

094012



REPORT TO THE CONGRESS



The Brazilian Economic Boom:
How Should The United States
Relate To It? B-133283

Multiagency

**BY THE COMPTROLLER GENERAL
OF THE UNITED STATES**

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AUG. 26, 1974



COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

B-133283

To the Speaker of the House of Representatives
and the President pro tempore of the Senate

This is our report on the administration of U.S.
Government activities in Brazil.

We made our review pursuant to the Budget and Account-
ing Act, 1921 (31 U.S.C. 53), and the Accounting and Audit-
ing Act of 1950 (31 U.S.C. 67).

We are sending copies of this report to the Director,
Office of Management and Budget; the Secretaries of State,
Commerce, and Defense; the Administrator, Agency for Inter-
national Development; the Director, United States Information
Agency; and the Director, ACTION.

A handwritten signature in black ink, appearing to read "A. M. Kellen".

Acting Comptroller General
of the United States

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ABBREVIATIONS

AID	Agency for International Development
DOD	Department of Defense
GAO	General Accounting Office
USAID	United States Agency for International Development

D I G E S T

WHY THE REVIEW WAS MADE

GAO wanted to find out how the numerous and varied U.S. Government activities in Brazil have been managed and whether they are relevant in view of Brazil's substantial economic progress.

Basic facts

Since 1962 the United States has provided Brazil with over \$4.3 billion in assistance through bilateral and multilateral organization programs. Bilateral assistance amounted to about \$3.2 billion, of which about \$2.9 billion was economic assistance. The Agency for International Development (AID) has been the principal U.S. assistance agency and has made about \$1.5 billion in loans and grants.

The size of AID loans and grants peaked in 1966, but AID still provided about \$132 million in assistance between fiscal years 1971-73, with about \$41 million in the latter year. Other U.S. assistance was given through Food for Peace and military assistance programs, the Peace Corps, and Export-Import Bank loans.

FINDINGS AND CONCLUSIONS

Overall, major U.S.-stated objectives are being met in Brazil.

--Brazil's economic development is

progressing rapidly. U.S. assistance in the critical mid-1960s helped to stabilize Brazil's economy. With continued external help, Brazil's actions propelled the economy to a healthy condition whereby it can now set its own priorities and further develop its industrial growth. Today, Brazil has one of the fastest growing economies in the world.

--Congruence of U.S.-Brazilian interests in world affairs has been maintained. Although some problems exist and improvements are needed, Brazil is generally friendly to the United States. (See p. 3.)

In view of Brazil's strong economic growth, GAO is making the following observations.

Economic aid

U.S. assistance to Brazil has declined since its peak year of 1966. The Department of State and AID recognize Brazil's reduced need for this type of assistance. They should act to end this assistance as expeditiously as possible. (See p. 13.)

State should shift monitoring responsibilities for uncompleted AID projects to Brazilian Government agencies and should reduce AID staff until AID can be phased out completely. (See p. 24.)

The Brazilian economy began stabilizing in 1968 and achieved a high sustained growth rate by 1970. Therefore, State and AID should try to renegotiate the terms of AID concessional loans to accelerate loan repayments or to increase the interest rates to cover the U.S. Government cost for servicing these loans. This latter action, for example, would save over \$94 million in debt-service costs for the 14 AID loans amounting to \$206 million signed with Brazil since 1970.

Military assistance

The United States provided over \$200 million in equipment and materiel to Brazil through the military assistance grant-aid program. Because of the age of this equipment--most of it was given before 1962--and because the U.S. military representatives in Brazil do not monitor the use of the items, the United States should consider liquidating its reversionary rights to such equipment. (See p. 35.)

U.S. restrictions on sales of military equipment to Brazil has resulted in Brazil's purchasing \$775 million worth of military equipment from U.S. allies. U.S. officials in Brazil believe there has been some reduction of confidence by the Brazilian military in the United States as a reliable supplier and that broad Latin American-oriented limits will continue to turn Brazil away from this traditional source of supply. (See p. 37.)

Peace Corps

Peace Corps' effectiveness was hampered because key management positions were vacant for extended periods of time. (See p. 44.)

The Corps' shift in emphasis from grass roots programs to those requiring highly technical and professional skills for assignments in major urban centers in Brazil have created problems in volunteers' morale and in obtaining adequate technical staff. (See p. 48.)

U.S. Information Agency

The U.S. Information Service has acted to improve management of Brazilian operations, responding to changing conditions by adapting its objectives, target audiences, and management operations to meet changing events.

However, it still has not devised adequate research methods for measuring effects of its various activities on foreign audiences or the net results of information programs. (See pp. 54 and 57.)

Before the Service's measurement capability can be strengthened, the Congress, the executive branch, and the Service must agree on aims and expected achievements of the Information Agency's operations. The Agency acknowledged the need for such agreement and the difficulty of measuring the intangible effects of its programs. (See p. 56.)

Trade and Commerce

U.S. total trade with Brazil is increasing, but our relative share of Brazil's market is declining. U.S. efforts to expand trade and commerce with Brazil can be improved.

The commercial staff size is not commensurate with the workload in maximizing U.S. participation in the present Brazilian market. The Department of Commerce needs to

- review its market research activities in Brazil to improve them, and
- consider establishing a U.S. trade center in Sao Paulo, Brazil's economic and industrial heartland, to encourage buying of U.S. industrial and commercial items and technology. (See p. 60.)

Foreign affairs management

U.S. affairs in Brazil are managed by a Country Team which is headed by the Ambassador and includes the chiefs of the important U.S. agencies. GAO believes the Country Team is effective because of the good coordination, control, and leadership. Effective management is less apparent, however, in the day-to-day foreign affairs activities in Washington due to varied interests of the numerous agencies involved in foreign affairs. (See p. 9.)

RECOMMENDATIONS OR SUGGESTIONS

The Secretary of State and the Administrator of AID should:

- Act to end U.S. assistance as expeditiously as possible in view of Brazil's vigorous economic growth.
- Try to renegotiate to the extent possible better loan terms, including either accelerated repayments or increased interest rates to those incurred by the U.S. Government to service concessional loans. (See p. 25.)

The Secretary of State should:

- Take necessary action, considering military, political, and economic

ramifications, to liquidate reversionary rights of grant-aid military equipment to the Brazilian Government. (See p. 40.)

- Review the need for additional commercial positions in Brazil to maximize U.S. participation in the present Brazilian market. (See p. 67.)

The Director, ACTION, should reassess Peace Corps activities in Brazil to:

- Substantially reduce the number of volunteers if key management positions remain unfilled. (See p. 51.)
- Eliminate from its programs technical and professional assistance to Brazilian states or agencies able to purchase such services. (See p. 51.)

The Secretary of Commerce should:

- Consider the feasibility of establishing a continuing trade center in Sao Paulo.
- Review market research activities in Brazil to seek ways to improve them. (See p. 67.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

State, AID, Defense, the Peace Corps, and Commerce agreed with most of GAO's recommendations.

Economic assistance

State and AID said that lending to Brazil has rapidly declined. No loan assistance was requested for fiscal year 1974, and none is planned for subsequent years. Grant-aid

technical assistance is not expected to exceed \$5 to \$6 million.

Personnel are being reduced, but most remaining U.S. personnel at the Mission are concerned with monitoring past loans, which will be necessary for several years. State-AID plans are advanced for a phaseout over the next several years.

State and AID disagreed that the United States should seek to renegotiate past loans to Brazil. They said they have not yet invoked the renegotiation clause for any loans to countries which have experienced significant economic and financial improvements.

They maintained that the various indices of economic well-being in Brazil's situation are mixed because Brazil faces a large foreign debt and higher costs for imports of petroleum and food grain. (See pp. 25 to 30.)

Military assistance

State and Defense have initiated discussions on liquidating reversionary rights of grant-aid military equipment. (See p. 40.)

Peace Corps

The Peace Corps Regional Director for Latin America said he has the commitment and support of ACTION and Peace Corps directors to recruit and select replacement of key management personnel and is acting to fill these positions for the Brazil program.

He also agreed that Peace Corps programs in Brazil should be reassessed

and directed toward the poor local and state economies. Plans are underway to shift technical and professional volunteers out of Rio and Sao Paulo to more needy areas in Brazil. (See p. 51.)

Trade and Commerce

Commerce agreed that the rapidly expanding Brazilian economy offered an attractive market for U.S. products. Accordingly, it is considering the possible establishment of a trade center in Sao Paulo.

Commerce said that a comprehensive analysis of the market for U.S. products in Brazil did not exist and that such an analysis would be undertaken by a special team of Commerce-State researchers. (See p. 68.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

Although Brazil has been achieving significant economic progress, AID has continued to make loans on concessional terms. These loans provided for renegotiation in the event a significant improvement occurred in the internal and external economic financial position of the borrower. This has happened in Brazil.

The Congress may wish to direct AID to review its policy toward renegotiation of these loans as well as concessional loans to other countries making economic progress. Such reviews, among other things, should identify measurable criteria and establish guidance to be used in determining which loans could be renegotiated. (See p. 30.)

CHAPTER 1

INTRODUCTION

In 1964 a political crisis led to the military assuming control and operation of Brazil's Government. In 1967 a new constitution was adopted providing for a bicameral federal government; unicameral state governments; and executive, legislative, and judicial branches similar to those of the United States. The office of the president in Brazil, however, has much greater authority than it does in this country.

Although coffee is still the major export, there has been a great increase in industry, chiefly in the southeast. These industries include steel, chemicals, automobiles, and other consumer goods. One result of this industrial growth has been an increase in the middle-class population. Despite these industrial gains, agriculture remains the basis of Brazil's economy; half the population is engaged in it; and it accounts for two-thirds of Brazil's exports. Sugar, cocoa, cotton, soybeans, and lumber are the chief exports, in addition to coffee. Livestock production amounts to about one-third of the total agricultural sector.

Brazil has enormous potential for increasing its economy. It has almost unlimited resources of a large variety of minerals. Large areas of the country are undeveloped and virtually unexplored. Nevertheless, some major problems have been overcrowding of cities, excessive population growth, poverty, and inflation.

In recent years Brazil's foreign trade has increased considerably as the result of more liberal import and exchange rate policies. About one-third of Brazil's trade is with the United States. Wheat, petroleum, and capital equipment are its major imports, and it has a favorable balance-of-payments position at the present time.

Brazil has played an important part in international affairs. It is a member of the Organization of American States, the Latin American Free Trade Association, the United Nations and many of its subagencies, and other international organizations.

U.S. AGENCIES AND ORGANIZATIONS IN BRAZIL

Over the past two decades the growth of U.S. Government agencies operating overseas which has occurred worldwide has also taken place in Brazil. In addition to the more traditional agencies conducting foreign affairs overseas, such as the Department of State and Defense, the Peace Corps, the Agency for International Development (AID), and the United States Information Agency, nine civilian agencies or activities are represented in Brazil. They are the Drug Enforcement Administration (formerly the Bureau of Narcotics and Dangerous Drugs), Federal Aviation Administration, Internal Revenue Service, Foreign Agriculture Service, Library of Congress, National Institutes of Health, Smithsonian Institution, Treasury attache, and Department of Justice legal attache.

Appendix I contains the latest data available on the number of U.S. Government employees in Brazil.

The Department of Defense (DOD) consists primarily of the U.S. Delegation to the Joint Brazil-United States Military Commission, which also functions as the U.S. Military Group-Brazil. Eight other U.S. military organizations or staffs, however, operate in Brazil: DOD Attache Office, Navy Communication Technical Group, Inter-American Geodetic Survey, Pan American Hoof and Mouth Disease Unit, Air Force Postal and Courier Service, Marine Guard, Post Exchange, and Military Airlift Command. All DOD activities, except for attache activities, are coordinated by the senior DOD representative, who is also the Chairman of the U.S. Delegation and Commander of the U.S. Military Group-Brazil. (See app. II for the functions of these smaller staffs, both civilian and defense.)

Brazil received about \$7.8 billion in external assistance between 1946 and 1973, of which the United States provided \$6 billion, or 77 percent. See appendix III for the source of this assistance and geographic and sector distributions of development loan assistance.

All essential matters presented in this report were discussed with U.S. officials in Brazil during our review and submitted to the agencies for comment. Because the agencies presented either oral or written comments, we did not include any comments as appendixes to the report, as is our usual custom, but incorporated both into the report where appropriate.

CHAPTER 2

DEPARTMENT OF STATE ACTIVITIES

The United States recognized the Republic of Brazil in 1890 and raised the U.S. Mission to an Embassy in 1905, the first U.S. Embassy established in South America. As a result, Brazil became the major diplomatic link between the United States and all of South America.

Although some problems exist between the governments, from our limited review we believe the major U.S. objectives are being met. Brazil's economic development is progressing rapidly, our relationship with the Brazilian Government is friendly, and there is a congruence of interests in international affairs.

The U.S. Ambassador, as head of the Country Team, demonstrated reasonable management and policy control over U.S. activities in Brazil. The Country Team is effective because of good coordination, control, and leadership. However, this same control and coordination appears to be lacking in foreign affairs management at the Washington level due to the numerous agencies involved and the various interests they represent.

OBJECTIVES AND INTERESTS IN BRAZIL

The major U.S. objective is to maintain friendly relations and congruous interests between the United States and Brazil in the hemisphere and in world affairs. Maintaining the current favorable attitude toward U.S. commerce and investment interests is an important secondary objective.

The objectives and their priorities have varied slightly over the past 10 years. During 1963-65 the objectives included encouraging economic development and social progress, improving the climate for U.S. investment, and increasing United States-Brazilian trade. From 1966 the objectives of social and economic development continued but, in view of the increasingly satisfactory nature of Brazilian progress, were maintained at a lower priority and maintaining congruous United States-Brazilian interests in international affairs and multinational organizations was assigned a higher priority.

This congruence of interests in world affairs, although partially explained in terms of history, geography, and cultural factors, primarily depends on friendly relations with Brazil. This friendship is encouraged by (1) identifying the United States with Brazilian economic development, (2) strengthening the friendly orientation of the military, (3) sustaining the Brazilian's favorable popular attitude, and (4) consulting and cooperating with the Brazilian Government.

ORGANIZATION

As the number of U.S. Government agencies operating abroad increased, the Department of State developed two operating procedures to assist in coordinating their efforts, the Country Team concept and the Country Analysis and Strategy Paper, the latter limited to Latin American countries.

The Country Team consists of the heads of the more important agencies operating in the country and the chiefs of the Embassy sections. In Brazil these are the Counselors for Political, Economic and Commercial, Administration, and Public Affairs; Agriculture, Treasury, and DOD Attaches; Directors of USAID and the Peace Corps, Political Officer, and Chairman, U.S. Delegation to the Joint Brazil-United States Military Commission.

The Country Analysis and Strategy Paper is a planning system designed to relate U.S. interests and resources, including funds and personnel required for their implementation, to anticipated events 2-to-4 years in the future. The Ambassador and the Country Team prepare the paper annually, preceding the field program-budget submissions of the agencies concerned. The paper is then reviewed and approved by the Assistant Secretary for Inter-American Affairs, the Brazil Country Director within the Department of State, and comparable officials of all other agencies having interests in Brazil. Those preparing, reviewing, and approving the paper must identify U.S. interests and their relative importance and assign priorities for their implementation. In this way, policy, planning, and objectives are related to budgeted resources. The Country Analysis and Strategy Paper is to serve as a basis for preparing individual U.S. agency programs for the country and for determining the number and type of personnel required.

As the personal representative of the President, the Ambassador is the final authority on policy in the country to which he is accredited. He reports to the President, the Secretary of State, and the Assistant Secretary for Inter-American Affairs on all phases of U.S. operations at his post. He must, therefore, be familiar with the activities of each agency and provide guidance to insure that the efforts of all elements of the Mission are coordinated and in agreement with U.S. policies and objectives.

In Brazil, the Ambassador exercises overall management and control of U.S. Government activities through weekly Country Team meetings during which information is exchanged and problems discussed. The Ambassador gives general direction and guidance for operating the Mission.

An executive committee, composed of the four Embassy Counselors, USAID Director, Political Officer, Defense Attache, and representatives of the Peace Corps and the U.S. Delegation, holds weekly meetings at which inter-agency problems are discussed. Some problems may be resolved at the meeting, others may be brought to the attention of the Ambassador for his decision.

The Deputy Chief of Mission is responsible for holding meetings with small groups of Embassy officials to discuss their particular problems or programs. An example of the results of such a meeting is that which occurred in September and October of 1972 with the Drug Enforcement Administration official. These meetings, involving the cooperative efforts of the American consulate general in Rio, DEA officials, Argentine and Brazilian federal police, the Brazilian customs administration, and officials from other countries, led to the final confiscation of 60 kilograms of heroin. The heroin was seized in the port of Rio de Janeiro aboard a U.S.-flag ship en route to New York City and would have sold for about \$34.7 million if it had reached the New York market.

OPERATIONS

The American Embassy in Brazilia is organized into four major sections: political, economic-commercial, consular, and administrative. A similar organizational pattern, standard in Department of State operations abroad, exists in the consulates general in Rio, Sao Paulo, and Recife.

