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

# BOOK SHELF

CAPITAL ASSISTANCE PAPER

Proposal and Recommendations  
For the Review of the  
Development Loan Committee

BRAZIL - FEASIBILITY AND RESOURCES STUDY PROGRAM FUND

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

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AID-DLC/P-361  
October 26, 1965

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Brazil - Feasibility and Resources Study Program Fund

Attached are revised pages to be inserted in the  
Capital Assistance Paper.

The recommendations for authorization of a loan in an amount not to exceed \$11,000,000 to the Government of Brazil to assist in financing local and foreign exchange costs for project and program studies and technical assistance survey and investigation projects in Brazil were discussed by the Development Loan Staff Committee at its meeting on Wednesday, September 29, 1965.

Rachel C. Rogers  
Acting Secretary  
Development Loan Committee

Attachments: (Revised October 26, 1965)  
Summary and Recommendations, pp. 4, 5, 7 and 9  
Project Analysis, pp. 18, 19, 25 and 28  
Annex I, Exhibit I

Previously Distributed: September 24, 1965  
Summary and Recommendations  
Project Analysis  
Annexes I-III

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FEASIBILITY AND RESOURCES STUDY PROGRAM FUND

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## SUMMARY AND RECOMMENDATIONS

A - Borrower

The Executing Agency will be the Fundo de Financiamento de Estudos de Projetos e Programas (FINEP). The Borrower will be the Government of Brazil. Alternatively, at the option of the USAID, if it is determined that FINEP has the authority to contract for loans, FINEP will be the Borrower and the Ministry of Finance will guarantee the loans.

B - Amount

\$11,000,000 to finance both US and local costs.

C - Background

1. FINEP was legally established by Executive Decree No. 55820 of March 8, 1965, to finance the formulation of projects and programs for economic development. The Ministry of Planning has provided FINEP with an administrative budget to maintain a staff of economists and engineers, but no funds are available for the studies themselves. FINEP has therefore requested loans of \$5 million each from AID and the IDB to finance both the local and foreign exchange costs of pre-investment and feasibility studies. Additionally, FINEP has requested and received (August 27, 1965) interim AID grant financing (C\$1 billion) for the local costs of studies which are currently in need of financing. The AID assistance together with the IDB funds will represent the initial capitalization necessary to the actual establishment of the feasibility fund.
2. During IR discussions, FINEP expressed concern that AID insistence on approving scopes of work, cost estimates, firms and contracts for each study would slow down implementation of the project and infringe on FINEP's autonomy. FINEP therefore requested that prior AID approvals not be required for studies costing less than \$250,000. After discussions of this issue, the USAID proposed a \$100,000 cut-off with the provision that FINEP contract for the assistance and advice of an experienced consultant. FINEP agreed, and a provision to finance such assistance was included in this paper. Additionally, at FINEP's request, a provision was also included to finance participant training in the US of FINEP staff members.
3. During USAID/FINEP discussions on the feasibility loan, the USAID raised with FINEP the possibility of a program of sub-loans to finance natural resource surveys (historically grant-funded technical assistance projects). Subsequent discussions resulted in an affirmative answer and a FINEP request for an additional \$6 million to fund such a program.

#### D - Purpose and Project Description

The primary purpose of the loan is to strengthen the institutional capability of FINEP and related Brazilian Agencies to compile and evaluate basic development data and to identify and formulate specific capital projects. It is further anticipated that as a consequence of the loan, a pipeline of projects appropriate for international financing will be forthcoming in the course of the next two years. Such a loan will also give the USAID flexibility in financing studies which by reason of advantage to U. S. policy or U. S. business could best be studied and financed by U. S. firms and agencies.

Specifically, the loan funds will be used for the following purposes:

1. A contract to provide the professional services of a consultant(s) to advise and assist FINEP in the execution of its programs.
2. A program of sub-loans to private and public borrowers to finance the dollar and local costs of project and program studies to be undertaken by private consulting firms. The funds will be sub-lent by FINEP through a system of Financial Agents (Regional and State Development Banks) to private and public enterprises and agencies to finance the local and foreign exchange costs of project and program studies.
  - (a) Project studies will include pre-feasibility studies and feasibility studies to determine the basic soundness of specific capital projects (including projects to establish or strengthen key institutions) and their probable development effects on the Brazilian economy.
  - (b) Program studies will include general surveys, sectorial, regional, and other pre-investment studies to identify priority areas for economic investment, identify economic bottlenecks and lagging sectors of the economy, to determine general levels and types of investment

and the location thereof, and to suggest specific capital projects to maximize economic return or eliminate economic bottlenecks.

3. A program of sub-loans to public agencies to finance the dollar and cruzeiro costs of natural resource survey projects of a technical assistance nature (historically USAID grant funded) which have the dual purpose of (a) compiling and evaluating natural resource data (which will eventually result in the identification and suggestion of specific capital projects) and (b) to create within the Brazilian institutions, the institutional capacity (technical, administrative and physical) to perform such surveys. Such projects will be carried out with PASAS with U. S. Government Agencies and where appropriate with contracts with private consulting firms.

#### E - Total Cost of Project

Of the \$11 million, \$5 million have been earmarked for the Feasibility Studies Program and \$6 million for the Natural Resource Survey Program. However, it is the intention that these funds can be shifted from program to program as necessary to meet the needs of the separate programs.

##### 1. Feasibility Studies Program

Financial requirements for project and program studies to support the Brazilian development plan for the next two years are estimated at Cr\$33 billion (\$18 million, equivalent at the exchange rate of Cr\$1.850/1, conversion factor .054), approximately 70% of which will be for private sector studies. The contribution from domestic resources will cover approximately 40% of the costs or roughly Cr\$13 billion (\$7.2 million equivalent). The remaining Cr\$20 billion (\$10.8 million equivalent) is being requested from international financing agencies; AID-\$5 million and the IDB-\$5 million (IDB financing will be restricted to project studies and sub-sectoral studies). AID is also providing PL 480 grant financing in the amount of Cr\$ 1 billion (\$540,000.00).

2. Professional Services Contract estimated to cost up to \$150,000 will be financed with AID funds.

### 3. Natural Resource Survey Program

Additionally, \$6 million of AID funds will be made available for a three year program of sub-loans for natural resource surveys. Local contributions for each such sub-loan will be negotiated on a case by case basis. However, AID will require that the participating agencies on the Brazilian side assume an increasing proportion of the local cost financing over the next two years.

#### F - Availability of Other Free World Financing

IMB Bank clearance was received on September 28, 1965. The IDB and AID will both participate in financing feasibility studies through FINEP.

#### G - Statutory Criteria

All statutory criteria of the FAA 1961, as amended have been met.

#### H - Issues and Problems

##### Direct AID Approval of Professional Services Contracts, Scopes of Work and Engineering Firms

a. Issue: The issue is whether section 112 of the FAA pr. Act of 1965 requires AID to approve the contracts entered into by FINEP sub-borrowers (or grantees) with consulting firms to carry out surveys and studies and to approve such consulting firms.

Conclusion: Analysis of Section 112 and its legislative history indicates that there is no statutory provision which requires that AID approve sub-borrower/grantee contracts on this project. (For a detailed discussion, see Exhibit I, Annex I).

b. Issue: The issue is whether AID should rely on FINEP or its agents to approve scopes of work, cost estimates, consulting firms, and contracts for studies costing less than \$100,000.

Conclusion: In the judgment of the USAID, approval of scopes of work, cost estimates and engineering firms for all contracts will create a serious bottleneck to the implementation of the loan, and will result in unnecessary AID involvement in the functions of the FINEP system. Additionally, AID insistence on approvals of small studies will make it impossible for FINEP to

delegate authority to the Development Banks for loans to the private sector, and will result in all private sector projects being funneled through FINEP. Further the application has strongly stated the view that such extensive AID approvals will infringe on its autonomy, and make it impossible to operate through a system of Financial Agents. FINEP originally requested that AID follow the IDB precedent and not approve studies costing less than \$250,000. The USAID however proposed that FINEP could grant loans for studies costing less than \$100,000 provided FINEP contracts for the assistance of an experienced consultant to assist in approving scopes of work, cost estimates and consultants. FINEP agreed. Therefore, it is proposed that AID approvals be required only for studies valued over \$100,000 and that for studies below that amount, the USAID rely on FINEP as an intermediate credit institution to approve, in accordance with agreed criteria, scopes of work, cost estimates, and engineering firms. In relying on FINEP for this approval, the USAID will (1) establish the criteria as set forth in this paper (2) require that FINEP obtain the services of a consultant, satisfactory to AID, to give advice and assistance in approving scopes of work, cost estimates and engineering firms, and (3) agree on standard contract provisions as necessary to assure compliance with AID requirements. For the Financial Agents (Development Bank) AID will rely on the BNDE and FINEP as assisted by the consultant to evaluate the FA's competence to exercise limited approval authority. USAID believes that FINEP, BNDE and the FA's have the necessary competence to make these approvals.

Recommendations:

It is recommended that AID approval of the scope of work, cost estimates, contract and engineering firm for each study be as follows:

- (1) That for studies costing less than \$100,000, AID rely on FINEP to approve scopes of work, cost estimates, and engineering firms. This reliance to be conditioned on (a) AID and FINEP agreement on standard contract provisions to assure compliance with appropriate AID statutory and policy requirements, (b) FINEP agreement to the criteria set forth in this paper, and (c) FINEP procurement of professional services of a consultant satisfactory to AID to assist and advise FINEP in evaluating and approving scopes of work, firms, and cost estimates.

For contracts under \$25,000 a firm can qualify if the individual to be assigned to the project has qualifying experience. For contracts above \$25,000 both the firms and the individuals assigned to the project must have qualifying experience.

- (2) That for studies over \$100,000 the USAID will approve scopes of work, cost estimates and the engineering firm and agree on standard contract provisions.

(3) For studies costing more than \$250,000, the USAID will, in addition to the approvals in (2) above, approve the terms and conditions of the individual contracts.

2. Local Cost Financing

Issue: The issue is whether the project justifies the use of dollars to finance local costs.

a. Local Cost Financing for the Feasibility Studies Program

In accordance with AID policy in Brazil regarding source and origin of engineering firms financed by AID as approved by the Administrator, it is proposed that studies be undertaken by qualified US and Brazilian firms without preference, and that where no qualified Brazilian firms exist, joint ventures of US and Brazilian firms be encouraged. The financing of local firms and of joint ventures will require local cost financing and which will in the absence of PL 480 Cruzeiros (see Exhibit I of "Rio Light S/A and Sao Paulo Light S/A", Loan Paper AID/DLC/P.338 for Statement of the availability of PL 480 cruzeiros) require conversion of dollars to cruzeiros. Such local cost financing is justified in that (1) the use of local firms will reduce study costs, and (2) the use of local firms and joint ventures will contribute to the development of technical expertise in local firms, thereby developing the internal technical capacity of the country.

b. Local Cost Financing for the Natural Resource Program

The USAID considers that proper support of this program requires local cost financing. Cruzeiro costs (secretarial services, vehicles, office space) are required to support the technicians and the special surveys carried out under these projects. Such financing is limited to the direct support of the technicians and the surveys, and will not be used to support the budget of the applicants.

Recommendations:

In view of (1) the strong institutional and economic justification for this loan, (2) the institutional development benefits to be gained, in terms of developing qualified local engineering firms

through joint venture of U. S. and Brazilian firms, in strengthening Brazilian public institutions, and (3) in view of the fact that failure to provide financing of local firms would, in effect, be an evasion of our expressed policy of utilizing both Brazilian and U. S. firms without preference, it is recommended that dollar local cost financing be approved.

The Cr\$ 1 billion grant made available by AID will of course be fully utilized before dollar conversion takes place. Dollar conversion will be made in accordance with the Special Letter of Credit Procedures which will assure that all such dollars will be utilized for purchases in the U. S., thus eliminating any adverse effects on the U. S. Balance of Payments.

3. Security Clearance Requirement

Issue: The issue is whether contractors' employees working on feasibility studies under this loan must be security cleared.

Security clearance for all U.S. citizens under this loan will present difficult administrative problems and will cause a delay of from 60 to 120 days for the commencement of each study. Section 111 of the proposed FAA pr. Act of 1966 may exempt U. S. citizens from the requirement of a security clearance where they will not have access to classified information. The USAID proposes to use this exemption and will, to the extent permitted by Section 111 and the regulations issued thereunder, not require a security clearance for U. S. citizens.

I - Recommendations

Authorization of a loan to the Government of Brazil in an amount not to exceed \$11,000,000 to assist in financing local and foreign exchange costs (including technical and professional services for the assistance of FINEP, and commodities, technical assistance and supporting costs, and training for the PASA activities) for project (pre-feasibility and feasibility studies), and program studies and technical assistance survey and investigation projects in Brazil.

1. Terms

- (a) Repayment within forty (40) years from the date of the first disbursement, including a grace period of ten years.
- (b) Interest of 1% during the grace period and 2-1/2% thereafter.
- (c) Repayment in U. S. dollars.

2. Other Terms and Conditions

- (a) Studies financed under the loan shall be procured from Brazilian firms, United States firms or joint ventures of U. S. and local firms.
- (b) Equipment, materials and services (except ocean shipping and marine insurance) financed under the loan shall have their source and origin in the United States or Brazil. Ocean shipping and marine insurance financed under the loan shall have their source and origin in the United States.

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- (c) Dollars utilized to finance local costs shall be made available through appropriate procedures and shall be used only for procurement in the United States.
- (d) The loan shall be subject to such other terms and conditions as AID may deem advisable.
- (e) M.O. 1443.1 to be waived in accordance with the USAID recommendation (See Issue No. 1).

Working Group

Chairman	-	Dwight B. Johnson
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Drafting Officer: DBJohnson

## II. PLACE OF THE LOAN IN THE PROGRAM

The Sector Goal -- Development Research and Planning -- as described in the CAP for FY 66 is: "To foster improved allocation of resources through national, regional, and state economic development planning; improvement of public administration particularly as it affects collection and use of public resources; and preparation of studies to elicit information on development of potential and available natural and human resources."

"An important adjunct of general development planning is specific project preparation. Brazilian weakness in this area has often been a significant factor in delaying the utilization of foreign assistance opportunities. Hence the USAID program contemplates loans to provide services of consulting engineers to examine promising development possibilities and work them up into projects acceptable for review by A.I.D. or other foreign lending agencies."

The loan directly supports this goal and also responds directly to the AID policy instruction to "seek to the maximum extent possible to encourage the cooperating government to undertake more adequate planning" and to "coordinate the full range of possible assistance, program, technical, and capital, in order to contribute to the furtherance of U.S. objectives."

The loan also supports the other sector goals by providing the means to finance the formulation of specific capital assistance projects, especially in those sectors such as the agricultural and agro-industrial sectors where the application of AID as well as Brazilian resources is hindered by the lack of formulated projects. It is anticipated that this loan will assist in the creation of a pipeline of well studied projects from which AID can select those of highest priority to invest its resources to attain its development objectives in Brazil.

### III- PROJECT ANALYSIS

#### A. The Borrower

FINEP was established by Executive Decree No. 55820 of March 8, 1955 as a fund represented by a special account at the National Bank for Economic Development (BNDE) to finance the study of projects and programs of economic development by both the private and public sector. As an organization, FINEP is designed to function as a Technical Evaluation Staff and Board of Directors to an intermediate credit system for feasibility studies, and to serve as an advisory group to the Ministry of Planning on project and program formulation matters. The resources of FINEP will be formed by grants and loans from national and international institutions and by earnings from the fund's own operations (interest, commissions, fees). FINEP's structure has four main units: (For a summary diagram of the relationships of these units, see Exhibit G, Annex I)

The Coordinating Board  
The Technical Office  
Other Financial Agents  
The Financial Agent - BNDE

#### 1. The Coordinating Board

The Coordinating Board is constituted of four members with voting rights and an executive secretary with no voting rights. The four members are: The Minister of Planning as Chairman, the President of BNDE as Deputy, the Industrial Director of the Agricultural and Industrial Credit Bureau of the Bank of Brazil (CREAI), and a representative of the regional and state development banks. The functions of the Coordinating Board are:

- a. the establishment of the basic guidelines, policies, and regulations for operation of the fund;
- b. the review and approval of agreements and contracts required for the fund's operations;
- c. the appointment of financial agents through whom the funds will be loaned;
- d. the delegation of authority to select financial agents to review and approve applications for loans;
- e. the approval of all loans for studies costing more than \$250,000;
- f. the approval of all loans for studies which have no clear eligibility under the GOB economic development plan;
- g. the approval of all loans for program studies.

## 2. The Technical Office

The technical office is headed by the Executive Secretary of the Coordinating Board and has at present a staff of two economists, three engineers and one statistician. (Curricula Vitae of this staff is contained as Exhibit A of Annex I). In addition to its staff, the FINEP technical office will have access to the services of the staff of the Ministry of Planning. It may also engage consultants if required for special projects. The functions of the Technical Office are:

- a) to study and propose to the FINEP Board the criteria for priorities in project development in accordance with the GOB Economic Action Program;
- b) to receive, record, evaluate, and approve for loans, applications for feasibility studies;
- c) to recommend to the Board the appointment of Financial Agents to be delegated authority to lend FINEP resources, and to draft and negotiate agreements with these Financial Agents;
- d) to make recommendations to the Board with respect to financing program studies and for financing project studies of a nature or size requiring Board approval;
- e) to maintain an approved list of qualified consulting firms and to evaluate and approve/disapprove firms proposed for studies;
- f) to control the FINEP accounts with the Financial Agents and review the periodic reports submitted on their operations;
- g) to initiate studies which may be considered necessary to implement the GOB plans and programs.

