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CAPITAL ASSISTANCE PAPER

Proposal and Recommendations
For the Review of the
Development Loan Committee

5120308

BRAZIL: NORTHEAST AGRICULTURAL MARKETING

2/11/71

AID-DLC/P-950

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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

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AID-DLC/P-950

February 11, 1971

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Brazil: Northeast Agricultural Marketing

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed $15,000,000 to the Government of Brazil to finance the local currency and dollar costs of goods and services necessary to assist Borrower in conducting a program of financing agricultural marketing projects in the North and Northeast regions of Brazil.

This loan proposal is scheduled for consideration by the Development Loan Staff Committee at a meeting on Thursday, February 18, 1971.

Rachel R. Agee
Secretary
Development Loan Committee

Attachments:
Summary and Recommendations
Project Analysis
ANNEXES I-V

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February 11, 1971

CAPITAL ASSISTANCE PAPER

NORTH/NORTHEAST AGRICULTURAL MARKETING

TABLE OF CONTENTS

	Page
PART ONE: SUMMARY AND RECOMMENDATIONS	1
1. Borrower	1
2. Purpose	1
3. Description of Loan & Program -- Executing Agencies	1
4. Loan	3
5. Justification	3(a)
6. Background	4
7. Financial Plan	4
8. Other Sources of Funds	5
9. Statutory Criteria	7
10. Recommendations	7
PART TWO: THE PROJECT	10
SECTION I - NATURE OF THE PROJECT	10
A. Description of the Project	10
1. The National Program	10
2. The North/Northeast	11
3. The AID Loan	12
B. Institutional Aspects of Program	13
C. Background	14
1. Origin of Program	14
2. The Role of AID	15
3. GOB Priorities	16
D. Justification	16
1. The Existing Situation	16
2. Alternative Approaches	18
3. Place of Project in USAID Program	20
SECTION II - EXECUTING AGENCIES	21
A. GEMAB	21
B. COBAL	22

Page

C. BNDE 24

1. Resources 24
2. Operations 24
3. Financial Position 26
4. Organization 26

D. SUDENE AND SUDAM 27

E. The Mixed Companies 27

1. Financial Director 27
2. Technical Director 28
3. Administrative Director 28

SECTION III - ENGINEERING AND TECHNICAL FEASIBILITY 30

A. Prototype Plans for the Markets 30

1. Outline of Facilities 31
2. Description of Prototypes 33
3. Land Acquisition 34
4. Cost Factors 34

B. Procedures for Planning and Construction of Markets 36

C. Technical Assistance, Training and Equipment Needs 38

1. Market News Service Program 38
2. Produce Classification and Grading Program 41
3. Special Technical Assistance 42

SECTION IV - ECONOMIC EVALUATION 45

A. Quantifiable Benefits 46

1. Reduction in Produce Spoilage 46
2. Reduction in Costs due to Decrease in Spoilage 47
3. Reduction in Unloading and Loading Time 47

B. Quantifiable Costs 48

1. Construction and Equipping of Markets 48
2. Maintenance of Market Facilities and Increased Operating Costs of New Facilities 48

		Page
C.	Internal Rate of Return	48
D.	External and Secondary Benefits	49
	1. Reductions in Costs and Risks and Increased Competition	49
	2. Stimulation of Farmer Production due to Increased Opportunity for Direct Marketing Indirect Income Effects	50
	3. Economies in Retail Purchases due to Larger Scale Operations and Ease in Obtaining Standard Quality	50
	4. Improved Public Health due to Improved Hygiene Cleanliness and More Stable Supply	50
	5. Improved Working Conditions	51
	6. Improved Transport Services	51
E.	External and Secondary Costs	51
	1. Reduction in Wholesalers Sales Directly to Consumers as Result of Non-Centralized Location of the Larger Markets	51
	2. Additional Loading and Unloading of Trucks	51
F.	Employment Effects	52
G.	Conclusions	52
SECTION V - FINANCIAL ANALYSIS		54
A.	The Financial Plan	54
B.	Loan Terms	55
C.	Repayment Capability of the Mixed Companies	56
D.	Financial Position of BNDE	56
SECTION VI - AID LOAN ADMINISTRATION		58
A.	Implementation Plan	58
	1. Loan Agreement Negotiations	58
	2. Implementation Activities	58
	3. Procurement	58

Page

B. Disbursements 59

C. USAID Monitoring 59

1. On-site Inspections 59
2. Reports 59
3. Audits 59

ANNEXES

I. Draft Loan Authorization
II. Mission Director's Certification
II.A Application for Loan
III. Statutory Checklist
IV. Internal Allocation of Resources in Brazil
V. Project Details

Exhibit A IRR Approval
B Excerpts from Strategic Development Plan
C Cost Estimates of Wholesale Markets
D Presidential Decree Creating GEMAB
E-F Ministerial Decree Establishing duties of GEMAB and COBAL
G Presidential Decree re: COBAL's Financial Participation
H PL-480 Funds
I-1 COBAL Organization Chart
I-2 BNDE-COBAL Agreement
J VOID
K BNDE Financial Statements
L By-laws of Mixed Companies
M Prototype Market Blueprints
N Internal Rate of Return Calculations
O Interviews with Supermarkets Managers
P CAEC Questions
Q Response to CAEC Inquiries
R Letter of Approval of Re-Written CAP from President, BNDE.
S Letter of Approval of Re-Written CAP from Minister of Planning and General Coordination

AID-DLC/P-950
February 11, 1971

PART ONE: SUMMARY AND RECOMMENDATIONS

1. **Borrower:** The Government of Brazil (GOB) for the technical assistance and the National Bank for Economic Development (BNDE), an autonomous dependency of the Ministry of Planning, for the construction program. The loan to the BNDE will be guaranteed by the GOB.

2. **Purpose:**

The purpose of the loan is to provide financial and technical assistance to the GOB in creating an appropriately structured, viable, and efficiently managed and operated agricultural marketing system to improve the marketing and distribution of food in the North and Northeast. The facilities to be financed are large and medium sized wholesale food markets and rural food collection centers, in furtherance of national and regional agricultural objectives and policies. Specific technical assistance will be provided for guidance and training in the creation, organization, management and operation of these entities.

3. Description of the Loan and the Program and Executing Agencies:

The A.I.D. loan will assist in financing a portion, i.e. the North and Northeast, of the GOB's national program of construction, equipping and operation of wholesale markets in the urban centers and rural assembly markets at major interior collection points. Inasmuch as part of the operating system of the markets includes market news service and grading and standards for produce, A.I.D. will also provide financing for technical assistance, training and equipment for these activities. In addition, technical expertise will be provided for wholesale market operation, retail food marketing, and rural marketing organizations.

The three year national investment program will cost approximately $100 million with some $70 million to be provided through the BNDE, from its own and external sources, and $30 million from state and municipal governments. Thus far some $32 million worth of projects have been identified in the North and Northeast and feasibility studies for these have either been completed or are presently being carried out.

A.I.D. will not specify the projects to which its resources will be applied but, rather, leave this decision to GEMAB and the BNDE based on their review and approval of loan applications. USAID will, however, review the financial, technical and economic criteria which the BNDE and GEMAB will use in their analyses, prior to making any disbursement under the loan. This paper, therefore, evaluates the overall objectives of the program and assesses the capabilities of the executing agencies to evaluate and implement the subprojects.

Executing Agencies: The principal executing agencies will be the BNDE, GEMAB (Executive Group for the Modernization of Food Supply) and COBAL (Brazilian Food Supply Company). Supporting roles will be played by SUDAM and SUDENE, the Development Superintendencies for the North and Northeast. While these organizations will be analyzed in detail in part two, Section II, a brief description of their roles follows.

The BNDE will serve as the Borrower, executing, financial, and monitoring agent of the proposed construction program and will provide long-term financing for the construction and equipping of the markets.

The Ministry of Agriculture acting through GEMAB, which was created by PRESIDENTIAL Decree on November 26, 1969, to promote and implement the recommendations for the Food Distribution Section of the GOB's Strategic Development Program, will be the agent of the GOB responsible for overall planning and coordination of the program and execute the $1 million technical assistance program. GEMAB is presided over by the Minister of Agriculture and includes representatives from four Ministries and from the National Confederation of Commerce.

COBAL, a dependency of the Ministry of Agriculture, was established in 1962 and given a broad mandate in executing GOB plans in food supply and regulation. Under the proposed program COBAL will participate in the operation of each of the markets through its ownership of up to 30% of the shares.

SUDENE and SUDAM would assist the state governments under their jurisdiction to promote plans for wholesale and assembly markets in support of the national program.

Under these arrangements, established for the administration of the program, GEMAB, assisted by COBAL and the BNDE will jointly, under the direction of GEMAB, approve projects for economic, financial, and technical feasibility; (1) the BNDE will undertake the responsibility for monitoring the execution of the construction of the markets, and (2) GEMAB and Cobal will (a) undertake the responsibility of supervising the organization of the mixed economy -- companies which will manage the market, establish operating regulations and procedures for the operation of the markets, and provide necessary technical assistance and training to the mixed economy companies, and (b) carry out the technical assistance programs financed under this loan.

Insofar as the institutions are concerned, the USAID is of the opinion that they have the capacity to execute the program. With respect to the BNDE, this finding is based on the BNDE's generally good to excellent record in the execution of a large industrial intermediate credit program utilizing AID program loan counterpart (in excess of $100 million), our review of the BNDE's procedures, as outlined in this paper, and discussions with the BNDE staff responsible for the program. With respect to GEMAB and COBAL, our opinion is based for the most part on the qualification of the executives and staff which have been assigned to this program, and on the high priority in terms of resources and staff which the Government has assigned to this program.

With respect to staff, we have reviewed the curricula vitae of the key staff people, and reviewed procedures and regulations thus far developed by them for the execution of the program. The staff is well qualified and several members have had extensive experience with the execution of the Sao Paulo market and in other marketing programs. Our opinion is that this staff in conjunction with the staff of the BNDE has the capacity to satisfactorily execute this program.

We have concluded that the institutional arrangements for the implementation of this program are satisfactory.

4. Loan:

(a) Amount and Terms:

(1) Up to $14 million to the BNDE for a sublending program of wholesale market construction, on following terms, a 20 year amortization period including a grace period of 5 years with an interest rate of 2% a year during the grace period and 3% a year thereafter. The GOB will guarantee the loan.

It is anticipated that subloans will be made by the BNDE on its present terms for infrastructure investments of not less than 4% interest plus monetary correction and up to 20 year principal repayment. Any change in interest rate or terms by BNDE to Borrower will be approved by A.I.D.

(2) Up to $1 million to the GOB for a sub-loan or sub-grant to the Ministry of Agriculture, acting through GEMAB, for technical assistance on the following terms, a 40 year amortization period including a grace period of 10 years with an interest rate of 2% a year during the grace period with 3% a year thereafter.

(b) Local Cost Financing: Foreign exchange procurement of technical assistance training and related equipment will be from eligible source countries. GEMAB has indicated the U.S. is their preference for such foreign exchange procurement.

5. Justification

Except for isolated areas, such as Sao Paulo, the existing food distribution system in Brazil is largely antiquated and inefficient. Most farm production in the North and Northeast is carried to collection centers manually or on pack mules and sold to intermediaries who generally sell to truckers for shipment to urban centers. Practically all of the perishable produce entering the urban centers pass through old public wholesale market facilities, where spoilage losses are high, vehicular and human traffic is congested, operating scale is small and health conditions are sub-standard. At the retail level, while supermarket chains are expanding rapidly, most fresh produce is sold through public fairs where scores of small operators make sales from individual stalls.

While modernization is needed at all levels of the distribution channel, the GOB is convinced (and the USAID concurs) that the most urgent bottleneck is poor wholesale facilities for perishable products. For that reason the GOB is responding to requests of many state and municipal governments to provide assistance for the construction of modern facilities. This is not to say that other marketing problems will not also be attacked, only that initial concentration will be made on improving marketing facilities.

6. Background

Interest in modernizing the food distribution system only became evident some 10 years ago when SUDENE and the São Paulo state government commissioned feasibility studies for modern wholesale market facilities for Recife and São Paulo, respectively. Both projects were delayed, but over a period of several years problems were resolved and the São Paulo market (CEASA) was completed in 1966 and the Recife market (CARE) opened for business in 1968 with 30% of its planned facilities completed.

USAID's role in food marketing has been limited to technical assistance and PL 480 donations. We grant financed USDA-PASA specialists in wholesale facilities (two years) and in market news service (four years). In addition, Michigan State University was contracted to participate with SUDENE in a study of food marketing in the Recife foodshed. The results of that study formed the basis of our initial review for a possible marketing loan.

After many years of discussing and studying the marketing problems and possible approaches, the GOB has taken action in the last twelve months to implement, on a priority basis, the recommendations of the food distribution section of its Strategic Development Program (1968-1970). In a recent (September 1970) announcement of Goals and Objectives for 1970-1973 (Metas e Bases), President Medici underlined the GOB marketing program as one of the ten priority programs for agriculture. To avoid delays previously encountered in implementing the CEASA and CARE markets, the GOB has decided to centralize the national plan and offer special financial and technical assistance to state and municipal authorities in the construction of modern wholesale markets with special emphasis on perishable produce.

7. Financial Plan

The investment cost of the first phase of the National Program is estimated at approximately $100 million, with some 40% of this -

$40 million - to be directed to the North and Northeast regions of the country. Of the $100 million national program, $15 million would be in the form of a loan from A.I.D., and the balance would be from internal sources composed of $30 million from the state and municipal governments and $55 million from the GOB. The latter amount includes approximately $10 million from PL-480 counterpart. Except for a portion of the technical assistance, training and communications equipment, the entire program consists of local currency costs.

The financial plan, not including the $1 million for technical assistance, training and equipment, for the A.I.D. assisted areas, the North and Northeast, is as follows:

Funding Source	Amount (Millions US$)
BNDE	14.0
A.I.D. Loan	14.0
State and Municipal	12.0
	40.0

BNDE will
be providing 70% of the financing for each market. However, up to 30% would be loaned to COBAL which will purchase shares in each of the markets and, thus, complement the 30% equity contribution of the state or municipality. (The loan to COBAL would be repaid pursuant to yearly contributions from the Budget of the Ministry of Agriculture). The balance of the BNDE contribution will be a direct loan to the mixed company established to own and operate the market. Thus, the financial plan for each of the markets will include 60% equity (30% COBAL, 30% state and/or municipality) and 40% debt.

8. Other Sources of Funds

a. In its letter to A.I.D. of December 16, 1969, the IBRD stated that it was not interested in considering financing for this program.

b. In its letter to A.I.D. of March 24, 1970 the IDB stated that the bank was not considering any loan in the Northeast agricultural marketing sector.

c. In view of the local cost nature of the program, the EXIM Bank indicated at an EXIM-A.I.D. Liaison Group meeting held December 22, 1969 that it was not interested in providing financing.

d. BNDE (The National Economic Development Bank of Brazil) has all its resources totally committed and could only supply additional funds by diverting them from other high priority projects.

e. Private investment sources seek a high commercial rate of return and since these essentially infrastructure projects do not have a high commercial rate of return, it is not possible to obtain from the private sector, funds, in addition to those indicated herein.

f. There has been, in recent years, an expansion of available agricultural credit. The possibility of using this as a source of financing for this project was investigated.

This source was discarded because:

(1) Although agricultural credit availability has expanded, it is not sufficient for all the projects in the agricultural sector needed for Brazil's development.

(2) Private banks traditionally finance only short to medium term loans to private individuals and firms. A long term loan of this nature by a private bank to a Government owned company is not considered a feasible source of financing.

g. 34/18 Funds

These funds - called 34/18 after the Code's numerical articles in the laws which created and renewed them - are generated from federal income tax due from Brazilian and foreign companies operating in Brazil. They are generated as a result of an investment incentive program for industrial, agricultural and telecommunications projects for Northeast Brazil. Companies may opt to deposit - for subsequent investment - in the Banco do Nordeste do Brasil, 35 % of their yearly income tax.

These proposed NE agricultural marketing centers are public infrastructure projects and while they provide a significant economic rate of return in the economy as a whole, it is not feasible to consider them profitable as commercial investments. Therefore it is not reasonable to expect that the private sector investors will elect to invest their 34/18 credits in these projects. In any event, there are at present insufficient 34/18 deposits, existing or projected, to finance the 34/18 projects approved for financing by SUDENE. Thus, 34/18 funds are not a practical source of financing for this program.

h. Some PL 480 resources have been allocated to assist in financing the local currency requirements of the NE Agricultural Marketing program. Cr$7.2 million from the Seventh Wheat Agreement of October 1967 were allocated.

From the Eighth and Ninth Agreements, Cr$67.82 and Cr$75.15 million were allocated respectively through the GOB budget for budgetary support in specific and related areas such as agricultural credit, agricultural production, agricultural marketing (Cr$17.35 million from the Eighth and Cr$19.0 million from the Ninth), rural roads, and agricultural research.

As indicated in the table in Annex V Exhibit H, PL 480 proceeds have declined steadily. This contrasts sharply with increased local currency requirements and the decreased A.I.D. dollar funding availability. The major local currency gap, however, has been created by the halt of program lending to Brazil which has imposed even more demands on reduced PL 480 generated local currency. The GOB is counting on the funds allocated from the 10th Wheat Agreement for this Agriculture Marketing Program.

i. Because of the requirements for concessionary loan terms which are known not to be available from sources other than the above, other efforts to obtain financing for this program were not undertaken.

9. Statutory Criteria

All Statutory Criteria have been met. The Statutory Criteria checklist is contained in Annex III.

10. Recommendations

On the basis of the conclusion of the USAID Mission that the proposed program is technically, economically, and financially sound, it is recommended that a loan to the BNDE, $14 million, and the GOB, $1 million, for an amount not to exceed $15 million be authorized subject to the following terms and conditions.

a. A.I.D. loan funds may be used as necessary to meet cruzeiro costs of the construction and equipping of wholesale, combination wholesale/retail and rural assembly markets in the North and Northeast of Brazil.

b. Up to $1,000,000 to be used for technical assistance and training programs.

c. (1) The BNDE will repay the $14 million loan over a 20 year period, including a 5 year grace period, with an interest rate of 2% a year for 5 years, and 3% a year thereafter. The Government of Brazil will guarantee the loan. The two step option will be offered to the GOB with repayment schedule at 40 years including a 10 year grace period with an interest rate at 2% per year during the grace period and 3% per year thereafter.

(2) The GOB will repay the $1 million loan with repayment scheduled at 40 years including a 10 year grace period with an interest rate at 2% per year during the grace period and 3% per year thereafter.

d. A.I.D. financing will be limited to no more than 50% of any BNDE loan for wholesale and rural assembly markets in the North and Northeast.

Project Committee

CDLS:	- R.E. Bobel, C.A. Buchanan, D.J.Mackell
Engineer:	- G.B. Sparrow, NEER; Jeffrey, ENRO
Financial Analyst:	- A. Mulholland, CONT
Legal Advisors:	- B. Sidman, E. Seiff, Legal Counsel
Economist:	- E. Silva; K. Fedor, PREP
Agricultural Advisor:	- S. Krause, R. Beck, T. Ivers, J. Wythe - ARDO
Program Officer:	- J. Hulehan, ADPR

Approved by: William A. Ellis, DOM - USAID/B
Dwight B. Johnson, ADCD - USAID/B
William L. Rodgers, ARDO - USAID/B

PART TWO: PROJECT

SECTION I - NATURE OF THE PROJECT

A. Description of the Project

1. The National Program

The AID loan of $15 million will assist in financing the North and Northeast portion of the Government of Brazil's national program of construction, equipping and operation of wholesale and mixed wholesale/retail markets in the urban centers and assembly markets in the major interior collection points. Such program forms part of the recommendations of Brazil's Strategic Development Plan (1968-70) to improve the food distribution system. Such programs were also included in President Medici's September 1970 pronouncement, called "Goals and Objectives" as among ten top priority programs of the Brazilian Government for the Agriculture Sector over the years 1970 through 1973.

The program will be based on the following general criteria:

a. Wholesale centers in cities with over 500,000 population

b. Smaller wholesale markets or combination wholesale/retail markets in cities between 170,000 and 500,000 population.

c. Assembly markets in major interior agricultural producing areas.

An integral part of the program will be an expanded market news service program which will operate through the large wholesale centers and include the major producing areas as well and a program of grading and classification of produce. A relatively successful market news service program is already in operation but it will be expanded to new areas of the North and Northeast within the areas of influence of the new wholesale markets and will be increased in efficiency so that market price information is distributed more rapidly.

It is estimated that the three year national investment program will cost approximately the cruzeiro equivalent of $100 million. Of this amount, some $70 million will be contributed by the Government of Brazil and international lending institutions through the National Bank for Economic Development (BNDE) and $30 million by the state and municipal governments. (A more detailed cost breakdown is included below in Section V under our Financial Analysis). Approximately 75% of the projects have already been identified. Feasibility studies for these have either been completed or are currently in progress.

2. The North/Northeast

AID assistance would be limited to the North and Northeast portion of the national program. Such a focus would be consistent with our previous technical assistance efforts in marketing in the Northeast and concentrate our assistance in the most impoverished areas of Brazil.

Thus far some $32 million worth of projects have been identified in the North and Northeast. A listing of these projects with their cost estimates follows:

a. Wholesale Centers

Salvador	$7 million
Recife	$7 million
Fortaleza	$5 million
Belém	$4 million

b. Smaller wholesale or combination wholesale/retail

Aracajú	$4 million
Maceió	$2.5 million
Manaus	$2.5 million

Feasibility studies have been completed for Salvador, Recife, Belém, Maceió, and Aracajú while studies for the other listed projects are presently being carried out. In Addition, the state governments of Maranhão, Paraíba, Rio Grande do Norte, and Piauí are preparing study proposals for new market facilities for their respective capitals - São Luís, João Pessoa, Natal, and Terezina.

Finally, the prototype plans for the interior assembly markets, presented in the MONTOR report, are being studied by the GOB. Several of these markets will be constructed in major Northeast producing areas. Among those being considered are:

Irecê (Bahia)	- bean area
Propriá (Sergipe)	- rice area
Crato - Juazeiro (Ceará)	- cereals area
Penedo (Alagoas)	- rice area
Bacabal (Maranhão)	- rice area
Iguatu (Ceará)	- cereals area
Santana de Ipanema (Alagoas)	- cereals area
Águas Belas (Pernambuco)	- beans area
Ararapina (Pernambuco)	- mandioca area

3. The AID Loan

The AID loan of $15 million would be utilized in the following manner:

a.	market construction	$14.0 million
b.	technical assistance and training	$ 1.0 million

The major portion of the AID loan, $14 million, will be repassed through the BNDE for market projects in the North and Northeast. Our money would form part of a fund in the BNDE from which loans would be made to mixed public/private enterprises which would own and operate the markets, and to COBAL which will make an equity investment in the markets.

It is not the purpose of this paper to identify the specific projects to which AID loan resources would be applied. This would be the decision of the GOB, acting through GEMAB and the BNDE, based upon their review and approval of loan applications. Our approach herein is to evaluate the executing agencies capacities both to choose projects which are economically and technically feasible and to efficiently administer their construction and operation.

The identification of specific projects to which AID loan resources would be applied will be the decision of the GOB, acting through GEMAB and the BNDE, based upon their review and approval of loan applications. USAID will, however, review the economic, financial and technical criteria which the BNDE and GEMAB will use in their analysis, prior to making any disbursement under the loan. Our approach herein is to evaluate the executing agencies capacities both to choose projects which are economically and technically feasible and to administer efficiently the construction and operation of said projects.

To assure adequate and timely contributions by the GOB, we will agree to finance up to a limit of 50% of market project loans approved by GEMAB and the BNDE. Inasmuch as the state and/or municipality will contribute 30% of the project cost, the overall cost breakdown for the North/Northeast will be as follows:

Source	Amount
State/Municipio	$12 million
BNDE	$14 million
AID	$14 million
	$40 million

In the event that the state and municipalities, because of circumstances and deemed warranted by the BNDE/GEMAB, are unable to finance their 30% of a project, the BNDE may finance more than 70% of a project. In such cases, AID will participate, as before, in 50% of BNDE financing for the project.

Thus, with the AID assistance the market construction program for the North and Northeast will be approximately $40 million or 40% of the national program.

Inasmuch as part of the operating system of the markets includes market news service and grading and standards for produce, AID will also provide financing for technical assistance, training, and equipment for these activities. In addition, technical assistance will be provided for wholesale market operation, retail food marketing and rural marketing organizations. This portion of the program will be administered by GEMAB.

A complete description of the markets, and the technical assistance and training programs is provided in Section III - Engineering and Technical Feasibility.

B. Institutional Aspects of Program

The most important aspect of the loan will be the modernization of the marketing system itself. The existing structural deficiencies of the "market" are a serious bottleneck to agricultural development. Lack of efficient supply channels, price information, an adequate network of storage and supply centers plus the cost of needless spoilage, all prevent efficient distribution of production and income to the various units operating in the market and thus case price distortions and artificial shortages which inhibit overall increased production and confuse the market causing misallocations of resources. The severe effect of the 1968 drought on agricultural prices, with adverse effects on the stabilization program, was in part aggravated by the lack of storage and the inability of the market to respond to the situation.

The decision of the GOB to establish GEMAB and introduce national policies and programs to improve the market is the result of its realization of the deffciencies of the current market structure (1) that an adequate market structure is necessary for the effective implementation of credit, minimum price, and other agricultural programs and policies, (2) that private investment in the marketing sector is dependent on both public investment in the basic infrastructure and on sound government policy, and (3) that to implement such a program, financing and policy guidance from the national level are necessary. The decision to create the executive group (GEMAB) to coordinate policy and programs and the decision made by GEMAB to carry out the program of construction of wholesale markets is an important first step in developing the marketing system necessary to more rapid development in agriculture.

Important efforts have been made toward creating a more viable basis for the improvement of the market structure by USAID inputs, including, (1) the MSU study which provided important data and

trained a nucleus of marketing economists and specialists in SUDENE, (2) the provison of a USDA specialist in agricultural marketing who helped in the analysis of NE marketing problems, and (3) the initiation of the marketing news service as a service of the Ministry of Agriculture. The proposed loan will serve the important purpose of providing necessary resources to (1) accelerate the implantation of the market centers in the North and Northeast, (2) continue and expand the institution building work in the Market News Service Program which is an indispensable part of the total market system, and (3) provide important technical assistance and training to GEMAB in marketing and grading, wholesale market operation, and in developing programs at both the production and retail sides of the market.

Given the overall GOB policy and program performance in agriculture, over the past four years, this loan will prove to be effective support of both an important institutional improvement in the "market" and other programs and policies initiated by the GOB.

C. Background

1. Origin of Program

As in most of Latin America, the wholesale marketing of fruits, vegetables and other perishable food products in the large urban centers of Brazil has been through traditional, antiquated public markets. Cereals and other staples are also handled at such markets and also through wholesalers owning or renting their own store rooms or warehouses. Sales from the interior directly to retail self-service outlets has begun only recently.

Interest in modernizing the wholesale system first became evident in the Northeast with the establishment of SUDENE in 1959. A French consulting firm was contracted to make studies and prepare plans for central wholesale markets for the three largest Northeast capitals - Recife, Fortaleza and Salvador. In order to execute the plans and operate these markets, SUDENE formed a subsidiary company CANESA (Central de Abastecimento do Nordeste, S.A.).

During this same period the State Government of São Paulo created CEASA (Centro Estadual de Abastecimento S.A.) in 1960 giving it the broad range responsibility of solving the state supply problems of fruits, vegetables, and fish as well as constructing and operating a modern wholesale center for these products to serve greater São Paulo.

Partly because of economic problems confronting Brazil during the first half of the 1960s, and partly because of lack of experience with modern wholesale structure design, the initial accomplishments of CANESA and CEASA were disappointing.

In the Northeast the construction of the Recife market, CARE, began in early 1962. However, because of the lack of financing and because of disagreement over the adequacy of the French market plans, there were serious delays in execution of the market. Over a period of several years the design problems were solved and construction proceeded on a piecemeal basis when budgetary assistance was available. Finally, with 30% of the planned facility constructed, CARE opened for business in February 1968.

Although CEASA was organized in 1960 it suffered through growing pains comparable to that of CANESA. However, it succeeded in carrying out its entire construction plan and the market was opened in 1966. It is the most advanced wholesale facility in Latin America both in terms of its structure and operating policies. Its success has been largely responsible for the interest of other state governments in modernizing their own wholesale infrastructure.

2. The Role of AID

USAID/Brazil's role in food marketing has been quite significant in terms of technical assistance, especially in the Northeast. Such an approach was logical as the lack of expertise on the Brazilian side prohibited any effective capital assistance.

From August 1966 to August 1968, the USAID's Northeast office provided SUDENE the services of Mr. Roy Bradenburg, a USDA marketing specialist in wholesale facilities. He was instrumental in assisting SUDENE revise the Recife market plan and in establishing the rules and regulations for the market. In addition, he offered valuable advice to the state governments of Bahia and Ceará in planning their wholesale facilities. Partially because of his efforts, the North/Northeast is as far advanced as the more developed areas of Brazil in planning modern market facilities.

A second USDA technician, Mr. Lance Hooks, worked with the GOB for four years in establishing a market news service program. In connection with this program the USAID sent a number of Brazilian technicians for training in the US, and provided telex equipment. The service is under the jurisdiction of the GOB Ministry of Agriculture which works in cooperation with the state secretariats of agriculture. The program started in three states (São Paulo, Minas Gerais and Guanabara) but has been expanded to the Northeast to include Pernambuco and should begin to operate soon in Bahia and Ceará.

In 1966 AID contracted Michigan State University (MSU) to study and make recommendations for improving food marketing for the Recife foodshed. The study was conducted by a joint task force composed of technicians from SUDENE and staff members of MSU. The study

recommended an integrated program including the completion of the Recife wholesale market, an improved marketing news service program, loans to accelerate the expansion of self-service retail outlets, especially supermarket chains, the improvement of the public retail fairs and marketing credits for producers of staple items in selected zones of high productivity potential.