Political section

The Embassy's political section coordinates all political reporting by constituent posts, while the political officers in the consulates general report primarily to the respective consuls general. Manpower resources authorized for political work as of June 30, 1973, totaled 47, including officers and supporting staff.

The Officers are responsible for (1) analyzing and reporting on political trends and developments, (2) advising the Chief of Mission and other members of the Country Team on these matters, and (3) assessing local reactions to U.S. policies and recommendations for the course of future United States-Brazilian relations.

To carry out these objectives, the Counselor for Political Affairs, his staff, and political and principal officers of constituent posts maintain close contact with the Foreign Office and other organs of the Government of Brazil; political, labor, and industrial leaders; and resident diplomatic representatives of other nations.

Economic-commerce section

This section, which had an authorized staff of 42 as of June 30, 1973, coordinates the reporting activities of the corresponding sections in the consulate general and the economic reporting of the smaller constituent posts. Its responsibilities include all matters affecting Brazil's economic life and commercial relations with other countries. The section maintains contact with Brazilians engaged in commerce and industry, as well as with government officials responsible for these operations. Information from these and other sources is analyzed and serves as the basis for advice to the Chief of Mission and for reports to the Department of State. The section may be called upon to negotiate such matters as finance, trade, transportation, or communications. It may also, in promoting U.S. trade in Brazil, participate in preparing U.S. trade fairs, and in general, assist American businessmen. (See ch. 7.)

Consular section

The consular section issues passports and visas and assists U.S. citizens in Brazil. Services may include legal advice, medical assistance, repatriation, etc.

At June 30, 1973, the section had consulate generals in Rio de Janeiro, Sao Paulo, Recife, Porto Alegre, and the Embassy in Brasilia and had 24 authorized positions.

Administrative section

The duties of this section are indicated by the titles of its suboffices--budget and finance, personnel, language training, medical, general services, security, and communications and records. The suboffices, in carrying out these responsibilities, operate motor pools, keep fiscal and statistical records, manage the courier service, and generally provide all the required operational services of the Embassy, consulates, and other U.S. agencies.

This section had 251 authorized positions as of June 30, 1973, in Brasilia and at the other posts throughout Brazil.

Authorized Employees, Salaries and Operating Costs

<u>Fiscal year</u>	<u>U.S. employees</u>	<u>Local employees</u>	<u>Total</u>	<u>Salary and operating costs (note a)</u>
				(000 omitted)
1963	166	156	322	\$2,621
1964	175	167	342	3,281
1965	176	167	343	3,409
1966	178	175	353	3,940
1967	169	288	457	4,291
1968	152	273	425	4,550
1969	151	241	392	4,581
1970	132	236	368	4,788
1971	132	227	359	5,246
1972	131	235	366	5,446
1973	129	235	364	6,038

^aDoes not include operation and maintenance of U.S. Government-owned buildings and those under long-term leases which are paid from Office of Foreign Buildings appropriations.

RELATIONS BETWEEN THE TWO GOVERNMENTS

In recent years the U.S. Embassy and the Department of State have had differences of opinion with the Brazilian

Government concerning air transport, national cargo preference laws, territorial sovereignty at sea, and the coffee trade.

The air transport question was settled in 1968 by an agreement providing for concessions by both governments. Arrangements were made in 1970 to allocate shipping between the two countries. This settled the problem of uncontrolled commodity trade, but some broader maritime issues remain unresolved.

One current major problem is Brazil's claim of national sovereignty at sea to a point 200 miles from its coastline. Of immediate concern is the loss of fishing rights by U.S.-flag ships in this area. In 1972 conferences were held in Brazil, and an agreement (T.I.A.S. 7603) was reached to allow U.S. shrimp fishing, the chief industry involved. The agreement restricts the number and size of ships and the length of the fishing season. Because the regulations apply to the United States and Brazilian shrimp fishing industry and not to a specific area, the issue of territorial seas is not involved. This question, which concerns other nations as well as Brazil, is the subject of a general conference on the Law of the Sea being held in mid-1974.

Another problem is the coffee trade. The International Coffee Agreement of 1962 (14 U.S.T. 1911, T.I.A.S. 5505) was intended to insure adequate coffee supplies to consumers and producers markets at equitable prices by placing quotas on coffee exports. In 1968 the agreement was renegotiated (19 U.S.T. 6333, T.I.A.S. 6584) to include, among other things, a prohibition (art. 44) against favoring processed coffee exports over green coffee exports. This provision was the basis for the 1971 Soluble Coffee Agreement (22 U.S.T. 654 T.I.A.S. 7118) between the United States and Brazil. This agreement provided for allocating green coffee exports, which had been unavailable to U.S. soluble coffee manufacturers, and for reimbursing the tax in the form of credits against future coffee purchases by U.S. manufacturers.

In the past, Brazil did not impose an export tax on soluble coffee exports comparable to that imposed on green coffee purchased by U.S. producers. This gave Brazilian producers an unfair advantage over U.S. producers. The soluble coffee agreement was to remain in effect only as long as the International Coffee Agreement was in force and implemented. The International Coffee Agreement has been

extended to 1975, but Brazil renounced the soluble coffee agreement in May 1973 because the export quotas had been dropped from the International Coffee Agreement. These issues will have to be resolved in future negotiations.

Issues which may cause resentment among some Brazilians are the development of its natural resources and ownership of its rural land by U.S. citizens. One U.S. citizen owns 200,000 acres of land in Brazil. Brazilian nationalists are exploiting such issues which, because of their complexities, are not susceptible to easy solution.

FUTURE TRENDS

According to officials of the Bureau of Inter-American Affairs no substantial changes are contemplated in the present staff and organization of the Embassy in Brazil. If resources are made available, there may be a slight increase in the economic-commercial section. Also, if possible, a narcotics control officer will be added to the Embassy staff to relieve the Deputy Chief of Mission of this responsibility, which now on occasion requires his full-time attention.

A new Embassy building in Brasilia is scheduled for completion in August 1975 at an estimated cost of \$3 million. The new Embassy is being constructed because (1) the Brazilian Government decreed that, to be accorded diplomatic status, all foreign government missions must be permanently situated in the new capital of Brasilia before September 1972 and (2) the present interim building on our 13-acre Government-owned site was not large enough to house the full staff complement. Auxiliary office space is presently short-term leased in the city.

The United States sold the old Embassy building in Rio de Janeiro to Germany for \$2 million. The State of Guanabara, using a 19th century decree giving the State a pre-emptive right on a sale of this nature, may be able to purchase the property from the German Government. The Brazilian supreme court will ultimately decide the matter.

FOREIGN AFFAIRS MANAGEMENT

As noted earlier, the U.S. Ambassador, as head of the Country Team, demonstrated reasonable management and policy control over U.S. activities in Brazil. Although planning for

U.S. programs in Brazil is formalized in the Country Analysis and Strategy Paper which eventually is approved in Washington, we found that effective management is less apparent in the foreign affairs activities at the Washington level, probably because of the numerous agencies and interests involved.

Foreign affairs management is a matter of important interest to the Senate Foreign Relations Committee. In its report of April 20, 1972, for the Foreign Relations Authorization Act of 1972, the Committee recommended creating a commission to make a long-range, in-depth study of the governmental mechanisms and programs for making and conducting foreign policy.

One of the concerns of the Committee is that, during the last quarter century, U.S. agencies involved in formulating, managing, conducting and collecting information relating to the Nation's foreign policy have proliferated. Not only has the number of agencies directly involved in foreign affairs grown, but there has also been a corresponding growth in the amount of input in the policymaking process by other agencies. During our review we observed 13 civilian and 9 defense agency or activity groups besides state, performing various functions throughout Brazil.

As of June 30, 1973, 1,388 employees worked for the U.S. Government in Brazil, but only 367, or 1 of 4, worked directly for State and, considering American employees only, the ratio was about 1 to 6.

The fragmented control in foreign affairs activities was shown during our attempt to obtain this information on the number of U.S. personnel attached to each U.S. Government agency in Brazil. Before going to Brazil, we tried unsuccessfully to get this information at State, the Civil Service Commission, and several agencies having operations in Brazil and eventually obtained it at the Mission in Brazil.

CONCLUSION

We believe that major U.S. objectives in Brazil are being met. Further our review of U.S. Government operations in Brazil indicated that the U.S. Country Team is effective because of the good coordination, control, and leadership. On the other hand, this same effective management appears to be lacking in foreign affairs activities at the Washington level

due to the numerous agencies involved and the varied interests they pursue.

An in-depth study of U.S. Government mechanisms and programs for foreign policy has been undertaken by the Commission on the Organization of the Government for Conduct of Foreign Policy established by Title VI of the Foreign Relations Authorization Act of 1972 Public Law 92-352, approved July 13, 1972 (86 Stat. 497). The Commission is charged with making recommendations for improved procedures among U.S. Government departments and agencies to provide improved coordination and control for the conduct of foreign policy. Its report is due by June 1975. Hopefully its recommendations will provide new insights and/or solutions to these problems.

CHAPTER 3

AID ACTIVITIES

U.S. bilateral assistance in the critical mid-1960s contributed to and helped stabilize Brazil's economy. Brazil's actions and reforms propelled the economy to a strong and healthy position whereby Brazil can set its own priorities and develop its own economy without U.S. concessional assistance. Consequently we believe

- U.S. concessional assistance to Brazil should be phased-out as expeditiously as possible.
- Concessional loans made to Brazil should be re-negotiated.
- AID personnel in Brazil be cut back and phased out.

U.S. economic assistance to Brazil began in 1942. War-time requirements for food and strategic materials prompted the financing of mineral exploration, rubber growing, and food production programs, and the Institute for Inter-American Affairs was formed to carry out these programs. The first educational assistance program was undertaken by the Brazilian-American Commission for Industrial Education. A bilateral health program was started under the Cooperative Health Services, and the United States had contributed \$16.8 million to this program by its completion in 1960.

The Joint Brazil-United States Technical Commission was created in 1948 to analyze factors affecting Brazilian economic development. The Commission made recommendations to the Presidents of both countries on steps to be taken to improve Brazil's economy. This was followed by the Joint Brazil-United States Economic Development Commission which operated from 1950 to 1953 under the Act of International Development, often referred to as Point Four. The Commission's purpose was to recommend projects which would provide favorable conditions for foreign investment in Brazil, and, as a result of its recommendations, the Export-Import Bank financed 25 projects in such areas as power, shipping, and railroads. The Commission also was responsible for supervising Point Four technical assistance programs, which received about \$64 million from 1951 through 1960.

The Alliance for Progress in the early 1960s expanded the scope of U.S. assistance programs, which were orientated initially toward economics but later included more social programs. The early years of the Alliance were hampered by political unrest and inflation, and little progress was made in economic development. Programs were limited to local areas, the northeast in particular. It was not until the revolution in 1964 that improvements were made in stabilization and administrative reform.

In the following years, the United States engaged in large-scale capital assistance support, and the technical assistance program in Brazil became the largest in Latin America.

Capital assistance was primarily directed toward the economic sector and included programs for import stabilization and development of infrastructure, such as power, industry, utilities and transportation. Two other forms of assistance came into use--the Food for Peace program which provided \$602.5 million in aid during 1962-73 and the Investment Guaranty Program which covered about \$200 million in new private U.S. investments in Brazil. Recent loan assistance has been directed toward specific sectors, such as health, education, and agriculture.

U.S. assistance in the social area is the subject of our report "U.S. Foreign Aid to Education: Does Brazil Need It?," (B-133283, July 30, 1973).

CONTINUED BILATERAL ASSISTANCE UNNECESSARY

Beginning in 1964 Brazil initiated economic reforms which resulted in rapid development of its economy and in industrial growth. Today Brazil has one of the fastest growing economies in the world. This fact and the availability of capital from foreign investments and multilateral agencies make U.S. bilateral concessional aid unnecessary.

Brazil's economy before 1964

After 1950 and through the early 1960s, Brazil emphasized industrial development through import substitution, i.e., manufacturing products previously imported from abroad. This process made Brazil an industrial country, but at the

cost of inflationary financing and the creation of some high-cost inefficient industries.

From 1940 to 1946 the annual rate of inflation was 10 percent, but it rose rapidly in the 1950s to about 20 percent. In 1959, during the building of Brasilia, a program of monetary stabilization was abandoned and prices soared more than 50 percent. In 1961 an effort was made to control inflation, but the political situation did not permit a forceful program. Inflation accelerated to 55 and 81 percent in 1962 and 1963, respectively, while the growth rate dropped to 5.3 and 1.5 percent.

Meanwhile the government demonstrated its hostility to foreign capital by limiting profit remittances and buying out foreign investments in transportation and power. Foreign investments declined sharply from an annual average rate of \$100 million in the late 1950s to \$69 million in 1962 and \$30 million in 1963. In March 1964 the economy ground to a halt with a monthly inflation rate of 8 to 10 percent and an annual rate of over 100 percent. A military government then assumed power.

At the time of the revolution in March 1964, Brazil was in a situation bordering on economic chaos.

- Per capita income was declining.
- Unemployment was high and growing.
- Industry was operating far below capacity.
- Inflation exceeded 100 percent annually.
- Foreign exchange reserves were less than current accounts payable and were overdue.

U.S. actions to help the economy

During 1964-68, five AID program loans were made to help support financial reform and economic growth. Program loans finance the import of essential industrial materials and equipment or agricultural supplies needed to sustain overall economic development and are made in connection with self-help conditions that affect the overall economy, such as fiscal, monetary, and import reforms.

<u>Date</u>	<u>Amount</u>
	(millions)
June 24, 1964	\$ 50
Dec. 14, 1964	150
Feb. 10, 1966	150
Mar. 11, 1967	100
May 23, 1968	<u>75</u>
Total	<u>\$525</u>

According to AID, U.S. foreign assistance helped the Government of Brazil to take a middle course of action, avoiding the extremes of austerity or rapid growth policies. AID believes this prompt assistance

- increased imports essential for expanding domestic production, such as spare parts, raw materials, and fertilizer;
- helped curb inflation through the sale of these imports because the sales proceeds were captured by the Central Bank as a means of reducing the money supply; and
- made counterpart funds (sales proceeds) available for domestic production, e.g., for credits to small and medium industry.

Between 1964-71, AID loaned Brazil a total of about \$1.2 billion, of which \$826 million was disbursed. Of the total amount disbursed, \$602 million, or 73 percent, was made available to Brazil during 1964-68, which may be considered crucial for the remarkable performance of the Brazilian economy in the years that followed.

The table below shows the cumulative effect in U.S. dollars of AID's contribution on Brazilian imports.

<u>Year</u>	AID disbursements (project and program sector)	Brazil's balance-of- payments reserve changes	Brazilian <u>imports</u>
	(millions)		(billions)
1964	\$ 55.9	\$ 4.0	\$1.0
1965	78.9	331.0	.9
1966	218.6	153.0	1.3
1967	103.1	-245.0	1.4
1968	147.4	32.0	1.9
1969	81.8	510.0	2.0

Brazil's actions and reforms

During the 1964-68 stabilization period, the Government of Brazil took vigorous steps to help the economy develop and grow. It applied tactics to:

1. Slow down and control inflation. Tighter controls were placed on the growth of money supplies, creating a climate in which private investors would invest in time deposits and long-term projects. Inflation was neutralized by creating the technique of minidevaluation or crawling peg--a pattern of small devaluations for short but unpredictable periods. This neutralized economic distortions, helped eliminate speculation, and kept Brazilian export prices currently competitive.
2. Gain foreign investors' confidence. An open and liberal attitude was adopted, and few fields were closed to foreign investors, namely communication and oil. Various tax incentive plans were used to encourage industry to locate in Brazil.
3. Promote exports. Exports were encouraged by tax incentives and subsidies. Coffee, agriculture products, and, especially, manufactured goods were exported at an accelerated and increasing rate.
4. Guide private investment through tax incentives. To help promote regional development, generous tax incentives were used for investments in the northeast, north, central, and western parts of the country. Also tax

collection was tightened and controlled. A drive to collect taxes began. Assisted by U.S. Internal Revenue Service experts under an AID technical assistance grant for public administration, the Ministry of Finance has begun projects in taxpayer compliance and relations, training, collections, audit, and fraud investigation. Millions of people have been added to Brazil's tax rolls and evasion has been made difficult. For example, 8 million tax returns were filed in 1971 compared with 300,000 in 1963.

5. Encourage national savings. Monetary corrections guaranteed return on fixed bank deposits and commercial papers. Real assets of companies; individual savings, salaries, and loans; and official paper were revalued with changes in domestic price levels.

6. Invest in and expand infrastructure. The government invested heavily in public works to open new areas for private investment for industry and agriculture. It built energy and power stations, improved port facilities, improved and expanded its all-weather road system, and developed marketing and distribution centers.

