Financing development in an uncertain world: Evidence, beliefs and statements based on BNDES experience

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The relevant issues and the international context
What is at stake?

Long term financing serves purposes:

• More and better jobs;
• More and better infrastructure projects;
• More and better innovative and competitive capabilities
A development financing strategy is even more relevant when there is…

- Increasing **diversity among countries in the capacity to prosper**, amidst a crisis of long duration
- **Fierce competition** in all markets for the generation, appropriation and distribution of wealth
- Extremely fast rate of technical change and increasing **investments in innovation** by countries and corporations
- **State activism**. The recent crisis has shown its relevance but “a role model” does/will not exist

The recent evidence

Besides large domestic markets and proactive public policies, **countries less affected by the financial crisis have**:

- A well-regulated financial system
- Strong public banks (ahead)
The 2007-2008 crisis: State actions to degrees, extensions and intensiveness never thought of!

Tax incentives & support to the Financial System in selected countries (% of GDP)

<table>
<thead>
<tr>
<th></th>
<th>Tax Incentive</th>
<th>Support to Financial System</th>
<th>Years to spend the tax incentive</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Developed Economies</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>1.5</td>
<td>19.1</td>
<td>2</td>
</tr>
<tr>
<td>Germany</td>
<td>3.6</td>
<td>22.2</td>
<td>2</td>
</tr>
<tr>
<td>Japan</td>
<td>4.7</td>
<td>22.3</td>
<td>3</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1.9</td>
<td>81.7</td>
<td>3</td>
</tr>
<tr>
<td>United States of America</td>
<td>5.5</td>
<td>81.1</td>
<td>3</td>
</tr>
<tr>
<td><strong>Emerging Economies</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>5.6</td>
<td>1.5</td>
<td>1</td>
</tr>
<tr>
<td>China</td>
<td>6.2</td>
<td>0.5</td>
<td>2</td>
</tr>
<tr>
<td>India</td>
<td>1.8</td>
<td>6.4</td>
<td>3</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>5.4</td>
<td>8.0</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>4.0</td>
<td>36.1</td>
<td>-</td>
</tr>
</tbody>
</table>

### What have we seen?

<table>
<thead>
<tr>
<th>USA proposals</th>
<th>Brazilian practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Create a regulatory and supervision council</td>
<td>In place (National Monetary Council)</td>
</tr>
<tr>
<td>Increase FED´s controlling powers</td>
<td>Central Bank inspects and regulates financial sector</td>
</tr>
<tr>
<td>Strengthen capital requirements of Banks</td>
<td>BIS 8%; Brazil, 11%</td>
</tr>
<tr>
<td>Regulate over-the-counter derivative market, including default swaps</td>
<td>Over-the-counter derivatives are registered at the Stock Exchange</td>
</tr>
</tbody>
</table>

Source: Valor Econômico
Financing development:
the Brazilian experience
Financing development: the Brazilian experience

As market sources are pro-cyclical...

• A development bank is a stabilizing device
• Attention!!! Scale and scope matters
• And... it must follow the investment cycle
• But... pro-activity is necessary during crisis
• The effective contribution: investment and employment
The financing of investment: market sources are pro-cyclical

Brazil: financing sources for investments in industry and infrastructure

Source: BNDES based on Corporate Balance sheetss
BNDES has a countercyclical role in the economy

Credit to GDP and BNDES share

The crisis

BNDES

Total Credit/GDP (%)" BNDES Credit/Total Credit(%)"

Source: Brazilian Central Bank
BNDES

- Main provider of long-term financing in Brazil
- 100% state-owned company under private law
- Institutional funding
- 2,500 employees
- Instruments
  - Direct operations
  - Indirect operations
  - Financing & guarantee for SMEs
  - Export finance
  - Project finance
  - Equity investments
  - Grants

### Development Banks

<table>
<thead>
<tr>
<th></th>
<th>US$ billion</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Assets</td>
</tr>
<tr>
<td>BNDES</td>
<td>329.5</td>
</tr>
<tr>
<td>World Bank</td>
<td>282.8</td>
</tr>
<tr>
<td>IADB</td>
<td>87.2</td>
</tr>
<tr>
<td>CAF</td>
<td>18.6</td>
</tr>
<tr>
<td>China DB</td>
<td>665.2</td>
</tr>
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</table>


NPL: 0.15%; Brazil Financial Industry: 3.8%
BNDES follows up the investment cycle

Gross Fixed Capital Formation (GFCF) & BNDES disbursements (US$ Billion)

(*) exc. BNDES Exim; working capital, M&A and Equity Financing.
Support credit during crisis

Evolution of bank credit. Sept./08 = 100

Contribution to the growth of bank credit 09/08 – 09/10

- BNDES: 33.3%
- Private Banks: 38.5%
- Other State-Owned Banks: 28.2%

Source: Brazilian Central Bank
During the crisis: pro-active policies to sharply decrease the cost of capital

**Growth Rates (3Q 2008= 100)**

**PSI**
Investment Support Programme in which interest rates were substantially reduced thanks to an equalization programme by Finance Ministry

Source: BNDES
BNDES financing is relevant for investment and employment

Impact of BNDES disbursements on employment and investment

Sources: IBGE, MTE, FGV and BNDES
Statements and beliefs
• Without a Developmentist State, there is no development (Thanks, Peter Evans).

• **Contemporary State:** focus on building up competences => more and better jobs.

• Financing **development** must involve **more State and more Market**.

• **Public banks are essential** for systemic stability and the permanent availability of investment financing.

• To be effective, a **Development Bank must have the necessary means**.
Each nation has its own structure, history & aspirations. Hence, singular institutions. BNDES is a singular institution. But, features of its “DNA” may serve as “food for thought”:

- **Learning**: flexibility and adaptation to change
- **Public service**: having the public interest as a central value
- **Obsession** with investment, with development
- **Hands on the real economy**: ready, on place, on time
- **Competence**: a credible, effective and efficient institution
- **Negotiating skills**: the capacity to interact with stakeholders
- **Political leadership** – at the institution, in the country
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