) would be used, as these currencies comprise over 90% of the Bank's currency pool; the proportions that these currencies represent in this subset of the Bank's total pool would be used to weight the respective yields; (applying the above methodology at today's yields results in approximately a 3 percentage point premium which would need to be added to the basket interest rate); the frequency of interest rate adjustments would be the same as in (i) above; and

(iii) in cruzados, with the principal adjusted in accordance with the National Treasury Bond (OTN) index,[2] in which case the applicable interest rate would be as in (ii) above, plus not less than 0.8 percentage points and not more than 2.5 percentage points

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2/ The National Treasury Bond index is used for the purpose of indexing financial contracts to take account of inflation.

depending on the difference by which depreciation of the cruzado vis-a-vis the dollar exceeds changes in OTN over the preceding six months; this adjustment is to offset the higher risk in option (ii) that dollar/cruzado exchange rate adjustments will exceed inflation as reflected in the OTN index (historically, over the medium- and long-term, exchange rate adjustments have exceeded the rate of inflation by about 2% per annum on average).

3.13 In order to launch the proposed credit line in Brazil, the first year of the project would be treated as a promotional period during which the interest rate at which the Government would onlend funds to the PBs would be somewhat lower than that prescribed by the above methodology. Specifically, during the first year the premium to be added to the basket interest rate in order to obtain the dollar interest rate would be set at 1.5 percentage points. After the first year the methodology described in para. 3.11 (ii) above would be applied in full.

3.14 The other refinancing terms for the PBs would include:

(i) 0.25 percentage points interest annually to cover the costs to the Government of administering the Bank loan;

(ii) 0.25 percentage points interest annually to cover the average costs of the commitment fee which the Government pays on the undisbursed balance of the Bank loan; and

(iii) grace and amortization periods which would be the same as those adopted in the subloans, with a maximum term and grace period of 12 and 3 years, respectively.

3.15 If calculated today, based on the above terms, the interest rate at which the Government would refinance (i.e. discount) PB subloans under each of the three currency options (basket, dollar and OTN cruzado) would be 8.2%, 11.2% and 12%, respectively, with the dollar and cruzado interest rates being discounted to 9.7% and 10.5%, respectively, during the first year promotional period (para. 3.13). At negotiations, assurance was obtained that the refinancing terms referred to in paras. 3.12 through 3.14 above would be followed. As previously mentioned (para. 3.05), the final onlending terms to subborrowers are intended to recover the PB's cost of borrowing funds and would be a market outcome based on the negotiations between PBs and their customers.

4. Transmission and Repayment of Credit Funds

3.16 The process of channelling credit funds to subborrowers and making loan repayments would work as follows:

(i) after contracts between suppliers and subborrowers are signed, the latter would request the PB to pay the supplier or himself directly;

(ii) the PB would then request reimbursement from STN; to affect this disbursement, STN would authorize the CB to credit the reserve account of the PB and transfer funds from the Special Account (para. 3.26) to the Government's account;

(iii) when repayment of the subloan is due, the subborrower would pay the PB which would take its spread and repay the Government (in accordance with the refinancing terms, paras. 3.12-3.14; the repayment would be affected by STN authorizing the CB to debit the PB's reserve account and correspondingly credit the Government's account.

3.17 Assurance was obtained during negotiations that these internal procedures for disbursing credit funds to PBs and for making loan repayments would be followed.

E. Project Cost and Financing

3.18 Bank loan funds would be used by the Government to provide a commercial credit line to PBs to refinance up to 50% of the investment and associated working capital costs of each subproject approved for refinancing; the balance would be freely negotiated between the PB and the subborrower and could involve various possible combinations of PB, subborrower and other (financial intermediary) finance; hence, no Government counterpart funds would be needed, unlike in the past, when the unavailability of such funds substantially delayed subloan approval. Assurance that these financing arrangements would be followed was obtained during negotiations. The project cost and financing plan are given in Annex 3, Table 1 and summarized below:

Table 1: Project Cost and Financing

	US$ million	%
Total Cost of Investments	600	100
Financed by:		
Bank	300	50
PBs, other lending institutions and Subborrowers	300	50

3.19 Because of the range and variety of investments eligible for project financing, the foreign exchange and tax components are impossible to calculate with any degree of accuracy. It is, however, estimated that the foreign exchange component is likely to be in the order of 10-15% of the total costs (most machinery and equipment components are domestically manufactured) and taxes to be about 5% (tractors and agricultural equipment are exempt from tax).