Result of actions and reforms

Gross domestic product

In 1964 Brazil's gross domestic product was about \$27.1 billion, up 2.9 percent from 1963. From 1968 to 1970 the growth rate was more than 9 percent each year. In 1971 and 1972 the rate was 11.3 and 10.4 percent, respectively, making it one of the highest in the world. In 1972 the gross domestic product was about \$49 billion, almost double the 1964 value and by the end of 1973 it reached about \$55 billion. This rapid growth is the benefit of stabilization action applied since the 1964 government came to power.

The per capita income in 1964 was about \$290. In 1973 it rose to about \$550, despite population growth from 80 million in 1964 to over 100 million in 1973.

Industrial growth

Brazil's industrial development, which had made rapid progress during World War II and in most of the following years, slowed down through 1963-65. Signs of recovery

appeared after the recession in 1965 and 1966, and in 1968 the industrial production index rose more than 13 percent. Major gains were in widely diverse industrial areas, such as motor vehicles, steel, rubber, textiles, electrical communications, and transportation equipment. Production rose another 11 percent in 1969, 11.1 percent in 1970, 11.2 percent in 1971, 13.8 percent in 1972, and an estimated 13 percent for 1973.

Exports

In 1964 total exports were about \$1.4 billion and by 1973 reached about \$6.1 billion. The chart below shows the growth of exports since 1968, which over the last 3 years averaged more than 32 percent.

	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
Millions of U.S. dollars	\$1,881	\$2,311	\$2,739	\$2,904	\$3,991	\$6,100
Percent of increase	13.7	22.9	18.5	5.2	38.3	52.8

Manufacturing goods had one of the most dramatic growth rates--\$70 million in 1964 compared with an estimated \$2 billion in 1973. In 1964 coffee accounted for about 53 percent of total exports and manufactured goods only 6.4 percent; by 1973 manufactured goods rose to a total of 32 percent of exports and are the fastest growth sector of the economy.

Foreign reserves

Foreign reserves more than doubled in 1972, rising to \$4.2 billion from the \$1.7 billion of 1971. In 1972, \$2.5 billion was added to foreign exchange reserves. As of June 30, 1973, Brazil's reserves were placed at \$5.9 billion, and by the end of the year rose to \$6.5 billion. In 1964 the foreign reserve balance was only \$349 million.

The net inflow of foreign capital, chiefly in medium- and long-range loans, reached \$4 billion in 1972, more than twice the inflow of the previous year and almost four times that of 1970, and another \$3.4 billion was added by the end of 1973.

Brazil has become the World Bank's, Inter-American Development Bank's, and other international agencies' biggest customer for development capital. In 1972, alone, these organizations provided about \$649 million, and in 1973 it is estimated they will provide about \$367 million.

Budget

Brazil's budget is now practically balanced. In 1964 the deficit was about 3.2 percent of the gross national product, and in 1972 it was only two-tenths of 1 percent. Inflation has decreased since 1964 from more than 100 percent a year to less than 15 percent at the end of 1972. The projected reduction goal for fiscal year 1973 is 10- to 12-percent inflation.

Brazil's future outlook

The Brazilian economy at the end of 1973 was healthy, strong, and vigorous. With its vast store of natural resources, large work force, large and growing potential internal market, attractive investment climate, and the availability of all the necessary capital it can absorb, the Brazilian growth and boom is likely to continue for years.

EFFECT OF BRAZIL'S DEVELOPMENT ON U.S. ASSISTANCE

Brazil's tremendous economic development in recent years caused us to raise certain questions during our review concerning the need to (1) continue concessional assistance, (2) renegotiate the terms of concessional loans, and (3) cut back and phase out AID personnel in Brazil.

We conclude that the Department of State and AID should terminate their concessional assistance as expeditiously as possible.

Total AID loans at March 31, 1974, are shown in the following table.

<u>Number of loans</u>	<u>Status</u>	<u>Amount</u>	<u>Pipeline</u>
		(millions)	
36	Completed	\$ 820.0	\$ -
27	Signed and active	<u>396.2</u>	<u>205.2</u>
		1,216.2	205.2
23	Local cur- rency	<u>161.7</u>	<u>-</u>
		<u>\$1,377.9</u>	<u>\$205.2</u>

RENEGOTIATION OF AID LOAN TERMS NEEDED

Although AID appears to be moving to conclude concessional assistance, we believe the U.S. Government's cost of servicing debts on funds used for AID loans to Brazil to be equally significant. AID made more than \$1.3 billion in concessional aid loans and about \$200 million in grant aid to Brazil. When loans are made to various countries at concessional rates, the Department of the Treasury, in effect, has to borrow funds at current rates to service U.S. debts for such programs. If its borrowing rate is higher than the loan rate to the countries, it constitutes a subsidy. AID loans have generally been made at concessional terms of 2 percent for the first 10 years and 3 percent for the remaining 30 years.

We requested Treasury to project the cost of subsidizing the outstanding AID loans to Brazil until they mature in the next century, some in the year 2013. Treasury computed these costs on a Treasury curve as of July 1973, which depicts its cost of money for long-term borrowings and which considers short-term 90-day bills, medium-term 7-year notes, and long-term 25-year bond financing. The projected subsidized cost for servicing the outstanding loans to Brazil amounts to \$561 million.

We believe that Brazil's strong economic growth makes it reasonable for AID to seek renegotiation of concessional loans. Such renegotiation should consider either acceleration of loan repayments or increase the interest rates to those paid by the U.S. Government to service such loans.

Renegotiating the terms of AID loans is provided for in the loan agreements signed by both parties. For dollar loans to less-developed countries, AID regulations require renegotiation clauses for accelerated repayment as part of the agreements.

"* * * the Borrower agrees to negotiate with AID, at such time or times as AID may request an acceleration of the repayment of the loan in the event that there is any significant improvement in the internal and external economic and financial position and prospect of the country of the Borrower * * *."

Renegotiating AID concessional loans to Brazil could result in substantial savings to the U.S. Government. For example, a Treasury computation made for us in August 1973 of 11 loans made since 1970 totaling about \$175 million showed that the United States would save about \$94 million in debt-service costs over the loans' 40-year life if the interest rates were increased to those it paid to service these loans. According to AID, the acceleration of the loan repayment process would cost the Government of Brazil about \$100 million in interests costs over a shorter 20-year life for these 11 loans.

Types of recent loans

Between January 1970 to early 1974, 14 concessional loans amounting to about \$206 million were made, of which about \$55 million were signed since September 1972. Recent loans made or proposed may benefit various Brazilian economic and social sectors, but we believe Brazil can develop and complete necessary projects with its own resources, depending on the priority placed on the projects. For example:

- Capital Market Development Fund is for \$15 million for 40 years at 2-percent interest for 10 years and 3 percent thereafter for a program to help long-term, private-sector financing through developing Brazil's capital market industry. The program is to provide incentives to (1) investment banks to underwrite corporate securities, (2) Brazilian firms to refinance at competitive costs, and (3) individual and institutional investors to buy long-term debts and equity securities.

- Science and Technology Loan is for \$15 million on the same terms as above to provide expertise to increase and broaden use of technological services to the industrial and agroindustrial community. The borrower is the highly industrialized State of Sao Paulo.

The capital markets of Rio de Janeiro and Sao Paulo are very active and dynamic, and Sao Paulo is heavily populated with foreign subsidiaries of the largest corporations in the world. We believe both sectors could buy expertise and technology on commercial terms if they so desired.

USAID justified the loans because they supported a Presidential policy which encouraged AID to use U.S. resources to facilitate science and technology transfers to less developed countries. Although AID was encouraged to emphasize this area, it would seem that this policy in itself was not sufficient justification for these types of loans to an economically strong Brazil which, in our opinion, has the ability to purchase such technology with its own resources.

Further, it appears that the Government of Brazil would have initiated certain projects without USAID loan assistance. For example, the northeast agriculture marketing loan for \$15 million signed in November 1971 was AID's contribution to assist Brazil in a \$100 million program to construct, equip, and operate wholesale food markets in urban centers and to produce assembly markets in major food collection points. USAID officials told us that the loan was meant to partially serve as a catalyst to support the Government of Brazil's interest in the northeast part of the country.

We found indications, however, that the Government of Brazil was prepared to proceed with these projects in the absence of the AID loans. An official of an international lending institution, who was to originally participate in the projects, stated that the Brazilian agency implementing this program had ample funds to handle the projects. He further stated that maximum concessional terms were not necessary for this type project in Brazil and that the National Economic Development Bank of Brazil had decided to build the marketing centers before his lending institution and AID got into the projects.

It appears that so long as AID is willing to make loans on concessional terms, the host agency or the Government of Brazil will accept such terms even though the country could proceed with the projects with its own resources.

We therefore believe AID should consider approaching the Government of Brazil and to the extent possible either negotiate accelerated loan repayment terms or increase interest rates to those incurred by the U.S. Government for outstanding concessional loans.

POTENTIAL FOR SAVING BY
REDUCING PERSONNEL

Although the AID Mission is being reduced gradually, we believe AID personnel in Brazil can be reduced drastically or phased out completely. At the time of our review in Brazil in April 1973, 59 direct-hire AID personnel were in Brazil, including 33 Foreign Service Officers in level 3 and above whose pay and housing allowances ranged from \$31,372 to \$43,880 and amounted to about \$1.2 million. It cost about \$6.5 million to maintain the Mission in 1972, of which Brazil contributed about \$3.4 million through the trust fund operation.

Until now, AID officials believed that loan projects required monitoring until completion. Uncompleted projects in the loan pipeline as of March 1974 totaled about \$205 million, and many of these projects will not be completed for many years.

We believe the Government of Brazil or its agencies should eventually be given monitoring responsibility for uncompleted pipeline projects.

For example, we noted that projects which resulted from loans made to intermediate credit institutions, such as banks, can be monitored by the institutions by hiring engineers or other specialists to inspect and report on projects on a consulting basis. We believe such practices can be applied to the AID loans thus eliminating the need for some of the USAID staff located in Brazil.

CONCLUSION

There is strong evidence that Brazil's economic achievements are solid and stable. A secure base has been established for continued economic growth. The real purchasing power of the 100 million population is increasing, thus continuing growth of its internal market and solidifying its economic base for further development.

With its large foreign exchange balance and rapidly growing economy, Brazil has become a favored customer in international financial circles and is the largest client in terms of exposure in the International Bank for Reconstruction and Development, the Inter-American Development Bank, and the Export-

Import Bank. The International and Inter-American Banks are projecting levels of lending to Brazil exceeding \$200 million a year.

Brazil has shown that it is capable of running its own economy and of purchasing required know-how from commercial or other government sources to meet any needs on its priority schedule of development and expansion.

RECOMMENDATIONS

Because of Brazil's strength and vigorously expanding economy, we recommend that the Secretary of State and the Administrator of AID:

- Act to terminate U.S. concessional assistance as expeditiously as possible.
- Examine the possibility of shifting the monitoring responsibilities for projects in process and uncompleted to the Government of Brazil or its entities. Such action would enable the AID staff to be reduced and firm plans to be made to accelerate and phase out AID personnel completely.
- Initiate discussions with the Government of Brazil to renegotiate to the extent possible better loan terms, including either accelerated repayments or increased interest rates to those incurred by the U.S. Government to service concessional aid loans.

AGENCY COMMENTS AND GAO EVALUATIONS

The Department of State and AID agreed with the spirit of our recommendation to terminate concessional assistance as expeditiously as possible.

They stated that AID concessional lending to Brazil has rapidly declined; none was requested in fiscal year 1974 or planned for subsequent years. Further grant technical assistance has also rapidly declined and is not expected to exceed \$5 to \$6 million in fiscal year 1974. The majority of U.S. personnel at the U.S. mission are directly or indirectly concerned with monitoring past loans and monitoring will be necessary for several years. State and AID believe that a phase-out over the next several years is appropriate because of the

statutory requirement for USAID to monitor assistance programs and that rapid termination of grant technical assistance would be disruptive and cause unwarranted termination costs.

State and AID said that it is important to make the distinction between project management--which is the responsibility of the borrower--and project monitoring--which is the responsibility of the lender. Because of legislation and its manual orders, AID said it could not delegate or relinquish these project monitoring obligations.

We agree that immediate termination of AID activities might be disruptive and that, for prudent management, a certain amount of project monitoring is necessary. However, because of Brazil's enormous economic progress and demonstrated ability to manage its development affairs, we believe that AID should set up a timetable having specific actions and a firm target date to bring USAID activities in Brazil to a complete and successful conclusion. The timetable should be compressed and accelerated as soon as monitoring procedures can be modified, to minimize AID's responsibility and place this function and responsibility on the Government of Brazil. An analysis of the legislation provisions cited to us by AID as justifying monitoring activities do not, in our opinion, require continuing of monitoring to the degree planned by AID in Brazil.

State and AID believe that the United States should not seek to renegotiate past concessional loans to Brazil. Their objections and our evaluations are summarized below.

--AID has not yet invoked the renegotiation clause for any concessional loans to countries which have experienced major economic and financial improvement. The criteria for determining such improvement are subject to interpretation. The various indices of economic well-being in Brazil's situation are mixed, Brazil faces a large and growing debt, an inflation rate of 15 percent, and a per capita income of about \$500, ranking it 10th in Latin America. Brazil also will be confronted with serious economic problems due to higher costs for imports of petroleum and food grains. It imports two-thirds of its petroleum and about three-fourths of its food grain needs, and the recent high increases in prices for these commodities will weigh heavily on Brazil's balance of payments in 1974. For

example, as a result of recent price increases, Brazil's petroleum import cost in 1974 will be about \$1.5 billion, or roughly 20 percent of export earnings compared with an average of 10 percent during 1968-1972. The current high level of gross foreign exchange reserves was largely financed by a massive inflow of foreign loans and credits, and thus the net liquidity position has not improved nearly as dramatically as have gross reserves.

Because AID has never invoked the renegotiation clause in concessional loan contracts is no reason to avoid approaching the Government of Brazil and suggesting such renegotiation of loan terms. The proposed renegotiation would give implicit recognition that Brazil has progressed to a point that it no longer needs concessional assistance and that such recognition might influence Brazil toward such renegotiations.

Since 1968 Brazil has made enormous economic progress. Its explosive growth and impressive success has been setting records for economic growth. Expansion has been about 10 percent a year. In 1972 Brazil's foreign debt was about \$10 billion. However, with reserves of about \$4.2 billion, real foreign debt was about \$5.8 billion, one of the lowest foreign debts in the world. In 1973 Brazil had more than a \$2.1 billion balance-of-payments surplus. Although its foreign debt increased to about \$11 billion, total foreign reserves rose about 54 percent to a current \$6.5 billion, and thus its real foreign debt decreased to \$4.5 billion in 1973. The gross national product expanded at an estimated 11.4 percent, giving Brazil the highest growth rate of any major country in the world.

We believe the Brazilian economy can cope with petroleum and food grain import needs in 1974. Brazil's principal trading partners are the United States, the European Common Market, and Japan. These countries also must cope with this problem, thus the impact will have a balancing effect on Brazil's trade partners.

The Finance Minister of Brazil stated in January 1974 that his country would avail itself of its strategic foreign reserves to face any problems arising from the worldwide economic crisis. He said that, although oil and wheat prices are expected to increase, it is also true that export prices of Brazilian products are expected to rise. Indeed, in some

Brazilian sectors it has even been suggested that soybean exports might cover the full bill for petroleum imports. Last year Brazil ranked as the world's second largest exporter of this crop, preceded only by the United States.

--Accelerating repayment from the standard concessional terms of 2 to 3 percent for 40 years including 10 years grace to a shorter period, such as 25 years including 5 years grace, applied to the \$175 million of AID loans (i.e., those in our example on p. 22) would require Brazil to borrow an average of about \$60 million for 20 years at 8 percent or more resulting in an additional interest cost of nearly \$100 million.

Our analysis considered both alternatives--accelerated repayments or increasing the interest rates of the loans. As AID indicates, accelerating the loan repayments would cost Brazil an additional \$100 million of interest cost for 20 years for the 11 loans in our example. On the other hand, increasing interest payments to the rates incurred by the U.S. Treasury would cost Brazil \$94 million. It would be payable however over a 40-year period rather than for a 20-year period. Thus, it would cost less to use these funds for 40 years, with the additional advantage that development projects could be implemented and developed on the original timetable rather than over a shorter period of time.

AID and other observers of the Brazilian economy differ sharply over Brazil's ability to handle its foreign debts. For example, the Department of Commerce's October 1973 Economic Trends Bulletin stated that:

"Brazil's total foreign obligations rose from some \$3.8 billion in 1968 to almost \$10 billion at the end of 1972, and to an estimated level of some \$11 billion at mid-year. Government spokesmen, claiming that the debt accumulation reflects the country's ability to utilize foreign savings, point to two factors diminishing the importance of the increased foreign debt. First, the term of the debt has been extended significantly. In 1968, 83 percent of the debt was payable within one year. By the end of 1972 this figure has fallen to 31 percent. Second, the foreign-debt-service/export-earning ratio will have fallen from 51.6 at the end of 1968 to about 34 by the end of 1973. In effect, it will require only 4 months of export

earnings to meet annual debt service costs as opposed to 6 months at the end of 1968. The government apparently believes that this ratio, combined with the present cushion of reserves, provides a sufficiently comfortable margin."