## 3. The Financial Agents (FA's)

The financial agents are the institutions through which the actual movement of funds will take place. Financial agents will (1) evaluate and recommend applications to FINEP; (2) make loans of up to Cr\$30 million or other amounts authorized without referral to FINEP; (3) evaluate the credit worthiness of applicants; (4) grant loans (acting as guarantors of the loans) for feasibility studies when authorized by FINEP; and (5) be responsible for disbursement of all loan funds, collect all loan repayments, and maintain all loan accounts. The primary financial agent and depository of the funds is the National Bank for Economic Development (BNDE), the president of which is on FINEP's board. At present only the BNDE is the approved financial agent; other financial agents will be the regional and state development banks, such as the Bank of the Northeast, the Bank of the Amazon, the Development Bank of Minas Gerais, the Regional Development Bank of the Extreme South, etc. In the selection of financial agents and allocation of portions of FINEP to them, the following aspects will be taken into

consideration: (a) geographical area of influence; (b) financial resources; (c) staff capabilities of the development banks.

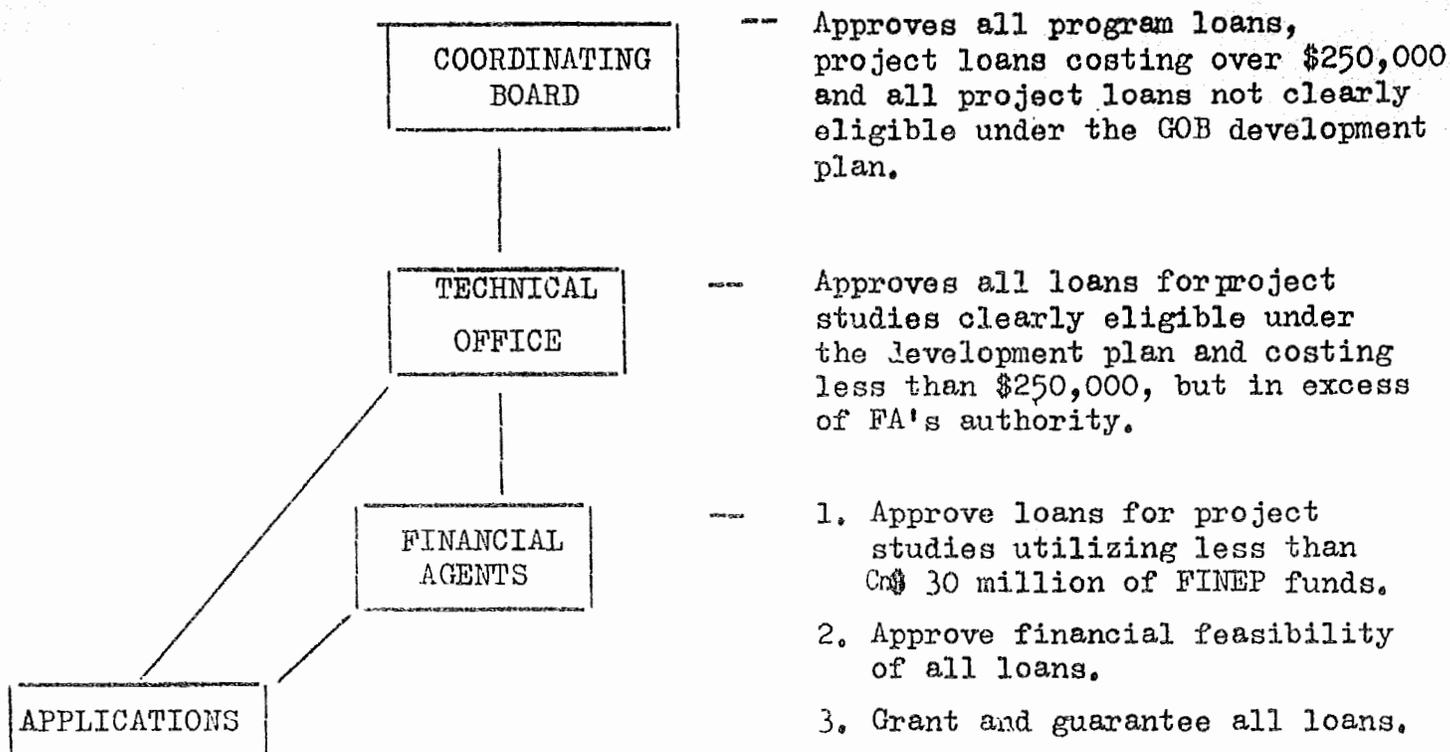
#### 4. The Primary Financial Agent - The BNDE

The National Bank for Economic Development (BNDE) was established on June 20, 1952, as the agent primarily responsible for the implementation of the investment projects recommended by the Joint Brazil United States Economic development Commission. The BNDE has operated as a development bank since that date and its areas of responsibility have steadily evolved until today it maintains a portfolio of loans to public entities and private industry of approximately Cr\$180 million (approximately \$100 million equivalent). The BNDE has been the main recipient of US PL 480 loan funds as well as development loans from the IDB and from Germany. The BNDE will function along the lines of an accounting and banking department for FINEP, sub-lending funds for feasibility studies and advancing lines of credit to the other financial agents, holding and disbursing the funds, and performing accounting and auditing functions. It will also establish the general clauses and conditions for FINEP's relations with the other financial agents, assist FINEP in evaluating the capabilities of the other agents, and provide the other agents with technical assistance in developing skills and procedures for making feasibility study loans. Additionally, it is expected that the BNDE will be a major source of feasibility study applications, some of which it will finance under its delegation, and others which it will evaluate and recommend to FINEP.

#### B. FINEP Lending System

FINEP is set up to operate as an intermediate credit system operating through a system of Financial Agents (FA's) who will receive and evaluate loan applications, grant and guarantee loans according to their delegations of authority and on the authorization of FINEP, referring loans of a size or type not within their authority to the FINEP Technical Office and Coordinating Board for final approval. The general structure of the system is portrayed below (for a more detailed diagram summary of the system, see Annex I, Exhibit G):

F I N E P   S y s t e m



A general description of the lending procedures and the evaluation and approval responsibilities follows:

1. Receipt of Applications

Applications by both public and private applicants may be submitted to the FA's or directly to FINEP, and will be referred by one to the other as the necessities of the evaluation dictate. The applications are to be accompanied by:

- (a) a general description of the project or program to be studied plus pre-feasibility data demonstrating the general soundness of the proposed project;
- (b) the name of the firm (if already selected) which will carry out the study, the firm's experience, and the names and qualifications of the staff members who will conduct the study;
- (c) the proposed scope of work and cost estimate for the study;

- (d) credit and other informations relating to the applicant's capacity to repay the loan.

(To simplify the submission of applications, FINEP is developing an application form which specifies the information to be submitted in the application).

Upon receipt, applications will be reviewed for completeness, evaluated and referred to the appropriate level for approval.

## 2. Evaluation and Approval

Evaluation consists of (a) an evaluation of the prospects of repayment to determine whether or not a loan is financially feasible, and (b) a feasibility appraisal to determine the general feasibility of the project or program.

### a. The Review of the Prospects for Repayment

The credit review for all loans will be carried out by the financial agent which will ultimately grant and guarantee the loan. Thus, the FA will have the ultimate decision as to whether the prospects for repayment are sufficient to justify their guarantee of repayment of the loan. Their criteria and requirements for this will be the same as required for their regular loan operations.

### b. Feasibility Appraisal

#### 1. Scope

Feasibility appraisal will consist of

- (a) an evaluation of the projects' eligibility under the development plan, and of its priority in relation to other projects in order to determine its probable eligibility for financing by the various financing institutions.
- (b) evaluation of pre-feasibility data and assumptions to determine the general soundness of the proposal and to determine the scope of the study.
- (c) evaluation of the scope of work and approval of the cost estimates for the study.
- (d) evaluation of the qualifications of and approval or disapproval of the firm proposed for the study.

#### 2. Approval - Responsibility and Procedures

(a) Financial Agents

The financial agents will have the authority to appraise and approve, in accordance with agreed criteria, project loans utilizing less than Cr\$ 30 million of FINEP funds. Loans for project studies utilizing more than Cr\$30 million of FINEP funds must be referred to FINEP for final approval. In referring such studies, the FA will transmit its appraisal and recommendation to FINEP.

(b) FINEP technical office

The FINEP technical office has authority to approve loans for studies costing up to the equivalent of \$250,000 where the project is clearly eligible under the GOB development plan. It will carry out the evaluation with its own staff and will, if necessary, ask appropriate sections of the Ministry of Planning to assist. Applications will be submitted to FINEP in two ways: directly by the applicant, and as referrals from the financial agents.

(1) Applications Referred to FINEP by Financial Agents

For projects referred by FA's, the technical office will review the appraisal report and recommendations of the FA, perform any additional appraisal considered necessary, and make a determination as to whether the study should be financed, and transmit its decision to the FA along with any special terms or conditions to be imposed.

(2) Applications received directly by FINEP

For applications received directly by FINEP, FINEP will refer the application to a Financial Agent for a credit evaluation (and if appropriate for a feasibility appraisal study, if the study is within the FA's authority, or of special interest to the FA, or because of evaluation requirements for which a particular FA has special qualifications). FINEP will then conduct a feasibility appraisal and make a determination as to whether the study should be financed. If the determination is affirmative, the technical office will request the appropriate FA to grant the loan specifying any special conditions to be imposed.

(c) FINEP Coordinating Board

Only the Coordinating Board can approve project study loans in excess of \$250,000, project study loans where the project is not clearly eligible under the GOB development plan, and loans for program studies. For all studies to be approved by the Board, the Technical Office will conduct feasibility appraisals and provide the Coordinating Board with its recommendations. FINEP will coordinate this

evaluation with the appropriate sections (Power, Industry, etc.) of the Ministry of Planning, whose recommendations are required for all program loans and for all project loans where the project is not clearly eligible under the development plan. Upon the presentation of the report of the Technical Office, the Coordinating Board will determine whether or not the loan shall be made. If the determination is affirmative, the Technical Office will authorize the appropriate FA to grant a loan, stating any special condition to be imposed.

3. Loan Obligation and Execution

Upon receipt of the FINEP authorization or upon its own authority, as may be the case, the F.A. will request a line of credit from the BNDE, approve the study contract and payment schedule, and execute a loan contract. A standard loan agreement form to be approved by the BNDE and FINEP will be used.

4. Sub-Loan Terms and Conditions

Loans may be granted for terms up to ten years with grace periods on principal repayment equal to the term of the study. FINEP funds will be lent at 7% plus monetary correction, plus a 2% (one time) administrative fee. Interest charged on the Financial Agent's participation in the financial will be in accordance with their regular rates which may not exceed 12% plus monetary correction. Loans will be subject to immediate repayment if the project itself receives financing, such repayment to be made at the time of the first disbursement of a project loan. Generally loan funds will be disbursed in accordance with an approved schedule, the last installment of which may not be made until the report is delivered. All contracts will be submitted for the approval of the Financial Agents.

5. Financial Agent and Borrower Contributions

For studies within the Financial Agents' delegation of authority, the Financial Agents will be required to finance at least 20% of the cost of each study, and the Borrower will contribute from 10% to 40%. For studies not within the delegation, the Financial Agents will be required to finance a minimum of 5% and the Borrowers from 10% to 40% of the cost of the study.

C. The AID-Loan

The AID-project consists of a loan to provide FINEP with the funds to carry out the following:

- (1) a program of sub-loans to private and public borrowers to finance the study of the feasibility of projects and programs;
- (2) technical assistance to FINEP in executing its program;
- (3) a program of sub-loans to public entities to finance technical assistance projects of a research and survey nature which have the dual purpose of (a) compiling resource data and (b) to create, within Brazilian institutions, the technical and organizational competence to perform such investigations.

These three sub-projects are described separately below:

1. Program of Sub-Loans for Project and Program Studies

a. Background

One of the criticisms made of the Brazilian presentation before CIAP was their weakness in the preparation of projects for international financing. To rectify this situation, FINEP was created on March 8th, 1965 to provide a mechanism to finance the preparation of projects. Upon its establishment, financing was requested from both the AID and the IDB. The IDB has authorized a loan of \$5 million, and the USAID has responded with a cruzeiro grant of Cr\$1 billion, and recommends this loan be approved to provide additional needed assistance.

b. The Program

\$5 million (less the cost of technical assistance to FINEP) of this loan are to be used for a program of sub-loans to private and public borrowers to assist in financing the cost of program and project studies.

1. Project studies will include (a) pre-feasibility studies to develop basic data sufficient to determine whether a feasibility study should be undertaken, and (b) feasibility studies to determine the basic soundness (economic, technical and financial) of a project and its probable effect on the economy, and to prepare preliminary plans and design as necessary to develop reasonably firm estimates of cost. Projects which have the likelihood of resulting in immediate private or public investment will be given priority under the program. Projects to be studied will include but will not be limited to industrial projects, infrastructure projects, housing projects, agricultural and agro-industrial projects, and projects to establish or strengthen key institutions. Limits to be imposed are whether the projects will contribute to the development of Brazil and the likelihood of the project obtaining financing.

2. Program studies will include natural resource surveys, sectorial, sub-sectorial, regional and other pre-investment studies to inventory the country's resources, identify priority areas where projects will make a maximum contribution to economic development, to determine general types and levels of investments, and to suggest specific projects which will maximize economic return. The emphasis in this area will be directed toward programs which will result in the identification and formulation of new projects, or which will generate information necessary to investment decision.

c. Administration of the Program

AID funds will be utilized within the framework of the FINEP system, in accordance with mutually agreed criteria, with the following AID approvals to be superimposed on the system. Additionally, AID will require that FINEP contract with a professional consulting firm which will assist FINEP in executing the program.

1. AID Approval Requirements

(a) For studies costing less than \$100,000 (minor studies)

For such studies, AID will rely on FINEP, as assisted by professional consultants, to grant all sub-loans in accordance with the criteria established herein without USAID approval. The USAID will review and approve the standard contract form to be utilized, and will require that FINEP insert, in the contract, provisions as necessary to assure compliance with the appropriate AID statutory provisions. Additionally, the USAID will post review these loans on a selective basis to evaluate conformance with agreed criteria.

For contracts under \$25,000 a firm can qualify if the individual to be assigned to the project has qualifying experience. For contracts above \$25,000 both the firms and the individuals assigned to the project must have qualifying experience.

(b) For studies costing in excess of \$100,000 (major studies)

For such studies the USAID will approve:

- (1) the project to be studied;
- (2) the scope of work of the contract and the reasonableness of the cost estimates. The USAID will not review the terms and conditions of the individual contracts, but may impose special terms and conditions on a case by case basis, and will approve (as for the minor studies) the standard contract form. The USAID will also require that provisions as necessary to insure the fulfillment of AID statutory criteria are included in the standard contract;

(3) approve the firm selected to undertake the study.

(c) For studies costing in excess of \$ 250,000

For such studies AID will approve:

- (1) the project to be studied;
- (2) the scope of work, and the reasonableness of the cost estimates;
- (3) the firm selected to undertake the study;
- (4) the terms and conditions of each contract.

2. Criteria for the Execution of the Project

For projects under \$100,000, AID will rely on FINEP to see that financing of studies is undertaken in accordance with the following criteria. The same criteria will also be applied to studies costing in excess of \$100,000.

(a) Professional Qualifications of Firms

Major studies financed with these funds will be prepared under contracts with private firms or individuals of established professional standing in their profession and having a record of successful performance, as a firm, in the same or similar work. Minor studies financed with these funds shall be prepared under contracts with private firms of established professional standing in their profession, and which either have a record of successful performance as a firm in the same or similar work, or have on their staffs professional personnel of established reputation and experience in the same or similar work, who will conduct the study.

(b) Selection of Firms

Consulting firms will be selected on the basis of experience and quality of service, and comparative price proposals or concurrent proposals containing price are to be discouraged. For studies costing in excess of \$100,000, AID will require, whenever feasible (i.e., the applicant has not already established a relationship with a qualified consultant) that the applicant select a consultant on an advance basis in accordance with selection procedures to be agreed by AID and FINEP. It is anticipated that most private firms undertaking studies of this magnitude will have already selected a firm; where they have not, or where the selected firm is not qualified, the applicant will be required to select a firm in accordance with AID approval procedures. Government agencies will be required to select firms on an advance basis and in accordance with AID approved procedures unless prevented by law.

(c) Origin of Firms

Brazilian and US firms, and joint ventures of US and Brazilian firms will be eligible to conduct studies financed with these funds. Local firms will be eligible in accordance with the definition of local firms as set forth in M.O. 1412.1, which defines a local firm as a firm which is incorporated in or legally domiciled in Brazil, has its principal place of business in Brazil and is

- (a) more than 50% beneficially owned by a firm or firms of Brazil and /or the US or by citizens of Brazil or the US, or
- (b) is recognized by the AID Mission to be an integral part of the local economy.

For minor studies, FINEP will make the determination, when necessary, (i.e., where the firm does not meet (a) above) as to whether or not a firm meets (b) above. For major studies the USAID will make the determination.

(d) Project Eligibility

Projects or programs to be studied shall (1) have priority within the economic development plan of Brazil, or (2) must otherwise be evaluated as beneficial to the economic development of Brazil, (3) which give reasonable expectations that the project studies will result in investment.

Program studies will in main be directed toward those studies which will result in (1) the suggestion or formulation of specific high priority projects or (2) obtaining information necessary to investment decisions or to policy decisions relating to investment.

(e) Scopes of Work

The scopes of work for the studies shall (1) be developed in accordance with accepted professional standards and practices (2) shall include such analysis of the technical, economic, managerial, and other relevant aspects of the project or program, as necessary to evaluate the advisability of undertaking the project or program, (3) shall be sufficiently complete, consistent with their size and complexity, to permit financing agencies to make their own independent appraisal of the validity of the feasibility report on the basis of the facts submitted and the assumptions used. To this end, FINEP will, whenever the study is of sufficient size or complexity, consult with prospective financing agencies concerning the scope of the study.

