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AIRGRAM **DEPARTMENT OF STATE**

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FROM - RIO DE JANEIRO

SUBJECT - NON CAPITAL PROJECT PAPER (PROP)
Central Bank Training (Formerly Capital Markets Training)

REFERENCE -

COUNTRY: Brazil PROJECT: 512-15-920-~~226.1~~ 303.1

SUBMISSION DATE: September 15, 1969 ORIGINAL

PROJECT TITLE: Central Bank Training

U.S. OBLIGATION SPAN: FY 1964 through FY 1972

PHYSICAL IMPLEMENTATION SPAN: FY 1965 through FY 1973

GROSS LIFE OF PROJECT FINANCIAL REQUIREMENTS: ☆

U.S. Dollars	$1,076,000
Local Currency (Trust Funds in US$)	131,000
Cooperating Country Cash Contribution (in US$) (FY70-72 only. Data prior to FY 70 not available)	946,440
TOTAL	$2,153,440

☆ Exchange Rate $1 = NCr$4.15

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I. Summary Description 1/

On December 31, 1964, the Government of Brazil issued the "Banking Reform Law" (No. 4.595) which created the National Monetary Council with powers to formulate the national money and credit policies consistent with the economic and social program of the country. [Article 8 of the law also created the Central Bank of Brazil ascribing to it powers to enforce the norms promulgated by the National Monetary Council and other relevant dispositions of the law including: monitoring the rate of expansion of the banking system, acting as lender of last resort to other banks and the money markets, and acting as banker and debit manager of the GOB. These functions placed the Central Bank at the center of the Brazilian financial system.]

[Drawing most of its key personnel from the Bank of Brazil, the Central Bank began operations on March 31, 1965 with approximately 600 employees. Since then, the staff have increased by about 600 employees a year totalling 3,286 employees in June 1969. To cope with the increased workload and responsibilities, further increases in personnel are anticipated.

[The rapid organizational growth of the Central Bank has created major personnel problems which are hampering the Bank's effectiveness as the financial organ of the GOB.] [In the process of quickly building up its staff to carry out its assigned functions and because of the shortage of experienced and competent people, the Central Bank has had to hire inexperienced and inadequately trained personnel thus resulting in inefficiencies, increased costs, and lower over-all bank performance.] The Central Bank has decided to remedy the situation by establishing training programs for all levels of its personnel and has requested USAID assistance.

Thus the main objective of this project is to upgrade the capability of the Central Bank to perform more efficiently its assigned functions by developing a training program that will enable the Bank to pursue on a continuing basis a personnel improvement program to make it a stronger and more effective institution.

The proposed program is consistent with the most recent directive of the AID administrator as stated in item I, of STATE 107185 of June 28, 1969: "Special emphasis should be given to new and innovative technical assistance programs keyed to the critical institutional needs of each country in selected fields where the United States has special competence and where we can most effectively bring our best resources to bear."

It is planned to [implement the program through a host government contract under which the Central Bank will enter into a two-year contract with a Brazilian firm affiliated with a U.S. company.] For example, such firm could

1/ For a description of activities prior to FY 1970 please refer to Project Agreement nº 512-15-920-226.1 of June 12, 1969; April 25, 1968; April 6,1967 and June 29, 1965.

be Price Waterhouse Peat which is associated with Price Waterhouse of Boston. This firm is highly respected in Brazil and can provide top-notch technicians to meet the requirements for developing a training program to attain the basic ~~xx~~ objective of this project. The activity will be heavily financed by the Central Bank which is expected to pay most of the local costs. The total ~~cost~~ over two years will be approximately $1,280,440 of which $9~~1~~5,440 will be provided by the Central Bank. USAID/Brazil would provide, subject to AID/W approval and availability of funds, ~~$269x~~ $269,000 to finance dollar costs. In addition ~~xxxx~~ the cruzeiro equivalent of $65,000 in Trust Funds will also be required.

II. Setting or Environment

In March 1963, the GOB submitted to Congress a bill which later became Law 4,595 of December 31, 1964. It was aimed at providing the GOB with an effective means for executing the monetary, credit and exchange policies.