3.20 The borrower of the Bank loan would be the Government. Although the refinancing terms (paras. 3.10-3.14) have been designed to enable the Government to recover from the PBs the full costs of the Bank loan, there could be some discrepancies between the Bank's lending terms and the refinancing terms with regard to the treatment of exchange risks (as PBs have one of three options and although they may be equal over time, they do have different cash flow characteristics), commitment fees (as the method chosen is only an approximation of the cost to the Borrower) and grace and amortization periods (as these will conform to the subloans). Implicit in this formulation is the fact that the Borrower (i.e., the Government), would account for any difference; however, these discrepancies are expected to be small.

F. Coordination and Management

3.21 The principal and perhaps most important coordination and management functions would be performed by the PBs themselves. These are the institutions which would review and approve subloan applications and monitor investment and repayment performance after the subloans are given. The experience of the Third Agro-Industry Credit Project indicates that the banking system as a whole has the capability and expertise to do the job well. To ensure that the individual banks which participate in this program have this capability, each participating bank would need to be accredited (para. 3.06).

3.22 The CB, on behalf of the Government, would manage the Special Account (para. 3.25) including the crediting and debiting of PB reserve accounts (para. 3.16(ii) and (iii)). Within the CB this function would be performed by the Department of International Organizations and Agreements (DEORI). Information needed for the accreditation of PBs would be maintained by the CB's Department of Banking (DEFIB) which would make this information available to the CB's Department of Industrial Credit and Special Programs (DESE) which, based on the agreed criteria, would be responsible for actually accrediting PBs under the project. In addition, DESPE would coordinate all of the activities to be performed by the different CB departments under the project and would be responsible for communicating directly with PBs, including informing them every six months of changes in the cost of refinancing (interest rates and outstanding principal) based on the different refinancing options (para. 3.12).

3.23 In addition to authorizing the CB to credit and debit PB reserve accounts, STN would be responsible for monitoring overall project performance (para. 3.27), reporting progress to the Bank (paras. 3.27 and 3.28), answering queries from actual and prospective PBs and subborrowers, and generally solving problems and removing any bottlenecks should they arise. The unit in STN recently set up to administer all official credit lines (para. 2.11) would carry out the above functions for the project. At present this unit comprises 20 staff, 12 of whom were recently transferred from the CB. A computer program linking STN with the CB and the banks would be used to affect all official credit transactions, including those under the project. Assurance was obtained at negotiations that STN would carry out supervision of the project, in a manner satisfactory to the Bank, with management and staff adequate in numbers, qualifications and experience and utilizing appropriate financial control systems.

G. Procurement

3.24 The range of goods to be financed under the project would be varied. Vehicles and computers, being reserve procurement, would be excluded from Bank financing. In the case of most subprojects, the items to be financed under the project would not be suitable for bulk procurement. Accordingly, procurement for most subprojects would be in accordance with standard practice for loans of this type and would follow the normal commercial practice of private sector enterprises -- the beneficiaries of the proposed loan. The Brazilian construction and capital goods industries are highly developed, and there is a significant foreign

participation in these industries. A small minority of subprojects would be likely to involve substantial investment. Thus, international competitive bidding procedures would apply in the case of contracts of US$5 million or more. Brazilian contractors and suppliers would receive a 15% preference over foreign suppliers. During negotiations, the Government provided assurance that the above procurement procedures would be followed.

H. Disbursements

3.25 To facilitate Bank disbursements, a Special Account would be opened in US dollars in the CB and operated under the same general procedures applicable to other special accounts in the CB. The Special Account would be opened with an initial deposit of US$30 million. Similar accounts have been established under a number of previous Bank loans in Brazil and are working satisfactorily. The advances would be used to finance only the Bank's share of the project costs. The proceeds of the proposed loan would be disbursed to the PBs on the basis of 100% of the amount disbursed for subloans (which would be up to 50% of the total subproject costs) and would be made against statements of expenditure (SOE). The documents in support of these SOEs would be retained by the CB and made available for inspection by the Bank during project supervision missions and would be subject to annual independent audit (paras. 3.30 and 3.31). During negotiations, the Government provided assurances on these disbursement matters. In addition, receipt by the Bank of the signed refinancing agreement between the PB and the Government and the approval of the Bank for subloans at or above the free limit (para. 3.09) would be conditions of disbursement.

3.26 Consistent with the disbursement profile for the Third Agro-Industrial Credit Project, disbursements from the proposed Bank loan are estimated to take place over a four-year project implementation period and would be as follows:

Table 2: Disbursements
(US$ Million)

	FY89	FY90	FY91	FY92
Annual	60	75	80	85
Cumulative	60	135	215	300

The estimated project completion date would be June 30, 1992.

