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EXECUTIVE OFFICES

A.I.D. IN BRAZIL

I concur with the statements and recommendations in the attached report but would like to add the following observations.

On certain technical and procedural matters that are included I rely on the judgment of the two other members of the Team, who are experienced in this field.

Certain opinions are expressed in the report concerning potential growth and viability of the Brazilian economy. Based on the current situation and trends, such conclusions are warranted, yet I feel that Brazil still is a country of considerable economic and political instability and am reluctant to endorse completely the optimism evidenced.

It has been a privilege to serve as a member of this Team and I hope our efforts will make some contribution to the A.I.D. program.



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SUMMARY REPORT TO THE ADMINISTRATOR

EVALUATION OF THE A.I.D. PROGRAM IN BRAZIL

I. General Situation

a) Geography

Geography, population, and resources provide Brazil with the potential of becoming a major world power and places her in a position of leadership among the nations of Latin America. The bulk of the nation's development has taken place in the densely populated southern portion of the country. Recently, new developmental attention is being given the 25 million people in the north-eastern states.

b) Political

The Costa e Silva Government took over from Castello Branco on March 15. The new Government has indicated it will support the general economic orientation given Brazil by the Castello Branco regime, although it is likely that Castello Branco's close, uninhibited rapport with the U.S., particularly in economic matters, will probably be modified.

Costa e Silva has several factors working for him at the present time. The apolitical character of the Castello Branco regime and its almost studied disregard of its public image has provided the new government with something of a "whipping boy" at whose feet can be laid the hodge-podge of criticisms and charges which so plentifully sprouted in the last weeks of the old regime. For the time being, Costa e Silva appears to harbor the intention of being all things to all people. His announced intentions include: maintaining a suitable stabilization effort but "humanizing" it; encouraging and making possible a more rapid rate of economic growth; permitting resumption of "due process" in legislative and administrative fields; permitting maintenance of real income to wage earners and government employees; and through the use of the administrative reform law of the Castello Branco regime, moving to rationalize the structure and staffing of the GOB. It is open to question how long this relatively favorable posture can be maintained. But overall prospects for the next five years look reasonably good in terms of both Brazil's internal progress and her external relations.

c) Economic

The cumulative but delayed effect of anti-inflation measures of 1965 and 1966 are expected to result in the containment of price movements in CY 67 within the 20-30% range. This estimate includes probable price rises based on wage increases and exchange rate corrections. The "humanizing" promised by Costa e Silva will probably mean some wage increases and easement of tight credit.

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But unless these are given unrestrained play, they should not scuttle the stabilization ship.

Notable progress has been made in economic areas by the Castello Branco "revolution". The economy is being gradually released from the straitjacket of the past. Trade liberalization has been achieved by significant revisions of import duties; removal of most export taxes and simplification of procedures; easement or removal of crippling price controls on many agricultural products with favorable impacts on production; and the examination of the entire fiscal structure and the overhaul of tax administration in order to use taxing power as a progressive tool for social and economic growth. In addition, governmental administration is taking on a new stature and its needs are increasingly recognized. Again, assuming the retention by the Costa e Silva government of the major features of the Castello Branco stabilization effort, the Team believes the next five years should bring to a close the type of rampant inflation which characterized the early '60s in Brazil and bring about a re-energizing of the nation's development effort.

II. Brazil's Economic Prospects

While Brazil's needs are legion, and her problems indeed vexatious, her resources, material and human, are so vast that prosperity and viability should be within the national grasp in the not-too-distant future. The nation's natural resources of land, water, timber, minerals and metals are as yet hardly tapped. Vast land areas and relatively few people (but ample for large commercial markets) promise a favorable socio-economic environment for decades to come, in spite of high population growth rates.

During the past quarter of a century, encompassing periods of acute political instability and economic confusion, the country has nonetheless made rapid and significant strides towards expanded industrial output, increased consumption levels and generally heightened economic activity. With a steadily expanding reservoir of skills, and some improvement in public management, even greater strides should materialize over the next 25 years.

