

AIRGRAM

DEPARTMENT OF STATE

5120287-②

DECLASSIFIED
CLASSIFICATION

A.I.D. *W*
Reference Center
Room 2006 NA

For each address check one ACTION INFO DATE REC'D

TO: AID/V
EBC/PA
TOMAS A 403
DEAD A 77

PD-AAB-796-81

TO MAR 4 11 9 33

FROM: Rio de Janeiro
SUBJECT: Non Capital Project Paper (PROP)

DATE SENT

4/28/70

REFERENCE:

NONCAPITAL PROJECT PAPER (PROP)

Country: Brazil (BR) Project No: 512-15-750-287
Submission Date: April 10, 1970 Original: Yes
Project Title: Assistance to Small and Medium Industries
U.S. Obligation Span: FY 1970 through FY 1974
Revised Implementation Span: FY 1971 through FY 1975
Gives life of project financial requirements:

U.S. Dollars	\$ 792,000
Country Local Currency	\$ 140,000
Cooperating country cash contribution	<u>\$4,750,000</u>
TOTAL	\$5,682,000

PAGE 1 OF 11

ONE

3/30/70

ALPH: Marian Harrison

BY: S. L. Chamberlain
DATE: 4. 8. 1970

(LFC) A. K. Rice
(COP) G. P. Newton

DECLASSIFIED
CLASSIFICATION

(Do not type below this line)

PRINTED 100

INDEX

	<u>PAGE</u>
I - Summary Description	3
II - Setting or Environment Environment	4
III - Strategy	6
IV - Planned Targets, Results and Outputs	7
V - Course of Action	8
VI - Table of Planned USAID & GOB Inputs	10

I - SUMMARY

The basic objective of this project is to promote the development of small and medium industries in the Northeast in order to create more jobs and improve the standard of living of its inhabitants. The proposed course of action envisions establishing a Regional Training and Research Center for Small and Medium Industry.

The Center is to develop a training and research program to: accelerate industrial promotion; advise small and medium industries; train industrial consultants to assist small and medium industries; identify priority areas for locating new industries; assist existing industries in increasing their productivity; and provide the essential research data for short and long range planning for a healthy growth of small and medium industries in the Northeast.

The proposed project is consistent with one of the major U.S. development goals for Brazil as set forth in the country field submission for FY 1971, namely an annual increase in the provision of employment opportunities for Brazil's growing labor force. The program is also in keeping with the President's policy directives encouraging an increase in the use of and participation by the private sector in the development process and is consistent with the recent directive of the AID administrator as stated in item I of STATE 107185 of June 28, 1969: "Special emphasis should be given to new and innovative technical assistance programs keyed to the critical institutional needs of each country in selected fields where the United States has special competence and where we can most effectively bring our best resources to bear."

The USAID will assist in the project by financing the technical services of three advisors to work with SUDENE's Industry Office in developing a research and training program for the Center. The USAID expects to provide assistance for the first four years of the project and a half years of the project.

The total operating costs of the project, excluding the proposed technical assistance to be financed by USAID, will be approximately \$950,000 a year, of which \$600,000 has been budgeted by SUDENE, \$175,000 by SUDENE and \$175,000 by the State supported agencies operating the existing state Centers of Assistance to Industry" (CAI). In addition, SUDENE is financing the construction of a building for the Center the cost of which will be approximately \$350,000. U.S. dollar grant funding will be used to finance an institutional contract for the three technical advisors. Costs for the first 18 months will be approximately \$198,000 for salaries, overhead, etc. and the equivalent of approximately \$42,000 in Trust Funds for travel, per diem, allowances and other local costs of the contract team. As the estimated duration of U.S. participation in the program is approximately four and a half years, another \$600,000 (including \$180,000 for participant training) in dollar grant funds and the equivalent of another \$110,000 in

Trust Funds will be needed to complete the project, for a total life of the project requirement of approximately \$300,000 and \$150,000 in Trust Funds.

