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**BRAZILIAN PUBLIC INVESTMENT:
ANALYSIS AND PLAN**

THE ROLE OF THE BNDE

JOSÉ GARRIDO TORRES

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NATIONAL BANK FOR ECONOMIC DEVELOPMENT

BRAZILIAN PUBLIC INVESTMENT: ANALYSIS AND PLAN

THE ROLE OF THE BNDE

By JOSÉ GARRIDO TORRES, President
of Brazil's National Bank for
Economic Development.

São Paulo, on December 6, 1965.

Gentlemen:

Without any doubt we may be proud of the example that our country has provided in the field of development. Brazil is one of the most significant, if not the most significant, case of rapid economic progress within the last thirty years.

Brazil's growth history reveals the creative nature of the Brazilian people, their capacity for incorporating technical and scientific advances in production and their intense desire for economic and social progress. Brazil's record also reflects the capability of the Brazilian entrepreneur and the aptitudes of the average Brazilian for hard work. It reveals, furthermore, that this country does not falter before the immensity of its problems, nor become disheartened by their complex structure.

Naturally, there is much that was inorganic in this impulse toward development. By inorganic, I mean things were done without a logical and preordained order. The very limitations and inadequacies of the stage of underdevelopment prevented a more systematic record of what has been accomplished. Breaking the chains of underdevelopment has cost us extensive effort; we have interrupted this effort to make few scratches on what may be accepted as the best technique and the best way.

It is relevant to recognize these facts in order that we may examine, with composure, certain fundamental points.

Among these points I would like to choose, for the purposes of this lecture, those which pertain to public investment.

The Role of the Public Sector.

In the collective effort towards development necessary in all countries, the public sector of the economy has an important role. It fulfills this role by directing private investors towards areas where investment would strengthen the economic structure; by complementing private investment efforts in those fields where, for specific reasons, capital investment beyond the capacity of entrepreneurs is necessary, or else in those sectors where, owing to technical or economic peculiarities, conditions are not attractive enough or the risks too great for private enterprise.

This function of the public sector is clearly divided into two

parts: the first corresponding to a careful mobilization of funds, and the second concerning the efficient investment of the funds mobilized.

As the growth of per capita income and saving confer upon the capital market an increased scale of operations compatible with accelerated development, the public sector must assume additional functions. The government must adopt institutional measures regulating and gradually strengthening operations in the capital market. It must also assume part of the responsibility for training the increased numbers of personnel who will become familiar with the practices of the financial marketplace. These responsibilities are of great relevance in assuring that economic development takes place in clearly democratic terms and within a framework of solid principles of social justice.

We have not seen in Brazil an adequate awareness of this role of responsibility for the public sector in our national effort towards economic and social development.

To the contrary, public investment in Brazil during the last few years has largely sprung from an inorganic tax policy and from strong inflationary pressures generated mainly by colossal and growing deficits in the Federal budget.

The State's investment activity during these years without doubt produced positive results. The strengthening of basic economic services, such as electric power, was one of them; the incentives provided for the establishment of basic industries, such as steelmaking and heavy equipment, was another; the appearance of industries based upon these industries, of an income-promoting nature, such as the automotive industry was a fourth positive effect.

But, the application of compulsory savings by the State was characterized by a high degree of irrationality. On the one hand, it reflected and gave way to excessive government interference in the economy, discouraging, and sometimes replacing, private enterprise in fields where the latter had proved itself efficient and able. This excessive interference existed when, paradoxically, government action was practically nonexistent in fields where its presence is generally accepted without question, such as education and health, technical and scientific training, technological research and basic social comforts.

State investment was inorganic. It created strong disequilibria in the rate of economic expansion and in the development of the economic structure. The agricultural sector, for example, became very back-

ward, while within the industrial sector, which was growing rapidly, acute inadequacies existed. Among these might be numbered the weak development of certain basic services operating under the responsibility of government corporations. Also one should include the practical discapitalization of companies in general, through the deterioration of their working capital caused by inflation and by obsolete legislation, which prohibited businesses from employing a realistic accounting of their fixed assets and thus prevented them from attracting investors.

In summary, for many years, state investment came about without an adequate rationale. Serious problems resulted, problems which, whether apparent or hidden, would in due course block the growth of income and employment, had it not been for the efforts which are being developed since last year for the purpose of bringing order to the country's political economy.

