



DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington 25, D. C.

UNITED STATES COORDINATOR
ALLIANCE FOR PROGRESS

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February 6, 1963

MEMORANDUM FOR: Mr. Ralph A. Dungan
Special Assistant to the President
The White House

This memorandum is in response to your request of this date for information in preparation for your meeting tomorrow with Governor-elect Antonio Lomanto, Jr., of the State of Bahia, Brazil.

Governor-elect Antonio Lomanto, Jr. is visiting the United States under the auspices of the leader-grant program. He is expected to be in Washington through February 8 and then plans to visit Europe and Israel.

Governor Lomanto has expressed support for U. S. policies and the Alliance for Progress and interest in exploring possibilities for foreign investments in Bahia. The Governor-elect will take office in April and could become a very positive force for closer U.S.-Brazilian relations. We understand that the Governor is desirous of making an excellent record for himself with an eye on the Presidency in 1965. He would particularly like to have the Alliance program in Bahia serve as a "model" program so as to refute the criticisms of the program made by Governor Miguel Arraes of Pernambuco.

The Governor has requested financial assistance with his four-year development plan for Bahia, which would cost an estimated \$80 million. It appears that the total plan would require \$15 million for the first year, an amount which could be programmed in Calendar 1963 from FY 1963 and FY 1964 funds. He stated that his plan has the support of President Goulart, who has authorized him to negotiate his four-year plan with the United States. On the latter point, USAID/Brazil has informed the Governor that we could not bypass SUDENE, since the success of the Alliance in the Northeast depends upon cooperation with that organization.

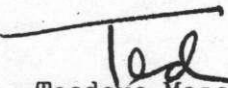
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You might wish to point out to the Governor that a successful implementation of the Alliance Program in Northeast Brazil requires that we maintain a harmonious three-way working relationship between SUDENE, the State Governors and USAID. You may also wish to inform the Governor that we are encouraging our staff in Brazil to move forward as quickly as possible on at least some part of the plan.


Teodoro Moscoso

Enclosures:

1. Biographic data on Governor-elect Lomanto
2. Brief comments on the Bahia Plan
3. Alliance project activities in the State of Bahia

*If he performs half as good
as he sounds he'll make a good
President for the country.*

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LOMANTO, Antonio Junior

BRAZIL

Governor-Elect of Bahia

When he takes office as Governor of Bahia in April, Antonio Lomanto (age 38) will be Brazil's youngest state governor. An ambitious and energetic man, he has already completed seventeen years in public life. He is currently serving his second term as Mayor of the city of Jequié (population 130,00). He has been president of the Brazilian Association of Municipalities and a prominent member of Rotary International. In connection with these interests he has visited the United States on two previous occasions-in 1955 as a regional governor of Rotary Brazil and delegate to the Rotary international convention at Lake Placid, and in 1960 as head of the Brazilian delegation to the Conference of Municipalities held in Washington.

Lomanto was elected Governor with the support of President Goulart's Brazilian Labor Party, the National Democratic Union Party (which has opposed President Goulart) and several smaller parties. He defeated a candidate who had communist and other extreme leftist backing. His principal interests-agrarian reform, economic development through industrialization, and the improvement of municipal government-parallel to a large extent the objectives of the Alliance for Progress. Lomanto hopes to be able to make his state a model of what can be achieved through the Alliance for Progress by a democratically-oriented regime, and thereby to spread his influence throughout the Northeast, to the detriment of the Communist-oriented Governor-elect of Pernambuco, Miguel Arraes.

Lomanto apparently believes sincerely that he can use a successful administration of Bahia as a springboard for election to the Presidency in 1965. In these elections he hopes to be the candidate of the Brazilian Labor Party which he believes must perforce select a moderate standardbearer. Regardless of the extent to which Lomanto's hopes materialize, it seems likely that he will be of increasing importance in Brazil's national politics. His significance already therein is attested by President Goulart's having recalled him from the United States, at the beginning of his current visit, for consultation regarding the new Brazilian cabinet and other important appointments.

Lomanto and his wife, Hildete, are the parents of twin sons, Antonio and Leurt (age 13). His wife and children are accompanying him on his trip to the United States, as are his father, Antonio, and his mother-in-law, Elilia Roga de Brito.

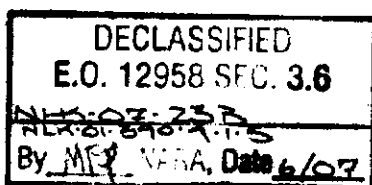
Upon completing his program in the United States, Lomanto plans to visit Europe and Israel.

ARA:EST/B:RHShields:am:sk

January 31, 1963

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Attachment 2.