The MSU report was published in 1969 and formed the basis of our initial review for a possible loan. After considerable field investigation we prepared an IRR which was approved by AID/W in December 1969 (see Annex V, Exhibit A for AID/W comments). During the same period we also contracted MONTOR, a Brazilian consulting firm, to assist in the data gathering and analysis necessary to lay the groundwork for a possible capital assistance loan for food marketing in the Northeast. That study has been completed and its recommendations were considered in formulating the loan proposal.

3. GOB Priorities

Both the national planning organ - IPEA - and the Northeast planning organ - SUDENE - have accorded a high priority to improving the food distribution system. Brazil's Strategic Development Program (1968-70) gives special emphasis to wholesale market construction in major urban centers pursuant to the guidelines already described in Section I A 1. (See Annex V, Exhibit B, for relevant excerpts from Strategic Program). This is also consistent with SUDENE's fourth master plan which proposes new market facilities for all the capitals of the Northeast.

To avoid some of the delays encountered in implementing the São Paulo and Recife markets, the national government is centralizing administration of the program and will offer special technical and financial assistance to the state and municipal authorities. Concrete arrangements for implementing the program commenced 12 months ago with the establishment of GEMAB. Since that time several presidential and Ministerial decrees have been issued setting out the responsibilities of the GOB agencies charged with administering the program. (See Annex V, Exhibits D, E, F, G, I-1. Exhibit I-2, is the agreement signed September 12, 1970, by BNDE and COBAL, outlining the obligations of those two parties in the execution of the Agriculture Marketing Program). These responsibilities are described under Section II - Executing Agencies.

D. Justification

1. The Existing Situation

As in most economic sectors of the North and Northeast regions of Brazil, the vicious circle of poverty, poor education, limited innovation and application of technology, and limited investment makes it very difficult to introduce modernizing changes into the

existing traditional structure of food production and distribution. With the exception of sugar and cattle, most of the production of foodstuffs in these regions is carried out on small land units with little use of modern inputs. And, although agricultural production has increased at an average annual rate of 4% over the past decade, such increases have come from cultivation of more land units rather than increased productivity on existing farm land, and have been inadequate to meet growing demands. With virtually no economic power, farmers sell their products at low prices, generally after having carried them manually or on pack mules to local assembly markets, the first of a series of intermediaries who themselves are mostly small operators. Produce leaving the region for the large centers is then sold to truckers who deliver it at the urban markets.

Most of the produce reaching the large urban centers enters either the large public wholesale markets or, in the case of some cereals and staple items, warehouses of private wholesalers.

The markets operate through tens or hundreds of wholesalers (or wholesaler/retailers) who rent stalls or boxes from which they purchase and sell produce (compartment wholesalers). Storage areas are generally highly unsanitary with poor ventilation and a high incidence of insect infestation. The majority of the produce is comprised of perishable fruits and vegetables which, because of the conditions stated above, must be turned over quickly to reduce deterioration and spoilage. The operating scale of the majority of the stall operators is quite limited and this, combined with high spoilage rates, makes selling margins quite high.

The loss of product due to spoilage reduces the already inadequate food supply in the Northeast. A large part of the high costs of marketing, due to the spoilage and other inefficiencies in the marketing system must be born by either or both the producers and consumers. To the extent these costs are transmitted to the producer, his income and thus his ability and his incentive to invest and produce more are decreased. To the extent that they are transmitted to the consumers, their income is decreased. Given the fact that the Recife population, which has the highest per capita income in the Northeast, has an average daily per capita intake of only 2,500 calories per day, the effect on the lower income groups must be a decrease in quality and quantity of food consumed.

As the markets were designed many years ago, they are much too small to serve urban populations of the Northeast which, in most cases, grow at a rate of between 4% and 7% a year. And, as practically all of the markets were located in the central commercial areas of the cities, there is no room available for expansion except around the exterior walls of the market and out on to the surrounding streets. As a result of these conditions vehicles are tied up for long periods as they attempt to load

and unload produce. During rainy periods this situation is made all the worse as unpaved areas turn to mud.

Conditions at the private warehouses, which concentrate on cereals and staple items, are better but problems such as small scale operations with few possibilities for expansion, antiquated facilities, street congestion due to centralized location, and poor physical handling of products also result in sales at high margins.

This already fragmented, small-scale, highly inefficient systems of production and distribution of food products continues at the retail level. All but a small portion of fruits and vegetables, and most cereals, are distributed through permanent public markets and temporary street fairs. With characteristics similar to those of the compartment wholesalers, these scores of small retailers operate from individual stalls and handle limited volumes of perishable and cereal products. These retailers purchase in small lots from wholesalers either in a separate area of the same market, or more likely, in a centrally located wholesale market.

In addition, there are the small neighborhood stores which handle mostly beverages and dry goods but, because of small scale operations, must sell at high margins to assure a subsistence income. The modernization process, as represented by small self-service stores and supermarkets, is beginning to make a real impact, especially in Recife and Salvador, and such stores now account for some 15% to 20% of retail food sales. The competition between two powerful chains in Recife has had a definite impact in reducing sales margins thus benefiting the consumer.

Complicating the situation described above, is the still rudimentary transport network found in interior areas of Brazil. Rural roads are generally in poor condition throughout the North and Northeast and impede the flow of produce from production areas to the urban centers.

2. Alternative Approaches

The above description of the present situation attempted to briefly describe the nature of the food problem in the North and Northeast. There are obviously many problems which must be resolved in both production and marketing in the Northeast. On the production side, credit, and capital and technical investment is needed on the production units, and more infrastructure investment in roads and storage is needed in the rural areas. On the marketing side, there are investment requirements not only for wholesale marketing but also both producer cooperatives and at retail level. As for production, increased efforts are being made to increase productivity through credit programs, fertilizer programs, agricultural research. In the Northeast, the BNB (Bank of Northeast) is negotiating a $30 million agricultural loan with the World Bank and USAID/Recife is beginning work on a commodity in-depth approach in cooperation with SUDENE.

It is the judgment of the GOB, and we share this judgment, that the conditions are ripe for making a concerted effort to attack the principal marketing bottlenecks even though much has to be done to solve the principal production problems. It is believed, however, that improvements in the marketing channel will have backward linkage effects which will directly benefit the producer and provide him substantial incentives to increase his production.

The MSU/SUDENE study pointed out that it was possible to improve the distribution system by entering at one or a combination of points in the channel between producer and consumer. Modernization efforts could be made at the producer, wholesaler, and/or retailer level. The IRR submitted to AID/W in December, 1969, did propose, in fact, an integrated package which included not only financing for wholesale markets but also credit to accelerate the expansion of (1) privately operated supermarkets and smaller self-service stores and (2) privately operated rural marketing organizations. We are still of the opinion that improvements are needed at all levels of the distribution channel but, except for technical assistance, are responding to the immediate desires of the GOB to satisfy the demands of most of the states to improve their public wholesale facilities. In addition, the Brazilians are much better prepared to enter at this point of the channel based upon their previous experience, their technical capabilities, the results of market studies and their arrangements to administer the program.

Our intensive review of the loan proposal led us to the conclusion that, in the North and Northeast, a great deal of planning and promotion are yet necessary before any capital assistance effort should be undertaken to improve the retail structure or to improve rural marketing organizations. On the other hand, the planning and promotion of a wholesale market program is sufficiently advanced to justify capital assistance.

At the retail level, supermarket expansion in Recife is proceeding spontaneously at a much quicker pace than the MSU team thought possible without special credit incentives. Because such expansion in Recife is, for the most part, through two strong chains, and because expansion in Salvador and Fortaleza is through one chain, public officials are becoming concerned not only that some of the smaller grocers and public fair operators will be put out of business but, in the latter cases, that monopoly pricing patterns can develop. As a counter measure, SUDENE is discussing ways to strengthen these groups through voluntary associations of small grocers and improved public fair facilities. Concrete proposals were made in the MONTOR study and these are being reviewed by the BNB and SUDENE.

With regard to rural marketing organizations, there is widespread agreement that producer marketing cooperatives should be established and financed so that the smaller producer can market his produce more directly and receive a higher, more stable price. Both SUDENE and the Pernambuco state extension service are mapping plans to promote marketing cooperatives. In addition, the Central Cooperative Federation is renting space at the Recife market and is encouraging member cooperatives to utilize the available facilities.

Although we are not recommending capital assistance at this time to improve the retail structure or promote rural marketing organizations, we have informed the GOB - GEMAB, SUDENE, BNB - that we would respond to GOB priorities in these areas when specific proposals are formulated and presented to us.

With respect to the difficulties in transporting produce from production areas to urban consumption centers, road networks throughout the interior of Brazil have been the object of planning studies for the past several years. The MSU study recommended that financing be provided for rural road (third class and below) construction to support capital investments in wholesale markets. In considering this loan for market financing, USAID recognized the importance of transportation improvements but decided not to include road financing in the same project with market financing. Although complementary in economic terms, USAID considers the two areas of investment sufficiently distinct to warrant consideration as individual projects. As a consequence, a "rural roads" loan proposal amounting to approximately $25 million has been prepared by USAID for inclusion in the FY-71 AID program. If approved, this financing would be passed through the rural roads financing program already underway at the BNDE to the states to finance the construction and improvement of rural roads in priority agricultural production areas.

3. Place of Project in USAID Program

The proposed AID loan is closely tied to two USAID priorities for assistance in Brazil: the Northeast and agriculture.

The Northeast continues to be a priority region for both the GOB and the US. The Country Field Submission (CFS) for FY 1971 points out that "further expansion of Brazil's regional effort is needed to enable the region to narrow and gradually overcome its serious development gap".

With regard to our priority in agriculture, the CFS states as follows: "There has been grossly inadequate progress in agricultural modernization to raise the level of living and the participation in development of this large majority of the population living at below the poverty line". With particular regard to the marketing bottleneck the CFS goes on to state that: "As urbanization continues and production gets further from the market, the serious marketing bottlenecks already in evidence will begin to exert irressistible pressures on costs and prices. Thus, traditional marketing patterns need to be superseded by more efficient methods". The proposed loan is directly related to the necessity of modernizing the wholesale channel. Section IV, Economic Analysis, shows that this modernization will bring significant economic and social returns in the North and Northeast.

SECTION II - EXECUTING AGENCIES

The principal executing agencies would be GEMAB (Executive Group for the Modernization of Food Supply), COBAL (Brazilian Food Supply Company) and BNDE (National Economic Development Bank). Supporting roles would be played by SUDAM and SUDENE, the development superintendencies for the North and Northeast.

A. GEMAB

To promote and implement the recommendations of the food distribution section of the GOB's Strategic Development Program (1968-70), GEMAB was created by Presidential Decree on 26 November 1969 (see Annex V, Exhibit D for text of decree). The key to GEMAB's role is contained in Article I which states that its functions are to "study, propose and, when in its competence, adopt all acts necessary for implementation of the program of construction of central and terminal markets, and take other means necessary for the modernization of the food supply system". GEMAB is presided over by the Minister of Agriculture and has as members one representative each from the Ministries of Agriculture, Finance, Industry and Commerce, Planning and the National Confederation of Commerce. The Ministry of Planning acts as the Executive Secretary. The representative of the Ministry of Agriculture is the President of COBAL, an entity of that Ministry, and he serves as vice-president of GEMAB. Furthermore, as GEMAB offices are located within COBAL and is provided with technical staff from COBAL, the influence of the latter over GEMAB is substantial.

The specific functions and duties of GEMAB are set out in two Ministerial Decrees published 13 January 1970 and 13 March 1970. (See Annex V, Exhibits E and F for texts of decrees). However, the most significant of these duties are summarized as follows:

1. Coordinate the construction program of wholesale centers and terminal markets;

2. Approve the feasibility studies for construction or expansion of wholesale centers and terminal markets;

3. Recommend to COBAL and the BNDE the concession of financial participation in any market;

4. Recommend the means necessary to implement the construction of wholesale centers and terminal markets in the principal urban centers in accordance with the priority established by the Government Program;

5. Study and coordinate the complementary means necessary to execute the program with respect to grading and standards of animal and vegetable food products, of market news service and installation of supermarkets and self-service stores;

6. Prepare studies and projects necessary to obtain internal and external financial resources for the national program of modernization of the distribution system;

7. Technically orient the States and Municipalities in the preparation of engineering and economic studies for wholesale centers and terminal markets;

8. Stimulate the realization of studies and research leading toward the modernization of the distribution system and train technicians in marketing;

9. Cooperate with COBAL in the realization of its objectives;

10. Suggest the adoption of other means necessary for the modernization of the distribution system.

In carrying out its functions GEMAB is closely coordinating its priorities with FINEP, the GOB feasibility financing fund,in order that the latter approve requests from state governments, or if already established the mixed companies, for financing of feasibility studies for wholesale markets. Once a feasibility study is completed it forms part of the application for construction financing which must be approved by both GEMAB and the BNDE. These organizations have formed a joint committee to expedite the review of loan applications.

B. COBAL

COBAL, which was established in 1962, is a public company under the jurisdiction of the Ministry of Agriculture. Its principal functions, as stated in its statute, are to (1) "participate in the execution of plans and programs for food supply elaborated by the Government relating to the production, industrialization and distribution of food products... and (2) act as a market regulating element in essential products or products in short supply or serve as a supplemental source in areas not sufficiently attended to by private enterprise".

Until its role in the wholesale market program was defined upon the creation of GEMAB, COBAL's principal activities were related to its role as a regulating agent of staple food products. Until 1967 it acted

almost exclusively as a food wholesaler. In that year it took over some 600 public retail outlets upon the dissolution of another government company (SAPS) and now serves as both a wholesaler and retailer of food products.

In view of its participation in GEMAB, COBAL will play an important role in the wholesale market program. In addition to assisting GEMAB carry out its duties, as previously described, COBAL will own up to 30% of the shares of each market and name the financial director in each. This financial director is named when a project is approved for financing and monitors the development of the market during the construction phase as well as the succeeding operating period until BNDE financing is amortized. The person picked for this position by COBAL is usually a local businessman nominated by the state with prior experience in food market management or related experience. (See Annex V, Exhinit G, for Presidential Decree concerning COBAL's financial participation in the markets).

A review of COBAL's operating statements for 1968 and 1969 indicate that it is capably performing its assigned duties. It has shown a slight operating profit during both years reviewed and its liquidity position is strong (a strong 4 to 1 ratio of short-term assets to short-term liabilities). The size of its operation is indicated by its total assets of some Cr$2[illegible] million (approximately US$55 million). A more detailed financial analysis of COBAL is not presented herein as its principal duties in the wholesale market program will be planning and implementation functions as part of GEMAB and its ownership role in each of the markets which will be financed separate from its present operations (loan financing from BNDE and repayment through the budget of the Ministry of Agriculture). Of primary importance for the program under consideration is the competence of its staff in carrying out its assigned duties.

Based on our close contact with COBAL and GEMAB during intensive review we are of the opinion that their staffs are qualified to perform their assigned duties under this program. The new President of COBAL (also Vice President of GEMAB as previously explained) is Dr. Rubens Albuquerque who had been manager of the highly successful CEASA market in São Paulo. He represents probably the greatest source of experience and knowledge in Brazil on wholesale market operations. With such knowledge he has recuited a competent technical staff. (See Annex V, Exhibits I,Lorganizational chart for COBAL).

C. BNDE

The BNDE will serve as the financial agent of the program and, in this role, provide long term financing for the construction and equipping of the markets.

The BNDE will also serve as the administrative and monitoring agency for the construction of the projects.

By virtue of its organization which provides capacity for monitoring projects, and successful history of operations, USAID/Rio is of the opinion that the BNDE is qualified to properly and succesafully carry out its responsibilities, hereinabove described.

The BNDE was established in June 1952 (Law 1628) as a public corporation under the Ministry of Finance. It was empowered to act, whenever necessary, as the agent of the National Treasury, in any financial operation for the modernization and development of the national economy. By Presidential Decree No. 200 of February 1967, the BNDE maintained its status as a public corporation but was placed under the Ministry of Planning.

1. Resources

The resources made available to the BNDE since its inception in 1952 have come largely from special federal revenues or federal budget support. The initial capitalization of the BNDE in 1952 came from an income tax surcharge and certain compulsory deposits from federal savings, banks, insurance and trust companies and a percentage of the annual resources of social security agencies. In 1956, the compulsory deposit for social security revenues was abolished. Starting in 1965, the GOB replaced the tax surcharge with 20% of the total receipts from the collection of federal income tax. In 1967 this budget allocation was reduced to 10% of the income tax payments and the BNDE received a new source of income arising from the Financial Operations Tax which the bank continues to receive. The set percentage of federal income tax receipts allocated to the BNDE was eliminated in 1968 and the bank now receives federal budget support on the basis of the Bank's annual investment budget approved by the Ministry of Planning.

2. Operations

The BNDE, acting as the GOB's major development-lending institution, is responsible for channeling federal resources made available to the bank into the economic sectors accorded priority by the GOB and for stimulating additional investment in these sectors by affording investment guarantees to investors. In 1969 direct assistance by the bank to borrowers in the form of long term loans totalled the equivalent of US$310,067,000 and collateral guarantees provided by the Bank in 1969 totalled US$111,821,000. The direct financial assistance provided by the BNDE, as well as the total amount of guarantees extended by the bank from 1960 to 1969 are shown in Annex V, Exhibit K4.

The primary responsibilities of the BNDE, as delineated in its enabling legislation (Law 1628/52) as amplified in 1956 (Law 2937/56), were to provide loan financing for purposes of "Reequipment" (modernization and expansion) and other specific development activities. Listed in order of their overall priorities, these were:

1. reequipment and expansion of harbor and other transport facilities;

2. construction and expansion of the electrical power system;

3. installation and expansion of basic industries;

4. construction and expansion of warehouses, silos, meat packing plants and slaughter-houses;

5. development of agricultural and rural electrification, and

6. other sectors of infrastructure development.

In the first years of operation, the BNDE concentrated its limited resources in the fields of railroad transportation and electrical power. In the late 50's, as the bank expanded into new fields, the emphasis shifted from transport investments to investments in heavy industries, such as steel, and medium-sized manufacturing enterprises, such as chemicals, electronics, paper and textiles. From 1967 through 1969, the BNDE placed greater emphasis on the financing of transport, telecommunications and agriculture. Loans in the agriculture sector increased from 2 1/2% of total BNDE lending in 1967 to slightly over 6% in 1969. Thus, agriculture represents only a small part of BNDE lending.

Allocation of BNDE Cruzeiros Financing
1967-69 (in Cr$1,000)
Source: BNDE

Sector	1967(Cr$1967)	1968(Cr$1968)	1969(Cr$1969)
Electric Power	183,700	88,563	40,848
Transport	1,944	265,291	263,302
Telecommunications	-	56,000	99,500
Mining	-	18,794	4,000
Steel	272,954	57,038	137,000
Other Manufacturing	231,908	405,704	644,225
Agriculture	18,444	45,122	82,500
Education and Research	43,737	31,416	47,637
All other	-	22,461	29,783
Total	752,687	990,389	1,348,795

3. Financial Position

(See Financial Analysis, Section V D).

4. Organization

The administration of the Bank consists of the Administrative Council and the Board of Directors. The Administrative Council is composed of six members and the President of the Bank who is chairman. The Administrative Council establishes the general policy guidelines to be followed by the Board of Director and makes decisions on all questions pertaining to the Bank's internal regulations. The Board of Directors consists of six members, namely, the President of the Bank, the Director Superintendent and four Directors. The primary function of the Board of Directors is that of executive management of the Bank.

The BNDE has established seven organizational division within the Bank: Administrative, Economic, Financial, Legal, Resources Special Operations (concerned with the Special Funds) and Operations.

(See Annex V, Exhibit K-5 for organizational chart of Bank).

Based on (1) USAID's visits to BNDE's offices and discussions with BNDE's economists, engineers and accountants (2) our review of BNDE's procedures for managing this project, (3) knowledge of its portfolio containing large projects in all sectors of the economy (4) BNDE's generally good reputation with AID and other international lending agencies, USAID has concluded that BNDE has the capacity to satisfactorily carry out these procedures for monitoring this loan.

D. SUDENE and SUDAM

To decentralize and, at the same time, elicit development planning more consistent with local conditions, the GOB has divided Brazil into four regions and created a development agency for each. The first created, and the most important in responsibility, was SUDENE. It is responsible for the Northeast states including Maranhão, Piauí, Ceará, Rio Grande do Norte, Paraíba, Pernambuco, Alagoas, Sergipe, Bahia and a portion of NE Minas Gerais. SUDAM is the agency responsible for the North which includes the states of Amazonas, Pará, and Maranhão (northern portion) and the territories of Amapá and Roraima.

Under the proposed loan these agencies will, in some cases, be called upon to assist the states elaborate wholesale market projects and identify the technical assistance and training needs of the wholesale centers. They will also advise GEMAB concerning additional programs needed to improve food distribution in these regions.

E. The Mixed Companies

The markets to be constructed under the program will be owned and operated by mixed private/public companies (emprêsas de economia mixta). A mixed company is operated under the commercial code as if a private corporation. Its principal purpose is to avoid complicated government regulations prohibiting transfer of personnel and wage increases. At the outset such companies will issue a nominal share to an individual to qualify it for "mixed company" status, with the balance in control of the state and municipal governments and COBAL.

The markets will be administered by a Directorship composed of four members: The President, the Financial Director, the Technical Director and the Administrative Director. Each will have the staff necessary to carry out its duties. As previously mentioned COBAL will name the Financial Director in most, if not all, the markets constructed under the program. The general duties of each of the Directors are described below.

1. Financial Director

In addition to the usual controller functions, described below, the Financial Director will be the President's deputy and all documents evidencing the company's commitments will be signed by him. As a federal appointee, he will be able to act independently of any local pressures and influences, since he will be functionally responsible to COBAL. His other duties are as follows:

a. Orient and direct the financial administration and the accounting of the Company;

b. Keep records of the property and equipment of the Company;

c. Organize the financial report and prepare the annual balance sheet;

d. Control the execution of construction in accordance with the financial chronogram;

e. Present to the Directorship at the end of every year the annual budget of the Company for the following year, using as a base the plan of activities elaborated by the Directors.

2. Technical Director

a. Promote and present to the Directorship technical-economic studies to support and provide incentives to the producer and intermediary and protect the consumer;

b. Promote the study and regulation of the functioning of markets and specialized installations of the Company;

c. Plan and supervise the programs of execution of the works and expansion and the installation of equipment pertaining to the company;

d. Supervise the utilization of the installations belonging to the Company;

e. Supervise the maintenance services of the installations and equipment;

f. Present to the Directorship at the end of each year the work plan of the Company.

3. Administrative Director

a. Serve as secretary of the meetings of the Directorship and draft the respective acts;

b. Direct the business and the work of the secretariat;

c. Take responsibility of all the documents and books of the secretariat of the Company;

d. Sign the books of the Company;

e. Orient and supervise the personnel policy of the Company;

f. Orient and supervise the cadastral service;

g. Propose to the Directorship the service contracts for restaurants, luncheonettes, vehicle maintenance facilities, stores and packaging;

h. Supervise the general services of safety, cleaning, prevention of accidents and fire safety.

With the assistance of COBAL, GEMAB has developed a set of general management guidelines for the mixed companies which will own and operate the markets. These guidelines are in the form of recommended bylaws to be adopted by the companies and are intended to insure that appropriate control will be exerted in certain areas where problems are likely to occur. (Annex V, Exhibit L , sets out the recommended bylaws.)

SECTION III - ENGINEERING AND TECHNICAL FEASIBILITY

This section reviews the plans to date for the markets, the procedures to be followed in planning and constructing the markets, and the technical assistance and training activities, including the market news service program and the produce grading and classification program.

A. Prototype Plans for the Markets

The dimensions and special characteristics of the wholesale markets will vary depending on the amounts and types of produce which will be flowing through them. Large wholesale centers will be located within or adjacent to cities with populations greater than 500,000. Thus in the North/Northeast, such centers will be constructed in Salvador, Recife, Fortaleza and Belém. These markets will be largely devoted to wholesale operations with very limited areas and/or time periods reserved for retail selling. In addition to serving the urban areas where they are constructed, the large centers will be utilized as collection and transfer points for produce flowing to surrounding interior towns. Small wholesale markets will be constructed in cities with populations between 170,000 and 500,000. The prototype plans further break these markets down between urban populations of 170,000 to 240,000 and 240,000 to 500,000. These markets will devote a larger portion of their areas to retail selling - as much as 40% in some cases. As explained below, because of their smaller size they will offer fewer services than the large centers. Assembly markets are specialized centers located in producing areas and will provide processing services to producers and producer organizations. In these markets generally two or three different products would be processed and stored, provided they utilize similar processing and storing techniques. For example, corn, rice, beans and mandioc flour, would be weighed, graded, cleaned, packaged, fumigated, and stored in accordance with the most recent techniques.

The following discussion of outline of facilities, description of prototypes and cost factors are based on the analysis presented in the MONTOR report, construction costs were subsequently subjected to an independent but parallel cost analysis by USAID to check their validity. (See paragraph 4 below.) Those calculations were, in turn, based upon existing feasibility studies and discussions with GOB officials concerning the purpose of the markets and basic design factors. Except for the reduced priority for cereal products, explained below, the prototype analysis represents the most current thinking of the GOB with respect to the types of markets to be constructed.

1. Outline of Facilities -

Experience in the design and operation of wholesale and combined wholesale/retail markets, has demonstrated that there is a set of facilities best suited to serve the market users whether they are producers, wholesalers or consumers. Because the design of this set of facilities will vary depending on such factors as the region, the products, the consumer habits, the market users and the desires of the owners and administrators of the markets, the prototypes present only broad characteristics and criteria that apply to the planning and construction of the markets. These prototypes are not a substitute for the detailed project that must be prepared for each new market, but do represent general guidelines for the more specific studies and plans. Examples of facilities to be included in the various types of market follow. (Annex V, Exhibit M, contains prototype blueprints of the various types of markets to be constructed under the program.)

Large Wholesale Center

Fruit and Vegetables Market -

Producers' Stalls
Fruit and Vegetables Wholesale Warehouse
Fruit and Vegetables Collective Warehouse

Cereals Market -

Cereals and Dry Goods Wholesale Warehouse
Cereals and Dry Goods Collective Warehouse
Silos

Meat Market -

Poultry and Eggs Market -

Service Market -

Platform for truck sales
Classification center
Freezer and refrigeration facilities
Ice Making cutting and distributing machines
Technical block
Communications
Telegraph and post office
Bank agencies
Exchange for transportation

Main offices of cooperatives
Main offices of other firms
Services - Snack bar
Restaurant
Barber shop
Magazine stands

Rest rooms
Supermarket
Gas, washing and lubrification station
Maintenance shops
Indoor bus stop
Taxi stops
Parking - for light vehicles
for heavy vehicles
for loading and unloading

Administrative area

Entrance building and scale
Administration building
Maintenance
Warehouse and Garage

Commercial area -

Miscellaneous stores
Conference rooms
Agriculture materials stands

Small Wholesale Centers

Fruit and Vegetables Market (in modulated warehouses)
Cereals Market (in modulated warehouses)
Animal Origin Product Market (in modulated warehouses)
Service Market
Freezer and Refrigeration Facilities
Telegraph and Post Office
Services - Snack bar
Barber shop
Rest rooms
Administrative Area
Commercial Area
Rooms and stores
Parking - for light vehicles
for heavy vehicles
for loading and unloading

Assembly Centers

Reception and Forwarding Area
Product Processing Area
  cleaning
  classification
  packaging
  fumigation
Storage Area
Administrative Area
Outside Parking

2. Description of Prototypes

With regard to the large and small urban wholesale markets, the distribution of market area among the four general categories of activities is as follows:

	Large Center %	Small Center %
Fruits and Vegetables	30	29
Cereals and Dry Goods	40	36
Products of animal origin	10	10
Administrative services and non-food trade	20	25
TOTAL	100%	100%

It should be noted that, although the above table and the prototype blueprints show larger amounts of space for cereals than for perishible produce, GEMAB has recently decided that top priority will be given to perishible items and that space devoted to cereals will, at least initially, be cut back sharply. It is felt that many of the existing urban wholesale facilities for cereal products are adequate for the time being and that more attention should be given to improve the utilization of cereal storage facilities in the interior before concentrating on urban wholesale modernization. On the other hand, fruits, vegetables and eggs are not stored prior to their transfer to urban consumption points, and existing wholesale facilities for them are largely primitive. For these reasons it is believed that scarce development resources should be used to improve the most critical marketing problem - wholesale market facilities for perishible food products.

In São Paulo the CEASA warehouse is divided into a larger number of product groups than is feasible in the Northeast cities. For example, there are individual warehouses for eggs, coconuts, potatoes, onions, bananas, etc. In the North/Northeast, warehouses will house a number of products because firms are smaller and not as specialized.

The difference between the large and small markets is most significant when the area distribution is considered by marketing function:

	Large Center %	Small Center %
Retailing	10	40
Wholesaling	70	35
Administration, service and trade	20	25
TOTAL	100%	100%

In order to determine the area required in each market type for the general product categories, it is necessary to make estimates of total consumption of each product and the percentage which will flow through the market. The feasibility study for each market makes its recommendations for space requirements based upon such calculations. Based on our review of five of the completed studies, we are satisfied that their estimates are realistic and note that full capacity of both the CEASA and CARE markets were reached considerably in advance of projections.

Assembly Markets are to be located in producing areas and have the specialized function of product processing. In addition to these processing services the assembly markets would provide more adequate storage and loading facilities than now exist in these interior towns. Also these markets would serve as points for the collection and distribution of market information through radio links with the three major wholesale markets.

3. Land Acquisition

In general in the past sites for market centers have been "donated" by the state or local government.

In conversations with the GOB it has been established that this procedure will continue. Thus the land value becomes part of the state or local government's equity in the project.

