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**SOME ASPECTS OF THE
BRAZILIAN EXPERIENCE WITH FOREIGN AID**

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October, 1969

DP 77

Disenchantment with foreign aid is shared by both donor and recipient countries. The purpose of this paper is to explore some of the sources of this mood in the case of one large country, Brazil, which during 1964-67 ranked only behind India, Pakistan and South Vietnam as a recipient of net official aid flows.¹

No attempt will be made to cover all aspects of the Brazilian foreign aid experience; discussion will center on topics which have received relatively little emphasis in the aid literature. These include difficulties imposed by the initial conditions on the achievement of large real transfers, the discontinuity of aid and its frequent changes of objectives, disbursement lags and the relevance of Brazilian experience to the program versus project debate.

Brazil has relied on foreign sources during most post war years to finance current account deficits in its Balance of Payments. The algebraic sum of those deficits from 1950 through 1960 reached \$2.8 Billion; the corresponding figure for 1961 through 1968 was \$1.5 Billion. External financing has taken many forms, many of which cannot be labelled aid.

An outline of pre-1961 foreign financing of
the Brazilian balance of payments.

Before 1961, marking the birth of the Alliance for Progress, Brazil relied for its external financing mainly on private sources, including suppliers' credits, and on bilateral and multilateral public institutions lending at near commercial rates, such as the U.S. Export-Import Bank (EXIMBANK) and the International Bank for Reconstruction and Development

(IBRD). Pre-1961 experience left a legacy of financial commitments which had a marked influence on the post-1961 years, when aid became a more important element in external financing. A closer look at the pre-1961 capital account is therefore Warranted.

A summary of the Brazilian balance of payments during the 1950's is presented in Table 1. The net capital inflow represented during those years 17 per cent of merchandise imports and more than 5 per cent of gross fixed investment. The average figures hide considerable fluctuations in the net capital inflow; current account deficits larger than \$450 Million were registered in 1951, 1952 and 1960, while 1950, 1953 and 1956 witnessed current account surpluses.

Net direct investments, going mainly into the rapidly expanding manufacturing sector, accounted for a substantial share of the capital inflow.² More remarkably, short term borrowing by the public and private sectors was roughly as important as direct investments as a source of finance. Large commercial debts, including important ones with oil suppliers, were run up, especially toward the end of the decade. The EXIMBANK and the IBRD were the major external public lenders to Brazil before 1961. The former authorized long term loans for more than \$900 Million, while the latter's gross lending to Brazil reached \$267 Million.³ Other medium and long term capital comes from suppliers' credits, many of which involved high financial charges.

Interest payments on these debts became stiff; factor payments abroad, excluding those on direct investments, rose from an annual average of \$23 Million during 1950-52 to \$99 Million during 1958-60. Amortization obligations also rose, and it became clear toward the end of the decade

Table 1

Brazilian Balance of Payments, 1950 through 1960
(Annual averages, Million current dollars)

Current Account

Exports, f.o.b.	\$1,430
Imports, c.i.f.	-1,480
Net non-financial services and private transfers.	= 65
Net income payments on direct investments	= 79
Other net factor payments abroad	= 60
Net Capital Inflow	= \$ 254

Capital Account

Public Transfers	\$ 5
Net direct investments	106
Net short term capital, including changes in net short term assets	97
Medium and long term capital, net	77
Loan drawings	(\$260)
Amortizations	(-183)
Errors and Omissions	= 30

Sources: Basic data obtained from International Monetary Fund, Balance of Payments Yearbook (several issues). Negative sign implies a debit.

that Brazil faced a serious foreign debt crisis. Debt service charges, including amortizations on medium and long term debt plus interest on all debt, rose from 13 per cent of merchandise exports in 1955, to an unusual 44 per cent in 1960.

The Alliance for Progress in Brazil, then, opened under peculiar conditions. Thanks in part to the net capital inflow, the country had been able to achieve from 1947 through 1960 an annual growth rate in its real Gross Domestic Product of about 6 per cent, with industry expanding at more than 9 per cent per annum. This was accomplished even though the 1955-59 volume of all merchandise exports was 16 per cent below that of 1948-49. But by 1961 the Brazilian external debt (including undisbursed) had surpassed \$3 Billion.⁴

External Financing during the Alliance for Progress years; An overall view.

A summary comparison of post-Alliance Brazilian performance with that of the 1950's is at first blush somewhat disconcerting. It is not just that overall growth dropped from around 6 to less than 4 per cent per annum; more puzzling at first sight is the decline in the net capital inflow, as shown in Table 2, at a time when foreign aid was becoming more plentiful.

Some forms of aid did become more plentiful to Brazil after 1961. As shown in Table 3, the U.S. Agency for International Development (AID), and the newly created Inter-American Development Bank (IADB), lent substantial sums to that country after 1961, and the U.S. Food for Freedom program and the World Bank group increased the level of their grants and loans.

When the 1960's are compared as a whole with the 1950's, using aggregate balance of payments statistics, the main accomplishment of this increase in development loans and grants appears to be a tidying up of the Brazilian foreign debt. The short term commercial debts and suppliers' credits piled up during the 1950's were either paid up or refinanced under better conditions, with the help of U.S. and multilateral lending institutions. A good share of the time of Brazilian economic authorities during the early 1960's was spent on short term debt management, or, in the phrase favored by financial writers, in keeping the country from "going bankrupt". Major agreements with a group of creditors (The Hague Club) on debt re-schedulings were reached on May 1961 and July 1964. On both occasions creditors chose to keep Brazil on a "short leash", and the reschedulings served only as stop-gap measures.⁵ But by 1967 the structure of the Brazilian foreign debt was much healthier than that of 1960; average conditions on interest rates, grace periods and amortization schedules were softer. The participation of suppliers' credits in total debt had decreased and short term commercial debts were being met regularly, the arrears having been liquidated. Debt service payments, in absolute amounts, were in 1967 no greater than what they had been in 1960; coupled with an expansion of merchandise exports, the debt service ratio was reduced to 34 per cent in 1967.

All of this is pleasing. But one may wonder what would have happened if AID, IBRD and IADB loans had not been available in the amounts indicated in Table 3. One possibility is that Brazil would have had to "tighten its belt" further during the 1960's, to meet its foreign debt obligations.