The Bahia Plan

Brief review of the Bahia Plan reveals nothing substantially inconsistent with the USAID Northeast Program. In the Mission's judgment the plan warrants our encouragement and support subject to (1) avoiding any specific dollar commitment (2) making clear that any support beyond the first year depends on future U.S. appropriations for aid (3) stressing the regional coordinating role of SUDENE and that any USAID action on the plan must have not only GOB approval but whole-hearted, unreserved federal support (4) making it clear that although we are eager to deal directly with Bahia, this must be done in a way which will not offend SUDENE, with whom we must continue to work, and (5) making clear that the plan must be reviewed and approved in the field before any definite commitments can be made.

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Attachment 3.

Alliance project activities in the State of Bahia

- (1) IDB loan of \$4,120,000 for the water system of Salvador.
- (2) IDB loan of \$265,000 to the Bahia Planning Commission.
- (3) USAID Health agreement providing a grant of 340,000,000 cruzeiros.
- (4) USAID Water agreement providing a grant of 200,000,000 ceuzeiros.
- (5) Food For Peace-Seventeen projects built in total or in part with FFP include seven farm-to-market roads, eight dams or reservoirs and **two** buildings housing public fountains.
- (6) University of Bahia-Program provides assistance to improve the geologic competence of junior faculty members.
- (7) Electric Power - Foresee A.I.D. loans to finance: hydro-electrical systems for Vitoria da Conquista, electrical equipment, sub-stations and construction equipment for Prado and Paraguassu River systems.
- (8) Roads - Under review by Mission is a loan application for improvement of Road BA-11, from Jeque to IPIAU-- approximately 52 km. BA-11 is an important link, connecting the main Federal Highway BR4 with BR5. The stretch from Jeque to IPIAU needs grading, improvement of base and some paving.

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DRAFTED: February 9, 1963
INITIALED: February 9, 1963

INFORMATION MEMORANDUM FOR THE ADMINISTRATOR

THROUGH: EXSEC

SUBJECT: Agenda for Strategy Review Session for Brazil

1. Should the strategy be based on the premise that Brazil's large resource gap is largely a short-run (two years?) phenomenon and that the size of AID support can decrease substantially in a few years? The paper points out that a quite satisfactory growth rate was sustained over the past several years. Apparently, therefore, the purpose of the program is (1) to correct the policies which have caused, and to help fill, a temporarily distorted balance of payments gap and (2) to help correct certain politically and socially important deficiencies in the pattern of resource allocation. If the Brazilians act properly, is (1) likely to be fulfilled soon and the level of resources needed for this purpose decreased? How long will we need to provide resources to correct for (2) above?

2. Self-help conditions.

a. Is it correct that the proposed technique of setting self-help conditions is quite different from the Chile pattern? In the Chile case, disbursement of approved loans is tied to performance rather precisely defined and reviewed quarterly. The Brazil strategy suggests that the approval of loans, largely project, will somehow be geared to performance and that the total of such aid will not be specifically negotiated with Brazil. How will this work? Why is the approach different from Chile?

b. The preliminary IMF mission to Brazil recently completed its work. While impressed with the Government's desire to concentrate on a stabilization program, the mission indicated that the 1963 budget deficit would probably be 50% higher than that projected in the Three-Year Plan. Moreover, the members thought that insufficient evidence was available to indicate that a truly effective financial program will be undertaken by the Government of Brazil in 1963. Do we have any reason for a more optimistic analysis of the situation?

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c. Should Brazilian reform efforts founder, what will be the U.S. position and what will be the funding implications of this position? Will we continue our previous program of a Northeast program and limited assistance to certain states. Will we attempt to enforce our policy with other lending institutions? What would be the political implications of such a policy?

d. U.S. assistance is to be made conditional on the Government of Brazil encouraging foreign private investment. What measures do we have in mind and what are the chances for their implementation?

Lester E. Gordon

Lester E. Gordon

Deputy Assistant Administrator for Program

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February 7, 1963

BRAZIL STRATEGY STATEMENT

Book

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A. Background

Over the past several years Brazil has sustained a 6% to 7% rate of real economic growth (over 3% in per capita terms) and has generally maintained the traditional ties of friendship with the United States. However, during the past 18 months the Goulart Administration has permitted conditions to occur in Brazil which have been inimical to U. S. objectives. Trade and assistance relationships with the Bloc have increased. Government fiscal and monetary policies and the resultant budgetary deficit (almost 25% of the budget) and high rate of inflation (about 50% over the last year) have caused economic dislocations, discouraged investment and contributed to the present balance of payments crisis. Foreign exchange reserves are virtually exhausted, and there have been arrearages and delinquencies on foreign payments. Growing statist tendencies on the part of the administration, expropriation of foreign firms and the passage of a restrictive profits remittance law have resulted in reduced levels of foreign and domestic private investment. The lack of sound planning has resulted in an inefficient allocation of resources; also, insufficient emphasis has been placed on training the human resources needed for development. Finally, government inaction on basic reforms has resulted in growing social unrest and has provided a setting in which leftist groups are growing in influence and power.

