

INCOMING TELEGRAM Department of State

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E.O. 13292, Sec. 3.5

NLJ 03-294

By is, NARA, Date 3-24-04

1. RE PARA 1 REFTL, ADD FOLLOWING ROMAN NUMBER SECTION AT BOTTOM PAGE 22 ENTITLED "AID STRATEGY FOR IMMEDIATE FUTURE." BEGIN TEXT. THE US POSTURE REGARDING CONTINUATION OF AID OR ITS POSSIBLE SUSPENSION OR REDUCTION MAY HAVE SUBSTANTIAL INFLUENCE ON THE SHORT-TERM OUTCOME OF THE POWER STRUGGLE IN BRAZIL. TO THE RADICAL HARDLINERS, BOTH MILITARY AND CIVILIAN, WHO ARE ALSO EMOTIONAL EXTREME NATIONALISTS, THE THREAT

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OF AID SUSPENSION WOULD BE NO DETERRENT. THEY ARE ILL-INFORMED ABOUT ECONOMIC MATTERS AND EMOTIONALLY IN FAVOR OF "GOING IT ALONE". PUBLIC WARNINGS OF AID SUSPENSION UNDER CERTAIN CONTINGENCIES WOULD IF ANYTHING EXACERBATE THEIR AGGRESSIVENESS.

ON THE OTHER HAND, MANY INFLUENTIAL CIVILIANS AND MILITARY OFFICERS ARE NOT COMMITTED ADHERENTS OF MODERATE OR HARDLINE GROUPS, AND THE POSITION THEY TAKE MAY BE DECISIVE. THEY CAN BE SHOWN HOW IMPORTANT A PART HAS BEEN PLAYED BY US AID IN BRAZIL'S RECOVERY SINCE THE REVOLUTION AND HOW IMPORTANT CONTINUING AID IS TO FULL SUCCESS OF EFFORTS FOR STABILIZATION, DEVELOPMENT AND REFORM. FIRM INDICATION TO THEM OF US INTEREST IN EARLY CONSTITUTIONAL NORMALIZATION AS WELL AS CONTINUING ECONOMIC SUCCESS MIGHT SERVE THE PURPOSES BOTH OF CARROT AND OF STICK, HELPING THEM TO OPT FOR THE MODERATE COURSE.

FOLLOWING THE CONFUSION OF THE FIRST POST-CRISIS DAYS, THE CASTELLO BRANCO GOVERNMENT IS SHOWING ENCOURAGING SIGNS OF REASSUMING THE INITIATIVE ON MODERATE LINES, INCLUDING THE BUILDING OF A POLITICAL BASE AND THE POSITIVE DEFINITION OF

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-2- 1053, November 8 (SECTION 1 OF 2), From Rio de Janeiro

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ITS ONGOING GOALS OF ECONOMIC AND SOCIAL PROGRESS. THE PROPER SHORT-RUN STRATEGY IS TO MAINTAIN FULL CONTINUITY IN OUR AID ACTIVITIES AND SCHEDULED NEGOTIATIONS, INCLUDING THE PROPOSED PROGRAM LOAN NEGOTIATION FOR LATE NOVEMBER TO SUPPORT THE BRAZILIAN EFFORT IN 1966. THIS WILL KEEP US IN PARALLEL WITH THE IMF AND KEEP THE BRAZILIAN AUTHORITIES ACTIVELY AWARE OF WHAT MAY BE JEOPARDIZED IF THINGS GO WRONG. IT WILL ALSO AVOID UNDESIRABLE DISCONTINUITY IN AID-COUNTERPART FINANCED ACTIVITIES OF GREAT IMPORTANCE TO LONG-RUN DEVELOPMENT AND REFORM.

THE TECHNIQUE OF QUARTERLY

REVIEWS AND REL

EASE UNDER THE

PROGRAM,

LOANS GIVES US GREAT FLEXIBILITY IN MODIFYING THE OPERATIVE POLICY ON SHORT NOTICE IF CIRCUMSTANCES SO INDICATE. END TEXT

2. RE PARA 2 REFTTEL, CHANGE TITLE III, PAGE 23, TO "PRESENT A.I.D. PROGRAM". ADD HEADING IMMEDIATELY BELOW "A. PRESENT LEVELS OF AID". PAGE 24 AFTER PARA 4 ADD NEW SECTION B "EFFECTS OF AID ON BRAZILIAN PERFORMANCE" AS FOLLOWS:

BEGIN TEXT (1) SINCE THE APRIL 1964 REVOLUTION, THE ECONOMIC AND

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SOCIAL OBJECTIVES AND POLICIES OF THE BRAZILIAN GOVERNMENT HAVE IN GENERAL BEEN SQUARELY IN LINE WITH THE CHARTER OF PUNTA DEL ESTE. US SUITOR THROUGH THE ALLIANCE FOR PROGRESS HAS STRENGTHENED POLICIES WHOSE ADOPTION WAS ESSENTIALLY AT THE INITIATIVE OF THE BRAZILIANS THEMSELVES. (2) HOWEVER, THE VERY EXISTENCE OF A LARGE US AID PROGRAM HAS PROVIDED MANIFOLD OPPORTUNITIES TO INFLUENCE CONSTRUCTIVELY PARTICULAR BRAZILIAN POLICIES AND PRIORITIES. US ADVICE HAS BEEN SOUGHT IN THE DEVELOPMENT OF MANY BRAZILIAN PROGRAMS AND REFORM MEASURES. US OFFICIALS HAVE READY ACCESS TO ALL KEY BRAZIL

IAN OFFICIALS.