II - SETTING OR ENVIRONMENT

has been chiefly
To date, the GOB's policy for the Northeast ~~is fundamentally~~ geared to stimulate industrial development. The early adoption of the Article 34/18 investment tax incentive program illustrates this policy.

Briefly, the 34/18 plan permits any business firm in Brazil to deposit up to 50 percent of its annual income tax payment in a special account in the Northeast Development Bank (ENB). The firm is permitted three years to find an approved Northeast industrial, farming or telecommunications project in which to invest. After three years, the money reverts to the Government, if not invested. Although other types of projects can now be financed by these funds, only industrial projects were eligible for the first several years.

The efficiency of these policies was highlighted by a January 30, 1967 New York Times report: "The Brazilian Northeast, once the most explosive problem area in Latin America, is now the fastest developing region in this huge country. Attracted by remarkable tax incentives, investors from Southern Brazil are pouring capital into industrial ventures that are changing the predominantly rural character of the Northeast's economy." Total investment in industrial projects as of December 31, 1966 was NCr\$3,425 million which in prices of March 1966 (Ncr\$3.2/US\$1.00) was approximately \$1,070 million. Of the 422 new plants approved at that time, 155 were in production, 151 were in the construction stage, 114 were under study and 2 had been withdrawn. On the modernization side of 221 projects, 32 had been completed, 55 were in progress, 133 were planned and one had been withdrawn.

The new factories and businesses covered the full range from sophisticated electrical, chemical and mechanical capital goods to many forms of consumer goods industries. Mining and tourism have also been supported. Projects thus far approved will generate an estimated 120,000 direct employment opportunities. However, as industrial expansion in the NE gained momentum SUDENE realized that depositors of 34/18 were interested in investing in large industries only and that little or no funds were being channeled into small and medium industries. Yet the paramount importance of SMI in terms of jobs created has long been established. Studies made in 1966 indicate

that there are about 10,000 small and medium industries in the NE employing 70,000 persons or 38% of the total number of people employed (184,000) by all industries. Further, the contribution of the SM&M sector to the Industrial GNP in the NE is approximately 35% and the average capital investment cost of creating a job is from \$2500 to \$3000 vis-a-vis \$14,000 (as an average) for large scale industries.

Recognizing the importance of a strong, viable small and medium sector to the long-range balanced economic growth of the region, SUDENE decided to develop a program to provide practical, essential technical and financial assistance to small and medium industries. The goal was clear but how to structure, organize, administer and implement such a program was complex and difficult. The first step was taken in the fall of 1965 when Mr. Heitor Salgado, now Deputy Director of SUDENE's Industry Department, was sent to Delft University in Holland for a four month course on the development of small and medium industries. In 1966, two more SUDENE officers went to Delft University in Holland; in 1967, two were sent to the Delft Institute in São Paulo and 45 attended and were trained in special courses given by Delft in Belo Horizonte, Recife and Fortaleza. Also, in 1967 the Ministerio de Administração e Indústria (MAI) was created. Over this same period, data were collected and studies made of the programs in Japan, India, Pakistan, United States, France and other countries on assistance to and development of small and medium industries.

A study completed in 1966 by the Joint Study Group on Industrial Research, US-Brazil Science Cooperation Program, National Academy of Sciences, in its report recommended, (paragraph 4.2.3 page 7) "Financial support should also be given for special training projects of universities and research institutes aiming to increase the number and upgrade the technical competence of researchers and engineers. Another study conducted in 1963 by Mr. Robert M. Davenport of Stanford Research Institute indicated that while significant progress had been made in developing SME in the NE, a more rapid expansion and development was necessary to cope with increasing unemployment. SUDENE is anxious to follow up Davenport's recommendations.