Once the crucial stage of the inception of development had been completed, an inventory of successes and problems necessarily had to be made. The Revolutionary Government chose the right time to make this inventory. In the past year, Brazil's government has laid the foundations of an organic policy of development. Its first act was the systematic and gradual control of inflation, thanks principally to the vision, ability and patriotism of Ministers Roberto Campos and Octavio Gouvêa de Bulhões.

Brazil's Current Economic Action Program.

In the country's new development policy, the efficient organization of public investment is fundamental; it is being carried out with pertinacity.

We have today two basic documents for examining this attempt towards organization: the Government Economic Action Program and the Budget Program for 1966.

The Government Economic Action Program is a program for regulating public investment and guiding the private sector.

On examining it, one notices immediately that it lays emphasis on the use of investments in an integrated manner for the purpose of stimulating the economy. The program's aims, on the one hand, are at strengthening the economic structure, and, on the other hand, at increasing the productivity of the country's economic system, with a resulting increase in the supply of goods for immediate consumption.

I have used the expression investments in an integrated manner because the major economic sectors are being considered according to their national priority and national requirements in such a way that investments are being used to correct the sectorial disequilibria from which the national economy suffers.

The philosophy of the Government Economic Action Program is to endow the state's investment and financial activity with the catalyzing character which it should have, but without giving rise to sectorial disequilibria. The Program aims at using the public sector to supplement the efforts of private enterprise, without trying to replace it wherever it is able to operate efficiently. It aims at establishing a list of investment priorities in order to direct the public savings effort as a whole. It aims at allocating public funds in the manner most likely to facilitate calls by the private sector upon the money markets. Finally, the program seeks an aim as relevant as the rest - to permit a conscious and guiding action in the attraction of foreign savings.

The Budget Program

As a first step towards the implementation of the Economic Action Program, we have now, and for the first time in Brazil, a Budget Program. In 1966, the Union's capital expenditures will follow a rational scheme, distributed throughout time and economic space. Expenditures will accord with the requirements of the receiving sectors, with the actual revenue from taxation and with the requirements of a total investment effort aimed at correcting existing disequilibria in the best way to contribute towards sure and steady structural development.

The Government Economic Action Plan and the Budget Program are basic prerequisites for the policy of containment of inflation. With the completion of the difficult stage of monetary recovery which characterized the year of 1965, the country will have, in 1966, an economic and financial policy which, although still proceeding with the fight against inflation, will lay special emphasis upon catalytic action on the part of the State, first through planning of the Union's capital expenditures and also through incentives and aid to the private sector's investment effort.

Under this policy, private saving will naturally encounter conditions favoring its growth, and not only its growth but also its progressive diversion to those sectors which will increasingly play a greater part in the growth of the Gross National Product.

Private companies and entrepreneurs, aware and informed of the policy followed by the Federal Government with regard to public investments, with a flourishing money market at their disposal, freed from inflationary distortions, will be able to program their investments better, to select their fields for investment better, and to plan their projects in a more solid manner.

Thus it may be gathered that 1966 presents itself as the year for resuming an appropriate rate of economic development in Brazil.

Foreign & Private Savings Once Again Attracted to Investment.

Furthermore, in view of the normalization of financial activities and the improvement shown by Brazil's balance of payments, one may expect that there will be a greater flow of funds from abroad, particularly of risk capital. The first evidence of this increased flow is already apparent.

As to the Brazilian entrepreneur, some changes in behavior are already noticeable. He no longer attaches overwhelming significance to the monetary productivity of his investments. On the contrary, now that he is certain that the value of the country's currency is converging towards relative stability, he is seeking to direct his investments in accordance with the basic principles of technical productivity and toward a strong competitive position in the market. His demand for credit, for instance, is no longer influenced by preventive stockpiling; and the distribution of his profits no longer suffers the threat of devaluation which heretofore prevented any rational planning of a company's growth. Furthermore, Brazilian businessmen can now count upon increased opportunities for placing their stocks on the money market, and they are now able to feel that the field of investment, which is now open to their creative initiative, is no longer exposed to devastating and disorganized government interference.

The country's system of taxation is also undergoing gradual modernization, and is being brought in line with the public sector's investment requirements, without, however, becoming a tourniquet blocking the flow of private investment. Taxation on essential consumption is being increasingly lightened, and the incidence of taxation is being shifted towards less essential consumption, so that the levels of demand in the market are being brought under control and ideal principles of equity and social justice are being followed.

