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Report No. P-4591-BR

MEMORANDUM 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\$42 MILLION
TO THE
FEDERATIVE REPUBLIC OF BRAZIL
FOR A
NORTHEAST RURAL DEVELOPMENT PROJECT
IN THE STATE OF ALAGOAS

June 1, 1987

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CURRENCY EQUIVALENTS

Currency Unit	=	Cruzado (Cz\$)
US\$1.00	=	Cz\$ 14.20 <u>1/</u>
US\$1.00	=	Cz\$ 31.00 <u>2/</u>
Cz\$1.00	=	US\$0.0323 <u>2/</u>

FISCAL YEARS

Government of Brazil	=	January 1 to December 31
Northeast Rural Development Program	=	April 1 to March 31
Project	=	April 1 to March 31

WEIGHTS AND MEASURES

Metric System

ABBREVIATIONS

NRDP	=	Northeast Rural Development Program
CEPA-AL	=	State Foundation for Agricultural Planning of the State of Alagoas

1/ Exchange rate at time of appraisal (December 1986).

2/ Exchange rate as of May 20, 1987.

BRAZIL

NORTHEAST RURAL DEVELOPMENT PROGRAM

NORTHEAST RURAL DEVELOPMENT PROJECT - ALAGOAS

LOAN AND PROJECT SUMMARY

Borrower: Federative Republic of Brazil

Beneficiary: The State Foundation for Agricultural Planning (CEPA-AL) linked to the Secretariat of Agriculture of the State of Alagoas

Amount: US\$42.0 million equivalent

Terms: Repayable in 15 years on a fixed amortization schedule, including 3 years of grace, at the Bank's variable interest rate

On-Lending Terms: Not applicable

Financing Plan:

Government	US\$ 44.4 million
IBRD	<u>US\$ 42.0 million</u>
TOTAL	<u>US\$ 86.4 million</u>

Economic Rate of Return: 14%

Staff Appraisal Report: No. 6668-BR

MEMORANDUM AND RECOMMENDATION OF THE PRESIDENT
OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
TO THE EXECUTIVE DIRECTORS
ON A PROPOSED LOAN
TO THE FEDERATIVE REPUBLIC OF BRAZIL
FOR A NORTHEAST RURAL DEVELOPMENT PROJECT
IN THE STATE OF ALAGOAS

1. The following report on a proposed rural development loan to the Federative Republic of Brazil for US\$42.0 million equivalent is submitted for approval. The proposed loan would be repayable in 15 years on a fixed amortization schedule, including 3 years of grace, at the Bank's standard variable interest rate. It would help finance Brazil's Northeast Rural Development Program (NRDP) for the State of Alagoas.

2. Background. Agriculture in Brazil has traditionally been the main source of exports and employment, though a relatively small contributor to GDP. In 1985, agriculture accounted for 13% of GDP, 30% of the economically active population and 31% of total exports. Throughout the 1970s, there was rapid expansion in Brazil's agriculture (5% per annum); during the recession in the early 1980s, output and investment stagnated and then recovered in 1984 and 1985. The performance of the sector in the 1970s masked sharply disparate rates of growth among regions, farm types and individual crops. The Northeast of Brazil covers 18% of the country's total area and has been the nation's foremost problem region since the late 1800s. In 1985, the Northeast had a population of 39 million, or about 29% of the country's total, growing at 2.3% per annum. Half the population lives in the rural areas and over 50% of the work force is engaged in agriculture. Drought and uncertain rainfall, highly skewed land distribution, illiteracy, endemic diseases, and limited urban employment opportunities have resulted in high levels of poverty and underemployment, particularly in rural areas. Despite the constraints, Northeast agriculture continues to play an important role in the national economy. The Northeast contributes about one-fifth of the total value of Brazilian crop production; many regionally produced commodities (cotton, sisal, cassava and sugar) represent significant shares of national production.

3. In 1982, the Government requested Bank assistance in preparing a new regionwide rural development program, the Northeast Rural Development Program (NRDP). This initiative was stimulated by the recognition that previous rural programs had achieved limited results in alleviating poverty and increasing agricultural production. The NRDP, simpler in design than previous efforts supported by the Bank, focuses on eliminating key constraints on small farmer development, such as land tenure insecurity, drought vulnerability, and limited access to credit and use of modern technology. The program is complemented by the Northeast Region Land Tenure Improvement Project (Loan 2593-BR) which finances cadastral activities in all ten Northeast states. It will be further complemented by a series of sector projects in education, health, water supply and sanitation. Regional program guidelines have established (a) unified and streamlined funding and administrative procedures, and (b) mechanisms for increased beneficiary participation and improved institutional performance.