4. Cost Factors

Annex V, Exhibit C presents data on cost estimates. This table was taken from the Montor Report and originally reflected costs per squate meter of constructed area for the various sectors of the Salvador project. A subsequent parallel cost analysis was made, based on actual and estimated costs for the CARE project in Recife, and also on general building construction costs in the Northeast reflecting conditions as of August 1970, with allowances made for probable escalation due to inflation. This latter analysis has provided sufficient substantiation for the assumption that the Montor costs are valid for present estimating purposes for both large and small market centers in the North and Northeast.

These costs per square meter vary as a function of the simplicity of the type of construction. For example, the stalls for fruits and vegetable products are the least costly because they do not have walls or partitions and the floor is at street level. The structures for cereals and dry goods call for greater height, loading and unloading platforms, fumigation chambers, fire extinguisher systems and other fixtures that increase the cost of this type of structure. Savings will result in each project to the extent that installations for cereals are cut back. The most expensive structures are those that house industrial operations, such as refrigeration, ice-making, product classification and packaging. (In Exhibit C these industrial operations are included under "Animal Origin Products"). The following compares the percentage of market area and the percentage of market cost:

	Area %	Cost %
Fruit and Vegetables	30	14
Cereals and Dry Goods	36	34
Industrial Operations	5	22
Administration, Services & Trade	29	30
TOTAL	100%	100%

With regard to the total area of the facilities, the following presents a general breakdown of costs on a percentage basis and is applicable to both the large and small centers:

Land (acquisition and preparation)	10%
Civil Construction and Outside Pavement	56%
Equipment and Installations	18%
Miscellaneous Expenses and Contingencies	16%
	100%

It should be noted that the cost estimates in Table 1 will be overestimated to the extent that cereal areas are cut from each of the markets approved for construction. Thus, the average cost of the large centers will be in the area of US$5-7 million, depending on the size of the city, and the small centers between US$2.0-$3.5 million, and assembly markets $0.5 million.

Assembly Market dimensions are a function of the following items:

a) the kind of product predominant in the region;
b) the volume of production during the harvest;
c) the kinds and volume of secondary products;
d) the percentage of volume held in reserve storage;

The estimate of Assembly Market costs is based on the cost per square meter of the cereals and dry goods sector of the wholesale markets as shown in Exhibit C.

B. Procedures for Planning and Construction of Markets

To evaluate projects submitted for financing, the BNDE normally sets up a work group composed of an engineer, a lawyer, an accountant and an economist. In the case of the wholesale market program, projects must be approved by both the BNDE and GEMAB. Thus, to expedite the review process and avoid duplication, a joint review team has been established consisting of BNDE representatives (an engineer and a lawyer) and GEMAB staff members (an agronomist, an economist and an accountant).

All market plans presented must include an economic/technical feasibility study. The review of a loan application includes an analysis of the study, the arrangements for ownership and administration of the market, the financial arrangements to complement the proposed loan and the source of funds to repay the loan. In addition, there is an inspection of the site to evaluate location, accessibility, and terrain, and the construction plans are examined and evaluated as regards layout and type of construction. Estimated construction costs are reviewed and the schedules for construction and disbursement are reviewed.

GEMAB and the BNDE, using general design guidelines and /or market construction standards may recommend changes in the design to assure the maximum functional use of the facility for the least cost. Once the project is approved for financing, the mixed company established to construct and operate the market will prepare final plans, specifications, cost estimates and construction schedules for the facilities. These will usually be prepared by or with the assistance of an architect-engineering firm approved by GEMAB/BNDE, or, if the mixed company or State Government has the necessary qualified, full-time engineering staff, by such staff.

Prior to inviting bids for construction, the bid package is to be reviewed and approved by the BNDE/GEMAB project committee. After approval, the mixed company will solicit bids, conduct public bid openings, make bid evaluations, and select a qualified responsible bidder on the basis of the lowest reasonable cost. Firms ruled not qualified due to lack of experience, staff, or poor past performance are to have their bids returned unopened. The bid evaluation must be approved by the BNDE prior to contract signing.

The mixed companies will have the responsibility for providing a qualified Resident Engineer, acceptable to BNDE and USAID, from their staff, or from their Consultant Firm for the day-to-day inspection of construction to insure that the contractor complies with the final plans, specifications and directives of the Resident Engineer.

The following major items are among those that require inspection and approval by the Resident Engineer. He will advise BNDE of his proposed inspection of these specific items as early as possible, but no later than 24 hours before the inspection take place. (Should BNDE elect not to participate in the inspection, the work will proceed without interruption). These major items are:

1. Excavation and foundation work prior to placement of forms, reinforcement and concrete;

2. All major concrete work following form removal and prior to back-filling, plastering, or painting.

3. Final inspection of all masonry work, grading and drainage, and utilities, including operational tests of all utilities, facilities and power supplies.

Project Monitoring -

In addition to the controls described above, loan projects will be monitored through a review of regular progress reports to be prepared by the borrower and periodic general inspection trips by the BNDE Project Committee, in which USAID will participate jointly to the extent it considers necessary. BNDE's reporting requirements are included in loan agreements in the form of an annex and consist of monthly and quarterly reports. The monthly report is a schedule of payments made by the borrower for goods and services related to the project specifying the supplier, invoice number, date and amount paid. The monthly report will also show the amount of construction during the period in terms of percent completed, and will indicate whether the project is on schedule or otherwise. The goods and services must be adequately identified so that they can be related to the disbursement schedule submitted by the borrower prior to first disbursement. The quarterly report includes (a) an investment schedule showing amounts invested in the project during the reporting period and prior periods using the same line items as the project cost estimate, and the source of funds, (b) a physical report and (c) a narrative report commenting on the project's implementation including comments on any anticipated changes in project costs or disbursements.

General inspection visits are to be made quarterly by representatives of GEMAB, and BNDE in which USAID will participate to the extent it considers necessary. The major purpose of such site inspections is to audit the borrower's payments and to review progress. The audit consists of checking out the payments listed in the borrower's monthly reports against the actual supporting documents which, besides invoices, include supplier contracts and bills of lading where applicable. Cost overruns are also reviewed and delays in project implementation are discussed. Although these trips are scheduled quarterly, a greater number of visits may be scheduled depending on the nature of the project or if serious implementation problems are identified.

Disbursements -

The BNDE makes loan funds available to borrowers in the form of tranche advances. These are generally quarterly and the amounts are determined on the basis of the project's disbursement schedule. The timing and amount of these advances are included in the loan agreements. As a condition precedent to the first disbursement, the BNDE requires a borrower to submit a construction schedule, the estimated cost of the project, and a disbursement

schedule. Although this information was reviewed by the Bank during its loan review, the borrower's document represents a formal commitment on its part against which the actual progress and costs of the project will be measured. Since the tranche advances are related to specific steps of project implementation, a condition precedent to subsequent disbursements is that the borrower must show evidence that all funds required (BNDE loan funs, borrower's own loan funds, and other loan funds) to implement the construction stage for which the previous advance was made have been expended Such evidence includes the following:

1. Claim from the contractor stating work accomplished, units of work involved since last payment, certification of percentage of total contract completed and a certification that all material and work are in accordance with the terms of the contract;

2. A current inspection by the resident engineer stating his estimate of percentage of contract accomplished and noting any deficiencies in meeting contract plans and specifications;

3. A certification from the BNDE as to the reasonableness of the resident engineer's estimate of work accomplished and a description of any construction deficiencies noted and not corrected as of the reporting date.

The borrower is authorized to reimburse the contractors up to 90% of the certified work accomplished and financed by BNDE. Upon final acceptance by the borrower, and final inspection and certification by the BNDE, disbursement will be made for the outstanding amount of the approved contract cost.

C. Technical Assistance, Training and Equipment Needs

Up to $1 million of loan funds will be utilized to finance the technical assistance, training and equipment needs necessary to increase the operating efficiency of the North and Northeast markets to be constructed under the program. This financing will improve and expand the market news service program, establish effective product classification (grades and standards) for produce, and offer special technical expertise in wholesale market operations, retail food marketing and rural marketing problems. This portion of the program will be the responsibility of GEMAB.

1. Market News Service Program -

The purpose will be to improve and expand market news reporting in the North and Northeast. The first required communications link is between major cities and the already existing national system. Recife, Fortaleza and Salvador are already linked to the national system by telex. A link is needed with Belém and probably Manaus and other capital cities. The existing program is operated by an agency of the Ministry of Agriculture - Serviço de Informações de Mercadoria Agrícola (SIMA) - through the individual state secretariats of agriculture.

A USAID/MA/SIMA agreement provided existing telex links. In addition to linking the major cities into the national system, the entire program calls for other state capitals and major interior marketing convergence centers to be linked to the system by single-side-band radios. At locations where new wholesale markets exist or are built the SIMA operation would be physically located in these facilities but would remain under the administrative control of the Ministry of Agriculture. The implementation of the program will require, not only equipment, but especially trained technicians such as information gatherers, market news journalists and communications technicians.

Once the loan is signed two important steps would be taken to accelerate the expansion of the program in the North and Northeast: (1) the Ministry of Agriculture would plan and establish needed additional communication links (telex, radios) and systems for processing the additional marketing data and (2) the Ministry would schedule the training program for market news service technicians and recruit and select the required personnel. The design and installation phase would improve the existing system in the Northeast, lay out systems for the markets in other major population centers, and develop a system of networks connecting major centers with other state capitals and interior points.

The ultimate goal of the program would be a regional network covering approximately thirty cities and interior towns. However, the first phase would include only four to six major cities, three of which already have telex links, and some ten interior collection centers. In this phase, training would be needed for ten market news reporter-radio operators and four market information collectors. Fifteen more would be added in the second phase. The reporters-radio operators would prepare bulletins and reports on local market conditions to be broadcast to other points in the system. The information gatherers would assist these reporters in the large cities and markets where the volume of information is greatest. Some of this personnel might be drawn from the current staff of SIMA's various Northeast Offices while others would have to be recruited and hired. The required personnel would be trained under the program already established in the Rio office. Salaries of the technicians trained under the program would be financed by the loan for two years and thereafter by SIMA.

Provision would also be made to finance short-term market news specialists from the US to provide guidance to the Ministry of Agriculture for the North/Northeast portion of the program. They would work out of Ministry offices, principally those of SIMA, in Recife, Brasília, and Rio de Janeiro.

Cost Estimate for Loan Financed Market News Service Program

Consultant Market News Service Specialists	$ 64,000
Design and Installation of Market Information Service Plan	40,000
Twenty-five Reporter-Radio Operators	
training	25,000
salary for two years at $3,000 per man/year	150,000
Four Information Gatherers	
training	4,000
salary for two years at $2,000 per man/year	16,000
Single-side-band radios	
at $3,000 each	
ten to be installed in 1971	30,000
fifteen to be installed in 1972-73	45,000
five spare radio units and replacement parts	20,000
TOTAL	394,000

The improvements described above are intended to provide collection, transmission, and distribution of market information from a larger number of points and in reduced time. The goal should be to distribute information that would be only three to four hours old. For this purpose, for example, major interior convergence centers would broadcast prices of local products and other pertinent information to the major wholesale centers at about 4:00 a.m. At the same time similar price and related information would be collected in the centers themselves. Between 5:00 and 6:00 a.m. this information would be compiled in each of the large centers and printed out. By 7:00 a.m. this information would be released over the national telex system and posted or otherwise publicized in the wholesale markets and to the radio stations in interior convergence centers. Thus, at any point in the system one would be able to compare prices and conditions among the large wholesale centers and the interior production centers using information that would be highly current.

At the presenttime such exchange of information is handled by special pouch which requires several days thereby reducing the effectiveness of the program. Attainment of a tight time schedule on a consistent basis probably requires further experience by supervisors and provision of modern data processing equipment, not included in immediate plans. However, basic equipment and organization should be planned toward such objectives. Thus, the proposed program is not expected to move directly to a tight hour-by-hour schedule such as described, but moves toward that objective. It is also expected that price information will also be published in newspapers and on radio.

2. Produce Classification and Grading Program -

This activity calls for the establishment of a program of produce classification and grading initially in each of the major wholesale markets and, subsequently, in the planned interior assembly markets.

Each of the major wholesale markets will have a staff of one overall supervisor in charge of operations and training and at least five graders initially: two for fruits and vegetables, two for grains and one for poultry and eggs. CARE, the Recife market, is already in need of this grades and standards program. As the other markets will not be in operation for two years, the program would begin with the existing wholesale facilities.

The supervisors will be trained over a four month period. During the first two months they would become familiar with the official grading procedures of the Ministry of Agriculture, observe the informal procedures in use in marketing cooperatives in Southern Brazil and CEASA and would spend several weeks at the Food Technology Institute at Campinas, São Paulo. During the last two months they would be sent abroad to study grading standards, systems, practices and modern handling methods.

Upon their assignment to duty the supervisors would set up training programs for graders with the assistance of three US experts. One of these experts would be specialized in fruits and vegetables, one in poultry and one in grains. The initial training program would train graders only for the markets in the major population centers plus the smaller markets with immediate needs.

Cost Estimates for Loan Financed Product Classification Program

Special Consultants (three for two months)	$ 24,000
Four Supervisors	
training	42,000
salary for two years at $ 6,000 per man/year	48,000
Graders' Training	8,000
Equipment (for cleaning and classification at $15,000 for each major market)	60,000
TOTAL	$ 182,000

3. Special Technical Assistance

In addition to the two programs outlined above the GOB has requested specialized expertise in the areas of wholesale market operations, retail food marketing and rural marketing organization. One technician for each of these areas will be contracted by GEMAB once the loan is signed and will have their headquarters in Recife.

The wholesale market specialist would be responsible for setting up a short training course for wholesale market administrators (and certain key personnel of BNDE/COBAL responsible for executing this marketing program) and generally work with these administrators to improve operations of wholesale markets in existence and be available for consultations as other markets are being constructed. As part of their training program, the administrators and key BNDE/COBAL personnel would be sent abroad to study and observe operations of fresh produce wholesale markets. Funds will be available to bring in short-term consultants as the need arises in areas such as food handling, traffic patterns, and packaging methodology.

The retail and rural specialists would be headquartered at Recife and would work in the urban markets and rural markets, respectively with the purpose of better integrating the rural markets, urban wholesale markets, and retail markets into an efficient food distribution system. A special element of the rural specialist's program would be to help plan the development of further programs to strengthen private rural marketing organizations. He should work closely with wholesale market administrators and the state extension services & training managers of co-operatives in

marketing techniques and generally in helping cooperatives to establish marketing programs. Funds will also be available to bring in short-term consultants for specialized marketing advice.

The retail specialist would work with small self-service and neighborhood stores and with public feira organizations in promoting cooperative or joint purchasing at the wholesale markets and directly in the interior and to develop a credit program for their operating (short-term) and expansion (long-term) needs. One purpose would be to establish voluntary associations of small grocers in order to help them compete with the large supermarket chains. Another purpose would be to expand and improve retail self-service stores, particularly those located in low-income areas. Funds will also be available to bring in short-term consultants for special advice.

Two specific methods for promoting and assisting the development of self-service retailing would be through a seminar in self-service retailing, and through production and distribution of literature on this merchandising method. A seminar would be planned for the exchange of experience between operators, and to enable operators to hear qualified authorities from the major urban areas of Brazil and from the US. Printed information would be planned, prepared, and distributed as another method to disseminate and exchange knowledge.

Cost Estimates for Special Technical Assistance

Wholesale Market Specialist (one man at $26,000 per year for 2 years including 50% overhead and support)	$ 78,000
Fund for short-term consultants	40,000
Training program for wholesale market administrators	40,000
Retail and Rural Specialists (two men at $26,000 per year for 2 years including 50% overhead and support)	156,000
Fund for short-term consultants	50,000
Seminar in Self-Service Retailing	40,000
Production and Distribution of Literature on Self-Service Retailing	30,000
TOTAL	434,000

Estimated
Summary of/Technical Assistance, Training and Equipment Costs

Market News Service Program	$ 394,000
Grades and Standards Program	182,000
Special Technical Assistance	434,000
	$1.000,000

The above cost estimates and manpower needs have been determined on the basis of mission and GOB analysis; however, during the course of implementing this project adjustments may be required to meet changing GOB policies and priorities. Said adjustments and changes in funding for technical assistance program items will be made on the basis of joint USAID and GOB analysis and determination of best use of loan funds.

SECTION IV - ECONOMIC EVALUATION

The highly fragmented and inefficient nature of food marketing in the North and Northeast regions of Brazil and the general role of modern wholesale and combination wholesale/retail facilities in the principal urban areas and assembly markets in rural producing areas in removing some of these inefficiencies has been described in Section I. In this Section our analysis will concentrate on comparing the economic and social benefits to the economic and social costs of the proposed food markets program.

Our methodology has been to quantify, to the extent possible, the expected benefits and costs in order to calculate what can be considered a typical internal rate of return of facilities to be constructed as part of the program. The case presented is that of the CARE market in Recife. It is recognized that the rate of return of each individual project will be distinctive and may vary significantly from other projects depending upon the extent to which a new market improves upon the antiquated facilities it replaces, the type of services it renders, the operational policies established, the quality of management and technical assistance, and a host of other factors. However, our analysis gives reasonable assurance that, given adequate planning on the part of GEMAB and the BNDE for the volume of produce to be handled in a given market, all facilities to be constructed as part of the program should prove to be economically feasible.

In addition to the direct and measurable benefits, there are others which are indirect and difficult to measure but which clearly increase the justification of the program. We describe these indirect benefits, as well as some indirect costs, but make no attempt to include them in our projected rate of return.

The replacement of congested, antiquated markets with new modern facilities will yield the following quantifiable benefits: reduction in produce spoilage, reduction in unloading and loading time, and reduction in storage, handling, and transport resulting from decreases in spoilage. In addition to these measurable benefits there are others more difficult to quantify such as: improved operational efficiency (in the form of more rapid turnover of produce, less handling of produce, etc.), improved public health due to improved hygiene and cleanliness, reduced traffic congestion in the commercial areas (provided that the markets are moved out of the center of the cities), improved working conditions for those who use the markets, and stimulation of farmer production due to increased opportunity for direct marketing (i.e. more efficient marketing channels) with resulting decreases in consumer prices for purchase of foods handled in the new markets.

The major measurable costs of the program are, of course, those of construction and equipping the markets and higher operating costs due to higher costs of maintenance, electric power and water, than in the older market areas. Costs more difficult to measure include the reduction in sales of wholesalers directly to consumers as result of the decentralized location of some of the markets, and additional loading and unloading of trucks in some cases.

For the economic evaluation we have used cost-benefit analysis, which is a practical method of assessing the desirablity of projects whose costs and benefits are spread out over time. The cost data used was that developed from consulting engineering estimates which we consider reasonable. Estimates of benefits are based on the following studies: Market Processes in the Recife Area of NE Brazil, prepared by Michigan State University; The Northeast Agricultural Marketing Sector Loan Intensive Review, prepared by MONTOR; the recommendations and observations of Mr. Roy Brandeburg, USDA marketing specialist; data collected from surveys of people currently using the existing CARE facilities; and the SERETE study of the Salvador wholesale market.

Although a great deal of research into the marketing process has been directly or indirectly financed by USAID, it is still impossible to quantify, in any exact sense, the benefits to be derived from improving specific aspects of the existing marketing system. Each of the studies mentioned above attempted to estimate the losses resulting from the current inefficient marketing systems and to estimate the reductions in losses brought about by market improvements. Since the primay benefit to be derived from improvements in the wholesaling aspects of the marketing channel is the reduction in spoilage, the derivation of an internal rate of return for the construction of wholesale centers is highly sensitive to the estimates used for current rates of spoilage and reductions therein. Each of the studies commissioned by USAID, came up with different estimates of these factors. We have done a sensitivity analysis for these varying estimates and report below three different calculations of the internal rate of return for the CARE market corresponding to the most optimistic, pessimistic and our best estimate of the reduction in spoilage.

A. Quantifiable Benefits

1. Reduction in Produce Spoilage

It is known that the present inefficient marketing system with its mishandling of perishable food commodities, transportation delays, lack of quality control, insect infestation and poor storage, results in enormous wastage of food. We have attempted to quantify the reduction in this wastage of food which can be attributed to improving only the wholesale aspect of the marketing channel. Based on the studies mentioned above, our best estimate is that 20% of all perishable foods, such as fruits and vegetables, and 10% of all semi-perishable, such as cereals, were lost through spoilage in the wholesale system which existed in Recife before the CARE market was constructed. After the

CARE market is constructed and operating at full capacity, our best estimate indicates that these spoilage rates will be reduced to 14% and 6% respectively. This reduction would result from improvements in storage, handling, quality control, and packaging in addition to the substantial reduction in the time food is being processed between farmer - consumer.

It should be emphasized that the numbers reported above, reductions of spoilage by 6% and 4% respectively, represent nothing more than what we calculate to be a most realistic estimate of the reduction rates attributable to the CARE market. Our estimates can be compared to estimates of rates of reduction in spoilage made by the marketing experts who conducted the studies mentioned above and which ranged from 5% to 15% for perishables and 1% to 5% for non-perishables. As will be explained below, it turns out that our estimates produce a rather conservative estimate of the internal rate of return.

To evaluate the savings in spoilage, we have priced the saved food at its costs to the wholesaler, not at its final selling price. Volumes used were based on the size of the Recife marketing facility and on the market for food in Recife.

2. Reduction in Costs due to Decrease in Spoilage

Another substantial benefit is that with a lower rate of spoilage, a smaller inventory is needed for a given volume of sales resulting in lower storage, transportation, and handling costs. This benefit is valued at an opportunity cost of capital of 10% and is equal to 10% of the savings in spoilage.

3. Reduction in Unloading and Loading Time

The picture presented at the existing traditional wholesale markets in the regions to be assisted is one of utter confusion and congestion especially at the peak periods of the principal market days. In most cases this situation is only made worse during rainy periods, as many existing markets have no cover and are unpaved. The result may be a sea of mud with movement greatly reduced. In the best of cases trucks and other vehicles are forced to park at varying distances from where they are to unload and load produce and common laborers are charged with carrying the cargo on their backs. In addition to lost time due to inefficient unloading and loading methods, there is generally a waiting period before such process can take place due to the small size of the facilities as compared to the number of vehicles and amount of produce attempting to enter and exit. Initially savings in loading and unloading time at the new markets are estimated at one hour, eventually rising to two hours.

B. Quantifiable Costs

1. Construction and Equipping of Markets

These are, of course, the principal measurable costs of the program. During intensive review, we have had opportunity to analyze a number of the feasibility studies prepared for individual market projects. These studies have given an accurate picture of the installation costs as well as the costs of operating the facilities to be constructed. The range of costs of different prototype markets prepared by MONTOR has also been studied by the Project Committee and generally have been found to be consistent with the other studies.

2. Maintenance of Market Facilities and Increased Operating Costs of New Facilities.

Increased operating costs will take the form of increased use of electricity (e.g.ice, lighting) and water and sewerage which was not available or not utilized in the old marketing areas. SERETE, in its feasibility study of the wholesale market center for Salvador estimated total operating costs, including personnel, maintenance, and utilities. We assume CARE expenses will be approximately the same and consider that three-fourths of these costs can be considered additional to the previous marketing centers.

C. Internal Rate of Return

Our quantification of the costs and benefits based on our best estimates as described above, yielded an internal rate of return of 23% for a typical market to be constructed as part of the program. The data, assumptions and other details upon which this analysis is built appear in Annex V, Exhibit N. The following, however, is a brief summary of the methodology used to calculate the rate of return.

In order that our calculations are as realistic as possible, much of the data used for new market facilities is based upon figures available on CARE's operations for 1968 and 1969. These statistics were used to project volumes of business in fruits and vegetables and cereals and dry goods. In the case of fruits and vegetables an average annual growth rate of 8% was assumed based upon the population growth rate, per capita income growth and the income elasticity of demand for fruit and vegetables. The volume of fruit and vegetables was then projected for each year until 1985. The same procedure, with some modification, was used for cereals and dry goods, assuming a 4.5% average annual growth rate.

The benefits and costs, with most figures based on CARE, were then calculated using these projections of business volume as a basis. For example, the volume of fruits and vegetables for 1970 is estimated at $6.6 million.

Spoilage should be reduced by 6% of total value from what spoilage would have been without the new facility. This is a saving of approximately $400,000 for 1970. Over the life of the project savings in spoilage are considerable. In a similar fashion savings in labor costs were estimated Construction, maintenance and operations were the only costs considered. Costs were subtracted from benefits for each year to derive net flows which were then discounted to present value to yield the internal rate of return.

As discussed above, we evaluated the realism of our best estimates by conducting a sensitivity analysis. Using both the highest and lowest estimates of reduction in spoilage, we calculated the corresponding optimistic and pessimistic internal rates of return. If one assumes that the spoilage in perishables can be reduced from 25% to 10% and from 15% to 5% for semi-perishables, the corresponding internal rate of return is approximately 48%. The lowest estimates ever reported were that spoilage could be reduced from 19% to 14% for perishables and 8% to 7% for semi-perishables. The corresponding internal rate of return is 10.5%. The rate of return of 23% used in the present paper therein, represents a rather conservative estimate of the benefits which can be anticipated. In any case, making the most pessimistic estimates still results in a rate of return in excess of the opportunity cost of capital. Each of these rates of return, moreover, still underestimate the real return to society since they ignore all the non-quantifiable benefits which will be described below.

In conclusion although our analysis is based on estimates and assumptions, it represents the best thinking available on this problem. As stated above, all the data has been based on the MSU report, the end of tour report of Roy Brandeburg, the feasibility study for the Salvador market by SERETE, a Brazilian consulting firm, the MONTOR study, and on direct observation and interviews by USAID staff. With respect to the latter, officials at CARE have been consulted and all available data from that center has been considered. In addition USAID/NE technicians conducted a special survey interviewing the users of CARE: producers, wholesalers, supermarket owners. Four economists have collaborated on the final revision of statistics, estimates and assumptions. Every attempt was made to make realistic assumptions, and the rate of return is high enough to allow for a margin of error.

D. External and Secondary Benefits

1. Reductions in Costs and Risks and Increased Competition

Although more difficult to measure, this should eventually become a very important economic and social benefit of most of the new markets. Its initial benefits will be quite small but should build over several years.

The design of the facilities assures a much larger operating scale per business unit than that prevailing in existing markets. Furthermore, as the markets will be designed to handle future demand, the number of operating areas and stalls will be increased. Finally, the market news service will link not only the other markets but interior points as well. All of these factors will reduce marketing risks and costs. The increased competition will result in lower margins which should fall to more competitive levels. Existing wholesale margins of 18% on fruits and vegetables and 13% on cereals will be expected to eventually fall as a result.

2. Stimulation of Farmer Production due to Increased Opportunity for Direct Marketing - Indirect Income Effects

Discussions with GOB officials have indicated that the highest priority in renting warehouse and stall space will be to farmers and farmer organizations. The open buildings are designed for use of producers of fruits and vegetables who rent by the day while farmer cooperatives will be given incentives to rent warehouse space for more easily storable produce. More direct marketing by the farmer should assure consistently higher real prices for his products. The result should be an increase of farm production that would not have otherwise occured without the new facilities.

3. Economies in Retail Purchases due to Larger Scale Operations and Ease in Obtaining Standard Quality.

Because of their larger scale operation, this benefit would have its greatest impact on the supermarket chains. A series of interviews with managers of the two largest Recife chains have demonstrated that the opening of the CARE market has greatly facilitated their purchases of fruits and vegetables and resulted in an acceleration of their plans to expand this product line. (See Annex V, Exhibit O for interview questionnaire). The advantages of CARE as compared to the previous purchasing channels (old Santa Rita and Afogados markets or interior towns) were listed as the ability to purchase in large quantities, better quality produce, lower prices, constant supply and better buying conditions. Based on their observations and interviews, USAID agricultural technicians estimate that the benefits to supermarkets will result in (1) an eventual reduction of 2% in purchasing costs of fruits and vegetables and (2) an additional increase of 16% in the participation of supermarkets in retail sales of fruits and vegetables.

4. Improved Public Health due to Improved Hygiene, Cleanliness and More Stable Supply

The description described previously of existing markets is evidence enough of the danger to public health from contaminated products. The lack of drainage, poor handling methods, unsanitary storage areas and lack of toilets and garbage removal facilities will all be corrected in the new markets. Although the reduction in human illness cannot be

measured, there is little question that the new facilities will have this effect.

Furthermore, a more regular supply of good quality food products to the people of the region will contribute to improve their diet, which is presently considered to be very poor even in comparison with other underdeveloped areas of the world as per FAO's standards. In fact, the daily requirements in the Northeast of Brazil was estimated by ETENE technicians (Bank of the Northeast of Brazil study in 1962) to be on the order of 2,800 calories for an adult between 20 and 59 years (productive age). However, the Recife population, which is considered to have the highest per capita income of the region, is only consuming 2,500 daily calories. The improvement of such a diet through a well organized, more stable, and less expensive food supply, both in quantity and quality, provided by the central markets will increase the health of the population, resulting in higher manpower productivity.

5. Improved Working Conditions

Besides the more functional nature of the new markets and their improved sanitary conditions, workers will enjoy a range of ancilliary services such as adequate restaurant facilities, improved transportation, rest areas.

6. Improved Transport Services

One of the primary benefits derived from the proposed new markets is the increased efficiency with which the existing truck fleet can be used. Loading and unloading time as mentioned above will be considerably reduced due to better market layout and design and improved handling methods. Market locations on the outskirts of cities also save truck time, eliminating the necessity to pass through congested city streets. All of these factors mean that any one truck can make more trips per given time period between production areas and market centers. This will stimulate the expansion of trucking fleets, thus directly benifitting the farmer.

E. External and Secondary Costs

1. Reduction in Wholesalers Sales Directly to Consumers as Result of Non-Centralized Location of the Larger Markets.

The MONTOR study points this out in viewing the situation in Recife. The CARE facility replaced two centrally located markets both of which sold both to retailers as well as directly to consumers. It is estimated that wholesalers located in these markets sold approximately 10% of the total volume of fruits and vegetables directly to consumers. However, due to the greater distance of wholesale centers from residential areas and due to the fact that a relatively high minimum amount must be purchased, it is estimated that such sales will be cut to only some 3%, even taking into account the supermarket operating within the CARE market area.