Whether Brazil achieves, over the next generation or so, the degree of social and economic progress that natural factors would clearly permit, depends primarily on the quality of public management the Brazilian body-politic brings to bear on its own problems. As Brazilians are going to have to provide this management over their own affairs, an important proposition for our own guidance is the need to keep the Brazilians in the "driver's seat" with respect to the development and conduct of Brazil's economic effort. The Team feels that there is a need for a more clearly defined "division of labor" between the Federal Government and its subordinate entities, including state and local governments, in the conduct of the nation's development effort. The need for such clarification is underscored by the tasks faced in formulating A.I.D. policy and procedures in the administration of our program there. Given the current and potential

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inputs of U.S. financial assistance, the U.S. "consultant" role, if exercised with skill and finesse, should provide effective yet unobtrusive influence in shaping GOB economic decisions.

Within this conceptual framework of national public management, the Team believes there is a complex of economic policy issues, which if faced forthrightly by the GOB would have a most beneficial effect on the rate of Brazil's economic growth. Illustrative of such issues are the following:

- a) a progressive tax system which exploits the taxing authority of government to create incentives for the expanded use of private funds for investment in, and credit for, industry and agriculture, and to penalize the non-utilization of productive resources, e.g., land;
- b) a body of economic policy which (1) requires the establishment sound financial management and economic prices for public services; and (2) removes, to the maximum extent possible, government controls on prices, imports, or other factors-of-production which impede the growth of a truly competitive market mechanism in Brazil and the growth of her exports; and
- c) monetary and fiscal policies which seek an effective synthesis of economic growth and a relatively stable currency. Such policies would envisage some continuing expansion of public and private credit to finance essential public and private investment, e.g., in infrastructure, education, industry, agriculture, and for other essential purposes. The problem will be to keep resultant price movements and foreign exchange correctives within manageable dimensions.

The above-cited problem areas are fully recognized by both U.S. and Brazilian officialdom. They are the kinds of issues that should receive major U.S. and GOB attention at the time of annual aid level negotiations. They are managerial in nature -- not technical. They do not require large numbers of U.S. technicians for effective GOB action. Yet they are among the most important, if they are not the most important economic issues confronting Brazil and governing the nation's future well-being.

III. Findings and Recommendations

a) Introduction

The Team was in Brazil for only one month. We are fully aware of the limitations this brevity of stay imposes. We nonetheless gained some distinct impressions and formed related conclusions, limited to relatively few matters which we consider of primary importance to the US/GOB relationship and developmental progress. These thoughts are offered not as criticism of past policy or action, but rather as recognition of the evolution of our posture in that country. Our evaluation assumes that U.S. resources

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likely to be available to Brazil would not be significantly increased over levels of the recent past, and would, therefore, not be of a scope to permit U.S. funding for an all-out assault on all the manifold problems confronting the Brazilian economy and social structure.

b) General Issues - Findings

1) Progress During Past Three Years

The main thrust of the A.I.D. program since April 1964, the time of Castello Branco's advent to power, has been to assist the GOB in the arrest of inflation, and simultaneously to lay the economic foundations for further growth. While insufficient time has elapsed to fully assess the success of this joint effort, we believe there have been impressive accomplishments on both fronts during the past three years. We consider the design and management of the program to have met, in all basic respects, the criteria for efficient and productive use of aid resources.

With the inauguration of the new Costa e Silva government, the Team believes there are certain actions which, if taken, would improve the general effectiveness of our program in Brazil.

2) Enhanced Federal Responsibility

A major aim of the U.S. AID program in Brazil is to strengthen the capacity of the Federal Government to carry out its developmental task. This implies an enhanced Federal responsibility and role in planning and organizing the national effort and in establishing a suitable allocation of functions between the Federal Government and its subordinate entities, including state and local governments. The Team believes the U.S., by its negotiation and administration of the U.S. aid input, can encourage the Federal Government to fulfill this role.