4. Project Objectives. The proposed project would: (a) increase agricultural productivity and production; (b) generate income and employment opportunities for the low-income rural families; (c) promote water resource development and technology generation and diffusion to decrease small farmers' vulnerability to recurring droughts; (d) increase community participation in all phases of the development process; and (e) strengthen the State of Alagoas' capacity to provide efficient agricultural services to small farmers.

5. Project Description. The proposed project would include: construction of about 160 simple rural water supply systems; agricultural research and basic seed production; extension services to about 32,400 small farmers; investment credit for about 10,000 farms including 1,480 irrigated farms; marketing support services for private traders and small farmers; funding for community subprojects; project administration and training. There are no environmental issues associated with the project, and improved land use and soil and water conservation would have a favorable environmental impact. Overall, some 40,000 low-income rural families in 49 municipalities of the State of Alagoas would benefit from the project. Simultaneously, in all of these municipalities, land cadastral and regularization activities would be carried out under the regional Land Tenure Improvement Project (Loan 2593-BR).

6. The project, to be carried out over eight years, provides funds for civil works; equipment and furniture; rural investment credit; a development fund for community subprojects; training; and related administrative and operating costs on a declining basis. The total cost of the project is estimated at US\$86.4 million equivalent, with a foreign exchange component of US\$9.2 million (10%). Retroactive financing of about US\$2.0 million would be provided for project expenditures (other than agricultural credit) incurred after appraisal, but prior to loan signing. A breakdown of costs and the financing plan are shown in Schedule A. Amounts and methods of procurement and disbursements, and the disbursement schedule are shown in Schedule B. A timetable of key project processing events and the status of Bank Group operations in Brazil are given in Schedule C and D, respectively. A map is also attached. The Staff Appraisal Report, No. 6668-BR, dated May 26, 1987, is also attached.

7. Rationale for Bank Involvement. The Bank's lending strategy in Brazil aims to promote and assist structural reform; to develop and maintain essential infrastructure; to increase the productivity and improve the living conditions of the rural and urban poor; and to protect the environment and the local populations affected by the execution of investment projects. The Government of Brazil attaches high priority to decreasing regional disparities. Incomes in Northeast rural areas are less than 35% of the national average. The NRDP, of which the proposed project is a part, forms a central part of the Government's investment strategy to narrow the gap between the Northeast region and the rest of the country and to alleviate rural poverty. Bank financing in support of the Program has already been approved for six state projects, one of which includes regional coordination activities, and the Regional Land Tenure Improvement Project.

8. Agreed Actions. During negotiations, the Government agreed on the following:

(a) as conditions of loan effectiveness: (i) satisfactory staffing of CEPA-AL; (ii) creation of a State Rural Development Council, chaired by the Governor; and (b) as other covenants (i) availability of at least 36,600 ha by March 31, 1989 and an additional 30,700 ha by March 1990 for redistribution to project beneficiaries; and (ii) satisfactory cost recovery provision for public domestic water supply.

9. Justification. Economic benefits under the proposed project are expected from increases in agricultural production as a result of: (i) increased productivity, through better cultivation practices; (ii) crop diversification; and (iii) expansion of the cropped area through irrigation and increased use of animal traction. At full development, about 80% of the yearly incremental marketable production would come from subsistence crops, tobacco and fruit, and 20% from livestock products; the internal rate of return is estimated at 14%. Improved domestic water supply, community activities and family wood lots would also provide substantial benefits to the rural population, especially women. Expanded agricultural activities would create jobs equivalent to some 8,200 man-years annually. Finally, improved farming practices and soil and water conservation would have a beneficial impact on the environment.

10. Risks. Possible risks include: (a) insecure land tenure; (b) possible inefficient delivery of project services; (c) lack of sufficient interinstitutional cooperation; (d) recurring droughts and cotton pest outbreaks; and (e) delays and shortfalls in counterpart funding and credit. The project has been designed so as to minimize these risks. Progress will be closely followed up by Bank staff through review of the annual operating plans and improved supervision, monitoring and evaluation. Implementation of the Northeast Region Land Tenure Improvement Project (Loan 2593-BR) and of the Government's agrarian reform would increase land tenure security. Streamlined administrative procedures, measures for institutional strengthening and technical assistance for selected agencies would improve efficiency and project coordination. Crop diversification and intensified technology generation and diffusion would make farmers less vulnerable to drought and pest outbreaks. The Government adopted new measures in 1986 to ensure the timely availability of counterpart funds and credit. In addition, the regional scope of the Northeast Program and the support the Program enjoys among government and new local leaders should help secure adequate funding and satisfactory implementation of the project.