The 1964 law has two principal objectives:- a) the establishment of an efficient and flexible monetary administration capable of formulating and executing monetary and credit policies for development and for curbing inflation and, b) to bring about changes in the status of private financial institutions for a more efficient use of national financial resources, to promote a more equitable distribution of resources and to facilitate the harmonious development of the different regions of the country. Two new agencies were created by the Banking Reform Law, the National Monetary Council and the ~~x~~ Central Bank of Brazil. The Council is a policy body and the Bank is its executive arm. The Bank was charged with several functions, some of which are:- Control of the flux of means of payment keeping its volume consistent with the needs of the economy, control of foreign exchange and foreign investment in Brazil, relationships with foreign and international banking agencies, the control of banks' operations, delegation to the banking system at large of the right to receive taxes due to the government, the control of the public (federal) debt, and control of the stock exchanges and capital markets in general. In many respects, these functions resemble those of the U.S. Federal Reserve Bank and the Securities Exchange Commission.

The competence with which the Bank discharges the above functions is of paramount importance to the GOB in establishing a sound financial base. The Central Bank recognizes this and the urgent need to up-grade its staff ~~in order~~ to perform more effectively in order to free its top-level people from administrative details and give them time for problem analysis and policy formulation.

III. Strategy

To accomplish the objectives of this activity, it is proposed to assist the Central Bank in planning, developing and implementing a training program during its initial stages. The program will be conducted in Portuguese within

the Central Bank with the help of outside technicians, both Brazilian and American, in the areas where the Central Bank is presently lacking the necessary expertise.] The outside technicians will be furnished through a Central Bank contract with a qualified Brazilian consulting firm with the Bank financing most of the local cruzeiro costs and USAID dollar costs.

The consultants who will assist the Bank in the installation of its training program shall be men of sufficient competence and stature to command the respect of the people they are training and the officers of the Bank. In addition, some of them should be familiar with and have a comprehensive working knowledge of the monetary and fiscal policies of the National Monetary Council, the Central Bank and of relevant laws. [They will be supported by additional Bank personnel who will be trained as trainers. From the cadre of trainees or trainers ten would be selected each year for two years for an additional three to four month U.S. training program at the Federal Reserve or the U.S. Treasury Department.]

Since the expertise and knowledge relative to the latest and most modern techniques and materials required for development and installation of personnel training programs in large banking organizations is not available in Brazil, the Brazilian firm slected must be associated with a U.S. firm operating in the same field. In Brazil there are a number of internationally known companies, e.g., Price Waterhouse, Ernst and Ernst, and others which are competent and that have affiliated organizations in the U.S. which can provide the U.S. portion of the program. Such arrangement can be worked out advantageously with Price Waterhouse Peat of Brazil and Price Waterhouse Peat of Boston.

The banking division of Price Waterhouse in the U.S. working in collaboration with the U.S. Federal Reserve and U.S. Treasury or from its own staff can provide: a short-term consultant with broad experience in planning, development and implementation of personnel training programs in large organizations; eight short-term specialists in training techniques; specialized training in the U.S. for 20 Central Bank participants and the required training materials. Since the men from Price Waterhouse-Brazil speak English, are fluent in Portuguese and have a comprehensive knowledge of the monetary and fiscal policies of the National Monetary Council as well as of the functions of the Central Bank, they are equipped to effect a complete integration and the transfer of knowledge essential to produce a sound and viable training program.

The program attempts to bridge the gap between functions and the personnel available to perform effectively the role of the Central Bank. The present and foreseeable circumstances at the Bank add weight to its desirability. The President, Dr. Ernane Galveas, considers the program and its objectives essential and necessary to the growth and development of the Central Bank.

Helping him and equally concerned will be his Board of Directors, including Dr. Celso Araújo, Director, Department of Capital Markets, Dr. Geraldo Monteiro, Director, Department of Administration, in charge of personnel. In addition, and aside from other considerations, it is a Brazilian project, conceived and designed by Brazilians and to be executed by a Brazilian firm. It exemplifies in every respect the self-help feature so desirable for institutional development.

This project relates to and supports Project 227.1 Capital Markets Development which seeks (1) establish a Capital Markets Research Center at the Getúlio Vargas Foundation in collaboration with the Central Bank and (2) provide GEMEC of the Central Bank with guidelines, and possible courses of action in resolving critical capital markets problems. The Central Bank is the sponsoring GOB agency for both projects. The up-grading and training of Bank personnel as envisaged in this PROP will have a direct and significant impact on the over-all operating efficiency of GEMEC. Also, the project supports all USAID loans and USAID projects which are dependent on the operations and decisions of the Central Bank. As the training programs get underway it is anticipated the decision-making process will be improved leading to a more effective operation.

IV. Planned Targets, Results and Outputs

In line with the objective of strengthening the Central Bank as the financial organ of the GOB, the targets of this project are to:-

1. Develop and structure in-house training programs for employees of the Central Bank starting with the management level and extending downward to and through the secretarial level including required training materials, graphs, charts and audio-visual.