2. Additional Loading and Unloading of Trucks

Similar to their observation in nº 3 above, MONTOR has pointed this out in viewing the existing Recife situation. When CARE was opened trucks were required to register at the market, and were then free to offload or proceed directly to the fairs of the city. In recent months the CANESA operators of the market have arbitrarily required trucks to offload. We

view this as a case of poor administration and raise it as an example of the type of policy which may be adopted in any of the markets in the desire to assure maximum utilization. There is no question that administrative and operational mistakes will be made as the new facilities come into operation, and such mistakes will reduce benefits and raise costs. Such mistakes are unavoidable and are part of the learning process. However, considering the role of COBAL in the national program, any such mistakes will be under close scrutiny and prompt actions are likely to be taken to correct them.

F. Employment Effects

Although estimates vary, anyone who has examined the problem of unemployment in Brazil has concluded that the service sector absorbs a great deal of the available manpower. Consequently, any improvement in the efficiency of the service sector has the potential of reducing employment. We do not feel, however, that the current project will have this undesirable effect for the following reasons:

1) The estimated labor productivity gains are estimated to be 4%, whereas the increase in the amount of food flowing through the system is expected to be 8% per year. The increase in the demand for labor as a result of the latter factor will most likely outweigh the loss of employment resulting from productivity gains.

2) The construction of the market itself will generate significant demands for labor.

G. Conclusions

While data is generally weak in Brazil, the marketing area has been well studied and we have deliberately chosen conservative estimates of benefits to accrue from the construction of new wholesale markets. At the same time we have not included the external and indirect benefits, which should far outweigh the indirect costs, in calculating our internal rate of return. Nevertheless, an internal rate of return of 23% demonstrates the economic utility of the proposed program. With such a high internal rate of return we could cut what we consider realistic figures for reduction in spoilage to the most pessimistic levels and still obtain an internal rate of return in excess of 10%.

With regard to the distribution of the savings, we believe consumer prices should fall in real terms, assuming a continuing of the existing trends in agricultural production, because of the increase in the efficiency of the wholesale market. We also expect that this project will have important backward and forward linkage effects. Since the wholesale markets will give priorities and advantages to farmers' cooperatives for renting stalls, in addition to improvements in the

marketing news services, the farmer will be in a much better position to take advantage of the existence of an efficient outlet for his produce. On the retailer side, both supermarkets and smaller retailers will share in the benefits of purchasing food commodities in a modern facility. The improved method for purchasing perishable foods will be of primary benefit to the small feira retailer whose sales consist of a high percentage of fresh fruits and vegetables. Although forward and backward linkages in addition to competitive pressures will force the benefits of the improved wholesale system to be spread out, we do not attempt to make calculations as to how much of the benefits each party will receive. However, considering the intentions of SUDENE to strengthen small grocers and stimulate farmer marketing cooperatives, these groups should receive a significant amount of the benefits of the program.

Considering the benefits set forth above which are expected to be derived from this loan program, definite strides will be taken towards correcting the "food gap" problem alluded to in Section I-D of this paper.

SECTION V - FINANCIAL ANALYSIS

The Financial Analysis will discuss the financial plan of the program, the proposed loan terms, the financial aspects of the mixed companies established to own and operate the markets, and the financial position of the BNDE.

A. The Financial Plan

The GOB estimates that the three year needs of its national program of wholesale market construction will require a total investment cost of approximately $100 million. It will require that the state and/or municipal governments contribute 30% of the cost of each market Thus $30 million of the program will be financed by the states and municipalities. The source of the majority of such financing will be the participation fund. (Portion of federal income tax transferred to states and municipalities for investment requirements.) The balance $70 million - will be contributed by the Government of Brazil, either directly from its own resources or from loans from international lending organizations, through the BNDE. It is estimated that fifteen million of the $70 million will come from AID.

Of the $55 million GOB contribution, $45 million will be a direct BNDE contribution and approximately $10 million will be GOB owned counterpart from the sale of PL 480 wheat. The proposed Financial Plan for the National Program, although not in final form, is presented in tabular form as follows:

Proposed Financial Plan - National Program (in US$)

Source	Amount	Percentage
AID	$ 15	15%
GOB (BNDE)	55	55
States and Municipalities	30	30
TOTAL	$100	100%

The AID loan of $15 million would be eligible only to assist in the financing of projects and technical assistance in the North and Northeast regions. Such a focus would identify AID lending with the poorest regions of

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Brazil and, as we would limit AID financing to 50% of any BNDE loan, assure that substantial GOB assistance flows to these regions. Thus, with this limitation, and the GOB imposed requirement that states and municipalities contribute 30% of each project, the financial plan for the AID assisted North/Northeast is as follows:

Proposed Financial Plan - North/Northeast (in US$)

Source	Amount	Percentage
AID	$14	35%
GOB (BNDE)	14	35%
States and Municipalities	12	30%
TOTAL	$40	100%

The full justification of the AID assistance is to support a program which will direct approximately $40 million worth of wholesale market projects to the North/Northeast of Brazil in the next three to four years. The purpose is not to establish a long-term revolving loan fund for wholesale markets, thus, no attempt has been made to show a cash flow analysis of a long-term program of wholesale market construction.

B. Loan Terms

The BNDE has indicated that it would grant its most lenient terms for the wholesale market program - 16 year repayment period with an interest rate of 4% including full monetary correction. The repayment period includes 4 years grace on loan amortization and the borrower has the option of capitalizing interest during the grace period. Monetary correction is determined in accordance with guidelines adopted for National Treasury Bonds. The monthly monetary correction for these bonds is the average increase in the wholesale price index for the previous three months and is published by the Ministry of Finance.

In the case of loans made to government entities or government sponsored organizations, such as wholesale markets, the BNDE shows greater concern with the type of guarantee required than with the financial earning capacity (if any) of the project. Thus, the BNDE enters into an agreement with the State concerned that Federal funds allocated to the State and deposited with the Bank of Brazil will automatically be transferred to the BNDE's account to meet interest and principal payments as they come due. Specifically, these funds are the allocations made by the Federal Government to States and Municipalities from the "Participation Fund".

It is our recommendation that the AID loan to the BNDE be on terms as follow up to 20 years including five years grace period with 2% interest for 5 years and 3% interest thereafter. By offering the BNDE these terms, we will attempt to negotiate an increase in amortization periods for projects in the North and Northeast to up to 20 years. The BNDE has indicated that it would seriously consider a longer amortization period if AID would provide assistance for this program. We believe 20-year loans

for markets in the North and Northeast is reasonable in view of the relatively poorer status of the areas and the need to reduce the financial burden of the state and muncipal governments.

C. Repayment Capability of the Mixed Companies

As the rules and regulations for lending for the wholesale market program are presently being prepared by the GOB, no final determination has been made as to whether the mixed companies are to be responsible for full amortization of the loans from their internally generated revenues or whether all or a portion of the loan should be repaid by the state and/or municipality which will, in any case, guarantee the BNDE loan through the participation fund described above. The guidelines established thus far require that, as a minimum, the operations of any market should generate sufficient revenues to cover at least their operating costs, minus depreciation, plus two statutory reserves: one for capital increases and the other for expansion. (The required percentages for these have not yet been determined.) GEMAB and the BNDE estimate that personnel costs and depreciation are roughly equal for a wholesale market and account for 70 to 80% of their operating costs.

To reduce the amortization burden of the mixed companies, and make it possible to plow earnings back into the business, the GEMAB/BNDE regulations will provide that the equity/debt ratio of each company is 60/40. In other words the equity contribution will be by 60% and the long-term debt 40%. The equity contributors will be COBAL - 30% and the state and/or municipal government - 30% - while the 40% debt would be the long-term BNDE loan. The 30% COBAL contribution would be provided as a loan from the BNDE which COBAL would repay from yearly budgetary allocations of the Ministry of Agriculture.

D. Financial Position of BNDE

The BNDE's overall financial condition appears satisfactory. Comparative year-end Balance Sheets for 1965 through 1969 appear in Annex V Exhibit K-1. In 1968 and 1969 the real value of the cruzeiro-financing operations approved by the BNDE increased by 6% and 12% respectively. An average growth rate of 15.5% per annum is projected over the next 3 years. The BNDE portfolio has grown from the equivalent of US$278 million in 1965 to US$749 million in 1969 for a compound annual growth rate of 14%. Capital and Reserves during the same period grew from US$135 million to US$632 million, a compound annual rate of 38%. This rapid growth rate is the result of the BNDE policy of capitalizing total earnings less the provision for portfolio losses each year and of the increases in the annual GOB contributions to the BNDE through the Monetary Reserve Fund and the Federal Budget (see notes 1 and 2 to the Proforma Source and Applications of Funds Statements in Annex V Exhibit K 2) which are not repayable. Consequently, the BNDE Debt/Equity Ratio has been reduced from 2:1 in 1965 to the 1969 low of 0.45:1 (debt determined on the basis of total liabilities). Despite the indicated net growth in Capital and Reserves, the BNDE since 1952 has incurred a gross capital outflow of the approximate equivalent of US$530 million. This capital loss, while more than offset each year by the large GOB contributions, has resulted from the BNDE loan terms which have failed

to maintain the real value of its portfolio under inflation. In 1969, new loan contracts began to carry monetary correction though at less than the full rate in the case of some programs.

The BNDE Comparative Income Statements for 1968 and 1969 appear in Annex V Exhibit K-3. Gross annual income from the portfolio as a percent of the average portfolio was 7.2% in 1969, 11.2% in 1968 and 17.6% in 1967. The decline in 1968 was due to the loss of income from the BNDE loan to the National Steel Company which was rescheduled during that period at a reduced interest rate. This loan represented a considerable portion of the BNDE portfolio revenue in 1967. In 1969, the BNDE changed its accounting procedure to apply monetary correction directly to the capital accounts rather than through the income statement which explains the revenue decline from the previous year (see Comparative Income Statements for 1968 and 1969 in Annex V Exhibit K-3) Gross income as a percent of average total assets showed this same pattern, 5.6% in 1969, 8.4% in 1968 and 13.0% in 1967.

Total expenses were 1.8% of average total assets in 1969, 2.1% in 1968 and 2.3% in 1967. Administrative Expenses decreased 11.1% in real terms in 1968 and another 4.6% in 1969.

The BNDE has shown an accpetable level of profitability over the past 3 years. Profits after adjustments for portfolio losses were 4.0% of average total assets in 1969, 9.3% in 1968 and 11.5% in 1967. This decrease in profitability resulted from the decrease in income discussed above. Portfolio losses were .03% of the average portfolio in 1969, .05% in 1968, and .04% in 1967.

Lacking private deposits, the BNDE has no official reserve requirements. However, as a provision for liquidity, the BNDE has established a Minimum Cash Reserve below which the sum of cash and near-cash items is not allowed to fall. This Minimum Cash Reserve is a contingency fund calculated quarterly and based on projected cash flows and anticipated projects overruns which may require additional BNDE financing (see note B to Proforma Source and Application of Funds Statements in Annex V Exhibit K-2.)

The BNDE has no rediscount lines available to it. The BNDE legislation provides, however, that the Bank may make supplementary budgetary requests through the Ministry of Planning under appropriate circumstances.

The Capital of the BNDE amounted to the equivalent of US$220 million at December 31, 1969. This Capital has not been issued in the form of shares but is based in the original GOB contribution contained in the BNDE enabling legislation of 1952 (Law 1628/52). The BNDE Capital is owned entirely by the GOB which is represented by the Minister of Planning.

To complement its lending program, the BNDE provides guarantees for foreign credits as agents for the National Treasury and for its own account. In 1969, foreign credit guarantees were made in the equivalent of US$111 million. No provision is made by the BNDE for guarantees administered by the BNDE but executed by the National Treasury for the latter's account. The BNDE provides for its own guarantee exposure through its Reserve for Portfolio losses which amounts to 5% of the BNDE loans and guarantees outstanding. At the end of 1969 the BNDE had a guarantee exposure equivalent to US$344 million.

SECTION VI - AID LOAN ADMINISTRATION

A. Implementation Plan

1. Loan Agreement Negotiations

It is estimated that approximately 90 days will be required for loan negotiations once a draft loan agreement has been prepared by the USAID and presented to the GOB for review. Both the BNDE and GEMAB are already familiar with AID loan provisions so no unusual delays are to be expected.

Implementation Letter nº 1 will be prepared with the Loan Agreement and discussed with the GOB as part of loan negotiations.

2. Implementation Activities

Approximately 90 days should be required for the GOB to meet Conditions Precedent following loan agreement signing. Besides the standard Conditions Precedent, of which the Borrower is well acquainted, we will require the final rules and regulations of the program and the final determination of amortization periods for loans in the North and Northeast regions. USAID will require as a Condition Precedent to disbursement that BNDE and GEMAB submit to USAID the economic, financial and technical criteria that they use in evaluating and approving applications for financing from the mixed companies. USAID will spot check applications submitted for approval against the criteria mentioned above, to be supplied USAID by BNDE and GEMAB. With these assurances we will not approve sub-loan projects but leave this entirely to GEMAB and the BNDE. However, AID will receive reports on all approved projects and will post audit these as necessary to assure that analyses and approvals are in accordance with sound engineering and economic practice.

We estimate that the AID loan would be disbursed over three and one-half years to four years with final disbursement at the end of CY 1975. However, it is the GOB's intention to stick as closely as possible to a three year disbursement period and, in view of their progress in setting up the program, such a disbursement period is possible.

3. Procurement

Procurement by sub-borrowers will be from local sources since Brazilian industry produces the necessary construction materials and equipment and there are sufficient number of qualified Brazilian engineering and construction firms. All procurement, except for engineering services, will be carried out under the competitive bidding procedures as required by Brazilian law. Brazilian law also requires that procurement of professional engineering services be accomplished through invitations to interested firms in a manner similar to AID standard procudures.

B. Disbursements

AID will finance 50% of each of BNDE's disbursements for each project including the BNDE's initial quarterly advance for each project. AID disbursements will be based on requests from the BNDE supported by a statement listing the amounts paid out on each project during the preceding quarter (identifying the projects by name and providing supporting data, including the acceptance of work pursuant to the certification of the project architect/engineer, concerning project expenditures) and showing the total amount to be paid by the USAID.

Disbursements for technical assistance and training costs will be made monthly based on vouchers evidencing payment for approved activities.

C. USAID Monitoring

1. On-site inspections

USAID Capital Development, Engineering, Agriculture and Controller personnel will make periodic visits to projects to observe progress and verify compliance with the terms of the Loan Agreement and Implementation Letters.

2. Reports

To reduce paperwork to a minimum, but still assure adequate monitoring, we will require only quarterly and yearly reports from the BNDE, with respect to the wholesale market loan program, and semi-annual reports from GEMAB with regard to the technical assistance and training programs.

The reports from the BNDE will be tailored to correspond as closely as possible to the timing and content of the reports the BNDE requires from its borrowers. The BNDE reports will provide such data as progress achieved on the AID financed program, summary information on expenditures of funds made from all contributors to the projects and a full description of any difficulties encountered in implementing the program. We will require that these reports be submitted quarterly and that they accompany all requests for quarterly disbursements.

3. Audits

Audits of the project will be made periodically as deemed necessary by the Auditor General's Office for Latin America.

LOAN AUTHORIZATION (Draft)

Provided From: Alliance for Progress Loan Funds

BRAZIL : Capital Assistance - Northeast Agricultural Marketing Loan.

Pursuant to the authority vested in the Administrator, Agency for International Development ("A.I.D."), by the Foreign Assistance Act of 1961, as amended, and the delegation of authority issued thereunder, I hereby authorize the establishment of a loan (the "Loan") pursuant to Part I, Chapter 2 Title VI, Alliance for Progress, of such Act to the Government of Brazil ("Borrower") of not to exceed fifteen million United States dollars ($15,000,000) to finance the local currency and dollar costs of goods and services necessary to assist Borrower in conducting a program of financing agricultural marketing projects in the North and Northeast regions of Brazil. Up to $1,000,000 may be used to finance technical assistance and training. The Loan shall be subject to the following terms and conditions:

1. Interest and Terms of Repayment. Borrower shall repay the Loan to A.I.D. in United States dollars within forty (40) years from the first disbursement under the Loan, including a grace period of not to exceed ten (10) years. Borrower shall pay to A.I.D. in the United States dollars, on the disbursed balance of the Loan, interest at the rate of two (2) percent per annum during the grace period, and three (3) percent thereafter.

2. Other Terms and Conditions

   (a) Goods and services financed under the Loan shall have their source and origin in Brazil, the United States or any independent country of the Western Hemisphere south of the United States except Cuba.

   (b) United States dollars utilized under the loan to finance local currency costs shall be made available pursuant to procedures satisfactory to A.I.D.

   (c) All payment of interest and repayment of principal of A.I.D. financed sub-loans by BNDE shall be used by the BNDE for agricultural marketing projects for such periods and under such conditions as are satisfactory to A.I.D.

./...

(d) A.I.D. shall finance no more than fifty percent of each BNDE loan for an eligible project.

(e) The Loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

_____

Administrator

Date: _____

CERTIFICATION PURSUANT TO SECTION 611 (e)
OF THE FOREIGN ASSISTANCE ACT OF 1961, AS
AMENDED.

Ref.: BRAZIL - Capital Assistance - Northeast Agricultural Marketing Loan.

Having taken into account, among other things, the maintenance and utilization of projects in Brazil previously financed or assisted by the United States, I certify that in my judgement Brazil has the financial capability and the human resources to effectively maintain and utilize the proposed Northeast Agricultural Marketing Loan.

This judgement is based primarily on the facts developed in the Capital Assistance Paper for the proposed loan of US$15 million, which discusses in detail the capabilities of the BNDE (the National Economic Development Bank) and GEMAB (the Executive Group for the Modernization of Food Supply), and finds that they will possess adequate financial and human resource capability (supported by technical assistance and training where appropriate) to effectively maintain and utilize the project. The BNDE, with the assistance of GEMAB, will be competent to implement the project and act for the Government of Brazil as its Executing Agency. The relationship between the proposed loan and prior U.S. assistance to agricultural marketing activities in Brazil is discussed in detail in the Capital Assistance Paper.

William A. Wiley

Director

Date: May 28, 1970

Translation of letter of application for loan

Minister William A. Ellis
USAID/Brazil
Rio de Janeiro, GB

September 2, 1970

Dear Minister:

As you know, the Brazilian Government gives priority to the Food Marketing Program, the aim of which is the construction and expansion of the food marketing in the principal demographic concentrations in the country.

To accelerate the execution of the Program special measures have been taken, among other, the establishment of the GEMAB (Decree No. 65.760, of 11/27/69) and the participation of COBAL, in the capital of the governmental enterprises or mixed companies, of regional, state or municipal scope, which will manage the food marketing (Decree No. 66.352, 3/17/70)

Meetings have been held with the representatives of GEMAB, COBAL and USAID on this subject, to study the possibility of this Agency (AID) participating with partial financing of US$15 million, which corresponds to about 50% of the program for the Northeast of Brazil on priority basis to assist in the construction of the Food Marketing Centers in Salvador, Aracajú, Maceió, Recife, Fortaleza, Belém, Manaus, which total investment is estimated to be Cr$124,600,000.00 (one hundred, twenty four million and six hundred thousand cruzeiros).

Based on the above considerations, the GOB expresses its interest that consideration be given, by USAID, to the financing referred to above, in the estimated amount of US$15 million, which added to the federal, state and municipal resources, would comprise the global financing scheme.

Appropriately, with the availability of the requested loan, we would accomplish the complementary studies having in view the priority that is demands.

Finally, I would like to inform you that with the continuation of the negotiations, BNDE is authorized to maintain the indispensable understanding with this Agency, together with IPEA, SUBIN and COBAL.

Sincerely yours,

/sgd/ João Paulo dos Reis Velloso
Minister

Foot Note (see page 2)

Foot Note -

Note that the Cr$124.000,00 figure stated in the letter does not include the total amount of the program in the North and Northeast. The total program is still expected to be $40 million and AID participation at the 35% level as indicated in the paper.

CHECKLIST OF STATUTORY CRITERIA

(Alliance for Progress)

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amended by the Foreign Assistance Act of 1971.

App. - Foreign Assistance and Related Agencies Appropriations Act, 1971

MMA - Merchant Marine Act of 1936, as amended.

COUNTRY PERFORMANCE

Progress Towards Country Goals

1. FAA § 208; S. 251 (b)

A. Describe extent to which country is:

(1.) Making appropriate efforts to increase food production and improve means for food storage and distribution.

Expanding food production and improving the means for food storage and distribution is one of the major goals of Brazil and a great many steps have been taken to achieve this goal. For futher details see CIAP/377, especially pages 124-142.

2. Creating a favorable climate for foreign and domestic private enterprise and investments.

Brazil has done a great deal to encourage private enterprise, both domestic and foreign and has not in general placed any special obstacles in the way of foreign investors except in a few "national security" areas. For specifics see IBRD Report WH-195-a, December 19, 1969, "Industrial Policies and the Manufacturing Industries in Brazil," and IBRD Report WH-203, November 4, 1970.

(3.) Increasing the public's role in the developmental process.

Brazil has encouraged an increased public role in the development process by the very successful tax incentive programs to encourage private savings and investment.

(4.) a. Allocating available budgetary resources to development.

Brazil is allocating large amounts of budget resources to development.

b. Diverting such resources for unnecessary military expenditure and intervention in affairs of other free and independent nations. (Also see Item No. 16).

Brazil is spending about 2.4 percent of its GNP for defense. In 1970 this was about $1 billion. This is a substantial amount but not excessive in view of the special defense burdens created by long borders (4,600 miles coast and 8,700 miles of land frontier) and a vast sparsely populated interior. Defense Agency budgets include expenditures of a non-military nature for such things as subsidies to civilian airlines, civilian airport construction, maintenance of flight control and communications and mail delivery to remote areas. Identifiable items of this kind approach 10 percent of defense agency budgets. Brazil is not intervening in the affairs of other nations.

(5.) Willing to contribute funds to the project or program.

See the Financial Analysis section of the paper for discussion of Brazil's contribution.

(6.) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements, and

making progress toward respect for the role of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.

Although progress toward a return to democratic government still is hindered by the military's determination to hold on to Revolutionary leadership, state legislatures elected Governors from among candidates either selected or approved by the President. Elections for the national Congress and Senate were held in November after preliminary screening process. Cassations, the stripping of political rights for ten years and the firing from government jobs or deprivation of elected office, continue sporadically. All the State legislatures have been reopened, membership altered, of course, by cassations. Municipal elections continue to be held. In October 1969 the Federal Congress reopened after having been closed by former President Costa e Silva for ten months. At the same time the Constitution was amended, with Congressional ratification, to strengthen the President's powers. Although censorship still exists and new laws precensoring for pornography have been issued, a certain latitude in the press and in expression is allowed insofar as fundamental concepts of the Revolution are not challenged nor articles published which lend support to subversives. On the other hand, there has been a growing incidence of police intimidation of individual journalists.

The last six months have seen continued allegations of brutual treatment and tortures of accused subversives by GOB security officials. The GOB continues to deny the incidence of officially sanctioned torture.

The GOB appears convinced that private enterprise with government assistance will keep the economy growing at the same rapid rate of the last two years. Outside the government there is some concern expressed at the extent of U.S. investment in certain sectors and at the amount of foreign profit remittance.

(7.) Adhering to the principles of the Act of Bogota and Charter of Punta del Este.

Brazil is adhering to these principles.

(8.) Attempting to repatriate capital invested in other countries by its own citizens.

Brazil's efforts to encourage investment, promote rapid economic growth and reduce the rate of inflation contribute to the return of capital invested in other countries by its citizens.

(9.) Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.

Since assuming power President Medici has voiced concern for the disequilibrium in standards of living among Brazilians of different regions and classes. The GOB has undertaken to build 600,000 houses for workers and is placing increased emphasis on strengthening its educational system. It has not yet embarked significantly on needed land reform. With most political power concentrated at the top, there is political apathy on the part of the vast majority and the danger of continued isolated acts of terrorism on the part of extreme-left elements. See also 6. Supra.

B. Are above factors taken into account in the furnishing of the subject assistance?

The above factors have been taken into account in recommending approval of this loan.

Treatment of U.S. Citizens

2. FAA §. 620 (c). If assistance is to government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government?

Brazil is not known to be so indebted.

3. FAA §. 620 (e) (1). If assistance is to a government, has it (including government agencies or subdividions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing-ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

No such action has been taken.

4. FAA § 620 (o): Fishermen's Protective Act § 5. If country has seized, or imposed any penalty or sanction against, any U.S. fishing vessel on account of its fishing activities in international waters.

No case of seizure, penalty or sanction against U.S. fishing vessel is known to exist.

a. has any deduction required by Fishermen's Protective Act been made?

Not applicable.

b. has complete denial of assistance been considered by A.I.D. Administrator?

Not applicable.

Relations with U.S. Government and Other Nations

5. FAA § 620 (d). If assistance is for any productive enterprise which will compete in the U.S. with U.S. enterprise, is there an agreement by the recipient country to prevent export to the U.S. of more that 20% of the enterprise's annual production during the life of the loan?

Not applicable.

6. FAA § 620 (j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action, of U.S. property?

Brazil has not permitted such acts.

7. FAA § 620 (l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, in convertibility or confiscation, has the A.I.D. administration within the past year considered denying assistance to such government for this reason?

Brazil has actively instituted a guaranty program.

8. FAA § 620(q). Is the government of the recipient country in default on interest or principal of any A.I.D. loan to the country?

No such default exists.

9. FAA § 620 (t). Has the country severed diplomatic relations with U.S.? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

Brazil has not severed relations with the U.S.

10. FAA § 620 (u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearage taken into account by the A.I.D. Administrator in determining the current A.I.D. Operating Year Budget?

Brazil is meeting its U.N. obligations.

11. FAA § 620 (a). Does recipient country furnish assistance to Cuba or fail to take appropriate steps to prevent ships or aircraft under its flag from carrying cargoes to or from Cuba?

Brazil does not furnish assistance to the present Government of Cuba. Brazil has taken appropriate steps to prevent ships or aircraft under its registry from engaging in any Cuban trade.

12. FAA § 620 (b). If assistance is to a government, has Secretary of State determined that is is not controlled by the international Communist movement.

The Secretary of State has determined that Brazil is not controlled by the international communist movement.

13. FAA § 620 (f). Is recipient country a Communist country?

No.

14. FAA § 620 (i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the U.S. or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression.

No.

15. FAA § 620 (n).
Does recipient country furnish goods to North Viet-Nam or permit ships or aircraft under its flag to carry cargoes to or from North Viet-Nam?

Brazil does not traffic or knowingly permit trafficking with North Viet-Nam.

Military Expenditures

16. FAA § 620 (s). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points to be coordinated with PPC/MAS).

Expenditures for military purposes are about 18 percent of total central government or about 9 percent of total public sector expenditures including states and municipal governments.

Brazil's foreign exchange disbursements for military equipment are projected to increase from $ 20 million in 1967 to $ 58 million in 1973. These expenditures would range from 1.19% of total imports (defined as goods plus net services) in 1967 to 1.85% in 1973. Brazil's foreign exchange reserves were at about $510 million at the end of 1969. For about 10 years (1935-1965) Brazil bought little military equipment. A reequipment and modernization program now underway to improve efficiency in the defense establishment by replacing aged and obsolete equipment will increase expenditures for equipment, but will increase overall military expenditures only slightly.

CONDITIONS OF THE LOAN

General Soundness

FAA § 201 (d). Information and conclusion on reasonableness and legality (under laws of country and U.S.) of lending and relending terms of the loan.

The terms of the proposed loan are legal under both U.S. and Brazilian laws, and are considered reasonable.

18. FAA § 251 (b): §. 251 (e). Information and conclusion on activity's economic and technical soundness. If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds $ 100,00, has country submitted to A.I.D. an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner.

The project is considered economically and technically sound. See Technical (Section III) and Financial Analysis (Section V) in this paper. The Minister of Planning submitted a loan application to USAID on September 2, 1970 (See Annex II-A). Assurances have been received that the funds will be used in an economically and technically sound manner.

19. FAA § 251 (b). Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.

Brazil is considered able to repay the proposed loan. The BNDE will require appropriate guarantees on all sub-loans (Section V-B).

20. FAA § 611 (a) (1). Prior to signing of loan will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

(a) Necessary technical and financial planning of the overall program has been completed. Technical plans for prototype markets have been prepared (see ANNEX V Exhibit M), however, detailed engineering plans will be prepared for each market, taking into consideration the requirements of local conditions, prior to the granting of sub-loans by the BNDE.

(b) A reasonably firm estimate of the cost of the activity is presented in the financial analysis (SECTION V).

21. FAA § 611 (a) (2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purposes of loan ?

Additional legislation is not required.

22. FAA § 611 (e). If loan is for capital assistance, and all U.S. assistance to project now exceeds $1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?

Yes. See Director's Certification in Annex II.

23. FAA § 251 (b). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.

IBRD, IDB and EXIMBANK have all expressed no interest in financing this project. Since concessional lending terms are required for the project, other sources are not known to exist. See Summary and Recommendations, Page 5.

Loan's Relationship to Achievement of Country and Regional Goals

24. FAA § 207: § 251 (a). Extent to which assistance reflects appropriate emphasis on; (a) encouraging development of democratic economic, political, and social institutions; (b) self-help in meeting the country's food needs; (c) improving availability of trained manpower in the country; (d) programs designed to meet the country's health needs, or (e) other important areas of economic, political, and social development, including industry; free labor unions; cooperatives, and voluntary agencies; transportation and communications; planning and public administration; urban development; and modernization of existing laws.

(a) The assistance will significantly contribute to the establishment of modern, efficient and sanitary marketing facilities for agricultural products which should result in higher income for the producer and lower cost to the consumer.

(b) The project will stimulate self help in meeting the country's food needs by providing the individual farmer as well as rural cooperatives with a secure and regulated outlet for their products.

(c) The assistance, by providing up to $ 1,000,000 for training and technical assistance, will decidedly improve the availability of trained manpower in North and Northeast Brazil (See SECTION III-C).