I. Monitoring and Reporting

3.27 Monitoring and reporting on the overall program of financing would be the responsibility of STN; the progress of individual subprojects would be the responsibility of the PBs. Each month STN would submit to the Bank a summary report based on information provided by the PBs setting forth for each PB: (a) the number and principal amounts outstanding of new subloans; and (b) the total amount disbursed to, and repaid by, each PB during the relevant month.

3.28 Each quarter, the PBs would submit to STN a summary of the progress made in making subloans, including information by subloan

regarding the number and principal amounts outstanding and disbursements to, and repayments made by subborrowers, classified by region and state and by type of activity and investment financed. STN would submit a summary of these reports to the Bank. On completion of the project, STN would prepare a completion report.

3.29 During negotiations, the Government provided assurances on the monitoring and reporting arrangements described above.

J. Auditing

3.30 The CB, on behalf of the Government, would maintain the Special Account, which would be audited annually by independent auditors acceptable to the Bank. After the audit and not later than six months after the close of its fiscal year, STN would transmit to the Bank certified copies of these audited accounts, together with a certified copy of the auditor's report, which would include a description of the audit procedures followed.

3.31 The auditors would, during the course of their annual audits, carry out such test checks as were, in their professional judgement, required of the internal controls over project transactions and of the implementation of these controls. The test checks would specifically include the preparation of statements of expenditure supporting disbursement requests from the PBs and would confirm that the expenditures at the subborrower level have been made for the stated purpose. The auditors would include in their long-form reports such comments or observations as they judged necessary on project transactions.

3.32 During negotiations, the Government provided assurance on the audit arrangements described above.

K. Environmental Impact

3.33 One of the major factors contributing to the degradation of the environment is the divergence between the private costs perceived by individuals and enterprises and the total social costs, including those to the environment, associated with investment decisions. In Brazil, the availability of highly subsidized credit has kept the private costs associated with many investment decisions substantially below the social costs, often contributing in part to the excessive exploitation of natural resources. This can be seen most graphically in the more ecologically fragile parts of the country (e.g. Amazonas) where various incentive schemes (tax shelters and cheap credit) have made otherwise unattractive investments more promising and contributed to an unsustainable rate of settlement. By helping to remove these credit subsidies in the agricultural sector, the project is expected to contribute to greater husbandry and efficiency in the use of the country's limited natural and other resources.

3.34 The environmental impact of specific subprojects financed under this operation would be subject to evaluation by state-level environmental authorities (SEPAs), which are responsible for the enforcement of national and state environmental control legislation. The National Environmental

Agency (SEMA) provides technical backstopping to the SEPAs. Full responsibility for such enforcement was decentralized to the SEPAs only in 1986, and in most states, they do not have the staff nor the technical capacity to fully assume responsibility for effective environmental protection. Also, the legislative and regulatory frameworks are deficient in many states. Nevertheless, in the larger and more advanced states, where most subprojects are likely to be located, there is adequate capacity -- Sao Paulo, Rio de Janeiro and Parana all have well-staffed and technically competent SEPAs. In addition, under the Sao Paulo Second Pollution Control Project, the Bank is financing programs to strengthen the pollution control capacity of SEPAs in states other than Sao Paulo. This reflects the Bank's strategy in Brazil of concentrating its efforts on helping to build a Brazilian institutional and legal capacity to deal with environmental problems. Under the proposed operation, however, the Bank would itself be reviewing and approving all larger investment proposals (subloans at or over $5 million) and would be in a position to identify potential environmental issues and assure that they are referred to the appropriate authorities.

L. Financial and Economic Benefits

3.35 While the investment decisions of individual entrepreneurs and risk bearing financial intermediaries cannot be predicted, the economic impact of the proposed loan is expected to be substantial. There would be investments of some US$600 million in new plant and equipment, and on the basis of experience with earlier projects, some 25,000--30,000 new jobs are likely to be created. Indirect benefits would accrue to agriculture from an expanded market for its products and from the supply of improved inputs. The rate of interest to be charged ensures the probability of obtaining satisfactory financial rates of return on most subprojects. In addition, the further liberalization of agricultural credit would contribute to improved efficiency in resource allocation and reduce the Government's fiscal burden.