Table 2

Brazilian Balance of Payments, 1961 through 1967

(Annual averages, Million current dollars)

Current Account

Exports, f.o.b.	\$ 1,492
Imports, c.i.f.	-1,360
Net non-financial services and private transfers	- 57
Net income payments on direct investments	- 88
Other net factor payments abroad	- 134
<u>Net Capital Inflow</u>	<u>\$- 147</u>

Capital Account

Public Transfers	\$ 25
Net direct investments	131
Net short term capital including changes in net short term assets	- 63
Medium and long term capital, net	98
Loan drawings (\$511)	
Amortizations (-413)	
Errors and Omissions	- 44

Sources: As in Table 1

Table 3

New Loans and Grants to Brazil Authorized by Major Donors
(Annual averages; Million current dollars)

	<u>U.S. Fiscal Years</u> <u>1946 through 1960</u>	<u>U.S. Fiscal Years</u> <u>1961 through 1967</u>
U.S. AID and predecessor agencies	\$ 3.1	\$148.8
U.S. Food for Freedom and predecessor programs	10.5	75.5
U.S. EXIMBANK long term loans	64.6	34.7
U.S. Other Economic Programs	3.0	3.0
U.S. Military Assistance	8.3	20.9
World Bank Group	18.5	35.8
Inter-American Development Bank	----	64.9
<u>Total</u>	<u>\$108.0</u>	<u>\$383.5</u>

Source: Agency for International Development, U.S. Overseas Loans and Grants and Assistance from International Organizations (Washington, D.C.: 1968), pp. 33 and 161.

"World Bank Group" refers to IBRD and the International Finance Corporation (IFC). Inter-American Development Bank loans include those of the Social Progress Trust Fund. EXIMBANK loans exclude \$397.2 Million of refunding loans made by that institution to Brazil during 1961-65.

Argentina, after all, from 1963 through 1967 registered current account surpluses adding to \$930 Million, under pressure of external debt obligations. It could thus be argued that the increase in external official inflows shown in Table 3 made possible a larger current account deficit, or a smaller surplus, than would have taken place in the absence of official assistance. The fact that such a deficit was during the 1960's smaller on the average than that registered in the 1950's could then be considered irrelevant. In other words, a country can be receiving aid, defined as grant and loans under concessionary terms not available to it from commercial markets, without necessarily registering current account deficits.⁶ However, under Brazilian political conditions (of which more later), the realistic alternatives to an increase in external official inflows were either a unilateral moratorium on debt servicing, or more debt rescheduling. The prestige and credit standing Brazil preserved in world financial circles by avoiding those alternatives can be credited to the availability of external official flows. To most Brazilians this is probably not a very exciting contribution of foreign aid.

From the Brazilian viewpoint, the desirability of the financial juggling accomplished during the 1960's partly depends on the legitimacy of the old debts, and the economic and other conditions attached to new gross inflows. Little solid information exists on the suppliers' credits and commercial arrears accumulated during the 1950's; the usual stories of high pressure selling with hints of corruption are heard. More fundamentally, one may question the desirability of mechanisms used in industrialized countries first to promote their exports of capital and other goods

by liberal use of official insurance and credit schemes, and then to pressure recipient countries to consolidate private bad debts thus generated into public debt. On both the exporting and importing sides, this system reduces entrepreneurial incentives to refine cost-benefit calculations and objectively evaluate commercial risks.⁷ The major responsibility for screening which suppliers' credit are accepted for official repayments guarantees naturally rests with the receiving country. But industrialized countries which officially encourage their exporters to aggressively push their wares are not without responsibility when the time comes to consider bad debts.

The terms of the official flows going into Brazil during the 1960's were on the whole more favorable, at least regarding maturities, grace periods and interest rates, than those of external credits received during the 1950's. But at an aggregate level, it may be noted that the "tying" characterizing U.S. flows reduced their contribution to Brazilian debt management. Debt servicing is of course untied, and must be finance from the general pool of foreign exchange. While imports financed with tied aid presumably free foreign exchange for debt servicing, the substitution is not perfect, especially in the short run, and further taxes the accounting and financial ingenuity of economic authorities, diverting them from considering long term development problems.

To summarize: During the Alliance years Brazil received substantially larger official inflows, or aid, but because of unfavorable initial conditions and Brazilian policy choices on how to deal with them, such inflows resulted in a lower transfer of real resources than had been accomplished during the 1950's. The net capital inflow from 1961 through 1967 amounted to

about 11 per cent of merchandise imports and to less than 5 per cent of gross fixed investment. In per capita terms, or as a percentage of Gross National Product, its contribution seems even smaller.⁸

The Continuity and Objectives of Foreign Aid

Treating post-1960 years as a whole misses much of the difficulties surrounding foreign aid to Brazil. The major problem has been the political and economic instability experienced by that country during the 1960's. Decisions by both bilateral and multilateral donors have been taken with the political and economic short run very much in mind.

After less than one year in office, President Quadros resigned in August 1961. Vice-President Goulart succeeded him, but under military pressure, a parliamentarian-type government was adopted, reducing the powers of the Presidency. On January 1963 a plebiscite confirmed, by a wide margin, a return to a full presidentialist regime. On April 1964, President Goulart was overthrown. Although since then the military have been in effective command of the government, several political crises have erupted, the most severe in December 1968. Economic policy emphasized stabilization during April 1964 to April 1967 (the term of President Castello Branco), and expansion since then.

Before April 1964 U.S. aid programs followed a zigzagging course, buffeted by Brazilian political changes, and hoping in turn to influence them. The stop-go decisions of those years make dizzying reading. In May 1961, AID agreed to lend Brazil \$100 Million in balance of payments assistance, as part of a package including the IMF, European creditors, EXIMBANK and the U.S. Treasury. The loan was suspended with Quadros'

resignation. Later on, however, AID agreed to release \$75 Million from that loan between November 1961 and April 1962. Disenchantment with Goulart led to a new temporary suspension of further disbursements, but the Bell-Dantas agreement of April 1963 led to the disbursement of the remaining \$25 Million. Shortly after that date, AID gave up hope on the Goulart regime, and adopted an "islands of sanity" strategy, calling for cooperation with selected state governments (Brazil being a federal republic), autonomous public agencies, and private sector "to the extent that this was possible". Answering criticisms of the U.S. Government Accounting Office (GAO) regarding project loans made before April 1964, U.S. AID admitted that "...overriding U.S. policy considerations..." and not just developmental criteria weighed heavily on its decision-making.⁹

The point was forcefully, although with some factual inaccuracies, expressed by Mr. Thomas C. Mann, then Assistant Secretary of State for Inter-American Affairs, testifying in Congress in May 1964:

" We were aware in January by the time I got there--I do not know how much earlier--that the erosion toward communism in Brazil was very rapid. We had, even before I got here, devised policy to help certain state governments. We did not give any money in balance of payments support, budgetary support, things of that kind, which benefit directly the Central Government of Brazil. That was cut back under Goulart. In my opinion, sir, and I think this is the opinion of many people who are informed about Brazil, the fact that we did put our limited amount of aid in the last year of the Goulart administration into states which were headed by good governors we think strengthened democracy."¹⁰