(d) The markets established with this assistance will have the necessary refrigeration and sanitary facilities to provide fresher and safer products for the consumer.

(e) The assistance will contribute to urban development through the establishment of new market facilities in the outskirts of the cities, thereby contributing to reducing congestion in the heart of the cities, as well as assuring, through their storage facilities, an uninterrupted supply of essential agricultural products to the city dweller. The assistance will also help manpower the areas' communication needs through improvement and expansion of the market news service program (see SECTION III-C-1).

25. FAA § 209. Is project susceptible of execution as part of regional project? If so why is project not so executed?

This is a regional project designed to meet the agricultural marketing needs of North and Northeast Brazil.

26. FAA § 251 (b) (3). Information and conclusion on activity's relationship to, and consistency with, other development activities, and its contribution to realizable long-range objectives.

This activity has a basic significance for all Borrower's development activities, and will play an essential part in the realization of long-range objectives in the agricultural marketing area.

27. FAA § 251 (b) (7). Information and conclusion of whether or not the activity to be financed will contribute to the achievement of self-sustaining growth.

The activity will provide Brazil with a system to provide financing for self-sustaning rational food distribution system and eliminate certain bottlenecks in agricultural marketing.

28. FAA § 281 (a). Describe extent to which the loan will contribute to the objective of assuring maximum participation in the task of economic development on the part of the people of the country, through the encouragement of democratic, private, and local governmental institutions.

The wholesale markets are administered publicly, however, the benefits go entirely to the private sector, i.e., farmers, wholesalers and retailers.

29. FAA § 281 (b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

The loan program represents a response to a high priority problem in the cities of North and Northeast Brazil. The program is designed to elicit a maximum of local participation and provides a learning experience in financing and operating a municipal wholesale markets on a self-supporting basis.

30. FAA § 601 (a). Information and conclusions whether loan will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

(a) Indirectly; dollars made available under this loan will be used in Brazil's international trade.

(b) private firms will be used for both construction and engineering on sub-projects.

(c) The loan will stimulate the development of Cooperatives

(d) The loan will reduce the chances for monopolistic practices by middlemen.

(e) The loan will contribute to improvement of technical efficiency in agriculture.

(f) Not Applicable.

31. FAA § 619. If assistance is for newly independent country; is it furnished through multilateral organizations or plans to the maximum extent appropriate?

Not Applicable.

32. FAA § 251 (h). Information and conclusion on whether the activity is consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress in its annual review of national development activities.

The loan is consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress in its latest annual review. The Northeast marketing loan will help Brazil to meet its goals for improving the marketing system for agricultural products which will benefit the farmer as well as the urban population. (See CIAP/377 pages 126 to 142, Agricultural Policy, especially Item 4, Commercialization).

33. FAA § 251 (g). Information and conclusion on use of loan to assist in promoting the cooperative movement in Latin America.

The loan will indirectly benefit the cooperative movement in Brazil as marketing cooperatives will be given incentives for using the markets.

34. FAA § 209; § 251 (b) (8). Information and conclusion whether assistance will encourage regional development programs, and contribute to the economic and political integration of Latin America.

Not Applicable.

Loan's Effect on U.S. and A.I.D. Program

35. FAA § 251 (b) (4); § 102 Information and conclusion on possible effect of loan on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving the U.S. balance of payments position.

This loan will have no unfavorable impact on the U.S. economy.

36. FAA § 601 (b). Information and conclusion on how the loan will encourage U.S. private trade and investment abroad and how it will encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

Dollars expended under this loan to purchase local currency are expected to return in large part to the U.S. in payment for U.S. exports to Brazil.

37. FAA §. 601 (d). If a capital project, are engineering and professional services of U.S. firms and their affiliates used to the maximum extent consistent with the national interest?

U.S. engineering firms will not be needed for the project. Brazilian firms are available, competent and cheaper for the sub-projects to be financed under the loan.

38. FAA §. 602. Information and conclusion whether U.S. small business will participate equitably in the furnishing of goods and services financed by the loan.

U.S. business will be given an opportunity to participate in the bidding for communications equipment and to offer proposals for the technical assistance and training through A.I.D. small business procedures.

39. FAA §. 620 (h). Will the loan promote or assist the foreign aid projects or activities of the Communist-Bloc countries?

No.

40. FAA §. 621. If technical assistance is financed by the loan, information and conclusion whether such assistance will be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis. If the facilities of other Federal agencies will be utilized, information and conclusion on whether they are particularly suitable, are not competitive with private enterprise, and can be made available without undue interference with domestic programs.

Technical assistance for the project is expected to be furnished by either the U.S. private sector or the U.S. Department of Agriculture when more appropriate.

41. FAA §. 252 (a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources.

The entire amount of local currency obtained for the loan is expected to be consumed by the private sector of Brazil, pursuant to contracts let by municipalities receiving loan funds from the intermediate credit institution.

Loan's Compliance with Specific Requirements

42. FAA §. 201 (d). Is interest rate of loan at least 2% per annum during grace period and at least 3% per annum thereafter?

Yes.

43. FAA §. 608 (a). Information on measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.

Not applicable (See Part I-2-c).

44. FAA §. 604 (a). Will all commodity procurement financed under the loan be from U.S. except as otherwise determined by the President?

Yes.

45. FAA §. 604 (b). What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market price?

Not applicable.

46. FAA §. 604 (d). If the host country discriminates against U.S. marine insurance companies, will loan agreement require that marine insurance be placed in the U.S. on commodities financed by the loan?

Yes.

47. FAA §. 604 (e). If off-shore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?

Not applicable.

48. FAA §. 611 (b); App. §. 101. If loan finances water or water-related land resource construction project or program, is there a benefit-cost computation made, insofar as practicable, in accordance with the procedures set forth in the memorandum of the President dated May 15, 1962?

Not applicable.

49. FAA §. 611 (e). If contracts for construction are to be financed, what provision will be made that they be let on a competitive basis to maximum extent practicable?

Brazilian law so requires.

50. FAA §. 620 (c). What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property?

The loan agreement will not permit such use.

51. FAA §. 612 (b); §. 636 (h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized to meet the cost of contractual and other services.

For a discussion of the Brazilian contribution see Section V-A. No excess foreign currency is available as it has been programmed for complementary activities.

52. App. § 104. Will any loan fund be used to pay pensions for military personnel.

No.

53. App. § 106. If loan is for capital project, is there provision for A.I.D. approval of all contractors and contract terms?

GEMAB and BNDE will approve the subloan, the engineering and construction contracts on behalf of A.I.D. because $ 14 million of this is a loan to an intermediate credit institution. A.I.D. will approve a standard contract and procedures and criteria for contractor selection. For the technical assistance portion of the Loan A.I.D. will approve each individual contract.

54. App. § 108. Will any loan funds be used to pay U.N. assessments?

No.

55. App. § 109. Compliance with regulations on employment of U.S. and local personnel for funds obligated after April 30, 1964 (Regulation 7).

Not Applicable.

56. FAA § 636 (i). Will any loan funds be used to finance purchase, long-term lease, or exchange of motor vehicle manufactured outside the United States, or any guaranty of such a transaction?

No.

57. App. §. 401. Will any loan funds be used for publicity or propaganda purposes within U.S. not authorized by the Congress?

No.

58. FAA §. 620 (k). If construction of productive enterprise, will aggregate value of assistance to be furnished by U.S. exceed $100 million?

No.

59. FAA §. 612 (d). Does the U.S. own excess foreign currency and, if so, what arrangements have been made for its release?

No.

60. MMA §. 901.b. Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed with funds made available under this loan shall be transported on privately owned U.S. flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.

This requirement will be complied with in the loan agreement.

INTERNAL ALLOCATION OF RESOURCES IN BRAZIL

While there are no widely agreed upon or universally applicable criteria for evaluating a country's allocation of resources, one can judge proper allocation by its results in growth, stabilization, and distribution of welfare. In these terms, Brazil's past record and stated future intentions are encouraging.

In many important respects Brazil's recent economic record has been excellent. The growth of GDP recovered in 1966 and 1967 from the economic crisis of the early 60's, when growth dipped below 2% and per capita GDP actually declined. The 1966/67 expansion was largely a result of the reform policies of the revolutionary government and accelerated in 1968 and 1969, when GDP grew at an estimated 8-9% rate. Exports have risen very rapidly since 1964, especially during the past two years when the GOB's new system of mini-devaluations of the cruzeiro enabled Brazil to benefit greatly from the boom in world trade. The rate of inflation, although still high, was reduced sharply in the period 1964-67 from a former peak of over 80%, and further gradual progress has been achieved the last two years as the relative weight of priority in national economic policy has shifted from stabilization back to growth. The government deficit has been gradually but decisively reduced from a very inflationary level to only about 0.5% of GDP.

-- Federal tax receipts grew from 7.8% of GNP in 1961 to 10% in 1969. Recently an IMF study ranked Brazil first in tax effort among the developing countries. The overall tax rate in Brazil is a very high 24% of GNP.

-- A system of fiscal incentives for rebating income tax receipts for private investment in special areas or sectors including agro-industry has been remarkably successful particularly in promoting industrial expansion in the poor Northeast.

-- Total savings and investment have recovered from a low of 14.2% of GNP in 1963 to 16.8% in 1969.

An important question is whether the recent economic growth has resulted in increased welfare for the average Brazilian. At least for the non-agricultural work force this appears to be the case. During the 1960's, although the official real minimum wage

declined, average earnings increased. Of the non-agricultural work force, workers who earned less than half the minimum wage dropped from 37% to 22% of the work force and those earning at or above the minimum wage increased from 45% to 59% of the work force. Furthermore, the non-agriculture work-force grew at close to 5% a year.

Thus, the internal allocation of resources has been high enough and sufficiently effective to promote overall rapid economic growth and a somewhat better distribution of income. The GOB's stated priority for education, health and agriculture has been generally well reflected in resource allocations and policy measures affecting those sectors, which also are AID's priorities.

-- The agricultural sector has benefited from a wide number of programs encouraging modernization. Recently tax incentives have been created to promote investment. Exemptions from the value-added tax have ended previous disincentives to use modern inputs and to sell in the export market. Government spending on agriculture is a less significant indicator but it also increased 31% from 1961 to 1969.

Public expenditures on education jumped 11% a year during the 1960's. The Government plans for a continued rapid increase and ultimately the attainment of universal primary education. From 1966 to 1970, enrollments increased at the annual rates of 6% at the primary level and 14% at the secondary level. Educational opportunities are rapidly widening for the average urban and small town Brazilian.

Public spending in health and sanitation grew at close to 10% a year in the 1960's with major emphasis on campaigns against malaria, tuberculosis and other specific debilitating diseases.

The Government of Brazil has said its goals for the early 1970's will be an increase in GNP between 7% and 9% per year. The major emphasis in the public sector will continue to be on expanding educational and health services. Within a macro-economic policy framework aimed at rapid growth, continued gradual reduction in the rate of inflation, and a continued rapid rise in exports, the GOB's private sector development priorities will continue to feature the modernization of agriculture.

AID/W AUTHORIZATION OF IRR

CAEC Review held December 10 and IRR approved subject following:

A. Loan Paper analysis should explain relationship between wholesale markets and supermarkets, may they be considered severable, or are they interdependent? If interdependent, what is extent and nature of interdependence? Also if interdependent there should be allocation of funds for each segment, with limited authority to transfer from one segment to another.

B. Specifically identify Brazilian source of funds.

C. Evaluate unemployment effect of supermarket financing, carefully considering economic, social and political problems.

D. AID/W expects Loan Paper to have detailed analysis technical assistance requirements.

E. To what extent will repayment on subloans be relent again for same purpose? How will repayments be used?

Rogers

STRATEGIC DEVELOPMENT PLAN (EXCERPTS)

MODERNIZATION OF THE MARKETING STRUCTURE

The formulation of this policy has for its objective to determine the goals, directives and norms of operations to be adopted by the Federal Government for the modernization of the agricultural marketing system which constitutes the key stone of development in the agricultural sector.

The modernization of the system depends on the planning and implementation of four basic actions:

a) The installation of large wholesale marketing centers in the principal cities, that is, with more than 500.000 inhabitants;

b) The installation of smaller terminal markets in the urban centers of more than 100.000 inhabitants but less than 500.000;

c) The installation of regional assembly markets in the principal interior convergence centers where production is concentrated;

d) Fiscal and financial incentives for the installation of specialized industries which would process, prepare, and prepackage animal origin products and food in general.

In this stage of the planning other smaller centers at the state and local administrative level were not considered, that is, in communities with less than 100.000 inhabitants.

The market necessities which centralize distribution, are felt at the level of these smaller urban centers, however, these markets have the typical characteristics of mixed markets where the presence of the producer is frequent, that is, the producer sells his production directly to the consumer. The urban areas in these centers do not justify the installation of more complex and ample organizational units whose investment exceed the financial capacity of the vast majority of the local and state administrations.

A) Large Wholesale Centers

As urban income rises the demand for food does not rise in proportion, but on the other hand more diverse products are demanded, better quality and presentation become important and larger food outlets are necessary. The larger volumes of perishable food require facilities especifically designed

for the commerce of these products, facilities that insure the preservation of quality and high productivity in the handling of this type of products. Substancial reduction in cost can be achieved to the extent that these facilities are designed to take account of the volume of merchandise, the number of wholesalers, the necessities of handling and storage, the traffic patterns and means of transportation and a well articulated system of marketing information. Other important results from these investments are better quality products and a more rapid flow and consequently less spoilage. At the same time the retailers profit from this cost reduction, and these benefits are also transferred in part to the consumer.

The calculation of the dimension of these wholesale markets demands careful consideration, since the rapid growth of the large cities requires an increasing volume of produce. The depreciation of the investment must be considered over the long run in order that this amortization will allow a favorable balance of gains.

These wholesale markets must be designed for the long run and take account of the future growth in urban population and changes in consumer habits, i.e. as income increases demand for fruit and vegetable will grow faster than demand for cereals. Therefore, in-depth studies are necessary in order that these investments do not become obsolete before the end of their amortization period. According to criterion previously established the following urban centers will have priority for the installation, expansion or modernization of those already existing:

1. Grande São Paulo
2. Grande Rio de Janeiro
3. Recife
4. Belo Horizonte
5. Salvador
6. Pôrto Alegre
7. Fortaleza
8. Belém

B) Small Wholesale Markets

The small wholesale markets have the same function as large markets, being different only their degree of importance and size in the determination of investment priorities.

Small wholesale markets are designed for cities which have more than 100.000 and less than inhabitants, according to the 1960 census. These investments will have a lesser federal participation and greater participation by local government.

Table 96 lists the centers according to population in the 1960 census.

TABLE 96

Urban centers with more than 100 thousand inhabitants per small wholesale markets

CITIES	Population	County Population	Characteristics	Average annual growth rate
Natal	154 276	162 537	T	5,1
Manaus	154 040	175 343	T	4,8
Maceió	153 305	170 134	T	3,4
João Pessoa	135 820	155 117	T	2,8
São Luis	124 606	159 628	T	4,3
Aracaju	112 516	115 713	T	3,9
Terezina	100 006	144 799	T	3,8

The small wholesale markets should be designed with a dual purpose, that is, to attend local consumption needs and to expedite shipping to other centers.

The resources necessary for the installation of these markets is calculated by the capital coefficient of NCr$120 per square meter of land area (at 1968 prices) and the FAO coefficient of 100 square meters for each thousand inhabitants. It is evident that the volume of work and the differing degrees of needs among the various cities requires a long run program.

C) Regional Assembly Markets

Assembly markets will be installed in the principal marketing centers in the interior which are located close to the areas

of production. Taking into account that in the first phase these assembly markets will function mostly as distribution centers for cereals and dry goods installation cost will not be very high.

In order to implement these investments studies and research projects on the peculiarities of these principal interior marketing centers are necessary. These studies should take into account the problems of implementation of each project, the regulation of operations and the institutionalization of these markets.

The marketing of the principal agricultural products presents special characteristics according to the productive considered and the region in question. Peanuts, for example, are in general sold by the producers directly to the edible oil industry. Another small part of peanut production goes to consumption by normal commercial channels, and a type specially selected by hand is exported. Wheat is sold entirely to the Bank of Brazil. Soybeans are sold directly to the edible oil industries and exporters.

Rice, corn and beans have several marketing characteristics in common. Regional marketing patterns are determined by the flow of these products to nearby centers where in the first phase large lots of the regional production are assembled. These interior convergence centers may not be the most important local urban center, but nevertheless are characteristically a commercial center where a large volume of a particular crop is aggregated, at times even coming from some other regional production areas. The marketing and distribution patterns of three crops, rice, corn and beans, are in general not satisfactory, suffering numerous inefficiencies and a lack of integration among the various regional markets.

The institutionalization of assembly markets will thus attend to local needs and offer special services to the rural business in these marketing centers. The choice of the exact location of the investment will guarantee minimum rate of maintenance costs which in turn will assure satisfactory return for the services rendered.

The processing and packaging services to be rendered by these assembly markets have not previously existed, and significant economies of scale can be achieved by offering these services to a large number of producers and commercial agents

EXHIBIT C

(US$ 1,00 = NCr$ 4,40)

AREA AND MARKET COST ESTIMATE (US$)

	LARGE CENTERS				TYPE A SMALL CENTER				TYPE B SMALL CENTER			
	%	Area sq mts	Unit Cost	Total Cost	%	Area sq mts	Unit Cost	Total Cost	%	Area sq mts	Unit Cost	Total Cos
Horticulture Farm Products	30	16.500	57	935,138	29	6.380	57	360,453	29	4.640	57	262,972
Cereals and Dry Goods	40	22.000	60	1,321,661	36	7.920	60	476,070	36	5.760	60	345,037
Animal Origin Products	10	5.500	68	374,055	10	2.200	68	149,622	10	1.600	68	108,816
Administration Services and Trade	20	11.000	82	897,732	25	5.500	82	448,866	25	4.000	82	326,448
SUM 1	100	55.000	64	3,528,586	100	22.000	65	1,435,011	100	16.000	65	1,043,273
Preparation of Land and Pavement		165.000	7	1,122,165		66.000	7	448,866		48.000	7	326,448
SUM 2	56			4,650,751	56			1,883,877	56			1,369,721
Land: Cost an earth-filling	10	220.000		827,455	10	88.000		335,516	10	64.000		244,383
Equipment and Installations	18			1,489,419	18			603,022	18			439,798
Miscellaneous Expenses	16			1,323,928	16			537,279	16			385,390
T O T A L	100			8,291,553	100			3,359,694	100			2,443,826

Presidential Decree Nº 65.750 - November 26, 1969

Creates the Executive Group for the Modernization of the Food Supply System and other requirements.

The President of the Republic, using his power in conformity with Art. 81, item III and V, of the Constitution,

CONSIDERING the necessity to accelerate the executive measures to modernize the food supply system in the principal urban centers, in accordance with the priority established by Governmental Program;

CONSIDERING the necessity to adequately coordinate the construction program of Wholesale Centers and Terminal Markets Program in the principal demographic concentrations;

CONSIDERING the necessity to study the complementary means of executing this program, in regard to the work of grading and classification, of market information and the financial stimulus for the installation of supermarkets and systems of self-service stores;

CONSIDERING the necessity to study the financial resources to support the modernization of the food supply system, from internal and external origin;

CONSIDERING the necessity to coordinate the participation of the States and Municipalities in the execution of the program, decrees:

Art. 1º Creates the Modernization of the Food Supply System Group, with the purpose to study, propose and when in its competence, adopt all arrangements necessary to implement the program of construction of the Wholesale Centers and Terminal Markets, and take other measures necessary to modernize the food supply system.

Art. 2º The Executive Group, referred to in Art. 1º, will be presided by the Minister of Agriculture and will have as members a representative from the Ministries of Agriculture, Finance, Industry and Commerce, and Planning, the latter acting as the Executive Secretary, as well as the National Confederation of Commerce.

§1º Technicians from other administrative sectors directly or indirectly connected with the program will participate in the work of the Executive Group, when called.

§2º The Group will use administrative and technical support from federal organs linked to food supply.

Art. 3º The representatives of the various organs will be indicated to the Ministry of Agriculture within one week after the publication of the present Decree.

Art. 4º The present Decree will be in full force and effect on the date of its publication, all dispositions to the contrary revoked.

Brasilia, November 26, 1969
148º of Independence and 81º of Republic

Signed

Emilio G. Medici
Antônio Delfim Netto
L. F. Cirne Lima
Fabio Riodi Yassuda
João Paulo dos Reis Velloso

OFFICE OF THE MINISTER

Decree of January 13, 1970

The Minister of Agriculture, in the use of his power,

CONSIDERING the necessity to accelerate the establishment of Wholesale Centers and Terminal Markets, in accordance with the basic recommendations of His Excellency the President of the Republic;

CONSIDERING that the Brazilian Food Supply Company - COBAL - in the terms of its statutes (items V and VI, Art. 5º) is charged with the task of stimulating the construction of those installations necessary for the improvement of the national food supply system, and having the right to participate in the respective capitalization, resolves:

Nº 12 - Charges Dr. Rubens José de Castro Albuquerque, President of the Brazilian Food Supply Company - COBAL - to, in coordination with the representatives of the Ministry of Planning - Drs. Mauricio Rangel and Antônio Martins Chaves, in the Modernization of the Food Supply System Group (GEMAB), created by Decree Nº 65.750, of November 26, 1969, to take all the necessary arrangements for the effective establishment of the program, advising the referenced Group of all the measures taken.

Signed

L. F. Cirne Lima

MINISTRY OF AGRICULTURE

OFFICE OF THE MINISTER

Regulation of March 17, 1970

The Minister of Agriculture, using his legal powers and in view of the dispositions of Decree No. 65,750, of November 26, 1969:

No. 131 - Set forth the regulations of the Executive Group for the Modernization of the Food Supply System.

Art. 1 - The main purpose of the Executive Group for the Modernization of the Food Supply - GEMAB, will be as follows:

a) To coordinate the program of implementation of wholesale centers and terminal markets;

b) To approve the economic feasibility studies for the construction or expansion of the wholesale centers and terminal markets;

c) To recommend to the Brazilian Food Supply Company - COBAL and to the National Economic Development Bank - BNDE, the concession of a shareholder participation and financing, referred to in Articles 1st, 2nd and 3rd, and respective paragraphs of Decree No. 66,332 of March 17, 1970;

d) To recommend the executive measures necessary for the implementation of the construction program for the establishment of wholesale centers and terminal markets in the principal urban centers, in accordance with the priority set forth by the Government Program;

e) To study and coordinate the complementary means necessary to execute this program, with respect to the works of grading and classification of food products of vetetal or animal origin, of marketing research and of financial assistance for the installation of supermarkets and self-service stores;

f) To ellaborate studies and projects leading to the obtaining of financial resources, internal and external, to attend to the National Program of Modernization of the Supply System;

g) To provide technical assistance to the states and municipalities in the preparation of technical, economical feasibility studies for the wholesale centers and terminal markets;

h) To stimulate the completion of studies and research leading toward the Modernization of the Supply System and to provide for the formation and training of technicians in food marketing;

i) To cooperate with the Brazilian Food Supply Company - COBAL, in the fulfillment of its objective, mainly that which deals with items III and VI of Article 5th of its Statutes;

j) To suggest the adoption of necessary means for the modernization of the supply system.

Art. 2 - The Executive Group for the Modernization of the Supply System - GEMAB, consists of the Minister of Agriculture as Chairman, the President of COBAL as representative of the Ministry of Agriculture, and the Vice-President who will act as Chairman in the absence of the President, as well as representative of the Ministries of Planning, Finance, Industry and Commerce and the Confederação Nacional do Comércio.

§ 1 - GEMAB executive functions stated in Art. 1 will be fulfilled in close collaboration with the BNDE and the President of GEMAB will request the appointment of BNDE technicians for this purpose.

§ 2 - The members of GEMAB, referred to in the begining of this Article will be indicated by the respective ministries and the Confederação Nacional do Comércio, to the Minister of Agriculture which will designate them by this Portaria.

Art. 3 - The Executive Secretariat of GEMAB will be constituted by an Executive Secretary and of a Vice-Executive Secretary both indicated by the Ministry of Planning and General Coordination.

Art. 4 - GEMAB will have in its internal organization a Board of Directors subordinated directly to the President, the Executive Secretariat and a Technical Advisory Board.

Art. 5 - It shall fall to the President of the Group or, by his delegation, to the Executive Secretariat to represent GEMAB before any public or private agency, communicating the result to the Board of Directors.

Art. 6 - The Board of Directors by order of the President will meet every two weeks in ordinary sessions or at any time in extraordinary sessions to:

I - Fix general criteria and establish norms for its application with the objective of creating ideal conditions to make concrete the plans of the Federal Government with regard to the Supply Sector;

II - Establish norms with regard to presentation and analysis of projects for the construction of wholesale centers and terminal markets leading to adoption of standards - under architectural, operational and administrative

aspects, with a view to racionalizing and reducing the costs.

III - Grant the projects and studies presented to GEMAB, recommending the concession of priorities having in view the urgency and nature taking into consideration the available resources;

IV - Approve the projects and studies which the previous item deals with.

Art. 7 - The decisions of the Board of Directors will be taken by absolute majority of its members attributing to the President the deciding vote.

Art. 8 - The President of GEMAB will be authorized to:

I - Call into session and preside the Board of Directors;

II - Create upon previous advise of the Board of Directors, subcommissions and work groups which will be necessary;

III - Accept and promote the collaboration of public and private institutions with interest in the works of GEMAB, entering into necessary agreements;

IV - Represent GEMAB before any public and private institutions;

V - Practice all the acts that are necessary for the true execution of the objectives of GEMAB;

VI - To delegate attributions, in all or in part.

Art. 9 - The Executive Secretary will be authorized to:

I - Coordinate the activities of GEMAB;

II - Maintain the documents and books of GEMAB including that of meetings and acts;

III - Execute whatever other duties determined by the Presidency;

Art. 10 - The Technical Advisory Organ will consist of the technical assessment of the Board, the Presidency and the Executive Secretary.

Art. 11 - COBAL, in whose offices GEMAB will be located, will provide the technical, administrative and financial assistance necessary for the operation of the program including personnel and materials.

Art. 12 - The Board will solve unforseen cases and establish the orientation to be followed.

The Minister of Agriculture, in the use of his powers:

Considering the disposition of Article 3 of Decree No. 65.750 of 26 November 1969;

Considering the disposition of Ministerial Decree No. 12 of 13 January 1970;

Considering the disposition of Ministerial Decree No. 131 which approved to Internal Regulations of GEMAB, resolves:

No. 132 - Designate for members of GEMAB, which was instituted by Decree No. 65,750 of 26 November 1969, the following persons:

a) Dr. Rubens José de Castro Albuquerque, as primary and Dr. Pedro Morellato Filho, alternate, respectively, representing the Ministry of Agriculture;

b) Dr. Mauricio Rangel Reis, as primary and Dr. Antonio Martins Chaves, respectively, as representatives of the Ministry of Planning;

c) Dr. Persio de Carvalho Junqueira as primary and Dr. Cyro Freire Cury as alternate, respectively, as representatives of the Ministry of Finance;

d) Col. Luciano Guimarães de Souza Leão, as representative of the Confederação Nacional do Comércio;

2. Attribute to Dr. Mauricio Reis and to Dr. Antonio Martins Chaves, representatives of the Ministry of Planning, the functions of Executive Secretary and Assistant Executive Secretary, respectively, observing the disposition in Art. 3 of the Internal Regulation of GEMAB.

The Minister of Agriculture, in the use of his legal powers and,

Considering that COBAL, a Public Federal Company created by Law No. 6 of 26 September 1962 has as its end the execution of Government plans and programs related to Food Supply;

Considering that COBAL is related to the Ministry of Agriculture having intimate relations between the two entities;

Considering that the Director President of COBAL, Dr. Rubens José de Castro Albuquerque, was indicated by Ministerial Decree No. 132 for GEMAB, in the quality of the representative of the Ministry of Agriculture;

Considering the principles of decentralization and delegation recommended by Decree Law No. 200 of 25 February 1967;

Considering the disposition of Ministerial Decree No. 689 which approved the Internal Regulation of GEMAB created by Decree No. 65,750, of 26 November 1969, resolves:

No. 133 - To delegate to Dr. Rubens José de Castro Albuquerque, President of COBAL and representative of the Ministry of Agriculture in GEMAB, the powers conceded by Articles 2 and its paragraphs and articles 5, 6, 7 and 8 of the above cited Internal Regulations of GEMAB, approved by Ministerial Decree No. 131 of 17 March 1970.

Presidential Decree Nº 66.332 - March 17, 1970

Regulates the operating procedures of financing to the system of wholesale centers and provides other provisions.

The President of the Republic, using his power in conformity with Art. 81, item III, of the Constitution and considering the necessity to accelerate the execution of the Governmental Program to modernize the food supply national systems, decrees:

Art. 1º The Brazilian Food Supply Company - COBAL - in accordance with items III to VI, Art. 5º of its statutes, will participate in the capital of the public enterprises or mixed economy companies, in the regional, state or municipal sphere, existing or to be created, with the objective to supervise the Wholesale Centers or Terminal Markets, to support the program of construction or expansion, within the norms established by the Executive Group for the Modernization of Food Supply System - GEMAB, created by Decree Nº 65.750, November 26, 1969.

Sole Paragraph - The participation referred to in this article will not exceed 30% (thirty percent) of the total investment of each project.

Art. 2º The Brazilian Food Supply Company - COBAL - is authorized to contract from the National Economic Development Bank - BNDE - loans to support its financial participation in the construction or expansion of Wholesale Centers or Terminal Markets, through appropriate guarantees.

Art. 3º The participation of COBAL, within the limits indicated in Art. 1º will be defined in the Wholesale Center and Terminal Market projects analyzed by GEMAB, with the participation of the BNDE, through criteria established in the agreement to be signed between the Bank and COBAL.

Art. 4º Independently from the determinations set forth in the anterior articles, the BNDE will grant the entities mentioned in Art. 1º, financing not to exceed 40% (forty percent) of total investment, under conditions which take into account the type of each project, and in compliance with the laws and regulations that govern its financial activities.