IDEAS ARE EXCHANGED AND PRACTICAL PROBLEMS OF IMPLEMENTATION ARE DISCUSSED. EXAMPLES OF MATTERS ON WHICH THE US HAS HAD INFLUENCE INCLUDE:

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-3- 1053, November 8 (SECTION 1 OF 2), From Rio de Janeiro

-- THE BUDGET, INCLUDING THE ACCEPTABLE DEGREE OF DEFICIT FINANCING AND THE DIVISION BETWEEN CURRENT AND CAPITAL ACCOUNTS.

-- DOMESTIC CREDIT, INCLUDING SPECIFIC PROBLEMS OF REDUCING INTEREST RATES FOR LONG-TERM INVESTMENTS AND APPLYING SELECTIVE CREDIT POLICIES TO DEPRESSED INDUSTRIES.

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-- THE BALANCE OF PAYMENTS, INCLUDING EXCHANGE RATES, IMPORT CONTROLS, FOREIGN DEBT POLICY, AND COMMERCIAL ARREARS.

--FOREIGN INVESTMENT, INCLUDING THE INVESTMENT GUARANTY AGREEMENT AND BRAZILIAN MINERALS POLICY.

-- AGRICULTURAL MODERNIZATION, INCLUDING THE MINIMUM PRICE SYSTEM, FERTILIZER UTILIZATION, DEVELOPMENT OF COOPERATIVES, CREDIT TO SMALL FARMERS, AND LAND REFORM.

(3) ON THE INDIVIDUAL SECTOR AND PROJECT LEVEL, THE US ALSO EXERTS FAR-REACHING INFLUENCE. A HIGH DEGREE OF SELF-HELP IS REQUIRED, INCLUDING AS A RULE OF THUMB A MINIMUM OF 50 PERCENT OF THE COST IN THE CASE OF CAPITAL PROJECTS. IN CONJUNCTION WITH EACH CAPITAL PROJECT, STANDARDS ARE SET FOR THE INSTITUTIONS INVOLVED, INCLUDING THEIR MANAGEMENT, FINANCIAL SYSTEMS, AND TECHNICAL OPERATING ABILITY. THE FOLLOWING ARE EXAMPLES:

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ADVANCE COPY TO S/S-O, 11/8/65, 4:50 p.m.

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INCOMING TELEGRAM Department of State

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By *is* NARA, Date 3-24-04

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E -- A NATIONAL WATER FUND HAS BEEN ESTABLISHED WHICH WILL PROVIDE LONG-TERM LOANS TO MUNICIPALITIES PREPARED TO CONTRIBUTE ONE-THIRD OF THE COST AND APPLY RATES HIGH ENOUGH TO AMORTIZE THE LOANS AND ENSURE SYSTEM MAINTENANCE.

RSR -- LOANS TO TEN STATES FOR HIGHWAY MAINTENANCE INVOLVE THE COMPLETE MODERNIZATION OF THE HIGHWAY DEPARTMENTS THEMSELVES.

-- GRANTS FOR SCHOOL CONSTRUCTION IN SEVERAL NORTHEAST STATES HAVE RESULTED IN IMPROVED SCHOOL ADMINISTRATION AND PLANNING BY THE STATE GOVERNMENTS.

-- HOUSING PROGRAMS HAVE BEEN ACCOMPANIED BY EXTENSIVE TECHNICAL ASSISTANCE WITH EMPHASIS ON PRIVATE RATHER THAN PUBLIC HOUSING. FUNDS WERE WITHDRAWN FROM THE HOUSING BANK BECAUSE OF LACK OF PROGRESS WITH RESPECT TO PRIVATE FINANCING.

-- AS A RESULT OF AN EVALUATION OF THE MALARIA ERADICATION PROGRAM MADE JOINTLY WITH THE PAN AMERICAN HEALTH ORGANIZATION, THE GOB HAS BEEN REQUIRED TO MAKE MAJOR ORGANIZATIONAL AND

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FINANCIAL IMPROVEMENTS AS A BASIS FOR FURTHER US AID.

-- VIRTUALLY ALL US LOANS TO PRIVATE ENTERPRISE ARE MADE THROUGH BRAZILIAN DEVELOPMENT BANKS. GREAT ATTENTION HAS BEEN GIVEN TO UPGRADING THE STAFFS OF THESE BANKS AND IMPROVING THEIR LENDING STANDARDS.

FOUR BRAZILIAN AGRICULTURAL UNIVERSITIES RECEIVING ASSISTANCE FROM THE US HAVE BROADENED THEIR ACTIVITIES TO INCLUDE RESEARCH AND EXTENSION DIRECTED AT STATE-WIDE PROBLEMS. THIS LAND GRANT CONCEPT IS A DIRECT RESULT OF US STIMULUS.

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-2- 1053, November 8 (SECTION 2 OF 2), From Rio de Janeiro

-- THE GOB HAS ESTABLISHED TWO FUNDS, ONE FOR TECHNICAL ASSISTANCE AND ONE FOR FEASIBILITY STUDIES. THESE FUNDS ARE A MAJOR STEP TOWARD THE ASSUMPTION OF RESPONSIBILITY BY THE BRAZILIANS FOR THE CONTINUED MANAGEMENT AND FINANCING OF INSTITUTIONAL DEVELOPMENT.

END TEXT.

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ADVANCE COPY TO S/SO, 11/8/65, 4:31 p.m.

PASSED WHITE HOUSE, 11/8/65, 4:43 p.m.

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