Since April 1964, U.S. aid to Brazil became steadier and greater attention was given to economic, rather than political criteria. Most of

the program, however, was aimed at supporting short term stabilization measures. Talking early in 1969 about U.S. AID programs in Brazil, Chile and Colombia, Mr. James R. Fowler, Deputy U.S. Coordinator for the Alliance for Progress, stated:

" On looking back, as I have recently, over the years of the Alliance in these major three countries, it seems very clear to me that conscious decisions were made that the resource input and the assistance in the first instance would go to try to bring some stability into these economies."¹¹

The emphasis on inflation control was particularly strong in Brazil, where the cost of living rose by 89 per cent between the second quarters of 1963 and 1964. The major innovation in AID Brazilian activities, the program loan, became the key lever for supervising Brazilian use of its monetary and fiscal instruments. Between 1964 and 1968 funds from program loans were released only subject to quarterly reviews of Brazilian policy performance which AID judged satisfactory. After the April 1967 change in Brazilian administration, disbursements from program loans were in fact held up from July until the end of that year, due to disagreements between AID and the new Finance Minister on economic matters, showing that the quarterly reviews were no mere formality.

Political considerations, somewhat different from pre-1964 ones, again interfered with the continuity of U.S. aid flows late in 1968. After the Brazilian military brushed aside on December 1968 some of the flimsy post-1964 constitutional legality, AID placed "under review" further disbursements from its last program loan (signed in May 1968), as well as project and sector loans which had previously been authorized,

but not signed. Disbursements from project and sector loans already signed, however, went ahead.

Discontinuity in lending operations to Brazil has not been the monopoly of AID. As shown in Table 3, the EXIMBANK sharply curtailed its gross lending to Brazil during the Alliance years. The reasons for this behavior are not clear. During the early 1960's the EXIMBANK apparently felt that too much of its portfolio was being taken up by this risky borrower. Later on, perhaps because of bureaucratic rivalries, it failed to coordinate its program with that of AID. The World Bank Group also followed a stop-go policy in its Brazilian operations; from 1960 through 1964 it did not authorize a single loan to Brazil. This was followed by authorizations of loans amounting to a total of \$251 Million from 1965 through 1967. The record of the IADB has been steadier; from 1961 through 1964 it authorized loans to Brazil averaging \$56 Million a year, increasing to \$101 Million a year from 1965 through 1967. Authorizations on the Food for Freedom program were often erratic, as in 1967, raising serious doubts in Brazilian minds as to their reliability.

The stop-go authorization policies of the EXIMBANK and the IBRD yielded an ironic result. During 1961-63, when Brazilian economic policy was presumably at its worst, net disbursements (gross disbursements to Brazil minus Brazilian amortizations) amounted to a total of \$208 Million for the EXIMBANK and \$26 Million for the IBRD. During 1964-67, when major efforts were made to stabilize the Brazilian economy, net disbursements from both institutions were negative, reaching -\$119 Million for the EXIMBANK and -\$30 Million for the IBRD.¹² The withdrawal of these

institutions from the Brazilian scene during the early 1960's, furthermore, hampered rapid and efficient identification and execution of new projects after 1964. The variable lag of disbursements behind loan authorizations, especially important at a time when the aid pipeline was being built up, as it was in the early Alliance years, thus compounded the instability and unpredictability of actual aid receipts.¹³

Whether or not the political and economic judgements which gave foreign aid to Brazil during the 1960's its unstable and short run character were correct, it is reasonably clear that by so doing it sacrificed the contribution foreign aid can make to sensible long range planning, not to mention the more ambitious social reform targets also contained in the Charter of Punta del Este.

Loan Authorizations and Disbursements:

A look at time profiles and implications for the grant-element.

Standard calculations of the grant element in development loans implicitly assume that they are fully disbursed at the time the loan agreement is signed, or that repayment schedules begin to apply only after the funds are disbursed.¹⁴ However, while disbursements will in fact be spread out over several years, loan agreements typically specify that repayments of principal will begin x number of years (about 5 years for IADB and IBRD loans and 10 years for AID loans) after their signing, or at best after the first disbursements, regardless of the pace of disbursements. Although interest is charged only on the disbursed amounts, loans made by the IADB and the IBRD carry a "commitment charge", often of three-fourths of one per cent per annum, to be paid on the undisbursed

amount of the loan.¹⁵

Both the disbursement lag and the "commitment charge" reduce the grant element of loans below what is estimated in standard calculations by an amount to be determined in this section.

In what follows attention will be centered on the grace period, assuming that loans are fully disbursed within that time. No change in the standard calculations for the post-grace period is necessary.

Assume for simplicity that a loan is disbursed in equal parts throughout the grace period. Use the following notation:

L face value of the loan

q rate of discount

G grace period (number of years)

t time

The present discounted value of the disbursements at the time of signing will be:

$$\int_0^G \frac{L}{G} e^{-qt} dt = \frac{L}{Gq} (1 - e^{-qG}) \quad (1)$$

The value of (1) is naturally lower than that of L. Assuming,

$$G = 5 \text{ years}$$

$$q = 10 \text{ per cent}$$

Then the value of (1) will only be 79 per cent of L. In other words, this factor alone reduces the grant element of a loan by 21 percentage points.

There is some offset to this by the fact that during the grace period interest will not be paid on the whole face value of the loan, but only

on its undisbursed amount. On the other hand, the penalty charge on the undisbursed balance will chip away at that offset.

The present value of interest payments during the grace period under the new assumption regarding loan disbursements will be:

$$\int_0^G \frac{L}{G} i t e^{-qt} dt \quad (2)$$

Where in addition to previous notation:

i = interest rate on the loan

The present value of the penalty charges on the undisbursed amounts during the grace period will be:

$$\int_0^G \frac{Z(L-Lt)}{G} e^{-qt} dt \quad (3)$$

Where the new symbol, Z , refers to the penalty charge.

Combining (2) and (3) one gets:

$$\int_0^G \left[(i-z) \frac{L}{G} t + ZL \right] e^{-qt} dt \quad (4)$$

This expression may be compared with the standard estimate of the present value of interest payments during the grace period:

$$\int_0^G i L e^{-qt} dt \quad (5)$$

If penalty charges were to reach interest rates the two expressions would be identical.

Solving (4) one obtains:

$$\frac{(i-Z)}{q} \frac{L}{G} [1-e^{-qG} (qG + 1)] + \frac{Z}{q} L(1-e^{-qG}) \quad (6)$$

Which can be compared to the solution for (5):

$$\frac{i}{q} L (1 - e^{-qG}) \quad (7)$$

So long as Z is smaller than i, the value of (6) will be smaller than (7), thus "putting back" some of the grant element taken away in equation (1).

Assume,

$$i = 5 \text{ per cent}$$

$$Z = \text{three-fourths of one per cent}$$

and other parameters as above, then expression (6) will become 0.106L. Expression (7) becomes 0.197L.