The financial condition of companies are being regarded objec-

tively. Firms are being granted the necessary conditions for maintaining on their books the true value, in monetary terms, of their fixed assets and of their working capital.

By maintaining specific tax funds whose application is predetermined, the Government coordinates the Union's overall investments, thus endowing the flow of funds into the Treasury with a system and purpose. We are, thus, on the right road towards ensuring defined public revenues which originate from previously measured tax incidences, channelling them to those sectors to which economic policy assigns priority for the purpose of fostering economic growth and social development.

These changes have not gone unnoticed overseas. A greater receptivity may already be noticed in financial centers abroad to our requests for more substantial and prompter financial aid for our economic development process. Government agencies are making fruitful contacts with foreign and international financial agencies, both government and private, for the purpose of obtaining global loans and for jointly financing undertakings which are basic for the implementation of the country's industrial plans.

The Role of the BNDE

Let us turn now to the Government's activities in the development of credit facilities, particularly industrial credit. We have already taken the first steps toward achieving the specialization which is essential in this type of credit. Once again, Government's philosophy of action is premised upon a system of private enterprise, mustering the efforts of different private agencies under the guidance and pioneering action of the public sector. This mustering activity may be best summarized as a program of joint action by the public and private sectors in the process of development, using credit as a fundamental and efficient lever for a collective investment effort.

It goes without saying that the BNDE, the National Bank for Economic Development, is fully integrated with this economic and financial policy of the Revolutionary Government. It does so as the major Federal government investment agency, placing at the disposal of this policy its large technical know-how and its vast experience in applied problems of development.

First, BNDE in the past year has taken the leading role in introducing practical and simple forms of credit for industrial operations.

Three of the four new special funds created for this purpose operate under BNDE supervision, two funds using BNDE personnel. The first of these funds, the FINAME, introduced a system for financing the manufacture and sale of capital goods produced in this country. FIPEME, the second fund, introduced the practice of providing credit for the investments of small and medium-size companies which represent a great market for the equipment which we manufacture. The third, FUNDECE, seeks to provide working capital, while at the same time attempting to make the shares of companies available to the public. The fourth, FINEP, is also about to begin its operations. FINEP will provide financial aid on credit terms for the preparation of technical projects which are fundamental for the postulation of investment funds, both public and private, whether local or foreign. FINAME, FUNDECE and FINEP have been able to start operations thanks to the Alliance for Progress.

In all cases, the private sector, either those receiving credit or the financial agencies distributing the loans, contribute their share of the financial effort, thus achieving not only a direction of purpose, but also the mobilization of private funds alongside those of government into productive and promotional activities.

In addition, the management of the Bank has drawn up an overall program of operations which represents the economic policy of the Revolutionary Government within the BNDE's sphere of activity. Generally speaking, this program may be divided into two broad parts: a) one essentially pertaining to the fostering of economic growth or development; and b) another pertaining to consolidating the advances already made by the country in the development of basic industries.

With regard to the first part - basic investments for development on a national scale - the BNDE is concerned with beginning the preparation of sectorial programs, for which purpose it will encourage the submission of specific projects, even to the extent of granting financial aid for the preparation of such projects. The bank is identifying the sectors which are considered strategic, under present economic conditions, with regard to economic development. The following sectors have already been selected:

1. Electric Power
2. Telecommunications
3. Steelmaking
4. Non-Ferrous Metal Production
5. Basic Chemical Industry, that is, petrochemicals and carbocchemicals

6. Capital goods
7. Silos, warehouses and meat-packing plants
8. Farm equipment
9. Food industries

These are sectors which provide an increase in overall income levels and in the supply of essential goods on the one hand, and which strengthen the economic structure, on the other.

For investment in these sectors, the BNDE will set aside each year a substantial portion of its permanent resources, that is, those which originate from direct taxation. In financing these undertakings, which are necessarily large scale, we are presently coordinating our action with large banks, government and private, whether foreign or international, in order to obtain from them overall loans or their joint participation in such undertakings, as and when loans in foreign currency become necessary. For this purpose, we are directing our efforts not only towards large financial agencies, but also towards the world's more important money markets.

As regards the consolidation of the advances achieved in this country in the field of basic industries, the BNDE is acting along the following lines, in a decentralized manner, through nationwide networks of private and public agents it is establishing.