11. Recommendation: I am satisfied that the proposed loan would comply with the articles of agreement of the Bank and recommend that the Executive Directors approve the proposed loan.

Barber B. Conable

Attachments
Washington, D.C.
June 1, 1987

Schedule AEstimated Costs a/

	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
	<u>-----US\$ million-----</u>		
A. Water Resource Development	1.2	0.3	1.5
B. Agricultural Research and Basic Seed Production	4.2	0.5	4.7
C. Agricultural Extension	19.7	0.6	20.3
D. Rural Investment Credit	29.2	5.2	34.4
E. Marketing Services	0.3	-	0.3
F. Support to Small Rural Communities	10.6	1.5	12.1
G. Project Administration and Training	8.2	0.7	8.9
Total Baseline Costs	<u>73.4</u>	<u>8.8</u>	<u>82.2</u>
Physical Contingencies	0.7	0.2	0.9
Price Contingencies	3.1	0.2	3.3
<u>Total Project Costs</u>	<u>77.2</u>	<u>9.2</u>	<u>86.4</u>

a/ Including US\$1.9 million of taxes and duties.

Financing Plan

	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
	<u>-----US\$ million-----</u>		
Government	44.4	--	44.4
IBRD	32.8	9.2	42.0
TOTAL	<u>77.2</u>	<u>9.2</u>	<u>86.4</u>

Procurement

Category	Procurement Method			Total Cost
	LCB	Other	N.A.	
----- (US\$ million) -----				
Civil Works	1.9 (1.1)	--	--	1.9 (1.1)
Equipment and Materials	0.7 (0.3)	--	--	0.7 (0.3)
Studies and Training	--	1.9 (0.8)	--	1.9 (0.8)
Rural Investment Credit	--	--	34.4 (17.2)	34.4 (17.2)
Community Subprojects	--	--	9.6 (6.7)	9.6 (6.7)
Salaries and Allowances	--	--	30.3 (13.8)	30.3 (13.8)
Other Operating Expenses	--	--	7.6 (2.1)	7.6 (2.1)
Total	2.6 (1.4)	1.9 (0.8)	81.9 (39.8)	86.4 (42.0)

Note: Figures in parentheses are the respective amounts financed by the Bank.

Disbursements

Component	Amount	% of Expenditures (net of taxes)
(US\$ million)		
Water Resource Development	0.9	70%
Agricultural Research	1.8	50% declining to 30% in later years
Rural Extension	8.2	50% declining to 30% in later years
Credit	15.5	50%
Marketing	0.1	50%
Support to Small Communities	7.7	70%
Administration	2.9	50% declining to 30% in later years
Training	0.7	50% declining to 30% in later years
Unallocated	4.2	--
Total	42.0	50%

Estimated Bank Disbursements:

	Bank Fiscal Year								
	1988	1989	1990	1991	1992	1993	1994	1995	1996
----- US\$ Million -----									
Annual	3.4	3.3	5.9	6.3	7.1	6.8	4.2	3.4	1.6
Cumulative	3.4	6.7	12.6	18.9	26.0	32.8	37.0	40.4	42.0

a/ Including initial deposit of US\$2.0 million into the Special Account.

BRAZIL

NORTHEAST RURAL DEVELOPMENT PROGRAM

NORTHEAST RURAL DEVELOPMENT PROJECT - ALAGOAS

Timetable of Key Project Processing Events

- (a) Time taken to prepare: 3 years
- (b) Prepared by: Government with FAO/CP and Bank Assistance
- (c) First Bank mission: February 1986
- (d) Appraisal mission departure: December 1987
- (e) Negotiations: April 27 to May 13, 1987
- (f) Planned Date of Effectiveness: November 1987
- (g) List of relevant PCRs and PPARS: Combined PCR for Loans 1195-BR and 1714-BR (Report No. 6776 dated May 20, 1987).