Therefore, we believe that renegotiating U.S. concessional loans having interest costs spread over 40 years would not be a major increase in debt burden to the Government of Brazil.

--State and AID commented that GAO's premise that the interest rate on AID concessional loans should be adjusted to the cost of U.S. Treasury borrowing is questionable. It assumes that, although other U.S. programs are financed from tax receipts, U.S. foreign assistance is of such low priority that it is financed from U.S. Treasury borrowings to cover the Federal deficit. A more reasonable approach would be to assume that foreign assistance, like all other U.S. federal programs, is financed from both tax receipts and U.S. Treasury borrowings. In such case, it would not be appropriate to adjust the interest rates of AID loans to the full cost of U.S. Treasury borrowings.

It is our view that the priority of U.S. Government programs has no relation to whether they are funded with tax receipts or Treasury borrowings. We believe that interest is a cost related to all Government expenditures because all funds received by the Government--taxes, bond sales, postal receipts, trust fund receipts--are deposited in the Treasury. In managing the Government's fund requirements, the Treasury does not earmark funds either by source or by use. It is concerned with how much it must have available to meet demands, and any shortage is obtained through borrowings. When receipts exceed demands, previous borrowings can be repaid and borrowings reduced, thereby saving interest costs.

We believe the basic issue is that it is time for AID to renegotiate concessional loans to Brazil in view of Brazil's significant development progress and the U.S. Government's substantial national debt which must be serviced.

The House Appropriations Committee's Report on the Foreign Assistance and Related Programs Appropriation Bill for 1974, (H. Rept. 93-694 93d Cong. 1st sess.) stated in part at page 5:

"* * * of concern to the Committee has been the large increase in the public debt of the United States over the years. When the foreign aid program began as such in 1946, the public debt was running at a level of about \$259 billion. The public debt now is running at a level of about \$462 billion which is an increase of \$203 billion over a 28 year period. The foreign assistance program has cost the U.S. taxpayer approximately \$253 billion during the same period. This total foreign assistance amount includes the cost of interest the United States has incurred to borrow the money that has been given to the various countries."

* * * * *

"Through June 30, 1973, it is estimated that the United States will have provided economic and military assistance, of one form or the other, amounting to a net total of \$158,537,100,000 of which only \$31,883,900,000 was in the form of grant aid. Since we have had a surplus in the administrative budget only six times since the end of World War II, it has been estimated that an additional cost of \$94,634,000,000 in interest has been incurred to borrow the money we have given to other countries."

When a country has developed a strong economy, such as Brazil has, it is not unreasonable to propose that concessional loans be renegotiated to the extent possible. This is not only a good premise but is fiscally sound management, embodied in a concept of a mutual and mature partnership.

MATTERS FOR CONSIDERATION BY THE CONGRESS

AID concessional loans provide for renegotiation in the event a significant improvement occurs in the internal and external economic financial position of the borrower. We believe this has happened in Brazil. The Congress may wish to direct AID to review its policy toward renegotiating these loans as well as concessional loans to other countries making economic progress. Such review, among other things, should identify measurable criteria and guidance to be used in determining which loans could be renegotiated.

CHAPTER 4

DOD ACTIVITIES

The U.S. Government gave more than \$200 million in equipment and materiel to Brazil through military assistance grant-aid programs. The U.S. maintains reversionary rights to equipment. Because of the age of the equipment--most was given before 1962--and because U.S. military representatives in Brazil do not monitor its use, the U.S. Government should consider liquidating the reversionary rights. This may provide some residual revenue to the U.S. Treasury and avoid possible future friction because of these rights.

Further U.S. restrictions on sale of military equipment resulted in U.S. allies becoming the principle source of military supplies to Brazil. U.S. officials in Brazil maintain that, because of U.S. arms restrictions on Latin America, Brazil could not obtain from the U.S. the type and amounts of military equipment it believed necessary to modernize its armed forces. Other views have been expressed that the U.S. military programs in Latin America should be phased out. These conflicting views reflect serious disagreement with the current U.S. military policy and approach to Latin America.

HISTORY

Brazil severed diplomatic relations with Germany in April and declared war in October 1917. Military cooperation between United States and Brazilian armed forces essentially started in December, when Brazil sent a mission to the United States to work for closer military cooperation and to buy equipment and machinery for World War I.

This cooperation continued after the war years, and a U.S. Naval mission was established in Brazil in 1922. In 1934 an American military mission, specializing in coast artillery, replaced a similar French mission.

After the fall of France in World War II, President Roosevelt became greatly concerned about the vulnerability of Brazil's northeast region to Africa, and in May 1940 he directed U.S. military advisors to prepare plans for developing closer military relations with Brazil. In October 1940 Brazil leased defense sites to the United States, and by

November 1941 bases constructed along the Brazilian northern coast were used to fly aircraft and supplies to Britain.

In August 1942, when Brazil formally entered World War II against Germany and Italy, the Joint Brazil-United States Defense and Military Commissions were created. The United States provided lend-lease aid valued at approximately \$348 million during 1941-46. In 1942, to assist Brazil in mobilizing its productive resources, the Export-Import Bank made available a credit of \$100 million.

In the immediate postwar years, the Government of Brazil opposed U.S. attempts to negotiate the retention of certain bases. By April 1947 all air bases built and manned by the United States during the war had been returned to Brazil. On September 2, 1947, the Inter-American Treaty of Reciprocal Assistance (Rio Treaty) was signed by Brazil, the United States, and other Latin American countries. In August 1948 an agreement was concluded providing for a group of U.S. officers and men to advise the Brazilian Government on establishing a school similar to the War College in Washington, D.C., to train and instruct senior officers of the Brazilian services.

The early 1950s began a new era of military cooperation. In 1952 Brazil signed the Mutual Defense Assistance Agreement (3 U.S.T. 2738, T.I.A.S. 2443) a military assistance agreement under which the United States provided substantial amounts of grant-aid materiel and training, as well as military credit sales to the Brazilian armed forces. This programmed assistance, at the end of fiscal year 1973, was valued at more than \$300 million and approximately \$116 million, respectively.

In the mid-1950s, the Joint Defense and Military Commissions were reaffirmed by an agreement between the two countries which was registered with the United Nations. Brazil responded to a U.N. request for help by providing a battalion of 520 military personnel to assist in policing the Suez area. Brazilian troops have also contributed to U.N. peacekeeping operations in Zaire and Cyprus. In 1959 cooperation was further demonstrated by Brazil's permission for the United States to establish a missile-tracking base on the Island of Fernando de Naronha in exchange for military assistance, including two cruisers, four destroyers, eight destroyer escorts, and two submarines. In 1965 Brazilian cooperation in peacekeeping objectives was again displayed by its

participation as part of the Organization of American States forces in the Dominican Republic.

OBJECTIVES AND ORGANIZATIONS

Overall U.S. objectives for the Brazilian military are to strengthen its pro-U.S. orientation and to maintain friendship for the United States among its leadership.

To assist in implementing programs to support these objectives, nine different U.S. military organizations, groups, or activities were operating in Brazil as of June 1973, staffed by 126 U.S. military and civilian personnel and 61 direct-hire local personnel. Because DOD does not maintain central records of operating personnel and costs of organizations by countries, estimated costs were developed from the best data it had available. For fiscal year 1973, operating and personnel costs amounted to about \$3.2 million.

A comparison of all U.S. military staffing in Brazil between July 1967 and July 1973 shows a 44-percent reduction in personnel, from 332 to 187.

In addition to the above activities, the United States provides temporary-duty personnel to assist the Brazilian military in technical matters concerning newly purchased equipment and mobile teams for incountry training. Between November 1970 and November 1972, seven mobile training teams went to Brazil. For example, one team of two noncommissioned officers trained 12 Brazilians to use radar systems. The team spent about 5 months on this assignment at an estimated salary cost of \$10,000. The United States participates periodically in joint military exercises with Brazil and other Latin American countries. The costs of these exercises are not readily identifiable.

The U.S. Delegation to the Joint Brazilian-United States Military Commission is the principal DOD agency in Brazil and consists of headquarters, Army, Navy, and Air Force sections. Each section deals with its Brazilian counterpart on an individual service basis.

The Delegation's mission is to facilitate military cooperation and maintain a relationship of mutual trust and confidence between the two countries' armed forces. Its specific duties include (1) preparing joint military plans

between the two governments, (2) preparing military assistance programs, including military sales, (3) standardizing military materiel, (4) developing tactics and organizations, and (5) monitoring and reporting on military materiel furnished and Brazilian personnel trained.

As of June 1973 the Delegation had 53 U.S. military and civilian employees and 26 direct-hire local employees, and operating and personnel costs were about \$1.6 million. During the 1960s, authorized military personnel remained fairly constant, ranging from 102 in 1960 to 120 in 1964 and 103 in 1969. However, it was reduced to 64 in 1970 and to 40 in 1973. (see app. II for a description and staffing of the eight other DOD agencies in Brazil.)

TYPES OF ASSISTANCE

The United States has furnished \$431.3 million in military assistance to Brazil since 1946. During the last 23 years, the United States has programmed over \$300 million worth of equipment and training to the Brazilian armed forces under the grant-aid and excess materiel program.

Grant-aid is equipment, supplies, and training provided by the U.S. military through purchases with foreign assistance appropriation funds and given to Brazil for use by its armed forces. The excess materiel program provides equipment and supplies to Brazil from the inventory of such materiel not required by the U.S. Armed Forces. These materiel consist of a wide range of items, including aircraft, tanks, ships, and a variety of vehicles.

Fiscal year 1968 was the last year for grant-aid and excess materiel provided and programmed for Brazil, and by the end of 1973 virtually all programmed materiel had been delivered.

In addition, during the last 23 years the United States under the Foreign Military Sales program, has programmed cash sales or credit financing for over \$190 million worth of military equipment.

Under the cash sales program, the United States agrees to buy military equipment for Brazil and Brazil pays for it upon delivery. Under the credit program, Brazil purchases military equipment from DOD or U.S. industry with credit

furnished from the authorized Foreign Military Sales program or a combination of programs and private bank credits guaranteed by the U.S. Government.

Value of Programed Assistance

<u>Fiscal year</u>	Grant-aid materiel and <u>training</u>	<u>Excess stocks</u>	<u>Total</u>	<u>Credit sales</u>	<u>Cash sales</u>	<u>Total</u>
----- (000 omitted) -----						
1950-63	\$164,694	\$72,889	\$237,583	\$ -	\$19,217	\$ 19,217
1964	10,305	1,065	11,370	23,400	60	23,460
1965	11,090	2,255	13,345	-	225	225
1966	17,310	5,063	22,373	11,641	223	11,864
1967	12,186	1,502	13,688	18,434	1,388	19,822
1968	2,555	314	2,869	18,500	4,220	22,720
1969	766	-	766	-	2,493	2,493
1970	823	-	823	-	2,584	2,584
1971	767	-	767	9,400	17,985	27,385
1972	725	-	725	20,000	21,237	41,237
1973	754	-	754	15,000	4,124	19,124
Total	\$221,975	\$83,088	\$305,063	\$116,375	\$73,756	\$190,131

REVERSIONARY RIGHTS TO GRANT-AID
EQUIPMENT

Under the terms of grant-aid assistance, the United States maintains reversionary rights to military equipment and spare parts furnished to Brazil. When the equipment is no longer needed for the purpose furnished or when it becomes excess or obsolete to the Brazilian armed forces, the United States has the right to request its return.

Because most of the military equipment given to Brazil under grant-aid is old and nearing obsolescence, we believe that liquidating the reversionary rights would:

- Reduce the U.S. Delegation to the Joint Military Commission's monitoring and administrative responsibilities.

- Provide some revenue to the U.S. Treasury.
- Avoid possible cause of future friction because of these rights.

Legislative requirements

The Foreign Assistance Act of 1961, as amended, requires that U.S. military representatives supervise military equipment to insure that the grant-aid recipient uses it for the purpose it was granted. To meet this requirement, the Brazilian armed forces must submit periodic reports and the U.S. Delegation is responsible for monitoring the use of the equipment. This is normally done by periodic field visits to recipient countries' military units to check records and verify that grant-aid equipment is onhand, being used, and maintained. The results of these visits are summarized in U.S. advisors' end-item inspection reports to host government military officials. U.S. ships on lease or loan are usually governed by 5-year agreements, but the United States can request return of the ships at any time or extend the agreements.

U.S. Delegation's monitoring responsibilities in Brazil

More than 73 percent of the equipment was given to Brazil before 1962. Fiscal year 1968 was the last year for which grant-aid or excess equipment was programmed for Brazil, and by the end of 1973 virtually all programmed equipment had been delivered. Grant-aid training has continued.

In 1969 a DOD representative, in testimony before the Congress stated that the Delegation's main reason for being in Brazil was to supervise the use and end disposition of all grant-aid material. DOD recently informed us that the Delegation has other duties and is principally concerned with carrying out the provisions of the agreements for military cooperation between the two countries. Although the joint agreements provide for a number of duties as noted in this report, the monitoring of U.S. military grant items has been a long-standing and important DOD function.

In reviewing the monitoring function with Delegation personnel in Brazil, we found that they spent little time monitoring grant-aid equipment and made regular periodic

inspections or visits to Brazilian units to determine that the equipment or spare parts were needed or properly used. Instead, they make occasional liaison visits to Brazilian units, during which they observe the use and condition of equipment. U.S. advisors have made no end-item inspection reports in recent years. Officials told us that the Delegation had insufficient personnel in Brazil for extensive equipment monitoring.

We requested the U.S. Ambassador's opinion on liquidating reversionary rights for the grant-aid equipment to the Brazilian Government in lieu of increasing U.S. monitoring and/or supervising functions.

The Ambassador told us that, although broader considerations may affect the practicability of liquidating reversionary rights, he believed a mutually satisfactory agreement on the reversionary rights issue would be desirable. He made no specific comment regarding ships on lease or loan.

The Commander of the U.S. Delegation in Brazil stated that, in January 1973, the Brazilians expressed interest in liquidating reversionary rights. He indicated that such a program would take three phases: (1) an inventory of the equipment, (2) physical inspection, and (3) negotiation of an agreement. Because the program dates back 22 years, this task would take some time.

MILITARY EQUIPMENT SALES

Although the United States is the preferred source of supply, it is being replaced by its allies in Brazilian purchases of military equipment and is losing hundreds of millions of dollars in sales. According to U.S. officials in Brazil, this contributes to some lack of confidence on the part of Brazil's Government and military leaders in the reliability of the United States as a source of military equipment.

U.S. arms restriction

The U.S. Ambassador attributes U.S. replacement as a traditional supplier of military equipment to Brazil to various factors. The restrictions placed by the Congress on sale of weapons to underdeveloped countries, however, has been the most significant.

The Foreign Assistance Act, as amended in 1966, to encourage regional arms control and disarmament agreements and to discourage an arms race in the American Republics, established a ceiling of \$75 million on the value of military assistance and sales (except training) to Latin America in any fiscal year. This has been modified over the years so that in 1972 the ceiling was increased to \$100 million with a provision that, in the interests of national security, the President could raise the ceiling 50 percent. In April 1972 the President increased the ceiling to \$150 million.

In October 1968, additional restrictions on weapons sales were incorporated in the Foreign Military Sales Act. This act, which consolidated and revised foreign assistance legislation, also prohibited the sales of such sophisticated weapons systems as missile systems and jet aircraft for military purposes to most underdeveloped countries (no exceptions for the Latin American region) unless the President determined that such sales were important to U.S. national security.

Effect of restrictions

U.S. arms sales restrictions have not prevented Brazil from obtaining modern weapons for its armed forces. During fiscal years 1967-73, Brazil was allocated about \$135 million under the Foreign Military Sales program--\$81 million in credits and guarantees and \$54 million in cash sales. In addition, Brazil purchased another \$30 million worth of military supplies from U.S. commercial sources.

The amount of sales from the United States, however, was surpassed by the \$775 million worth of military equipment purchased from Canada, France, Great Britain, Germany, and Australia which included modern transport aircraft, French Mirage fighter jets, ships, helicopters, and submarines.

Brazil is turning to other countries for commercial and nonmilitary equipment to supplement newly purchased weapons systems. For example, with the purchase of French Mirage jets, Brazil bought a \$70 million integrated radar system which included flight control and telecommunication hardware. The system will also serve as a commercial air network for commercial flight control. Thus military hardware sales are followed in this case by commercial sales which benefit the civilian economy.

Impairment of military relations

Brazilian military and civilian officials generally appear to be well-disposed toward the United States. Embassy and U.S. Delegation officials informed us that:

- U.S. Government unwillingness or inability to respond favorably to Brazil's major modernization requirements had somewhat impaired Brazilian confidence in U.S. interest and intent as a traditional ally and as a preferred source of supply.
- Brazilian military believes it loyally supported the United States with troops in World War II and in subsequent peacekeeping actions and that the U.S. arms restrictions let it down.
- Refusal to sell jet aircraft to Brazil left a strong feeling among officers in the Brazilian Air Force that exclusive reliance on the United States as a supplier of equipment to modernize their forces was not a viable policy.