BNDE is activating the supply side of the industrial structure:

- a) by developing the FINAME, which has already applied over Cr\$ 35 billion during its first eight months of existence, and which will receive massive aid from AID in 1966;
- b) by developing the FIPEME, which has at the moment US\$ 27 million from the Inter-American Development Bank and about 27 million marks from the Kreditanstalt of Western Germany for the purpose of providing aid to small and medium-sized concerns. BNDE expects to increase FIPEME's foreign resources with additional credits from the above agencies and from other sources, particularly in Europe;
- c) by cooperating in the expansion of the productive capacity of established firms in basic or fundamental sectors through offering underwriting facilities, thereby making a healthy attempt to attract voluntary savings in the capital market, while

at the same time encouraging these same companies to make their shares available to the general public; and

- d) by adopting the acceptance system to mobilize savings which normally seek the capital market for short-term operations, to enable companies to increase their working capital. Through the use of this system, in which the BNDE functions as a guarantor of the papers of established and reputable companies operating in basic sectors of the economy, these companies will be able to increase their working capital at low cost, since it is assumed that the owners of investible savings will be content with lower interest in exchange for greater liquidity.

Through the FINAME and FIPEME the Bank encourages the demand for Brazilian manufactured equipment, since both aid the buyers of such equipment by means of medium and semi long term credit.

Thus the Bank is not now restricting itself to financing the installation of fixed equipment, as it had been doing until recently in order to help overcome the problem of existing idle capacity. It is developing a complete program which fully complements this kind of financial aid and which provides the private entrepreneur with decisive incentives for transforming the country's potentialities into progressive wealth and providing the nation the benefits of his creative energy and of his managerial ability.

To my mind, it is this action of supporting the private businessman by means of the greatest possible use of financial agencies, which is the cornerstone of the philosophy adopted by the administration of the BNDE.

I would like to say that it is in obedience to this philosophy and in accordance with the policy established by His Excellency the President of the Republic, Marshall Humberto de Alencar Castello Branco, that the BNDE is disposed to examine the transfer, preferably to the public, of the shares of companies whose installation or expansion it aided financially in the past. To this effect, the BNDE, through its President, is entering upon an active phase of consultations at National Monetary Council concerning norms and procedures. In a country where a condition of underdevelopment still prevails, to a great extent due to shortage of capital, there is no justification for the BNDE to continue tying up, in already mature concerns, the funds which it invested in their installation or expansion.

Reorganizing the BNDE to Meet New Tasks.

To implement these programs, the BNDE is reorganizing itself. This reorganization is taking place in different areas, the first of which is that pertaining to its funds.

Through the decision of the Congress and the Executive, the Bank is provided by law with a large volume of permanent funds compatible with the tasks assigned to it. Beginning in 1966, it is to receive 20% of the country's total income tax revenue, ensuring the maintenance of its operations and, what is more relevant, its continued solvency. In 1966, this amount will approximate Cr\$ 200 billions.

Furthermore, on the basis of these permanent funds and the solvency which they secure, the BNDE is ready to negotiate in financial markets abroad for a greater volume of funds for carrying out its programs. For this purpose, initial contact has already been made with major foreign financial markets. We expect to intensify these contacts at the beginning of next year, in spite of the fact that we are even now being granted more credit by international agencies such as AID, BID and the Kreditanstalt.

It is our conviction that the BNDE will soon be able to obtain a flow of foreign funds specifically designed for catalytic investments and for providing adequate support for the credit needs of Brazilian business.

Second, we are revolutionizing our methods of operation, with emphasis on the examination of projects on site, in order to speed up their approval.

Next, the Bank's Administration intends to meet, on an increasing scale, the needs of technical and scientific training and technological research, by means of a Fund, FUNTEC, already established for this purpose at the Bank.

Finally, we plan to extend our regional growth promoting activity by financing directly when necessary, or through regional financial agencies when advisable, undertakings which, although they do not promote economic development in national terms, are nevertheless vital for fostering the growth of regional income. We are particularly aiming here at our poorer regions. In such cases, BNDE will provide financial aid for the preparation of the corresponding projects, either directly from its own funds or through its relationship with FINEP.

Training, Productivity, and Research.

The action programmed by the present administration of the BNDE does not stop here.

We also must train financial administrators. The Bank is promoting the progressive holding of training and specialized courses, both in this country and abroad. These courses are to train personnel from the public sector and the private sector in financial practices, to prepare men to occupy positions in specialized agencies and for money market operations in general.