THE STATUS OF BANK GROUP OPERATIONS IN BRAZIL

A. SUMMARY STATEMENT OF LOANS
(As of March 31, 1987)

<u>Loan #</u>	<u>Year</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount less Cancellations (US\$ Millions)</u>	<u>Undis- bursed</u>
Ninety four loans fully disbursed				4,776.2	
1537	1978	Brazil	Rural Development	16.0	3.1
1538	1978	ELETROBRAS	Power	127.4	2.3
1720	1979	Brazil	Urban Development	70.0	4.8
1721	1979	COPEL	Power	86.7	-
1721-5	1979	COPEL	Power	22.3	7.8
1728	1979	Brazil	Rural Development	31.4	4.9
1729	1979	Brazil	Irrigation	28.0	0.1
1839	1980	Brazil	Urban Transport	134.0	1.1
1850	1980	Banco Nacional da Habitacao	Water Supply	139.0	7.8
1867	1980	Brazil	Education	32.0	6.1
1877	1980	State of Minas Gerais	Rural Development	33.0	10.0
1895	1981	ELETROSUL	Power	85.4	15.5
1924	1981	Brazil	Rural Development	56.0	9.5
1939	1981	ELETROBRAS	Power	54.0	30.7
1965	1981	EBTU	Urban Transport	90.0	1.7
1970	1981	Banco Nacional da Habitacao	Water Supply	180.0	56.6
1989	1981	Brazil	Alcohol Development	235.7	2.9
2015	1981	Brazil	Agriculture	29.0	11.1
2016	1981	Brazil	Agriculture	60.0	0.5
2060	1982	Brazil	Agriculture	67.0	21.9
2061	1982	Brazil	Health	13.0	3.0
2062	1982	Brazil	Highways	240.0	48.4
2116	1982	Brazil	Agriculture	26.4	9.2
2138	1982	ELETROBRAS	Power	182.7	126.6
2163	1982	Brazil	Agriculture	26.4	12.3
2170	1982	Brazil	Urban Development	123.9	84.9
2177	1982	Brazil	Rural Development	42.7	21.1
2196	1983	CVRD	Iron Ore	304.5	50.3
2224	1983	Brazil	Feeder Roads	154.0	65.5
2249	1983	Banco Nacional da Habitacao	Water Supply	302.3	91.0
2268	1983	Brazil	Agro-Industries	400.0	261.7
2269	1983	Brazil	Rural Development	67.8	56.6
2343	1984	Brazil	Urban Development	52.7	30.2
2347	1984	Brazil	Export Development	352.0	0.6
2348	1984	Brazil	Agriculture	303.0	0.5
2353	1984	Brazil	Agriculture	65.2	54.7

A. SUMMARY STATEMENT OF LOANS (Continued)
(As of March 31, 1987)

<u>Loan #</u>	<u>Year</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount less Cancellations (US\$ Millions)</u>	<u>Undis- bursed</u>
1729-1	1984	Brazil	Agriculture	7.7	7.0
2060-1	1984	Brazil	Agriculture	22.8	22.7
2364	1984	Eletrobras	Power	250.6	210.4
2365	1984	Eletrobras	Power	222.8	49.1
2366	1984	Brazil	Education	20.0	12.5
2412	1984	Brazil	Education	40.0	30.3
2446	1984	Brazil	Federal Highways	210.0	90.9
2447	1984	State of Sao Paulo	Health	55.5	36.1
2448	1984	Brazil	Health Studies	2.0	1.7
2488	1985	Brazil	Development Banking	300.0	164.8
2489	1985	Brazil	Education	72.0	60.9
2523	1985	Brazil	Rural Development	61.3	53.5
2524	1985	Brazil	Rural Development	61.4	53.2
2532	1985	Brazil	Rural WS&S Pilot	16.3	14.7
2562	1985	Brazil	Railways	200.0	178.0
2564	1985	Eletrobras	Power Transmission	400.0	384.7
2565	1985	Eletrobras	Power Distribution	312.0	296.7
2593	1985	Brazil	Land Tenure	100.0	86.8
2623	1986	State of Santa Catarina	Urban Development	24.5	22.8
2645	1986	Brazil	Urban Reconstruction	100.0	87.0
2679	1986	Brazil	Agriculture	155.0	139.6
2680	1986	Brazil	Irrigation Eng.	48.0	43.9
2681/1	1986	Brazil	Urban Development	55.0	55.0
2699/1	1986	Brazil	Health	59.5	59.5
2718	1986	Brazil	Rural Development	92.0	88.1
2719/1	1986	Brazil	Irrigation	57.0	57.0
2721	1986	Brazil	Public Sector	29.0	26.7
2727	1986	Brazil	Credit & Marketing Reform	500.0	200.0
2761/3	1987	Brazil	Rural Development	171.0	171.0
2762/3	1987	Brazil	Rural Development	78.0	78.0
2763/3	1987	Brazil	Rural Development	122.0	122.0
Total				12,855.10/2	
Of which has been repaid to the Bank				<u>2,686.94</u>	
Total now outstanding				10,168.16	
Amount sold				45.8	
Of which has been repaid				<u>45.8</u>	0.00
Total now held by Bank				10,168.16	
Total undisbursed					4,019.60

/1 Not yet effective.

