



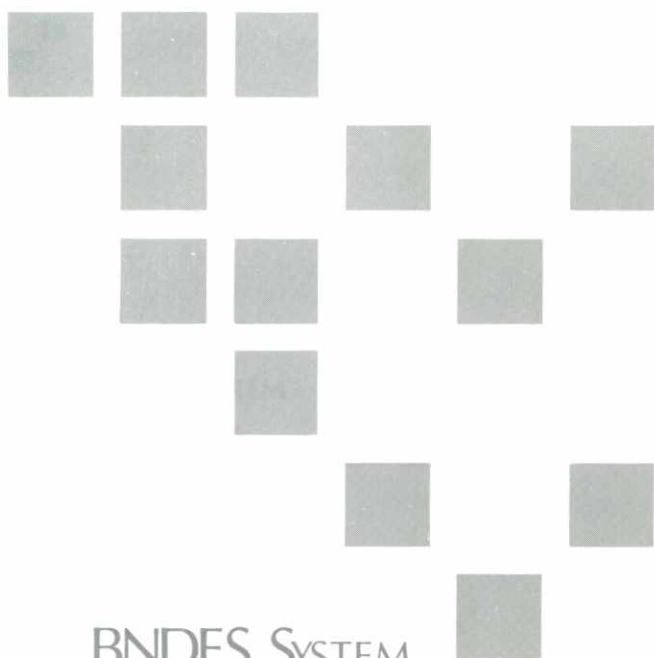
BNDES SYSTEM

**STRATEGIC
PLAN
1991/94**

SISTEMA BNDES



BNDES
FINAME
BNDESPAR



BNDES SYSTEM

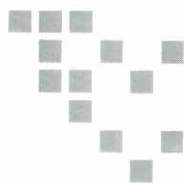
STRATEGIC PLAN 1991/94

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FOREWORD

The present Strategic Planning cycle began in 1990 and is intended to guide operation of the BNDES System in the 1991-1994 period. It is based on an analysis of the industrial and technological transformations which have been taking place in the world in recent years and the policy definitions established by the Brazilian government.

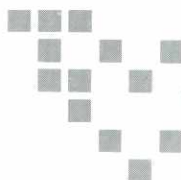
The general trends taking place at the world-wide level, added to the objective of seeking competitiveness set by the new policy, permit delineation of the strategy that ought to guide the nation's new investment cycle and, therefore, the series of structural adjustments the Brazilian economy will be required to make in the coming years.

As a public institution oriented to financing long-term investment in Brazil, the BNDES System strives under this Plan to establish the strategic guidelines required to adapt its operations to these new conditioning factors.

The qualitative change that is expected of this new stage of Brazil's economic development introduces an additional complexity to the tasks of planning and operating. Nevertheless, for the BNDES System this process constitutes a task that involves expanding and detailing a strategy, aimed at the competitive integration of Brazil in the world economy, already enunciated in the previous Strategic Plan.

Drawing up of the Plan involved System technicians and executives alike, in the sense of evaluating external trends and defining government policy regarding various segments of the nation's productive base. On the basis of this evaluation, possible trajectories were delineated and directives were established in order for the BNDES System to be able to support and make viable efficient implementation on this new strategy.

After an introduction that touches on the main changes which have occurred in the international economy and some of the impacts of same on Brazilian economy, this document expounds on the role to be played by the BNDES System in supporting the increased competitiveness of the Brazilian economy and the strategic guidelines for the coming four-year period, from which the specific directives enumerated afterwards are derived.



1 . INTRODUCTION

The world-wide process for restructuring of industry is an outstanding phenomenon of the past decade. This movement, which is still underway, derives from the rise of macroeconomic disequilibrium coupled with a quickening of the pace at which technological innovations are being introduced. The phenomenon has chiefly come about due to the combination of strategic actions set in motion by the major international companies and the governments of the leading industrialized nations. The result has been an alteration of the standard of competitive advantages noted in different parts of the world.

Companies have sought to implement new managerial forms, which have resulted in new means of organizing production in factories, greater linkups between large, small and medium-sized companies and increasing globalization of the horizon of executive decision-making. Nations, in turn, have been striving to guarantee competitive advantages for the companies located in their territories in two complementary manners. On the one hand, in a negative manner, by means of protectionist reactions of varying degrees. On the other, by means of positive reactions, with a view to structural adjustments involving the use of active industrial policies that mobilize traditional instruments and incentives and, via new mechanisms, massive investments in economic and technical-scientific infrastructure.

