

PD AAA-282-B1

5120249 (2)

AIRGRAM

DEPARTMENT OF STATE

ACTION COPY

~~UNCLASSIFIED~~
CLASSIFICATION

For each address check one ACTION | INFO

DATE REC'D. BR

TO - AID/W TOAID A 38
RECEIVE UNAID A 11

NOV 15 AM 11 40

AID
OEA - B
DATE SENT 11p.
1/9/70

FROM - RIO DE JANEIRO

SUBJECT - NONCAPITAL PROJECT PAPER (PROP)
Rural Rehabilitation and Reform

REFERENCE - NO. 1025.1 May 29, 1967

COUNTRY: BRAZIL (NE)

PROJECT NO: 512-11-130-249.4

SUBMISSION DATE: December 31, 1969

ORIGINAL: X

PROJECT TITLE: Rural Rehabilitation and Reform (GRAN)

U.S. OBLIGATION SPAN: FY 1965 through FY 1975

FINANCIAL IMPLEMENTATION SPAN: FY 1965 through FY 1975

GROSS LIFE OF PROJECT FINANCIAL REQUIREMENTS:

U.S. Dollars	\$3,919,000
Country owned Local Currency	30,600,000
Cooperating Country Cash Contribution	40,000,000
TOTAL	\$ 72,728,000

3
DISTRIBUTION
ACTION
L.A.
INFO:
H.A.P.
S.P.D.
10/20/69
17L
FAD
TAB
RR

Dep
State
sub
ray

PAGE 1 OF 9 PAGES

DRAFTED BY Edson, NEAR Chalussy, NEPO/sta	OFFICE NEAO	PHONE NO.	DATE 12/31/69	APPROVED BY: AMR: HERRERA
---	-----------------------	-----------	-------------------------	-------------------------------------

AID AND OTHER CLEARANCES
NEPO: Chamberlain (in draft)
NEAO: France (in draft)
NEAO: ...
NEAO: ...

ACTION OFFICE - When ACTION completed, return to ACTION OFFICE FILE
STATION or appropriate OFFICIAL FILE
(Do not type below this line)

DATE SIGNATURE PRINTED 1-40

I. SUMMARY DESCRIPTION

In August 1966 the Government of Brazil created the ~~Exp~~ Special Group for the Rationalization of the Northeast Sugar Agro-Industry (GERAN). Following initial organizational difficulties lasting approximately two years, GERAN was reorganized, and in February 1969 the present Executive Secretary of GERAN was appointed. GERAN is now confronting the task of creating a viable institution capable of carrying out a politically, economically, and socially difficult agrarian reform program in the northeast sugar zone, with only limited financial and technical resources available.

Because of the urgent need to institute a reform program as quickly as possible, GERAN has requested USAID to help ~~meet~~ meet the resource gaps by providing technical ~~mixixxy~~ advisors, and training programs and by providing part of the capital resources which will be needed.

The importance of this agrarian reform program to the U.S. and the EOB's development objectives has been amply described in other documentation and is not repeated here. (Cf. TOAID A-122 and the FY'70 and FY'71 Country Program Memorandums).

II. SETTING OR ENVIRONMENT

1. Social and Economic Conditions

GERAN action will focus on the northeast sugar zone, an area of some 15 thousand square miles, and part of the somewhat larger physiographic region known as the Zona da Mata.

Extending as a narrow belt for some 470 Km along the Atlantic seaboard, and varying in width from 50 to 75 Km, the region includes the humid coastal areas of the five states of Rio Grande do Norte, Paraiba, Pernambuco, Alagoas and Sergipe. Most recent estimates indicate a population of some six million, or roughly 20% of the total population of the northeast.

In ~~xxxx~~ contrast to the extensive, semi-arid interior of the northeast, the Zona da Mata is characterized by favourable environmental conditions which would permit diversified agriculture and the production of a wide variety of tropical ~~exp~~ crops. Despite these advantages, cane and sugar production are the predominant, and in some areas the exclusive rural economic activities. The ~~intifistix~~ latifundium is the ~~pre~~ prevalent land tenure system. Land which is not planted to sugar cane frequently lies idle, and is not normally accessible to rural ~~w~~ workers.