### 3. Feasibility of the Project

#### (a) Capability of FINEP

FINEP is a new organization and its staff, though carefully selected, lacks experience; however, the Ministry of Planning has personally selected the Executive Secretary to carry out the project, and the BNDE who has experience in this field is represented on the Coordinating Board of FINEP. Additionally, the IDB has indicated its confidence by its intention to delegate to FINEP the authority to grant loans up to \$250,000 without IDB approval. In addition, AID will finance for FINEP the services of a consulting firm or consultant(s) who will provide assistance to FINEP in evaluation of firms, preparation of scope of work and evaluating contracts and cost estimates. (see paragraph for more information). It is the USAID opinion that with the assistance of the consultant(s) and with the USAID approval to be superimposed on the larger studies, FINEP will competently execute the project. As mentioned previously, FINEP has, at present, entered into an agreement with only one financial agent. It is anticipated that the appointment and contracting a suitable network of qualified FA's will take upwards of one year. In the interim, FINEP and the BNDE will have to shoulder the work. While this will place a heavy burden on the FINEP staff, it will not affect the feasibility of the project.

#### (b) Cost Estimates

FINEP, in developing its estimates of resources needed for its program, applied the United Nations Special Fund ratio of cost of studies to total investment (one percent-1%) to the amount of investment needed to meet the GOB action development plan. This 1% was applied to approximately 40% of the investment needs on the assumption that approximately 40% of the investment would require feasibility study financial assistance. This calculation resulted in the C\$33 billion two-year requirement as set out in this paper. This estimate, of course, was intended to give only a very rough indication of the order of the magnitude of assistance needed in this area. FINEP has followed up with a survey of the development banks and government agencies to develop an inventory of possible studies for which financing will be required. This survey has revealed a multitude of projects for which additional feasibility data is needed, and a substantial number of program studies; from this FINEP has developed an illustrative list (Exhibit C, Annex I) of studies estimated to cost in excess of \$72 million.

While these lists are strictly illustrative in that projects will not materialize or may materialize in another form, and others will be added, they serve to illustrate the existence of sufficient project and program ideas to justify the recommended loan amount. At the present moment FINEP has in process the following studies which it intends to finance with AID funds:

<u>S t u d y</u>	<u>Estimated Cost</u>
A study of the Taquarf River Basin Development, State of Rio Grande do Sul	\$500,000
Feasibility Study and Preliminary Engineering for a Nitrogen Fertilizer Plant	\$ 60,000
Feasibility Study for Fishing and Processing of Seafood in Northeast Brazil	\$ 18,000
Feasibility Study for establishing an experimental farm in the Northeast	\$ 30,000
Feasibility study of wood treatment plant for railroad ties and construction piling	\$ 7,000
Feasibility study for expansion of special alloy-steel production plant	\$ 16,000
Study for a network of sanitation facilities in Belo Horizonte, capital of the State of Minas Gerais	\$ 55,000
Feasibility Studies for Proposed AID Highway Equipment Loans	\$500,000
Nationwide telecommunications Study	\$900,000

(c) Feasibility of a 50/50 Investment Survey Program

During intensive review, the possibility of introducing a 50/50 survey program, or some other incentive or subsidy program for private industry was investigated. The Ministry

of Planning was of the opinion, however, that such inducements would only attract marginal projects for which no financing would be available, and that the main inducement for private enterprise investment will be the state of the economy. The Ministry further made the point that the mere availability of this fund at the proposed terms, which are better than can be obtained for capital equipment financing, will serve as an incentive to private enterprise use of FINEP funds.

(d) Relationship of this Loan to the IDB Loan

The IDB is in the process of authorizing a loan of \$5 million to FINEP to finance project studies and sub-sector studies. Initially, this raised a question as to whether or not additional financing by AID was justified. Subsequent intensive review (See Annex I, Exhibit C) has shown that the need for feasibility financing will far exceed the \$10 million to be made available. Further, in comparison with the feasibility resources made available to smaller countries such as Peru, Chile and Bolivia, it is evident that \$10 million for Brazil is a conservative amount. The need for large amounts of financing is made even more apparent by the fact that well in excess of \$2 million of AID funds are already earmarked for studies for which AID, FINEP and the applicants are already working jointly to prepare scopes of work and to select consultants. Further Brazil has created an organization for the specific purpose of promoting and financing feasibility studies; this dynamic type approach is certain to result in the utilization of more funds.

The existence of two loans also raised a question as to a possible conflict as to which funds would be used first, possible differences in procedures or criteria, etc. During IR, all possible conflicts were investigated, and the recommendations as contained herein, especially those relating to approval procedures, eligible firms, and security clearance are made not only to assure smooth implementation of the Loan, but to prevent differing procedures or requirements from making AID funds a restricted category of funds which would be avoided by sub-borrowers. With respect to the use of funds, AID funds will be available for a broad range of program studies as well as for feasibility studies; the USAID intention insofar as project studies are concerned, is that the AID funds will be used for (1) the study of projects in the agricultural and agro-industrial sectors (a) where the USAID can bring its special expertise to bear in assisting in the formulation of scopes of work and in suggesting projects, and (b) where the USAID hopes to be able to invest a greater amount of capital assistance, and (2) the study of specific infrastructure and industrial projects which AID desires to include in its lending program.

Irrespective, however, of the fact that the total level of financing is considered reasonable, it is felt that it is in

the interest of AID to participate in the financing of FINEP because AID will through this financing be able to work closely with FINEP, providing it and its staff with such guidance as necessary to assist it to develop into an efficient institution for both the financing of projects and for project development. To this end the USAID has already arranged to finance technical assistance for FINEP.

#### 4. Implementation Plan

As previously described, AID funds will be utilized with the FINEP credit system with the addition of certain AID approvals and requirements. Other implementation procedures will be executed as follows:

##### (a) Disbursement

Disbursement for local costs will be made in cruzeiros (obtained under the SIC procedure), and dollar payments to U. S. firms will be made in accordance with the letter of commitment procedure. U. S. consultants may be paid in dollars under this procedure. To date, consulting services for AID financed projects have been paid for under the letter of commitment procedure without tax problems. However, the possibility exists that the withholding tax on remittances may be applied to such payments. This problem has not yet developed, but will be carefully watched by the USAID.

##### 5. Refinancing

FINEP's loan conditions require that Borrower immediately repay FINEP if project financing is obtained; such repayment to take place no later than the time of the first disbursement of project loan funds. This requirement has as its purpose the maintenance of a revolving fund. The IDB loan provides that the cost of the study may be refinanced out of any construction or project loan which IDB may approve resulting from a FINEP financed study with IDB feasibility loan funds. AID does not propose to permit such refinancing. Thus should an AID financed FINEP feasibility study result in an AID project loan, reimbursement of FINEP would have to be made by the borrower from its own resources. AID will however, consider such reimbursement as a cost of the project and thus eligible to be accounted as part of the borrower's contribution to the project.

(b) Reports

PTNEEP will be requested to present AID with a project description, a scope of work, cost estimate, name of consulting firm for all studies costing more than \$25,000. A quarterly summary list will be presented for studies costing less than \$25,000. AID will receive a copy of all reports on a request basis or can make arrangements to receive a copy of each study.

5. Economic Justification

(a) Background

(1) Private Sector

In order to achieve and sustain the rate of growth postulated by the GOB development plan, the Brazilian economy will have to increase the rate of savings and channel it into productive investment. Between 1947 and 1961 gross fixed capital formation averaged approximately 17 per cent of GNP per year, but in the last three years the rate of investment has been declining. The reversal of this trend is a basic objective of the GOB Economic Action Program.

With the advent of the new government in the second quarter of 1964 the outlook for private investment began to improve, but the private sector has not yet responded to the extent that is necessary for a recovery of the rate of growth. Recognizing that the central problem of growth is one of mobilizing and guiding the private initiative, the executive has proposed and the congress has approved a set of economic policy measures which should do much to restore the conditions for private enterprise to develop. Some of the important measures already in force are: tax deductions of invested personal savings and reinvested earnings by business; accelerated depreciation of machinery and equipment, with special benefits to certain critical types of production and consumption goods such as basic chemicals, cement, food processing, popular clothing and shoes; funds for providing fixed and working capital for small and medium-sized industries; incentives for the export of manufactured goods, etc. The recent cancellation of the decree of the previous government which had expropriated the private refineries is also an example of the attitude of the new government toward private enterprise. Another measure which will have far-reaching results is the proposed adoption of a program budget (including the public investment budget) by the Federal Government beginning

with the fiscal year 1966. All of these actions reflect efforts of Brazil in attempting to establish the requisite conditions for sound development to take place. In spite of these actions by the Government to stimulate private investment, investors, particularly foreign investors, have been slow to move. This is partly a result of a wait and see attitude as to the success and probable longevity of the present government and its policies (intensified by the nationalism evidenced in the Senate's reservations on the investment guarantee agreement), and partly a result of the time lag between the conception of an investment idea and the formulation of a technically sound project. This latter cause and the general lack of well prepared projects which can be transformed into capital investment is a block to both private and public investment.

(2) Public Sector

Aside from the power sector in the South Central Region, which has been comparatively well studied under financing provided by international agencies, and aside from a few obvious infrastructure projects which are in various stages of development, there is a shortage of well studied projects suitable for financing by international agencies, resulting in delays in public investment. This has resulted in a situation wherein there is more capital assistance available for developmental assistance from the international agencies than there are projects in a satisfactory state of preparation to qualify for loans.

(b) The project

(1) Causes of Present Situation

Aside from the current political and economic situation, the present as well as past shortages of well prepared projects result in part from the following:

- (a) the lack of tradition and experience in studying the feasibility of projects to the degree required for development bank financing;
- (b) the shortage of local skills and techniques needed for the preparation of such studies, and the difficulty in obtaining foreign exchange for procuring such services from foreign sources;
- (c) the lack of financing for such studies, particularly for the expensive services needed to study

the infrastructure projects and the large private projects in the field of petro-chemicals, fertilizer and other conversion industries.

(2) Justification

The project is designed to provide both the private and public sectors with access to credit for feasibility studies and access to the procurement in the U. S. of the technical skills not available in Brazil, thereby eliminating two of the previous impediments to project study, and providing the means to carry out the economic development functions of (a) formulating specific project proposals that will be technically and economically sound, and of (b) identifying (through program studies) priority areas where projects will make a maximum contribution to economic development. Thus the project is economically justified in that:

- (a) it will strengthen FINEP, an institution capable of promoting feasibility and pre-feasibility studies; and
- (b) by strengthening FINEP, studies will be financed which are themselves pre-requisites to sound project investment.

(c) Effect on Private Enterprise

- (1) Of the total amount of money loaned, it is estimated that
  - (a) - \$2 to 3 million will be reloaned to private enterprise,
  - (b) - \$5 to 7 million is being loaned to finance studies which will be carried out by private consultant,
- (2) The contemplated impact of the proposed loan on development of private enterprise in the host country is:
  - (a) - the loan will act as an incentive to private investment by making available to private enterprise on soft terms (7% - 10 years) credit to finance feasibility studies;
  - (b) - the loan will make available to the private sector, previously scarce foreign exchange, thus enabling firms to import US technical expertise where local consultants are not qualified,
  - (c) - the loan will provide private Brazilian consulting firms with the opportunity to enter into joint ventures with US firms to perform the studies, thus providing the mechanism to develop the technical capacity of the private sector.

## 2. Technical Assistance to FINEP

### a. Background

During the course of the intensive review of the FINEP application, FINEP indicated its concern that the USAID's approval of scopes of work, contracts, and firms for each study would make it impossible for FINEP to operate as an intermediate credit institution, and would slow down and interfere with their approval procedures. Therefore, FINEP requested that AID approval not be required for studies costing less than \$250,000. The fact, however, that FINEP is a new organization led the USAID to the conclusion that such freedom of action could not be granted unless FINEP were provided with professional assistance. Therefore, the USAID proposed a \$100,000 cut-off for AID approval on the condition that FINEP contract with a professional firm or individual for such assistance. FINEP accepted this suggestion and suggested that the work of the firm also include assistance in project promotion and development.

### b. Contract for Professional Assistance

An estimated \$100,000 to \$150,000 (up to \$50,000 per year for up to three years) of loan funds will be utilized to finance professional services to assist FINEP in executing its program. Such assistance will be for a period of from one to two years. These services will either be procured from a firm or from an individual consultant(s) who will provide the type assistance:

(1) Assistance in the evaluation and development of adequate scopes of work, the evaluation of contracts and cost estimates, and the evaluation of the qualifications of firms and individuals who will undertake the studies.

A contract with a firm (or individual(s)), satisfactory to AID, to perform these services will be a pre-requisite to USAID allowing FINEP to approve studies costing less than \$100,000 without prior AID approval. Until the contractor is aboard, the USAID will approve all scopes of work, cost estimates and firms for studies with the exception of those costing less than \$50,000.

(2) Additionally, the contract will finance assistance as necessary in the evaluation of prefeasibility data and provide assistance and guidance to Borrowers in the selection of consultants. The firm may also assist FINEP in project promotion by assisting applicants and would be applicants in identifying and defining projects and preparing loan applications.

### c. Participant Training

FINEP has also requested that AID loan funds be made available to finance participant training of FINEP staff members in the US. Such training would take the form of post-graduate courses in economic development and in special courses of programming, and project formulation and analysis. Up to \$50,000 of the loan have therefore been earmarked for such a program which will be carried out utilizing the criteria and procedures of the grant participant training programs.

d. Procedures

Loan funds will be utilized to finance the services of a qualified professional consultant or consultants. In financing the services contract AID will approve the firm, scope of work, and the terms and conditions of the contract.

3. Program of Sub-Loans for Natural Resource Surveys

a. Background

The economic development of Brazil is dependent on the proper exploitation of its land, water, mineral, and other natural resources. While progress in recent years has been accelerated, Brazil is slow in developing programs to exploit these resources. This slowness can be attributed to (1) the shortage of basic data as to quantity, quality, and location of the resources; (2) a lack of institutional capacity to collect, evaluate, and present the data in a form useable by those who will develop the resources; (3) lack of institutional capacity to manage the planning for the development of the resources; and (4) the size of the country, the distances involved, and the lack of the required transportation facilities.

In recent years Brazil has requested and received assistance from the U.S. in developing its natural resources. Assistance has been provided under PASAS with US Government Agencies, and has been directed toward (a) providing assistance in collecting and evaluating resource data and (b) toward developing the institutional capacity to collect and interpret the data, and to develop programs to exploit the resources. This assistance has historically been funded on a grant basis. However, the magnitude of the assistance needed is too great to be funded within the limits of available grant funds; therefore, the USAID during negotiations for the Feasibility Study Program discussed with the Ministry of Planning (who agreed) and with the various agencies responsible for resource development, the possibility of financing such activities with loan funds: the response was mixed but has in the most part been encouraging. USAID investigations indicated that the administration of loan financing of such activities would be vastly simplified if a program type loan were made to a central institution which would sub-lend for the specific activities. FINEP, located as it is, within the Ministry of Planning, appeared to be the ideal institution to administer such sub-loans and to coordinate the projects with the planning activities of the Ministry of Planning. Subsequent discussions of this matter resulted in a request for \$6 million to finance this program.

b. The Project

The project will consist of the establishment of a line of credit to finance sub-loans, and grants, to finance the dollar and cruzeiro costs of technical assistance, services, commodities, training, and support costs to assist Brazilian agencies responsible for Natural Resource Development to (1) carry out projects, to collect and evaluate the basic natural resource data, and (2) to strengthen and develop within the Agencies the institutional capacity (technical, managerial, and physical) to effectively carry out projects for the collection and evaluation of natural resource data and the subsequent identification and suggestion of projects for the development of the resources.

While the individual projects will vary greatly, the projects will in most cases be both project and institutionally oriented, (1) project oriented, in that they will involve specific survey and evaluation activities intended to result in (a) the identification of specific projects or (b) the promulgation of information necessary to proper exploitation of resources; and (2) institution oriented in that the project will be so formulated as to strengthen and develop within the executing agencies, the institutional capacity (technical, managerial, and physical) to independently carry out such projects. In order to achieve these objectives, the projects will contain all the components normally associated with institution building (technical assistance and related support costs, participant training, commodities (in this case, laboratory and testing and field equipment). For an example of the type of projects to be financed, see Annex I, Exhibit E, which gives a brief summary of Mineral Resource projects proposed for financing under this loan.

The projects to be financed will be concentrated in four critical areas: water resources, soils, mineral resources, and mapping. It is anticipated that the majority of the funds requested will be used to finance the continuation of existing projects which are already formulated and underway. These existing projects are being carried out under personal services contracts, and PASAS with the US Geological Survey (USGS), the US Bureau of Reclamation (BuRec), and the US Weather Bureau (BuWea). These projects and their illustrative budgets are listed in Annex I, Exhibit E and F.

These projects, however, should be considered illustrative in that other projects of substantial size are in the process of formulation and will compete on the basis of priority for available funds. It is anticipated that loan financing will result in substantial reformulation of the ongoing projects, some downward because loan financing may discourage certain

agencies; some upward because of the increased availability of funds. Therefore, it should be stressed that while the ongoing projects will be eligible for financing, this loan is to finance projects mutually agreeable to AID and the GOB, not simply to fund the existing projects.

c. Administration of the Proposed Program

A detailed plan for the execution of this program has not been fully negotiated. Agreements in principle that the program will be carried out within the general framework of the FINEP system (with the FA's however playing little or no rule in the appraisal stage) has been reached, but it is felt that because of the nature of the projects, implementation decisions will need to be worked out on a project basis. However, on the basis of discussions now underway, it appears that program administration will be along the following lines:

1. Project Formulation

Project formulation will be the most critical stage of the program, and it is anticipated that the scope of the project will receive inputs from many sources: the Applying Agency, the Ministry of Planning, the proposed contractor and the USAID. The USAID expects to provide substantial assistance in the formulation of such projects, and intends as a carrythrough of its development responsibilities to actively work with key agencies in identifying and formulating projects to be financed under this line of credit.