The urgency for creating new jobs in the Northeast is increasing rapidly. Population pressures are such, for example, that over 200,000 young people in this region are reaching the age of 17 annually, and the more they are seeking entrance to the labor force. The private (non-agricultural) wage and salary employment in 1968 increased by less than 100,000. The result is growing unemployment and underemployment in the urban sector of the Northeast. The combined rate of unemployment and underemployment is already estimated to exceed 25%. While SUDENE reports indicate that approximately 120,000 jobs will be created as a result of all 86/88 investments obligated to date, this is far from sufficient to absorb the inflow of new labor force entrants

as well as to reduce the large number of underemployed. . . Of this estimate of new jobs, some 46% are a result of modernization of existing firms. There is no estimate, however, of the jobs abolished in the modernization process of larger industries which may easily exceed the number of new jobs created. It is evident that productive employment opportunities are not expanding sufficiently rapidly in the Northeast to accompany the growth in the labor force and that the large, generally capital intensive types of investments resulting from 34/13 incentives are simply inadequate to the task of creating adequate employment opportunities. They must be accompanied by complementary, more dispersed and more labor intensive operations intrinsic in the expansion of small and medium industries. A prime condition for enlarging the SME sector participation in creating new jobs is additional trained staff to provide the vital technical knowledge to the program.

Further, SUDENE needs accurate research data on SME to make sound decisions concerning the future long-range development of the SME sector. There are relatively no trained experienced people in this area in Brazil. The expertise and facilities to provide this training does not exist. Thus USAID has been requested to provide assistance in establishing a permanent Training and Research Center for Small and Medium Industry in the Northeast.

III - STRATEGY

Concerned GOB entities are aware that there is a critical shortage of trained personnel to further implement its program of technical and financial assistance to small and medium industries and are actively seeking solutions. The missing ingredient ~~which is~~ limiting SUDENE's initiatives is the ^{lack of} expertise and knowledge of how to plan, organize and develop such Center, including the structuring of the training programs for personnel in research and in technical and financial assistance to SME.

To complement the aforementioned Brazilian efforts, outside technical assistance will be required. USAID/Brazil proposes to furnish three experienced top-level consultants, one in financial research, one in technical research and one in training. A fourth training specialist from Delft University will be provided by the International Labor Office (ILO). They will be supported by 16 SUDENE industry officers and the current technical staff of the SME program. This includes administration specialists (Director, Deputy Director and 6 technicians) and a faculty composed of ten Industrial Development Technicians and six researchers. The 16 Brazilian counterparts on the faculty will work closely with the international experts and are to be thoroughly trained so that when the contract is finished and the experts leave, these men will be able to continue the work of the Center.

The Center will be a juridical entity under Brazilian law and will be organized

UNCLASSIFIED

as a nonprofit foundation. The building for the Center is now being designed and is expected to be ready for use in early 1971. Facilities will include classrooms, a laboratory, library, a reproduction or print shop unit and essential training equipment.

This is the first and only program in Brazil designed to develop the small and medium industry sector. It is a pilot project in one of the most critical regions of Brazil and its success or failure will have a significant impact on future policies of the GOB with respect to SMI. The National Bank for Economic Development (BNDE) is providing substantial financial support and already has plans for establishing four similar centers in other parts of Brazil. As further evidence of GOB interest in SMI, the Central Bank on January 28, 1970 announced the establishment of a new line of credit for SMI of NCr\$400 million at a reduced annual interest rate of 16.8% with no monetary correction.

The program attempts to provide, through the Training and Research Center, a strong and solid base for the training of skilled personnel in the technical assistance and research required for accelerated growth and expansion of SMI in Brazil. From this cadre of professionals will flow the programs, ideas and expertise required by the owners and managers of SMI for future growth and expansion. The program gets at the grass roots of industrial growth. It will also have a positive influence in generating jobs as the program is fundamentally oriented toward small and medium industries which in Brazil are inherently labor intensive.

IV - PLANNED TARGETS, RESULTS AND OUTPUTS

The targets of this project are to:

Establish on a permanent basis a Regional Training and Research Center for Small and Medium Industry in Northeast Brazil to develop the cadre of highly skilled professional manpower essential for continued implementation of the SMI program in the NE. This will require:

- a. developing and structuring a research program for the Small and Medium Industry sector in the NE.
- b. developing and structuring a training program for industrial consultants and industrial research specialists on Small and Medium Industry.
- c. training a high level group of thirty Brazilian professors, research specialists and technicians to administer, coordinate and operate the Center when USAID assistance is completed.