U.S. Delegation officials further informed us that, because of Brazil's inability to obtain U.S. weapons to modernize its forces, compatibility of equipment and supplies may present future logistic problems for Brazil's participation with the United States in peacekeeping operations.

The Commander of the Delegation in Brazil believed that existing limits on total sales of military equipment should be lifted and authority to sell sophisticated equipment treated on a case-by-case basis as the issue arises. He noted that broad Latin-American-oriented limits would continue to turn the Government of Brazil away from its traditional U.S. source of supply.

The U.S. Ambassador to Brazil voiced similar opinions and noted that the Brazilian armed forces program for foreign acquisitions was substantially larger than we could supply within the Foreign Military Sales ceilings.

Several studies made at the direction of the administration, including the Rockefeller and Peterson reports, have contained recommendations for and against our military policies on Latin America and the military sales issue. Some studies

recommend phasing out U.S. military programs because they are often counterproductive to U.S. interests; others suggest removing arms sales restrictions to help promote the mature partnership concept.

CONCLUSION

Due to the age of the military assistance equipment as well as the fact that the U.S. Delegation has not been monitoring its use, we believe that liquidating reversionary rights of grant-aid equipment and ships on lease or loan would benefit the U.S. Government and should be done.

U.S. officials in Brazil maintained that because the United States restricts arms sales to Latin America, Brazil could not obtain from the United States the type and amounts of military equipment it believed necessary to modernize its armed forces. Other views have been expressed that U.S. military programs in Latin America should be phased out. These conflicting views reflect serious disagreement with the current U.S. military policy and approach to Latin America.

RECOMMENDATION

We recommend that the Secretary of State take the necessary action, considering military, political, and economic ramifications, to liquidate reversionary rights of grant-aid military equipment to the Brazilian Government.

AGENCY COMMENTS AND GAO EVALUATION

Both the Department of State and DOD concurred in our recommendation to liquidate reversionary rights to military equipment. State said the recommendation was a good one and that sufficient mutual interest exists between the United States and Brazilian Governments for fruitful negotiation concerning reversionary rights. State and DOD have initiated discussions on implementing this proposal and will advise us of action taken.

DOD supports the relaxing of the ceiling on arms sales to Latin America. It stated that the ceiling had not prevented the Latin American countries from acquiring arms but had turned them toward Europe as the major source. Further relaxing the ceiling would not in itself insure that the United States would regain a major share of the market for equipment in Latin

America. Without adequate U.S. Government credit, the United States would still find it difficult to compete with European arms manufacturers who enjoy strong financial support from their own governments.

DOD said that, although there were substantial grounds for advocating the treatment of sale of U.S. arms to Brazil as a special case, such treatment of Brazil would cause great resentment among other major Latin American countries.

CHAPTER 5

PEACE CORPS ACTIVITIES

Key Peace Corps management positions were vacant for extended periods of time, resulting in lack of leadership for field operating staffs and reducing the effectiveness of the programs.

Further, the Peace Corps in Brazil shifted its emphasis in recent years from less technical programs, characterized as grass roots assistance primarily for the poor and rural areas, to programs requiring more highly technical and professional skills, directed toward the more wealthy urban areas of Brazil.

The shift in emphasis has caused problems. The Peace Corps has not been able to supply needs of Brazilian agencies for such volunteers. Dissatisfaction among technical and professional volunteers because of low pay and allowance they receive have caused morale problems. Often the Brazilian agencies requiring such services are industrial or revenue-producing agencies. Brazil's recent economic growth shows that it has the means to purchase such services.

The Peace Corps was established by Executive order 10924 as amended (3 CFR 303 and 22, and U.S.C. 2501-2523) in March 1961 and was authorized for Brazil in November 1961. Initially the Peace Corps was under the direction of the Secretary of State, but pursuant to Executive order 11603 (3 CFR 303) in July 1971 responsibilities for the programs were transferred to ACTION.

The purpose of the Peace Corps is to promote world peace and friendship by making available to interested countries U.S. personnel qualified to serve abroad.

The general goals and objectives of the Peace Corps in Brazil are in conformance with and spelled out in the Peace Corps Act of 1961 as amended Public Law 87-293, approved September 22, 1961 (22 U.S.C. 2501) April 8, 1968:

"* * * to help the peoples of such countries and areas in meeting their needs for trained manpower, and to help promote a better understanding of the American people on the part of the people served,

and a better understanding of the other people on the part of the American people."

OPERATING OBJECTIVES DURING 1962-72

The Peace Corps establishes program objectives by means of a Director's Guidance Letter and by Country Program Memorandums. In Brazil, specific programs and operational objectives have changed over the years.

1962-64

The Peace Corps was oriented primarily toward agricultural extension projects, such as 4-H clubs, rural community action, and school programs and did not actively seek programs. In most cases, the host country agency asked the Peace Corps to participate in given projects, even though there were no onsite investigations of the projects or their job viability nor much support by the host agency.

1964-69

Urban and school community development and community health programs were emphasized; 58 percent of all programs initiated were of this type. According to a Peace Corps official, the objectives of these programs were not adequately tied to Brazilian direction and goals, and the programs in general were unsuccessful.

1969-71

Programing focused on selected projects, such as urban and rural community development, fishery cooperatives, and rural electrification, which were strongly supported by Brazilian authorities and in which technically qualified volunteers were placed. There was a shift away from diffuse programs involving large numbers of generalist volunteers in poorly defined projects which were given lower priority by the Brazilian Government.

1972

Programing evolved to the point at which current operating procedures required Brazilian Government agencies to request volunteers for specialized projects. The Peace Corps and the host agency then collaborate on project details

and the Peace Corps begins recruiting volunteers with the required technical skills and professions.

Peace Corps objectives in Brazil are coordinated with U.S. Mission objectives and are approved by the U.S. Ambassador.

ORGANIZATION, PERSONNEL, AND COSTS

The Peace Corps operates from its headquarters office in Brasilia and has 10 regional offices, each covering one or more Brazilian states. Regional offices are located in Belem, Fortaleza, Natal, Recife, Salvador, Cuiaba, Porto Alegre, Belo Horizonte, Sao Paulo, and Rio de Janeiro.

As of June 1973, 272 volunteers and 43 staff personnel were working on about 40 projects at an annual cost of about \$2.6 million.

<u>Year</u>	<u>Volunteers in Brazil</u>	<u>Cost</u> (millions)
1962-66	257 to 435	\$3.4 (average)
1967	556 to 632	3.5
1968	480 to 612	3.9
1969	387 to 503	3.5
1970	334 to 411	3.5
1971	254 to 337	3.1
1972	224 to 322	3.0
1973	253 to 313	2.6

Although there is no written policy, host countries are encouraged to support the Peace Corps with both management and financial assistance. Data available for fiscal years 1971-73 showed that Brazil's contributions averaged about \$56,000 a year, or about 2 percent of operations for those years.

KEY MANAGEMENT POSITIONS VACANT FOR EXTENDED PERIODS OF TIME

The key executive and management positions in Brazil are the Country Director, Deputy Director, and 10 Area Directors. Our review shows that between 1969 and 1972 these positions were vacant for considerable periods of time. The Country Director position was vacant twice--for 13 months and 4 months. The Deputy Director position had three vacancies--for 11 months, 4 months, and 3 months. The Area

Director position was vacant in Belem for 9 months, Natal for 12 months, Sao Paulo for 7 months, and Rio de Janeiro for 21 months and 5 months.

Peace Corps officials in Brazil said that because of key positions being vacant for long periods of time the following problems occurred.

1. The acting Country Director does not have full decisionmaking power and this

- resulted in loss of program direction,
- lowered staff and volunteer morale,
- resulted in administrative and programing mistakes,
- affected Peace Corps representation with the Government of Brazil,
- affected detail programing projections and planning, and
- restricted the performance of lower priority functions, i.e., training sessions and more visits to operating sites.

2. Area Director vacancies caused

- deterioration of relationships with local Brazilian agencies,
- continuation of serious volunteer problems,
- discontinuity of programs, and
- deterioration and termination of some projects.

Thus, frequent and lengthy vacancies could have a profound negative effect upon Peace Corps programs in Brazil. The lack of concerted effort, especially with absences of Country and Area Directors, allows for the continuation of various kinds of personnel problems, some of which are illustrated below.

Personnel problems

During our field review we sent questionnaires to 100 of the 316 volunteers in Brazil to get their views on (1) adequacy of training, (2) its relation to assignments, (3) management support, (4) host country support, (5) extent of employment, (6) personal and meaningful contributions, and (7) any other pertinent matters.

We received 54 responses. Favorable comments included such statements as:

"I think its (Peace Corps) doing a great job."

"I am satisfied with my Peace Corps work and encouraged by the results and feedback I have received thus far."

"I also know of many well employed volunteers whose contribution to their community have helped improve conditions in their town and made good international relations along with improving the attitude toward Americans. Most important they have truly help people help themselves."

However there were also unfavorable comments. The following list summarizes the responses and comments which, we believe, indicate a need for further management improvements.

1. Training--10, or 18 percent, responded that training was poor. Example: "The technical training could have been eliminated. We've got nothing from it."
"It lacked guidance, purpose, and well informed staff."
2. Relationship to assignments--19, or 35 percent, responded that assignments did not relate to training. Examples: "We have been here 2 months and have not yet begun to work." "I am doing neither the job P.C. trained me for or the one I was originally trained for and both jobs are not of use to agency I am with."
3. Management support--9, or 16 percent, responded negatively. Examples: "Material support is nil and I believe it should be so; however greater personnel support and interest in the program would be welcome."

In 8 months at my present site I have not been visited by any P.C. people nor asked for any reports describing my activities nor given useful suggestions."

"Site visits by staff are few. They have too many 'office duties' to find out what volunteers are doing. Salaries are, however, quite adequate."

4. Host government support--18, or 33 percent, responded negatively. Examples: "Our counterparts have little interest in our work and due to administrative changes the agency will leave our site in the first part of 1973." "It is an exhausting effort to persuade the agency to supply necessities. Even when a request is finally granted, it is given begrudgingly. In general, the agency expects high quality service without the expense of essentials."
5. Extent of actual support--18, or 33 percent, replied they were underemployed. Examples: "No work. When I was working I felt underemployed." "I have done roughly a total of 1 hour of work in 6 months on my site."
6. Personal and meaningful contributions--11, or 20 percent, did not believe they were contributing to the Brazilian people or agencies. Examples: "This is basically why I cannot support the rationale for my presence in Peace Corps Brazil." "So far, no."

Further comments on necessary management improvements in Peace Corps Brazil were:

--Need for program improvements--12

--Need for better selection of volunteers--11

--Need for improved training program--10

--Need for better communications, concern for personal needs of volunteer, and effects of Brazilian politics on the Peace Corps program.

Another problem noted by Peace Corps officials was the unsatisfactory training of volunteers because no cohesive training organization does the training. This is attributable to the arrangement which requires annual competitive contract

bidding for training, which limits Peace Corps ability to form an experienced training organization.

Many of these problems apparently have been occurring for years in Brazil. For example, a Peace Corps evaluation report of January 1969 noted that (1) in some states the program was bordering on anarchy, (2) some volunteers were estranged from their work and disenchanted with the Peace Corps, and (3) Peace Corps leadership was floundering.

SHIFT TO TECHNICAL AND PROFESSIONAL ASSISTANCE QUESTIONABLE

Brazil has many sources of technical know-how available, including multilateral agencies, management consultant firms, direct university contracts, or direct contract agreements with U.S. Government agencies possessing the desired technical knowledge. It does not need to depend on Peace Corps efforts which could create problems for both the volunteers and the host agencies.

Agriculture programs are changing from the traditional extension assistance and are now moving into more complicated areas, such as animal disease research, designing new techniques for producing and marketing fruit, and developing irrigation systems for rice production. During 1972, 30 volunteers worked with the Brazilian rural extension agency. The volunteers were veterinarians, agronomists, and persons with agriculture backgrounds, or agriculture researchers with master of science degrees.

In public administration, the Peace Corps has recruited 30 postal workers through the United States Postal Service to help Brazil improve its postal system.

Volunteers in the health field are developing hospital administration and dental extension programs. For example, at the Clinical Hospital of the Federal University of Minas Gerais School of Medicine, volunteer hospital administrators, financial analysts, maintenance supervisors, and medical archivists will work on projects to improve administration, planning, and maintenance, including hospital unit management systems.

To aid Brazil in developing industry, commerce, and tourism, Peace Corps engineers, business administrators, and

marketing experts, many with advanced degrees and experience, are working with business agencies. There will be projects for developing industrialized technical consulting services and for industrial technology. Volunteer specialists in marketing, business administration, agroindustry and industrial engineering will be provided to the Secretariat of Industry and Commerce of the State of Rio Grande do Sul and to the Secretariat of Planning of the State of Sao Paulo. These two states are among the wealthiest in Brazil.

The Department of State publication, "Diplomacy for the 70's" noted that the Peace Corps is evolving from loosely defined and unstructured programs whose success depends largely on the youth and zeal of the volunteers toward more specific and structured programs whose main purpose is to provide manpower with critical skills.

In this respect, a Peace Corps official noted that, starting in about 1969 the Brazilian Government expressed more interest in obtaining technically qualified volunteers for specific projects and gave programs involving large numbers of generalist volunteers engaged in poorly defined projects generally lower priority.

Problems with shift in program emphasis

Our discussion with Peace Corps managers and comments by volunteers in Brazil lead us to believe that the Peace Corps shift to more technical assistance has resulted in its being unable to obtain qualified personnel and has created morale problems among the volunteers.

Inability to supply volunteers requested by Brazilian agencies was stated by Peace Corps officials in December 1972.

"The most serious recurring problem is the inability to fulfill Brazilian agency requests for Volunteers with the number and qualifications agreed upon."

"During the Fall cycle, 1972, 101 Volunteers were requested and approved, but only 52 trainees are currently in-country for those positions."

At the time of our review a Peace Corps official in Brazil noted inadequate articulation between overall Peace

Corps goal-setting in Washington and Peace Corps objectives in Brazil. He stated that Peace Corps programs have emphasized higher quality programming while Washington has emphasized volunteers in the semiskilled areas.

The Peace Corps Regional Director in Latin America recently informed us that the diverse view between Washington and the Peace Corps in Brazil is no longer a problem. A new budget and programming system now exists, in which Washington provides written guidelines and the Peace Corps activity in Brazil in turn prepares a country management plan, which is consolidated into a regional plan.

With respect to morale problems of volunteers, it would seem that highly skilled volunteers are probably accustomed to a higher standard of living and may become dissatisfied operating in urban environments with Peace Corps low pay and allowances. For instance, a volunteer working in Rio de Janeiro, who has a masters degree in business administration and 7 years experience as a marketing manager, noted that:

"Our living allowance of \$191/month plus our vacation allowance of \$9/day are not sufficient for a major metropolitan city like Rio. We are supposed to be living at the same level as our Brazilian counterpart when in fact they are earning 5x(times) more."

A volunteer working with Minas Gerais Institute of Industrial Development stated that:

"Brazilian employees are given one months salary as a Christmas bonus and since we are suppose to be living up to our Brazilian counter-part, I suggest the Peace Corps adopt the policy."

CONCLUSION

Vacancies in key executive and management positions for extended periods of time contributed significantly to the many serious problems of Peace Corps operations in Brazil and to wasteful and ineffective use of volunteers.

The shift in emphasis to increase technical and professional Peace Corps volunteers for projects in Brazil has caused problems. The Peace Corps has not been able to

quickly supply the needs of the Brazilian agencies for such volunteers. Increased morale problems have resulted from dissatisfaction among technical and professional volunteers because of the low pay and allowances they receive. They usually are employed in urban areas where living costs are considerably higher and often work with Brazilian personnel receiving considerably more remuneration. Brazil's recent economic growth shows that it has the means to purchase such services, and often the Brazilian agencies requiring such services are industrial or revenue-producing agencies, such as the post office.

These management problems, Brazil's rapid economic development, and the scarcity of Peace Corps worldwide resources provide compelling reasons for the Peace Corps to reassess its activities in Brazil.

RECOMMENDATIONS

We recommend that the Director of ACTION reassess Peace Corps activities in Brazil to (1) substantially reduce the number of volunteers if key management positions remain unfilled and (2) eliminate from its programs technical and professional assistance to Brazilian states or agencies able to purchase such services. In making this reassessment and in considering the management problems identified in this report, economic progress in Brazil, and scarcity of Peace Corps worldwide resources, ACTION may conclude it should discontinue activities in Brazil.

AGENCY COMMENTS AND GAO EVALUATION

The Peace Corps Regional Director for Latin America agreed that the level of volunteers should be reduced if key management positions remained unfilled in Brazil. He said that he has the commitment and support of the Directors of ACTION and the Peace Corps to recruit and select staff replacements and that action is being taken to fill these positions for the Brazil program.