2. Approval Procedures

a. Feasibility Appraisal

The FINEP technical office and/or the appropriate section of the Ministry of Planning will appraise and approve all projects. Their appraisal will in most parts be similar to those done for program studies; however, the appraisal of the project feasibility will be in greater depth. The USAID on its part will appraise and approve all projects in depth where it has not participated in the project formulation. For the smaller studies (under \$100,000) where agencies use the funds to contract for limited technical assistance, USAID approval will not be required. Because of the USAID's traditional close association with these projects, it is anticipated that both the project formulation and approval stages will result in close Ministry of Planning, USAID, and Borrower coordination.

b. Prospects of Repayment Evaluation

Because long term, low interest loans adjusted to the Borrower's ability to repay will be utilized for these projects, this evaluation will be in the main the responsibility of FINEP.

3. Granting of Sub-Loans

Sub-loan agreements will be executed between the FA's and the Borrowers; however, both FINEP and AID will approve the agreements. It is planned that most of these agreements will move thru the BNDE as prime financial agent, and an FA contribution will not be required.

4. Sub-Loan Terms

Agreement has been reached that sub-loan terms will vary according to the Borrowing Agency's ability to repay; however, it is anticipated that all loans will be on 30 to 40-year terms at low interest (1-1/2% to 3%) plus monetary correction, with MOV assumed by FINEP.

5. Procedures for Contracting, Disbursement, Etc.

Where PASA's with US Agencies are involved, it is anticipated that the USAID will enter into an agreement whereby the Borrower will authorize the USAID to charge PASA costs against loan funds. This procedure is working successfully under the Air Navigations Loan which is financing the costs of FAA assistance. Where private contractors undertake projects, standard contracting and payment procedures will be used. In both cases, the USAID will approve the terms and conditions, scopes of work, and contractor for each study.

6. Selection of Firms and/or Agencies to Undertake the Studies

It is anticipated that most of the projects under this program will be executed by US Government Agencies. However, where private firms have records of successful experience in the same work and have permanent staff members who can carry out the projects, private firms will be utilized.

7. Program Feasibility

The program is one which can be executed competently and to the benefit of the economy of Brazil. An implementation plan has not yet been developed in detail, but this is a problem of procedures, not of feasibility, and can best in this case be worked out with experience as the program develops. It is appreciated that the implementation will be initially difficult;

however, this is a problem common to most new programs. The FINEP organizational structure offers some advantage in this respect. On the basis of the on-going projects and new requests for assistance, there are more than enough projects to assure utilization of the funds. While the procedural problems can be worked out, it is felt that loan financing of this type of technical assistance will raise problems not heretofore encountered, and will make it more difficult in some cases for the USAID to work with certain agencies. However, this is a fact that cannot be avoided under the present circumstances. The counter to this disadvantage is the hope that the method of financing and the FINEP review will result in heavier GOB commitment to these programs. In total, the USAID conclusion is that while the loan financing of this program will encounter both procedural and conceptual difficulties, in the initial stages, the program is a feasible one.

#### 8. Implementation Plan

As previously described, AID funds will be utilized within the FINEP credit system. A detailed implementation plan will be a condition to disbursement. Other implementation procedures will be executed as follows:

##### a. Loan Agreement and Implementation Letter

This document will be drafted, negotiated and executed by USAID/B.

##### b. Disbursement

Disbursement for local costs will be made in cruzeiros (obtained under the SLC procedure), and dollar payments to US firms will be made in accordance with the letter of commitment procedure. PASA Agreements will be financed thru a sub-borrower agreement with AID, authorizing AID to charge costs against the loan. Where appropriate other means will be used.

##### c. Reports

A quarterly progress report will be required from sub-borrowers, rather than from FINEP.

8A. Relationship to Grant Program

The grant program for FY 1967 provides for \$895,000 grant funding of projects proposed to be funded under this loan. However, this provision in FY 1967 grant program is a contingent allocation which will be deleted should this loan be approved. Thus there is no possibility of double financing of the same activity.

## 9. Economic Justification

That portion of the proposed loan which will be used to finance costs of a number of natural resource survey activities will produce important, long-term economic benefits for Brazil. However, these activities are aimed at creating the "pre-conditions" for productive investment in Brazil's natural resources, and by their nature are justified on other grounds than those used to demonstrate the economic benefits which accrue from feasibility studies required for specific project financing.

Vast areas of Brazil are still unexplored in an economic sense. Immense water resources, mineral deposits, hydroelectric power potential, forest reserves, and other forms of natural endowment await economic exploitation, and their development depends upon systematic mapping, survey, cataloging, and upon subsequent analysis of alternative economic priorities. Before new hydro-projects can be developed for financing in the Northeast, for example, stream flow and topographic characteristics for a number of important river basins must be surveyed. Yet, Brazil's institutional capacities to carry out systematic "pre-feasibility" surveys in these fields are weak. Trained water and soils engineers are scarce; survey and reconnaissance techniques are inadequately understood. Agency responsibilities are overlapping and ill-defined.

USAID has been financing grant technical assistance for a number of years to several Brazilian agencies to help build this needed competence, providing U.S. technical advisors, training, and carrying out some studies for the account of various Brazilian agencies. A by-product of this effort has been a growing number of important, basic survey reports on ferrous deposits, river basin potential, etc. These technical assistance projects have been carried out under PASA agreements with various other U.S. agencies, such as the Bureau of Reclamation, the U.S. Geological Survey, etc. The Brazilian Government has become more and more aware of the key role this basic survey data plays in the elaboration of national and regional development plans. It is now prepared to borrow to pay for the cost of technical assistance in this field.

FINEP will review future requests from various Brazilian agencies for assistance in the field of basic resource surveys, and can provide both dollar and related local-cost financing for those activities to which the GOB attaches high priority. Transferring funding to the loan category should help to ensure that future surveys and technical advisory services requested of U.S. agencies meet the test of priority need, and that efforts to fill Brazil's vast absorptive capacity for basic resource survey data are closely correlated with specific development planning requirements.

#### IV. FINANCIAL ANALYSIS

##### A. Financial Plan

FINEP will be capitalized by an AID PL 480 grant of Cr\$1 billion, an AID loan of \$11 million, and an IDB loan of \$ 5 million. A permanent fund will be created by profit, commissions, and fees earned on sub-loans. Such earnings will equal 7% on all sub-loans, (with the exception of surveys sub-loans which will be lent at exceedingly soft terms) plus a 2% administration fee, plus monetary correction - less 1% to financial agents, less losses incurred on the exchange risk to be borne by FINEP. The spread on the AID funds (1% for 10 years grace period, 2-1/2% for thirty years) to be lent at the 7% rate (\$ 5 million) provides leverage for the creation of a permanent fund, as does to a lesser extent the IDB loan (4-1/2% for 15 years including a 4-year grace period and a 3/4% commitment fee). Due however to the fact that it is not possible to predict losses due to maintenance of value, nor to predict depletions due to grant or direct contracting activity, no effort has been made to estimate the long range buildup of permanent capital. Of more interest, however, is the fact that sub-borrowers will be required to repay loans immediately upon receipt of construction financing; this provision will tend to create a semi-permanent revolving fund (at least for the duration of the AID grace period) once a project pipeline is established (3 to 5 years). Due to the fact that all loans are repayable in cruzeiro, this revolving fund will not be available for foreign exchange financing.

##### B. Period of Utilization of Loan Funds

It is reasonable to expect the \$5 million to be fully committed within a two-year period with actual disbursements depending on study schedules. Funds for technical assistance projects are recommended on the basis of a three-year program.

##### C. Local Contribution

The local contribution to the individual studies will be composed of the contribution of the Financial Agents, 5% to 20% of each study, and the sub-borrowers, 10% to 40% of each study. The possibility of a GOB budgetary allocation has been discussed with FINEP; however, the 1966 budget has already been submitted, and the Ministry of Planning felt it inadvisable to request additional funding for the Ministry. The USAID is of the opinion that the establishment of FINEP is itself an important enough step to make the existing financial plan acceptable without direct GOB funding. The local contribution to the Natural Resource projects will be negotiated on a case by case basis.

D. Sub-Loan Terms

FINEP funds for feasibility and program studies will be loaned at 7% plus a 2% administrative fee plus quarterly monetary correction on outstanding principal. All loans will be repayable in cruzeiros with FINEP assuming exchange rate risk. Monetary correction is based on the indexes of the National Monetary Council which apply to GOB treasury bonds. Loans for the Natural Resource projects will be at low interest rates similar to the AID loan and for long terms (30 to 40 years).

E. AID Loan Terms

The AID loan terms recommended are consistent with the terms granted for similar loans, and are justified by the institutional nature of the loan.

F. Prospects of Repayment

The FINEP operation will of itself be self sustaining and should generate more than sufficient profits and cash flow for loan repayment. Additionally, the Government of Brazil will have ultimate responsibility for loan repayment. It is therefore concluded that there are reasonable prospects for repayment.

The balance of payments position of Brazil as well as future projections are described in detail in the loan paper for the program loan - AID Loan No. 512-L-034. With sound management of external and internal financing, the Brazilian economy has the underlying strength and diversity to insure a sound balance of payments provision in the future. Accordingly, there is every reason to believe that the country has the capacity to repay this loan.

G. Local Cost Financing

Since the extent of local cost financing will depend entirely on the mix of local and US firms selected to perform the studies, it is impossible to predict the breakdown between dollar and cruzeiro financing under the loan. A rough estimate is that approximately two-thirds of the studies will require US firms. The cruzeiro grant will of course be fully utilized before dollar local cost financing is undertaken. It is estimated that 60% to 80% of the Natural Resource projects will be dollar costs.

H. Impact on US Balance of Payments

As previously indicated, dollars utilized under the loan will be spent for the procurement of US services, or will be converted to cruzeiros under the special letter of credit procedures under which all such dollars are used for the procurement of goods and services in the US. Therefore, the loan will not adversely affect the US Balance of Payments.

V. Issues and Problems

See Summary and Recommendations Section.

A N N E X I  
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- EXHIBIT A -- MINISTRY OF PLANNING ORGANIZATION CHART
- EXHIBIT B -- CURRICULUM VITAE OF FINEP TECHNICAL OFFICE
- EXHIBIT C -- DIAGRAM OF FINEP SYSTEM
- EXHIBIT D -- ILLUSTRATIVE LIST OF FEASIBILITY STUDIES
- EXHIBIT E -- SUMMARY OF ONGOING MINERAL RESOURCE SURVEY  
PROJECTS
- EXHIBIT F -- ILLUSTRATIVE BUDGET OF MINERAL RESOURCE SURVEYS
- EXHIBIT G -- COPY OF I R R FOR PROJECT
- EXHIBIT H -- I R R INSTRUCTIONS
- EXHIBIT I -- LEGAL OPINION - AID CONTRACT APPROVAL



CURRICULUM VITAE OF THE FINREP STAFF

Executive Secretary

Arthur Carlos Chagas Diniz.  
Graduate engineer, School of Engineering, University of Brazil.  
Post-graduate course in engineering economics, University of Brazil.  
Engineer of Magnesita S.A., a manufacturer of refractories, 1960-61.  
Assistant to the Superintendent of Costs and economic studies,  
Companhia Siderúrgica Nacional, 1961-62.  
Market analyst, Companhia Siderúrgica Nacional, 1963.  
Assistant to the Commercial Director, Companhia Siderúrgica  
Nacional, 1963-64.  
Assistant to the Financial Director, Companhia Ferro e Aço de  
Vitória, 1964.

Engineer (1)

Vicente Paulo Mattos de Brito Pereira.  
Graduate mechanical engineer, Catholic University, 1964.  
Post-graduate course in production engineering, Catholic University.  
Course in productivity, Federation of Industries, State of Pernambuco.  
Attending course in engineering economics, University of Brazil,  
and working in agricultural studies at the Getúlio Vargas Foundation.  
Trainee at CONFINAB during 6 months, assisting in studies and planning.

Engineer (2)

Edônio Carlos Naves.  
Graduate engineer, University of Minas Gerais.  
Post-graduate course in engineering economics, University of Brazil.  
Course in Development of Hydroelectric Resources, University of  
Minas Gerais.  
Course in current affairs of Brazil, Institute of Research and  
Social Studies.  
Currently technical assistance to the Director of Companhia  
Ferro e Aço de Vitória.  
Assistant engineer, Manufacturing Office, Companhia Ferro e Aço de  
Vitória, 1960-62.  
Chief of the Office of Projects, Companhia Ferro e Aço de Vitória, 1962-64.  
Assistant engineer, Centrais Elétricas de Minas Gerais, 1954-60.

Engineer (3)

Aluisio Togo Pinto Moura.

Graduate engineer, School of Engineering, University of Brazil.

Post-graduate course in civil construction, 1958.

Course on modern construction, France, 1961-62.

Courses in organization and programming of engineering studies, University of Grenoble and University of Paris, 1962.

Studies at the Bureau d'Etudes O.T.H., Paris, 1962.

Studies and observations of reconstruction and construction work in Warsaw, Poland, 1962.

Post-graduate course in engineering economics, School of Engineering, University of Brazil, 1963.

Post-graduate course in metallic structures and mixed structures sponsored by USMINAS, under the guidance of Professor Ernst Gehri of Zurich, 1965.

Currently engineer of the National Bank for Economic Development, BNDE, Division of Metallurgical Industries, Control Department, and instructor at the Drawing Department, School of Engineering, University of Brazil.

Economist

João Fonte Boa Sobrinho

Graduate economist, School of Economics, University of Minas Gerais,

Course in problems of economic development, Economic Commission for Latin America, (U.N.)

Member of the working group for research in the re-equipment of the Brazilian textile industry, 1961.

Assisted in the preparation of a frame of reference for a Development Plan of the State of Minas Gerais, 1961.

Technical assistant, Development Council of the State of Minas Gerais (appointed in 1962).

Chief of Economic Department, Development Secretariat, State of Minas Gerais (appointed in 1963).

Assisted in the preparation of "Preliminary Program for the Industrialization of the State of Minas Gerais", a feasibility study submitted to the IDB in November, 1963.

Assisted in the preparation of "Preliminary Study of the Rio Grande Basin", a feasibility study of power and transport, submitted to the IDB in November, 1964.

Writer of articles and comments, Information Letter of the State Council of Economics and Administration.

Prepared the industrial project for GUSTINI (an Italian group), which was approved by domestic financing agencies and is being implemented.

Prepared the industrial project for the thermophosphate plant at Araxá, which has been approved by domestic financing agencies and is pending approval of international financing agencies for foreign assistance.

Economist (João Fonte Boa Sobrinho, cont.)

Assisted in the following conferences and meetings:

First Conference on Exports, sponsored by the Commercial Association of the State of Minas Gerais.

First Conference on the Paraíba River Basin, 1961.

Sixth Conference on Brazilian Foreign Trade, 1963.

Statistician

Paulo Gustavo Nigon.

(No information given)

Secretary

Geny Sampaio Viana

(no information given)

SPECIAL SECTION  
MINISTRY OF PLANNING

COORDINATING  
BOARD

TECHNICAL  
OFFICE

F I N E P

F I N A N C I A L    A G E N T S

Appropriate Sections of the Ministry of Planning will assist, as requested, in evaluating the priority of projects and the general feasibility of the applications.

1. Functions as Depository of FINEP funds.
  - a. advances funds to FA's
  - b. keeps accounts for FINEP
  - c. evaluates and audits FA's
2. Acts as a Financial Agent

1. Approve/disapprove all program study loans.
2. Approve/disapprove all project study loans costing in excess of \$250,000.
3. Approve/disapprove all project study loans not clearly eligible under the GOB Development Plan.

1. Evaluate and approve/disapprove all project studies costing less than \$250,000 and in excess of Financial Agent's authority.
2. Evaluate and make recommendations to Coordinating Board on all requests for program study loans, project study loans costing in excess of \$250,000 or not clearly eligible under the GOB development plan.
3. Authorize Financial Agents to grant Program and Project loans approved by itself and/or Coordinating Board.

1. Evaluate and approve project study loans utilizing less than C\$ 30 million at FINEP Funds.
2. Evaluate and make recommendations to FINEP on loan requests which will use in excess of C\$ 30 million.
3. Approve financial feasibility (prospects of repayment) of all sub-loans regardless of size.
4. Grant and guarantee on its own authority loans utilizing less than C\$30 million of FINEP funds.
5. Grant and guarantee, on the authorization of FINEP, loans approved by technical office (subject to its own approval of repayment prospects).