In the numerical example given, then, the net effect of the new assumptions, as compared with the standard ones assuming instant disbursements and no penalty charges, is to reduce the grant element by about twelve additional percentage points. In other words, if using standard assumptions the grant element of a loan was 75 per cent, under the modified assumptions the grant element will be 63 per cent.¹⁶

Table 4 summarizes the disbursement rates of project loans made to Brazil by the IADB (57 loans), IBRD (16 loans) and AID (39 loans). No institution had disbursed, on the average, more than 50 per cent of the principal of its loans two and a half years after the signing of the loan agreements.¹⁷ About eighty per cent or more of the principal became disbursed only after four and a half years following the loan agreement. These lags are to some extent inevitable: equipment has to be ordered, projects will run into unexpected technical snags, receiving countries may fail to put up their share of the funds at the required

time, etc. Bureaucratic delays by both recipients and donors, often complicated by policy disagreements, also add to disbursement delays. But regardless of their justification, it is clear that this type of development loan does not provide cash on hand like a bond sale does.

A more realistic example of grant element calculations, with and without the wrinkle developed in this section, can be given taking into account Table 4. Assume an IBRD/IADB type of loan, with an interest rate of 5 per cent per annum, and a 5 year grace period followed by 20 years of amortization of the principal in equal amounts. Using a discount rate of 10 per cent per annum, the grant element of that loan, using standard procedures, would be about 35 per cent. When a "commitment charge" of three quarters of one per cent, and disbursements of 10, 20, 30 and 40 per cent of the loan for the first, second, third and fourth years following its signature are taken into account in the calculation, leaving other assumptions unchanged, the grant element drops by about half to 18 per cent.¹⁸

The experience with program loans and other aid practices

Not all loans to Brazil share the slow disbursement rates indicated in Table 4. AID program loans, in particular, have been disbursed more quickly (typically within two years), especially when no policy disagreements arose between the Brazilian and the U.S. governments. This section will discuss other characteristics of U.S. program loans to Brazil, as well as the newer concept of sector loans, and other features of project loans.

For many years economists ~~praised the advantages of program over~~ project loans, especially in the context of development planning. More

Table 4

Average Disbursement Profiles of Project Loans to Brazil
(As Cumulated Percentages of Loan Principals)

<u>Disbursements by December 31 of:</u>	<u>IADB</u>	<u>IBRD</u>	<u>AID</u>
Year of signature of loan agreement	6	1	7
First full calendar year after agreement	21	9	24
Second full calendar year after agreement	50	37	49
Third full calendar year after agreement	70	63	76
Fourth full calendar year after agreement	81	88	80
Fifth full calendar year after agreement	88	96	90
Sixth full calendar year after agreement	94	99	100
Seventh full calendar year after agreement	100	99	100

Sources and Method: For the IADB, the calculation includes loans made from Ordinary Resources, Special Operations and Social Trust Fund from 1961 through 1968. Basic data obtained from the Annual Reports of that institution (Statements of Approved Loans). IBRD loans include those made during 1958 and 1959, plus those granted from 1965 through 1968. The averages shown for this institution, therefore, are probably less representative than those for the IADB and AID. (IBRD loans made during 1958-59 were disbursed rapidly, while 1965-68 loans have had very slow disbursement rates.) Basic IBRD data obtained from its Monthly Statement of Loans, December issues, Mimeographed. Calculations for AID include only project loans made from 1962 through 1968; basic data obtained from AID, Office of the Controller, Status of Loan Agreements, December issues.

recently, and reflecting Latin American experience, program lending has come under professional criticism.¹⁹ It will be argued in this section that Brazilian experience with AID program loans sheds not much light on the project vs program debate. The reason is that AID program loans to Brazil have little in common, except their label, to the program loans economists had in mind.

From 1961 through 1968, program-type AID loans to Brazil worth \$625 Million were authorized and signed, of which \$100 Million were granted before April, 1964. Those loans, however, given as general balance of payments support in the midst of difficult political conditions, generated much U.S. Congressional opposition to this aid form. Their major objectives appear to have been political, rather than economic. Partly to persuade the U.S. Congress that funds would not be wasted, post-1964 program loans were accompanied by a system of quarterly review, to which reference has been made earlier. Latin American program loans took on a character different from those made to the more "reliable" India. Those reviews, replaced since 1968 by semi-annual sessions, often involved as many as thirty people on each the U.S. and the Brazilian side, and went into many detailed aspects of Brazilian economic policy, even though AID had other ways of obtaining desired information. Many Brazilian officials found them not only humiliating, but also counterproductive.²⁰ They created an atmosphere encouraging rationalizations and double-talk, not very conducive to frank discussions of aid and development policies. The reviews concentrated on monetary and fiscal instruments, including exchange rate policy, rather than on targets, in a fashion not unlike

that of the International Monetary Fund (IMF). To many, in fact, AID program loans differed from IMF stand-by agreements only in the much more generous financial conditions involved in the former, with the offsetting cost that the latter involve review sessions only once a year, and with officials who stay in the country just a few days. Instead of the yearly "letters of intention" required by the IMF stand-by, Brazilian letters to the Chairman of the Inter-American Committee for the Alliance for Progress, with detailed quantitative targets in the fields of credit and fiscal policy, accompanied the AID program loans. In other words, instead of committing program loans to support a five year development plan, AID used one year pledges to back one-year financial and fiscal policy packages. To paraphrase Hirschman-Bird, AID program loans attempted to reward virtue of a very particular and fragile species.

Under pressure from the U.S. Treasury Department, and much to the annoyance of AID, "additionality" requirements, aimed at going beyond standard tying procedures and assuring that program loan dollars would be spent on additional Brazilian imports from the U.S., further complicated program loan reviews. Paradoxically, at a time when the U.S. was promoting the liberalization of the Brazilian import and exchange control system, special regulations had to be introduced by Brazil to encourage the diversion of import demand toward U.S. sources. These regulations went against the spirit, if not the letter, of post war agreements against trade discriminations. For example, six months credits at low rates of interest (negative in real terms) were granted to importers of certain narrowly specified goods, which happened to be available only in the U.S. Since the adoption of a flexible exchange rate, which is depreciated in

small but frequent doses by the Central Bank, importers of "allowable" U.S. goods were promised that they could pay for those imports at the going spot exchange rate, even though imports were not likely to materialize in six or more months. Other importers, of course, would have to pay a premium on forward dollars to cover themselves against exchange risks.