Shortly prior to and since the visit of Attorney General Kennedy, there have been a number of positive developments. A Three-Year Plan of economic development and stabilization for Brazil has just been announced. While the plan has not yet been analyzed in detail, it appears to present a useful framework for stabilization and growth. At the same time, recent public statements by President Goulart suggest the possibility of closer collaboration on Alliance for Progress goals,

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and recent political discussions suggest that the Brazilian government may pursue policies more consistent with U.S. objectives. The GOB has apparently satisfied the International Telephone and Telegraph Company's demands for reimbursement for losses resulting from expropriation of its properties in Rio Grande do Sul, and President Goulart has recently eliminated exchange subsidies on petroleum and wheat. A tax bill has been passed which is expected to produce the equivalent of over \$200 million in new revenue.

Our posture toward Brazil is complicated by the special conditions which obtain in the Northeast, the largest area of extreme poverty in Latin America (23 million people, per capita GNP of below \$100). In recognition of the problems and particularly the instability, of this area, the U. S. Government last year committed \$131 million of assistance over two years to a 5-year development program for the area.

B. Objective

As the largest and most populous nation in Latin America, Brazil is a pivotal country whose political, economic and social development - or lack thereof - may well determine the viability of U. S. Latin American policy. It is consequently of the highest importance to the inter-American system that Brazil achieve political and economic stability and sustained economic growth.

C. Strategy

U. S. assistance strategy is based on the conviction that aid can be an effective instrument of U. S. foreign policy in removing or partially neutralizing existing obstacles to Brazilian development, and a belief that conditions now exist which are encouraging to the success of our efforts.

The basic obstacles are susceptible of attack only by actions of the Brazilian Government. The overall level of U. S. assistance will be used without disclosing specific totals, not only to stimulate the desired rate of development but also as leverage to assure both the initiation and continuance of reforms.

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In discussions and negotiations with the GOB, A.I.D. will make clear that the total level of U. S. assistance, as well as U. S. support for Brazilian requests from other lending sources, will in large part be determined by Brazilian efforts, under the three year plan, to (a) reduce inflation sharply, (b) maintain previous levels of investment (on the order of 15% of GNP) through measures which include encouragement of private enterprise, both domestic and foreign, and (c) undertake foreign and domestic policies not inimical to U. S. interests. Because of past difficulty in holding Brazil to its commitments, and to assure that the Alliance for Progress image is not lost, A.I.D. strategy will be to provide assistance to the extent possible on a project rather than a program basis though it is recognized that the urgency of the Brazilian balance of payments situation and the slowness of project procedures may require a combination of the two. At the same time the negotiating advantage of a program approach will be retained by employing the overall level as described above. Even in the event a certain amount of program assistance is felt to be necessary, the local currency proceeds will be earmarked for specific projects. In either event, it will be made clear to the GOB that U. S. assistance will be conditional on:

1. efforts to reduce budgetary deficits including reduction of government subsidies, particularly in basic consumption items and in railway transport.
2. improve tax administration.
3. encouragement of foreign private investment.
4. export promotional policies.
5. efforts to obtain increased assistance from Europe and international organizations.
6. development of sound projects.

At the same time, the direction and emphasis of United States assistance will be related to the following elements of the Three Year Plan: (1) improving the use

of existing resources through the encouragement of sounder economic planning and through the careful selection of capital investment projects which will remove major bottlenecks in the development effort, which will strengthen the private sector, and which will promote import saving and export earning activities; (2) assisting the development of key skills needed in economic development; (3) increasing food production, particularly meat production and distribution, to provide better diets and contribute substantially to export earnings; and (4) helping to ensure that pressing social problems do not lead to civil disturbances which could be exploited by anti-democratic elements in the society. Included in various activities to be undertaken in this latter area is a major effort to improve food storage and distribution, and social development efforts in the fields of health, housing, water supply systems and urban community development.

In the Northeast, we are now providing some initial financial assistance to various social projects in such fields as education, health, community water supply, rural community electrification and community development. We are aware that massive long-term investments are required for these social objectives but expect that the individual states and other indigenous groups will increasingly take over financial and operational responsibility for these activities. We will, with certain exceptions for research and feasibility studies, terminate this type of aid during FY 1964. Investment studies, water resource surveys and other investigations basic to determining in which directions we should move in the future to maximize the use of U.S. resources are being emphasized in the FY 1963 and FY 1964 programs. Major funding during FYs 1963 and 1964 will support economic infrastructure loan activities (such as highways and certain key industries) which contribute to the long-range solution of the

area's problems. We will consult with and encourage international agencies, other Free World countries and private entities to enlist active participation in the Northeast Development effort.