STUDIES AND PROJECTS

DESCRIPTION	STATE	FIXED INVESTMENT US\$	COST OF STUDY US\$
A - PROJECTS			
1 - INDUSTRY			
1.1 - TRANSFORMATION INDUSTRY			
Metallurgy			
1) Indústria Metalúrgica de Alagoas	Alagoas	308.900	9.723
2) COSIPA	M.Grosso	13.576.400	33.941
3) Artefatos de Metal Armato	Guanabara	22.900	573
4) Jopiso Ind. Eletro-Metalúrgica	Guanabara	45.550	1.139
5) Siderurgia de Santa Catarina		41.000.000	1.325.000
6) Fundição Tupy	Sta. Catarina	9.550.000	241.250
7) Banco de Desenvolvimento de Minas Gerais	M.Gerais	850.000	21.250
8) Banco de Desenvolvimento de Minas Gerais	M.Gerais	5.000.000	125.000
9) Grupo Bethônico	M.Gerais	1.000.000	25.000
10) Grupo Ribeiro Fena	M.Gerais	150.000	3.750
11) Grupo Santa Natilde	M.Gerais	800.000	20.000
12) S.A.M.C.	M.Gerais	7.000.000	175.000
13) Açúcar Minas Piratini	R.G.Sul	15.000.000	375.000
14) Açúcar de Perias e Cia. Ltda.	Pernambuco	1.600	40
15) Ind. de Implementos Agrícolas Ltda.	Pernambuco	348.000	8.700
16) Ind. Metalúrgica do Nordeste S.A.	Paraíba	181.700	4.543
17) Tubos Quadrados S.A.	Pernambuco	133.000	3.325
18) Máq. Piratininga do Nordeste S.A.	Pernambuco	360.000	9.000
19) Usina - Eletrosiderúrgica Brasileira S/A	Bahia	6.647.900	166.198
20) Usina Nordeste S.A. Ind. e Com.	Paraíba	2.722.000	68.050
21) Bicicletas Honark do Nordeste S.A.	Pernambuco	222.200	5.555
22) Cia. Ferro Ligas da Bahia S.A.-FERBRASA	Bahia	507.900	12.440
23) Fv. Equipamentos Industriais S.A.	Bahia	2.347.000	58.695
24) S.A. Tubos Brasilit	Pernambuco	1.405.500	35.138
25) USIMINAS	M.Gerais	300.000.000	7.500.000
26) COSIPA	São Paulo	300.000.000	7.500.000
27) C.S.H.	R. Janeiro	240.000.000	6.000.000
28) Belgo Mineira	M.Gerais	10.000.000	250.000
29) MANNESMAN	M.Gerais	15.000.000	375.000
30) ALCCA	M.Gerais	5.000.000	125.000
31) METAL LEVE	São Paulo	2.000.000	50.000
	<u>TOTAL</u>	981.191.350	24.224.318

ANNEX I  
EXHIBIT D

STUDIES AND PROJECTS

	DESCRIPTION	STATE	FIXED INVESTMENT US\$	COST OF STUDY US\$
A	PROJECTS			
I	INDUSTRY			
	I.1 - TRANSFORMATION INDUSTRY			
	Metallurgy			
	1) Indústria Metalúrgica de Alagoas	Alagoas	300.000	9.723
	2) COSIMA	M.Grosso	13.576.400	33.941
	3) Artefatos de Metal Armato	Guanabara	22.900	573
	4) Jopiso Ind. Eletro-Metalúrgica	Guanabara	45.550	1.139
	5) Siderurgia de Santa Catarina		41.000.000	1.025.000
	6) Fundação Tupy	Sta. Catarina	9.550.000	241.250
	7) Banco de Desenvolvimento de Minas Gerais	M.Gerais	950.000	21.250
	8) Banco de Desenvolvimento de Minas Gerais	M.Gerais	5.000.000	125.000
	9) Grupo Bethônico	M.Gerais	1.000.000	25.000
	10) Grupo Ribeiro Pena	M.Gerais	150.000	3.750
	11) Grupo Santa Matilde	M.Gerais	800.000	20.000
	12) S.A.I.C.	M.Gerais	7.000.000	175.000
	13) Açúcar Minas Piratini	R.G.Sul	15.000.000	375.000
	14) Augusto de Farias e Cia, Ltda.	Pernambuco	1.600	40
	15) Ind. de Implementos Agrícolas Ltda.	Pernambuco	342.000	8.550
	16) Ind. Metalúrgica do Nordeste S.A.	Paraíba	131.700	4.341
	17) Tubos Guararapes S.A.	Pernambuco	133.000	3.325
	18) S.A. Metalúrgica do Nordeste S.A.	Pernambuco	350.000	8.750
	19) S.A. - Aço Siderúrgica Brasileira S/A	Bahia	6.047.900	166.197
	20) S.A. do Nordeste S.A. Ind. e Com.	Paraíba	2.722.000	68.050
	21) Bicicletas Honark do Nordeste S.A.	Pernambuco	222.200	5.555
	22) S.A. Ferro Ligas de Aço S.A.-FERBRASA	Bahia	337.900	8.440
	23) Fáv. Equipamentos Industriais S.A.	Bahia	2.347.000	58.685
	24) S.A. Tubos Brasilit	Pernambuco	1.405.500	35.137
	25) CEMBRAS	M.Gerais	300.000.000	7.500.000
	26) COSIPA	São Paulo	300.000.000	7.500.000
	27) C.S.H.	R. Janeiro	240.000.000	6.000.000
	28) Belgo Mineira	M.Gerais	10.000.000	250.000
	29) HAINESHAN	M.Gerais	15.000.000	375.000
	30) ALCCA	M.Gerais	5.000.000	125.000
	31) METAL LEVE	São Paulo	2.000.000	50.000
	<u>TOTAL</u>		981.191.350	24.224.318

(cont.)

DESCRIPTION	STATE	FIXED INVESTMENT US\$	COST OF STUDY US\$
I.1 - Transformation Industry			
- Mechanical Industry			
1) Administradora Comercial	Sta.Catarina	55.500	1.388
2) Milton Moreira Romão Filhos Ltda.	Pernambuco	12.800	320
3) Walfredo Tito e Cia.	Paraíba	45.800	1.145
4) G. Motta e Cia. Ltda.	Pernambuco	16.670	417
5) Ind. Elétricas Brown Boveri S/A		302.900	7.573
6) Mecânica Pesada S/A		126.350	3.159
7) Induccin do Brasil Capacitadores S/A		8.100	203
8) Irmãos Tabbert e Cia. Ltda.		71.300	1.783
9) Codima - Máquinas e Acessórios S/A		148.000	3.700
10) Rolamentos FAG S/A		189.700	4.743
11) Standard Electric	São Paulo	1.900.000	47.500
	<u>TOTAL</u>	2.877.120	71.931
- Chemical Industry			
1) Lab. Lutécia	Guanabara	44.500	1.113
2) Química Farmacêutica Maurício Vellela	Guanabara	27.800	695
3) Lab. Maurício Vellela	Guanabara	27.800	695
4) Fertilizante Santa Catarina	Santa Catarina	4.000.000	100.000
5) Nitrato de Amônio	Sta.Catarina	12.100.000	302.500
6) Fab. de Enxôfre		14.600.000	365.000
7) Orlando M.Tôrres	Minas Gerais	3.500.000	87.500
8) PRACOR	R.G. Sul	3.000.000	75.000
9) Comissão do Plano do Carvão Nacional	Sta.Catarina	19.000.000	475.000
10) Guanabara Química Ind.	R. Janeiro	482.400	12.060
11) Coralt S/A	S.Paulo	1.000.000	25.000
12) Cia. Química Bredia S/A	S.Paulo	7.193.900	179.848
13) Cia. de Ind. Químicas Nord.S/A(CIQUINE)	Bahia	1.016.700	25.418
14) White Martins S/A	M.Gerais	9.220.000	230.500
15) Cia. Brasileira de Estireno	S.Paulo	5.400.000	135.000
16) Emp. Carioca de Produtos Químicos	S. Paulo	2.274.500	56.864
17) Union Carbide do Brasil	S. Paulo	2.614.900	65.374
18) COPEBRAS	S. Paulo	4.688.900	117.224
19) White Martins S/A	Guanabara	1.270.200	31.755
20) GLOBO S/A	S. Paulo	166.700	4.168
21) PROMILHO	Guanabara	246.900	6.173
22) Ind. Reunidas Matarazzo	S. Paulo	761.300	19.033
23) Ind. Reunidas Matarazzo	S. Paulo	4.733.300	118.333

(cont.)

DESCRIPTION	STATE	FIXED INVESTMENT US\$	COST OF STUDY US\$
24) Ind. Reunidas Matarazzo	S. Paulo	1.889.000	47.225
25) S/A Geon do Brasil	S. Paulo	957.800	23.945
26) A.G. Ind. e Com. Ltda.	Pernambuco	2.200	55
27) Lab. Nortefarma Ltda.	Pernambuco	2.200	55
28) C.S.N.	R. Janeiro	15.000.000	375.000
29) SERRANA	S. Paulo	3.500.000	87.500
30) CAMIG	M. Gerais	4.000.000	100.000
31) CAPUAVA	S. Paulo	16.000.000	400.000
	<u>TOTAL</u>	138.721.000	3.468.033
Ceramic Industry			
1) Cia. de Azulejos Com e Ind. de Alagoas	Alagoas	555.550	13.889
2) E. Polém e Cia.	Pernambuco	8.900	223
3) Cerâmica Martins Ribeiro S/A	Paraíba	66.700	1.668
4) Comércio e Ind. de Cerâmica Ltda.	Paraíba	69.500	1.736
5) Cerâmica Araújo Ltda.	Pernambuco	1.670	42
6) Cerâmica São Pedro	Pernambuco	6.680	167
7) Cerâmica São José Guaçu	S. Paulo	3.386.900	97.223
	<u>TOTAL</u>	4.597.900	114.950
Textile Industry			
1) Cia. de Tecidos Norte Alagoas S/A	Alagoas	17.000	425
2) ARTEX S/A	Sta. Catarina	781.000	19.525
3) Companhia Industrial Schlosser	Sta. Catarina	197.000	4.925
4) Artex S/A - Fab. Artefatos Têxteis	Sta. Catarina	1.920.000	48.000
5) Cia. FábriL dos Fiaços	Bahia	338.260	8.457
6) Cia. de Fiação e Aceleração de Cânhamo	Maranhão	666.000	16.650
7) Cotton Cola (Cian Bezerra de Melo S/A	Pernambuco	1.845.000	46.125
8) Cia. de Tecidos Paulista	Pernambuco	5.552.000	141.300
9) Cia. Ind. de Estância S/A	Sergipe	2.254.500	56.363
10) Cottonificio Capiberibe S/A	Pernambuco	4.776.000	119.400
11) S/A Fiação Borlôrema	Paraíba	1.266.500	31.663
12) Fiação Jacutinga S/A	M. Gerais	963.500	24.086
	<u>TOTAL</u>	20.676.760	516.914

(cont.)

DESCRIPTION	STATE	FIXED INVESTMENT US\$	COST OF STUDY US\$
<b>Food Industry</b>			
1) Cia. de Pesca Alagoas	Alagoas	610.000	15.250
2) Frigorífico Palmerense S/A	Alagoas	28.000	700
3) Produtos Alimentícios Dala Ltda.	Alagoas	22.200	555
4) Usina Itaporã (açúcar)	M. Grosso	1.500.000	37.500
5) Abatedouro Modelo	Guanabara	55.600	1.390
6) Manoel Silva Abreu	Guanabara	17.000	425
7) Produtos Alimentícios Cadore	Guanabara	44.500	1.113
8) Industrial Distribuidora de Pesca	Guanabara	129.200	3.230
9) Ind. Avícolas Paixão	Guanabara	77.800	1.945
10) Cia. Planalto de Frigoríficos	Sta.Catarina	778.000	19.450
11) Indústria de Frigoríficos e Pescados S/A	Sta.Catarina	344.500	8.613
12) Industrialização da Banana	Sta.Catarina	55.500	1.388
13) Frigorífico Seara	Sta.Catarina	105.500	2.638
14) Abelardo Brito S/A - Ind.Agro/Past.	Pernambuco	18.900	473
15) INOFRA	Pernambuco	5.550	139
16) Jorge Aleixo e Cia.	Pernambuco	22.200	555
17) Coelho Neves e Cia. Ltda.	Pernambuco	3.300	82
18) Cleifera Platan S/A	Bahia	260.000	6.500
19) CILBA - Cia. Ind.de Lat. da Bahia	Bahia	611.100	15.278
20) Ind. Laticínios de Campina Grande	Paraíba	217.200	5.431
21) Cacho Industrial e Comercial S/A	Bahia	644.000	16.100
22) Ubatubana Industrial S/A - ITISA	Paraíba	131.100	3.278
23) NORMADA S/A - Nordeste e Ind. de Mandioca	Ceará	80.500	2.013
24) Ind. Coelho S/A	Pernambuco	1.944.500	48.613
25) Ind. Alim. Aereo Bradley Ltda.	Pernambuco	19.450	486
26) PROPEGA	R.G. Norte	7.777.800	194.445
	<u>TOTAL</u>	15.503.400	387.690
<b>Power Generation</b>			
1) CERE - Casias do Sul	R.G. Sul	1.500.000	37.500
2) CELF - ROSAL - Rio de Janeiro	R. Janeiro	16.000.000	400.000
3) CEMIG (Jaguara)	M. Gerais	57.000.000	1.425.000
4) CHESEF (Paulo Afonso III)	Bahia	120.000.000	3.000.000
5) CHEVAP - Santa Cruz	Guanabara	12.800.000	320.000
6) CHEVAP - Santa Cruz III	Guanabara	22.000.000	550.000
7) COHELE	Nordeste	32.550.000	813.750
8) COPEL	Paraná	31.800.000	795.000

(cont.)

5.

DESCRIPTION	STATE	FIXED INVESTMENT	COST OF STUDY US\$
9) FURNAS - Estreito	M.G./S.P.	57.000.000	1.425.000
10) SOTELCO	Sta.Catarina	13.000.000	325.000
	<u>TOTAL</u>	363.650.000	9.091.250
** Lumber Industry			
1) Madeireira do Nordeste S/A	Alagoas	83.300	2.083
2) Federal Com.Ind. de Móveis	Guanabara	28.000	700
3) Fábrica de Placas de Madeira	Sta.Catarina	2.100.000	52.500
4) Imaribo S/A Indústria e Comércio	Sta.Catarina	2.500.000	62.500
5) Ind. e Com. Madeireira S/A	Pernambuco	136.900	3.473
6) Antônio Cristóvão da Silva	Pernambuco	6.670	167
7) Valdemar Augusto de Souza	Pernambuco	2.780	70
8) G. Espindola	Pernambuco	3.300	83
9) EUCATEX	S. Paulo	2.000.000	50.000
10) Madequímica	S. Paulo	1.750.000	43.750
11) Soc.Brasiliense de Madeira,Ltda.	S. Paulo		
	<u>TOTAL</u>	8.612.950	215.326
* Other Industry			
1) Cia. de Beneficiamento do Lixo de Alagoas	Alagoas	70.000	1.750
2) Ind. de Confeções de Alagoas S/A	Alagoas	110.000	2.750
3) Renovadora Pneus Nova Vida	Guanabara	28.000	700
4) Edgard Clare Vidros Ltda.	Guanabara	109.000	2.725
5) A. Salvi & Cia. Ltda.	Guanabara	126.000	3.150
6) Ind. de Papel Tenuri	Guanabara	82.300	2.058
7) PLASTIREX S/A	Guanabara	48.000	1.200
8) Novi Fôrmas para Calçados	Guanabara	18.400	460
9) Granja Guanabara	Guanabara	10.000	250
10) VULCAN Mat. Plástico S/A	Guanabara	400.000	10.000
11) CICAPEL (Papel e Celulose)	Sta.Catarina	19.500.000	487.500
12) Olinkraft S/A (Papel e Papelão)	Sta.Catarina	10.120.000	253.000
13) Governo do Território Federal de Rondônia	Rondônia	1.670.000	41.750
14) Banco do Desenvolvimento de Minas Gerais	M. Gerais	1.490.000	37.250
15) Bezerra Silveira e Cia.	Pernambuco	8.300	208
16) Soc. Ind. de Lages Ltda.	Pernambuco	33.000	825
17) Eufrásio Ferreira Costa	Pernambuco	3.300	83
18) Ind. de Roupas Conforcal S/A	Pernambuco	8.300	208
19) SABAP do Norte S/A de Art./Plást.	Pernambuco	266.700	6.668

(cont.)

DESCRIPTION	STATE	FIXED INVESTMENT US\$	COST OF STUDY US\$
20) IPELSA - Ind. de Cel./Papel da Paraíba	Paraíba	283.500	7.088
21) Quirino Lira e Cia.	Paraíba	28.650	716
22) S/A Brasileira de Ind. Óticas - SABIO	Pernambuco	193.070	4.827
23) Incobeza Ind. e Com. Bezerra	Pernambuco	2.780	70
24) CIMREPI - Com. Ind. Mat. Elétricos	Pernambuco	8.540	209
25) DEMISA	M. Gerais	1.250.000	31.250
	<u>TOTAL</u>	35.867.640	896.695
II - Mineral Extraction			
1) Mineradores Diversos	Sta. Catarina	9.900.000	247.500
2) BRITA S/A - Ind. e Com. de Britagens	Paraíba	77.900	1.946
	<u>TOTAL</u>	9.977.900	249.448
III - Vegetal Extraction			
1) Cia. Industrial Machado S/A	Piauí	91.135	2.278
2) Crasto Agro Industrial S/A - CAISA	Sergipe	457.200	11.430
	<u>TOTAL</u>	548.335	13.708
IV - Works and Activities			
1) Departamento Nacional de Obras Contra as Secas	Piauí	830.800	20.770
2) Departamento Nacional de Obras Contra as Secas	Ceará	3.312.000	82.800
3) Departamento Nacional de Obras Contra as Secas	Ceará	1.656.000	41.400
4) Departamento Nacional de Obras Contra as Secas	Ceará	4.968.000	124.200
5) Departamento Nacional de Obras Contra as Secas	Paraíba	1.656.000	41.400
6) Departamento Nacional de Obras Contra as Secas	Pernambuco	830.800	20.770
7) Departamento Nacional de Obras Contra as Secas	Bahia	830.000	20.700
8) Departamento Nacional de Obras Contra as Secas	Bahia	830.800	20.700
9) Departamento Nacional de Obras Contra as Secas	Nordeste	1.656.000	41.400
10) Departamento Nacional de Obras Contra as Secas	Nordeste	1.100.000	27.500
11) Departamento Nacional de Obras Contra as Secas	Nordeste	1.670.000	41.750
12) Desenvolv. Ind. e Com.	Nordeste	4.450.000	111.250
	<u>TOTAL</u>	23.791.200	594.780

(cont.)