The holding of the first of these courses abroad has already been established. It is to be held in February with the assistance of AID and of Brazilian public and private financial establishments. The program is under the auspices of the Graduate School of Business Administration, New York University with the cooperation of that University's Brazilian Institute. The second course will be held in this country, under the auspices of the BNDE and of the Banco de Desenvolvimento do Extremo Sul for the purpose of training personnel from regional and state development banks in how to grant middle term industrial credit. Other courses will follow.

At the same time, the present administration of the Bank is concerned with the serious question of productivity as a whole and at the company level, particularly in the case of small and medium sized concerns. At the stage of monetary recovery we have entered, productivity is a fundamental point for strengthening the foundations of free enterprise and market competition. We know that there are several causes of low productivity. One-inflation - is being removed. But we believe that the BNDE will be able to cooperate in eliminating many of the other causes by means of assistance other than financial. Although it seeks to consider the question of productivity in all its complexity of causes and remedies, the BNDE is aware that its specific responsibility in this case is restricted in scope. It will seek to act mainly through its financial agents, such as development banks, so that these may gain in efficiency in helping small and medium-sized industries to improve their operations. In the case of large concerns, the Bank is considering the possibility of financing productivity study projects.

We are also concerned with obtaining technical assistance from abroad to provide, with the participation of Brazilian experts, Brazilian entrepreneurs with experience and advice in making the systems of operation more efficient and more advanced technologically. I believe

that this kind of assistance is very valuable and I am certain that Brazilian businessmen will provide their utmost cooperation for this purpose.

Finally, I think that it would be useful to tell you that from the viewpoint of the knowledge of economic development, the BNDE is concerned with acting positively for the speedier growth of the country. I intend to organize soon a complete program designed to make use of the experience which has been gained in this country during its development up till now. Under this program, we shall have studies, research, conferences and talks which will bring together the experience of Brazilian and foreign experts and thinkers, as well as of the BNDE's own experts for the purpose of ample discussion of the theoretical and practical problems of economic development. This will be a systematic program, whose results will be published regularly in the BNDE's Review and collected in a volume under the auspices of the Bank in order that a greater public may be reached. By means of this effort. I particularly aim at making use of the Bank's experience during its 13 years of activity, as well as the knowledge of those who devote themselves to thinking methodically about the problems of economic development. This program will provide the Bank's activity with even greater efficiency and objectivity, complementing the pragmatic routine of the past, and at the same time, I trust, enriching the theory of economic development with the experience of Brazil. Gone are the days when Frederick List thought that industry and the tropics were incompatible.

The BNDE as a Central Development Bank.

From this description of BNDE's set of operations, one can see that the bank will be integrating itself with private banks and other priivate establishments, as is now happening in the case of the FINAME ; with investment and loan companies, as will be happening in the case of underwriting and acceptance operations, and with regional development banks, as we have already done in the case of the FIPEME and in the distribution of funds received under the Wheat Agreements as well as in the case of the funds of the recently established FUNAGRI of the Central Bank.

The integration of the BNDE with private and regional financial agencies follows a logical program.