2. Install, organize and establish on a permanent basis over a two-year period, the personnel training programs for the Central Bank.

It is anticipated that at the end of two years a complete, modern training system for training the personnel of the Central Bank will have been installed and will be functioning efficiently; a cadre of 28 training officers, 2 for each of the 14 departments in the Bank will have been equipped and trained to carry on the various training programs on a permanent basis; twenty of the 28 training officers will have received additional training in the U.S.; at least 2500 employees of the Central Bank will have received training in their respective areas and will be participating in on-going programs to further increase their competence; new employees will be receiving orientation and special training thus reducing lost time in becoming productive and settling into their respective jobs; and top management time now devoted to administrative details will have been reduced providing more time for planning and decision making.

Expectedly, as the operating efficiency of the Central Bank increases the Bank will do a better over-all job of implementing the national monetary and credit policies established by the National Monetary Council. The extent to which this can be accomplished will mean a substantial contribution to the economic growth and development of Brazil.

V. Course of Action

The Central Bank will contract with a Brazilian firm affiliated with a U.S. company to develop, organize and install within the Bank an efficient, modern training program for all levels of ~~of~~ personnel. Under this agreement the contractor will provide:-

1. One short-term consultant from the U.S. with broad experience in planning, development and implementation of personnel training programs in large organizations. Over a period of approximately four months the consultant will, in collaboration with the directors ~~of~~ of each of the departments in the Central Bank, develop and prepare the course outlines of the various training programs.

2. The training materials required for implementation of the various programs, e.g., written (books, pamphlets, reports, films, etc) graphs, charts, and audio-visual.

3. Four training specialists for two years to work with the Bank assisting its personnel in organizing, installing and conducting training programs. Emphasis will be placed on the training of trainers.

4. Eight short-term U.S. specialists in personnel training with particular competence in areas relevant to the operations of the Central Bank. These men will support the four long-term consultants who will carry out in-house training programs.

5. A four-month ~~may~~ on-the-job training program in the U.S. for twenty participant trainers, 10 in FY'71 and ten in FY'72. Outstanding participants are to be selected jointly by the contractor and the Personnel Department of the Central Bank. It is anticipated that the training in the U.S. will involve the Federal Reserve Bank, the U.S. Treasury Department and such private sector banks and other financial institutions as may be appropriate.

In support of the contractor, the Central Bank will provide all the facilities (office space, classrooms, equipment, secretarial assistance, etc.), a project co-ordinator, counterparts, a cadre of ~~30~~ 25 trainees to be trained as trainers and such other personnel as may be necessary for

effective implementation of the program. In addition, the Bank will pay almost all local costs including the salaries of the four Brazilian long-term training specialists. USAID/Brazil will pay for the dollar costs of the U.S. personnel, the training of trainers in the U.S. and the training materials and equipment purchased or produced in the U.S.

It is expected that at the end of two years the objectives of the project will have been realized and that USAID assistance can be terminated.

BELTON

TABLE I

NONCAPITAL PROJECT FUNDING (OBLIGATIONS IN $000)

Project Title: CENTRAL BANK TRAINING

Project No.: 226.1

FY	L/G	Total	Personnel Serv.			Participants		Commodities		Other Costs		
			AID	PASA	CONT	U. S. Agencies	CONT [redacted]	DIR U.S. Ag	CONT	DIR & U.S. Ag		CONT
Cumulative thru 1969	-	607	24	-	371	26	94	-	10	15		69
1970	G	194	-	-	87	62	-	-	15	-		30
1971	G	75	-	-	50	-	-	-	7	-		18
1972	G	-	-	-	-	-	-	-	-	-		-

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TABLE II

LIFE OF PROJECT ESTIMATED FINANCIAL INPUTS*

Project Title: CENTRAL BANK TRAINING Project No.: 226.1

	Cumm. thru 1969		FY 1970		FY 1971		FY 1972		Total All Years	
	Dollar Costs	Local Costs	Dollar Costs	Local Costs	Dollar Costs	Local Costs	Dollar Costs	Local Costs	Dollar Costs	Local Costs
1. GOB (Central Bank)1/		-	-	369,940	-	332.700	-	243.800	-	946,44
2. Trust Funds		66,000	-	46,000	-	19,000	-	-	-	131,00
3. ~~USAID~~/Brazil	807,000	-	194,000	-	75,000	-	-	-	1.076,000	-
4. Total	807,000	66,000	194,000	415.940	75.000	351,700	-	243.800	1,076,000	1,077,44

* $ 1 = NCr$ 4,15

1/ ~~XXXX~~ Data prior to FY 1970 not available

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