M. Risks

3.36 The main risk to the project is a further erosion of investor confidence due to uncertainty in the economic environment. Should this happen, credit uptake, hence, loan disbursements, would be slower than estimated. However, recent Government commitments to reducing the fiscal deficit in its efforts to stabilize the economy and the renewed dialogue with the IMF are encouraging developments. Another risk is the resurgence of official credit which could also reduce the demand for the project's commercial credit funds; however, the Government is committed to reducing the supply of official credit and has begun to implement a program aimed at contracting the supply of official credit to the agricultural sector. This program would be carefully monitored and the Bank would meet with the Government on an annual basis to review and update the program (para. 2.10).

IV. Summary of Agreements and Recommendations

4.01 During negotiations, assurances from Government would be sought that:

(a) SEAE would prepare and submit to the Bank quarterly reports on the status of implementation of the Government's program to contract official credit to the agricultural sector, and the Government would meet with the Bank on an annual basis to review and update this program (para. 2.10);

(b) participating banks would be accredited by the CB according to agreed criteria concerning financial soundness and loan appraisal capability (para. 3.06);

(c) refinancing of subloans would be confined to eligible types of investment activity and associated working capital costs (paras. 3.07-3.08);

(d) a single subborrower would not be able to borrow in total more than 5% of the Bank loan (para. 3.08);

(e) for subloans below the free limit of US$5.0 million, accredited PBs would have the sole right of approval and for subloans at or above the free limit, the PBs, through STN, would submit them to the Bank for approval (para. 3.09);

(f) the refinancing terms described in paras. 3.12 through 3.14 would be followed (para. 3.15);

(g) the internal procedures for disbursing the credit funds to PBs and for making loan repayments to the Government as described in para. 3.16 would be followed (para. 3.17);

(h) the proceeds of the Bank loan would be used to refinance up to 50% of the investment and associated working capital costs of a subproject (para. 3.18);

(i) STN would carry out supervision of the project, in a manner satisfactory to the Bank, with management and staff adequate in numbers, qualifications and experience and utilizing appropriate financial control systems (para. 3.23);

(j) procurement arrangements outlined in para. 3.24, including the use of ICB in the case of contracts of US$5 million or more, would be followed;

(k) suitable arrangements would be made for the establishment and operation of a Special Account in the CB (para. 3.25);

(l) STN would prepare and submit to the Bank monthly (para. 3.27) and quarterly (para. 3.28) progress reports (para. 3.29); and

(m) the audit arrangements described in paras. 3.30 and 3.31 would be followed (para. 3.32).

4.02 Receipt by the Bank of the signed refinancing agreement between the PB and the Government and the approval of the Bank for subloans at or above the free limit would be conditions of disbursement (para. 3.25).

4.03 With the above assurances and conditions, the proposed project would be suitable for a Bank loan of US$300 million equivalent at the standard variable rate, with a term of 15 years, including a 5-year grace period.

ANNEX 1
Table 1

BRAZIL

FOURTH AGRO-INDUSTRIES CREDIT PROJECT

Agro-Industry in the Brazilian Economy

Sub-Sector	No. of Establishments Number	%	Employees Number	%	Value Added Amount (Cz$million)	%	Value of Production Amount (Cz$million)	%
Lumber	21,018	25.0	263,004	17.0	105.7	10.4	194.8	7.1
Paper, Cardboard	1,704	2.0	107,433	7.0	119.0	11.7	258.1	9.4
Natural Rubber	1,273	1.5	56,476	3.7	49.8	4.9	143.7	5.2
Leather	1,635	1.9	42,237	2.7	18.3	1.8	46.8	1.7
Textiles	6,062	7.2	377,600	24.4	251.5	24.8	616.3	22.4
Food Products	49,366	58.6	622,062	40.2	394.8	39.0	1,332.5	48.5
Beverages	2,925	3.5	58,512	3.8	47.5	4.7	101.1	3.7
Tobacco	219	0.3	18,183	1.2	26.9	2.7	52.4	1.9
Total Agro-Industry	84,202	100	1,545,507	100	1,013.5	100	2,745.7	100
Total Mfg. Industry	209,617		4,918,209		3,929,800		9,601,800	
Total Agro-Industry/ Total Mfg. Industry (%)	40.2		31.4		25.8		28.6	
Total Agro-Industry/ GNP (%)	--		--		--		21.6	

Source: Fundacao Instituto Brasileiro de Geopgrafia e Estatistica (FIBGE) Industrial Census 1980

ANNEX 1
Table 2

BRAZIL

FOURTH AGRO-INDUSTRIES CREDIT PROJECT

The Structure of Agro-Industry

(Cz$ million)