"Allowable" imports from the U.S. were regulated until 1968 by an extensive negative list, naturally including, besides luxury goods, commodities for which the U.S. already enjoyed a large share of the Brazilian market. In 1968 the system was tightened by the change to a positive list of allowed imports, increasing the time devoted by Brazilian and AID officials to wrestling with U.S. Treasury officials over which goods could or could not be imported. A good day in aid administration became one when AID could convince the Treasury that usual Brazilian imports from Chile should be left out of the positive list. "Additionality" was finally abolished in June, 1969.

It appears that the implementation of "additionality" caused in Brazil less problems than it did in Chile and Colombia. Incentives to importers of U.S. goods were so strong that funds moved quickly, unlike Chile, where program loans funds have gone unspent on several occasions. For whatever reasons, which may include the Brazilian import liberalization program and its impact on imports of durable consumer goods, the U.S. share in total Brazilian imports rose from 32.3 per cent during 1961-65 to 36.7 per cent in 1966-67. Detailed data are not yet available to judge the extent to which this was the result of trade diversion induced by tying and additionality. But one real cost of "additionality", perhaps

its greatest, is clear: it used up an inordinate share of the time of both Brazilian and U.S. officials dealing with aid, and reduced the credibility of AID officials arguing that the funds were given to promote Brazilian development. This is a far cry from the ideal program loan economists contrast with project lending.

Defenders of the AID program loans argue that, given the mood of the U.S. Congress, only short term commitments keyed to anti-inflationary efforts, and surrounded by the paraphernalia of rigorous quarterly reviews, were politically feasible if aid to Brazil was to be raised quickly after April, 1964. It is further argued, somewhat paternalistically, that the review mechanisms have helped Brazilian planning (at least of a short term measure), by forcing that government to marshall its data and thoughts regularly, and by providing a platform for expert foreign counselling. Although the alleged goal of these loans is not to force conditions on an unwilling government, but to strengthen the hand of the "good guys" within that government who without prodding agree with AID prescriptions, it is considered that the "good guys" can benefit from the discipline of frequent reviews and, depending on the political climate, with the chance to blame foreigners for the need to take unpopular policy measures. Hirschman and Bird have pointed out the difficulties in these arguments, difficulties which, it may be added, become more serious when the policy debate takes place in a bilateral framework and deals with short run policies which are easily reversible.

There is polite disagreement between AID and Brazilian officials regarding the impact of post-April 1964 program loans on Brazilian economic policy making, especially during the first three years. Having sold

program loans to Congress at least partly on the basis of the "leverage" they give over short run macroeconomic policies, AID naturally likes to hint, with great discretion, that the loans gave the "good guys" the critical margin to push through their policies. Brazilian left-wing critics of aid, of course, agree with this evaluation, which they express in a somewhat less polite language. The "good guys", in the Brazilian case an impressive group of economists, although grateful for the additional funds, usually claim the policies would have been the same without them. As far as an outsider can judge these subtle matters, the latter appear to have the better case, at least for 1964-67. In more recent years, the mechanisms of program lending may have played a more important role in strengthening the hands of those within the government wishing to maintain the momentum of the stabilization plan and to adopt a more flexible exchange rate policy.²¹ Flexibility in the granting and speed in the disbursement of AID program loans to Brazil have been their most impressive features, which are consistent with their stabilization goals. In the early stages of the anti-inflationary program, as that adopted in Brazil after April 1964, those features can be particularly important in mitigating the harshness of the impact of austerity measures. Much of their potential advantages, however, were wasted. During 1964 through 1966, Brazil accumulated a current account surplus of \$230 Million dollars, while projections made during 1964 had expected substantial current account deficits of \$300 and \$400 Million were forecasted; in fact, 1965 registered a surplus of \$250 Million and 1966 a deficit of \$70 Million. The major surprise was the low level of merchandise imports, in turn reflecting an unexpected contraction in the levels of investment and general economic

activity.²² As U.S. officials, worried about the U.S. balance of payments, watched nervously, the assets of Brazilian monetary authorities, rather than Brazilian imports, rose steadily from \$170 Million at the end of the second quarter of 1964 to \$505 Million at the end of 1965. To avoid this embarrassing surge in reserves, plans to arrange for new debt rescheduling meetings in 1966 were abandoned, and substantial debt repayments were accomplished.²³ Tied AID program loans were substituted for another form of short-term "program lending" having the advantage of freeing untied foreign exchange, i.e., debt rescheduling. The role of AID program loans as cushion against the negative short run effects of stabilization was much less visible. Per capita real absorption during 1964-66 remained at the levels reached during 1961-63 and, if the national accounts are to be believed, the absolute level of real gross fixed investment fell by about 15 per cent between those two periods. Some urban real wages also fell during 1964-66, but this may have been limited to the best organized and paid urban workers.

To summarize: Brazilian experience is more relevant to a discussion of lending for stabilization versus lending for development, or more precisely, to the establishment of priorities among short and long term goals, than to the hoary project versus program debate.²⁴

During more recent years AID has given greater attention to long term development goals, such as improving Brazilian agriculture and the educational and health systems. The macro leverage provided by its program loans has been found unsuitable to promote sectorial reforms, and a new form of lending, sector loans, has begun to appear.²⁵ Authorized (but unsigned) loans for secondary education and for the establishment

of a Brazilian national fund for water and sewerage projects are examples of this type of lending. As the direct import content of these activities is minimal, sector loans share with program loans the feature of providing foreign exchange, tied only to purchasing from the U.S. As Brazil has already developed a diversified capital goods industry, it may be noted, external financing of only direct import requirements of machinery and equipment has become an increasingly unsatisfactory way to transfer real resources into that country. In fact, a recent AID loan to finance U.S. capital goods into Brazil has moved slowly due to the keen competition (and political pressure) of Brazilian capital goods producers. In contrast with program loans sector loans include fewer but more pointed preconditions of a sectorial, rather than of a macroeconomic character. In this respect, they are closer to, say, project loans for electricity which carry as preconditions changes in public utility rates and the organization of public electrical enterprises. It is likely that institutions with experience in project lending, such as the IBRD, will expand more and more into sectoral loans in areas like industry, agriculture and education, by liberalizing their policy on financing domestic costs while insisting on more general policy commitments.

It is too early to evaluate the performance of sector loans in Brazil. They do get into more sensitive areas than project loans (education versus electricity), raising Hirshman-Bird difficulties. It is already known that negotiations over the secondary education sector loans have been slow and painful. They have been further complicated by the constitutional need to deal in this matter both with several state governments and with the federal government of Brazil. Other AID

plans to devise sectoral loans for university education aborted for political reasons. Although it is doubtful that this type of loan can succeed in transferring large amounts of resources and promoting badly needed institutional changes within a bilateral setting involving the U.S. and the present Brazilian regime,²⁶ it represents, at least, an effort to use aid to support policy changes with substantial long run implications (i.e., educational reform, which has been badly needed in Brazil for many years), rather than those which may be easily reversible (i.e. a few percentage changes in credit expansion or in the exchange rate).