The sugar industry directly ^{employs} ~~employs~~ over 400,000 workers; however, it is estimated that the livelihood of some 2 million people, or over one third of the total population of the Zona da Mata, is directly or indirectly dependant upon the industry and its future.

The gradually worsening series of crises which have characterized the economy of the sugar zone in the last decade are in part attributable to the failure of the northeast industry to keep pace with technological progress in ~~south~~ southern Brazil, principally São Paulo. While natural & environmental conditions in southern Brazil are favourable for ~~the~~ production, rapid growth of the industry was not primarily a consequence of comparative natural advantages, but rather relates to such factors as accelerated total and per ~~capita~~ growth of demand in the center-south consumer market, relatively favourable

domestic and international prices, strong promotional efforts by various government agencies aiming to offset coffee surplus problems, and the progressive weakening of northeast competitive ability in central and southern markets.

With the exception of topography, which is a limiting factor on the potential volume of northeast cane production, the Zona da Mata generally has more favorable environmental conditions for the production of cane. Its principal advantages relate to rainfall, temperature, ground water resources, and length of daylight. The failure of the northeast to keep pace with southern technological progress is related to past economic events as well as variety of traditional social and economic factors.

The development of southern competitive pressure coincided with a period of rapid inflation in the economy as a whole. Price regulation and financing mechanisms, controlled by the Sugar and Alcohol Institute (IAA) were generally out of phase with inflationary cost movements. As a consequence, the northeast sugar industry was progressively decapitalized and financially less able to make productivity-increasing investments. The negative impact of these factors was greater in the northeast than in southern Brazil, largely due to the more precarious financial position of the northeast at the time when the period of rapid inflation began.

In ~~southern~~ southern Brazil, the expansion of cane production was accompanied by the rapid growth of other forms of agricultural production. The cane monoculture in the northeast, in contrast, was not faced with competition for alternative uses of land and manpower controlled by, or ~~available to~~ available to sugar planters. The continued cheap abundance of these factors acted as a counter-incentive to modernization.

Finally, a tradition oriented mentality made the northeast sugar producer, as a class, resistant to technological innovation, careless of financial and operational management responsibilities, and generally ~~inclined~~ inclined to respond to (international) price incentives simply by incorporating additional land and labor into the production process, without significant regard to increases in factor productivity.

As a result of the ~~its~~ failure to respond to the intensified pressure of southern competition, the northeast sugar industry has been brought successively closer to the edge of general financial collapse. The growing proportion of the yearly post-harvest season unemployment crises have been symptomatic of the increasing instability of the industry, and have been regarded as ~~indicative~~ indicative, on a relatively small scale, of the potential magnitude of the social, political, and economic ~~consequences~~ consequences of financial collapse.

In addition to economic crises, the sugar zone has long harbored a number of basic social and political problems. The sugar zone is characterized by a traditional rural society sharply divided by class barriers. Ownership of land, as already ~~it~~ pointed out, is virtually confined to a small minority. Techniques of land use are generally inefficient and relatively primitive. With sugar cane as ~~monoculture~~ monoculture, large areas of land lie idle, or are used only periodically in an inefficient sugar cane-fallow cycle. At the same time, large parts of the food requirements, not only of sugar workers, but of the ~~entire~~ large population of the sugar zone, including such major cities as Recife, have to be brought from distant sources, such as Brazil's extreme south.

As a result of his torical and economic conditions, differences in income and living standards in the sugar zone are extreme. The large majority of the rural population is illiterate, poorly housed, and undernourished. Health facilities are woefully ~~inadequate~~ inadequate, poorly administered, and understaffed at all levels. As a result, research has found the area dominated by strikingly high indices of the so-called diseases of the masses, i.e. tuberculosis, schistosomiasis, dysentery, gastroenteritis, and others. Nutrition studies have found a high incidence of serious malnutrition. Over 80% of the rural labor force were found to live in houses owned by their employers, of which the majority lacked both internal and external water and sanitary facilities.

Vertical class mobility is practically impossible. Present property owners can be identified as the heirs of former colonizing land owners, while workers are descendants of former slaves. An agricultural middle ~~rank~~ class is virtually non existent.