Sub-Sectors	Number of Establishments						Employees						Value of Production (Cz$ million)					
	A	%	B	%	C	%	A	%	B	%	C	%	A	%	B	%	C	%
Lumber	20,714	25.5	290	10.9	14	5.2	199,913	25.9	54,368	9.7	8,723	4.1	119.8	11.4	59.1	4.8	15.8	3.4
Paper, Cardboard	1,410	1.7	272	10.2	22	8.2	37,076	4.8	55,779	10.0	14,578	6.8	62.6	6.0	136.6	11.1	59.0	12.6
Natural Rubber	1,164	1.4	96	3.6	13	4.8	22,828	3.0	19,625	3.5	14,023	6.6	34.4	3.3	46.2	3.8	63.1	13.4
Leather	1,523	1.9	108	4.1	4	1.5	17,458	2.3	20,981	3.8	3,708	1.7	18.1	1.7	25.2	2.0	3.5	0.7
Textile	5,119	6.3	834	31.4	109	40.5	101.654	13.2	190,046	34.0	85,900	40.2	185.3	17.7	291.1	23.7	139.8	29.8
Food Products	48,383	59.5	892	33.6	91	33.8	363,968	47.1	183,161	32.8	74,933	35.1	588.0	56.2	587.1	47.8	157.4	33.5
Beverages	2,791	3.4	125	4.7	9	3.3	27,437	3.5	24,765	4.4	6,310	3.0	32.1	3.1	55.0	4.5	13.9	3.0
Tobacco	175	0.2	37	1.4	7	2.6	2,592	0.3	10,037	1.8	5,554	2.6	6.5	0.6	29.2	2.4	16.7	3.6
Total Agro-Industry	81,279	100.0	2,654	100.0	269	100.0	773,016	100.0	558,762	100.0	213,729	100.0	1,047.0	100.0	1,229.5	100.0	469.2	100.0
Total Mfg. Industry	200,150		8,428		1,039		2,259,975		1,695,663		962,571		2,909.8		4,150.0		2,542.1	
Total Ag. Industry/ Total Mfg. Industry (%)	40.6		31.5		25.9		34.2		33.0		22.2		36.0		29.6		18.5	

Source: FIBGE Industrial Census - 1980

A - Group of industries employing up to 99 people.

B - Group of industries employing between 100 and 499 people.

C - Group of industries employing 500 people or more.

ANNEX 1
Table 3

BRAZIL

FOURTH AGRO-INDUSTRIES CREDIT PROJECT

The Location of Agro-Industry

REGION	NORTH ESTABLISHMENTS		NORTHEAST ESTABLISHMENTS		SOUTHEAST ESTABLISHMENTS		SOUTH ESTABLISHMENTS		CENTER-WEST ESTABLISHMENTS		TOTAL	
Major Groups	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Lumber	5	14.7	1	0.5	15	2.4	27	10.5	0	0	48	4.2
Paper, Cardboard	3	8.8	12	5.8	76	12.1	27	10.5	0	0	118	10.3
Leather	2	5.9	9	4.4	14	2.2	25	9.7	0	0	50	4.4
Textile	5	14.7	31	15.0	138	21.9	30	11.7	0	0	204	17.9
Tobacco	0	0	2	1.0	3	0.5	3	1.2	0	0	8	0.7
Cane Sugar & Alcohol	0	0	53	25.7	125	19.9	6	2.3	3	18.8	187	16.4
Coffee, Roast'g, Mill'g Soluble	0	0	2	1.0	25	4.0	6	2.3	1	6.3	34	3.0
Wheat & Cereals Mill'g, Pasta, Biscuits	3	8.8	17	8.3	26	4.1	20	7.8	2	12.5	68	6.0
Vegetable Oils & Animal Feed	1	2.9	16	7.8	30	4.8	27	10.5	2	12.5	76	6.7
Abattoirs & Meat Derivates	1	2.9	9	4.4	39	6.2	28	10.9	2	12.5	29	2.5
Milk & Dairy Products	0	0	4	1.9	17	2.7	6	2.3	2	12.5	29	2.5
Preserves, Cocoa Deriv. & Others	2	5.9	24	11.7	54	8.6	24	9.3	1	6.3	105	9.2
Fist Preparation & Derivates	4	11.8	9	4.4	5	0.8	10	3.9	0	0	28	2.5
Beverages	8	23.5	17	8.3	62	9.9	18	7.0	3	18.8	108	9.5
TOTAL	34	100	206	100	629	100	257	100	16	100	1,142	100
Regional Total (%)	3.0		18.0		55.1		22.5		1.4		100	

Source: GAZETA MERCANTIL: Annual Balance 1987

BRAZIL

FOURTH AGRO-INDUSTRIES CREDIT PROJECT

Agro-Industrial Performance
(Cz$ million)