Perhaps a more fundamental consideration behind the recommendation which follows is the Team's desire to emphasize the generally acknowledged but sometimes overlooked truism that the responsibility for overall policy formation and direction of a national development effort rests, and must rest, with the central government of the nation concerned. Especially is this true in the case of Brazil, where there is a government with at least the trappings of legitimacy and the responsibilities that accompany legitimacy. If the Brazilian government's possible failure to discharge these responsibilities leads us into attempts to circumvent that government by dealing directly with subordinate entities, such efforts on our part have little chance of ultimate success -- not to mention the political dangers involved. Underlying the views expressed immediately foregoing, is the Team's strong belief that ultimate success in Brazilian economic development depends preponderantly upon the effective application of Brazilian effort in an attitude of strong resolve to solve their own problems. The total involvement of the central government of Brazil is therefore vital to any such solution.

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Recommendation

That as a matter of general policy, the GOB be urged to establish a single entity of the GOB (perhaps the Ministry of Planning) as the exclusive channel through which US/GOB agreements on aid levels and related matters would be entered into in the first instance. Such agreements should provide those procedures and other considerations necessary or desirable to permit delegation of implementing authority on either or both sides, as the parties might decide. But in all cases, the use of aid-provided resources and the operations of implementing entities would be subject to the terms and conditions set forth in the initial Government-to-Government agreements.

The benefits of such a policy are self-evident:

- a) The overriding authority and responsibility of the Federal Government over the national Brazilian development effort, including control over the distribution of funds, would be underscored, insofar as AID-supported activities were concerned;
- b) The allocation of resources between physical areas and functional fields would be subject to Federal Government review and determination with resultant strengthening of Federal Government operational responsibility and authority; and
- c) The U.S. Government would be insulated against the charges of political or regional discrimination, when the GOB is an executive party to all basic aid agreements.

Note: The above comment and recommendation are not intended in any way to retard or curtail effective USAID relationships and efforts with subordinate levels of government in Brazil. It is intended only to establish an appropriate Federal Government "frame of reference" for such relationships and efforts.

3) Streamlined U.S. Negotiating Posture

The Team applauds the skill and effectiveness with which aid negotiations in recent years have been carried on and desired results achieved in encouraging sound restructuring of GOB economic policies. The Team also recognizes the considerations that have occasioned the procedures and bargaining postures used during this period. The inauguration of the new government and the conditions relating thereto, suggest the desirability of now concentrating our negotiating efforts on a reduced number of policy objectives and into fewer discrete negotiating components. Under current circumstances, we suggest the maximum U.S. input directed against a limited schedule of basic economic considerations that directly impinge on policies which affect Brazil's external financial viability and her ability to productively utilize foreign aid resources. Her internal institutions and social welfare policies will best be advanced by her own emerging sophistication and the wise utilization of highly competent technical assistance.

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Recommendation

That A.I.D. make every effort to combine, insofar as practically possible, the negotiation of annual aid inputs into one negotiating series, limiting the range of considerations to those deemed most essential and encouraging GOB initiative in and responsibility for the formulation of desired objectives.

4) Local Currency Administration

The distribution, control, and use of aid-generated local currency, after US/GOB aid negotiations are concluded, should be subject to the normal budgetary procedures of the GOB. As presently handled, the GOB (Ministry of Planning) and the USAID program these funds, the expenditure of which is outside and in addition to the normal operating budget of the GOB. The Team recognizes the special circumstances that have occasioned the current practices in the administration of these resources, but suggests that resort to regular budgetary procedures represents the more fruitful course in terms of Brazilian performance over time.

Recommendation

That the USAID propose to the GOB that all aid-generated local currencies, except as may be earmarked specifically for U.S. uses, be incorporated within the GOB budget and be made subject to regular budgetary controls.

5) Utilization of Brazilian Skills

The Team was impressed with the relatively large reservoir of Brazilian skills in a wide range of professional and technical fields. All responsible officials, both Brazilian and American, agree with the general principle that the fullest utilization be made of indigenous talent in attacking the problems confronting the Brazilian developmental effort. Yet the Team believes there is an understandable, yet not necessarily warranted tendency in certain quarters to favor what we consider to be excessive reliance on American technicians in prescribing correctives for current weaknesses within Brazilian institutions. We fully appreciate the complexities of this general problem but feel strongly that a number of powerful considerations, political and economic, suggest the maximum reliance on Brazilian skills and Brazilian responsibility in coping with needed institutional changes. The use of A.I.D. dollars for the financing of Brazilian professional and technical services may be fully warranted on a selective basis as determined by Mission management in pursuance of the above-stated objective.