As indicated earlier, Brazil has received a large number of project loans from AID, IADB and IBRD during the 1960's. Conspicuously absent from among donor institutions is the International Development Association (IDA), dispensing untied soft loans. This institution has ignored Brazil as too rich, leading some to facetiously recommend a secession of the Brazilian northeast as a way to increase the inflow of aid. As in other countries, project loans signed during 1961 through 1967 by the IBRD were predominantly for electricity, while those from AID, and especially the IADB, were more diversified.²⁷ The geographical diversification within Brazil of the two latter institutions is also greater than that of the IBRD, which has concentrated its activities in the relatively prosperous south. But more recently the trend is for the portfolio of these institutions to become less differentiated, as the IBRD gets ready to expand into transport, industry, agriculture and social sectors, while the IADB, its Social Trust Fund exhausted, increases its loans into traditional social overhead fields

If project loans made during 1961 through 1967 by these institutions are part of a coordinated development strategy, that strategy is not at all obvious. Lack, until very recently, of a Brazilian long range development plan, and the understandable Brazilian reluctance to have those loans coordinated by collusion among foreign institutions (some of which takes place, anyway), partly account for the ad hoc procedures used to evaluate projects by each lender. Well known tying procedures on AID and many IADB loans, the impact of which could only be mitigated in part by Brazilian maneuvering as to where different projects were to be financed, reduced their economic value and biased investment policies. U.S. legislation requiring that at least 50 per cent of the tonnage financed by AID loans be shipped on U.S. vessels, for example, caused serious delays during 1964-56 for at least one AID fertilizer loan, as a result of which a crop-year was missed. Projects involving large direct imports from the U.S., such as capital-intensive highway maintenance, which opened possibilities of diverting Brazilian imports from Western Europe toward the U.S., tended to be favored over higher priority projects involving a high share of local costs. These biases received their main support, it should be noted, from the U.S. Treasury.

More generally, the fact that until very recently bilateral and multilateral donors concentrated their project lending on large infrastructure units, biased investment in their favor. Knowledge that external finance is more available for certain types of projects is bound to exert an influence over investment plans, especially bearing in mind the costliness of project preparation. Ideally, Brazil should have a plan whose priorities were established independently of external financing possibilities. In

that case, AID, IADB, IBRD, etc., could pick from the plan whatever projects and sectors they preferred to finance, each according to its own biases. But in fact, no such strong planning mechanism exists yet in Brazil, and the investment pattern ends up reflecting to a large extent lenders' ad hoc preferences. If those lenders fancy dams and dislike education loans, Brazil will tend to invest in dams and neglect education.

One of the best features of project lending, i.e., the encouragement it gives to sectorial project preparation, financial planning and institution-building, also tended to perpetuate the traditional allocation of project loans. Electricity grew increasingly attractive as a candidate for loans, while less traditional borrowers, such as education and health, had to wait for major policy changes before they could hope for a share of external funds. Furthermore, the institutional strength generated by external support made it easier for the favored sectors to claim higher shares of domestic resources. Donor reluctance to lend to public enterprises engaged in manufacturing and mining has also contributed to investment biases, (and to occasional political frictions). In short, administrative ease, short run politics (including at least regional and national Brazilian politics, plus those within the U.S. government and others involving international agencies), and export promotion considerations seem at least as important as economic criteria in the explanation of which Brazilian projects receive external finance.

Concluding Remarks

Although this essay has attempted neither an exhaustive treatment of foreign aid to Brazil nor an analysis of Brazilian economic conditions during the 1960's, it may be misleading to finish without indicating some

of the realizations of post-1964 policies. A gradual reduction in the rate of inflation from its 1963-64 levels has been accomplished. Year-over-year percentage price increases have been as follows:

	<u>Wholesale index excluding coffee</u>	<u>Consumer Prices</u>
1961	40	38
1962	51	52
1963	75	72
1964	82	87
1965	53	61
1966	41	47
1967	27	30
1968	23	24

Controlling inflation has taken longer than expected; the inflationary impact of correcting long distorted relative prices, or what has been dubbed corrective inflation, was underestimated. Supply responses to relative price increases were often disappointingly sluggish, while those to decreases were frequently quick. Yet since 1964 each year has witnessed lower inflation, and 1969 appears to continue this gradual trend. The creation of a new Central Bank and budgetary and fiscal reforms have expanded and improved the public sector instruments for seeking macro-economic equilibrium, as well as for expanding public savings.

Other institutional changes, such as the creation of a planning ministry and a central mortgage or housing bank, have improved the machinery for long term national and sectorial planning.

Not without some setbacks and waverings, domestic relative prices have moved closer to reflecting real opportunity costs, making them better guides for resource allocation. Changes in policies toward foreign exchange,

interest and public utility rates, plus a program of import liberalization started in 1966 which had helped to rationalize the protectionist system (although import duties remain high) have contributed to this purpose. The domestic capital market was encouraged, and it is now perhaps the most active in Latin America.

Measures to help the northeast, already started before 1964, were continued and extended. Indeed, the "aid program" of the Brazilian south to its north, relying mainly on tax incentives, dwarfs that of the rest of the world to Brazil.²⁹

Agricultural and export diversification have been encouraged, Non-coffee merchandise exports, which during 1962-63 averaged \$615 Million a year, reached \$1,028 Million a year during 1967-68. Finally, while the overall growth rate hardly stayed ahead of population expansion through 1963-66, it has risen substantially during 1967-68. The recovery of investment during recent years has also been strong.

These, then, are the major accomplishments achieved at respectable social, political and economic costs. Those costs have been borne unequally by different social groups, and masses of Brazilians have received little tangible immediate help, or hope of future help, from the economic reforms. Under these circumstances, it remains to be seen how permanent they will prove to be.

The role of foreign aid in inducing these reforms and softening their negative short run impact has been, as discussed earlier, very modest. But the clearest benefit to Brazil from aid received during the 1960's, i.e., an improvement in its foreign debt situation, facilitates future Brazilian policies toward external financing which may avoid its past

short comings. Assuming the continuation of vigorous export promoting policies, and the strengthening of its planning mechanism, Brazil should be able during the 1970's to rely to a much larger extent on international private capital markets for external financing of either its program or needs. The other two large Latin American countries, Argentina and Mexico, have already started issuing long term bonds in world capital markets, while several less developed countries have recently obtained suppliers' credits (as well as the more desirable buyers' credits) under conditions which favorably compare with those now available from international organizations, thanks to tough bargaining and judicious shopping. The disbursement of these program and project loans are likely to be faster and involve less political friction than those given by major aid donors. Their degree of (ex-ante) tying will also be smaller, assuming that world capital markets will continue their process of expansion and liberalization started in the 1950's.