Art. 5º The Modernization Group of the Food Supply System will examine, together with the Superintendency for the Development of the Northeast (SUDENE), through CANESA, a more adequate financial scheme for the construction of the Wholesale Centers and Terminal Markets in the areas of competence of that regional organization.

Art. 6º The Executive Group of Modernization of the Food Supply System, created by Decree Nº 65.750, of November 26, 1969, will be in charge of the conclusive analysis of the projects of Wholesale Centers and Terminal Markets, together with the BNDE technicians, taking all steps to assure a perfect coordination among the units to be constructed, in order to achieve a maximum efficiency and rationality.

Art. 7º The present decree will be in full force and effect on the date of its publication, all dispositions to the contrary are revoked.

Brasilia, March 17, 1970

149º of Independence and 82º of Republic

Signed

Emilio G. Medici
Antônio Delfim Netto
L. F. Cirne Lima
João Paulo dos Reis Velloso

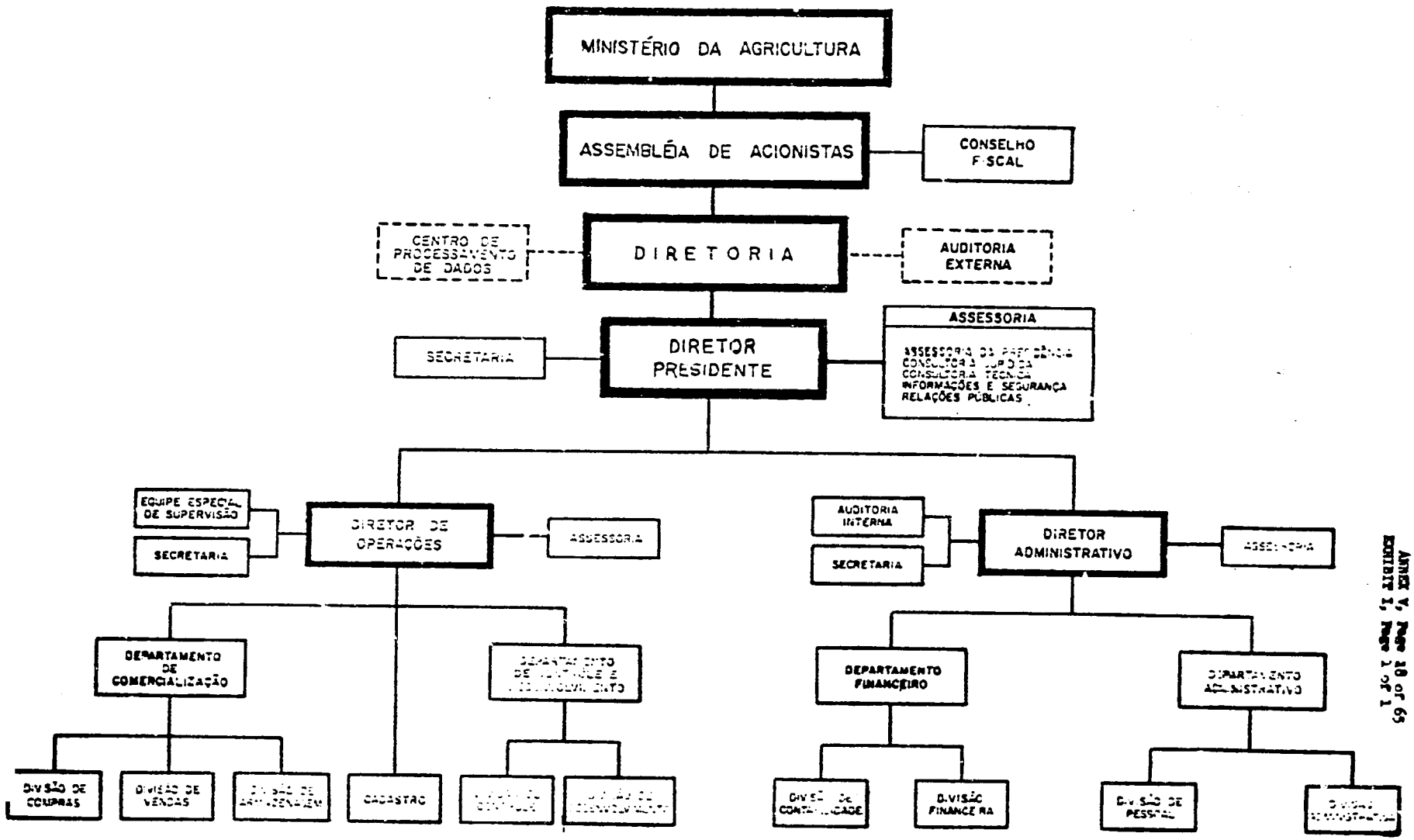
UTILIZATION OF COUNTERPART RESOURCES FROM PL 480 WHEAT SALES AGREEMENT FROM 1966 TO PRESENT (VI, VII, VIII, AND IX WHEAT AGREEMENTS)

(Figures in parenthesis are non-additive)

Cr$ Millions

	VI WHEAT AGREEMENT APRIL 1966	VII WHEAT AGREEMENT OCTOBER 1967	VIII WHEAT AGREEMENT DECEMBER 1969	IX WHEAT AGREEMENT MAY 1970 (programmed)
1) Rio-São Paulo Road	50.0	-	-	-
2) Southern States Highway Maintenance Loan Supplement	14.6 1/	-	-	-
3) Agricultural Research (EPE)	-	4.0	8.1	-
4) Meteorological Service	-	0.4	1.0	-
5) National Research Council (CNPq)	-	0.6	2.0	-
6) SUNAB	-	3.0	4.0	-
7) FUNFERTIL	-	4.0	-	-
8) ABCAR	-	3.0	-	-
9) Cooperatives	-	16.8	-	-
10) Credit: Agriculture - (21.5) Fertilizer - (17.6)	-	39.1	-	-
11) Seeds	-	2.5	-	-
12) SUVALE	-	2.7	6.0	-
13) Agricultural Marketing Roads - (8.0) Supply Centers - (7.2) Milk Plants - (0.3)	-	15.5	-	-
14) Irrigation - Ministry of Interior	-	-	6.4	-
15) IBGE Foundation	-	-	7.1	-
16) ETA - Mogiana	-	-	0.9	-
17) GERAN	-	-	2.2	-
18) Budget Support: (many of separate items listed above now included under general categories below)	-	-	67.82	75.15
a. Agricultural credit	-	-	(34.92)	(32.50)
b. Agricultural Production	-	-	(6.55)	(16.15)
c. Agricultural Marketing	-	-	(17.35)	(18.15)
d. Rural Roads	-	-	(9.0)	(.85)
e. Agricultural Research (of which EPE received Cr$4.2 and CNPq Cr$6 million)	-	-	-	(7.50)
TOTALS	64.6	91.6	88.22	75.15

1/ Central Bank transferred "temporarily" to DNER on instruction of Ministry of Finance, 9-12-69.


MINISTÉRIO DA AGRICULTURA
ASSEMBLÉA DE ACIONISTAS
CONSELHO FISCAL
CENTRO DE PROCESSAMENTO DE DADOS
DIRETORIA
AUDITORIA EXTERNA
SECRETARIA
DIRETOR PRESIDENTE
ASSESSORIA
INFORMAÇÕES E SEGURANÇA
RELAÇÕES PÚBLICAS
EQUIPE ESPECIAL DE SUPERVISÃO
SECRETARIA
DIRETOR DE OPERAÇÕES
ASSESSORIA
AUDITORIA INTERNA
SECRETARIA
DIRETOR ADMINISTRATIVO
DEPARTAMENTO DE COMERCIALIZAÇÃO
DEPARTAMENTO FINANCEIRO
DIVISÃO DE COMPRAS
DIVISÃO DE VENDAS
CADASTRO
DIVISÃO FINANCEIRA
DIVISÃO DE PESSOAL

Terms of the Accord approved by the Ministers of Planning, Agriculture, the BNDE, and COBAL.

FIRST CLAUSE

In carrying out that which was ordered in the Federal Decree Nº 66.332, of March 17, 1970, BNDE will grant COBAL the necessary financing for the financial participation of this Governmental Enterprise in the capital of the companies, the existing ones and others to be created, with the object of managing the Food Market Centers or Terminal Markets which were created in accordance with the Decree Nos. 65.750 and 66.332, of November 26, 1969 and March 17, 1970, respectively, in the total amount of Cr$100,000,000,00 (Cr$100 million).

SECOND CLAUSE

The financing to COBAL to be granted by BNDE will be under the following conditions:

a. Interest: 4% p.a.
b. Monetary Correction: according to indexes and basis established by the National Treasury.
c. The amortization and grace period not exceeding 20 years, including the grace period, will vary with the characteristics of the project.

THIRD CLAUSE

The participation of COBAL, in the Capital of the Companies mentioned in the First Clause of this agreement, will be subject to prior approval of the feasibility study of each project by GEMAB - assisted by technicians indicated by BNDE - which, among other things include the following:

a. inclusion of the elements of information required by BNDE, in order to simplify the technical information in the field of BNDE, allowing its prompt submission of this organization with the power to decide.
b. approval of the interested governments that the chattles and the properties of the Enterprises be mortgaged or pledged to BNDE, including granting shareholder participation to COBAL;
c. approval of the interested governments in guaranteeing, independently of retaining, subsidizing, the resources of the participation fund of the states and municipalities by which the interested governments will represent as intervening-guarantor in each financing contract;
d. approval of Tribunal de Contas da União Federal regarding the regularity of payment of the bills of the interested states and municipalities, in conformity with Resolution 79/69 of that Tribunal, with the objective of compromising the respective shares of the Participating Fund of the state and municipalities.

SOLE PARAGRAPH

The provisions of this contract will apply as applicable, to Food Market Centers of the Northeast - CANESA.

FOURTH CLAUSE

COBAL assumes the obligation, independently of what is stated in line b of the Third Clause, above, to pledge the shares that they will subscribe to in each Company, and obligate, as way of payment, the funds to be included in the Federal Budget, relative to the Ministry of Agriculture, according to the terms of Ministerial Note Nº 223, July 4, 1970, from the Ministers of Planning and General Coordination and Agriculture, that become part of this agreement.

This agreement enters into effect on this date.

Rio de Janeiro, September 18, 1970

SIGNED:

Joao Paulo dos Reis Velloso
Minister of Planning

Luiz Fernando Cirne Lima
Minister of Agriculture

Banco Nacional do Desenvolvimento Econômico - BNDE

Jayme Magrassi de Sá
President

Companhia Brasileira de Alimentos - COBAL

Rubens de Albuquerque
President

BNDE Balance Sheets - US$ Thousands

	1965	1966	1967	1968	1969
Assets					
Cash	17,228	6,465	13,860	23,207	23,022
Current Assets	108,395	170,443	169,922	146,120	132,270
Long Term Assets	278,453	425,147	562,425	555,208	748,840
Accrued Income	6	48	2,493	11,591	16,437
Fixed Assets	3,409	3,744	6,000	5,868	5,326
Total Assets	407,491	605,847	754,700	741,994	925,895
Liabilities					
Current Liabilities	59,204	57,346	83,546	76,453	73,627
Long Term Liabilities	209,775	232,368	215,655	186,355	204,428
Unearned Income	1,863	2,692	43,490	22,112	15,021
Total Liabilities	270,842	292,406	342,691	284,920	293,076
Capital					
Provision-Special Funds	1,207	891	626	1,198	907
Capital and Reserves	135,442	312,550	411,383	455,876	631,912
Total Capital	136,649	313,441	412,009	457,074	632,819

Source: BNDE

BNDE - NATIONAL BANK FOR ECONOMIC DEVELOPMENT

PROJECTED SOURCE AND APPLICATION OF FUNDS

(IN US$ MILLION)

	1970	1971	1972	1973	1974	TOTAL
A. SOURCES						
I. INDIA'S OWN SOURCES	330.2	392.6	458.0	515.2	584.2	2,280.2
1. Balance Available for Investment	12.0	5.4	6.6	8.1	11.3	43.4
2. Federal Budget Support	93.9	122.0	142.1	135.5	138.4	631.9
3. Monetary Reserve Allocation	127.9	158.8	193.4	240.0	288.5	1,008.6
4. Return on Bank's Operation	36.6	56.4	63.6	71.9	80.5	309.0
5. Operational Balance	43.5	45.6	48.0	55.0	60.8	252.9
6. Miscellaneous	16.3	4.4	4.3	4.7	4.7	34.4
II. FOREIGN LOANS	37.7	33.0	31.6	35.2	35.2	172.7
1. Existing Loans	37.7	16.5	15.2			69.4
IDB	9.6					9.6
KFW	8.2					8.2
AID 7th sales PL-480	3.8					3.8
8th sales PL-480 1/	0.9					0.9
Denmark	0.3					0.3
Continental Illinois	0.3					0.3
Reapplied revenue from foreign loans	15.5	16.5	15.2			47.2
2. Loans under Negotiation		16.5	16.4			32.9
IDB		11.8	11.8			23.6
KFW		3.8	3.8			7.6
EXIMBANK		.9	.8			1.7
AID- Markets		4.0	5.0	5.0		14.0
AID- Rural Roads 2/		4.0	8.3	8.3	3.3	23.9
3. Loans to be negotiated				35.2	35.2	70.4
TOTAL FUNDS AVAILABLE	368.8	433.6	502.9	563.7	622.7	2,491.7
B. APPLICATION						
1. Debt Service	4.3	5.7	6.0	6.2	7.9	30.1
2. Minimum Cash Reserve	5.4	6.6	8.1	11.3	15.5	46.9
3. Application of free resources						
a. Basic industries	123.9	175.4	205.9	230.8	258.5	994.5
b. Mining and Mineral research	8.2	16.8	19.0	22.0	23.9	89.9
c. Agriculture, cattle raising Food production and distribution system (AID Ag. markets)	23.7	25.1	30.8	34.8	32.4	146.0
d. Public Services - power, transportation and telecommunications (AID Rural Roads)	99.8	95.5	97.5	108.1	115.0	515.9
4. Special Programs						
FINAME	50.2	53.0	61.0	69.1	76.3	308.6
FUNTEP	4.8	5.0	5.4	6.0	6.8	28.0
FUNDEPRO	2.7	4.7	4.7	5.1	5.8	23.0
FUNTEC	10.6	10.6	10.6	11.8	13.2	56.8
FINAME	18.8	18.8	30.5	34.1	38.1	140.3
FUNGIRO	16.4	16.4	23.4	26.2	29.3	111.7
TOTAL FUND APPLICATION	368.8	433.6	502.9	563.7	622.7	2,491.7

1/ PL-480 monies from the 8th wheat sales agreement programmed for rural roads (1970)

2/ Planned expenditure of $1.1 million in 1975 increases the AID Rural Road loan value to $25.0 million

FOOTNOTES TO THE PROJECTED SOURCE AND APPLICATION OF FUNDS STATEMENT

The projections for the first three years (1970-1972) of the five year projection were made by the BNDE on the basis on their three year plan. The projections for 1973-1974 were based on the BNDE's estimates of their sources and application of funds during those years. The sources of BNDE funds are:

1) Monetary Reserve Allocation which represents 95% of the proceeds of the Financial Operations tax collected by the Central Bank of Brazil. The proceeds from the Financial Operations tax, which is imposed on all financial transactions, are deposited in the Central Bank and constitute the Monetary Reserve of the Republic. Of this amount, 5% is apportioned to the Central Bank and 95% is transferred to the BNDE upon approval by the Ministry of Planning of the BNDE's Annual Investment Budget.

2) Federal Budget Support. If the Monetary Reserve Allocation is insufficient to meet the requirements of the BNDE's Annual Investment Budget as approved by the Ministry of Planning, the balance required is included in the annual federal budget.

3) Proceeds from past lending operations are broken into two categories:

   a) "Operational Balance" represents the receipts from interest, fees, and penalty payments less the expenses incurred for operations.

   b) "Return on Banks Operations" represents the gross receipts of the BNDE from loans granted minus payments made by the bank on behalf of a borrower for whom the bank is guarantor.

4) Balance Available for Investment represents the minimum cash reserve of the prior year.

5) Miscellaneous Receipts are all other cash receipts not otherwise identified as to source.

6) Foreign Loans - on the projected source and application statement, the estimated drawdowns of present loans are

shown, as well as pending loans with reasonable prospects of being signed. For 1973 and 1974 the bank estimates that foreign loans to the bank will approximate the 70-72 levels.

a) Resources from existing foreign loans to the BNDE to be disbursed during 1970 include:

1. IDB - US$9.6 million (NCr$40.7 million) of which Ncr$11.6 million will go to FUNESP for financing of technical feasibility studies and the remaining to FIPEME (loans to small and medium sized enterprises).

2. Kreditanstalt für Wiederanfban - US$8.2 million all of which will go to FIPEME.

3. A.I.D. - NCr$15.5 million (US$3.8 million) from the VII Wheat Agreement (PL 480) for rural roads (NCr$8.0 million) agricultural supply centers (NCr$7.2 million) and milk plants (NCr$0.3 million) NCr$4.0 million (US$0.9 million) from VIII Wheat Agreement (PL 480) for rural roads.

4. Danish government loan - US$0.3 million for industrial credit.

5. Continental Bank of Illinois - US$0.3 million for FUNTEC.

b) Foreign loans under negotiations are:

1. Kreditanstalt für Wiederanfban
   Amount: DM27,084,000.00
   Terms: 30 years with 7 years grace period
   Purpose: Capital goods import
   Degree of Firmness: 100% Pending signature of agreement between Brazil and Germany.

2. Interamerican Development Bank
   Amount: US$22,000,000.00
   Terms: 15 years with 3 years grace period
   Purpose: Capital goods import and attendant local currency costs
   Degree of Firmness: This will be the 4th similar loan to be signed with IDB. BNDE foresees no problem.

3) **Export Import Bank of the United States**
Amount: US$1,500,000.00
Terms: 6 years with 1 year grace period
Purpose: For additional capitalization of FIPEME and for import of capital goods
Degree of Firmness: Loan Agreement ready to be signed.

Applications:

A) Debt Service - Interest and Principal due on foreign loans

B) Minimum Cash Reserve - The minimum cash reserve estimated to be required by the BNDE to meet contingencies known or anticipated during the year. For example, under the Rural Road program initiated in 1968, the bank has signed loan agreements in the amount of NCr$104,077,000. However, the bank has established a gross contingency of NCr$4,000.000 to meet overrun cost which, if justified by the project, the bank may close to finance on a 60% basis.

C) The remaining applications relate to program sectors and special fund programs of the BNDE.

BANCO NACIONAL DO DESENVOLVIMENTO ECONOMICO - (BNDE)

Operating Statements - 1968 and 1969
(US$ Thousands)

Current Operating Income	1968	1969
Interest Earned	$10,992	$16,212
Late Payment Interest	982	299
Operating Commission	703	1,212
Inspection Fee	1,468	2,259
Commitment Fee	98	161
Guarantor's Fee	52	380
Service Charges	193	148
Miscellaneous Fund Income	28	607
Miscellaneous Loans Income	267	125
BNDE/Central Bank Agreement	17,037	626
Monetary Correction Earned	-	17,037
Non Current Income		
Interest Earned - Deposits and Securities	595	147
Dividends and Real Estate Income	1,161	142
Other Income	9,724	312
Total Income	43,300	22,631
Current Operating Expenses		
Salaries	1,960	3,211
Supplies	24	23
Contractual Services	530	201
Economic Reequipment Fund Expenses	630	371
Fipeme, Fünderpro and Funtec Expenses	2,497	1,894
Interest Expenses	8	6
Interest on Borrowed Money	530	970
Depreciation	151	194
Other Current Operating Expenses	633	775
Total Expenses	6,963	7,645
Net Profit	36,337	14,986
Net Additions to Capital	(36,337)	(14,986)

BNDE Approved Financial Assistance for 1960-69 (US$ Thousands)

Year	Direct Assistant	Provision of Guarantee	Total
1960	94,025	50,169	144,194
1961	116,934	62,836	179,770
1962	79,270	67,533	146,803
1963	76,167	10,755	86,922
1964	94,610	2,481	97,091
1965	206,882	55,423	262,305
1966	222,931	44,268	267,199
1967	245,667	44,442	290,109
1968	260,629	89,666	350,295
1969	310,067	111,821	421,888

BNDE - ORGANIZATION CHART

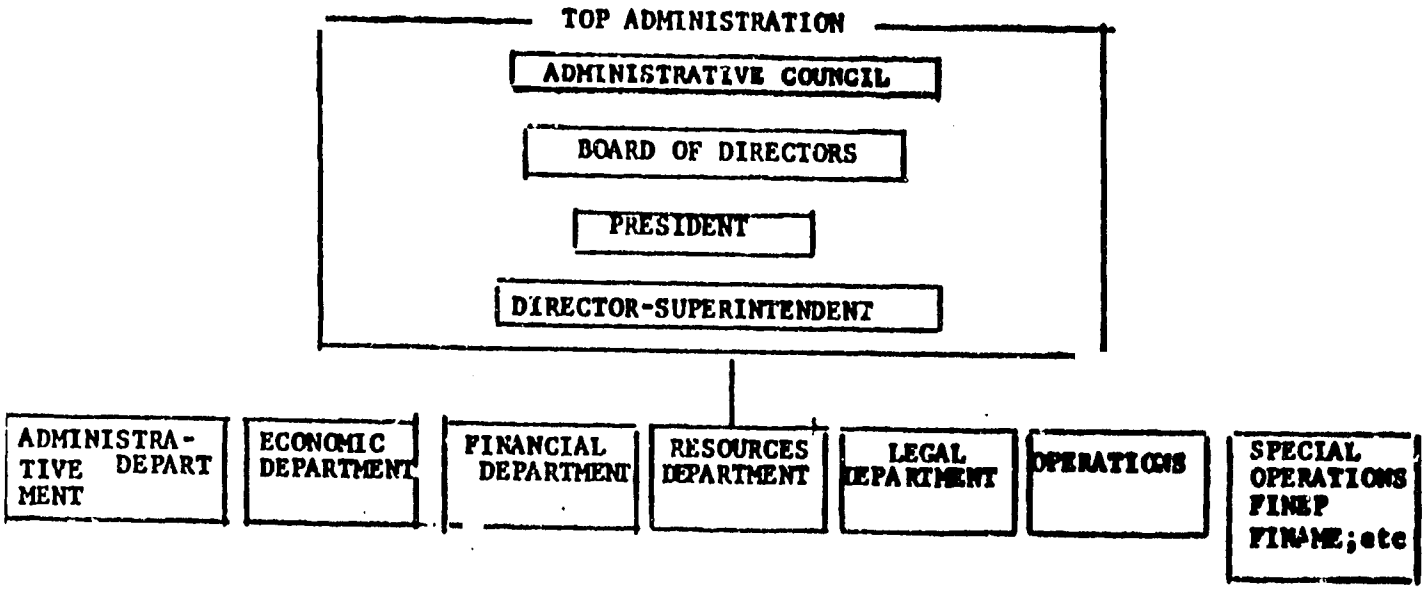
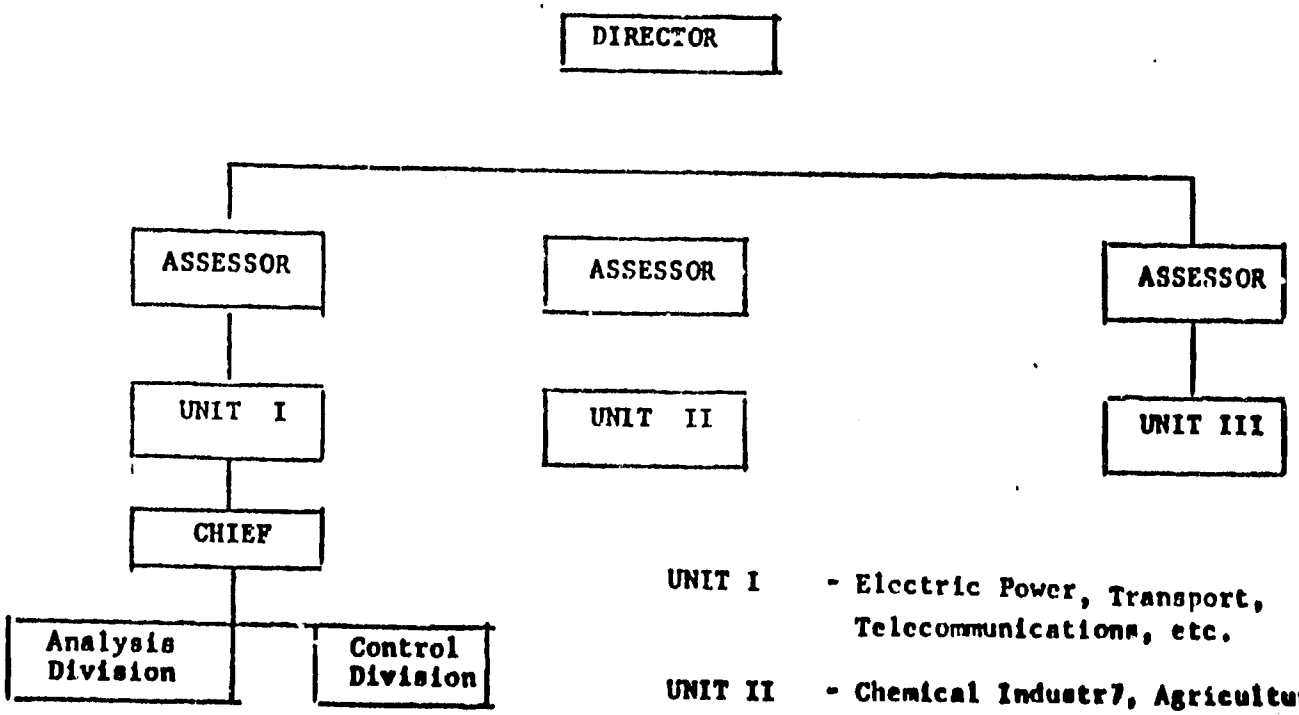


Table : ORGANIZATION CHART OF THE DEPARTMENT OF OPERATIONS



UNIT I - Electric Power, Transport, Telecommunications, etc.

UNIT II - Chemical Industry, Agriculture

UNIT III - Mining, Steel Industry, Mechanical Industry, etc.

LS-21017
R-XX/R-XXXIV
Portuguese

SUPPLY CENTER OF . . . . . .

BYLAWS

Chapter I

Name, headquarters, purpose, and duration

Article 1. The Supply Center of . . . . . is a mixed-economy company governed by legislation currently in force and by these bylaws.

Single paragraph. The Company shall be an integral part of the System of Supply Centers under the program established by the Federal Government.

Article 2. The Company shall have its headquarters and legal domicile in the city of . . . . . ., capital of the State of . . . . . ., and it may set up and maintain branches, agencies, and representatives wherever it sees fit.

Article 3. The purpose of the Company shall be to:

a. Construct, install, operate, and administer, in this capital city and elsewhere in the State, Supply Centers designed to function as a polarizing and coordinating center for supplies of foodstuffs and as an incentive to agricultural production;

b. Participate in supply r. ns and programs coordinated by the Federal Government, and at the same time promote and facilitate trade with other Supply Centers;

c. Sign agreements, contracts, or other types of trade arrangements with natural or juristic persons, public or private, national or foreign, in order to facilitate and/or participate in activities intended to improve the supply of agricultural products;

d. Promote special or systematic technical-economic studies for the purpose of providing the groundwork for the improvement and modernization of marketing processes and methods pertaining to supplies of foodstuffs.

Article 4. The life of the Company shall be indefinite.

Chapter II

Corporate capital

Article 5. The capital of the Company shall be . . . . . new cruzeiros, divided into . . . . . ordinary registered shares having a nominal value of one new cruzeiro.

Article 6. The subscription and composition of the corporate capital shall be carried out as follows:

% - Federal Government, through the Companhia Brasileira de Alimentos (COBAL) /Brazilian Food Company/

% - State Government

% - Municipal Government

% - Users of the Center

(NOTE: The composition of the corporate capital shall be studied according to each specific project.)

Chapter III

Administration

Article 7. The Company shall be administered by a Board of Directors composed of four members, to wit: One Director who shall be Chairman, a Financial Director, a Technical Director, and an Administrative Director, to be elected by the General Assembly.

(1) The Directors must be persons of recognized technical and administrative ability.

(2) The Financial Director shall be nominated by the Federal Government through the COBAL.

persons of superior level and known experience in agricultural marketing.

(4) The term of office of the Directors shall be four years, extending from the date of the General Assembly that elects them to the date of election of the next Board of Directors; they may be re-elected as provided by law.

(5) Each Director, or someone acting for him, shall give a liability bond, in the form of 200 shares in the Company. When such bond has been provided, the Director shall take office, signing a statement to that effect, to be recorded in the book of Minutes of the Meetings of the Board of Directors.

(6) The Directors shall receive the monthly fees determined for them by the General Assembly according to legal provisions.

(7) The Board of Directors must meet once a month and otherwise whenever necessary; decisions shall be taken by a majority vote, and in case of a tie the Chairman shall cast the deciding vote in addition to his regular vote.

(8) A Director who fails to perform his duties for more than 30 consecutive days without the consent of the Board shall lose his post.

(9) In case of the absence or disability of the Chairman, he shall be replaced by the Financial Director, and the other Directors may replace each other, according to provisions made by the Board, each carrying out his duties cumulatively.

(10) In case of a vacancy, a temporary substitute shall be chosen by the Board of Directors and he shall hold office until the date of the first General Assembly thereafter, which must be convened in no more than 30 days and which shall elect the permanent substitute to complete the term of the former member.