The Center will be located in either Recife, State of Pernambuco or at Campina Grande, State of Paraiba. The site selection is now under study in SUDENE. The Center is expected to start operation in rented quarters on/or about June 1970 and to have its own building complete with all facilities constructed and ready for use by April 1971.

Over the estimated four years of this project, it is anticipated that 300 industrial consultants, 30 industrial research specialists and 30 high level teaching specialists (10 in research and 20 in training) will have been trained and will be operating in the NE carrying on the work and objectives of the small and medium industry program. In addition, the Center is to provide the training program for owners and managers of Small and Medium Industries. Three courses are to be given a year by the NAI in each of 9 NE States. Based on the courses given by the NAI in 1969, the average attendance is 30 managers per course or a total of 810 per year. Over the four-year period a total of 3,240 managers of SMI will have been trained.

Over the same period, the Center's research program will have provided data on the SMI sector in the NE delineating and identifying priorities for investment in existing or new industries, obstacles and difficulties hindering development, the degree of efficiency in the utilization of capital, the labor and other inputs required for growth and expansion, the economic and financial problems peculiar to SMI in the NE and the possible solutions.

At the end of the four years, SUDENE and USAID expect the Center to be effective enough to continue its operations without further assistance from USAID.

V - COURSE OF ACTION

USAID will fund the services of a U.S. organization such as the Stanford Research Institute to provide:

- A. One long-term consultant (Chief of Party) with broad experience and competence in research, industrial planning and development of small and medium industries and two specialists, one in research and one in training. During the initial 18 months of the project, the Chief of Party and the two specialists will, in collaboration with the Brazilian counterparts, develop a research program for the Small and Medium Industry Program of SUDENE. They will also structure and initiate a complete research training program with course outlines and curriculum for the training of Brazilian research personnel.

- B. Vital training materials for implementing the training programs, and to facilitate research.

To complement the work of this Contractor, the Int'l Labor Office (ILO) will provide to SUDENE a top-level training specialist in small and medium industry from the Research Institute for Management Science of the University of Delft, Holland, who will join and work with the SRI contract group. Working in collaboration with the Chief of Party, the USAID financed training specialists and the Brazilian counterparts three training programs will be designed to:

1. Train Brazilian industrial consultants required by the NAI to provide technical and financial assistance to the Small and Medium industries of the NE.
2. Upgrade the technical competence of SMI managers and supervisory personnel through programs to be sponsored and conducted by the NAI's in each of the NE states.
3. Train Brazilian professors, specialists and technicians to continue this phase of the work of the NE Training and Research Center upon termination of the temporary series provided by international consultants.

In support of the contractor, SUDENE, BNDE and NAI will provide the necessary logistic support including office space, classrooms, Brazilian equipment, secretarial assistance, interpreters when required, etc. as well as a project coordinator, counterparts, a cadre of 30 trainees to be trained as trainers, and any other personnel who may be required for effective implementation of the project. In addition, the GOB ~~SENERX~~ will pay all transportation costs in Brazil for the U.S. and Brazilian personnel working on the program. USAID/Brazil will pay the costs of the U.S. personnel and the training materials and equipment purchased in the U.S.

