

~~BR~~
~~3380981~~
~~8374~~

50-227.5

512-227.5
March, 1967

B5210069005303

PD-AAR-330

N.E. BRAZIL: Rural Industrial Technical Assistance (RITA) Projects

Preliminary Evaluation Report*

512-15-950 -
227.5

Eighteen months after the last U.S. team evaluated the overall RITA program in the Northeast of Brazil, and four months after the SUDENE evaluation effort, USAID/Brasil initiated another U.S. evaluation effort. Unlike the previous U.S. effort, which was USAID/Washington initiated, which had five fulltime members, this evaluation effort had one fulltime member and USAID/Brazil provided at least two support members at all times. Unlike the previous evaluation effort where the team split up and visited different projects and then upon return compared notes, in this effort the one fulltime member visited all the states in which there were both RITA and Asimow projects and the people who worked with him were asked to discuss and prepare comments about these areas in which they participated as inputs to the report. The fact that, unlike the previous evaluation effort, where only one member had extensive foreknowledge of RITA, in this effort all members had considerable detailed acquaintance with the projects facilitated the projects.

The evaluation was facilitated by the cooperation and efforts of all these who participated or made themselves available for consultation or questioning. Of particular help in the evaluation process itself were Mr. Peter Diffley, Dr. Airton Teixeira, Mr. Thomas Woodson, Mr. Robert Kanchuger and Mr. Robert Bellantyne. These people actually made some of the field visits with me and participated in the questioning and discussions, both in the field and later in preparation of this report. In attached Appendix () is a list of the people who were questioned regarding the projects and it is hoped that there are no omissions from this listing. In addition, one should not forget the added burden passed on Miss Barbara Cichanski, secretary to Mr. Diffley, and Mrs. Ivanilda Leandro, secretary to Mr. Woodson. They were most pleasant and patient, in addition to being helpful.

A word is in order as to the state of information available through the USAID/Recife files. The data requested and deemed of value seemed to be available with some exceptions and these have been drawn to the attention of the appropriate USAID personnel. However, there is still need for a running log of the history of RITA in terms of events, costs and accomplishments. It is altogether reasonable to expect that out of such a log may come a book which could be useful to others contemplating the development of small and medium size industry in long or short range terms.

The purpose of the evaluation was indicated in the communication with me as determining on a "cost effectiveness basis" the value of RITA activities. In reality, in discussion in Rio and in Recife, the basic question to be addressed was, "What should we do with our RITA activities?" This was elaborated in discussions to mean that we ought to try and

*By Saadia Schorr, Director of Programs, TEMPO, General Electric Corp.

answer such questions as, "Should we continue RITA?" "Have we gone too far too fast?" "Should we contract the effort?" "Should we expand or eliminate the RITA effort?"

In fact, during the course of some of the preliminary discussion with mission personnel, they would commit themselves to a point of view. In no case, however, did the point of view prescribe an expansion of the aggregate RITA activity.

RECOMMENDATIONS AND CONCLUSIONS

Continuing to take an optimistic point of view, and judging that the time period for performance may not be long enough, it is our opinion that:

- a) The total project effort for the year 1967, and possibly 1968, not be abandoned, or even necessarily cut back. Rather, it is our recommendation that there does not exist in some of the states sufficient basis for optimism about the future success of RITA and that U.S. participation should be phased out. These states in which U.S. participation should be phased out are Pernambuco, Alagoas and Bahia. Each of these, however, have special problems which must be considered in the phasing out of the project activity.
- b) That the activities in the States of Paraiba and Rio Grande do Norte be given continued support and, where needed, the current level of support should be augmented from funds conserved and not spent on the other states. The promising activities running in Ceara should receive USAID support, where program conditions allow.
- c) That technical assistance to existing industry be given more emphasis both in the interior and in the capital cities where such assistance would not be in competition with existing, private consulting firms. This kind of assistance should be provided only in the absence of competent and reasonable private resources. The philosophy and operation concepts of the IFSC (which sometimes charges a fee) is a successful standard to apply in such cases.
- d) It is necessary, in each state, that RITA have the unqualified support of senior Brazilian university and state development officials. This is more likely to be the case in a less highly urbanized state than in our more urbanized. The same quality of support is required with respect to the U.S. university and A.I.D.

e) That the U.S. team be reduced to a minimum of fulltime, permanent help and that the funds so conserved be made available to provide for defraying the costs of "experienced" short term consultants, whether from the U.S., Brazil or third country.

f) The important issue is the competence of the people, not the institutions, which are contractually involved. It would be an error to assume that any university in the U.S. can do the job. This is not the case. It is not the case for a U.S. university and it is not the case of the Brazilian university. We need to develop job specifications and criteria for judging the adequacy of people before we enter into contract, which will include their previous work experience.