/2 No IDA credits have been made to Brazil.

/3 Not yet signed.

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.

5. STATEMENT OF THE INVESTMENTS (as of September 30, 1985)

Year	Type of Business	Cost	Equity	Total
1987	Estados do Brasil Cia. de Eletrodutos	2.00	-	2.00
1986	Recursos Unidos, S. A.	2.88	2.88	8.38
1970	Industria, S. A. Industria e Comercio	2.88	2.88	8.38
1971	Ocidental, S. A. Industria e Comercio	4.60	1.44	6.04
1971	Rio Grande - Companhia de Calculos do Sul	4.90	-	4.90
1972/1973/1981	Companhia Siderurgica de Guaranhos - OESTE	169.14	6.70	175.84
1973/74/77/81/83/84	Companhia Siderurgica de Guaranhos - OESTE	76.97	15.27	92.24
1973	Capital Venture Development Fund - FUND	5.00	-	5.00
1973/1978/1983	Empresa de Desenvolvimento de Recursos Minerais - OESTE, S. A.	83.00	8.74	91.74
1974	Industria Villares, S. A.	6.00	-	6.00
1974	Fabrica de Tecido Tampo, S. A.	31.00	-	31.00
1975/1979	Capinas Carvoas Industriais Ltd.	6.18	1.19	7.37
1975	Ocidental Nordeste, S. A.	10.00	-	10.00
1976	Santana Industria - Textil do Nordeste, S. A.	6.45	1.00	7.45
1976/1980	Tecnor S. A. - Textil Costureiras do Nordeste	16.20	-	16.20
1977	FB S. A. Producao Textil	20.00	-	20.00
1977	Mineracao Rio do Norte S. A.	15.00	-	15.00
1978	Comercial Siderurgica S. A.	8.38	3.00	11.38
1979	Volvo do Brasil Mecanica e Veiculos, S. A.	60.00	5.95	65.95
1980	Hertel do Nordeste S. A. - Naltes	2.00	-	2.00
1980	Dante do Fica S/A - Empasa - Agricola, Industria e Comercio de Olegarias	1.50	1.00	4.50
1980	Villares Industria de Buro S. A. - VIMSA	5.00	-	5.00
1980	PH - Companhia Industrial de Follipoleno	15.00	2.00	17.00
1980	Distributa Carvoes S. A.	-	0.25	0.25
1980	Sociedade Anonima Quimica e Mineral S/A	35.00	6.00	41.00
1980	Follipoleno	43.00	5.00	48.00
1981	Industria	-	1.50	1.50
1981	Companhia Brasileira de Agropastora - COBRAG	5.50	3.00	9.50
1981	Trinco	46.00	4.00	50.00
1982	Comercio CAE	40.00	5.00	45.00
1982	Agriplanting S. A.	30.00	0.45	30.45
1983	Cia. Nordeste de Participacoes (CNP)	-	.01	.01
1983	Ativa Participacao	13.00	-	13.00
1983	Companhia Danes do Arago (COPDA)	6.10	-	6.10
1983	PTSA - Papel de Espessa S.A.	60.00	5.17	65.17
1983	Socoo/S.A.	3.0	2.50	5.50
1983	CEPEC	35.00	-	35.00
1986	Mecanica Producao	3.00	5.00	8.00
1986	Companhia Alcoolica Nordeste	20.00	4.00	24.00
1985	Quimica do Brasil	3.27	1.80	5.07
1985	Total	935.69	107.40	1,042.09
	Total Gross Commitments	731.89	31.39	763.28
	Less Commitments Now Held by DFC	203.60	76.01	279.61
	Total Investments	20.77	10.15	30.92

Amount in US\$ million

38°00'

37°30'

37°00'

8°30'

BRAZIL

NORTHEAST RURAL DEVELOPMENT Northeast Rural Development

Planning Regions:

Agreste I

Agreste II

Mata Norte

Implementing Agencies:

