Workshop
Sourcing Finance for Development
Prospects for Economic Transformation
Pretoria, South Africa
April, 2010

Growth prospects for Brazil and the role of BNDES, its development bank

João Carlos Ferraz
• The world we live in
• Brazilian assets & challenges and growth trends and prospects
• The State: acting for the short and for the long term
• The profile of a strategic agent: BNDES
• Summary and implications
• Financing for development, for the long term, in the post-crisis context, will involve more State and more Market sourcing.

• Contemporary State: focus on the building up of competences => more and better jobs. Without a Developmentist State, there is no development (Thanks, Peter Evans).

• Public banks, oriented for the long term, are essential vehicles for investment financing.

• To be an effective vehicle, a Development Bank must have the necessary means: financing tools, stable and sufficient resources; technical capabilities; close relationships with stakeholders.
The world we live in
A world of uncertainties

- **Open societies**: where to, democracy and citizen participation?

- **International power**: from “uni-polar” to “multi-polar”... Negotiated? Conflicting?

- **Climate change**: when current trajectory and negative externalities will revert course?

- **State**: a new role? Legitimacy still to be conquered.

- **Competition & technical progress** => nations and corporations fiercely battling over the generation, distribution and appropriation of wealth.

- **Growth** in check... For some time… AND!!! Countries differ!!! New and old poles of growth.
Commodities are on the rise, benefitted by new poles of growth in the world economy

Share of basic products (agro + minerals + oil) in world trade and commodities’ price evolution price (%)

- Asia is the source of demand
- Demand pressure may stand
### Against

- Static comparative advantages
- Prebisch: terms of change, dual structure
- Chips are not chips
- Over specialization
- Success, exchange rate, Dutch disease
- The Chinese mental map: Brazil? Inputs for our (theirs) transformation
- The environment

### In favour

- Competition and technical progress in constant change
- The nature of nature => pick fruits up or struggle for good production? Knowledge and production chains are there to be explored
- The size and diversity of na economy (the Brazilian)
- Down with determinism. USA or Venezuela: Societies make and implement choices
Private Consumption, 2008

US$ trillion (current prices & exchange rates)

<table>
<thead>
<tr>
<th>Country</th>
<th>Consumption (trillion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>10.1</td>
</tr>
<tr>
<td>Euro Zone</td>
<td>7.6</td>
</tr>
<tr>
<td>Japan</td>
<td>2.8</td>
</tr>
<tr>
<td>UK</td>
<td>1.6</td>
</tr>
<tr>
<td>China</td>
<td>1.6</td>
</tr>
<tr>
<td>India</td>
<td>0.6</td>
</tr>
<tr>
<td>South Korea</td>
<td>0.5</td>
</tr>
</tbody>
</table>

Source: CSLA

But, attention!! Relevant demand still is and will be located in developed countries!!!
Brazilian assets & challenges and growth trends and prospects
Assets and challenges

• Institutional & political stability
• A complex and diversified economic base and a lean private sector
• Insufficient infrastructure
• Weak innovation capabilities
• Poor education levels
• More opportunities for social mobility are essential
• More investment and savings are needed
And job creation has been associated with growth.
The tale of a crisis: Consumption & GDP return before Investment and Exports

Source: IBGE
THE challenge: to move investments forward

Source: BNDES
The State:
acting for the short and for the long term
The short term: managing the crisis, with an eye on the growth process

- Strong financial regulation in place and liquidity ensured
- Effective counter-crisis policies, at low cost (1.2% of GDP)
  - Credit expansion thanks to State-owned banks
  - Tax alleviation on durable goods to maintain household consumption (Incentives are being retrieved!!!)
  - Strong incentives for investment
- Public debt has already resumed downward trajectory (net debt to GDP around 43.0%)
The long term: investment related policies

Investment policies

- S&T & Innovation
- Productive Development PDP
- Infrastructure PAC
- Education- PDE
- Health
- Housing

The challenge: to have them as permanent State policies
### Planned investments - US$ billion

<table>
<thead>
<tr>
<th></th>
<th>PAC 1 2007-2010</th>
<th>PAC 2 2011-2014</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Logistics</td>
<td>49.4</td>
<td>52.3</td>
<td>101.7</td>
</tr>
<tr>
<td>Energy</td>
<td>151.8</td>
<td>232.8</td>
<td>384.6</td>
</tr>
<tr>
<td>Social &amp; Urban</td>
<td>130.8</td>
<td>194.5</td>
<td>325.3</td>
</tr>
<tr>
<td>development</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>332.0</strong></td>
<td><strong>479.6</strong></td>
<td><strong>811.6</strong></td>
</tr>
</tbody>
</table>

- Focus on infrastructural bottlenecks
- Projects are centrally managed: a great effort of State coordination
- Budget is ensured

**PAC 1:** the role of BNDES: 331 projects
Financing US$ 76 bi for US$ 138 bi of investments (70% ➔ energy)
To promote the competitive and sustained development of Brazilian productive activities