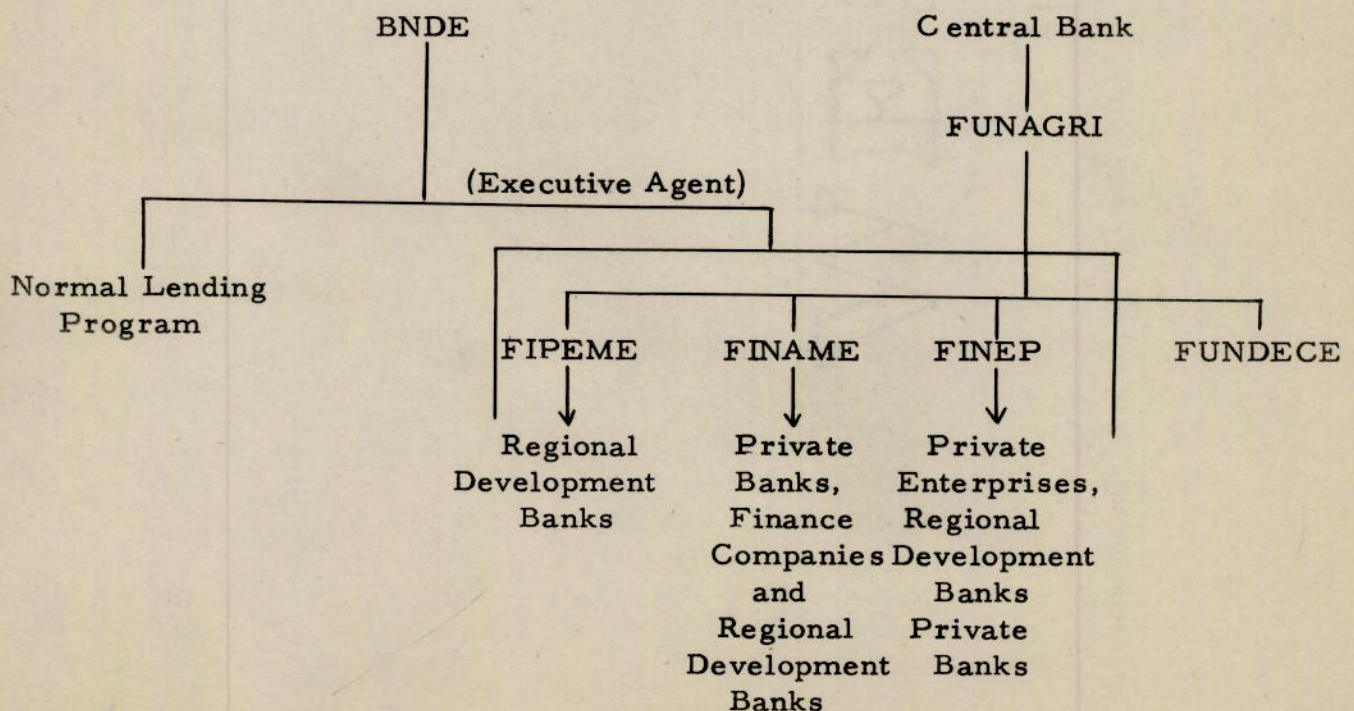
We intend to establish a kind of integrated system of financial aid for economic development, within which the BNDE would act as a

Central Development Bank, as a driving agency, as well as a center for distributing funds. The system is to work within the framework of a definite philosophy integrating that which is regional into that which is national in scope within the process of the country's economic development.

We are working determinedly in order to arrive at this system. We promoted two regional meetings of development finance institutions at Araxá and at Porto Alegre. In addition, the bank sponsored the Quitandinha Seminar, to examine problems of regional programming and development. We expect to promote a second assembly of regional banks in the Northeast very soon, when we shall consolidate the concrete foundations for operating the system we are introducing. As a means of identifying the most pressing problems which should be solved in order to achieve the established objective, the Bank's administration has introduced the practice of sending groups of experts integrated to the regions on regular tours. The first of these tours was made with great success.

This same spirit of integrating financial development agencies is now reflected in the establishment of the FUNAGRI which is a kind of holding company of special loan funds and of which the BNDE is the main executive agent with the function, among others, of appointing financial organizations to act as operational agents of the FUNAGRI.

This whole system of institutions would be described schematically as follows:



The concept of central development banking, as we see it, extends beyond the mere supply of funds to the institutions constituting the system. Our present and projected activities in the areas of training, productivity and research complement the demands for finance and provide an organic quality to BNDE's role in the Government's wider program for Brazil's economic growth.

I believe that I have provided some idea of the BNDE's position in this stage of our process of economic development and with regard to the economic policy established by the Revolutionary Government.

It is my belief that the program which I have described to you is in itself proof that our final goal is to develop this country both economically and socially, at the same time as we fight the malignant social tumor of inflation.

The BNDE's action is eminently from the angle of real supply, which it seeks to increase, acting in favor of the economy's overall productivity, as well as strengthening the economic structure and expanding the size of the internal market, which is a basic incentive for increased investment on the part of the private sector. I believe that, on the basis of what I have told you, I may assert that the BNDE is fulfilling its functions as the main Federal financial development agency within an overall policy which, as the Head of our Government so aptly has said, may be summed up as development with men and for men. With men and for men, throughout the whole country; and for men and with men from the public sector and from the private sector.

Finally, Gentlemen, it is no exaggeration to say that we are on the threshold of a period of progress without precedent in the history of our country. If it was possible for us to achieve rates of economic growth of 7% per annum in spite of acutely inflationary economic conditions, it cannot seem unlikely that we shall be able to obtain even higher rates with a stable currency, with adequate financial resources, from within and without the country, with greater attention devoted to the training of people all on the basis of a clearly conceived strategy.

Thank you very much.