This restructuring movement is already in an advanced stage in developed nations. In developing countries, an enormous effort is being made in the sense of keeping up with this process and taking advantage of opportunities derived from same. This means striving to obtain dynamic competitive advantages and greater participation in the international trade of manufactured goods.

The level of competitiveness of an economy is therefore the result of the interaction of factors which are endogenous to companies — business efficiency at the level of technological, locational, productive and marketing strategies, etc. — and of the definition and implementation of public policies.

The public policies that affect the standard efficiency of a productive system nevertheless present differing types, purposes and degrees of intervention. Besides designing an industrial policy proper, macro-economic policies and those oriented towards generation of externalities are fundamental ingredients for enhancing the overall productivity of the Brazilian economy. This is because the behavior of such macro-economic variables as the exchange rate, interest rates, wage and salary levels, tax structure, etc., and the providing of adequate economic and technical-scientific infrastructure affect costs and the levels of development of the strategic assets of companies.

In light of the challenges imposed by this set reality and the need to eliminate the distortions created by the extent to which the process of import substitutions was taken in Brazil, the government determined its new industrial policy directives. These are consolidated in the document entitled “General Directives for Industrial Policy and Foreign Trade” (Administrative Rule 365, dated June 26, 1990, issued by the Ministry of Economy, Finance and Planning).

The directives of the government’s industrial policy are defined according to their main guidelines. On the one hand, a policy aimed at increasing the exposure of Brazilian companies to a greater degree of competition, through liberalization of trade and definition of a policy of domestic competition. On the other, a set of measures designed to stimulate increased competitiveness, that is, a policy aimed at enabling Brazilian companies to restructure themselves and begin to grow again in this new competitive environment, through support for investment and development of technological enhancements.

The support for increasing the research and development efforts of Brazilian companies is part and parcel of the new industrial policy. In a world of increasingly keen competition, with high levels of integration, gradually globalizing markets and one in which speed in carrying out

transformations generates a high degree of vulnerability of the competitive positions of nations, it is increasingly clear that, in the long run, the main determining factor of the competitiveness of a nation's industry is the technological ability of its companies.

It is also worth mentioning that in the agriculture and livestock sector, competitiveness is increasingly linked to the dissemination of new technical know-how as well. This is especially true in the field of biotechnology, based on the degree of integration that this establishes with the other segments that make up the agroindustrial complex of a nation.

Parallel to this, infrastructure is a key element for economic competitiveness, with significant impacts on the productivity of the industrial sector. Thus, in addition to posing new challenges in the handling of industrial policy, the objective of increasing competitiveness also generates the need for a new focus for investments in economic infrastructure. Modernization of the latter is therefore a crucial goal to be aimed at in a strategy which seeks to bring about overall increase in the efficiency of a productive system. In order to make new investments viable, this requires — given the financially tight situation currently faced by the Brazilian government — the definition of a new standard of financing, one which encourages increasing participation by private capital.

Further in line with the announced industrial policy, the new cycle of investment in the Brazilian economy should take into account the environmental aspects of the projects undertaken, a factor which today cannot be disassociated from modernization and competitiveness.

The BNDES System, as a public institution oriented towards long-term investment financing, is by nature a fundamental instrument of the new policy. The Brazilian economy's present transition process, particularly the adjustment of its productive structure to a new standard of competitive advantages, will require a major effort to get the flow of investments moving again so that it reaches levels capable of minimizing the social cost of the restructuring process and maximizing new competitive opportunities.

Accordingly, the BNDES System is responsible for the fundamental tasks of aiming its internal strategic planning definitions to attainment of the objectives established by the different public policies. Its role is

therefore not restricted to the sphere of industrial policy but rather includes the set of actions established in other policies as well. These include those oriented towards the generation of economic and technical-scientific infrastructure, those linked to the objectives of public sector equity adjustments and those relating to environmental protection.

Finally, it is worth pointing out two basic aspects of the government's policy that guide the definitions of the BNDES System's strategic planning and determine its role in this new stage.