Does this mean a partial retreat from the role for external financing envisaged in the Charter of Punta del Este? It does. A possible conclusion to this review of difficulties of foreign aid to Brazil would be to suggest the obvious ways in which it could be improved (put it on steadier, longer term basis, avoid political meddling and breathing down the recipient's neck, increase the role of multilateral aid, eliminate red-tape and tying, etc.). One could call for a return to the principles and the spirit of the Alliance for Progress. But there is little reason to think that what worked badly in the 1960's will work much better in the 1970's. Large and semi-industrialized developing countries, like Brazil, and industrialized nations with thick capital markets, would

do well to ponder Professor C. P. Kindleberger's recent words:

*In a world increasingly attracted by decentralization and local responsibility, the possibility of returning to the impersonal forces of the international capital market inevitably suggests itself. If the complex apparatus of intergovernmental and governmental aid and lending is not working satisfactorily, perhaps the time has come to revive the mechanism which it replaced. If the second-best machinery is poor, can we repair the first-best?³⁰

Footnotes

1. Net official flows to Brazil from bilateral and multilateral donors during 1964-67 amounted to \$222 Million per year. See Partners in Development, Report of the Commission of International Development, Lester B. Pearson, Chairman (New York: Praeger Publishers, 1969), p. 392, Table 27.
2. Those direct investments originated not only in the U.S. but also in Western Europe and Japan. According to the U.S. Department of Commerce, U.S. direct investments in Brazil during 1950 through 1960 amounted to only \$43 Million a year. See U.S. Department of Commerce, Balance of Payments, Statistical Supplement, Revised Edition, (Washington D.C.; Government Printing Office, 1963), p. 176, Table 49.
3. Data obtained from Agency for International Development, U.S. Overseas Loans and Grants and Assistance from International Organizations, March, 1968, pp. 33 and 161. During U.S. fiscal years 1946 through 1960, EXIMBANK long term loans to Brazil were \$970 Million.
4. Data on National accounts, exports and debt obtained from International Financial Statistics, Fundaçao Getulio Vargas and IBRD.
5. At the time of the 1964 debt rescheduling it was generally expected that another such exercise would be needed in 1966. But as will be seen below, surprising current account surpluses in 1964 and 1965 allowed Brazil to pay off more debts than thought possible in 1964. Regardless of the general desirability of such a development, this was a welcomed relief to Brazilian officials who had gone through previous rescheduling ordeals.
6. Aid literature has yet to integrate the Pincus-Ohlin definition of aid with the older, Chenery-style definition, which concentrated on estimating the foreign exchange gap generated by the current account.
7. The system also generated frictions among industrialized countries. The U.S. has felt that much of its net official flows to Brazil and other Latin American countries has gone to pay off European suppliers' credits of doubtful developmental effectiveness.
8. As in other large developing countries, such as India and Pakistan, the per capita aid received by Brazil is below the average for developing countries as a whole. According to the OECD, for example, the per capita receipts of net official assistance during 1964-66 (annual averages) were \$3.0 for Brazil, \$13.9 for Costa Rica, \$15.7 for Chile and \$18.6 for Panama. For Latin America as a whole the average was \$4.4, slightly higher than the \$4.1 for all recipient countries. See Organization for Economic Cooperation and Development, Development Assistance, 1968 Review (December 1968), p. 271.

9. See AID statement reproduced as Appendix II in Review of Administration of United States Assistance for Capital Development Projects in Brazil, by the Comptroller General of the United States, B-133283, May 16, 1968. The Aid statement reads, in part:

"...the selection of projects which is considered by the GAO as "representative" of the capital development program for Brazil consists exclusively of projects which were prepared for authorization in calendar years 1962 and 1963. This was the period in which relations between the U.S. and the Goulart government in Brazil were most difficult...Yet, for overriding U.S. policy considerations, AID undertook a project lending effort which involved all but one of the loans selected by the GAO for review. Seven of the 11 loans were extended to fulfill a \$131 Million diplomatic agreement for financial assistance to the Brazilian Northeast region within a specified 2-year time limit." (p.70)

See also pp. 11 and 76-77 of the same document. The overthrow of Goulart, in fact, made unnecessary the massive implementation of the "islands of sanity" strategy.

10. Reproduced in Appendix II, page 21, of Unnecessary Dollar Costs Incurred in Financing Purchases of Commodities Produced in Brazil, By the Comptroller General of the United States, B-146820, March 19, 1965.

11. Ninety-First Congress, New Directions for the 1970's: Toward a Strategy of Inter-American Development, Hearings Before the Subcommittee on Inter-American Affairs of the Committee on Foreign Affairs, House of Representatives (Washington: U.S. Government Printing Office, 1969), p. 619.

12. Estimates of the Secretariat of the Inter-American Committee for the Alliance for Progress, made for the 1968 Brazilian country review. Document CIAP/298 (Spanish), October 17, 1968, pp. 199-200.

13. A full consideration of the external aid lags should take into account: (a) The time elapsed between the presentation by, say, Brazil to AID, IADB or the IBRD, of a given project, and the decision by those institutions whether to accept it or reject it. This may take as much as two years of technical and economic studies. (b) The time elapsed between authorization of the loan by the institution and the signing of the loan agreement. The loan may be authorized, but subject to certain actions by the receiving country which must be taken before the signing of the agreement. (c) The time elapsed between the signing and the actual disbursement of funds. Some institutions prefer to shorten lag (b) at the expense of lengthening lag (c), by making disbursements, rather than the signing of the agreement, subject to the more difficult measures to be taken by the receiving countries. The whole process is usually surrounded by a considerable amount of paper-work and shuttling, to which, however, the receiving countries are becoming increasingly more adept.

14. See, for example, Goran Ohlin, Foreign Aid Policies Reconsidered, (Paris: Development Centre of the Organisation for Economic Co-operation and Development, 1966), pp. 101-110.

15. When disbursements turn out to be especially show, ad hoc postponements of the repayments schedule have sometimes been granted. But the basic loan agreements usually specifies that the borrower shall repay the principal in accordance with amortization schedules spelled out with fixed dates. Some IBRD loan agreements allow recipients to postpone interest payments until the project is completed, capitalizing the postponed amounts at the interest rate used for the loan. This tends to increase the grant element.

16. This wrinkle in the grant element calculation has been independently worked out, under more general assumptions, by Victor Tokman, in his "On the measurement of Aid: A methodological refinement" (Mimeographed).