Thus, while the original GERAN objective was to revitalize and to modernize the northeast sugar industry, it has become clear that broad-based regional social and economic reforms will be necessary. With the issue of Decree NO. 63915 in December of 1968, GERAN was reorganized, and a firm basis for the execution of such broader reforms was established.

2. GERAN as an Institution

~~Essentially~~ One of the basic prerequisites to the success of the GERAN program is the existence of an organizational structure capable of assessing, planning and coordinating the execution of the programs and projects related to GERAN's assigned mission.

Administratively, GERAN is presently confronting the problem of ~~not~~ not having well-defined functions and a proper distribution of tasks. Project responsibility is diluted among several units, with no ~~particular~~ particular section being responsible for coordination and for tying projects into a complete package.

On the technical level, GERAN is severely limited in ~~man~~ numbers as well as in terms of specialized skills and planning capabilities. GERAN, like other government agencies is subject to personnel ceilings imposed by the GOB. Senior technicians, rather than functioning in their respective areas of qualifications, are heavily burdened with administrative duties and are unable to provide more than minimal guidance and training to younger and less-experienced members of the organization.

In order to carry out its assigned mission, GERAN will also need to establish and to ~~maintain~~ maintain good working relationships with all of the five organizations represented on its Deliberative Council (IAA, IBRA, LINDA, SUDENE, and BNB) as well as with a number of other federal, state, and private agencies. Presently, such inter agency lines of communication do exist; however, liason generally is weak.

As the GERAN program gains momentum, it will become necessary to delegate implementation assignments to other agencies. GERAN will then act only as the planning and coordinating agency in accordance with the functions assigned to it by the Presidential Decree of December 1968.

On the positive side, GERAN leadership generally seems aware of some of the agency's shortcomings, is responsive to suggestions for improvement, and is desirous of U.S. assistance to improve ~~its~~ and upgrade its administrative, planning, and coordinating

capability.

IXI. STRATEGY

The ~~main~~ major thrust of U.S. assistance, initially, should be directed toward upgrading GERAN as a development institution. This will involve assistance to GERAN to improve its administrative and organizational procedures, to develop its technical skills and planning capability, to provide guidance and direction in supervising the implementation of various projects and in project appraisal after completion, and to encourage the establishment of effective and efficient working relationships with other agencies. In addition, while modernization of ~~the~~ the sugar industry is an integral and indispensable part of the GERAN program, U.S. technical and financial assistance could be directly instrumental in encouraging GERAN to place major emphasis upon achieving the difficult social objectives of its overall program.

GERAN expects to operate primarily on the basis of projects submitted to it by individual sugar mills and by large, independent cane growers. Thus, while requiring a program ~~approach~~ approach for planning, budgeting, and the use of resources, rationalization will be carried out on a project by project basis. Therefore, at this time GERAN does not have clear ~~quantitative~~ quantitative regional goals or targets. The danger is that the project-by-project approach may result in the allocation of financial and technical resources to those aspects of the program which are relatively easy to implement, while equally essential but more complex objectives may be neglected.

In addition to basic technical assistance, there are several approaches to assist GERAN to carry out its objectives:

1. Budget Support

Local currency resources if and as ~~much~~ available might be used in support of GERAN's overall objectives. In the case of GERAN, budget support as an exclusive input is not a ~~serious~~ relevant alternative, and hence should be concomitant to technical and other forms of assistance.

2. Support of Special Aspects of the Program

Various aspects of the GERAN program may offer opportunities for direct financial and/or technical assistance. Examples are the development of labor absorbing industries in the sugar zone; crop diversification and productivity programs; sugar mill ~~modernization~~ modernization; livestock ~~development~~ development programs; housing, health and sanitation projects; transportation improvement projects, and others. Although the need for assistance to such projects should be anticipated, U.S. participation will have to depend upon evidence of serious and concerted effort on the part of the GERAN and its supporting agencies to work toward the critical social objectives of ~~its~~ its program.