DESCRIPTION	STATE	FIXED INVESTMENT US\$	COST OF STUDY US\$
<b>SERVICES</b>			
- Supply Services			
1) BND E e S U N A B		50.000.000	1.250.000
2) FRIUSA - Arm. Gerais Frigoríficos União	Bahia	1.374.000	34.350
	<u>TOTAL</u>	51.374.000	1.284.350
- Power Transmission and Distribution			
1) Município de Caraubal	Ceará	44.500	1.113
2) Município de Croairas	Ceará	27.800	695
3) Município de Mucambo	Ceará	44.500	1.113
4) Município de Aquiraz	Ceará	44.500	1.113
5) Município de Morrinhos	Ceará	36.100	903
6) Município de Acaraú	Ceará	44.500	1.113
7) American Foreign Power		50.000.000	1.250.000
8) CEEE - Passo Real	R.G. Sul	72.000.000	1.800.000
9) CEMIG - (Jaguara)	M. Gerais	101.000.000	2.525.000
10) CEMIG - Linha Transmissão	M. Gerais	75.000.000	1.875.000
11) CHEVAP	Rio /S.P.	9.000.000	225.000
12) FURNAS	M.G./S.P.	53.000.000	1.325.000
13) USELPA		11.000.000	275.000
	<u>TOTAL</u>	371.241.900	9.281.050
- Transportation			
1) Governo Federal do Brasil (BR-11)	Nordeste	19.600.000	475.000
2) Governo Federal do Brasil (BR-13)	Nordeste	19.700.000	492.500
3) Governo Federal do Brasil (BR-25)	Nordeste	17.600.000	440.000
4) Governo Federal do Brasil (BR-27)	Paraná	6.200.000	155.000
5) Governo Federal do Brasil (BR-35)	Paraná	3.700.000	92.500
6) Governo do Estado do Paraná (PR-5)	Paraná	18.200.000	455.000
7) Governo do Estado do Paraná (PR-4)	Paraná	8.500.000	212.500
8) Governo do Estado do Paraná (PR-13)	Paraná	7.700.000	192.500
9) Governo do Estado do Rio G. Sul (RS-4)	R.G. Sul	3.300.000	220.000
10) Governo do Estado do Rio G. Sul (RS-62, RS-8)	R.G. Sul	17.500.000	437.500
11) Governo do Estado do Rio G. Sul (RS-3)	R.G. Sul	3.300.000	220.000
12) Governo do Estado do Rio G. Sul (RS-10, RS-42)	R.G. Sul	16.400.000	410.000
13) Governo do Estado de Minas Gerais (MG-4)	M. Gerais	35.000.000	875.000
14) Governo Federal do Brasil (Moderniz. Portos - Rio - Santos - Recife)	Rio/Santos Recife	15.000.000	375.000

(cont.)

DESCRIPTION	STATE	FIXED INVESTMENT US\$	COST OF STUDY US\$
15) Governo Federal do Brasil (BR-5)		13.500.000	337.500
16) Governo Federal do Brasil (BR-31)		17.000.000	425.000
17) Governo Federal do Brasil (BR-37)		28.000.000	700.000
18) Governo Federal do Brasil (BR-34/16)		18.000.000	450.000
19) Governo Federal do Brasil (BR-59)		35.000.000	875.000
20) Governo Federal do Brasil (BR-35)		30.000.000	750.000
21) Governo do Estado de Santa Catarina (SC-23)	Sta. Catarina	19.600.000	490.000
	<u>TOTAL</u>	363.200.000	9.080.000
Communication Services			
1) Município de Massapê	Ceará	8.300	208
2) Cia. Telefônica Brasileira		66.000.000	1.650.000
3) Sistemas Municipais - Porto Alegre - Belo Horizonte - Brasília - Curitiba e outros		22.000.000	550.000
4) COMTEL (?)			
	<u>TOTAL</u>	88.008.300	2.200.208
Education			
1) Universidade Rural do Brasil	Federal	1.300.000	32.500
2) Ministério da Agricultura	Federal	19.500.000	487.500
3) Ministério da Educação e Cultura e CAPES	Federal	5.100.000	127.500
4) Universidade do Brasil	Federal	50.000.000	1.250.000
	<u>TOTAL</u>	75.900.000	1.897.500
INDUSTRIES			
Sectoral and Regional			
1) B.D.M.G. (Metalurgia)	M. Gerais		2.200
2) B.D.M.G. (Ind. Têxtil)	M. Gerais		4.800
3) B.D.M.G. (Mecânica)	M. Gerais		4.000
4) Dep. Nac. de Obras Contra as Secas	Nordeste	5.277.800	131.945
5) Governo Federal do Brasil (Transp.)	Nacional	180.000.000	4.500.000
6) Governo do Estado de São Paulo (Transp.)	S. Paulo	90.000.000	2.250.000
7) Governo do Estado de São Paulo (Transp.)	S. Paulo	10.000.000	250.000
8) Governo Federal do Brasil (Pecuária)	Federal	50.000.000	1.250.000
9) Governo do Estado do Rio Grande do Sul (Taquari)	R.G. Sul	-	397.000
	<u>TOTAL</u>	335.277.800	8.788.945

NATIONAL MINERALS SURVEY

PURPOSE

To assist in developing the National Department of Mineral Production into an organization with the professional skills needed to carry out necessary work in geology and mineral deposit research, prospecting, discovery and appraisal. More specifically, this involve programs to: (1) train 50 field geologists of the National Department of Mineral Production (DNEM); (2) develop laboratories and to train 20 laboratory specialists in techniques of earth science and (3) provide advice and consultation on agency organization, development, and planning in scientific research and administration.

Through this activity GOB will be able to appraise its mineral reserves needed in material, industrial and agricultural development and discover deposits of minerals now in short supply. Currently Brazil is a net importer of minerals, mineral products, metals and mineral fuels.

IMPLEMENTATION

Through a MSA with the U.S. Geological Survey, Department of the Interior, provide (1) 4 U.S. geologists two first year and one with TDY consultants in two subsequent two years; (2) participant post-graduate training in the U.S. and (3) certain items of scientific equipment unavailable in Brazil.

U.S. Field Geologists will train each Brazilian geologist one year and will supervise his independent work the following year; this will be followed by one year of post-graduate training under participant grant in the U.S. The laboratory geologist will establish facilities and procedures and train specialists for 2 years. Short-term consultants will establish special facilities needed in support of field and laboratory units and for publication.

The program is laid out for 3-years. The first unit of field training will be located in the State of Bahia containing known deposits but limited reserves of copper, base metals, and tin, all having high priorities of the GOB for appraisal, discovery and development. Effective laboratories in geological interpretation of aerial photographs and geochemical analysis are needed to provide technical support to field investigations. Establishment of a publications unit is needed to provide early dissemination of reports and maps to the public and GOB agencies.

The project is designed as a model to demonstrate to the DNEM the way geological surveys and minerals reconnaissance programs should be organized and executed.

PROGRESS TO DATE

Previous USAID/USGS assistance to the DNEM had limited effectiveness in institutional development owing to administrative problems of the GOB and the principal results were geologic reports of major mineral deposits and districts and the in-service training of young Brazilian geologists not affiliated with the DNEM. In 1964-65 GOB developed a 10-year Master Plan to appraise its reserves of 20 critical mineral commodities and to study the geology of 13 regions considered favorable for mineral discovery. The President issued Decree 55.837 authorizing the DNEM to carry out the plan and giving the agency the necessary powers needed for successful implementation. Authorization for increasing the staff was given in 1964. A project agreement with USAID for training DNEM geologists in Bahia was signed in 1964.

In 1963 a project agreement between the University of Bahia, the DNEM and USAID resulted in field training of 15 graduates and undergraduates in geologic mapping and geochemical prospecting; 6 reports and 3 geologic quadrangle maps summarizing the scientific findings are being prepared by members of the group. Earlier work included establishment of a Laboratory of Geochemical prospecting at the University of Bahia, which produced close to 10,000 analyses to support the field investigations. Several potential copper deposits were found in the course of the project, which will be trenched and drilled for fuller appraisal by the DNEM in 1965.

The Geologic Cartography sub-project terminates September 30, 1965, having completed installation of facilities for processing and publishing technical reports and maps. The maps and reports processed under this project which include in the main part the studies derived from the earlier Ferronous project, which surveyed the notable manganese and iron deposits of the region, have been submitted for publication by the U.S. Geological Survey in Washington.

As of July 1965, 5 major reports have been published, 2 are in process, 2 approved for publication and 5 are being processed. Two scientific papers on iron ore were published in 1964 in professional journals. These papers, which contain specific ore reserve estimates, were the basis for the GOB issuance of the Presidential Decree in 1964, specifically encouraging large-scale export of iron ore to help resolve balance of payments deficits.

	FY - 1966			FY - 1967			FY - 1968		
	Mi	\$	Cr\$	Mi	\$	Cr\$	Mi	\$	Cr\$
Tech. Asst.	43	116	-	18	50	-	18	50	-
Participants	-	35	-	-	18	-	-	18	-
Commodities	-	8	-	-	5	-	-	5	-
Other Costs	-	10	-	-	5	-	-	5	-
Cruzeiro Support	-	-	100	-	-	144	-	-	144
		169	100		78	144		78	144

TOPOGRAPHIC MAPPING

PURPOSE

To create a capacity for production of medium-scale topographic maps and serial photograph mosaics in the National Geographic Council (CNG), needed for natural resources development (mineral deposits, agriculture, reclamation, and energy) and for major engineering works (highways, railroads, tunnels, and airports).

Immediate preparation of base maps to National Department of Mineral Production (DNPM) for geologic and mineral deposit investigations in State of Bahia. The CNG is the civil agency responsible for geodetic control surveys and topographic mapping of CCB.

IMPLEMENTATION

Through a TACA with U.S. Geological Survey to furnish 1 Topographic Engineer as management and technical consultant. Also to furnish equipment unavailable in Brazil and to furnish participant grants to engineers and technicians for training in U.S. in specialized fields of map making.

ACHIEVEMENT TO DATE

In previous years equipment was selected, ordered and installed. Two courses in map making were given by U.S. instructors in 1962 and 1964. Technical advice on techniques and organization has been given on the preliminary phases of the project. A demonstration project including all phases of map-making has been planned and started for coverage of part of State of Bahia. In 1965 75% of the serial photographic coverage of the project area was obtained. It is planned to obtain an additional 20% by end of CY-65 and 20% by end of FY-66. Establishing geodetic control for compiling maps from the serial photographs has proceeded since 1963 as scheduled; compilation of 8 quadrangles will be complete by end of CY-65.

	FY - 1966			FY - 1967			FY - 1968		
	PL	CR	GR	PL	CR	GR	PL	CR	GR
Tech. Asst.	12	28	-	12	28	-	12	28	-
Participants	-	14	-	-	14	-	-	14	-
Commodities	-	4	-	-	4	-	-	4	-
Other Costs	-	6	-	-	6	-	-	6	-
		52			52			52	

ANNEX I  
EXHIBIT E

HYDROLOGIC DATA - RIO

PURPOSE

To assist the Divisão de Águas of the Ministry of Mines and Energy, in improving its capability in the collection, compilation and dissemination of hydrologic data on a country-wide basis. The Divisão de Águas is the government agency responsible for streamflow and other hydrologic data for all of Brazil but to date has been unable to effectively carry on its responsibilities.

IMPLEMENTATION

Through a PASA with the U.S. Geological Survey two technicians plus a short-term consultant, in surface water hydrology will be assigned to advise the Divisão de Águas. These technicians will recommend organizational changes necessary to centralize the control of collection, compilation and publication of hydrologic data; and to advise and assist in the improvement of practices and procedures in field and office in order to improve efficiency and reliability. Training in the United States will be provided for three key engineers per year and small amount of commodity assistance in the form of hydrologic instruments and equipment will be provided, mainly for demonstration purposes.

PROGRESS TO DATE

A few commodities are presently under procurement and the agency has approved in draft Project Agreement. The "Divisão" de Águas is in the process of being up-graded to a "Departamento" in the Ministry of Mines and Energy in order to better carry on its greater responsibilities in water investigations.

	FY - 1966			FY - 1967			FY - 1968		
	Est	Q	Cr\$	Est	Q	Cr\$	Est	Q	Cr\$
Tech. Asst.	-	40	-	24	62	-	24	62	-
Participants	-	10	-	-	10	-	-	10	-
Comodities	-	-	-	-	10	-	-	10	-
Cruzeiro Support	-	-	25	-	-	25	-	-	25
		50	25		82	25		82	25

ANNEX I  
EXHIBIT E

GROUND WATER SURVEYS

PURPOSE

To provide technical assistance and in-service training in hydrogeology to Brazilian geologists while carrying out field investigations in the Northeast and to provide consultation to the Divisão da Hidrogeologia, SUDENE to develop that agency. This activity will improve the technical competence of the Divisão da Hidrogeologia in carrying out ground water investigations. Investigations with USAID technical assistance will assist in the immediate development of ground water resources and methods developed could be extrapolated for use elsewhere in the Northeast. Consultation on planning, operations, and management will greatly increase institutional effectiveness. USAID assistance is contemplated through FY 68 at which time the Divisão de Hidrogeologia can continue without outside assistance.

FIELD TRAINING

Through a USA agreement three hydrogeologists from the United States Geological Survey are assigned to work with the Divisão de Hidrogeologia in study of ground-water resources of specific basins. The Division of Hydrogeology has provided office space and other facilities for these men. Under the agreement, two Brazilian geologists are to be sent to the United States each year for academic training in hydrogeology. In addition to this, the agreement also provides for small amounts of scientific equipment and materials needed but not available in Brazil.

PROGRESS TO DATE

The agreement which has been implemented was signed April 30, 1964. The three U.S. hydrogeologists working with their SUDENE counterparts on specific projects both in the field and in the office since May 1964. Investigation of the Paraíba Basin is completed and the final interpretive report is being written. The field work on the Açú Valley project has been completed and data analyses are underway. In both investigations, SUDENE counterparts are working closely with the U.S. hydrogeologists. These reports will describe the present and future ground-water potential representative areas. Four U.S. Geological Survey ground-water publications have been translated into Portuguese and are now in use as training media. Under a signed LIO/P, two Division of Hydrogeology geologists are due to leave for the United States in January 1966 for academic training in hydrogeology. Most of the commodities ordered in FY 1964 have arrived and are in use.

	FY - 1966			FY - 1967			FY - 1968		
	MM	\$	Cr\$	MM	\$	Cr\$	MM	\$	Cr\$
Tech. Asst.	36	80	-	36	80	-	36	80	-
Participants	-	17	-	-	13	-	-	13	-
Commodities	-	8	-	-	5	-	-	5	-
Other Costs	-	5	-	-	5	-	-	5	-
		110			110			110	

ANNEX I  
EXHIBIT E

MINERAL RESOURCES SURVEY (NE)

PURPOSE

To develop the SUDENE Division of Geology as an effective Agency in the field of economic geology as applied to Northeast Brazil through consultation on planning, management and operations, and in-service training of Brazilian geologists.

IMPLEMENTATION

Through a EASA with the U.S. Geological Survey two geologists are assigned, one in field investigations and one in laboratory development and training of laboratory personnel of the Division of Geology. Three men will be provided by the end of 1966 through 1968.

PROGRESS TO DATE

Technicians who arrived in late March, 1965, studied laboratory requirements and recommended types of equipment needed for mineral and rock identification and evaluation as possible ore material. A field examination made in June 1965 demonstrated the ready availability of several hundred million tons of gypsum in Ceará and Pernambuco adequate for mining on any scale. Participants were selected for short term tours to U.S. Geological and Mining Agencies and for academic training. Technical articles have been translated for training material and for practical field studies in specialized and general fields of economic geology and laboratory techniques.

	FY - 1966			FY - 1967			FY - 1968		
	MM	\$	Cr\$	MM	\$	Cr\$	MM	\$	Cr\$
Tech. asst.	36	83	-	60	133	-	60	133	-
Participants	-	13	-	-	13	-	-	13	-
Commodities	-	5	-	-	5	-	-	5	-
Other Costs	-	25	-	-	25	-	-	25	-
		126			176			176	

HYDROLOGIC DATA - N.E.PURPOSE

To assist SUDENE, in cooperation with DNOCS and CVSF, in improving their hydrologic data collection networks systems and up-grading their technical competence and capability. This activity will concentrate on improving the collection, computation, analysis, compilation and publication of streamflow, rainfall and evaporation data which is urgently needed for all water development and water use studies.

IMPLEMENTATION

Through a PASA with the U.S. Geological Survey two technicians in surface water hydrology are assigned to advise the cooperating agencies. These technicians assist, advise and recommend, the necessary improvements in methods, practices and procedures, and in organization, to improve and expand the data collection program in the Northeast and to improve data reliability. The assistance will be reduced to one advisor at for about one year.

Training in the United States for a number of mey engineers will be provided. Limited amounts of U.S. commodities will be provided in the form of hydrologic instruments and equipment. Limited local currency assistance will be provided to assure that the data will be published.

PROGRESS TO DATE

The USGS has furnished two technicians, plus one on 90 day TDY, to date. One technician has concentrated on collection of data and operations; the others on the computation and compilation of the backlog of raw data in the files. The station networks have been expanded appreciably and reliability of field and office work considerably improved.

	FY - 1966			FY - 1967			FY - 1968		
	MM	\$	Cr\$	MM	\$	Cr\$	MM	\$	Cr\$
Tech. Asst.	24	64	-	15	40	-	15	40	-
Participants	-	10	-	-	10	-	-	10	-
Commodities	-	20	-	-	10	-	-	10	-
Cruzeiro Support	-	-	50	-	-	50	-	-	50
		94	50		60	50		60	50

HEADQUARTERS STAFF AND CVSFPURPOSE

To assist the São Francisco Valley Commission (CVSF) develop a sound organization, efficient and economical procedures, and a well trained staff to make complete studies of the land and water resources of the Valley as a basis for multi-purpose development projects. Furthermore this staff will consult with USAID/Brazil and other Brazilian agencies on problems and programs in the field of river basin development.

IMPLEMENTATION

Through a PASA with the US Bureau of Reclamation provide the services of 8 technicians plus short-term consultants. These would be specialists in the field of hydro-engineering, geology, soils science, and economics. They will advise and give guidance to the program. By the end of the three year program the staff of CVSF should have information and skills to produce a long range master plan for multi-purpose development of the Valley's resources. On-the-job and participant training in the US is an integral part of the work.