We will continue to encourage Brazilian efforts toward social and economic reform (e.g., existing special tax incentives to industrial investment in the Northeast, agrarian reforms, etc.); we regard our development assistance as supplementary to such reforms and to the larger self-help effort being carried out by the GOB in the Northeast.

Special efforts will be made to assure that local currency generated through substantial PL 480 programs will be effectively controlled by the U. S. so as to serve as an additional resource in the prosecution of this strategy.

The U. S. will encourage other lending institutions and countries to extend credit to Brazil as it evidences a real self-help effort. With such evidence, the U. S. will encourage (1) the IDB Trust Fund to devote a substantial fraction of its anticipated new resources to Brazilian social development projects; (2) the IDB (Ordinary Capital) and Ex-Im Bank to provide support for industrial development; (3) European nations to assist and invest in Brazil; and (4) the World Bank to effect a rapprochement with Brazil.

D. Total Funding FY 64

To permit the pursuit of the preceding strategy, the following U. S. assistance is projected for FY 64. Development Loans: 150-200 million; Development Grants: 20 million; P. L. 480: \$7.5 in Title I sales.

Currently analysis indicates, that this A.I.D. level, along with other expected external capital inflow, may fall substantially short of filling Brazil's projected balance of payments gap and its needs for external resources to sustain growth. However, given likely A.I.D. fund availabilities and other requirements

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throughout Latin America, the 150-200 million level is indicated.

E. Goals

1. To assist the Federal Government's northeast development organization (SUDENE) in the development of three critical areas of northeast Brazil through the following major programs:

(a) Improvement of basic living conditions in 475 seriously depressed urban and rural communities. This goal contemplates a coordinated attack involving:

- (1) establishment and/or reconstructing of 1500 health posts by end FY 67;
- (2) introduction and/or improvement of water systems in 207 communities by 1967;
- (3) introduction of electricity into 432 communities by end FY 65 and (4) other activities relating to housing, community development and "work front" projects.

(b) Improvement of human and economic resource base by (1) resource inventories and economic and social research and planning, (2) highway construction and financing, (3) helping finance power stations and transmission lines in four power systems, (4) dollar financing for development banks, industrial feasibility studies and plant construction, and (5) vocational training and educational programs.

(c) Improved land use and tenure, and increased food supply through (1) increased agricultural research and training affecting 60,000 farm families by 1966; (2) increased use of fertilizers and improved marketing, storage and processing to attain a 50% rise in production by 1970, and (3) resettlement and colonization support, involving surveys, training, equipment and commodity assistance.

2. To support and stimulate economic and social planning. Assistance will be provided to Brazilian agencies engaged in development planning to undertake

- (a) sector studies as part of any national planning effort; (b) "Hoover-type"

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studies of administrative reorganizations; (c) analysis of major economic and social problems (e.g. land tenure); (d) surveys of manpower needs and availabilities; and, (e) training of Brazilian government officials involved in planning and administration.

3. To improve the human resource base needed to support development.

Promising Brazilian universities will be strengthened so they can graduate more economists, engineers, scientists, and agricultural specialists. Secondary and vocational education will also be assisted.

4. To alleviate pressing social problems. Activities under this goal are directed to major social problems, with emphasis on the urban slum dwellers, Food for Peace to supplement inadequate diets and support work projects, and colony resettlement programs. Help in construction is directed toward an ultimate goal of 1,500 water systems, 1,000 sewer systems to serve an estimated 40 million people by 1970, and malaria eradication. The IDB Social Progress Trust Fund will be the principal external source of financing for activities in this area.

5. To improve the effectiveness of the public safety agencies. Primary emphasis is directed towards upgrading personnel through police training programs and better facilities.

6. To increase food supply. This goal aims to achieve two results: (a) doubling production of meat by 1970 and (b) increasing the amount of food reaching the ultimate consumer by reducing present marketing losses from 30% to approximately 10% by 1970.

7. Expand the industrial and infrastructural base. In the absence of a comprehensive development plan, high priority projects will be selected which appear to remove serious bottlenecks, with special emphasis given to those which

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encourage private investment. Thus, projects will be selected in new or existing industries which, as a result, will be capable directly or indirectly of (a) providing gainful employment to large numbers of workers and raise their standards of living, (b) creating new or better products (to replace imports or to create exports, thereby improving the balance of trade) and markets for domestically available agricultural and other raw materials and (c) generally making a significant contribution to national income.

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V. CONSENSUS ON STRATEGY AND GOALS

1. Ambassador

2. Mission Director

3. ARA

4. AID/H Staff Officer

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