Recommendation

That A.I.D. management, both in Washington and in Brazil, reiterate concurrence in this general policy and examine carefully against relevant

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criteria all proposals for recruitment of U.S. technical personnel in Brazil. We further recommend approval on a selective basis for the A.I.D. financing of Brazilian services in crucial technical assistance areas.

c) Major Issues of Program Content

1) Agriculture

Brazil today provides a striking example of the benefits which flow from the adoption of proven economic policy with respect to agricultural output. The removal of crippling price and marketing controls alone has already resulted in large production increases. The provision of fertilizer, the strengthening of agricultural credit facilities, the removal of trade restrictions, and other improvements in economic incentives to the producer and processor are today beginning to provide the economic framework within which agriculture and the rural community can prosper. These actions all relate primarily to basic governmental economic policy and in only a minor degree to the expansion of technical skills. They are in large part traceable to the successful efforts of the USAID at highest GOB levels to revise the policies governing these matters. There is still a long way to go before the economic climate in Brazil generates in full measure the economic incentives which will exploit the productive potential of the country. Then, and then only, we believe, can a wide range of technical services have its desired effects.

Recommendation

That USAID continue encouragement of the GOB towards a sound economic framework for agricultural growth, including price (perhaps tax) incentives; credit, investment, and marketing facilities; removal of trade restrictions; and steady expansion of transport and distribution capabilities. Other aspects of technical assistance in agriculture should be kept in proper balance with the above-cited basic economic factors.

2) Education

The Team concurs in the USAID view that the first step toward solution of the enormous education problem should be the formulation of an integrated strategy for primary, secondary and higher education. To this end, the USAID is currently utilizing three U.S. contract teams -- one each for primary, secondary, and higher education. However, there is a risk that U.S. participation in these teams is of such numerical strength and character as to be apt to result in solutions having too strong an American flavor for the Brazilian taste. Nonetheless, the Team is fully cognizant of the need for a future large-scale attack on the education front by the GOB. But we feel decisions on the extent of USAID participation in such an attack should await the findings and judgements flowing from the studies currently under way.

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Recommendations

That the present effort be continued with emphasis upon achievement to the fullest possible extent of a "Brazilian" product and that USAID hold in abeyance further decisions on major U.S. involvement in the overall education problem until the "shape of things to come" is made clearer by the studies now in progress.

That, notwithstanding the cautionary note of the above conclusion and recommendation, the participant training program be expanded (even if new implementing techniques are required) to the limit of our abilities.

3) Health

A.I.D. efforts in the health field comprise, in the main, support, financial and technical, for the Water Fund (and its administration) and the beginning of a modest technical assistance program to the Ministry of Health in the reorganization of the Ministry to deal with endemic diseases and health hazards. This assistance, just being initiated, should be useful in enabling the GOB to tool up with its own resources to attack these chronic problems.

The use of aid-generated local currencies in concert with Brazil's own resources in financing a number of municipal water systems is a very promising undertaking. The availability of these funds is contingent on each end-user (a municipality) developing plans, physical, operational, and financial for the construction and viable operation of the desired system. This program is administered by the Brazilians with the consulting services of one senior USAID engineer. The Team believes it typifies a most effective use of aid and local resources.

d) Some Additional Issues

1) Population Growth and Urbanization

Brazil has perhaps the highest population growth rate in LA (3.1%). By the year 2000, there may be approximately 200 million people in the country. Fortunately, the nation's land area and resources, properly utilized, could support this population. Given substantial improvements in education and living standards over the next 30 years, a significant reduction in the present growth rate might be realized.

The impact of the population increase is compounded in the rapid urbanization trend. Nearly half the total populace now dwells in urban areas and the rate of movement to the cities is about twice the general population growth rate. To date, relatively little is being done in the field of urban development and conditions in the major cities are already deplorable. This problem, already severe, will become increasingly worse and presents an ever-present and cumulatively worsening situation for future governments to face.