The first is the selective nature that characterizes not just the more general outlining of policy but, mainly, the establishing of criteria for allocation of public resources of whatever kind. Secondly, this new strategy reserves for the private sector a much more active role than in the past. Yet this implies that the private sector has to prepare itself, in a business-like fashion, to take on the risks involved in disputing market shares on a much more competitive basis. This will mean reintroduction of executive dynamism and the search for technological innovation and modernization as central elements in the strategies of Brazilian companies.

It is important to note that, given the financial nature of the BNDES System, the strategic guidelines presented herein represent an undertaking carried out in the sense of combining two basic objectives of the institution's operation. On the one hand, is its function to support the recuperation of investment levels and induce the structural transformations that will follow and, on the other, its responsibility to efficiently administer public resources.



2 . ROLE OF THE BNDES SYSTEM_____

Considering the trends noted on the international scene, the objective outlined in the "General Directives for Industrial Policy and Foreign Trade" is to increase efficiency in the production and marketing of goods and services. Moreover, in view of the fact that a rise in the standard of overall productive efficiency of the Brazilian economy presupposes an inter-relationship between industry, infrastructure and agriculture and livestock activities, it was established that the BNDES System is to carry out the following role in the 1991-1994 period:

"Contribute towards expansion of the productive capacity and enhance the competitiveness of the Brazilian economy, making it possible for private resources to participate in the financing of investments, thereby bringing about:

- restructuring of industry, seeking to adapt it to a greater degree of domestic and international competitiveness;
- modernizing and adapting the economic infrastructure of Brazil, with emphasis on investments by the private sector;
- modernizing the agriculture and livestock-raising sector, with emphasis on incorporation and dissemination of new technological know-how; and
- preserving the environment."



3 . STRATEGIC GUIDELINES FOR SYSTEM OPERATION_____

In its planning process, the BNDES System has established strategic guidelines in relation to:

- target markets at which the System's operation is aimed;
- products to be used in this operation;
- organizational streamlining and modernization; and
- social communication, institutional relations and marketing.

The strategic guidelines relating to each one of these factors are as follows:

■ Target Market

The definition of the target market of the BNDES System is based on the nature of the projects, that is, their purpose and impact on the productive base of the company and/or segment considered, as well as their contribution to the adjustment of the Brazilian productive structure.

Thus, in the industrial and agriculture/livestock sectors, the BNDES System will support projects oriented towards expansion and restructuring, understood as:

Expansion: projects aimed at increasing installed capacity and meeting productive efficiency requirements.

Restructuring: projects required for restructuring the nation's industrial plant, encompassing:

— *technological enhancement*, defined as progressive and cumulative apprenticeship which comes about through generation, adaptation and enhancement of innovations, dissemination and technological transfer, including development of human and physical resources; and

— *reorganization of the production system and management*, with a view to maximizing the installed productive base through:

- adoption of techniques which bring about increase in productivity, flexibility of the productive system, greater integration between the various stages of production and with suppliers of parts and components and, furthermore, with final customers; and
- implementation of production processes with automated and integrated technological bases, in the case of companies that already have adequate production organization and operate in manufacturing industrial segments.

— *mergers and amalgamations* of companies in selected segments.

In light of the increasing role played by technological development as a fundamental determining factor of competitiveness, those projects which are oriented towards the technological enhancement of companies will receive priority and preferential treatment on the part of the BNDES System, from among the set of restructuring projects, and will be able to count on adequate means of support.

In terms of infrastructure, the BNDES System will support those projects aimed at expansion, increasing efficiency and improving the standards of quality of public services. Special emphasis will be placed on projects to be carried out and co-financed by private companies and sources of capital.

■ Products

As regards the creation by the BNDES System of funding and resource investment projects, as well as making same operational, the following strategic guidelines have been established:

- a) Seeking in a progressive manner greater participation by private resources in the make-up of the funding for the projects to be supported.
- b) Seeking greater effectiveness in managing resources, with a view to greater leverage and profitability of the System's own resources, by making funding and investment policies compatible with and subordinate to the strategic orientation formulated by top management, in order to:
 - increase the return on the System's own capital, improve the quality of its assets and expand the level of funding;
 - set a credit policy that results in allocation of System resources in a securities portfolio where the overall risk is minimized; and
 - place emphasis on the issue of bonds that permit a greater degree of leverage with System resources.
- c) Considering the objective of increasing the turnover of System assets in establishing the products to be used in financial collaboration.
- d) Seeking in a gradual manner to boost the participation of common shares in operations involving venture capital inputs and underwriting guarantees on the part of the System.
- e) Establishing preferential terms with respect to interest rates, terms and participation in technological enhancement projects.
- f) Granting privileges in assembling operations involving new infrastructure investments to those projects to be carried out by private companies, both for their own funding use or for the rendering of public

services, with maximization of the participation of private domestic resources and/or foreign resources in the composition of the funding for these projects.

g) Repassing foreign funds specifically obtained to support investments of foreign firms in Brazil.