	1982		1983		1984		1985		1986		Annual Rate of Growth				
	Value of Production	%	Value of Production	%	Value of Production	%	Value of Production	%	Value of Production	%	83/82	84/83	85/84	86/85	86/82
Lumber	3,486.2	2.7	4,209.4	2.9	3,729.0	2.5	2,735.3	1.8	4,191.8	2.5	20.7	-11.4	-26.6	53.2	4.7
Paper, Cardboard	12,955.0	10.1	14,713.0	10.3	17,360.0	11.5	15,036.0	9.7	17,445.5	10.5	13.6	18.0	-13.4	16.0	7.7
Leather	2,410.4	1.9	2,923.7	2.0	3,358.2	2.2	2,925.3	1.9	3,487.7	2.1	21.3	14.9	-12.9	19.2	9.7
Textile	21,07.3	16.5	19,162.8	13.4	23,015.2	15.2	27.560.2	17.8	32,538.3	19.6	-9.1	20.1	19.7	18.1	11.5
Tobacco	4,584.6	3.6	4,030.4	2.8	3,647.3	2.4	3,918.5	2.5	5,160.5	3.1	-12.1	-9.5	7.4	31.7	3.0
Cane Sugar & Alcohol	17,085.9	13.4	19,036.9	13.3	19,427.1	12.9	16,485	10.6	18,073.3	10.9	11.4	2.0	-15.1	9.6	1.4
Coffee, Roast'g, Millin'g Soluble	2,749.3	2.1	2,739.0	1.9	2,490.4	1.7	3,350.4	2.2	4,517.2	2.7	-0.4	-8.9	34.2	34.8	13.2
Wheat & Creals Mill'g, Pasta, Biscuits	6,190.2	4.8	7,076.9	4.9	6,826.2	4.5	7,398.1	4.8	6,472.0	3.9	14.3	-3.5	8.4	-12.5	1.1
Vegetable Oils & Animal Feed	13,493.0	10.5	19,347.0	13.9	20,444.6	13.5	19,245.9	12.4	16,890.2	10.2	47.1	3.0	-5.9	-12.2	5.8
Abattoirs & Meat Derivates	13,443.0	10.5	17,923.2	12.5	18,405.0	12.2	18,257.1	11.8	18,475.0	11.1	33.3	2.7	-0.8	1.2	8.3
Milk & Dairy Products	3,245.9	2.5	3,400.7	2.4	2,852.0	1.9	4,506.3	2.9	5,267.6	3.2	4.8	-16.1	58.0	16.9	12.9
Preserves, Cocoa Deriv. & others	13,662.2	10.7	16,644.9	11.6	16,510.4	10.9	16,151.9	10.4	19,189.3	11.6	21.8	-0.8	-2.2	18.8	8.8
Fish Preparation & Derivates	845.0	0.7	754.4	0.5	877.2	0.6	985.0	0.6	997.7	0.6	-10.7	16.3	12.3	1.3	4.2
Beverages	12,683.2	9.9	10,539.6	7.4	12,190.6	8.1	16,616.1	10.7	13,322.5	8.0	-16.9	15.7	36.2	-19.8	1.2
TOTAL	127,907.3	100	143,001.9	100	151,145.3	100	155,171.3	100	166,028.6	100	11.8	5.7	2.7	7.0	6.7

Base Year = 1985
Source: GAZETA MERCANTILE: Annual Balance 1983/84/85/86/87

ANNEX 1
Table 5

BRAZIL

FOURTH AGRO-INDUSTRIES CREDIT PROJECT

Agro-Industrial Exports
(Cz$ million)