2) Brazilian Participation in U.S. Firms

Less than one-third of the U.S. firms now contemplating investment in Brazil plan for Brazilian financial participation. Very few of the existing firms have such participation. Nor do these existing U.S. firms normally favor the extension to Brazilians of any role in either investment or management. A few of the larger proposed investments, e.g., Ultra-fertil, the new fertilizer company, are taking Brazilian partners.

The Team talked with a number of the senior officers of wholly-owned U.S. firms on this matter and understands the basis of their views. We believe, however, that the present situation will not be acceptable in the long run to the Brazilian government or people and represents a source of political conflict at some point in the future. It is clearly beyond our competence to propose any specific course of action on this matter. Indeed, it may be necessary to let "nature take its course" and trust that a solution will emerge in time. But the U.S. should not be unmindful of the inherent threat posed by this situation. A series of quiet consultations with interested parties, e.g., the GOB and the U.S. firms themselves might, over time, help to evolve some suitable arrangement. The Team further suggests the consideration of the possible desirability of making a willingness to accept Brazilian participation, if offered, a sine qua non for approval of "extended risk" or "investment" guarantee concessions by A.I.D. (This problem is accentuated by the alleged access of U.S. firms to New York money markets at normal interest rates -- a door closed to virtually all Brazilian firms).

3) Problems of Brazilian Capital Formation -- Public and Private

The chronic inflation of the past two decades has been a pervasive deterrent to conventional means of capital formation in Brazil. Obsolescence is already plaguing much of Brazil's industrial plant and funds for both investment and working capital are in extremely short supply. An exaggerated sense of profitability during periods of severe inflation, resulting in substantial decapitalization through excessive distribution of "profits" has only compounded the problem of inexperienced industrial management. This condition is a root cause of the current clamor for an easing of credit restrictions -- curbs on which being an integral part of the GOB anti-inflation program. While some relaxation of credit is perhaps in order, Brazilian industrial management will probably have to learn the hard way some of the elementary lessons of financial management. The Brazilians success, or lack of it, in dealing with this problem will be an important factor in the rate at which an efficient and profitable private industrial sector emerges.

e) Administrative Questions

Introduction

The Team was much impressed with the overall USAID operation in Brazil. Mission management and senior staff is made up of experienced, competent,

and dedicated officers. This quality at the top is reflected throughout the Mission's operations and in relations with the GOB. While beset with most of the usual problems, and several that were unusual, there was nevertheless an enthusiasm for and dedication to the job at hand that spoke well for Mission leadership and direction. Senior staff officers who briefed the Team on various aspects of Mission activities and policies were knowledgeable, lucid, and perceptive. We gained a favorable impression of the political and economic acumen reflected by all of the Mission's key staff. It is hoped that this level of general competence can be consistently maintained during the period ahead.

1) The Recife Operation

The Team was pleased to see the steps being taken to effect a complete integration of the Recife organization and operations into the USAID/Brazil. The situation vis-a-vis Recife may be merely a forerunner of the larger problem that may emerge with respect to the movement of the U.S. Embassy to Brasilia.

2) Brasilia and Regional Offices

Various elements of the GOB either are moving or are planning to move in the near future to Brasilia -- including the President's Office and the Foreign Ministry. When this materializes, the American Ambassador will be required to spend considerable time at the new capital. Given the Ambassador's understandable desire to have the USAID Director available to him on virtually a full time basis, there is going to be a complex of policy, managerial, and administrative questions requiring attention at an early date. The questions of official and housing facilities for both political and economic (Emb. and USAID) people at Brasilia, the division of staffs between Rio and Brasilia during the transition period, and the dangers associated with a separation of USAID management and operating staffs, all pose vexing questions for which answers will have to be found. This matter should, in the Team's view, be examined now, decisions taken, and implementation steps initiated as soon as possible. At best, it will be difficult during the transition. If not planned for in advance, it will probably be chaotic.