■ **Organizational Streamlining and Modernization**

In order for the System to carry out its role in an efficient and effective manner, it is necessary to enhance its own organizational structure as an institution. To such end, the following strategic guidelines have been established:

■ **Support services**

With respect to the services produced within the institution, it has been established that:

a) The units providing and requiring services should evaluate the possibility of contracting and administering the services of activities related to same, taking into account legal aspects, technological updating, availability of personnel, structural flexibility and security and secrecy of data.

b) All services produced or administered should be oriented towards meeting user needs — adequate quality and terms — and towards reducing costs, with the convenience of centralization or decentralization being examined.

c) The user should be provided with knowledge regarding the service offered and the persons involved.

d) Continuity should be provided to integration of the services of the companies of the BNDES System, with a view to meeting their specific needs and bringing about homogenization-standardization insofar as applicable.

■ Information system

In relation to the institution's information systems, it has been established that:

- a) The definition of the information systems is to emphasize the use of information instead of the form of its processing. Accordingly, priority will not be placed on the use of technologies. Rather, the solution to be adopted should be the one that is most adequate to the use of the information.
- b) The decentralization principle is to be reaffirmed, albeit with greater control, supported by establishment of security norms, directives and procedures that ensure the adequate sharing of information and the connective nature of data processing environments.
- c) The information systems should be compatible so as to guarantee standardization, integration and managerial overview of the institution's general interest data. Administration thereof shall be centralized in order to ensure the availability of information for the entire System.

■ Human resources

The strategic guidelines for administration of the System's human resources are based on three main aspects:

- a) ***Development of capabilities*** — The understanding on capabilities involves the configuration of the principal fields of expertise that the Bank requires to meet its goals.
- b) ***Attainment of objectives*** — The human resource actions move from the focus of an isolated effort to the main focus of meeting goals. Accordingly, the supply and development of employees should be directly associated with the results expected by the organization.
- c) ***Meeting the characteristics and challenges of the institution*** — Along this line, the policy should be to permit rapid response to the new knowledge which the internal and external ambience imposes on the organization, translated into a policy of training and integrating capabilities in the education of BNDES System professionals.

In order to put these directives into practice, specific policies will be defined in terms of performance evaluation, career plan, promotions, movement and renewal and developmental training. These are being made instrumental as from 1991.

■ Social Communication, Institutional Relations and Marketing

- a) Strengthening the institutional image of the BNDES System with society at large and, in particular, with the communications media.
- b) The BNDES System should render account to society regarding its operations, so as to stress the importance of the role it plays.
- c) Marketing instruments ought to be used, chiefly institutional campaigns, publicity campaigns, advertising and market research oriented to clients, in order to maximize the results of the System's operations.



4 . SPECIFIC DIRECTIVES

On the basis of the strategic guidelines, the following specific directives have been determined:

■ Products

■ Industry and agriculture/livestock

- a) The maximum level of System participation aimed at technological enhancement of companies will be set at 70%, without limitations however as to the type of support.
- b) For other projects, the maximum level of System participation will be 60%, with the portion of resources required (credit and debentures) being maintained at up to 50%. The operational areas should seek to realize in the form of debentures up to 20% of the portion of resources required. These limits, nonetheless, do not apply to securities underwritings in which BNDESPAR participates.
- c) In the projects carried out in the North, Northeast and Midwest regions, the levels of maximum participation of the BNDES System may be increased by as much as 10 (ten) percentage points.
- d) The total period of the operation should be linked to the company's ability to pay and not just the project's.
- e) A maximum annual amount is to be established per company/economic group for Automatic POC Subprogram operations.

f) Support for technological enhancement should consider further R&D investment projects that contemplate:

- incremental costs over the previous year, without incorporating a risk clause, for companies that engage in on-going and regular R&D projects;
- technology transfer for large-sized companies to the PMEs (small and medium-sized companies), on the basis of processes for horizontalization of the productive structure;
- R&D projects among companies, cooperatives or on a sub-contracting basis; and
- implementation at companies of R&D centers in Brazil and overseas, laboratories and engineering departments.

g) The System may support — through issue of convertible debentures or shares — the financial restructuring of first-line companies. In such operations, BNDES should not take on risks in the place of private banks.