17. Assuming signatures of loan agreements are evenly spread through the year.

18. Using discount rates between 7 and 9 per cent, the Secretariat of the Inter-American Committee for the Alliance for Progress (CIAP, using Spanish initials), has estimated grant elements for 1961-67 capital flows to all Latin America, by major sources, as follows:

<u>Loans</u>	
AID	68 per cent
PL480 (Title IV)	46 per cent
IADB (all programs)	33 per cent
IBRD and International Development Association	24 per cent
EXIMBANK	16 per cent
<u>PL480</u>	
Title I	100 per cent
Title II and III	71 per cent
<u>Other U.S. grants (Peace Corps, etc.)</u>	100 per cent

See Document CIES/1382, El Financiamiento Externo para el Desarrollo de la America Latina, May, 1969 (mimeographed), Table II-3. These estimates do not take into account the negative effects of "tying" of AID and some IADB loans.

Determination of the correct discount rate is complicated not only by whether one is trying to measure benefits to recipients or costs to donors, but also by the need to take into account inflationary trends in the world economy. From the viewpoint of the recipient, the expected trend in its export prices should be used to modify current borrowing costs in world markets. In the Brazilian case, dollar export prices rose by 23 per cent between 1960-63 and 1964-67, or at an average annual rate of more than 5 per cent. If such an increase can be considered permanent, it has clearly reduced real burden of future servicing of the foreign debt.

19. See especially Albert O. Hirschman and Richard M. Bird, Foreign Aid-- A Critique and a Proposal, Essays in International Finance, Princeton University, No. 69, July 1968, pp. 3-14.

20. Overstaffing at both AID/Brazil and in the Brazilian government, it is said, contributed to the attendance of these sessions. Even sympathetic Brazilian officials complained of the "invasion" of Brazil by AID. AID/Brazil personnel has been cut from 408 (in June 30, 1967) to an estimated 267 in U.S. fiscal year 1969. See U.S. House of Representatives, New Directions for the 1970's: Toward a Strategy of Inter-American Development, op. cit., p. 590.

21. See "The impact of AID Program Lending on Brazilian Economic Policy and Performance", presented by AID to Hearings before the Subcommittee on Inter-American Affairs, where it stated:

"The GOB's [Government of Brazil] indication of its intent to adopt a policy of smaller, more frequent exchange rate adjustments was a major factor in our decision to proceed with the 1968 program loan."

House of Representatives, New Directions for the 1970's: Toward a Strategy of Inter-American Development, op. cit., p. 599. The use of counterpart funds generated by program loans is supposed to be the immediate political lever helping the "good guys". The fact that these funds can be channelled to the private sector rather easily via credit institutions has also been used to persuade the U.S. Congress of the advantages of program in contrast with project lending, as typically large projects are found mainly in the public sector.

22. Merchandise imports, f.o.b., had been forecasted late in 1964 by the CIAP Secretariat, in consultation with the Brazilian government, to reach \$1,450 Million in 1965 and \$1,303 in 1966. During 1960-63 the corresponding figures averaged about \$1.3 Billion.

23. The debt service during 1964 amounted to about \$410 Million; the corresponding figure for 1966 was \$570 Million. Since then AID has tried to insure that its loans do not go simply to pay off debts of other institutions and countries.

24. Two additional points may be considered in this debate, one favoring project and the other program lending. As project lending is typically accompanied by recipients' commitments to put up part of project costs from its own savings, and as the project will not advance if those funds are not forthcoming, pressure will be maintained on the recipient to keep up its savings. Program loans, on the other hand, are given on the basis of estimated current account deficits, which may be compatible with very many aggregate consumption-investment mixes; the one in fact realized (and its corresponding level of national savings) will only become known long after the fact. Suppose that all projects undertaken in a given country have the same foreign project lending element, which will be disbursed only when the local share is put up. Then aid disbursements will be

proportional to domestic savings, something which cannot be said for program loans.

Countries with large external debt servicing, however, can run into difficult administrative problems if gross aid inflows only come in project form, with disbursements subject to the vagaries of project implementation, while debt obligations have to be met regularly with free foreign exchange (or "program repayments").

25. Counterpart funds generated by program lending were used, among many other things, to try to promote sectorial reforms. But in the attempt to achieve many targets with a single program loan, such efforts became ineffectual, and it became obvious that priority was given to the anti-inflationary goals. PL-480 loans and grants would have been labelled "sector loans" in that, at least in theory, they were given on conditions that improvements were registered in Brazilian agricultural production. However, it is doubtful that they were used for that purpose. In fact, they discouraged Brazilian corn exports, by debitting them against PL-480 wheat available to Brazil, ton for ton (Corn is a promising activity within Brazilian agriculture). They also tended to hamper agricultural integration between Brazil and Argentina, at a time when promotion of Latin American integration became U.S. policy. PL-480 wheat flow, however, has declined as a share of total Brazilian wheat imports, from about half during 1960-62 to 30 per cent during 1963-66.

26. An AID sector loan to Chilean education has met with few difficulties. But given the interest of the Chilean government in education, this may be a good example of the Hirschman-Bird point that program (or sector) aid is fully effective only when it does not achieve anything, except transferring resources.

27. Expressed as percentages of total value of loans signed, the sectorial breakdown was as follows:

	IADB	AID	IBRD
Agriculture	12	14	15
Industry	20	4	--
Electricity	24	51	85
Transport	5	21	--
Housing	5	--	--
Education	6	--	--
Water, sewerage and health	21	3	--
Multisector and other	8	7	--

Data obtained from the CIAP Secretariat. IADB includes the Social Progress Trust Fund.

28. Data from the IMF's International Financial Statistics.

29. See Albert O. Hirschman, "Industrial Development in the Brazilian Northeast and the Tax Credit Scheme of Article 34/18", The Journal of Development Studies, Volume 5, Number K, October 1968, pp. 5-29. The tax incentive scheme was established by law in December 1961, and modified

in June, 1963. Brazilian help to its own northeast is often given as a reason by AID and the IBRD for the relatively few loans these institutions have given to that part of the country. See New Directions for the 1970's: Toward a Strategy of Inter-American Development, op. cit., p. 586, comments by Mr. William A. Ellis, of AID. Incidentally, the published versions of these hearings on U.S. aid are liberally sprinkled with "Security deletions". On the other hand, they provide some light reading, as in the following interchange between Congressman Gross and Mr. Ellis (p. 585):

Mr. Gross. Earlier, one of you spoke of the Constitution of Brazil. That has been shredded a good many times, hasn't it?

Mr. Ellis. Yes, sir.

Mr. Gross. A constitution does not mean to them what it means to us in this country?

Mr. Ellis. The last constitution was that of 1967 and some of the basic elements of that have been suspended.

Mr. Gross. We get a lot of coffee from Brazil, do we not?

Mr. Ellis. Yes, sir.

Mr. Gross. We pay for it, do we not?

Mr. Ellis. Yes, sir.

30. Charles P. Kindleberger, "Less Developed Countries and the International Capital Market" (mimeographed).