3. Food Projects

The GERAN program offers many opportunities for ~~food~~ food projects. If properly carried out, the GERAN program will have its ~~greatest~~ greatest impact upon people. The resettlement ~~program~~ program offers opportunities for grubstaking. The establishment of land settlements provides opportunities for work front projects. Existing programs such as school lunch, child feeding, nursing mothers, and the development of cooperatives can also be worked into the GERAN program.

Cooperating Country Leadership

The enabling legislation for GERAN was passed in August 1966 but did not give GERAN sufficient strength to function. A second decree in December 1968 corrected many of these problems (See also TOAID A 122). Nevertheless, since GERAN is an agency intended to induce major social and economic change in the northeast sugar zone, there may be major opposition to some of its goals by traditional elements. Hence, it is important that GERAN obtain the support of political and development leaders and of the more enlightened groups of the sugar industry and other business interests. Continued support by the Ministry of the Interior and by the Executive of SUDENE will be equally important to the success of GERAN's mission.

Actions of the National Monetary Council and the Ministry of Industry and Commerce through its semi-autonomous agency, the Sugar and Alcohol Institute (IAA) could obstruct and vitiate GERAN requirements for accomplishing its goals. As yet, GOB intentions toward GERAN are ambivalent. A number of steps related to agrarian reform measures have been taken at the national level, and these actions in general give a broad legal base for most of the actions GERAN may be required to undertake. There is as yet no practical experience with these measures as they require some regulatory amplification which has not been developed. At times, the National Monetary Council and the Sugar and Alcohol Institute seem to have resolved to force the sugar industry into reforms with threats of withholding financial resources necessary for its support; at other times to back away from this position and allow adjustments in price support or availability of financing sufficient to keep the industry going without helping it to resolve its basic problems.

The sugar industry, in general, would prefer to modernize without the land reform aspects imposed by the GERAN program. Nevertheless, the industry has no alternatives at present; it must release land to get financing for modernization. It is expected that this strategy will induce a majority of sugar mills and cane growers to cooperate with the GERAN program.

There are no legislative changes which appear to be necessary at this time.

GERAN Relationships

The GERAN program does not have any sequential tie-ins with other on-going programs. It does however, fit in with overall development goals for the northeast region. If successful, the program will result in a modern ^{sugar} industry, a widened economic base and transformed social and economic conditions in what is now one of the poorest areas in Latin America. GERAN can also count on the benefits of past and present development efforts in the sugar zone. These include the ~~massive~~ construction of roads and of educational facilities, rural electrification, improvement of water supplies, agricultural research, assistance to rural industries, and others. GERAN can assist in the coordination of these activities to assure that they complement its own program objectives.

IV. PROJECT GOALS AND TARGETS

The direct and immediate goal of this project is an institution (GERAN) financially and administratively capable of carrying out the agro-industrial diversification, modernization, and reform program in the northeast sugar zone. To this end,

technical assistance is being provided.

Beyond that point, project results must be measured in the success of the GERAN program ~~it~~ itself, along the following lines:

Since GERAN will operate on a project-by-project basis, and since the submission of projects is largely at the volition of the industry, it is not possible to establish clear quantitative indices against which GERAN's performance can be appraised. Furthermore, enthusiastic response on the part of the sugar industry, as would be reflected in a larger number of applications received and processed by GERAN over the next three years, would not necessarily indicate that the agency is doing full justice to all aspects of its assigned mission. In fact, such response would be most likely if GERAN would heavily favor established interests. The establishment of quantitative targets is further complicated by inevitable variations in the characteristics and specific needs and requirements of different projects submitted to GERAN. In view of these considerations, initial criteria by which GERAN's performance will have to be appraised and on the basis of which continued U.S. participation can be justified will be largely qualitative.

Depending on the particular nature of each project submitted to GERAN, it should upon implementation and within a specified time period lead to several or all of the following results:

1. Increased efficiency of the mill operation and reduced unit processing costs through the use of modern equipment and improved processing techniques.
2. Increased cane production per unit of input in land, labor, and capital through the use of fertilizer, modern field practices, mechanization where applicable, and other productivity-increasing factors.
3. Increased incomes, improved working conditions, and acceptable standards of health, housing, and education for sugar workers and their families.
4. Increased production of food crops and agricultural raw materials through land use and enterprise diversification.
5. Distribution of land to displaced sugar workers; increased incomes, improved living conditions, and the provision of acceptable health and educational facilities for new farmers and their families.
6. Increased adherence to labor law.