The Regional Director said that the Peace Corps, both as a matter of policy and practice, consciously and systematically avoids programing with agencies that have viable alternative means of obtaining comparable services provided by volunteers. However, he agreed that the situation should be reassessed. He believes that the focus of the programs should

be directed to the poor local and state economies. He said that the Peace Corps area offices in Sao Paulo and Rio de Janeiro are to be phased out. The post office volunteers, for example, would be moved to rural areas to assist in developing the postal system there.

The Regional Director took strong exception to our suggestion that the Peace Corps may conclude that there is a basis for discontinuing its activities in Brazil. He said that there is a place for Peace Corps activities in the poorer regions of Brazil.

We concur that there is a place for Peace Corps volunteers' service in Brazil if the key management positions are filled to give direction to their programs and if the programs are redirected to help the poorer rural population to improve their living standards.

CHAPTER 6

UNITED STATES INFORMATION AGENCY ACTIVITIES

The United States Information Agency has acted to improve its management of Brazilian operations by adapting its objectives, target audiences, and management operations to meet changing events. Although much concern has been expressed over whether its programs have been successful, it still has not devised adequate methods to measure the effects of various activities on foreign audiences or the net results of information programs. Before this measurement capability can be strengthened, the Congress, the executive branch, and the Agency must agree on the aims and expected achievements of Agency operations.

The United States Information Service is the in-country operating organization of the Agency. The Presidential re-organization plan of August 1953 established the U.S. Information Agency as a separate agency in the executive branch of the Government under the foreign policy guidance of the Department of State.

The Agency's mission is to help achieve U.S. foreign policy objectives by influencing public attitudes in other nations. It advises the President, his representatives abroad, and departments and agencies on the implications of foreign opinion for present and contemplated U.S. policies, programs and official statements.

The Agency conducts programs in more than 100 countries to disseminate information by various communications media and to interchange national experiences through educational and cultural exchanges. The Agency considers Brazil, as the largest country in Latin America and a leader in the Inter-American community, to be of major importance to its objectives.

U.S. Information Service activities in Brazil, supporting U.S. foreign policy and economic and social development goals, emphasize the viability of U.S. political and economic institutions and American achievements in science, education, and the arts.

ORGANIZATION

The U.S. Information Service in Brazil operates through its headquarters in Brasilia, 6 branch posts, and 19 binational centers (jointly operated United States and Brazilian centers containing libraries and/or english-teaching facilities). For fiscal year 1973, the Service was authorized 144 local employees and 40 Americans, for a total of 184 employees, and had program costs of about \$4.1 million, including salaries and operating expenses.

Authorized personnel and program costs for fiscal years 1968-73 were as follows.

<u>Fiscal year</u>	<u>Authorized personnel</u>			<u>Program costs</u>
	<u>Locals</u>	<u>Americans</u>	<u>Total</u>	
				(millions)
1968	161	67	228	\$3.3
1969	148	48	196	3.3
1970	145	41	186	3.3
1971	144	40	184	3.6
1972	144	40	184	3.6
1973	144	40	184	4.1

CHANGING NEEDS

The U.S. Information Service, operating in an environment of dramatic and fast-changing events in Brazil in the past 10 years, has had to adapt its objectives, target audiences, and management accordingly.

Events during 1962-72 included the political and economic turmoil of the early 1960s, revolution of 1964, government actions to stabilize the country from 1964 to 1968, and problems of economic growth and development during the most recent part of the decade. U.S. objectives changed from period to period, as did the target audience to which information and messages were directed.

Changing emphasis

In reviewing stated Information Service program objectives for Brazil from the early sixties to the present time, we noted that some have essentially remained constant while

others have changed. Information Service officials stated that changes in objectives from one year to the next can be attributed to changes in overall U.S. policy.

Changes and similarities can be seen by comparing the following stated Information Service Brazilian objectives.

<u>1962</u>	<u>1967</u>	<u>1972</u>
Promote understanding of Alliance for Progress.	Promote opinion favorable to Alliance for Progress.	Give balanced perspective of contemporary United States.
Continue efforts to improve image of U.S. society.	Convince that ties with United States should be maintained and strengthened.	Strengthen understanding of U.S. foreign policy. Build understanding of U.S. cultural achievements.
Continue to inform about nature and dangers of communism.	Counteract communist propaganda and subversion and maintain support for U.S. policy internationally and hemispherically.	Reinforce friendly ties. Counteract economic imperialism stereotype. Expose communist policies and counter its propaganda. Improve climate for AID activities.

The expanded objectives for 1972 again cited the dangers of communism and the need to improve the Brazilian image or perspective of the United States. Reference to the Alliance for Progress was dropped because Brazil had achieved impressive economic growth and the Alliance had declined in importance in the overall framework of U.S. policy.

From 1962, AID activities became increasingly important, and support of these activities still was considered an objective in 1972. In fiscal year 1973, this objective was dropped, however, with the reduction in scope of the USAID Mission. Support of U.S. export and tourism was established as an objective.

Target audience changes

The U.S. Information Service uses a wide variety of means or programs in its activities in Brazil. They include radio and television programs, motion pictures, press releases,

exhibits, cultural programs, libraries, english-teaching centers, book translations, and educational exchange programs.

These programs are directed toward specific target groups in accordance with the goal or objective to be achieved. Early in the 1960s, information and messages were directed toward:

--Small elite groups which had actual and potential spokesmen for Alliance and democratic values.

--Mass audiences to whom messages stressed that a solution would be found to improve their low state.

During 1970-72, the programs were aimed at a much narrower group that influenced and formed policy in the political and economic arena--the military; communication media; political, government, and business leaders; academic communities; and labor leaders and officials.

The Information Service said changes in target audiences usually resulted from internal decisions based on reconsidering the importance of audience categories in the light of existing resources and the Brazilian political situation. Labor leaders, for example, were dropped in the fiscal year 1973 program.

Another cause has been the changing philosophy since 1966 regarding target audiences. This involves the belief that, because of its limited resources, the Information Service should direct its efforts at elite audiences which are sharply defined and identified and that programs directed at mass audiences cannot be effective with limited resources.

The country public affairs officer in Brazil informed us that target groups were considered to consist of about 3,500 to 4,000 of the country's most influential people. The Information Service is attempting to identify each of these persons by name so they can be directly contacted for participation in cultural activities.

PROGRAM MEASUREMENT

Although much concern has been expressed over whether the U.S. Information Agency information programs have been successful, the Agency still has not devised adequate

research methods to measure the effects of various activities on foreign audiences or the net results of the programs.

In an overall review (see p. 59), we found that the Agency's effort to demonstrate the effectiveness of its operations had been limited to presenting incidental evidence of exposure or quantitative evidence of placement of media products.

In Brazil the Director of the U.S. Information Service conducted research during 1973 on Voice of America programs and binational centers to ascertain whether they were reaching target audiences, but the results have not been evaluated. The results may give some indication of program effectiveness, but we believe that, before the U.S. Information Agency's measuring capabilities can be strengthened, a basic issue concerning its goals and expected achievement must be resolved. This resolution must involve a consensus between the Congress, the executive branch, and the Agency on program goals and what is expected to be achieved in Agency operations. The Agency acknowledged the need for such an agreement and the difficulty of measuring the intangible effects of its programs.

MANAGEMENT IMPROVEMENTS

Late in 1969 we found that the U.S. Information Service program management system lacked a definitive operational plan for achieving Brazilian objectives and an effective information system for helping management to carry out its responsibilities. Program managers failed to exercise their responsibilities to supervise and guide branch posts, so program objectives were not clearly understood and fulfilled.

We recommended that (1) program managers participate more vigorously in managing, directing, coordinating, and evaluating program activities and (2) procedures to be established require preparing definitive program guidance for use at the operating levels, periodic submission of meaningful program progress reports, and periodic program-oriented supervisory visits to information service posts.

Early in 1970 the Information Service inspection team reviewed the Brazil operation and concluded that:

--More effective communication should be provided between Rio and the branch posts.

- Branch officers in charge should formulate yearly definitive operation plans.
- An unclassified country program-planning memorandum should be prepared and distributed to all offices, listing objectives, target groups, and themes.
- Branch posts lacked adequate instructions on use of much of its information output.

We discussed these problems with the Information Service Director and Deputy Director in Brazil. The Director acknowledged that these problems existed and initiated actions to correct them, as follows.

1. Contact with branch posts--the director makes frequent and systematic visits to the branch posts to stay aware of problems of each operation. Each branch head visits the headquarters office at least three times each year.
2. Operating plan--each branch post prepares projected operational plans for each 6-month period and then shows what it has done against those projections during the next 6-month period to meet objectives.
3. Program objectives--the Information Service prepares unclassified country program objectives and distributes them to the branch posts. All employees are aware of objectives, target audiences, and themes.
4. Internal reporting--the Director instituted a required monthly highlight report from each branch post, describing what was done during the month to implement U.S. Information Service objectives. The report shows both successes and failures.

CONCLUSION

Although we did not review in detail the results of actions taken by the Director to improve management operations, we believe these actions should solve some of the reported management problems and improve the Brazil operation.

We are not making any specific recommendations on measuring program effectiveness in Brazil because we covered this aspect in our March 25, 1974, report, "Telling America's Story to the World--Problems and Issues" (B-118654), dealing with the overall mission and goals of the U.S. Information Service.

CHAPTER 7

TRADE AND COMMERCE ACTIVITIES

Brazil's rapid economic development in recent years offers a significant export market to the United States. Total Brazilian world imports in 1974 are estimated to be \$8 billion, with potential for U.S. exports to Brazil exceeding \$2 billion. U.S. Government agencies involved in overseas trade and commerce should be more aggressive and give higher priority to expanding commercial markets in Brazil through better trade promotion and general commercial strategy to tap the expanding trade potential.

The relative U.S. share of the export market to Brazil is declining. Many economic circumstances contributed to and affect the decline of U.S. exports to Brazil, but we believe the following improvements could help U.S. exporters to tap the potential of the rapidly expanding Brazilian market.

- More thorough and efficient capability to collect, accumulate, and dispatch business data for use of U.S. exporters and businessmen. This will require consideration of the need for additional staffing of U.S. commercial offices at the Embassy and consulates in Brazil and for improving business marketing research.
- Examine feasibility of establishing a continuing U.S. trade center in Sao Paulo to better display and encourage U.S. industrial and commercial items and technology for export.

Historically, the United States has provided about one-third of Brazil's imports. Although there have been some year-to-year fluctuations, the average share of U.S. imports during 1964-70 was about 33 percent.

The chart below shows a breakdown of Brazil's foreign trade with its main trading partners, the United States, Japan, and Germany. Data, provided by the Department of Commerce was the latest comparative data available.

	<u>Exports</u>	<u>Percent of change</u>	<u>Percent of total</u>	<u>Imports</u>	<u>Percent of change</u>	<u>Percent of total</u>
	(millions)			(millions)		
United States:						
1968	\$ 627	-	33	\$ 685	-	32
1971	760	21	26	1,063	55	29
W. Germany:						
1968	148	-	8	236	-	11
1971	256	73	8.8	475	101	12.8
Japan:						
1968	59	-	3.1	73	-	3.4
1971	158	168	5.4	259	253	7
Other:						
1968	1,050	-	55.9	1,138	-	53.6
1971	1,729	65	59.8	1,904	67	51.2

Brazil's trade with other nations has been expanding with the country's rapid economic growth. Compare the years 1968-71, for example, when Brazilian imports jumped 74 percent overall, U.S. shipments of goods to Brazil climbed 55 percent, West Germany's 101 percent, and Japan's 253 percent. The relative position of Brazil's top three trade partners began to shift in favor of Japan. The U.S. share of imports and exports dropped from 33 and 32 percent to 26 and 29 percent while Japan's share nearly doubled from 3.1 percent and 3.4 percent to 5.4 and 7 percent.

The U.S. share of Brazil's capital goods market is declining. Even though the share of U.S. capital goods rose from \$193 to \$301 million between 1966 and 1969, the relative share declined from 51 to 40 percent of the total capital market. According to the Departments of Commerce and State and U.S. Embassy officials, it is still declining. On a percentage basis, the United States may not be able to hold its traditional share of this market because of Brazil's extremely rapid economic expansion. We believe, however, that in areas in which the United States is competitive it should be maximizing trade efforts to capture this large commercial potential.

COMMERCIAL STAFF

Commercial officers overseas primarily assist U.S. and local businessmen and make reports to Washington. However, they have many necessary routine functions to perform which limits their time for keeping in constant contact with businessmen to develop and exploit trade opportunities. Recently we found that commercial officers could not spend

enough time outside the office because of incoming mail, visitors, reports, meetings, supervising staff, etc., necessary to effective operations.

This is particularly true in Brazil--a country larger than the continental U.S.A.--which as of March 1973, had only six economic commercial officers. The commercial counselor gave us a list of duties the commercial staff performed, which included, reporting on trade and investment opportunities and on Brazilian Government actions affecting trade and investments. However, it also included routine time-consuming duties, such as replying to letters from American and Brazilian businessmen and reading official telegrams, reports, and business publications to maintain country and functional expertise.

Performing many of these routine duties limits the time commercial officers can spend "beating the bushes" outside the office to maintain contact with Brazilian industrial and commercial activities. For example, in Sao Paulo, where two commercial officers were assigned, the number of out-of-office visits in 1972 was about 24 percent less than in 1970. Despite the great economic growth, there is one less U.S. commercial officer in Sao Paulo than there was 10 years ago.

The schedule below shows the increase in workload in Sao Paulo between 1970 and 1972.

<u>Function</u>	<u>1970</u>	<u>1972</u>	<u>Percent of increase</u>
Visitors received by Foreign Service Officers and Foreign Service locals	1,066	1,730	62
Trade contact surveys, investment opportunities and agent distributor requests	68	142	110
Trade letters	823	1,280	56
Airgrams, memorandums, and telegrams	237	344	45
World trade disposition reports	579	720	24

Insufficient staffing in the economic-commercial section has caused staff emphasis to be restricted to trade opportunities having the greatest dollar value. The commercial counselor told us the minimum number of additional positions needed was:

	<u>Locals</u>	<u>Americans</u>
Rio de Janeiro	2	1
Sao Paulo	4	2
Salvador	1	1
Porto Alegre	<u>1</u>	<u>1</u>
Total	<u>8</u>	<u>5</u>

We believe that, to exploit the potential of the expanding Brazilian commercial market, an increased specialized business-oriented staff may be needed.

MARKET RESEARCH

Foreign markets need to be analyzed to (1) identify the commercial opportunities and problems peculiar to each market, (2) decide which of these areas warrant U.S. Government attention, and (3) conduct the activities needed to seize the opportunities and solve the problems considered most important. In Brazil we found that accomplishing these steps was difficult, primarily because of a shortage of staffing in the commercial section and the lack of funds for market analysis. For instance, because of the manpower shortage in the economic-commercial section, much of the market survey work is contracted out to local firms. According to the commercial counselor, the Department of Commerce has set an allowable ceiling of \$3,600 for each overseas-contracted market research project, but this ceiling is inadequate for market research in Brazil due to the high cost of such research. An official of the U.S. consulate in Sao Paulo gave us the following reasons for the high costs.

- Scarcity of statistical data. Official data published by Brazilian authorities is rarely, if ever, current. Normally, a detailed breakdown of statistical information is not available until 18 to 24 months after the event. This requires market researchers to make many personal calls on persons within a specific industrial category to obtain up-to-date estimates and to double-check what they have been told. This is time-consuming and expensive, since information must be obtained not only in Sao Paulo but also in Rio de Janeiro.

- Expense of doing research in Brazil. Brazil's economy is booming and prices are high. Expenses for travel, translation, typing, supplies, and general overhead are excessive by U.S. standards. Smaller firms, for example, must have advance payments up to 50 percent to defray their expenses.
- Competition. There are only a half dozen or so top-quality market research firms in Sao Paulo. For major projects, these companies normally get between \$15,000 to \$25,000, and fees under \$4,000 are often rejected because earnings on them are negligible. A few companies will occasionally take a loss on one project for the Department of Commerce in order to list the Department in their brochures as a client. This rarely is repeated, however, in the same company.
- Language. Because of the relatively short time Commerce allows for projects (10 weeks), it is necessary to find firms competent in the English language, and these are usually the larger firms. Inadequate competence in English delays completion of the report and requires arduous proofreading and rewriting by Foreign Service officers, who are then doing what the firm has been hired to do.
- Company secretiveness. Traditional reluctance on the part of firms operating in Brazil to provide too much information to interviewers makes obtaining information difficult at best. Larger research firms have substantial in-house resources to draw on in such cases, but smaller firms have few resources to fall back on, which results in inadequate end products.

A consulate official in Sao Paulo in March 1973 summarized the situation by saying:

"Brazil is a country in which market research is more complicated and time-consuming than it is * * * in Western Europe, Japan, or the U.S. The larger companies are generally capable of handling most Commerce assignments, but their fee levels are high by Commerce standards.

"It is the opinion of the Commercial/Economic Section here that minimum fee levels of \$5,000 would enable us to interest quality firms in Commerce projects, although an even higher level would be preferable. The above figure should be regarded as a minimum."