Chapter IV

Powers and duties

Article 8. The Board of Directors shall have the following powers and duties:

a. To manage the Company and set the guidelines for achievement of its goals;

b. To enforce and cause to be enforced legislation, the Company's bylaws, its internal rules and regulations, and the decisions of the General Assembly;

c. To authorize the conclusion of agreements, contracts, and arrangements with natural or juristic persons, public or private, national or foreign, relating to attainment of the Company's purposes;

d. To authorize the purchase or encumbrance of movable goods and the alienation of such goods as become unnecessary, and, with respect to immovable properties, complying with the decisions of the General Assembly;

e. To organize the internal rules and regulations of the Company;

f. To submit to the Regular General Assembly a report on the fiscal year and an annual balance sheet;

g. To convene the General Assemblies;

h. To authorize the creation of positions or services; to appoint, suspend, and dismiss employees, determining their classifications, and setting their wages, salaries, and bonuses, on the proposal of the Directors;

i. To authorize the establishment or the elimination of branches, agencies, or representatives;

j. To decide on operations which, although not profitable, are necessary to meet the supply requirements of the public;

k. To control and decide on all business affairs of the Company, whatever their nature may be, with powers to compromise and to withdraw.

Single paragraph. The item referring to personnel expenses, including social charges, shall not exceed . . . . % of operational receipts. (Note: This percentage shall be fixed according to the forecasts of initial receipts and costs as shown in the technical and economic feasibility projects.)

Article 9. In addition to other functions vested in the Directors at meetings of the Board of Directors and recorded in the Minutes thereof, they shall especially have the following duties:

I. The Chairman:

a. To enforce and cause to be enforced legislation, the Company's bylaws, its internal rules and regulations, and the decisions of the General Assembly and the Board of Directors;

b. To supervise and coordinate all of the activities of the Company and its departments;

c. To act as the Company's official representative in all its relations, either with the administrative authorities, or in or out of the courts; to do this, he and the Financial Director may appoint proxies or attorneys;

d. To convene and preside over meetings of the Board of Directors and the Advisory Council;

e. To preside over the General Assemblies;

f. To sign, with the Financial Director, contracts, arrangements, and agreements approved by the Board of Directors;

g. Transmit to the Fiscal Council the inventory, balance sheet, and administrative accounts, and submit to the General Assembly the report approved by the Board of Directors and documentary information pertaining thereto.

II. The Financial Director:

a. To guide and direct the Company's financial management and accounting organization;

b. To be responsible for the safekeeping of the Company's securities;

c. To organize the financial report for the fiscal year and prepare the annual balance sheet;

d. To exercise control over the execution of the Company's works according to the financial timetable;

e. To submit to the Board of Directors at the end of each fiscal year the Company's annual budget for the following year, based on the plan of activities prepared by the Technical and Administrative Directors.

III. The Technical Director:

a. To develop and present to the Board of Directors technical and economic studies designed to give benefits and incentive to the producer and merchant and protection to the consumer;

b. To promote the study and regulation of the functioning of the Company's markets and specialized facilities;

c. To plan and supervise programs for the execution of installation and expansion projects, and the installation of equipment under the Company's charge;

d. To supervise the use of facilities belonging to the Company;

e. To supervise services for the maintenance of facilities and equipment;

f. To submit to the Board of Directors at the end of each fiscal year the work plan of the Company's activities.

IV. The Administrative Director:

a. To act as secretary at meetings of the Board of Directors and to write the Minutes;

b. To direct the routine business and work of the secretariat;

c. To have custody of and be responsible for all the documents and books of the Company's secretariat;

d. To sign the statements of the opening and closing of the Company's books;

e. To guide and supervise the Company's personnel policy;

f. To guide and supervise the Company's customer records service;

g. To propose to the Board of Directors the hiring of services for restaurants, snack bars, service stations, exhibits, shops, and packing;

h. To supervise the general services of security, cleaning, and accident and fire prevention.

Chapter V

Fiscal Council

Article 10. The Fiscal Council, with a one-year term of office and with powers and duties determined by law, shall be composed of three regular members and three alternates, the latter being convened, when necessary, in the order in which they were designated by act of the General Assembly which elects them.

(1) The Federal Government, acting through COBAL, and the State and Municipal Governments shall each appoint one member of the Fiscal Council and that member's alternate.

(2) The regular members of the Fiscal Council and their alternates, when acting, shall be entitled to remuneration for meetings which they attend, which remuneration shall be fixed by the General Assembly that elects them.

(3) The Fiscal Council shall have the exclusive responsibility of designating a firm of auditors to be hired, for the special purpose of giving advice in the study and appraisal of the action of the Board of Directors.

Chapter VI

General Assembly

Article 11. Regular and Special General Assemblies shall meet in accordance with the legal provisions.

(1) The proceedings of all General Assemblies shall be presided over by the Chairman of the Board of Directors and a shareholder, designated by him, shall act as secretary.

(2) In order to participate in the General Assembly, the legal representatives of the shareholders must deposit at the Company's headquarters documents attesting to their status as such; this may be done up to the eve of the day for which the Assembly has been called.

Chapter VII

Advisory Council

Article 12. The Company shall have an Advisory Council, consisting of the Chairman of the Company's Board of Directors and six additional members, who may or may not be shareholders, elected by the General Assembly at the same time the Directors are elected; two of them, however, must be selected from among the users who hold shares in the Company.

(1) The members of the Advisory Council shall hold office for four years and they may be re-elected.

(2) The Chairman of the Company's Board of Directors shall act as Chairman of the Advisory Council.

(3) The powers and duties of the Advisory Council shall be:

a. To suggest measures to the Board of Directors aimed toward the best possible attainment of the Company's purposes;

b. To issue opinions on matters on which the Board of Directors requests its views.

(4) The Advisory Council shall meet when convened by its Chairman, and at least four of its members must be present to form a quorum.

(5) In case of a vacancy or the absence or disability of one of the members of the Advisory Council, it shall devolve upon the other members to name a substitute. In the case of a vacancy, the latter shall hold office until the first meeting thereafter of the General Assembly, which shall elect a permanent member to complete the term of office of the person whom he replaces.

Chapter VIII

Fiscal year

Article 13. The fiscal year shall begin on January 1 and end on December 31 of each year, at which time the annual balance sheet shall be prepared and a statement of profits and losses, showing amortizations and contingencies authorized by law that were deemed advisable, and the deduction of five percent for setting up the Legal Reserve Fund.

Chapter IX

Distribution of profits

Article 14. From the net profits resulting in each fiscal year, ... percent shall be deducted for allocation to the Special Reserve Fund for Increase of Capital, and another . . . . percent for establishing the Special Reserve Fund for Expansion Purposes, legal limits and provisions being observed. The remainder shall be distributed among the shareholders as dividends, as decided by the General Assembly on the proposal of the Board of Directors and after hearing the opinion of the Fiscal Council, and duly observing the single paragraph of this article.

Single paragraph. As a special advantage, employees shall be granted a bonus of up to not more than two months' salary as a share in the profits, following approval of the balance sheet, provided it showed a positive result of more than 2/12 of the annual average payroll as established in the internal rules and regulations.

Chapter X

Transitory provisions

Article 15. Within 90 days of the establishment of the Company, the Board of Directors shall convene the General Assembly to consider the Company's internal rules and regulations.

Single paragraph. The fiscal year that begins on the date of the Company's establishment shall end on December 31, ...

* * * *

WHOLESALE MARKET BLUEPRINTS

THE LARGE WHOLESALE MARKET BLUEPRINT

The preliminary design of CASAL-Salvador was used as the basis for the prototype of the large wholesale centers. These markets are almost entirely devoted to wholesaling and the primary emphasis is on the circulation of traffic and the parking and unloading of heavy vehicles. For these purposes the market's internal streets are wide, at times up to thirty-two meters.

The fruit and vegetable section lies to the right as one enters and the cereals and dry goods section to the left. A supermarket, restaurant, exhibition hall and other commercial activities are centrally located. The administration building commands a panoramic view of the whole market. The refrigeration and processing units are located at the far right end. A one-way internal transit scheme is recommended, although it requires the sacrifice of immediate access to the cereal warehouses at the left.

The commercial center would have shops offering such non-food items as textiles, shoes, clothes, etc. and service and repair shops. Such commercial activities and other items such as the motel and exhibition hall are not indespensible for the wholesale market operations, but are provided for the convenience of the market users.

THE SMALL WHOLESALE CENTER BLUEPRINT

The small wholesale centers, in contrast to the large, place a greater emphasis on retail trade. For this reason these markets should be more centrally located in the urban area. The principle structure of these markets are the modular or modulated warehouses which allow wholesalers and retailers to operate under the same roof. Such warehouses would have movable partitions or walls and would house all types of products fruit, vegetables, cereals, dry goods and animal origin products. The blueprint for such a modulated warehouse demonstrates the lay-out of the seventy-four modules. Four of these modules would house snack bars and rest rooms. The remaining seventy modules, each having twenty-seven square meters, would be divided among fruits, vegetables, cereals, dry goods and animal origin products in some appropriate proportion. In this way consumers could purchase all their needs in one warehouse while circulating in the center aisle. On each side of the warehouse are unloading platforms for trucks giving direct access to each module. The walls of such modules should be screens or grids which allow for ventilation, and they should be removable allowing a retailer of wholesaler to rent more than one module and consolidate this space into a single area.

The blueprints for both Type A and Type B markets provide for separate entrances for trucks and consumers' vehicles. The truck entrance has a control center where arriving trucks would register the types and quantities of merchandise arriving. This control would allow the market administrators to monitor existing inventories and stocks. This control information could be processed through the market information system and thus avoid shortages or excessive supply of produce at any one center.

This type of center would require less provision for supporting activities, such as hotels, restaurants, and specialized shops which should be located fairly close-by outside the market area.

Type - A wholesale Centers should be located in a city having a population between 240,000 and 500,000 inhabitants.

With regard to the minimum required areas these are distributed as follows:

Minimum area with provision for expansion of 30%	110,000 m^2
Initial area with buildings	22,500 m^2
Occupied area after expansion	28,000 m^2
Modular warehous	13,300 m^2
Administration and Control	1,500 m^2
Cold-storage	1,500 m^2
Wholesale warehouse	2,400 m^2
Business and services	3,600 m^2
	22,300 m^2
Expansion	
Modular warehouse	3,300 m^2
Business and services	1,200 m^2
Wholesale Warehouse	1,200 m^2
	5,700 m^2

Type - B supply Centers should be located in a city having a population from 170,000 to 240,000 inhabitants and should basically include the same types of structures.

Minimum areas are as follows:

Minimum land area with provision for expansion of 30%	88,000 m^2
Initial area occupied with buildings	16,000 m^2
Occupied area after expansion	21,700 m^2
Modular warehouses	10,000 m^2
Administration and control	1,200 m^2
Cold storage	1,200 m^2
Wholesale warehouse	1,200 m^2
Business and service	2,400 m^2
	16,000 m^2

Expansion

Modular warehouses	3,300 m^2
Business and service	1,200 m^2
Wholesale warehouse	1,200 m^2
	5,700 m^2

ASSEMBLY MARKETS

Assembly Markets are to be located in producing areas and have the specialized function of product processing. Beans, corn, rice and other cereals would be cleaned, graded, packaged and thus be delivered to the wholesale or retail sector in ideal conditions for final sale. In addition to these processing services the assembly markets would provide more adequate storage and loading facilities than now exist in these interior towns. Also these markets would serve as points for the collection and distribution of market information through radio links with the three major wholesale markets.

Assembly Market dimensions are a function of the following items:

a. the kind of product predominant in the region;

b. the volume of production during the harvest;

c. the kinds and volume of secondary products;

d. the percentage of volume held in reserve storage.

On the average these markets would occupy land area of three hectares with a constructed floor space of 5.000 m^2. The distribution of this area would be as follows:

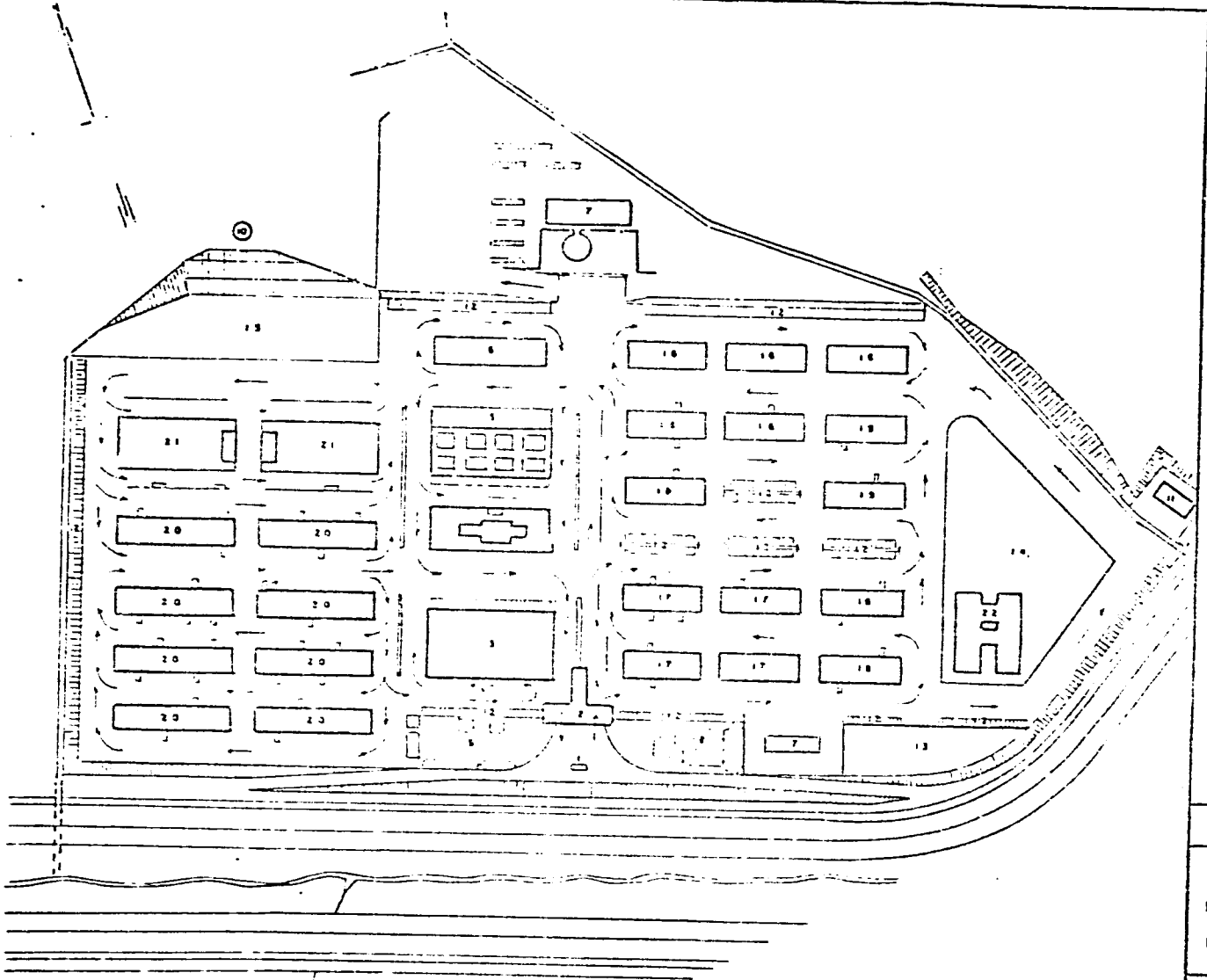
Land	3 ha.	30,000 m^2
Constructed Area	0.5 ha.	5,000 m^2
Reception and Forwarding ...	28 %	1,400 m^2
Processing	38,4%	1,920 m^2
Cleaning		450 m^2
Classification		450 m^2
Packaging		460 m^2
Fumigation		560 m^2
Warehousing and Silos	32 %	1,600 m^2
Administration and Services	1,6%	80 m^2
Free Area for circulation, loading, unloading parking		25,000 m^2

Ratio between total area/occupied area: 6

In the Assembly Markets and those where a free "feira" is to be maintained (for instance, Feira de Santana) the ratio of total area/occupied area should never be less than 6.

The estimate of Assembly Market costs is based on the cost per square meter of the cereals and dry goods sector of the wholesale markets.

Construction - 5000 m^2 at $60 per sq. meter ...	$ 300,000
Land Acquisition, Preparation, Paving and Landscaping - 25,000 m^2 at $7 per square meter	$ 175,000
Equipment and Installations	$ 56,000
Total	$ 531,000



PROTOTYPE FOR LARGE WHOLESALE MARKETS

TERRENO ——— 220,000 sq. mts.
AREA OCUPADA —— 55,000 sq. mts.

1. BUS STOP
2. ENTRANCE
3. SUPER MARKET
4. RESTAURANT
5. COMMERCIAL CENTER
6. EXPOSITION HALL
7. ADMINISTRATION CENTER
8. HOTEL
9. SERVICE STATION
10. WATER TOWER
11. SEWAGE TREATMENT.
12. PARKING AREAS
13. EMPTY CRATE STORAGE
14. AREA FOR FISH - SEAFOOD
15. AREA FOR SILOS
16. AREA FOR FRUIT
17. AREA FOR VEGETABLES
18. AREA FOR TUBERS - ROOTS
19. TEMPORARY STORAGE
20. CEREALS
21. GENERAL STORE
22. PROCESSING - REFRIGERATED AREA

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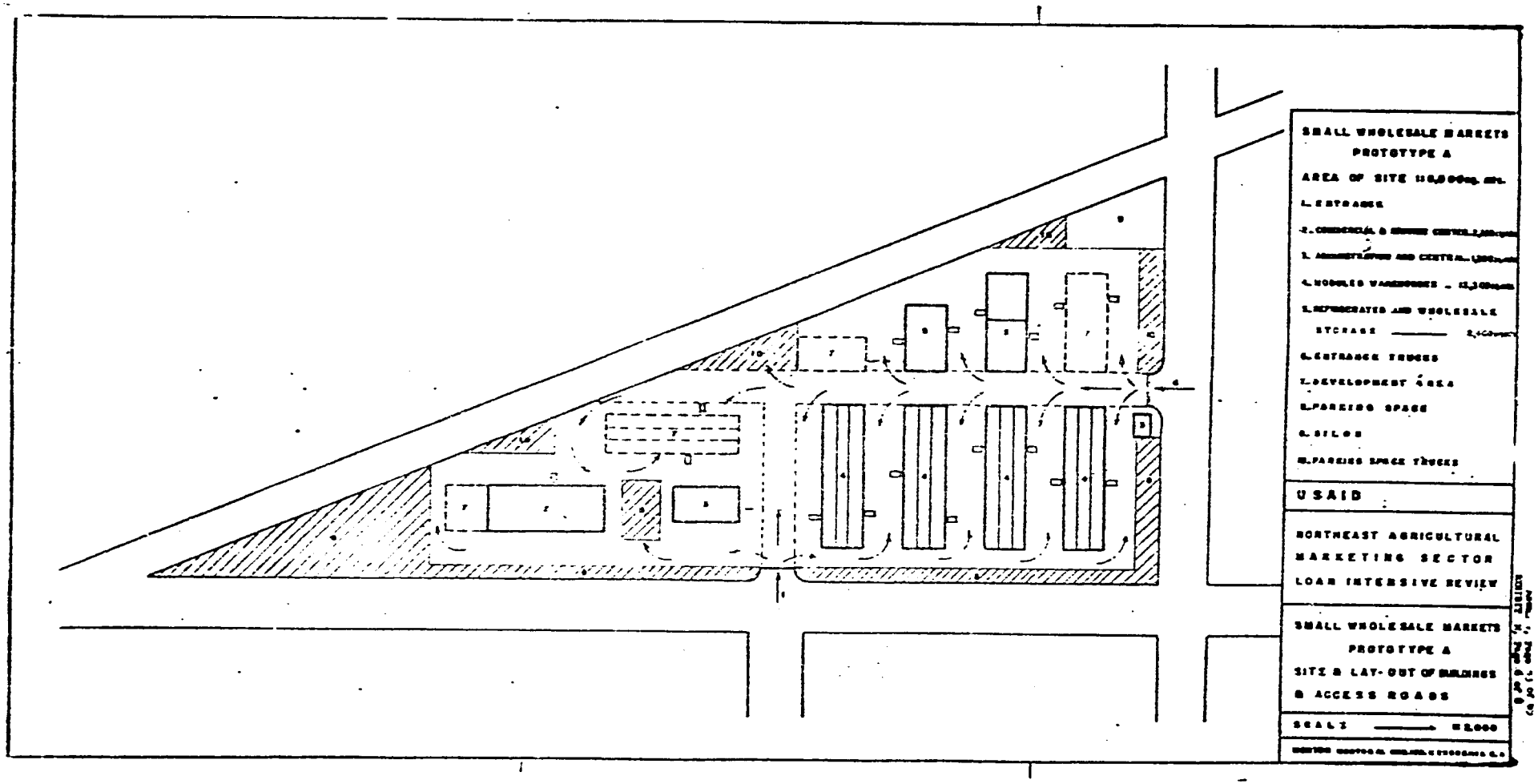
NORTHEAST AGRICULTURAL MARKETING SECTOR LOAN INTENSIVE REVIEW

LARGE WHOLESALE MARKETS (CASAL PROJECT SERETE) SITE LAY-OUT AND ACCESS ROADS

MONTOR MONTREAL CRS. INC. & ECONOMICS


SMALL WHOLESALE MARKETS
PROTOTYPE A
AREA OF SITE
1. ENTRANCE
2.
3.
4. MODULES WAREHOUSES
5. REFRIGERATED AND WHOLESALE STORAGE
6. ENTRANCE TRUCKS
7. DEVELOPMENT AREA
8. PARKING SPACE
9. SILOS
10. PARKING SPACE TRUCKS
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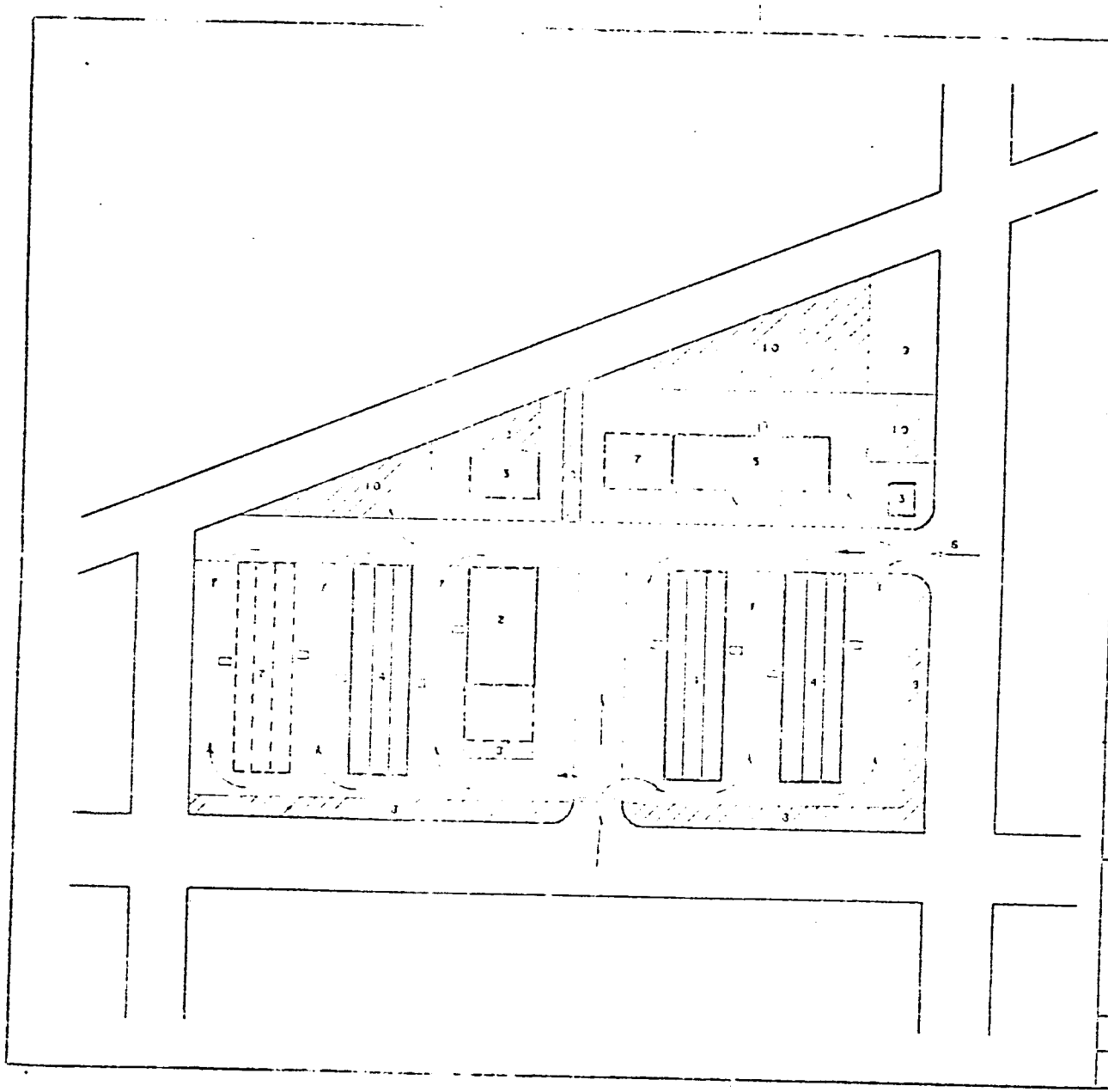
NORTHEAST AGRICULTURAL MARKETING SECTOR LOAN INTENSIVE REVIEW
SMALL WHOLESALE MARKETS
PROTOTYPE A
SITE & LAY-OUT OF BUILDINGS & ACCESS ROADS
SCALE



SMALL WHOLESALE CENTERS

PROTOTYPE B

AREA OF SITE 33,000 sq. mts.

1. ENTRANCE LIGTH VEHICLES
2. COMMERCIAL & SERVICE CENTER 2,400 sq.mts.
3. ADMINISTRATION AND CENTRAL 1,200 sq.mts.
4. MODULED WAREHOUSES — 10,000 sq.mts.
5. REFRIGERATED AND WHOLESALE STORAGE ——— 2,000 sq.mts.
6. ENTRANCE TRUCKS
7. DEVELOPMENT AREA
8. PARKING SPACE
9. SILOS
10. PARKING SPACE TRUCKS

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NORTHEAST AGRICULTURAL MARKETING SECTOR LOAN INTENSIVE REVIEW

SMALL WHOLESALE CENTERS

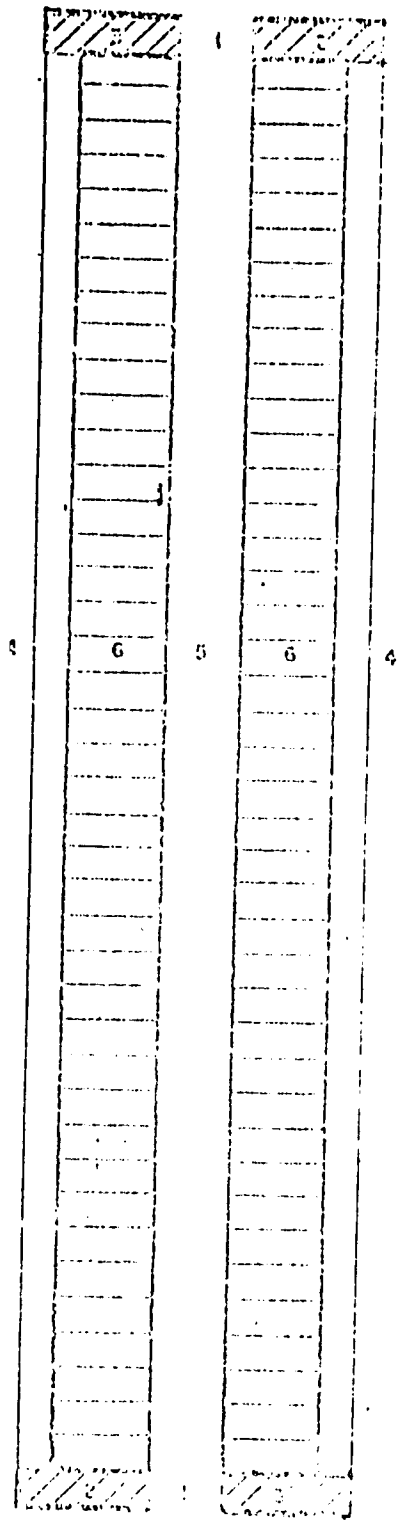
PROTOTYPE B

SITE & LAY-OUT OF BUILDINGS & ACCESS ROADS.

SCALE ——— 1:2000

MONTOR, ARQUITECTURA DISEÑO E ECONOMIA S.A.

ANNEX V, Page 11 of 12
EXHIBIT 11, Page 7 of 12



MODULATED WAREHOUSE

AREA ———— 3,330sq.m.

1. CUSTOMER ENTRANCE

2. TOILETS

3. LUNCHRONET

4. UNLOADING PLATFORM

5. CUSTOMER CIRCULATION

6. STALLS

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NORTHEAST AGRICULTURAL MARKETING SECTOR LOAN INTENSIVE REVIEW

SMALL WHOLESALE MARKETS - MODULATED WAREHOUSE

SCALE

MONTOY MONTREAL ARQUITECTOS ASOCIADOS S.A.

INTERNAL RATE OF RETURN ANALYSIS

Introduction

The following pages present the details of the internal rate of return analysis of CARE, Recife's wholesale market. CARE serves as a prototype of the other large wholesale markets proposed for the Northeast. That is, except for volume estimates, the data, assumptions, estimates and results of the analysis should be valid for and applicable to these other markets.

Preliminary Volume Estimates

In order to calculate the series of benefits and costs of CARE it is necessary to make projections of the business volume flowing through CARE each year. CARE opened in February 1968 with only 20% of the installations completed. During 1968 and 1969 CARE only handled fruit and vegetables and roots and tubers. Large capacity for cereals is planned, but no cereals business is done in CARE yet.

In 1969 CARE did a US$ 6.15 million volume in fruits and vegetables. This figure was used as a basis to project future yearly volume figures, assuming an average annual growth rate of 8 % (4 % annual population growth rate plus 6 % annual growth in per capita income times 0.6, the income elasticity of demand for fruits and vegetables) /1 . These projections were carried forward to 1985.