	1983		1984		1985		1986		1986e		1987e		GROWTH				
	US$million	%	US$million	%	US$million	%	US$million	%	US$million	%	US$million	%	83/82	84/83	85/84	86/85	87/86e
Lumber	326.7	1.49	341.2	1.26	318.1	1.24	307.7	1.37	193.0	1.33	176.4	1.30	15.5	4.4	-6.77	1.55	8.60
Paper, Cardboard	208.4	0.95	345.6	1.28	262.8	1.03	374.1	1.67	217.3	1.50	182.2	1.35	26.9	65.8	-24.0	42.4	-16.2
Natural Rubber	138.5	0.63	241.3	0.89	265.0	1.03	221.0	0.99	142.3	0.98	121.5	0.90	18.1	74.3	9.78	-16.8	-14.6
Leather	816.3	3.73	1,160.1	4.30	1,032.4	4.03	1,260.6	5.63	803.7	5.55	739.6	5.47	31.5	42.1	-11.0	2.40	7.98
Textile	927.2	4.23	1,014.1	3.76	858.2	3.35	412.6	1.84	272.4	1.88	292.6	2.16	40.3	9.38	-15.4	-21.8	7.42
Food Products	7,866	35.9	8,754	32.4	8,379	32.7	6,605.0	29.5	4,514.8	31.2	4,083.9	30.2	10.6	11.3	-4.28	20.9	-9.54
Beverages	607.9	2.78	1,414.5	5.24	748.9	2.92	719.2	3.21	425.9	2.94	388.6	2.87	6.02	133	-47.1	3.97	-8.76
Tobacco	472.0	2.15	468.6	1.73	459.3	1.79	417.7	1.87	286.8	1.98	258.4	1.91	-1.04	-0.72	-1.97	-9.06	-9.90
Total Agro-Industry	11,363.0	51.9	13,739.4	50.9	12,323.7	48.1	10,317.9	46.1	6,856.2	47.3	6,243.2	46.1	13.5	20.9	-10.3	-15.1	-8.94
Overall Export	21,899.3		27,005.3		25.639.0		22,393.3		14,488.7		13,533.3		8.55	23.3	-5.06	-12.66	-6.59

* January - July

Source: CACEX - DEPEC/Banco do Brasil - Export Reports 1985/86/87

ANNEX 2
Table 1

BRAZIL

FOURTH AGRO-INDUSTRIES CREDIT PROJECT

Official Agricultural Credit by Source (1986-87)
(Current Prices)

A. AGRICULTURE (Cz$million)

	1986			1987 a/			
	Compulsory Applications	Government Resources	Total	Compulsory Applications	Government Resources	Rural Savings	Total
Bank of Brazil							
-Seasonal	10,478	59,967	70,445	51,202	175,195	14,300	240,697
-Investment	4,282	11,697	15,979	2,854	7,110	36,600	46,534
-Marketing b/	4,387	14,254	18,641	3,237	50,406	0	53,643
Other Federal Banks							
-Seasonal	183	1,034	1,217	1,364	1,137	0	2,501
-Investment	292	790	1,082	756	3,698	0	4,454
-Marketing	35	0	35	168	7	0	175
Other Banks							
-Seasonal	20,251	2,317	22,568	49,687	1,851	0	51,538
-Investment	20,234	248	20,482	11,516	6,316	0	17,832
-Marketing	371	2,786	3,157	3,317	49	0	3,366
TOTAL	60,513	93,093	153,606	124,101	245,769	50,900	420,770

B. AGRO-INDUSTRY (Cz$million)

1986			1987 a/		
CB Discounts and Gov't Financing	BNDES	Total	CB Discounts and Gov't Financing	BNDES	Total
2,198.2	5,994.8	8,143	9,982	17,052	27,034

a/ The annual rate of inflation in 1987, as measured by the CPI, was 366% and, therefore, rural and agro-industrial credit in real terms declined by about 41% and 26%, respectively.

b/ Includes the Government's stock financing program (EGF).

Source: BNDES, CB and SEAE, March 1988

ANNEX 2
Table 2

BRAZIL

FOURTH AGRO-INDUSTRIES CREDIT PROJECT

Government Program for Official Agricultural Credit (1987-1990)
(In Constant 1987 Values)