■ Infrastructure

a) In the infrastructure projects, the level of maximum BNDES System participation will be 60%. The portion of resources required (credit debentures) is established at up to 50%. In the funding projects, participation of the BNDES System should come about in the form of resources required, limited to 50% of the value of the projects. The operational areas should seek to realize in the form of debentures up to 20% of the portion of resources required.

b) A differentiated and flexible approach is to be adopted for those projects which have *a priori* unbalanced sources of funding. Such projects are to be submitted to the System on a preliminary basis for analysis of prevalidation, priority and, above all, the ability to locate private funding for the project.

c) Investments in infrastructure to be used by the company shall be classified and analyzed according to applicable operational standards.

Nevertheless, a check should be made as to need to adapt same to the public infrastructure network which it may become a part of.

d) Active and differentiated action should be adopted in the case of private investments aimed at public services, from conception to final financial engineering assembly. When appropriate, BNDES will lend its name and institutional weight to make this viable and encourage greater private participation in the projects.

e) In projects carried out in the North, Northeast and Midwest regions, the levels of maximum BNDES System participation may be increased by as much as 10 (ten) percentage points.

f) In certain cases, BNDES will act as a venture promoter and will identify and/or evaluate investment opportunities and search for a venturer.

g) In other cases BNDES will introduce a function for itself as funding coordinating, in order to marshal project funding sources and employ financial engineering mechanisms.

h) Financial support should be provided for contracting feasibility studies, including basic engineering and detailing projects, in the context of fostering an undertaking considered relevant by the BNDES System.

■ Resource management

a) Encouragement should be given to the issue of debentures on the part of the beneficiary companies, in either public or private offerings.

b) There should be increased participation by other sources of financing for operations, by means of providing underwriting, collateral signature and other mechanisms intended to make it feasible to guarantee BNDES System assets.

c) Monetization of assets should be brought about.

- d) Dynamics should be available in order to utilize other funding mechanisms, in order to integrate the BNDES System into the financial markets through the issue of bonds in limited volumes.
- e) Special emphasis ought to be placed on administration of the stock of resources, which can constitute the main factor for leveraging funds for the System.
- f) The system should act in the sense of transforming the Brazilian Private Company Capitalization Condominium — Concap into an instrument for capital market funding, using resources from Brazilian and/or international private institutions. Such a measure can be adopted on a short-term horizon.
- g) Bonds should be issued on the foreign market, as soon as the Brazilian Central Bank — Bacen authorizes such operations once again.

■ Organizational Streamlining and Modernization

■ Human resources

- a) Performance and potential evaluation should be a basic instrument for implementation of the System's human resources policy.
- b) Emphasis should be placed on attaining goals previously negotiated with employees in the performance evaluation process, so as to encourage individual performance planning.
- c) Professional growth and development horizons are to be created for employees through joint definition of career projects that feature, as their structuring element, the ongoing enhancement of expertise.
- d) Systematic and ongoing training and development ought to be provided, coupled with performance and potential evaluation and with projected career trajectories.

e) Staff changes and renewal should be accomplished within a framework of criteria that are consistent with career instruments and in accordance with the specific needs of the different activity areas of the BNDES System.

f) A competitive compensation and benefits program should be in effect so as to permit maintenance of the high staff standards required by the organization.

■ **Social Communication, Institutional Relations and Marketing**

■ **Social communication**

a) Fulfillment of the institution's social role requires ongoing communication and dialogue with society.

b) Social communication should become a composite of ongoing actions integrated with the Bank's overall message.

■ **Institutional relations**

In order for the institutional message to be transmitted in an effective manner, it is essential that the entire institution be engaged in this process in different manners and at different levels. Joint action in relation to perceived threats and opportunities in the various environments requires the assignment of responsibilities to the System's units, which should identify and execute actions together with their interlocutors.

■ **Marketing**

Support and inputs should be provided for the efforts of the Bank to adapt to market characteristics, with perception of alterations and watchfulness in relation to new demands and also to latent ones.

The BNDES System

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