We believe that market research and analysis is an integral part of the total package necessary to capitalize on the potentially great and developing export markets provided by Brazil's rapid economic expansion.

U.S. TRADE CENTER FOR SAO PAULO

The United States should examine the feasibility of establishing a trade center in Sao Paulo to display and encourage U.S. industrial and commercial items and technology for export. It appears that a trade center would be an effective means of helping U.S. businessmen to capitalize on the commercial and trade potential of Brazil.

Sao Paulo is the economic, industrial, and commercial heart of Brazil and accounts for 30 percent of the gross national product of about \$55 billion and 55 percent of federal revenues. During the 1960s, Sao Paulo maintained a growth rate of 63 percent, one of the fastest in the world, and, on the basis of past history and statistical projections, it promises to be the world's largest city within 15 to 20 years.

Since 1968 the United States has participated in three highly successful one-shot trade shows and the results indicate that substantial trade opportunities exist with Brazil. We did not verify the figures below, but the Department of Commerce considered the shows successful.

1. The U.S. Industrial Machinery Exhibition of 1968. More than 26,000 persons attended, of which over 14,500 were registered businessmen. Equipment worth \$3.3 million was sold, and \$10.2 million in sales was made as a direct result of the exhibition.

2. EXPO USA 1971. 35,000 persons attended, of which 11,700 were registered guests. Sales were \$6.6 million and sales as a direct result of the exhibition amounted to \$21 million.
3. The Print Pack exhibition of March 1973. Sales amounted to over \$4.1 million. Projected sales have been placed in excess of \$15 million.

The reported successes of the three trade shows were impressive, but, according to consulate officials, the disadvantages of trade shows include:

- The shortness of duration, which limits the impact of the show. A constant presence would have greater impact. Except for solo (all U.S.) exhibitions, we are competing with other countries for sales of U.S. equipment. Such was the case with the Print Pack exhibition.
- In the absence of permanent customs agreements with the Brazilian Government, such as would accompany a permanent trade center, customs clearances of equipment to be exhibited is complicated and time consuming.
- The overall administrative difficulties of gearing up for trade shows place too heavy a burden on the limited staffing facilities of the economic-commercial section of the consulate.

In view of the success of the trade shows and the potential for increasing trade with Brazil, it appears evident that establishing a continuing trade center in Brazil would be beneficial to the United States. Department of Commerce officials said that experience indicates trade center promotions to be the most economically feasible method in markets that have (1) immediate potential for U.S. exports of \$2 billion or more, (2) a broadly diversified economy offering opportunities in many product areas, and (3) a market that can accommodate an increasing number of new suppliers. Brazil has these characteristics. Commerce officials also said that the advantages continuing trade centers have over one-shot trade shows include the net direct expense for each U.S. company served would be considerably less and the greatest number of U.S. companies, product groups, and new-to-the-market companies would receive exposure.

It would appear that establishing a continuing trade center in Sao Paulo, with an accompanying increase in staffing, could overcome many of the shortcomings of one-shot exhibitions. An additional advantage in establishing a continuing trade center is that the consulate could be contiguous to the trade center. A consulate background paper on this issue indicates that the Ambassador has determined that it is highly desirable for them to be located together. According to consulate officials, this is essential for close coordination between the economic-commercial section of the consulate general and the trade center and would result in greater efficiency and effectiveness of these closely related operations.

CONCLUSION

We believe it is important to maximize U.S. trade opportunities with Brazil by whatever means we can. Although we did not make a detailed review of the personnel and resource allocation of the commercial staff in Brazil, we believe that the size of the staff may not be commensurate with the workload to be performed to maximize U.S. participation in the present Brazilian market. The Ambassador and commercial officers in Brazil generally agree that the commercial section is suffering from understaffing.

Past trade shows demonstrate that large markets for U.S. goods are present in Brazil. A facility on a continuing basis may be a more effective and profitable means for tapping this market.

We also believe that the Department of Commerce needs to review its market research activities in Brazil to seek ways to improve this activity.

RECOMMENDATIONS

In view of the potential opportunities for increasing U.S. exports to Brazil, we recommend that:

- The Secretary of State review the need for additional commercial positions in Brazil to maximize U.S. participation in the present Brazilian market.

--The Secretary of Commerce consider the feasibility of establishing a continuing trade center in Sao Paulo and review market research activities in Brazil to seek ways to improve them.

AGENCY COMMENTS

Commerce said that our report was helpful in analyzing several important U.S. positions toward Brazil and is closely in line with its thinking. The recommendations involving Commerce activities are among questions under investigation by an interagency State-Commerce special working group on Brazil which was formed to improve the U.S. commercial program in Brazil. The group is currently preparing a report outlining major recommendations for State and Commerce activities in Brazil which supports our recommendations in its preliminary conclusion.

State, working in consultation with Commerce, has requested for fiscal years 1974 and 1975 six additional positions to handle the expanding commercial workload in Brazil.

Commerce agreed that the rapidly expanding Brazilian economy offers an attractive export market for U.S. products and is considering the establishment of a trade center in Sao Paulo.

Commerce said that a comprehensive analysis of the market for U.S. products in Brazil does not exist. The working group has recommended, and State and Commerce have concurred, that an extensive comprehensive analysis of the market potential in Brazil be undertaken immediately by a special team of Commerce-State researchers. This analysis will delineate the import trends, market trends, and areas having major potential for U.S. products.

To insure that the information developed by the research team will be updated and augmented, the working group requested that a market analysis unit be established in Brazil. This unit would maintain a continuous analysis of Brazilian data, determine product areas having the best potential for U.S. export sales, and locate industrial sectors where detailed market research should be undertaken by local contractors. Through these activities the unit would substantially increase the amount and quality of data and research available to U.S. businessmen, the U.S. Government's trade promotion program in general, and the new trade center, if established.

CHAPTER 8

SCOPE OF REVIEW

We reviewed the administration and management of major programs by U.S. agencies operating in Brazil during 1962 to 1973. We visited Brazil in 1972 and 1973 and discussed programs with United States and Brazilian officials and reviewed documents and data at various locations there to evaluate the effectiveness of U.S. programs and development objectives for Brazil.

We reviewed U.S. policy papers, strategy statements, program documents, reports, correspondence, and other available pertinent data and discussed relevant topics with officials at the Washington offices of the Departments of State, Defense, Agriculture, and Commerce; AID, the Peace Corps; the United States Information Agency; and other U.S. agencies. Statistics were obtained from the United Nations and other international agencies.

AMERICAN AND LOCAL PERSONNEL

IN BRAZIL AT JUNE 30, 1973

<u>Agency</u>	<u>Personnel</u>		
	<u>American</u>	<u>Local</u>	<u>Total</u>
Department of State	120	247	367
United States Information Agency	37	138	175
AID:			
Direct hire	44	152	196
Participating Agency Services Agreement	19	-	19
Contract	83	2	85
Federal Aviation Agency	1	1	2
Foreign Agriculture Service	5	6	11
Library of Congress	1	13	14
National Institutes of Health	6	1	7
Peace Corps	13	30	43
Peace Corps volunteers	272	-	272
Smithsonian Institution	2	-	2
Treasury attache	2	-	2
Legal attache	2	-	2
Drug Enforcement Administration	1	-	1
Internal Revenue Service	3	-	3
Defense attache office	16	6	22
Inter-American Geodetic Survey	7	6	13
U.S. Marines	19	-	19
U.S. Delegation to the Joint Brazil-United States Military Commission	53	26	79
Other	<u>31</u>	<u>23</u>	<u>54</u>
Total	<u>737</u>	<u>651</u>	<u>1,388</u>

APPENDIX II

SUMMARY OF SMALLER U.S. AGENCIES

IN BRAZIL IN

JUNE 1973

DRUG ENFORCEMENT ADMINISTRATION

The Administration had one American agent in Brasilia. The Administration's purpose is to prevent importation of illegal narcotics to the United States by maintaining close contact, cooperation, and exchange of law enforcement information with the Department of federal police, which the Brazilian constitution has authorized to suppress drug trafficking in or through Brazil.

The Administration's agent also cooperates closely with the Embassy's narcotics action committee, which is developing a program to train and help equip narcotics units of Brazilian federal and state police to become increasingly professional and effective in suppressing drug trafficking. The cost for 1973 was about \$53,000.

FEDERAL AVIATION ADMINISTRATION

The office is located in Rio de Janeiro and had two employees, one American and one local hire specialist. The office is responsible for evaluating routes, operations, facilities, and practices of U.S. airlines and aircraft in Venezuela, Guyana, and Brazil. It also evaluates the adequacy of airports and navigational facilities and encourages the local government to increase safety in air transportation. The cost for 1973 was about \$37,000.

INTERNAL REVENUE SERVICE

The regional office, which has three American employees, is in Sao Paulo and has jurisdictional responsibility for all of South America, the Netherland Antilles, Trinidad, and Tobago. Its primary function is to insure that U.S. citizens comply with the U.S. Internal Revenue Code. Cost for 1973 was about \$104,000.

FOREIGN AGRICULTURE SERVICE
DEPARTMENT OF AGRICULTURE

The Service maintains offices in Brasilia, Rio de Janeiro, and Sao Paulo to promote expansion of U.S. agriculture markets. It had five American and six local-hire employees. The attache supports U.S. policy by providing the Ambassador with advice and service in the agriculture field. The cost for 1973 was about \$308,000.

LIBRARY OF CONGRESS

The Library of Congress program is a project carried out under the National Program for Acquisitions and Cataloging, authorized by the Higher Education Act of 1965, which provides for acquiring all library material published throughout the world of value to scholars. The office has 1 American and 13 local employees in Rio de Janeiro, and cost about \$111,000 for 1973.

NATIONAL INSTITUTES OF HEALTH

The National Institutes of Health, in cooperation with the University of Maryland and the University of Bahia of Brazil, is conducting biomedical research on tropical diseases, especially for malaria eradication. Six Americans and one local employee were in Brazil and costs totaled about \$227,000 in 1973.

SMITHSONIAN INSTITUTION

The Smithsonian Institution, in conjunction with the Brazilian National Commission for Space Activities, operates an astrophysical observatory at Natal, primarily to observe earth satellites as part of the Smithsonian worldwide astronomy research programs. Two Americans were employed at a cost of about \$70,000 in 1973.

TREASURY ATTACHE

The office at the Embassy in Brasilia participates in the work of the Embassy's economic section, advising the Ambassador on policies and guidelines for economic relations with Brazil, particularly in the area of international finance. Two American employees were on the staff, and the cost for 1973 was about \$46,000.

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LEGAL ATTACHE, DEPARTMENT OF JUSTICE

The office in Brasilia, was established by a Presidential directive to establish liaison with the Brazilian police and other Brazilian agencies on law enforcement matters. There were two American employees in 1973 and costs were about \$78,000.

NAVY COMMUNICATION TECHNICAL GROUP

The group is an activity of the U.S. Naval Communication Command in Washington, D.C., and operates in Brazil under an agreement of June 1962. It operates and maintains 3 communication sites in the Rio de Janeiro area and had 23 U.S. military and civilian personnel and 2 local-hire employees. Operating and personnel costs for 1973 totaled about \$284,000.

The group provides technical and operating assistance to the Brazilian Navy, which is responsible for operating a communication system used jointly by the United States and Brazil. The communication system provides essential support to U.S. Navy and other ships in the South Atlantic and for direct communication between Rio and Washington.

INTER-AMERICAN GEODETIC SURVEY

The Inter-American Geodetic Survey operates under a cartographic agreement of 1952, amended in 1965, between Brazil and the United States, to establish a mixed commission of technical personnel to carry out a program of aeronautical charting and topographic mapping in Brazil. U.S. personnel provide technical assistance, training, and equipment to Brazilian mapping agencies. The primary benefit of this program to the U.S. Government is that it receives detailed maps of Brazil.

The group consisted of military engineers, geographers, cartographers, and geophysicists and had seven American employees and six direct-hire local employees. Operating and personnel costs for 1973 were about \$300,000.

PAN AMERICAN HOOF AND MOUTH DISEASE CENTER

The United Nations World Health Organization does research to control hoof and mouth disease in the cattle-raising industry in Brazil. The United States maintains one

U.S. Air Force veterinarian in this work as its contribution to the program. Operating and personnel costs for 1973 amounted to \$25,000.

AIR FORCE POSTAL AND COURIER SERVICE

This group provides mail service to military and civilian personnel on official business for the U.S. Government in Brazil. This service began in 1970, and on June 30, 1973, it employed three Air Force enlisted men at a cost of about \$35,000.

DOD ATTACHE OFFICE

The office comprises Navy, Air Force, and Army attaches who are also designated as DOD attaches. The attaches serve as principal advisors to the Ambassador on matters involving the relationships of their respective services with their Brazilian counterparts and as representatives of the U.S. Secretaries of the Army, Navy, and Air Force.

This office observes and reports on military developments, sponsors interchanges through intercountry visits, and maintains a broad spectrum of personal relationships with Brazilian military officers at all levels throughout the country. The reports may recommend changes in military aid and training in Brazil.

Personnel assigned in 1973 were 16 American and 6 direct hire personnel and the cost was about \$559,000.

MARINE CORPS GUARD

Marine Corps personnel are assigned to Foreign Service posts to provide security guard service to protect classified material and equipment. As of July 1973 there were 19 U.S. Marine Corps guards in Brazil, and costs were \$132,000.

POST EXCHANGE

The post exchange in Rio de Janeiro is part of the military's worldwide system of merchandising stores operated primarily to benefit military personnel.

The store in Rio is available to approximately 102 U.S. military and 365 civilian personnel and their families.

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During fiscal year 1972 it stocked approximately 2,400 line items and made sales of nearly \$1.2 million; however it incurred a loss of approximately \$30,000 to the U.S. Air Force post exchange system.

In response to our inquiries on the store's need, the military group commander said that it was useful as a morale factor but that its size would be reduced to make it cost effective or it would be closed. Currently there is one American temporarily on assignment and 12 local-hire personnel. For 1973 salary costs were about \$255,000. These costs are part of the operating budget of the post exchange and are paid from local sales profits.

MILITARY AIRLIFT COMMAND LIAISON OFFICE

The Command operates flights throughout the world to transport military personnel and materiel. It establishes liaison offices at various points on its routes. The office arranges for arrival, maintenance, loading, etc., of military aircraft in transit. In fiscal year 1972 one U.S. Air Force officer was assigned to this duty in Rio de Janeiro, and the cost for this operation was \$17,000. There were no planned changes for fiscal year 1973; however, this position is being abolished in fiscal year 1974 and the responsibility will be absorbed by the U.S. Delegation to the Joint Brazil-United States Military Commission.

SUMMARY OF EXTERNAL ASSISTANCE

External assistance to Brazil between fiscal years 1946 and 1973 amounted to about \$7.8 billion, of which the United States provided \$6 billion, or about 77 percent.

Brazil has received most of its external assistance since 1962, during which time the United States played a dominant assistance role in Brazilian development. For example, during 1962-73 total assistance amounted to \$5.9 billion, of which the United States provided nearly \$3.2 billion, or about 54 percent, and multilateral agencies provided \$2.7 billion. The U.S. contribution to the multilateral agencies during this period totaled about \$1.1 billion. Consequently, the United States was directly and indirectly responsible for about \$4.3 billion in assistance to Brazil during this period or, in other words, the United States provided about 73 percent of all assistance to Brazil between fiscal years 1962 and 1973.

Net U.S. Assistance by Source

	Total assistance from 1946 to June 1973		Percent	
	Amount	Percent	1962-73	1946-61
	(millions)			
Bilateral assistance:				
AID and predecessor agencies	\$1,523.8	25.2	96.5	3.5
Military assistance	431.3	7.2	60.4	39.6
Food for Peace	844.2	14.0	71.4	28.6
Export-Import Bank	1,867.2	30.9	38.1	61.9
Social Progress Trust Fund	62.0	1.0	100.0	-
Peace Corps	40.3	0.7	100.0	-
Other	53.1	0.9	14.9	85.1
	<u>4,821.9</u>	79.9	65.4	34.6
Multilateral assistance (note a):				
Inter-American Development Bank	722.2	12.0	98.6	1.4
International Bank for Recon- struction and Development	422.9	7.0	82.9	17.1
United Nations	25.0	0.4	87.6	12.4
International Finance Corpora- tion	44.6	0.7	92.6	7.4
	<u>1,214.7</u>	20.1	92.7	7.3
Total	<u>\$6,036.6</u>	100.0	70.9	29.1

^aEstimated U.S. contributions to Brazil through multilateral assistance.