PROGRESS TO DATE

8 men are now on board, housed with the CVSF and working with national engineers in developing the preliminary survey program, procedures and plans. Photo-maps have been assembled, a large number of reconnaissance field trips have been made including a special fly-over of the entire Valley. A large amount of information is available since the CVSF has been in existence for some 20 years. A systematic approach to planning and development however, is only now beginning.

	FY - 1966			FY - 1967			FY - 1968		
	MM	\$	Cr\$	MM	\$	Cr\$	MM	\$	Cr\$
Tech. Asst.	108	207	-	108	207	-	108	207	-
Participants	-	38	-	-	38	-	-	38	-
Other Costs	-	50	-	-	50	-	-	50	-
Cruzeiro Support	-	-	150	-	-	150	-	-	150
		295	150		295	150		295	150

ANNEX I  
EXHIBIT E

IRRIGATION (NORTHEAST)

PURPOSE

To provide technical assistance and training to Brazilian agencies in irrigation development and construction of small water impounding and retention structures in the Northeast.

IMPLEMENTATION

The irrigation development phase will be implemented through a PASA with the U.S. Bureau of Reclamation which will supply two technicians on a long term basis and short term consultants as required. These technicians and those assigned to Northeast River Basin Surveys will be procured under a single PASA with the BuRec. The construction of small, water impounding and retention structures is being implemented through a cooperative program with the Food For Peace program. Local support will be provided by one local hire technician.

Cruzeiro financing of the program for the construction of small water impounding and retention structure will be continued through FY 68.

PROGRESS TO DATE

The two BuRec technicians are now on board and are assisting DNOCS and SUDENE in the selection of pilot areas for irrigation development. One small retention structure is being constructed, and agreements have been reached on one other. A participant training program was initiated late in FY-65 to provide training in the United States and in Mexico. This training includes on-the-job training in Mexico and also university schooling for a number of Brazilian professors, who upon the return to Brazil will teach "Irrigation Engineering" in the universities of Brazil.

	FY - 1966			FY - 1967			FY - 1968		
	MI	\$	Cr.	MI	\$	Cr.	MI	\$	Cr.
Tech. Asst.	30	58	-	30	58	-	30	58	-
Participants	-	30	-	-	30	-	-	30	-
Commodities	-	20	-	-	20	-	-	20	-
Other Costs	-	15	-	-	15	-	-	15	-
Cruzeiro Support	-	-	200	-	-	200	-	-	200
		<u>123</u>	<u>200</u>		<u>123</u>	<u>200</u>		<u>123</u>	<u>200</u>

RIVER BASIN STUDIES (NORTHEAST)PURPOSE

To make preliminary appraisals of the land and water resources of Northeast Brazil which can serve as the basis for multipurpose development projects.

IMPLEMENTATION

Through a PASA with the U.S. Bureau of Reclamation provide the service of 3 technicians plus several short-term consultants in the fields of engineering, soil science economics to advise and give guidance to the program. These technicians may, from time to time, be requested to provide technical assistance in irrigation development as described in the sub-activity Irrigation (Northeast). The studies performed by the Bureau of Reclamation will be used as guides in the preparation of a master plan for multipurpose development of the land and water resources in various basins in Northeast Brazil.

Coordination, backstopping and local support will be provided through a direct hire Water Resources Planning Engineer and a staff of 4 locals.

PROGRESS TO-DATE

Two river basin surveys (Piranhas and Rio Grande Basins) and one preliminary reconnaissance (Araguaia-Tocantins basin) have been completed by BuRec personnel on TDY assignments. Of the planned 9-man resident team, 8 technicians are presently in Brazil and are concentrating their efforts on a reconnaissance survey of the São Francisco river basin. A participant training program was initiated late in FY-65, for training of technicians in the United States and in Mexico.

	FY - 1966			FY - 1967			FY - 1968		
	MM	\$	Cr\$	MM	\$	Cr\$	MM	\$	Cr\$
Tech. asst.	36	69	-	60	115	-	60	115	-
Participants	-	30	-	-	30	-	-	30	-
Commodities	-	<u>20</u>	-	-	<u>20</u>	-	-	<u>20</u>	-
		119			165			165	

**ANNEX I**

**EXHIBIT E**

**ARAGUAIA-TOCANTINS BASIN**

**PURPOSE**

To assist the Comissão Interestadual do Vale do Araguaia-Tocantins (CIVAT) develop a long range program for the land and water resource use in the Araguaia-Tocantins Basin. This will include organization and administrative resource survey and evaluation, staff training, and methods and procedures.

**IMPLEMENTATION**

Through a PASA agreement with the US Bureau of Reclamation 9 resident technicians will be assigned to CIVAT to work within their organization together with their personnel in engineering, geology (hydro & mineral), soils science, economics, administration and management. They will work directly in the areas of their specialties with their counterparts showing as well as advising, leading when necessary and generally stimulating the CIVAT organization in all technical aspects. Some engineering and scientific equipment will be acquired for the agency and selected participants will receive training in the U.S.

**PROGRAM TO DATE**

Several meetings have been held with CIVAT officials and a meeting to discuss program details and time schedules is to be held in Goiania Sept. 8 and 9.

	<u>FY - 1966</u>			<u>FY - 1967</u>			<u>FY - 1968</u>		
	<u>MM</u>	<u>\$</u>	<u>Cr\$</u>	<u>MM</u>	<u>\$</u>	<u>Cr\$</u>	<u>MM</u>	<u>\$</u>	<u>Cr\$</u>
Tech. Asst.	108	280	-	108	280	-	108	280	-
Participants	-	20	-	-	20	-	-	20	-
Commodities	-	50	-	-	50	-	-	50	-
Other Costs	-	40	-	-	40	-	-	40	-
		<u>390</u>			<u>390</u>			<u>390</u>	

ANNEX I  
EXHIBIT E

METEOROLOGICAL DATA

PURPOSE

To assist the Meteorological Service, of the Ministry of Agriculture, in improving the collection and dissemination of meteorologic data. The Meteorological Service is the primary agency in Brazil for the collection, analysis, and reporting of meteorological data and as such desires to improve its station networks, its communications and reporting system, and its technical competence. This activity will concentrate on the above phases in order to better provide meteorological services to agriculture, industry, transportation, and the general public.

IMPLEMENTATION

Through a PASA with the U.S. Weather Bureau 3 high level meteorologists will be assigned to advise the Meteorological Service in organization and overall management and activities. The Meteorological Service is considering the major part of its improvement program to be financed through a low-interest USAID loan of about \$600,000 for imported equipment, U.S. technicians, and training in the United States of key personnel.

PROGRESS TO DATE

No assistance has been provided to date. The Meteorological Service has began a general study of equipment needs to rehabilitate and expand the collection and reporting networks; also has begun rehabilitation with own funds.

	FY - 1966			FY - 1967			FY - 1968		
	MM	\$	CR\$	MM	\$	CR\$	MM	\$	CR\$
Tech. Asst.	36	69	-	36	69	-	36	69	-
Participants	-	20	-	-	20	-	-	20	-
Commodities	-	200	-	-	200	-	-	200	-
		<u>289</u>			<u>289</u>			<u>289</u>	

WELL REHABILITATION (NORTHEAST)

PURPOSE

To assist Brazilian agencies to increase their efficiency in drilling, development and testing of new wells and in the rehabilitation and testing of existing wells.

IMPLEMENTATION

Two specialists in well drilling, developing and testing will be provided through personal service contracts. One will be assigned to work with CONESP and the other specialist will be assigned to work with DNOCS.

At present there are over 250 well drilling machines in the Northeast of which less than 15 percent are in reasonable operating condition. There are also approximately 3,000 wells which are in need of rehabilitation. The specialist mentioned above will provide advice on drilling techniques, repair and rehabilitation of well rigs presently in Brazil, developing and testing of new wells and rehabilitation and testing of existing wells.

A small amount of equipment not available in Brazil will be provided along with training for participants in the U.S.

PROGRESS TO DATE

\$215,000 of replacement parts for well-drilling equipment which was obligated under a FY-64 P10/C and ordered during FY-65 is now available to start reconditioning the well drilling equipment. The two specialists referred to above are now on board and are working. Through a training program a number of Brazilians have or are receiving advance training in well drilling techniques.

	FY - 1966			FY - 1967			FY - 1968		
	MM	\$	Cr\$	MM	\$	Cr\$	MM	\$	Cr\$
Tech. Asst.	24	56	-	24	56	-	24	56	-
Seabee Team	-	50	-	-	50	-	-	50	-
Participants	-	20	-	-	20	-	-	20	-
Commodities	-	5	-	-	5	-	-	5	-
		<u>131</u>			<u>131</u>			<u>131</u>	

ILLUSTRATIVE NATURAL RESOURCES  
TECHNICAL ASSISTANCE PROGRAM

	FY - 1966			FY - 1967			FY - 1968		
	MM	\$	Cr\$	MM	\$	Cr\$	MM	\$	Cr\$
<b>1. <u>Well Rehab. &amp; Test</u></b>									
Tech. Asst.	24	56	0	24	56	0	24	56	0
Seabee Team		50			50			50	
Participants		20			20			20	
Commodities		5			5			5	
		<u>131</u>	<u>0</u>		<u>131</u>	<u>0</u>		<u>131</u>	<u>0</u>
<b>2. <u>USGS Natl. Minerals Survey</u></b>									
Tech. Asst.	48	116		18	50		18	50	
Participants		35			18			18	
Commodities		8			5			5	
Other Costs		10			5			5	
Cruiseiro Support			100			144			144
		<u>169</u>	<u>100</u>		<u>78</u>	<u>144</u>		<u>78</u>	<u>144</u>
<b>3. <u>USGS Geologic Cartography</u></b>									
Tech. Asst.	3	10	0						
Other Costs		10							
		<u>20</u>	<u>0</u>						
<b>4. <u>USGS Topographic Mapping</u></b>									
Tech. Asst.	12	28	0	12	28	0	12	28	0
Participants		14			14			14	
Commodities		4			4			4	
Other Costs		6			6			6	
		<u>52</u>	<u>0</u>		<u>52</u>	<u>0</u>		<u>52</u>	<u>0</u>

ILLUSTRATIVE NATURAL RESOURCES  
TECHNICAL ASSISTANCE PROGRAM

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	FY - 1966			FY - 1967			FY - 1968		
	MM	\$	Cr\$	MM	\$	Cr\$	MM	\$	Cr\$
<b>5. USGS Hydrologic Data Rio</b>									
Tech. Asst.		40		24	62		24	62	
Participants		10			10			10	
Commodities		0			10			10	
Cruzeiro Support			25			25			25
		<u>50</u>	<u>25</u>		<u>82</u>	<u>25</u>		<u>82</u>	<u>25</u>
<b>6. USGS Groundwater Survey</b>									
Tech. Asst.	36	80	0	36	80	0	36	80	0
Participants		17			13			13	
Commodities		8			5			5	
Other Costs		5			5			5	
		<u>110</u>	<u>0</u>		<u>110</u>	<u>0</u>		<u>110</u>	<u>0</u>
<b>7. USGS Mineral Survey NE</b>									
Tech. Asst.	36	83	0	60	133	0	60	133	0
Participants		13			13			13	
Commodities		5			5			5	
Other Costs		25			25			25	
		<u>126</u>	<u>0</u>		<u>176</u>	<u>0</u>		<u>176</u>	<u>0</u>
<b>8. USGS Hydrologic Data NE</b>									
Tech. Asst.	24	64		15	40		15	40	
Participants		10			10			10	
Commodities		20			10			10	
Cruzeiro Support			50			50			50
		<u>94</u>	<u>50</u>		<u>60</u>	<u>50</u>		<u>60</u>	<u>50</u>

ILLUSTRATIVE NATURAL RESOURCES  
TECHNICAL ASSISTANCE PROGRAM

ANNEX I  
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	FY - 1966			FY - 1967			FY - 1968		
	MM	\$	Cr\$	MM	\$	Cr\$	MM	\$	Cr\$
<b>9. BuRec Hdqtrs Staff &amp; CVSF</b>									
Tech. Asst.	103	207		103	207		103	207	
Participants		33			33			33	
Other Costs		50			50			50	
Cruzeiro Support			150			150			150
		<u>295</u>	<u>150</u>		<u>295</u>	<u>150</u>		<u>295</u>	<u>150</u>
<b>10. BuRec Irrigation</b>									
Tech. Asst.	30	53		30	53		30	53	
Participants		30			30			30	
Commodities		20			20			20	
Other Costs		15			15			15	
Cruzeiro Support			200			200			200
		<u>123</u>	<u>200</u>		<u>123</u>	<u>200</u>		<u>123</u>	<u>200</u>
<b>11. BuRec NE River Basin</b>									
Tech. Asst.	36	69	0	60	115	0	60	115	0
Participants		30			30			30	
Commodities		20			20			20	
		<u>119</u>	<u>0</u>		<u>165</u>	<u>0</u>		<u>165</u>	<u>0</u>
<b>12. Meteorologic Data</b>									
Tech. Asst.	36	69	0	36	69	0	36	69	0
Participants		20			20			20	
Commodities		200			200			200	
		<u>289</u>	<u>0</u>		<u>289</u>	<u>0</u>		<u>289</u>	<u>0</u>

ILLUSTRATIVE NATURAL RESOURCES  
TECHNICAL ASSISTANCE PROGRAM

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	FY - 1966			FY - 1967			FY - 1968		
	MM	\$	Cr\$	MM	\$	Cr\$	MM	\$	Cr\$
13. <u>Araguaia-Tocantins Basin</u>									
Tech. Asst.	103	230		103	230		103	230	
Participants		20			20			20	
Commodities		50			50			50	
Other Costs		40			40			40	
		<u>390</u>	<u>0</u>		<u>390</u>	<u>0</u>		<u>390</u>	<u>0</u>
 TOTAL		<u>2071</u>	<u>525</u>		<u>2075</u>	<u>569</u>		<u>2075</u>	<u>569</u>

INTENSIVE REVIEW REQUEST (IRR)

Fundo de Financiamento de Estudos de Projectos e  
Programas (FINEP)

1. The Applicant

The applicant is the Government of Brazil, acting through the Ministry of Planning and Economic Coordination. The executing agency is the Fundo de Financiamento de Estudos de Projectos e Programas (FINEP), established by Decree No. 55820 of March 8, 1965, to act as financing agent and project review coordinator within the office of the Ministry of Planning. FINEP will be administered by a board composed of the Minister of Planning as chairman, the president of the National Bank for Economic Development (BNDE), the director of the Industrial Credit Bureau of the Bank of Brazil (CREAI) and a representative of the regional and state development banks and institutions. FINEP's administrative funds are a part of the Ministry of Planning's budget.

2. The Project

A.I.D. loan funds will be sub-loaned by FINEP to private and public entities to assist in financing feasibility studies, by U. S. firms, joint ventures of U.S.-Brazilian firms and Brazilian firms, in the private and the public sectors of the economy. The objective is to accelerate the rate of investment by assisting private industry and the public and semi-public agencies in identifying investment opportunities and requirements and formulating adequate capital projects.

The sub-loans will be made through the National Bank for Economic Development, who will act as primary agent and as the depository of funds, and the Bank of the Northeast and the regional and state development banks, all of whom will act as agents under agreement with FINEP. FINEP will control the overall administration of the fund and the basic regulations and criteria will be the responsibility of the FINEP board. In the actual lending process FINEP will act as the review and approval office. All sub-lending administration, credit evaluation, project screening, taking security, preparation of sub-loan agreements, etc., will be undertaken by the financial agents. FINEP will then review the analysis of these agents, including the contract and engineering firm and approve or disapprove the sub-loans.

The financial agents will receive a commission for their work as agents. FINEP will reloan the funds on ten year terms at interest rates of sufficient spread to create permanent capital from earnings.

FINEP has requested that A. I. D. funds be made available for a wide variety of studies including general studies, sectorial studies, pre-feasibility studies, feasibility studies and administrative and management-type studies. This flexibility will enable the Ministry of Planning through FINEP to endorse and provide financing for the study of any activity which shows development promise. This flexibility will also provide speedy access to resources for the study of such projects, thus allowing prompt examination of projects and activities bearing on economic development. All studies financed by loan funds will be performed by private consulting firms or consultants.

The USAID also proposes to include technical assistance financing in this loan, such technical assistance to be utilized to (1) assist FINEP in the development of the sub-lending review and approval procedure, i. e., assistance in developing the most appropriate organization and in establishing administrative procedures and criteria and (2) to assist potential sub-borrowers in defining projects, preparing scopes of work, and applying for sub-loans.

### 3. Loan Requested

The GOB requests a loan of \$5 million, for dollars and local cost financing, to finance part of the total requirements for project development which are estimated at about \$22 billion (approximately \$12 million dollar-equivalent) over a period of about two years. Commitment of the AID loan would be expected not to exceed one year and disbursements two and one half years after conditions precedent are met.

The other sources of funds would be the Inter-American Development Bank, to which the GOB has applied for another \$5 million, the GOB, as well as contributions which the investors themselves will be expected to make (10 to 20 percent of the cost of the study).

### 4. Priority of the Project in the Country Program

The lack of adequate projects, both in the private and in the public sectors, has become a critical aspect of the implementation of the GOB Economic Action Program. This weakness was pointed out by the CIAP in its review of the Brazilian program last year. CIAP recommended measures to strengthen the project-making capability through incentives in

the form of financial and technical assistance for project development. For example, the IBRD has prepared an extensive list of projects suitable for financing, only a few of which have been studied to the extent necessary to qualify for foreign financing. Additionally, the USAID is being constantly requested to finance feasibility studies and at present is supporting several studies with grant funds.

5. Problems and Issues

Local cost financing: in accordance with USAID policy, it is proposed that the studies be undertaken by the following firms: joint ventures of U.S. and Brazilian firms, U.S. firms and Brazilian firms. In order that the financing of such firms may be projectized with the AID loan, both dollar and local cost financing will be required. No other U. S. owned or controlled local currencies are available for this purpose. It is the opinion of the USAID that the institutional benefits of this project justify local cost financing. Further, it is felt that local currency availability within the loan is essential to good sub-lending administration.