Assuming the continued existence of a significant economic assistance program in Brazil plus the gradual movement during the coming years of all major federal government offices from Rio de Janeiro to Brasilia, a USAID headquarters (with appropriate facilities and staff) at Brasilia, and regional offices, perhaps at Recife, Rio (or Sao Paulo), and in such other locations as good operational management might dictate, appears as the logical structure to anticipate. This would call for the construction of facilities at Brasilia in the near future.

Recommendation

The Team recommends that A.I.D. and the Department initiate talks looking towards a determination on this subject and its early implementation.

3) A Strengthened Controller Function

In Brazil, as elsewhere, the Mission's financial control mechanism is hard pressed to do a satisfactory job of reviewing and auditing aid expenditures. This gives rise to the further question of how to adapt auditing policy and practice to the new circumstances in which the bulk of aid money is provided by dollar repayable loans instead of by grants. From observation in Brazil, as elsewhere, the Team feels host government agencies are more sensitive to auditing activities under loan procedures than formerly. A possible means of alleviating this sensitivity would be the use of in-country accounting firms on a contract basis to perform audit functions on behalf of both the host government and A.I.D. In Brazil, there are qualified and reputable firms available.

Recommendation

That AID/W take under consideration the problem of modifying current audit procedures, and initiate consultations with USAID/B and other appropriate agencies along the lines suggested above.

4) The Annual Balance of Payments Calculations

The Team considers the exhaustive B/P calculations and projections undertaken each year both in Rio and Washington to be of scant value in forecasting aid requirements in Brazil. The variety of variables in Brazil's foreign trade pattern and the large sums involved in slight but unforeseen changes in those variables make such calculations of little or no value in determining proposed aid levels to the preciseness which we normally desire. In view of the major considerations involved, it would appear that the availability of A.I.D. funds, general character of the GOB's economic performance, the intrinsic worth of proposed local currency programs, and the upward or downward movements in Brazil's foreign exchange position during the preceding year, would represent more meaningful criteria against which to make aid level determinations. We do not make a specific recommendation on this subject but strongly suggest consideration of a revised approach to this annual problem along the lines here outlined.

5) The Need for Flexibility in A.I.D. Funding Practices

In many ways, Brazil presents a unique problem in U.S. aid administration. Brazil's developmental needs are great, and call for a large input of foreign resources which represent, in whatever form, a net increment in total resources available. Yet Brazil's industrial capacity is such that indigenous sources are capable of providing the bulk of all capital goods (meeting approved specifications and delivery times) required for development. In fields such as agriculture, education, and health, now at the top of U.S. priority interests, needed investment goods are almost wholly, if not wholly, available in-country. Much the same situation exists with respect to many human skills of both professional and technical character. It is

axiomatic that the rapid expansion and development of the Brazilian economy requires, inter alia, the fullest possible utilization of these existing indigenous capacities and skills.

At the present time, A.I.D. policy requires that aid dollars be expended, in the main, only for U.S. produced material, equipment, and services. This denies to Brazilian enterprises (including US-owned firms) the production and supply of goods and services which they are capable of providing. It lends support to erroneous assertions concerning U.S. motivations in Brazil, and affords, in the end, little or no support to basic U.S. interests. It sharply limits the ability of the USAID to utilize otherwise available opportunities to encourage and support reform measures in a number of fields which bear heavily on the success of Brazil's development efforts. Lastly, it limits the maneuverability of A.I.D. and the USAID in negotiation with the GOB, the most effective uses of aid resources.

The policies which give rise to the current situation are intended to minimize hurtful drains on the U.S. balance of payments. The Team believes this objective could be equally well served while permitting a fuller exploitation of Brazilian productive capacity and skills. If A.I.D. dollars could, at the first step, be used to purchase local currency, and then kept in the U.S. earmarked for subsequent procurement (in accordance with existing regulations) the U.S. B/P problem would not be affected and the fullest exploitation of indigenous Brazilian capacity would be encouraged.

Recommendation

That the Administrator of A.I.D. initiate an inquiry into the feasibility of the above proposal, and if found to be non-hurtful to the U.S. B/P position, it be approved and applied in Brazil.