Banking Offices

Local Extension Offices

Regional Extension Offices

Regional CEPA Offices

Marketing Posts

Research Stations

150

100

50

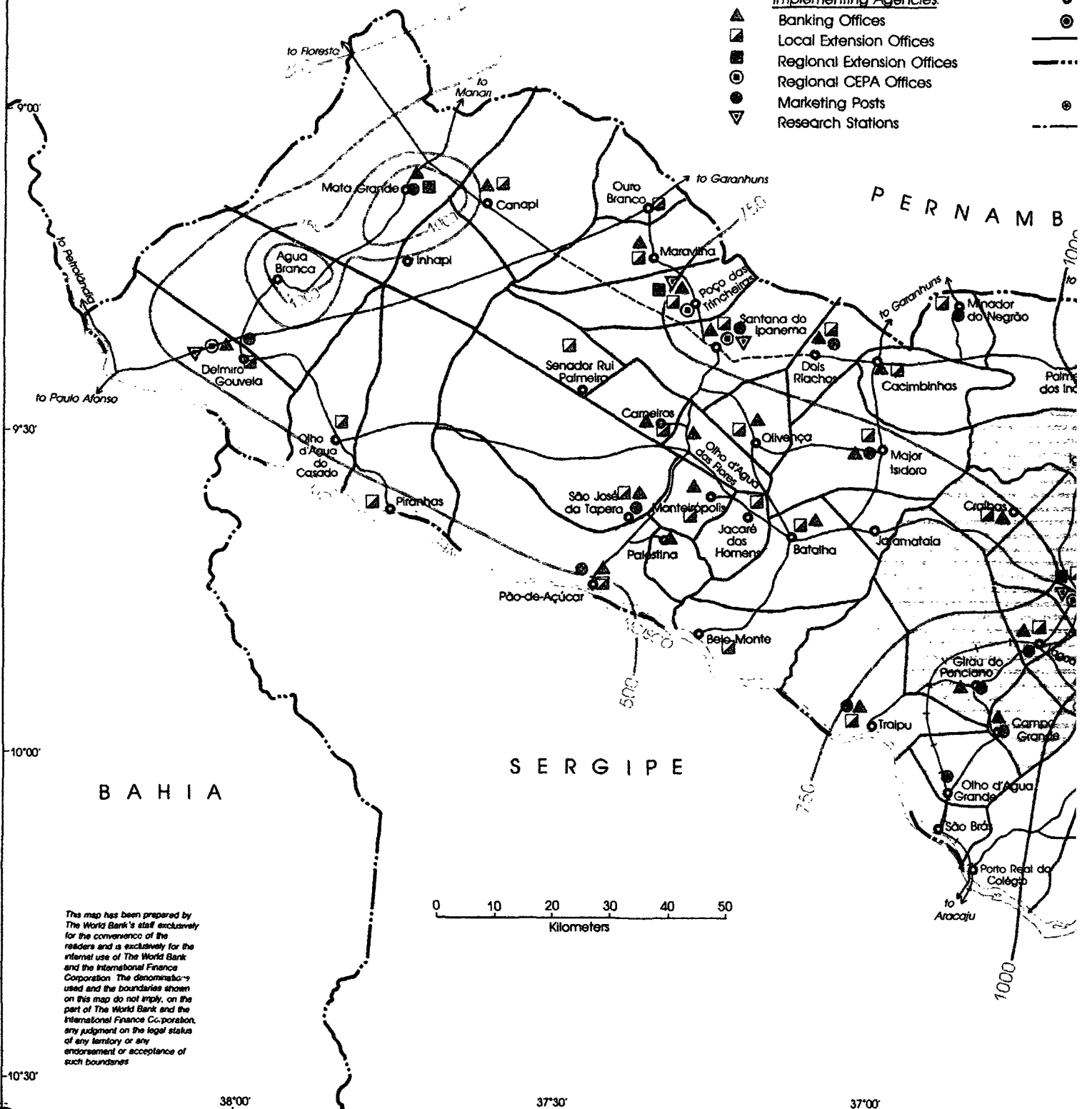
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S E R G I P E

B A H I A



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38°00'

37°30'

37°00'

10°30'

36°30'

36°00'

35°30'

35°00'

8°30'

9°00'

9°30'

35°30'

36°00'

10°00'

10°30'

MENT PROGRAM t Project - Alagoas

- Isohyets in millimeters
- Paved Roads
- - - Paved Roads under Construction
- Railroads
- Municipal Capitals
- ⊙ State Capital
- Municipal Boundaries
- - - State Boundaries
- ⊙ National Capital
- - - International Boundaries