6. Technical Material

The Ministry of Planning has submitted to A. I. D. a copy of its application to the IDB which contains adequate information and data for the intensive review of the request by the USAID. No separate application is considered necessary as it would be a mere duplication of the one presented to the IDB. A formal letter of application is being prepared by the Borrower.

7. The Intensive Review

The intensive review will be performed at the USAID/B; no additional staff skills are required. Such review can be completed within one week to ten days after authorization from LA/CD is received if no unforeseen problems develop.

DBJ/kf

August 2, 1965

TO - RIO DE JANEIRO AIDTO A 123

FROM - AID/W

SUBJECT - Feasibility Studies FINEP - \$5 million

REFERENCE - AIDTO 53

As advised by reftel CAEC approved the IRR on July 2, 1965. During the CAEC meeting comments were made concerning the following matters which need to be treated in the loan paper:

1. A full justification for local cost financing, if any.
2. Describe possible contributions by FINEP and GOB and indicate what arrangements will be made for establishing a revolving fund.
3. While the Committee agreed that it would be desirable for the Planning Ministry to control the selection and financing of public sector projects for study, there was some concern expressed as to the desirability of having FINEP review the selection of every proposal for private sector feasibility studies. The loan paper should contain a full discussion of the need for this degree of centralization or explore alternative arrangements such as:
  - (a)- the delegation of authority to local lending institutions (i.e. regional development banks or even commercial banks) to approve studies of private sector projects within certain amounts; if necessary subject to a selective post review by the central agency for a period of time long enough to ensure that the procedures used by the lending institution were adequate and that the funds were serving a useful purpose in promoting new investments.
  - (b)- The practicability of a program similar to the U.S. industrial survey program which provides that 50% of the cost of a private sector study would be paid by the local lending institution if the investor does not desire to follow through and make the investment in the project. The study would then become the property of the lending institution to be used for promotion of investment.

This idea appears to offer some real advantages in sharing the risk between the potential investor and the local lending institution and in multiplying the potential effect these funds could have.

4. Analyze the demand for sub-loans and the prospects for the disbursement of the AID loan.
5. Does Brazilian law require that foreign consultants be paid in cruzeiros exclusively? Any legal problem of contracting with the paying U.S. firms in dollars should be discussed.
6. Explain how AID will exercise its approval of (i) specific studies (ii) scopes of work (iii) qualifications of consultants, and (iv) terms and conditions of contracts.
7. Discuss the institution building aspect of technical assistance. Examine the desirability of coordinated action with IDB and IBRD.
8. Include in the total cost analysis of the requirements for feasibility studies the contributions to be made by IDB and other agencies in providing financing thereof. Justify the actual need at this time for this AID loan in the light of the IDB commitment of \$5 million.
9. Specify the means to ensure that the loan funds go to development projects and not for broad general studies which are not essential to the COB development program and would not result in well-defined projects for feasibility studies.
10. We understand IDB has completed its draft loan paper, a copy of which will be air pouched to the USAID as soon as obtained.

MEMORANDUM

TO: THE FILES

FROM: Duncan H. Cameron, <sup>GC</sup>GC/LA

SUBJ: Application of Section 112 of the Foreign Assistance  
and Related Agencies Appropriation Act, 1965 and 1966  
to the FINEP Loan

1. Question:

The question is the following:

Does Section 112 of the FAApr Act for 1965 and 1966 require AID to approve contracts entered into by FINEP sub-borrowers or grantees with consulting firms to carry out feasibility and pre-feasibility surveys and studies and to approve such consulting firms?

2. Conclusion:

Section 112 of the FAApr Act for 1965 does not require AID to approve contracts entered into by FINEP sub-borrowers or grantees with consulting firms to carry out feasibility and pre-feasibility surveys and studies and to approve such consulting firms because in the circumstances of this case feasibility and pre-feasibility surveys and studies are not capital projects within the meaning of Section 112 of the FAApr of 1965. If the FAApr Act for 1966 is enacted into law in its present form, it will also not require such approvals.

3. Facts:

AID is proposing to make a loan of \$11,000,000 for use by FINEP. Of the loan, approximately \$5,000,000 will be for technical assistance to FINEP and for a program of subloans to private and public borrowers to finance feasibility and pre-feasibility studies. The balance of the loan is to be used by FINEP for a program of subloans to public entities to finance technical assistance projects of a research and survey nature. Since the USAID will approve all firms and contracts for natural resource studies, the discussion that follows relates only to the feasibility studies financed by the loan.

The feasibility studies will be financed through subloans or grants made by FINEP through the National Bank for Economic Development (BNDE), the primary financial agent of FINEP. The FINEP subloans will be lent directly or through other banks in Brazil ("financial agents") to public and private enterprises. These sub-borrowers will in turn contract with firms to make feasibility and pre-feasibility studies. The financial agents can approve loans for feasibility and pre-feasibility studies up to CR \$30 million (\$15,000 approximately). The Coordinating Board and Technical Office of FINEP must approve loans in excess of that amount. The Technical Office approves loans up to \$250,000 after it has made a technical evaluation of the proposed study and received a credit appraisal from a financial agent. Loans in excess of \$250,000 are approved by the Coordinating Board after a technical evaluation by the Technical Office and a credit analysis by a financial agent. The financial agents and the sub-borrowers are required to contribute part of the financing for each study. 1/

The USAID does not wish to approve individual contracts where the amount of the study is less than \$250,000 and does not wish to approve firms carrying out studies where the amount of the study is less than \$100,000. USAID wants to limit its approval rights so that FINEP can delegate authority to the financial agents for loans of less than CR \$30 million (\$15,000). If USAID approvals are not limited, there is some question whether FINEP would be able to implement the loan through the financial agents. 2/ Obtaining AID approvals of contracts and firms in every case, moreover, would delay implementation of the project. It would also result in unnecessary involvement of AID in the operation of FINEP because USAID believes that FINEP can competently make these approvals. 3/ Such a requirement would, in addition, make the AID loan less attractive to FINEP than a projected IDB loan to FINEP, which will not likely require approval of all contracts and firms. If approvals were required in all cases, FINEP might prefer to use the IDB loan rather than the AID loan to finance studies.

#### 4. Discussion:

Section 112 of the FAAPr of 1965 is as follows:

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1/ Loan Paper, p. 17.

2/ Ibid, p. 5.

3/ Ibid, pp. 4-5.

"SEC.112. None of the funds appropriated or made available under this Act for carrying out the Foreign Assistance Act of 1961, as amended, may be used to make payments with respect to any capital project financed by loans or grants from the United States where the United States has not directly approved the terms of the contracts and the firms to provide engineering, procurement, and construction services on such projects." <sup>4/</sup>

Section 112 prohibits payments "with respect to any capital project" unless AID has approved the contracts and firms to provide certain services "on such projects." AID must approve only the firms and contracts which relate to a capital project. The language of Section 112 does not define the scope of "capital project."<sup>5/</sup>The legislative history, however, suggests that Congress did not intend to include feasibility study loans, such as the FINEP loan, within the definition of "capital project".

Congressman Monagan introduced Section 112 on the floor of the House during the debate on FA/ Apr of 1963. Section 112 was intended to block Policy Determination No. 5, recently issued by AID, which appeared to limit AID approval of contracts and firms carrying out contracts on projects financed by AID. In his address proposing the addition of Section 112 to the FA/ Apr for 1963, Congressman Monagan stated:

"Two months ago a policy was enunciated by the AID Agency under which a capital project, which means a project in excess of \$100,000 would no longer be subject insofar as its contracting and precontracting procedures, that is, the engineering studies, architectural studies, and the actual letting of the contract to the supervision of the Agency itself."

. . . . .

"The purpose of my amendment, Mr. Chairman, is to reinstate control by our Government of these vital contracting procedures."<sup>6/</sup>

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<sup>4/</sup> Since the language of Section 112 of the FA/ Apr Act for 1966 is identical, the discussion in this part applies both to the FA/ Apr Act for 1965 and 1966.

<sup>5/</sup> Some suggestion of the scope of "capital project" may be found in the types of contracts which must be approved. These are "engineering, procurement and construction service contracts - ones normally associated with construction projects.

<sup>6/</sup> Congressional Record, p. 19066, September 20, 1962.

The Policy Determination to which Congressman Monagan referred was P.D. 5 issued on June 15, 1962. It stated that AID would administer "all capital projects by controlling and monitoring the use of the AID funds rather than by direct involvement in the contracting, engineering procurement and construction, regardless of the method of financing." The P.D. defined a capital project as any "specific, self-contained undertaking requiring a total AID financing in excess of \$100,000 which is intended to result in the construction, expansion or alteration of a physical facility." Capital projects, as defined in the P.D. referred to physical facilities. Since Section 112 also relates to capital projects, Congress presumably intended to give the words the same meaning - namely, the construction, expansion or alteration of a physical facility.

The definition of "capital project" in P.D. 5 does go on, however, to state that "feasibility studies, design, procurement, construction, inspection, management and training directed towards ... utilization of a capital project are considered part of the project." The definition states that feasibility studies are to be considered as part of a capital project. Where AID is therefore proposing financing the construction, expansion or alteration of a physical facility, the feasibility study related to such facility will be treated as part of the capital project. The definition does not, however, include cases where the feasibility study is not part of a capital project which AID intends to finance. The FINEP loan will not finance studies on projects which AID has indicated that it wishes to finance. Though feasibility studies financed by the FINEP loan may result in projects which AID will finance, the studies will not be made because AID proposes to finance the projects.

The Senate committee report on the FAI, Apr for 1963 also indicates that capital project was intended to apply to physical facilities. In describing the scope of Section 112, the Senate committee stated that "when AID enters into a loan or grant agreement with a foreign government or other persons to finance the construction of a capital project, it frequently authorizes the recipient to select and contract with the firm which will provide the services necessary to the project." 7/ [emphasis supplied]

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7/ Report of the Senate Committee on Appropriations, S.R. 2177, p.20.

The AID Manual Orders also do not include feasibility studies within its definition of capital project. AID M.O. 1201.1 defines capital assistance as including:

"1. A Capital Project which in turn is defined as the construction, expansion, equipping or alteration of a physical facility or facilities ..."

"2. An AID-financed feasibility study of a specific capital project or several specific potential capital projects ..."

"3. AID dollar assistance, and any accompanying advisory assistance, to one or more development banks or other intermediate credit institutions."

The AID Manual Order specifically indicates that feasibility studies are a different form of capital assistance than capital projects.

Based on the legislative history to Section 112 and the AID Manual Orders, I am of the opinion that the feasibility and pre-feasibility studies and surveys are not capital projects within the meaning of Section 112 of the FA Act. There is, therefore, no legal objection to the USAID proposal not to review individual contracts by FINEP sub-borrowers when the study is less than \$250,000 and not to approve firms where the study is less than \$100,000.

STATUTORY CHECK LIST

- 1) Foreign Assistance Act of 1961, as amended (hereinafter FAA).  
Section 102.

Loan funds will be disbursed in accordance with standard AID procedures requiring documentation of the disbursement of funds for eligible items.

- 2) FAA Section 201(d).

The loan and sub-loan terms are reasonable and legal under both the laws of the U.S. and Brazil.

- 3) FAA Section 251(a)

The manner in which the loan will assist the country's economic development and contribute to the welfare of each people is described in the economic justification sections of the paper.

- 4) FAA Section 251(b)(1)

The adoption and effective implementation of the Government's 3-year action program demonstrates a clear determination to take effective self-help measures and thus adheres to the purpose of the Act of Bogotá and Charter of Punta del Este.

- 5) FAA Section 251(b)(2)

The activity is economically and technically sound, as described in section III of the paper.

- 6) FAA Section 251(b)(3)

The manner in which the activity will contribute to long-range objectives and information as to its relationship to other development activities are described in section II and in the economic justification portions of the paper.

- 7) FAA Section 251(b)(4)

Other than the benefits to be received by the procurement of U.S. engineering services, the activities will have no effect on the U.S. economy.

- 8) FAA Section 251(b)

Both AID and the IDB will contribute to the capitalization of FINEP. It is anticipated that FINEP will be able to effectively utilize all

the funds made available by both the AID and the IDB. However, it is felt that an A.I.D. loan to FINEP is important to the US program, regardless of the availability of other financing in that (1) it will provide A.I.D. with a valuable tool for the development for a pipeline of financiable projects from which AID can select for financing those which best suit our development objectives in Brazil; (2) such a loan will give USAID the opportunity to finance studies which for reason of advantage to US policy or US business can best be studied by US firms.

9) FAA Section 251(b)

For information on the capacity of the country to repay the loan see section IV.

10) FAA Section 251(b)

The sound financial policies being followed by the present Government constitute a positive incentive to its citizens to repatriate capital invested in other countries.

11) FAA Section 251(b)

For conclusion on reasonable prospects of repayment see section IV.

12) FAA Section 251(b)

No feasibility report was presented for this study; the USAID working group evaluated the decree establishing FINEP, the procedures set up for the administration of the fund and discussed operations and possible problem areas in detail with the FINEP staff. This intensive review undertaken by the working group indicates that the funds will be used in an economically and technically sound manner.

13) FAA Section 251(g)

It is anticipated that cooperatives will utilize FINEP funds to carry out feasibility studies.

14) FAA Section 252(a)

For break-down of loan benefits to private enterprise see the economic analysis section of the paper.

15) FAA Section 601

Information as to the benefits to be received by the economy as a result of this loan is contained in the economic analysis section of the paper.

16) FAA Section 601(b);621

All feasibility studies carried out by this loan will be prepared by private firms. Investigations and surveys containing technical assistance

will be carried out by US Governmental agencies; however US Governmental agencies will not be utilized for such projects if private firms with the experience, as a firm, in the same type of work are available.

17) FAA Section 601(d)

Construction projects will not be financed under this loan. Source and origin of professional services will be limited to the US and Brazil.

18) FAA Section 601 and 602

US consultants will participate in this program.

19) FAA Section 604(a)

All US dollars will be restricted to the procurement of commodities and services in the United States. The special letter of credit procedure, which restricts the use of dollars to procurement in the U.S., will be used to exchange dollars for cruzeiros where local costs are financed with dollars.

20) FAA Section 604(b)

Commodities will be procured in accordance with bulk commodity procurement provisions.

21) FAA Section 604(d)

Brazil does not discriminate with respect to Marine insurance.

22) FAA Section 611(a)(1)

The loan is for re-lending by an indeterminate credit institution, which will require adequate pre-planning, including cost estimates, for each feasibility study sub-loan. Additionally, the borrower has demonstrated that there will be a sufficient demand for funds to utilize the loan.

23) FAA Section 611(a)(2)

No legislative action will be required.

24) FAA Section 611(b): App. Section 101

Not applicable.

25) FAA Section 611(c)

Not applicable.

26) FAA Section 619

Brazil is not a newly independent country.

27) FAA Section 620(a): Foreign Aid and Related Agencies Appropriations 1965 (hereinafter "App." Section 107)

Brazil does not provide assistance to Cuba.

28) FAA Section 620(b)

Brazil is not controlled by the International Communist movement.

29) FAA Section 620 (c)

No factual situations exist to which the language of this section would be applicable.

30) FAA Section 620(d)

This loan will not finance the creation of productive capacity.

31) FAA Section 620(e)

No such cases are outstanding. Accordingly, the provisions of this section have been satisfied.

32) FAA Section 620(f): App. Section 109

Brazil is not a communist country.

33) FAA Section 620(g)

Loan funds will not be used to compensate for nationalized property.

34) FAA Section 620(h)

No foreign aid property or activities of communist bloc countries will be assisted by this loan.

35) FAA Section 620(i)

Brasil is not engaged in or preparing for aggressive military efforts.

36) FAA Section 620(k)

U.S. assistance is not in excess of \$100 million.

37) FAA Section 620(l)

An investment guaranty program is in the process of being negotiated.

38) FAA Sections 636(h); 612(c)

To the extent practicable this provision has been satisfied: see section IV, paragraph C and see section I, page 6, paragraph 2.

39) App. (Section Unnumbered)

Not applicable.

LC) App. Section 102

Where US firms are utilized for such services, appropriate reports will be made to the Congress.

41) App. Section 104

No funds may be used to pay pensions etc. for military personnel.

42) App. Section 111

It is hoped that security clearances will not be required under this loan.

43) App. Section 112

Not applicable.

44) App. Section 114

No loan funds will be used to pay assessments of a U.N. member.

45) App. Section 117

Not applicable.

46) App. Section 401

No loan funds will be used for publicity or propaganda purposes within the United States.

LOAN AUTHORIZATION

Provided from: Alliance for Progress Funds  
BRAZIL: Feasibility Study Fund

Pursuant to the authority vested in the Administrator of the Agency for International Development ("A.I.D.") by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize the establishment of a loan pursuant to Part I, Chapter 2, Title VI, Alliance for Progress, to the Government of Brazil ("Borrower") of not to exceed eleven million dollars (\$11,000,000) to assist in financing the costs of subloans made through Fundo de Financiamento de Estudos de Projetos e Programas ("FINEP") to finance pre-feasibility and feasibility studies and natural resource survey studies and to finance the cost of technical assistance to FINEP, this loan to 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 United States dollars on the disbursed balance of the loan interest of one (1) percent during the grace period and two and one-half ( $2\frac{1}{2}$ ) percent thereafter.
2. Other Terms and Conditions:
  - (a) Equipment, materials and services financed under the loan shall be procured from the United States or Brazil (except that shipping financed under the loan shall be procured from the United States and marine insurance financed under the loan shall be placed in the United States with a company authorized to do a marine insurance business in any state of the United States.)
  - (b) United States dollars utilized under the loan to finance local costs shall be made available to the Borrower or its designee through appropriate procedures and shall be used only for procurement in the United States.
  - (c) Studies financed under the loan shall be procured from Brazilian firms, United States firms or joint ventures of United States and Brazilian firms.

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

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Administrator

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Date