IV. Team Discussions

a) The Team is most appreciative of the briefings and guidance given by the Ambassador and the Mission Director during the early days of our stay in Brazil. Their comment on, and reaction to, our general impressions and findings prior to our departure helped greatly in the formulation of our judgements as reflected in this report. We do not believe this report is in significant conflict with their views although we are not presuming to associate these officials with our judgements and recommendations set forth herein.

b) While in Brazil, the Team had extended discussions with personnel of the entire official U.S. family there, with U.S. and Brazilian businessmen, and with officials of the GOB. Given the complexity of the political and economic situation, no consensus was expected or experienced among the members of these divergent groups, except insofar as virtually all shared the view that Brazil's potentials for growth were great and her long-term prospects good. Some of the problems in the business community are reflected in this paper.

c) Both before our departure for Brazil and since our return, we have examined many aspects of the current Brazilian scene with knowledgeable people in Washington from U.S. Agencies and other organizations. We have gained much from these talks.

V. An Addendum

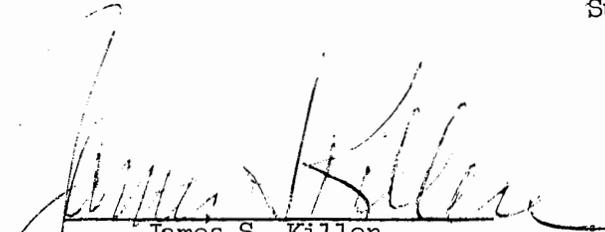
The size, population, resources, and degree of development of Brazil, combined with its strategic location on the South American continent, appear to create a more than usually favorable potential for Brazil in the South American community of nations. The growing discussion about a common market in SA and the removal of trade barriers, while underscoring Brazil's potential role in such a market, throws up an important fact. The economies of these countries and their logistical facilities are externally oriented towards North American and European areas, and past years have seen little growth of intra-South American transport, communications, and other essential facilities.

While deep-seated political and psychological factors in the SA community may initially impede the rapid growth of effective cooperation between Brazil and her neighbors, south, west, and north, the ultimate achievement of a fully integrated and productive community in SA will require a new emphasis on land-based physical facilities connecting major Brazilian centers with contiguous countries.

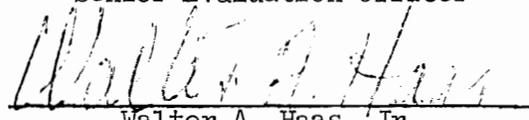
It is assumed that a new emphasis on this feature of Brazilian development will materialize in the years ahead.

After a three and possibly a six-month period, it should be helpful to review the progress in program and performance in USAID/Brazil, especially with reference to the evaluation findings and suggestions.

Submitted this 8th day of May 1967


James S. Killen
Senior Evaluation Officer


Elonzo B. Grantham, Jr.
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Walter A. Haas, Jr.
(Consultant)

I. General Situation in Brazil

- a) Geography, population, etc.
- b) Political
 - . Costa e Silva took over 15 March
 - . Continued but "qualified" support for stabilization
 - . Importance of political image
 - . Probable effects on U.S. relationships
 - . New Government has several things working for it
 - . On balance -- would judge next five years to be good years in both political and economic sense
- c) Economic
 - . Cumulative effects of 1965 and 1966 anti-inflation efforts
 - . Probably some easing of credit and wage increases
 - . "Stabilization" at 25% inflation rate
 - . Concern re too successful effort to stabilize
 - . Elements of progress during last 2½ years
 - . Trade liberalization
 - imports - reduced duties
 - exports - removal of taxes
 - . Removal of price controls
 - . Fiscal restructuring
 - . More attention to public administration
 - State of Bahia
 - Vargas Institute