g) The problem of sufficient financial support for the Brazilian component of the RITA activity is continuing to plague the activities. Brazilian team members, in some cases, have not been paid for three months. This has had its heavy toll in morale and in some cases leads to finding other jobs. The Federation of Industries, SUDENE and, in some cases, the universities are delinquent in their financial support of RITA. If we continue to find that the teams are not going to receive the support required from the Brazilian parties to the contract, then we should, in my opinion, phase out with appropriate notice. Fragmentation of cruzeiro budgets, by utilizing several sources (SUDENE, the university and the Federation of Industries), has resulted in generally slow release of funds. Before the signing of any contract extension, there should be a meeting of the parties to the contract to mutually agree on the handling of problems, including finance.

h) In the 1965 evaluation report (p. 6, Item 2), there is a discussion related to the sophistication of the investor. The concern was that the United States, et al, would be held responsible for any business failure which occurred. During the current evaluation effort we had a much greater opportunity to talk with investors, large and small, and we are definitely less concerned than in 1965. Repeatedly the investors expressed recognition of potential for failure, the responsibility of the board of directors and managers of the operation, both in becoming board members and homes supporting the project and its operation. The fact that the democratization of capital has become a much less dominant facet of the program may mean that we have less inexperienced investors participating in the projects. Further, there was explicit recognition that Brazilian and U.S. university participation in the program did not constitute a guaranty of success.

i) Item 6, P. 7 of the 1965 evaluation report is concerned with the multipurpose character of the project. At that time there were five or six purposes, all apparently of equal priority. Today, this situation has markedly improved and now the principal objectives to be served are: 1) the training of people in university and community with the expectation of long term payoffs, 2) technical assistance to existing industry, and 3) the starting of small and medium enterprises.

j) Item 7 of the 1965 report expressed concern over the efficiency of the market analysis procedure. The situation today in no way allays these concerns, in fact, it is heightened. Most of the original market studies, which were one of the principal basis of the "go - no go" decision, looked at the market potential in a rather limited area around the proposed production operation. Today there is considerable evidence of a broadening of the market area to large portions of and, in some case, the whole Northeast. It is not clear whether this has come about because the scale of production economics required a larger market and hence simple extrapolations were made, whether it is just plain enthusiasm, or whether there is indeed a larger market which can be served economically. However, there are several cases in which RITA companies now planning on serving large market areas seem unaware that other RITA companies are planning on serving the same markets. This is potentially a very dangerous situation and USAID should make sure that 1) all RITA activities are informed of what the other states are doing, and 2) dig deeply into the overlapping market situation to assure ourselves that we are not inadvertently allowing companies to take unrealistic and potentially disastrous market postures.

k) On an unaudited basis we now have some examples of operating companies making a profit. These are the Luna Bros. shoe plant, the cornmeal plant and the radio line of eletromaquinas, all originally U.C.L.A./Ceara projects. Even in the case of Electromaquinas the company is not yet making a profit since the other line, that is, the electric meter line, is just being tooled up. The important item here is that it has taken five years, five long years, to reach this point. Partly to the method of operation with students in summer because of the difficulty of obtaining competent managers, and partly to the slowness of SUDENE in processing projects and to the Bank of the Northeast in processing the loan. Today some of those items are still troublesome. Nevertheless, the present can be materially shortened perhaps to two or three years. It formate that, unlike the U.S. impatience, the Brazilians appear to find such a period of waiting for results well within their tolerance limits.

The profit expectation of the Brazilian investors varies somewhat from region to region, but in general they expect the business to earn a return on their capital of between 40-50 per

cent per year and dividends to be paid at the rate of 12-13 percent of invested capital, all after taxes and correction for inflation. However, they do expect returns during the first two years of operation. This means he expects the value of his investment to grow at about the rate of 33 per cent per year, after a correction for inflation. Those areas which have been commercial centers and are now beginning to look at industry expect the higher rates of return.

Getting back to the time period for results, it is important for USAID to try to accelerate this process by working with SUDENE and the Bank of the Northeast. A Rio businessman and a rector of one of the participating universities both indicated they would not invest in RITA because it moved too slowly and the uncertainties in the time period are too grate.

1) In considering the possibility of separating the educational activities from the industrialization activities, I would suggest that contractually they might be separate and be with different U.S. contractors but they should be carried on at the same time, so that Brazilians in training, who customarily have to hold down more than one job, have some "real world" problems on which to work.

When the original projects started there were virtually no industrial development organizations in the Northeast of Brazil and hence the universities took on both roles. During the last

five years there has been considerable progress in this area and now most states have such organizations. Perhaps USAID should support these existing organizations in the industrial development activity and the universities for the education component separately. Where a state does not have such an institution, perhaps USAID could support the start up. In this way the development organizations could receive support through USAID for short term functions of business specialists while the universities curricula offerings might be enhanced through support and contact with an appropriately chosen U. S. university. But for the Brazilian, the two activities could be mutually supporting by virtue of some or many of them working in both the university and the development organization.