In ~~each~~ each case, GERAN will dictate the conditions, targets, and time limits which sugar mills and growers participating in the program must meet in order to qualify for assistance. The responsibility to effect the specified changes will rest with the applicant, and GERAN will only act as the approving and supervising agent. In the case of the responsibilities of GERAN, there are no such checks, however, to assure that all other aspects of its program are ~~is~~ carried out adequately. Achievements in this area will depend not only on the number of projects submitted to GERAN, and upon the availability of financial resources to follow through ~~it~~ with land settlement projects and the establishment of physical, social and economic infrastructure, but also on the time

required to eliminate present organizational and administrative ~~hixxxx~~ bottlenecks and to upgrade GERAN's planning capacity.

Project maturity, as previously stated, will be reached as soon as GERAN has become a viable and dynamic planning institution. Technical assistance in support of this objective should be planned for a period of at least four years.

V. PLAN OF ACTION

The general approach of U.S. assistance to GERAN is to fill the financial and technical resource gaps in the early stages of the GERAN program. The immediate objective, is as already pointed out, to assist GERAN in becoming a viable and dynamic development organization, fully capable of carrying out all aspects of its complex and difficult ~~mission~~ mission.

As currently envisaged, U.S. support will be concentrated in providing very ~~xxxxxx~~ selective and specialized technical assistance such as

1. advisory services to key GERAN staff in project planning and implementation
2. short-term surveys of studies in selected problem areas
3. participant training for selected technicians.

USAID/B/NEPA is presently assisting in study of GERAN's organizational problem and will recommend corrective action. A U.S. agricultural and vocational education advisor is already on board with GERAN to assist in planning the agency's training program for sugar workers and new farmers. A ProAg signed between SUDENE, GERAN and USAID/B/NE provides for a three-man development planning team to work with GERAN for an initial ~~xxxx~~ period of two years. The ProAg also provides for additional short-term consultants to meet the needs of ten participants per year will receive special training in the U.S., third countries and Brazil to upgrade and augment the technical manpower resources of GERAN and its cooperating agencies.

Such assistance will need to continue until GERAN becomes more nearly capable of assuming the multiple tasks involved in the planning and execution of all aspects of its assigned mission. It is anticipated that this will require a minimum of three to four years.

In addition, subject to the availability of PL480 and/or Program Loan/^{counterpart} in 1970 through 1974 ~~allocation~~ allocation of up to about NCr\$40 million per year (\$10.0 million equivalent) ~~is~~ presently being considered.

Both technical and financial assistance to GERAN will be contingent upon acceptable performance by the agency in carrying out the very urgent social objectives of its program.

In the context of the actual GERAN operation, the following ~~comments~~ comments may be helpful in further indicating the dimensions of the activity:

As already indicated, GERAN's technical and financial requirements will in large part depend upon the number of projects received and processed within a given time period.

It is expected that by the end of 1970, GERAN will have ~~approved~~ approved at least ten projects involving all three objectives. Others will be under study, and by the end of 1974 there should be about fifty projects in various stages of implementation. At this point, it is difficult to make any projections beyond 1974, because it is most likely that there will be a reduction in the number of sugar mills in the northeast, possibly leaving only twenty additional projects to be studied and implemented. During this period of time, however, GERAN may develop plans to attract a larger number of cane growers to participate in the program. Under present arrangements incentives which would encourage such participation are very limited.

The GERAN budget consists primarily of a special tax on sugar ~~collected~~ collected by the IAA, 24% of which is to be given to GERAN according to law. Estimated IAA revenue for 1969 is 28.3 million new cruzeiros, and should average similar amounts per year from 1970 through 1974. It is expected that GERAN will be included in the federal government budget for the period CY 1970 through 1974, starting at NCR\$6 mill. in 1970, with small annual increases thereafter. The members of GERAN's Deliberative Council, SUDENE, Banco do Brasil, IBRA, and INDA have agreed to make budgetary donations to GERAN. These will amount to a total sum of approximately ~~NCR\$2~~ NCR\$2 million per year.