II. Brazil's Economic Prospects

- . Material and human resources
- . Should be viable in not-too-distant future
- . Land, water, timber, minerals
- . Vast land - relatively few people yet enough for big market
- . During past 25 years
 - . much political confusion and instability
 - . great economic progress
- . During next 25 years
 - . less confusion
 - . even greater progress
- . Brazil's problem primarily managerial -- not technological
- . Quality of public management
- . Must keep Brazilians in "driver's seat"
- . Need for less obtrusive but equally influential U.S. role
 - . Implications
- . Fundamental policy issues
 - . Tax system creating incentives for investment and credit, and to penalize non-utilization of productive resources, e.g., land;
 - . Policy requiring sound management and economic prices for public services, and removal of controls which prevent growth of competitive market mechanism for domestic and foreign trade; and
 - . Monetary and fiscal policies seeking synthesis of rapid growth and relatively stable currency -- need for some continuing expansion of public and private credit.
- . Above problems are crucial
- . Should receive major attention in aid negotiations
- . Do not require large numbers of U.S. technicians
- . Yet these actions necessary if other components of aid program to be successful.
- . Financial aid inputs should be closely related to GOB action on these fronts.

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III. General RecommendationsComment:

Costa e Silva government unlikely to continue in same degree as Branco, public image of close collaboration with U.S.

Recommendation: We should not consider a more reserved attitude on part of GOB as an unfriendly attitude. We should be prepared to adjust our own posture as circumstances seem to dictate, at least until the relationships with the new Government have been developed.

Comment:

"Islands of Sanity" approach adopted to by-pass Federal Government leaves legacy of negotiation with State and other government entities.

Recommendation: Time has come to adopt more normal negotiating posture and provide aid pursuant to agreement with Federal Government in all cases.

Comments:

"Program" loans do not change character by calling them "sector" loans - same options available to U.S. negotiators regardless of semantics - fewer, not more, quid quo pros - refined projections of Brazilian B/P position become meaningless with regard to determination of plus or minus \$10-20 million in aid level.

Recommendations: All non-project loan assistance should be negotiated as a package each year.

Size of program loans should take into account, in order of priority as listed, following factors: availability of funds - GOB performance during past year - true worth of available local currency programs or projects - change in foreign exchange reserves during past year.

Comment:

We show a tendency to sell Brazil short on technical skills with resultant overemphasis upon the need for USAID technicians - measured against ultimate need, Brazil is about in position U.S. was 25 years ago - lasting results require Brazilian solution of Brazilian problems - shortage of free U.S. skills.

Recommendation: Situation dictates exercise of political as well as technical judgement on all proposals to bring in more U.S. technicians.

Comment:

Education effort aimed at devising an integrated plan for reform and expansion in primary, secondary, and higher education - three U.S. advisory groups involved, one for each level - not clear whether Brazilians could have organized own study groups with less U.S. input - risk that results may look too American to Brazilians - nevertheless Team concurs in general concept.

Recommendations: We should continue present effort while maximizing Brazilian involvement.

U.S. should hold in abeyance deeper involvement until future can be forecast more clearly.

Participant training in the U.S. should be expanded within feasible limits.

Comment:

Agriculture effort has produced outstanding results in freeing up market mechanism - removal of price controls got immediate response in increased production - same with regard to export flow - success achieved by application of economic incentives has not been duplicated in field of technologically induced increases in production.

Recommendations: Results indicate continued, pervasive encouragement by USAID of sound economic framework for agriculture which will provide incentives, credit and marketing facilities for producer.

Involvement in technical efforts along traditional "extension" lines should be on a limited and highly selective basis.

IV. Mission Administration

- Reduction in autonomy of Recife organization and its integration as a part of AID/Brazil is step in right direction.
- Imminent prospect of move by various elements of GOB, including President's Office and Foreign Ministry, raises problems for us that require early decisions - a plan of action is needed now - Ambassador understandably wants Director with him - a logical structure for AID/Brazil would be regional offices at Recife, Rio (or Sao Paulo) and other locations as developments dictate under supervision and direction of A.I.D. headquarters and Mission Staff at Brasilia.

Comment:

Competence and leadership in Mission reflected by obvious efficiency, quality of output and good morale.

Controller's audit capability appears inadequate.

Recommendation: Beef up auditor's office if feasible.

Comment:

There are no personnel office services in the BEG Building where the USAID Staff is located.

Recommendation: Such services should be located with the staff in the interest of efficiency.