FIDRICK

11
10

NONCAPITAL PROJECT FUNDING (Obligations in \$000)

Table 1
Page 1 of 2 pages
COUNTRY: BRAZIL (NE)

PROP Date: March 20, 1970
ORIGINAL: X
REV. N°

Project Title: Assistance to Small and
Medium Industries

UNCLASSIFIED

RIO DE JANEIRO TOAID A 403

UNCLASSIFIED

Fiscal Years	Ap	L/G	Total	Cont ^{1/}	Personnel Serv.			Participants		Commodities		Other Costs	
					AID	PASA	Cont	U.S. Agen.	Cont	Dir. U.S. Agen.	Cont	Dir & U.S. Agen.	Cont
Prior through Act. FY 69	AG	G	-	-	-	-	-	-	-	-	-	-	-
Oper. FY 70	AG	G	198	198	-	-	128	-	-	-	16	-	54
Budget FY 71	AG	G	-	-	-	-	-	-	-	-	-	-	-
B + 1 FY 72	AG	G	186	126	-	-	84	60	-	-	3	-	39
B + 2 FY 73	AG	G	198	138	-	-	92	60	-	-	3	-	43
B + 3 FY 74	AG	G	210	150	-	-	102	60	-	-	-	-	48
All Subs Yrs.	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Life	-	-	792	612	-	-	406	180	-	-	22	-	184

^{1/} Memorandum (Non-add) column.

Fiscal Years	AID-controlled		Other Cash Contribution Cooperating Country	Other Donor Funds (\$ Equiv.)
	Local Currency used	Country used		
Priority through Act FY 52	-	-	-	-
Oper. FY 12	-	42	950	-
Budget FY 11	-	-	950	-
B + 1 FY 12	-	33	950	-
B + 2 FY 13	-	38	950	-
B + 3 FY 14	-	35	950	-
Total Life	-	148	4,750	-

Trust Fund

2/ Budgeted as follows: \$600-SUDANE; \$175 - ENDE; \$175-States annually.

UNCLASSIFIED

RIO DE JANEIRO ROAD A-ND

UNCLASSIFIED

UNCLASSIFIED
CLASSIFICATION

Proj. 5120287
PN -

For each address check one

TO - AID/W

FOAID A-606

~~XXXXXXXXXXXX~~
RECIFE

~~XXXXXXXXXXXX~~
USAID A-116 JUL 6 AM 8 39

AID
C & A - BR

DATE SENT
6/2/70

FROM - ~~XXXXXXXXXXXX~~ RIO DE JANEIRO

SUBJECT - Non Capital Project Paper (NPOP)
Small and Medium Industry, 512-15-950-287

REFERENCE -

This airgram amends the NPOP sent to AID/W on April 20 by inserting new material in the target section as follows:

The targets of this project are to (1) increase employment in the Northeast in medium and small industry; (2) prevent the elimination of jobs through failure of existing small industries in the Northeast; (3) establishment of a Regional Training and Research Center. These targets are explained below:

(1) Statistics are already available on the current pattern of employment in small and medium industries in the Northeast. In 1965 there were approximately 70,000 workers employed in these industries. By 1970 this number had grown to 82,900. If this project were not in effect the number would probably grow by 1975 to 95,960. The intent of this project is such that if successful it will probably increase this total employment figure by 20 percent more by 1975.

(2) Each year many small industries fail through lack of capital, poor management, lack of information about techniques, markets, raw materials, etc. An important purpose of the training and research center would be to aid these small businesses to keep them from failing, help bring the capital already invested, and thereby maintaining employment. In the past twelve months, for instance, assistance given by SUDINE has helped small businesses from failure and saving 5,000 jobs which would otherwise have been eliminated. By 1975 the new research center should be assisting small businesses at a rate which should affect the retention of more than triple this amount of jobs per year.

PAGE 1 OF 2

DRAFTED BY

Stables/Cause

OFFICE

HEAD

PHONE NO.

DATE

6/12/70

APPROVED BY:

John: Gordon Harrison

AID AND OTHER CLEARANCES

Cleared

by: Jean, Rio

RAPC

JEMcComb, CDILS

UNCLASSIFIED

CLASSIFICATION

DISTRIBUTION

ACTION

CA
INFO.

Account

OLAB

ITAD

OK

12/2/70

15

OTHER AGENCY

State

Com

CIA

(5) (Hereafter follows the target information presented on page 7 of the existing ITOP:)

It is hoped that these additional targets will be sufficient to permit AID/A approval for the life of this project.

BOONSTRA