U.S. Assistance Commitments Since 1962

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>
	(millions)				
BILATERAL ASSISTANCE:					
Alliance for Progress loans	\$ 74.5	\$ 62.9	\$165.4	\$220.2	\$229.3
Technical assistance and development grants	10.6	23.6	14.1	14.7	14.4
Food for Peace:					
Title I sales	44.0	32.0	115.4	-	29.1
Title II donations	28.5	15.9	35.5	24.6	50.0
Military assistance	44.4	18.7	34.1	12.0	30.6
Peace Corps	.9	1.6	4.0	4.6	6.2
Export-Import Bank long-term loans	-	-	-	6.0	16.9
Social Progress Trust Fund	47.0	5.8	2.5	6.7	-
Other	-	-	-	-	-
	<u>249.9</u>	<u>160.5</u>	<u>371.0</u>	<u>288.8</u>	<u>376.5</u>
U.S. CONTRIBUTIONS THROUGH:					
International Bank for Recon- struction and Development	-	-	-	20.7	13.2
Inter-American Development Bank	15.2	8.3	28.4	38.5	60.5
International Finance Corpora- tion	-	-	-	-	3.6
United Nations	<u>.8</u>	<u>1.7</u>	<u>1.6</u>	<u>1.0</u>	<u>2.1</u>
	<u>16.0</u>	<u>10.0</u>	<u>30.0</u>	<u>60.2</u>	<u>79.4</u>
Total	<u>\$265.9</u>	<u>\$170.5</u>	<u>\$401.0</u>	<u>\$349.0</u>	<u>\$455.9</u>

APPENDIX III

<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	Total for FYs <u>1962-73</u>	Annual average <u>1962-73</u>
(millions)								
\$199.0	\$180.9	\$ -	\$ 75.0	\$ 67.5	\$ 2.1	\$ 33.2	\$1,310.0	\$109.2
15.9	12.9	12.4	13.0	11.9	10.0	7.4	160.9	13.4
-	62.7	-	19.9	23.3	-	-	326.4	27.2
21.6	20.2	10.2	42.5	11.8	5.7	9.6	276.1	23.0
32.1	36.2	.8	.8	12.1	20.8	17.7	260.3	21.7
3.5	3.9	3.5	3.5	3.1	2.9	2.6	40.3	3.4
30.0	50.8	27.9	63.2	75.0	299.8	142.3	711.9	59.3
-	-	-	-	-	-	-	62.0	5.2
-	.1	3.1	.1	-	.3	4.3	7.9	.6
<u>302.1</u>	<u>367.7</u>	<u>57.9</u>	<u>218.0</u>	<u>204.7</u>	<u>341.6</u>	<u>217.1</u>	<u>3,155.8</u>	<u>263.0</u>
27.2	16.7	20.2	55.4	43.3	118.0	36.1	350.8	29.2
76.9	47.1	71.6	105.3	58.5	98.6	103.4	712.3	59.4
3.5	-	3.1	2.8	3.6	9.1	15.6	41.3	3.4
<u>1.9</u>	<u>1.4</u>	<u>2.1</u>	<u>1.4</u>	<u>2.9</u>	<u>2.7</u>	<u>2.3</u>	<u>21.9</u>	<u>1.8</u>
<u>109.5</u>	<u>65.2</u>	<u>97.0</u>	<u>164.9</u>	<u>108.3</u>	<u>228.4</u>	<u>157.4</u>	<u>1,126.3</u>	<u>93.9</u>
<u>\$411.6</u>	<u>\$432.9</u>	<u>\$154.9</u>	<u>\$382.9</u>	<u>\$313.0</u>	<u>\$570.0</u>	<u>\$374.5</u>	<u>\$4,282.1</u>	<u>\$356.8</u>

External Development AssistanceBy Regions and Sectors

Analysis of external development assistance to Brazil by the World Bank, Inter-American Development Bank, and AID from 1949 to 1973 indicates that substantial funds have been concentrated in the industrially developed southern and eastern regions of Brazil. Approximately 84 percent of the composite loan portfolio, excluding countrywide program loans and technical assistance, has been used in these regions and concentrated on power (36.4 percent), industry (20 percent), utilities (7.7 percent), and transportation (8 percent). At the same time, only a small portion of the loan portfolio was for education (3.3 percent), health (1.3 percent) and agriculture (3.5 percent). The remaining 19.8 percent (AID loan only) was allocated to countrywide program loans and technical assistance. (See chart 2.)

This distribution appears to have occurred because assistance practices in the past emphasized first the need to develop the economic sector and then the social areas of a country. Recently, more loans seem to be directed toward bolstering the social sectors. AID said that after 1970 greater emphasis was placed on education, agriculture, and health programs, especially for the northeast region of Brazil.

To better appreciate the concentration of development assistance, three charts were devised to depict the distribution of loans by the World Bank, Inter-American Development Bank, and AID.

- Chart 1 shows the distribution of loans in Brazil by region, sector and amount; the composite total input for each region; and a comparison of regional inputs.
- Chart 2 shows the composite sectoral loan distribution by the three institutions and accentuates the emphasized sectors.
- Chart 3 shows the sectoral loan distribution by each institution by percentages.

Some loans were readily grouped into specific sectors, others were not. Therefore they represent some judgment on our part in categorization, grouping, and/or combination and distribution of loans into particular sectors or regions.

CHART 1

SECTORAL LOANS BY REGION (WB, IDB & AID)

BRAZIL

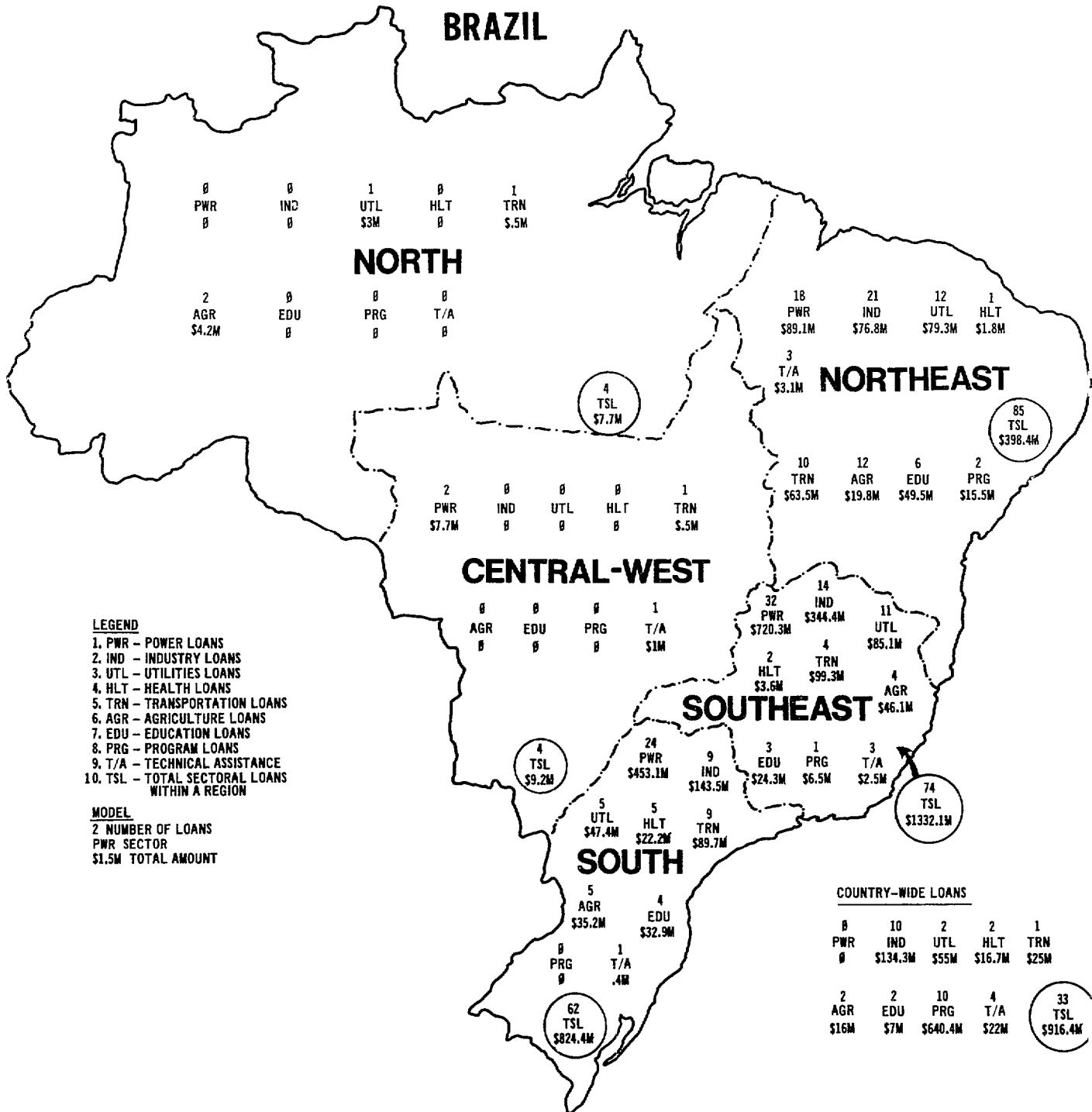


CHART 2
SECTORAL LOANS BY THE WORLD BANK
INTER-AMERICAN BANK AND AID TO BRAZIL
1949 - 1973
\$3,489 M=100%

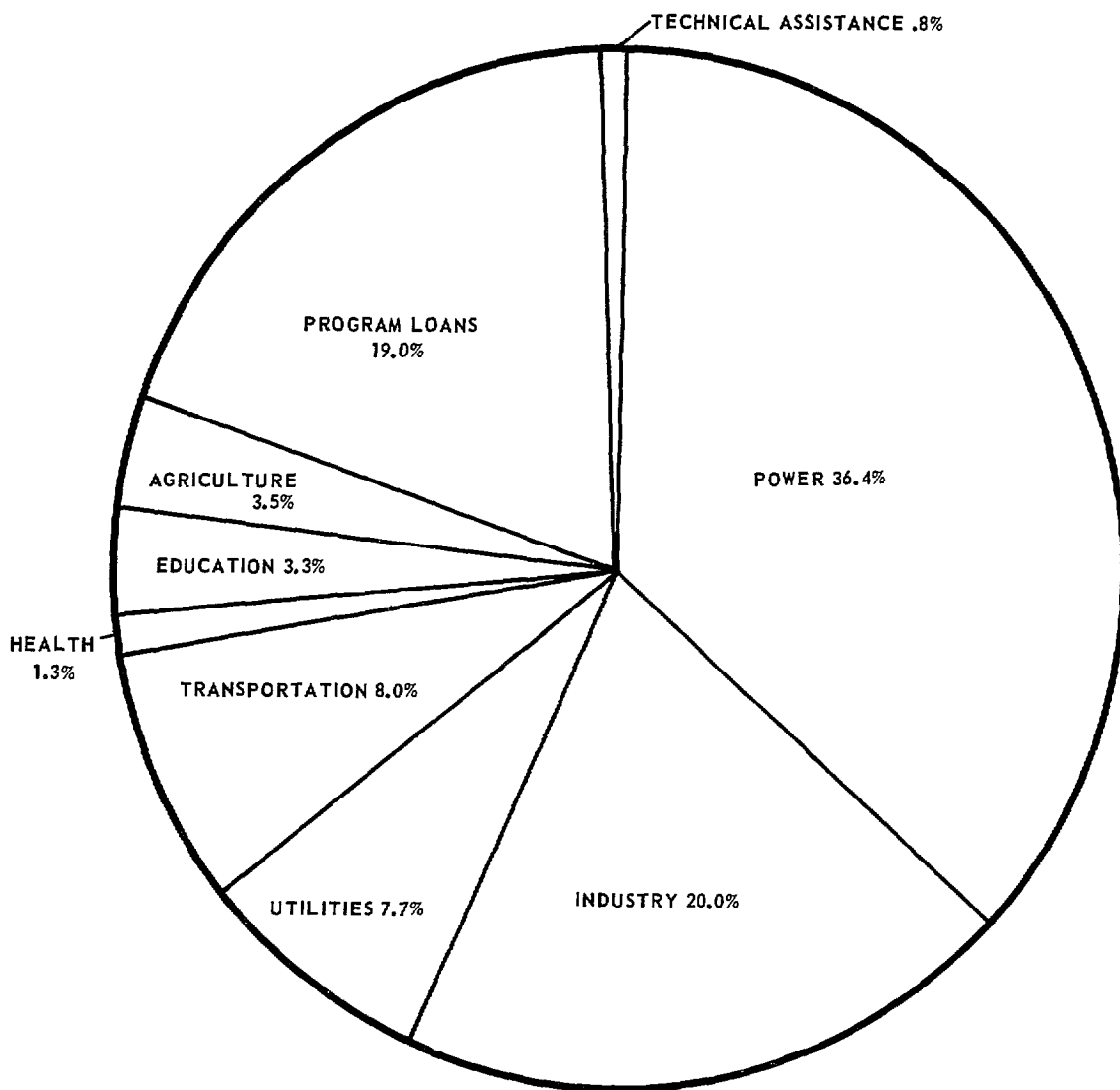
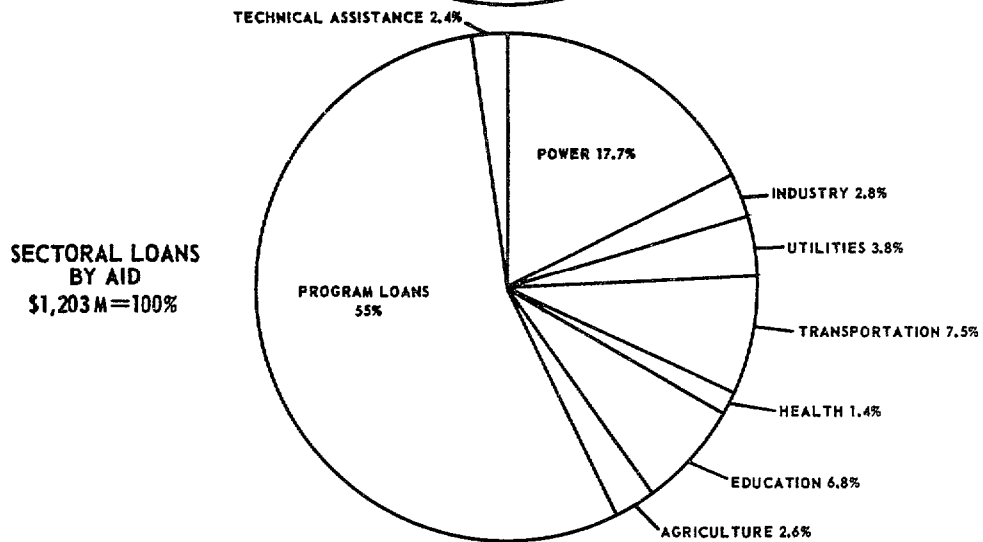
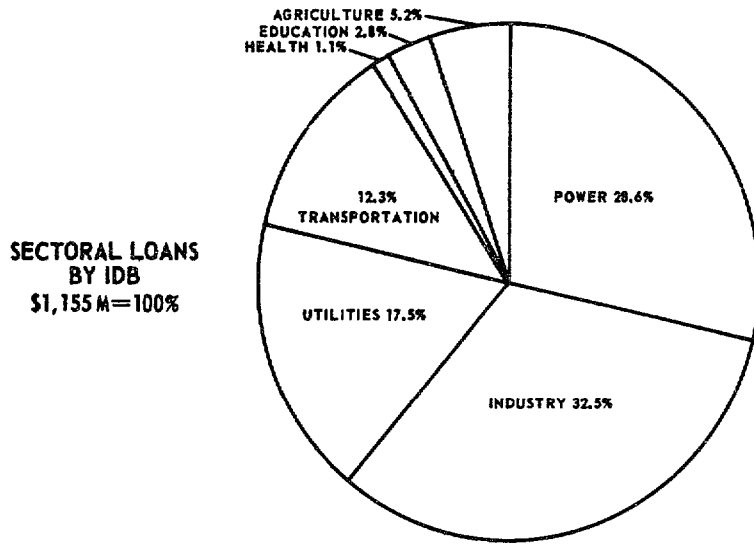
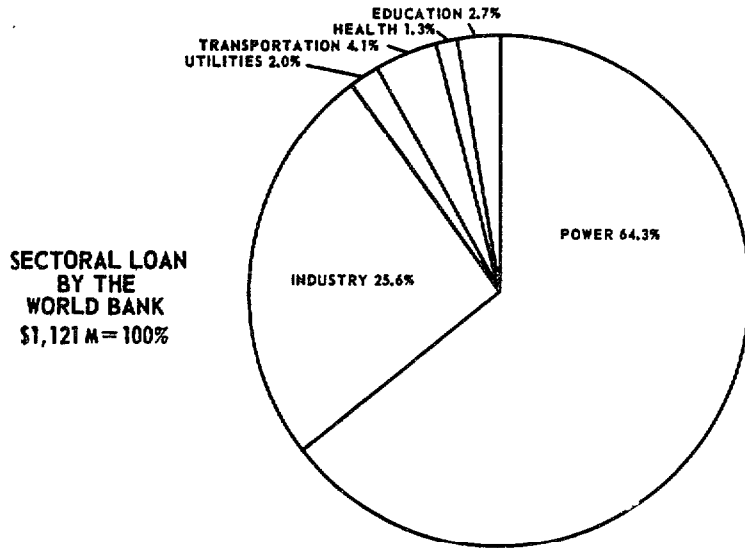


CHART 3



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