**Ingredients**

- **Political priority**: productive development high in the policy agenda

- **Active involvement** of relevant actors: Ministry of Industry and Trade, Ministry of Finance, BNDES, Ministry of S&T

- **Systemic design**: a complex policy configuration for a complex productive structure

- **Focus**: complexity reduced around 4 master goals – investment, innovation, exports, MSEs. Policy priorities are clearly stated

- **Evolutionary approach**: policy actions aimed at improving competences from the level a specific segment is at

- **Management**: great efforts in making it operational and accountable. Above 95% of proposed measures are operational
The challenge: coordinating 500 civil servants; over 60 public agencies
Strengthening Competitiveness

Consolidating and Expanding Leadership
- Aeronautics
- Oil, Gas and Petrochemicals
- Bio-ethanol
- Meat
- Mining
- Steel
- Pulp and Paper

- Automotive Complex
- Capital Goods
- Textile & Garments
- Wood and Furniture
- Hygiene and Cosmetics
- Housing
- Services Complex
- Naval & Shipping Industries
- Leather & Footwear
- Agribusinesses
- Bio-diesel
- Plastics
- Wheat
- Electronics – consumer
- Toy Industry

Knowledge intensive
- Industrial Health Complex
- Information and Communication Technologies
- Nuclear Energy
- Defense Complex
- Nanotechnology
- Biotechnology

Strategic Actions
- Expansion of Exports
- Strengthening SMEs
- Productive Integration with Latin America
- Integration with Africa
- Regionalization and production decentralization
- Clean Production and Sustainable Development

The challenge: to correctly address competitive challenges of each one
• The agenda of productive development has gained priority

• “Refreshing”, updating, upgrading the public debate over the “where to Brazilian industry?”

• Effectiveness: most measures are operational

• Intra-State interaction, especially between PDP and S&T policies

• Public-Private interaction: a growing recognition of the role each one has to play

• Recognition of the need for a permanent PDP
BNDES
The profile of a strategic agent
BNDES Action and Priorities in time

1950s
Infrastructure (Energy and Transport) - Steel

1960s
Infrastructure (Energy and Transport) - Consumer Goods

1970s
Basic Inputs - Capital Goods

1980s
Exports - Agribusiness

1990s
Privatization

Today
Infrastructure - Productive Structure - Exports

New Agenda
Innovation - Sustainability
Main provider of long-term financing in Brazil
100% state-owned company under private law
Institutional funding
2250 employees
Instruments
- Direct operations
- Indirect operations
- MSME (financing & guarantee)
- Exim
- Project finance
- Equity investments
- Non-refundable credit lines

Development Banks

<table>
<thead>
<tr>
<th>Bank</th>
<th>Assets</th>
<th>Equity</th>
<th>Disbursement</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Bank</td>
<td>275.4</td>
<td>40.0</td>
<td>18.6</td>
</tr>
<tr>
<td>BNDES</td>
<td>222.0</td>
<td>15.9</td>
<td>68.8</td>
</tr>
<tr>
<td>IADB</td>
<td>84.0</td>
<td>20.7</td>
<td>11.4</td>
</tr>
</tbody>
</table>

Source: BNDES, IADB (Dec/09) and World Bank (Jun/09).

World Bank as of June 30th.

Non Performing Loans 2009: 0.20 (%)
2009: BNDES financed US$ 46.8 bi for US$ 93 bi of fixed investments. These generated or maintained 4.5 million jobs (direct/indirect and income effects)

Source: BNDES. R$/US$: average exchange rate for each year
Summary and implications
The Brazilian challenge: to evolve from growth to sustained development

- Success in facing the international financial crisis
- Brazil may grow at 5% annually in the next few years;
- Domestic consumption and investment will lead growth:
  - Consumption: emerging middle class
  - Investments: oil & gas, electricity, logistics, housing

To evolve towards sustained development it is necessary:

- To further extend the planning & investment horizon of economic agents
- + investment, + savings, + long term financing
- + innovation and + skill capabilities
- + opportunities for social mobility & for the reduction of inequality in income distribution
The path from growth to development. What is needed:

- **State**: permanent and effective investment policies
- **Financing**: institutional investors, capital markets, domestic savings, public institutions to support investment
- **Social**: more and better jobs: quality education
- **Industry**: innovation and competitiveness capabilities
- **Infrastructure**: more and better projects; more complex finance/insurance solutions
- **The mind set**: Brazilian society must be prepared for the long term
Each nation has its own structure, history & aspirations. Hence, singular institutions. BNDES is a singular institution. Some features of its “DNA” may serve as “food for thought”:

- **Flexibility**: learning and adaptation to change
- The spirit of serving the **public interest**
- Technical **competence** to be effective and efficient
- **Negotiating** skills: the capacity to interact with stakeholders
- **Opportunity**: to be on the right place, at the right time
- **Obsession** with investment, with development
- **Political leadership** – at the institution, in the country
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