A. AGRICULTURE (US$million)

	1987 a/				1988				1989				1990				% Real Change (1987/90)			
	Compulsory Applications	Gov't Resources	Rural Savings	Total	Compulsory Applications	Gov't Resources	Rural Savings	Total	Compulsory Applications	Gov't Resources	Rural Savings	Total	Compulsory Applications	Gov't Resources	Rural Savings	Total	Compulsory Applications	Gov't Resources	Rural Savings	Total
Bank of Brazil																				
Inputs	998.40	3416.30	278.90	4693.60	968.50	3245.50	295.60	4509.60	938.50	3074.70	312.30	4325.50	898.60	2903 90	329.00	4131.50	-10	-15	18	-12
Investment	55.70	138.60	713.70	908.00	27.80	69.30	770.80	867.90	19.50	48.50	827.90	895.90	11.10	27 70	885.00	923.80	-80	-80	24	2
Marketing	63.10	1641.70	0.00	1704.40	61.20	1559.30	0.00	1620.50	59.30	1477.20	0.00	1538.50	56.80	1395.10	0.00	1451.90	-10	-15	0	-15
EGF b/	63.10	982.90	0.00	1046.00	61.20	933.80	0.00	995.00	59.30	884.60	0.00	944.00	56 80	835.50	0.00	892.30	-10	-15	0	-15
AGF c/	0.00	658.40	0.00	658.40	0.00	625.50	0.00	625.50	0.00	592.60	0.00	592.50	0.00	559.70	0.00	559.70	0	-15	0	-15
Sub-total	117.20	5196.20	992.60	7306.00	1057.50	4874.10	1066.40	6998.00	1017.30	4600.40	1140.20	6757.90	966.50	4326.70	1214.00	6507.20	-14	-17	22	-11
Other Federal Banks																				
Inputs	26.60	22.20	0.00	48.80	25.80	21.10	2.60	49.70	25.00	20.00	5.60	50.60	23.90	18.80	8.40	51.10	-10	-15	100	5
Investment	14.70	72.10	0.00	86.80	7.40	38.10	14.30	57.80	5.20	25.20	28.50	58.90	2.90	14 40	42.80	60.10	-80	-80	100	-81
Marketing	3.30	0.10	0.00	3.40	3.20	0.10	0.00	3.30	3.10	0.10	0.00	3.20	2.90	0.10	0.00	3.00	-12	0	100	-12
Sub-total	44.60	94.40	0.00	139.00	36.40	57.30	17.10	110.80	33.30	45.30	34.10	112.70	29.70	33.30	51.20	114.20	-33	-65	100	-18
Other Banks																				
Inputs	968.90	36.10	0.00	1005.00	939.80	34.30	0.00	974.10	910.80	32.50	0.00	943.30	872.00	30.70	0.00	902.70	-10	-15	0	-10
Investment	224.60	123.20	0.00	347.80	112.30	61.60	0.00	173.90	78.80	43.10	0.00	121.70	44.90	24.60	0.00	69.50	-80	-80	0	-80
Marketing	64.70	1.00	0.00	65.70	62.70	0.90	0.00	63.60	60.80	0.90	0.00	61.70	58.20	0.80	0.00	59.00	-10	-20		-10
Sub-total	1258.20	160.30	0.00	1418.50	1114.80	96.80	0.00	1211.60	1050.20	76.50	0.00	1126.70	975.10	56.10	0 00	1031.20	-23	-65	0	-27
Total																				
Inputs	1993.90	3474.60	278.90	5747.40	1934.10	3300.90	298.40	5533.40	1874.30	3127.20	317.90	5319.40	1794.50	2953.40	337.40	5085.30	-10	-15	21	-12
Investment	295.00	333.90	713.70	1342.60	147.50	167.00	785.10	1099.60	103.30	116.80	856.40	1076.50	58.90	66.70	927.80	1053.40	-80	-80	30	-22
Marketing	131.10	1642.40	0.00	1773.50	127.10	1560.30	0.00	1687.40	123.20	1478.20	0.00	1601.40	117.90	1396.10	0.00	1514.00	-10	-15	0	-15
Total	2420.00	5450.90	992.60	8863.50	2206.70	5028.20	1083.50	8320.40	2100.80	4722.20	1174.30	7997.30	1971.30	4416.20	1265.20	7652.70	-19	-19	27	-14

a/ Based on an exchange rate of Cr$ 51.3 = 1 US$.

b/ EGF is the Government's stock financing program.

c/ AGF is the Government's stock purchase program which, in the first instance, is a credit line (administered by BB) from the Government to the implementing agency (CFP).

B. AGRO-INDUSTRY (US$million)

1987 d/			1988			1989			1990			% Real Change (1987/90)		
CB Discounts and Gov't Financing	BNDES	Total	CB Discounts and Gov't Financing	BNDES	Total	CB Discounts and Gov't Financing	BNDES	Total	CB Discounts and Gov't Financing	BNDES	Total	CB Discounts and Gov't Financing	BNDES	Total
254.4	435	680.6	74.6	411.5	486.1	0	384.1	384.1	0	352.8	352.8	-100	-19	-48

d/ Based on an average exchange rate of Cz$39.2 = 1 US$

Source: SEAE, March 1988

ANNEX 3
Table 1

BRAZIL

FOURTH-AGRO-INDUSTRIES CREDIT PROJECT

Estimated Costs and Financing Plan

Estimated Costs:	Local	Foreign	Total
	- - - -	-US$million-	- - - -
Fixed and Associated Working Capital Credit	510	90	600

Financing Plan:	(US$million)
IBRD	300
Participating banks, other lending institutions and subborrowers[1]	300
Total	600

1/ The proportions would be freely negotiated between the PBs and the subborrowers.

NOTES

MAP SECTION

IBRD 20444

JULY 1987