Since USAID is already providing technical assistance to these organizations it may be appropriate to fold the portion of RITA concerned with technical assistance and with the start of small and medium enterprises into these organizations and place the educational activities on a university-to-university basis.

m) There is a continuing difficulty in getting the Brazilian team members into the interior to work on a sustained basis on RITA activities. This is less of a problem as far as the U. S. team members are concerned. Because the Brazilians are reluctant to work in the interior on a sustained basis there is a tendency to rely on much too junior or inexperienced people.

n) One of the values that should be attributed to the RITA activities when staffed by competent people has to do with polishing the U. S. image. This is one of the few activities of which I am aware that can simultaneously touch the people of the interior and factions of the young intellectual community at the same time. We do this at a nominal cost to the U. S. and the payoffs--a subjective evaluation--are always welcome.

o) RITA projects have involved U. S. students in field operations. This practice is not worthwhile. It is recommended that U. S. student participation in Brazil be eliminated.

p) It is desirable to provide a mechanism through which the stock ownership base can be broadened at a later time when and if the companies appear to be well established. Further, if the mechanism is through an organization which would hold shares for a limited period of time (like CODEC in Ceara), then they should earn a reasonable return on their investment before offering the shares for sale. This could be the beginnings of a market place for shares. That it be clearly and forcefully explained to both Brazilian and U. S. team members that the "democratization" of capital in new industries is not a requirement.

q) The training of Brazilians in the U. S. should be carefully reviewed with the following points kept in mind:

1) English competence, spoken and written, should be a more rigid requirement than it has been to date.

2) That it may be just as valid to send a man to spend several months in industry as it is to send him to a university. It will depend on the particular reason for his going.

3) There should not be large groups going from any one state at any one time as this depletes the work force available to RITA.

4) It appears that it would be more beneficial to the aims of the project for the participants to be handled on an x-contractual basis, in collaboration with the university involved, as participants are generally handled in the A.I.D. program.

r) Participant training in U. S. universities operates at relatively low levels of efficiency because of the language difficulty and the absence of curriculum specifically aimed at the type of staff personnel RITA is attempting to train. There seems to be some interest in at least two universities in the Northeast in tailoring special industrial development courses. These efforts should be encouraged and, if appropriate, assistance provided in curriculum development and teaching through A.I.D. financed contracts with U. S. universities.

s) More effective use should be made of host country training facilities, for example, the industrial complex in Sao Paulo, rather than the total emphasis of education being in the U. S.

t) The fact that approximately one half of the Brazilians who have taken training in the U. S. are not working on RITA should not be construed negatively. Many of these are working in the industrial sector, some contiguous to RITA activity, and are contributing to a healthier industrial environment.

u) University management should insure that U. S. coordinators are restrained from undertaking activities outside their technical or professional experience or span of control unless steps are taken to provide additional support. In this connection USAID personnel have an advisory responsibility.

v) Where such attitudes exist, Brazilian and U. S. personnel should be disabused of the notion that there is any given number of industries to be started or that "democratization" of capital is required or that technical assistance to already existing small and medium industries should not be given.

w) USAID must always have sufficient technical competence and managerial strength to overview what is going on in the field and to give advice as well as to serve as a vehicle for the exchange of information.

x) RITA, and, in particular, its predecessor project, Asimow, shows promise that small and medium industry development (starting new as well as helping old) can be institutionalized and while that is taking place, influence the educational programs of the university and the "mentality" of the community. Further, after it gets going (PUDINE in Ceara), there need be little, if any, U. S. participation.

y) The U. S. component of the RITA activity has in some cases taken it upon itself to do the work rather than advise and consult with the Brazilians. This is a mistake because it does not serve the function of training the Brazilians. But, beyond the lack of training it can engender hostility on the part of the Brazilian team members. This is of particular importance during the earlier days of the project when roles are not clearly defined.

z) The following conclusion is of relevance only if one assumes that there is a future to the RITA activities. The method of choice of U. S. universities has been obscure to me. We are all aware that there is a great variation in the United States among universities and further among colleges within and among universities. Each has its strong areas and each its weak areas. They vary in philosophy and in structure and in course offerings and content. It appears to me that the match of the U. S. university with the Brazilian university was predicated on there merely being an interest in working on RITA. If the emphasis is to shift more and more to the longer term view, as far as the university selections are concerned, then the choice of match university is highly critical and it should not be automatically assumed that all U. S. institutions have useful contributions to make to the Brazilian universities. One of the prevalent thoughts being expressed grows out of the analogy to the agricultural extension activities in some of the land grant U. S. universities. The idea is that the Brazilian universities should assume an industrialization extension service role. This is an interesting idea but it assumes that we know how to teach industrialization. The support for this assumption is certainly not obvious if indeed it does exist. We do know something about single discipline (engineering, economics, public relations) functions, but we have no great claim to knowledge about the interdisciplinary requirements of the industrialization process. We should, in my opinion, embark on research in this area as part of establishing an international competence in industrialization as an interdisciplinary area. Perhaps such research activity and competence should be developed on an organized basis through the establishment of an institute for industrialization about which I have had discussions with people in the United States, as well as abroad.

USAID/Brazil, with its varied technical assistance activities in the private sector, could provide an excellent environment for such research.