Compensation for land expropriation will be paid by IBRA in agrarian bonds issued by that agency. Furthermore, ~~some~~ some of the sugar mills with projects approved by GERAN will be authorized to solicit resources available under SUDENE's 34/10 investment incentive program. GERAN also plans to use financial resources available through the National Housing Bank, the National Bank of Cooperative Credit, the Bank of the Northeast, and other special development agencies that have their own financial resources.

The greater proportion of GERAN's financial resources will be available for the administration of the organization, for financing agricultural diversification, for land settlement projects, for human resources development, and for research, studies, and surveys. It is estimated that an ~~an~~ average of U.S. \$8.0 million per year in local currency, if available, will be ~~not~~ required for ~~resettlement~~ resettlement projects alone.

Although GERAN is to serve as the ~~main~~ ^{catalyst} for development in the northeast sugar zone, its major role is to plan for and to coordinate activities under its program carried out by other ~~government~~ government agencies. GERAN can probably count on technical assistance from private industry and the IAA in implementing the industrial modernization phase of projects approved by GERAN. In agricultural modernization and diversification GERAN should stimulate and coordinate the activities of research stations operated by IPEANE, IPA, the sugar-cane experimental station in Cabo, and the sugar research station in Alagoas. IBRA should play a major role in assisting GERAN with resettlement. The extension ~~and~~ service agencies in the northeast states should assist the sugar industry as well as newly established farmers.

ELBRICK

NONCAPITAL PROJECT ENDING (Obligations in \$000)

Table 1

Page 1 of 2 pages

COUNTRY: BRAZIL (NE)

PROP Date:

ORIGINAL: X

Rev. N^o.

Project Title: Rural Rehabilitation and ~~Reform~~ ^{Reform}

Project N^o: 512-11-130-249.4

UNCLASSIFIED

Fiscal Years	Ap	L/G	Total	Cont ^{1/}	Personnel Serv.			Participants		Commodities		Other Costs	
					AID	PASA	Cont	U.S. Agen.	Cont	U.S. Agen.	Cont	U.S. Age%	Cont
Prior thru Actual FY 69	AG	G	863	432	195	19	381	204	-	-	-	13	51
Operational FY 70	AG	G	376	176	70	64	126	50	-	10	-	6	50
Budget FY 71	AG	G	538	311	72	154	128	105	-	10	-	16	53
B + 1 FY 72	AG	G	585	285	75	154	150	105	-	10	-	16	75
B + 2 FY 73	AG	G	518	155	80	148	106	105	-	10	-	16	53
B + 3 FY 74	AG	G	521	101	80	148	107	106	-	10	-	16	50
All Subs Yrs.	AG	G	518	150	80	148	106	106	-	10	-	15	53
Total Life	AG	G	3919	1698	652	835	1104	781	-	60	-	98	389

UNCLASSIFIED

^{1/} Memorandum (nonadd) column.

RIO DE JANEIRO TOAD A 38

\$ Equivalent (000's)
Exchange rate \$1.00 = NCr 4.00

Project No: 512-11-150-2-9.4

UNCLASSIFIED

38

TOAID A

RIO DE JANEIRO

Fiscal Years	AID- controlled Local Currency		Country Owned		Other Cash Contribution Cooperating Country	Food for Freedom Commodities		
	U.S. owned	Tax	Fund	Counterpart		Metric Tons (000)	CCC Value & Freight (\$000)	World Market Price (\$000)
Prior thru Actual FY 69			63	-				
Operational FY 70			202	550				
Budget FY 71			206	5000				
B + 1 FY 72			183	8000 ^{1/}				
B + 2 FY 73			200	6000 ^{1/}				
B + 3 FY 74			200	6000 ^{1/}				
All Subs Yrs.			200	2000 ^{1/}				
Total Life			1259	27550	40000			
			28,809					

UNCLASSIFIED

1/ Est Subject to the availability of counterpart funds
2/ Estimated IAA contribution