/1 The figures for population growth and per capita income growth are the same as those used by: Banco do Nordeste do Brasil, (ETENE), Consumo de Produtos Industriais do Nordeste, 1969; Michigan State University, Market Processes in the Recife Area of Northeast Brazil, Research Report no. 2, 1969. The income elasticity figure was taken from the MONTOR-Montreal study entitled Northeast Agricultural Marketing, 1970. Although a 0.6 income elasticity for perishable foods may, at first glance, seem rather high, it should be kept in mind that the income elasticity for food in Brazil is about 0.8.

The calculation of volume for cereals, dry goods, roots and tubers was somewhat more complicated. In 1969 CARE's volume in roots and tubers was $2.6 million, and a 4.5 % average annual growth rate was assumed to project forward the roots and tubers volume to 1985. Since CARE does no business in cereals and dry goods at the moment, figures from the Michigan State Marketing study were used to arrive at a base figure. [illegible] showed that the mean inventory for established wholesalers in 1967 was $39,000. It was assumed that these wholesalers turn their inventory [illegible] for a mean volume per year per wholesaler of $[illegible]. In 1967 there were approximately 100 cereals and dry goods wholesalers [illegible] for a mean wholesale volume of $36 million. (This figure was adjusted to $31.2 million to allow for the 13% wholesale margin.) An average annual growth of 4.5% in wholesale volume was assumed to project this yearly volume to 1973, the year that cereals operations are expected to begin in CARE. Thus the estimated volume of all Reeth cereals wholesalers is $ 49 million; however, CARE will not be able to accommodate [illegible] of these wholesalers. Therefore, $24 million is assumed to be the volume of cereals business for CARE in 1973. A growth rate of 4.5 % for cereals is assumed, corresponding to the estimate supplied by the MONTOR Montreal Study.

CARE's Benefits

The following are two of the benefits to be expected from the operation of CARE:

1. A reduction in spoilage due to more convenient and technically adequate facilities.

2. Savings in labor and trucking costs due to more adequate loading and unloading facilities, that is, the time to load or unload a truck is considerably shortened.

Spoilage

Our best estimate is that at the average 12% of fruit and vegetables completely spoil in the wholesaler's hands. Another 16 % spoils enough that it is salable only at reduced prices (50 % of the original price is assumed as an average here). Therefore, spoilage would amount to approximately 20 % of the total value of fruits and vegetables in traditional distribution facilities. It is assumed that the more modern facilities of CARE will progressively reduce this spoilage rate by 6 % per year. In addition wholesalers will have to carry less inventory which liberates capital for other purposes. The opportunity cost of capital is estimated to be 10 % in the Northeast, therefore this adds an additional increment to the savings from spoilage.

BEST AVAILABLE COPY

Currently, we estimate that cereals wholesalers lose 10 % of value to spoilage (5% unsalable and 10 % salable). It is assumed that the spoilage rate will be decreased by 4% per year.

Savings in Loading Time

Before CARE, trucks pulled up into congested side streets adjacent to the major feiras where wholesalers maintained their stalls. The produce was carried by laborers from the truck to the wholesalers' stalls over a distance that varied anywhere from 200 to 600 feet. CARE's facilities are a considerable improvement over the previous operations: unloading ramps, direct access to the wholesalers' stalls as the trucks can park within a few feet of the stalls, wide streets, large parking areas, etc.

Figures on loading and unloading time are not available on the pre-CARE operations; however, it is assumed that CARE has reduced the time, and consequently the cost, of unloading and loading an average truckload of produce. A recent survey in CARE showed that the average truck is unloaded in two hours with four laborers.

The average truker earns approximately $0.50 per hour, and therefore the cost in CARE to unload and reload the same quantity of merchandise is approximately $8. It is assumed that this current cost in CARE is at least $4.00 less per average truckload than the cost before CARE, as a result of better facilities. In addition, this cost per average truckload is expected to drop progressively to $4.00 over the next fifteen years as better packaging, handling and traffic procedures are introduced in CARE.

The number of trucks through CARE per year was calculated by dividing the annual fruit and vegetable volume by $300, which the current CARE statistics show to be the value of an average truckload of produce. The average value of a truck load of cereals is estimated at $500.

Non Quantifiable Benefits

A number of benefits associated with CARE are not qualifiable or easily measured. For example, public health will be improved as more sanitary conditions of food handling accompany CARE's operations. CARE has removed food wholesaling from downtown Recife and thus considerably reduced traffic congestion in this area. The new facilities provide improved working conditions for wholesalers and their employees. Finally, the grades and standards program should provide consumers with more quality products for their money.

Other Possible Benefits

At present, CARE wholesalers are not allowed to sell in small lots to consumers. Consumers can buy there but they must buy a specified minimum quantity of given product which CARE administrators have determined to be slightly more than the quantity consumed by an average family in one week. Consumers could benefit from an even greater increase in real income if wholesalers could sell to consumers, say at specified hours during the day.

Current CARE regulations require all trucks to unload in CARE. This regulation in effect makes the market channel longer as many trucks would by-pass CARE and sell in the feiras directly. This regulation should be changed and a special area set aside in CARE where whole truckloads of produce can be bought and sold without unloading.

Cost Associated with CARE

The costs associated with CARE are the following:

1. Construction
2. Operating and Maintenance costs

1. Construction

In the period 1966 to 1969 approximately $ 1,750,000 were spent in the CARE construction program. By the end of 1969 CARE was between 20 and 30% complete. It is estimated that in 1970 the expenditures for construction will be $ 1 million, in 1971 $2,750,000 and $ 2,500,000 in 1972 for a total of $ 8 million in construction costs (1966-1972).

2. Operating and Maintenance costs

Operating and Maintenance costs are estimated at 3 % of the value of construction costs.

Internal Rates of Return

The tables below show the calculation of a 23 % internal rate of return in the basis of assumptions specified in this annex. As noted in the text, we tested the sensitivity of the internal rate of return to changes in our estimates of reductions in spoilage.

VOLUME PROJECTIONS FOR FRUIT AND VEGETABLES:
Assuming an average annual growth of 8%
(in millions of $)

1969	$ 6.15	-	per CARE statistics		
70	6.6	=	6.15	X	(1.08)
71	7.1	=	6.6	X	"
72	7.7	=	7.1	X	"
73	8.3	=	7.7	X	"
74	9.0	=	8.3	X	"
75	9.7	=	9.0	X	"
76	10.5	=	9.7	X	"
77	11.3	=	10.5	X	"
78	12.2	=	11.3	X	"
79	13.2	=	12.2	X	"
80	14.3	=	13.2	X	"
81	15.4	=	14.3	X	"
82	16.6	=	15.4	X	"
§ 83	17.9	=	16.6	X	"
84	18.0	=			"
85	18 0	=			"
86	18.0	=			"
87	18.0	=			"
88	18.0	=			"
89	18 0	=			"
90	18.0	=			"

§ Given CARE's present plans for construction capacity operations would be between $17 and $18 million.

REDUCTION IN SPOILAGE OF FRUIT AND VEGETABLES

(Assumption: Spoilage is reduced by 6% of value per year in the period 1969 - 1990)

Year	% Reduction		Volume in millions of $		Totals in $
1969	6%	x	6.15	=	369,000
70	6%	x	6.6	=	396,000
71	6%	x	7.1	=	426,000
72	6%	x	7.7	=	462,000
73	6%	x	8.3	=	498,000
74	6%	x	9.0	=	540 000
75	6%	x	9.7	=	582,000
76	6%	x	10.5	=	630,000
77	6%	x	11.3	=	678,000
78	6%	x	12.2	=	732,000
79	6%	x	13.2	=	792,000
80	6%	x	14.3	=	858,000
81	6%	x	15.4	=	924,000
82	6%	x	16.6	=	996,000
83	6%	x	17.9	=	1,074,000
84	6%	x	18.0	=	1,080,000
85	6%	x	18.0	=	1,080,000
86	6%	x	18.0	=	1,080,000
87	6%	x	18.0	=	1,080,000
88	6%	x	18.0	=	1,080,000
89	6%	x	18.0	=	1,080,000
90	6%	x	18.0	=	1,080,000

VOLUME PROJECTIONS FOR CEREALS, DRY GOODS, ROOTS AND TUBERS

(In millions of $)

Assumptions: At the moment CARE does no business in cereals and dry goods and can probably be expected to initiate this line when construction is complete, or in 1972 or 1973. However figures based on the Michigan State study indicate that the wholesale volume in cereals in that year will be approximately $24 million. In 1969 CARE had a volume of $2,6 million in roots and tubers. An average annual growth rate of 4.5% per year is assumed.

1969	$2.6	-	roots and tubers only	
70	2.7	=	$2.6	(1.045)
71	2.8	=	2.7	"
72	2.9	=	2.8	"
73	28.1	=	(2.9 + 24)	"
74	29.3	=	28.1	"
75	30.6	=	29.3	"
76	32.0	=	30.6	"
77	33.4	=	32.0	"
78	34.9	=	33.4	"
79	36.5	=	34.9	"
80	38.1	=	36.5	"
81	39.8	=	38.1	"
82	41.6	=	39.8	"
83	43.5	=	41.6	"
84	45.5	=	43.5	"
85	47.5	=	45.5	"
86	49.6	=	47.5	"
87	51.8	=	49.6	"
88	54.1	=	51.8	"
89	56.5	=	54.1	"
90	59.0	=	56.5	"
		=		

REDUCTION IN SPOILAGE OF CEREALS, DRY GOODS, ROOTS AND TUBERS

(Assumption: Spoilage is reduced by 4% of value per year in the period 1969-1990)

Year	%Reduction		Volume in millions of $		Total in $
1969	4%	x	2.6	=	104,000
70	4%	x	2.7	=	108,000
71	4%	x	2.8	=	112,000
72	4%	x	2.9	=	116,000
73	4%	x	28.1	=	1,124,000
74	4%	x	29.3	=	1,172,000
75	4%	x	30.6	=	1,224,000
76	4%	x	32.0	=	1,280,000
77	4%	x	33.4	=	1,336,000
78	4%	x	34.9	=	1,396,000
79	4%	x	36.5	=	1,460,000
80	4%	x	38.1	=	1,524,000
81	4%	x	39.8	=	1,592,000
82	4%	x	41.6	=	1,664,000
83	4%	x	53.5	=	1,740,000
84	4%	x	45.5	=	1,820,000
85	4%	x	47.5	=	1,900,000
86	4%	x	49.6	=	1,984,000
87	4%	x	51.8	=	2,072,000
88	4%	x	54.1	=	2,164,000
89	4%	x	56.5	=	2,260,000
90	4%	x	59.0	=	2,360,000

SAVINGS IN LABOR COSTS DUE TO BETTER LOADING AND UNLOADING FACILITIES FOR CEREAL AND DRY GOODS, ROOTS AND TUBERS

(Assumption: Between 1969 and 1974 an average of one hour per truckloand is saved, or $1.87 per truck, and from 1975 to 1985 an additional hour is saved, or $3.74 per truckload)

Year	Volume in millions of $	Average value of Truckload of Produce		Average Number of truckloads per year		Total Savings
1969	2.6	$300	=	7,800 x $1.87	=	14,580
1970	2.7	"	=	9,000 x $1.87	=	16,830
1971	2.8	"	=	9,300 x $1.87	=	17,390
1972	2.9	"	=	9,600 x $1.87	=	17,950
1973	28.1	$500	=	56,200 x $1.87	=	105,090
1974	29.3	"	=	58,600 x $1.87	=	109,580
1975	30.6	"	=	61,200 x $3.74	=	228,800
1976	32.0	"	=	64,000 x $3.74	=	239,400
1977	33.4	"	=	66,800 x $3.74	=	250,000
1978	34.9	"	=	69,800 x $3.74	=	260,000
1979	36.5	"	=	73,000 x $3.74	=	273,000
1980	38.1	"	=	76,200 x $3.74	=	285,000
1981	39.8	"	=	79,600 x $3.74	=	297,000
1982	41.6	"	=	83,200 x $3.74	=	311,000
1983	43.5	"	=	87,000 x $3.74	=	325,000
1984	45.5	"	=	91,000 x $3.74	=	340,000
1985	47.5	"	=	95,000 x $3.74	=	355,000
1986	49.6	"	=	99,200 x $3.74	=	371,000
1987	51.8	"	=	103,600 x $3.74	=	387,000
1988	54.1	"	=	108,200 x $3.74	=	405,000
1989	56.5	"	=	113,000 x $3.74	=	423,000
1990	59.0	"	=	118,000 x $3.74	=	441,000

SAVINGS IN LABOR COSTS DUE TO BETTER LOADING AND UNLOADING FACILITIES FOR FRUIT AND VEGETABLES

(Assumption: Same as for Cereals and Dry Goods)

Year	Volume in millions of $	Average value of Truckload of Produce		Average Number of Truckloads per year		Total Savings
1969	6.15	$300	=	20,500 x $1.87	=	38,300
1970	6.6	$300	=	22,000 x $1.87	=	41,000
1971	7.1	$300	=	23,000 x $1.87	=	43,000
1972	7.7	$300	=	25,000 x $1.87	=	46,700
1973	8.3	$300	=	27,000 x $1.87	=	50,500
1974	9.0	$300	=	30,000 x $1.87	=	56,100
1975	9.7	$300	=	32,000 x $3.74	=	119,700
1976	10.5	$300	=	35,000 x $3.74	=	130,000
1977	11.3	$300	=	37,000 x $3.74	=	138,000
1978	12.2	$300	=	40,000 x $3.74	=	149,600
1979	13.2	$300	=	44,000 x $3.74	=	164,500
1980	14.3	$300	=	47,000 x $3.74	=	176,000
1981	15.4	$300	=	51,000 x $3.74	=	190,000
1982	16.6	$300	=	55,000 x $3.74	=	205,000
1983	17.9	$300	=	59,000 x $3.74	=	220,000
1984	18.0	$300	=	60,000 x $3.74	=	224,000
1985	18.0	$300	=	60,000 x $3.74	=	224,000
1986	18.0	$300	=	60,000 x $3.74	=	224,000
1987	18.0	$300	=	60,000 x $3.74	=	224,000
1988	18.0	$300	=	60,000 x $3.74	=	224,000
1989	18.0	$300	=	60,000 x $3.74	=	224,000
1990	18.0	$300	=	60,000 x $3.74	=	224,000

OPERATING AND MAINTENANCE COSTS

(Estimated at 3% of Construction Costs)

1968	43,500	=	3%	x	1,450,000
1969	52,500	=	3%	x	1,750,000
1970	82,500	=	3%	x	2,750,000
1971	165,000	=	3%	x	5,500,000
1972	240,000	=	3%	x	8,000,000
1973	240,000	=	3%	x	8,000,000
1974	240,000	=	3%	x	8,000,000
1975	240,000	=	3%	x	8,000,000
1976	240,000	=	3%	x	8,000,000
1977	240,000	=	3%	x	8,000,000
1978	240,000	=	3%	x	8,000,000
1979	240,000	=	3%	x	8,000,000
1980	240,000	=	3%	x	8,000,000
1981	240,000	=	3%	x	8,000,000
1982	240,000	=	3%	x	8,000,000
1983	240,000	=	3%	x	8,000,000
1984	240,000	=	3%	x	8,000,000
1985	240,000	=	3%	x	8,000,000
1986	240,000	=	3%	x	8,000,000
1987	240,000	=	3%	x	8,000,000
1988	240,000	=	3%	x	8,000,000
1989	240,000	=	3%	x	8,000,000
1990	240,000	=	3%	x	8,000,000

	Year	BENEFITS (in thousands of $) Reduction in Spoilage: Fruit & Vege	Reduction in Spoilage: Cereals	Inventory Savings on Fruit & Vege. (10%)	Savings in Handling	Total Benefits	COSTS Const-ruction	Operating and Maintenance	Total Costs	Net Flow	15%	25%	20%
	1966						400			- 400	.9333	.8963	
	67						500			- 500	.8115	.7170	
	68						550	44	594	- 594	.7057	.5736	
	69	369	104	37	53	563	300	52	352	+ 211	.6136	.4589	
	70	396	108	40	58	602	1000	82	1082	- 480	.5336	.3671	
	71	426	112	43	60	641	2750	165	2915	-2274	.4640	.2937	
Construction completed	72	462	116	46	65	689	2500	240	2740	-2051	.4035	.2350	
	73	496	1124	50	155	1827		240	240	+1587	.3508	.1880	
	74	540	1172	54	166	1932		240	240	+1692	.3051	.1504	
	75	582	1224	58	349	2213		240	240	+1973	.2653	.1203	
	76	630	1280	63	369	2342		240	240	+2102	.2307	.0962	
	77	675	1336	68	389	2470		240	240	2230	.2006	.0770	
	78	732	1396	73	410	2611		240	240	2371	.1744	.0616	
	79	792	1460	79	437	2768		240	240	2468	.1517	.0493	
	80	858	1524	86	461	2929		240	240	2689	.1319	.0394	
	81	924	1592	92	487	3095		240	240	2855	.1147	.0315	
	82	996	1664	100	516	3276		240	240	3036	. 997	.0252	
	83	1074	1740	107	545	3466		240	240	3220	. 867	.0202	
	84	1080	1820	108	564	3072		240	240	2832	. 754	.0161	
Capacity in Fruits & Vege.	85	1080	1900	108	579	3667		240	240	3427	. 656	.0129	
	86	1080	1984	108	595	3767		240	240	3527			
	87	1080	2072	108	611	3871		240	240	3631			
	88	1080	2164	108	629	3981		240	240	3741			
	89	1080	2260	108	647	4095		240	240	3855			
	90	1080	2360	108	665	4213		240	240	3975			
											-3337	-2384	
											+5164	+1956	
											+1827	- 428	

$$IRR = 15\% + \frac{1827}{1827 + 428} \times 10 = 23\%$$

NOTES ON AN INTERVIEW WITH MESSRS: PAULO BARBOSA, WALTER LIMA AND EDUARDO LEMOS OF COMPREBEM SUPERMARKETS

General Notes

COMPREBEM was established in 1955 and has nine stores in the Recife area, eight being in the city of Recife itself and one in Olinda. Two others are located in João Pessoa. There are no immediate plans to expand to other cities at this time, as the COMPREBEM people feel that there are many opportunities yet in Recife, although the store in Olinda is being expanded in size.

Responses to Questions Asked by Hemir Maia and Tom Ivers

1. What products does your company buy at CARE? Estimate the quantity per week.

   We buy all fruits, a considerable amount of vegetables, and most tubers at CARE. We buy for all nine stores, sending three trucks, carrying 12 tons each, three times a week, for a total of 36 tons per week.

2. What products does your company buy at other markets? Estimate the quantity per week for each product.

   We buy green vegetables in Vitória de Santo Antão directly from producers, as well as from intermediaries.

3. Do your buying patterns differ to any degree from your pre-CARE operations? Will they differ in the future, when CARE is in full operation?

   We didn't buy many fruits and vegetables before CARE. When we did buy, it was in the Santa Rita market. Our entry into the fruit and vegetable market coincided with the opening of CARE in 1968.

   We will buy higher quantities from CARE in the future, as buying conditions are good there. We try to buy from producers there whenever possible. We don't buy in the countryside and have producers deliver product directly to our warehouse, as they have no regular delivery schedule, and they produce such small quantities that it is not worthwhile. It is easier for COMPREBEM to go to CARE and make large purchases there.

4. What kinds of sellers (e.g. wholesalers, jobbers) do you buy from at CARE ?

We buy from wholesalers generally

5. Why do you buy from CARE ?

We buy because of constant supply, good quantities, convenient location and because this market is restricted to wholesalers.

6. How does the consumer benefit as a result of your buying at CARE ? How will he benefit as your company grows ?

He benefits from better quality, lower prices, constant supply and better buying conditions, e.g. fixed prices, than in the feiras.

7. What percentage of retail sales do supermarkets have in the Recife area at the present time ? What percentage does your company have ? What will these percentages be in five years ?

Supermarket sales in Recife are less than 20% at the present time, with our sales being about 9% and Bom Preço's being about 7%. In five years supermarket sales in general will be at least 40% and we expect our sales to be at least 20%.

8. Will the existence of CARE help or hinder your plans for future sales of agricultural products ? In what way will it help or hinder ?

CARE will help considerable for the reasons mentioned in response to question 5.

9. Why don't you have a complete line of fresh produce ?

We do not handle all produce because of the irregularity of arrival of products at CARE. However, our fruits and vegetables lines have grown considerably and will continue to do so.

10. Does your company have its own trucks or does the seller deliver products purchased at CARE ? Who pays for the loading of products purchased at CARE ?

We have three trucks of our own. They each carry 4 tons and make three trips a week to CARE, making a total of 36 tons per week purchased there. One supplier in Vitoria brings in vegetables directly to our warehouse by his own truck. We have our own handlers and pay others at CARE whenever necessary.

11. What are your losses due to spoilage, etc. ? Would they be greater if CARE did not exist ?

Our losses run about 10-15% on the average, for fruits and vegetables. The exact percentage varies considerably, according to the season. Our losses would be greater if CARE did not exist.

12. What advantages does CARE have over other markets ?

Centralization of buying, better prices, constant supply, good quality and selection, variety and hygiene.

13. What disadvantages does CARE have ?

It lacks a fixed delivery schedule on the part of producers, traffic is often congested and parking is inadequate, causing a slowdown in loading.

14. Is the marketing information (supply, demand and price information) available to you better or worse at CARE than at other markets ? Is it better or worse than the pre-CARE situation ?

It is generally good, although at times the prices quoted by CARE do not coincide with market prices.

15. Where do you obtain your supply of canned goods ?

Our canned goods come from the South, either directly or through representatives located here in Recife.

16. What percentage of your sales volume is represented by each of the following products: canned goods, staples, fruits and vegetables, other ?

17% of our sales volume is in canned goods, 22% in staples, 6% in fruits and vegetables, 5% in plastic products, 2% in aluminium products, 12% in clothing.

(Note: These percentages add up to 64% in total. It is assumed that the remaining 36% is taken up by sales of milk products, packaged products, other household items, etc.)

NOTES ON AN INTERVIEW WITH MR. JOAO CARLOS MENDONÇA

DIRECTOR SUPERINTENDENT OF "BOM PREÇO" SUPERMARKETS, IN RELATION TO PURCHASES AT CARE

Response to questions asked by Hemir Maia, Tom Ivers and Ruy Florentino.

1. What products does your company buy at CARE ? Estimate the quantity foe each product.

   "Bom Preço" purchases approximately 50% of its fruits and vegetables at CARE, and about 50% from producers and others who bring their produce indirectly to "Bom Preço". No estimate can be given for the quantity per week purchased at CARE.

2. Do your present buying patterns differ to any degree from your pre-CARE operations ? Will they differ in the future when CARE is in full operation ?

   The marketing process is better due to CARE because the products are concentrated in a single location, and there is a steady supply. Selection is also better than before. "Bom Preço" can buy in one location for most of its needs. This situation will continue into the future and will probably become better yet.

3. What kinds of sellers (e.g. wholesalers, jobbers) do you buy from at CARE ? What kinds of sellers did you buy from before CARE ?

   Most of the people we buy from are wholesalers, but we are not interested in what kind of seller they are, we are interested in obtaining merchandise.

4. Why do you buy at CARE ? If a significant percentage of your purchases are now made at CARE, why did you change from other market sources ?

   We buy because of constant supply. Before we had to go to Vitória de Santo Antão and other places outside the city to obtain sufficient supplies.

5. Are prices lower or higher at CARE compared to the pre-CARE situation ? By what percentage ?

   It is impossible to tell because of inflation, wage increases and other factors. Prices within the city seem not to have increased as much in real terms as they might have without CARE.

6. How does the consumer benefit as a result of your buying at CARE ?

We benefits because we purchase in large quantities, and because purchases are made more efficiently.

7. What percentage of retail sales do supermarkets have in the Recife area at the present time ? What percentage does your company have ? What will these percentages be in five years ?

The total percentage of retail market sales made by supermarkets at the present time is about 15%. "Bom Preço'S" percentage would be about 4-5 %. In five years supermarkets will be responsible for about 30 % of total retail sales and "Bom Preço" for about 12 % of that total.

8. Will the existence of CARE help or hinder your plans for future sales of agricultural products ? In what way will it help or hinder?

Through better marketing conditions, CARE has been and will be a help.

9. Does your company have its own trucks or does the seller deliver products purchased at CARE ?

"Bom Preço" has its own trucks.

10. Does your company save time in loading compared to the pre-CARE situation ?

This is hard to tell as statistics relating to this aspect of marketing are not kept.

11. Have your losses per week due to spoilage, handling, etc., increased or decreased as a result of buying at CARE ? What were your estimated losses pre-CARE ? What are they now ?

Our losses have gone down due to location, more sanitary conditions, better space, etc., but we do not know by how much. We estimate our previous losses to be between 7-10%.

12. What advantages does CARE have over other markets ?

Location, more spacious selling areas, better sanitation, higher quality.

13. What disadvantages does CARE have ?

None. Traffic is a problem sometimes, but it is worse at other wholesale markets.

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14. Is the marketing information (supply, demand and price information) available to you better or worse at CARE than at other markets ? Is it better or worse than the pre-CARE situation ?

It is much better at CARE. CARE publishes bulletins stating the price, supply and demand for each item. Other markets do not provide this information.

15. What percentage of your sales volume is represented by each of the following products: canned goods, staples, fruits and vegetables, other ?

10 % of our sales are in canned goods, 20% in staples, 1 % in fruits and vegetables, and 69 % in other areas. We do not sell fresh meat.

TELEGRAM - Incoming

UNCLASSIFIED

R 052046Z AUGUST 70
FM SECSTATE WASHDC
TO AMEMBASSY RIO DE JANEIRO 0616
BT
UNCLS. STATE 126093

AIDAC

SUBJECT: PROPOSED AGRICULTURAL MARKETING LOAN

LA/CAEC REVIEWED SUBJECT PROPOSED LOAN AND RECOMMENDS RESUBMISSION CONTAINING FOLLOWING MODIFICATIONS:

A. PROPOSED REPAYMENT PERIOD IS NOT JUSTIFIED AS A DIRECT LOAN. WHY NOT TWO-STEP IT TO GOB WITH BNDE OBLIGED TO REPAY WITHIN REASONABLE TERM PERIOD UNDER 20 YEARS AS SUGGESTED BY CASH FLOW ANALYSIS?

B. COFFEE ESTIMATES IN ANNEXES APPEAR CONFUSING AND REQUIRE CLARIFICATION.

C. INCLUDE IN REVISED LOAN PAPER TABLE SUMMARIZING PAST, CURRENT AND FUTURE PL 480 PROCEED ALLOCATIONS WHICH EXPLAIN WHY SUCH PROCEEDS CANNOT BE USED IN PART, AT LEAST, TO FINANCE PROPOSED PROGRAM THEREBY REDUCING NEED FOR DOLLAR LOAN. WHY CANNOT BNDE DO MORE LENDING?

D. EXPAND SECTION DESCRIBING BNDE'S MONITORING ROLE TO INDICATE ITS CAPACITY TO REVIEW AND APPROVE CONSTRUCTION PLANS AND MONITOR CONSTRUCTION PROGRAMS AS WELL AS USAID'S OWN EVALUATION OF SUCH CAPACITY

E. INCLUDE STATEMENT DEALING WITH PROPOSED LAND ACQUISITION PROCEDURES AND EVALUATION OF ADEQUACY SUCH PROCEDURES.

F. WHAT IS THE NATURE OF THE FOOD GAP AND WHERE IS IT MOST SEVERE WILL PROPOSED PROGRAM REDUCE THESE [illegible] OR EXACERBATE THEM?

G. HOW IMPORTANT IS TRANSPORT? ALSO NOT CLEAR WHY MORE PRIVATE INVESTMENT AND LESS PUBLIC FUNDS NOT POSSIBLE ROGERS

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Response to CAEC Inquiries

A - See Page 2

B- Loan request not being submitted on basis balance of payment problem - section removed.

C-1 See Page 7 and Annex V Exhibit H

C-2 See Page 6

D - See Page 26, 36, 37 and 38

E - See Page 34

F - See Page 17 and 53

G-1 See Page 20

G-2 See Page 6

Translation of Letter from BNDE

December 31, 1970

Mr. Daniel Mackell
USAID
Rua Melvin Jones, No. 5
Rio de Janeiro, GB

Dear Sir:

With reference to the basic elements of the financing program to the Agricultural Marketing Centers in the North and Northeast, we would like to inform you that the conditions established for this operation meets BNDE's interests.

The magnitude of the program fits the GOB's plans, the amount of the resources foreseen is sufficient to cover, with an adequate margin of assurance, that the cost of the construction of the wholesale and semi-wholesale markets in the North and Northeast, and the conditions for the financing, in what concerns the BNDE, are acceptable.

Thanks for your cooperation,

Sincerely yours,

(sgd) Marcos Pereira Vianna
President

Translation of Letter from Minister of Planning

January 19, 1971

Minister William A. Ellis
Director
USAID/Brazil

Dear Minister:

Confirming the terms of my letter dated September 2, 1970, in which I have expressed GOB's intention to request a loan of US$15 millions for the expansion of the program the aim of which is the construction of agricultural marketing centers in the major urban centers of the country, I hereby reaffirm the Government's interest in promptly signing the Loan Agreement in order to expedite the execution of the mentioned program.

The document prepared by USAID has been examined by the Brazilian technical organs, including the Executive Group for the Modernization of Food Supply (GEMAB), created by Presidential Decree No. 65.750, dated November 27, 1969, and the National Economic Development Bank which considered these conditions as satisfactory.

In view of the above, I hereby approve on behalf of the Ministry of Planning and General Coordination the pursuit of the negotiations of the mentioned Loan to accelerate the program of the Marketing Centers in the North and Northeast regions.

Sincerely yours,

João Paulo dos Reis Velloso
Minister

Treasury – Nothing

State – Criteria for location – population or region

Computer facilities.

Who owns & operates. Large & small –

Vanpel company – Colbor – Corpus MA.

Carbolmill operates – Stoundale