

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

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- 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

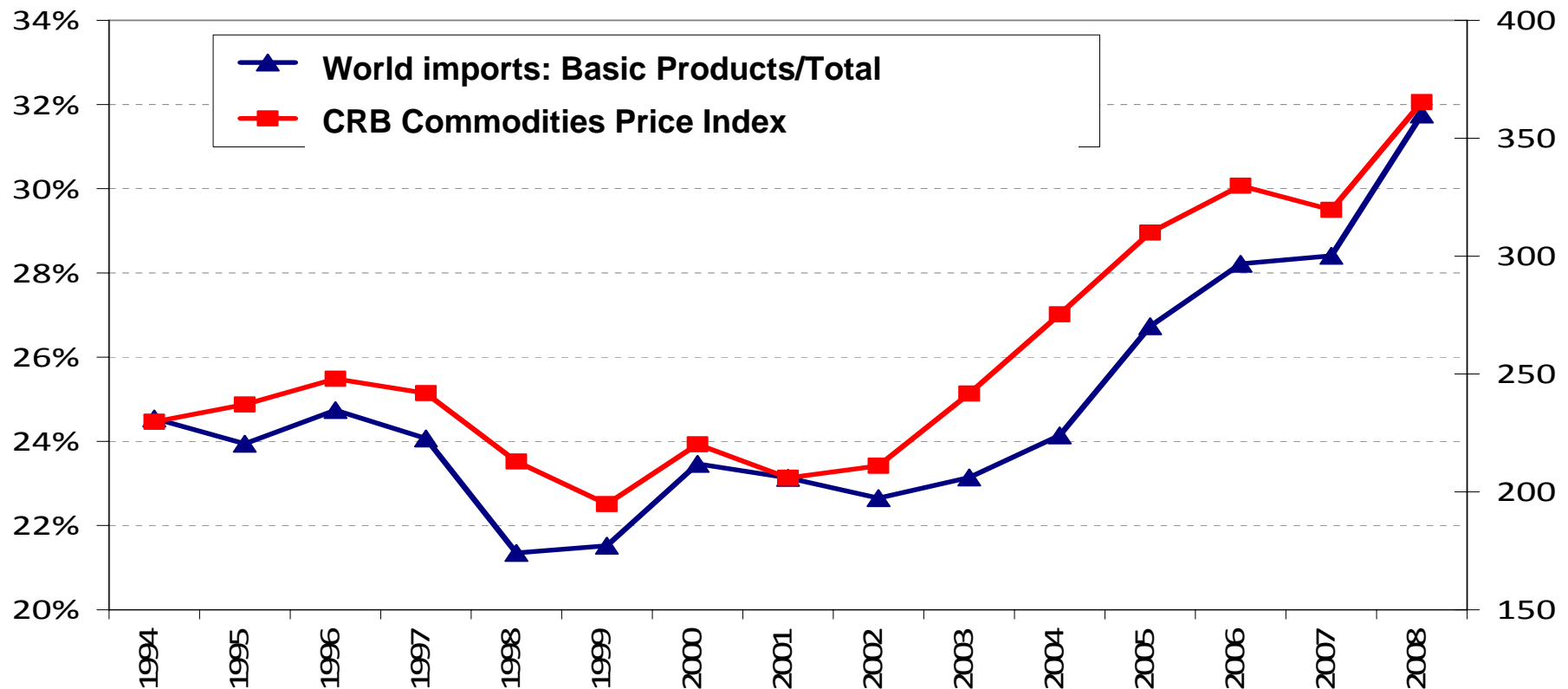
- **Financing for development**, for the long term, in the post-crisis context, will involve **more State and more Market** sourcing.
- **Contemporary State**: focus on the building up of competences => **more and better jobs**. Without a Developmentist State, there is no development (Thanks, Peter Evans).
- 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

- **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 (%)



Source: WTO.

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

To be or not to be? The debate over the “commoditization” of an economy

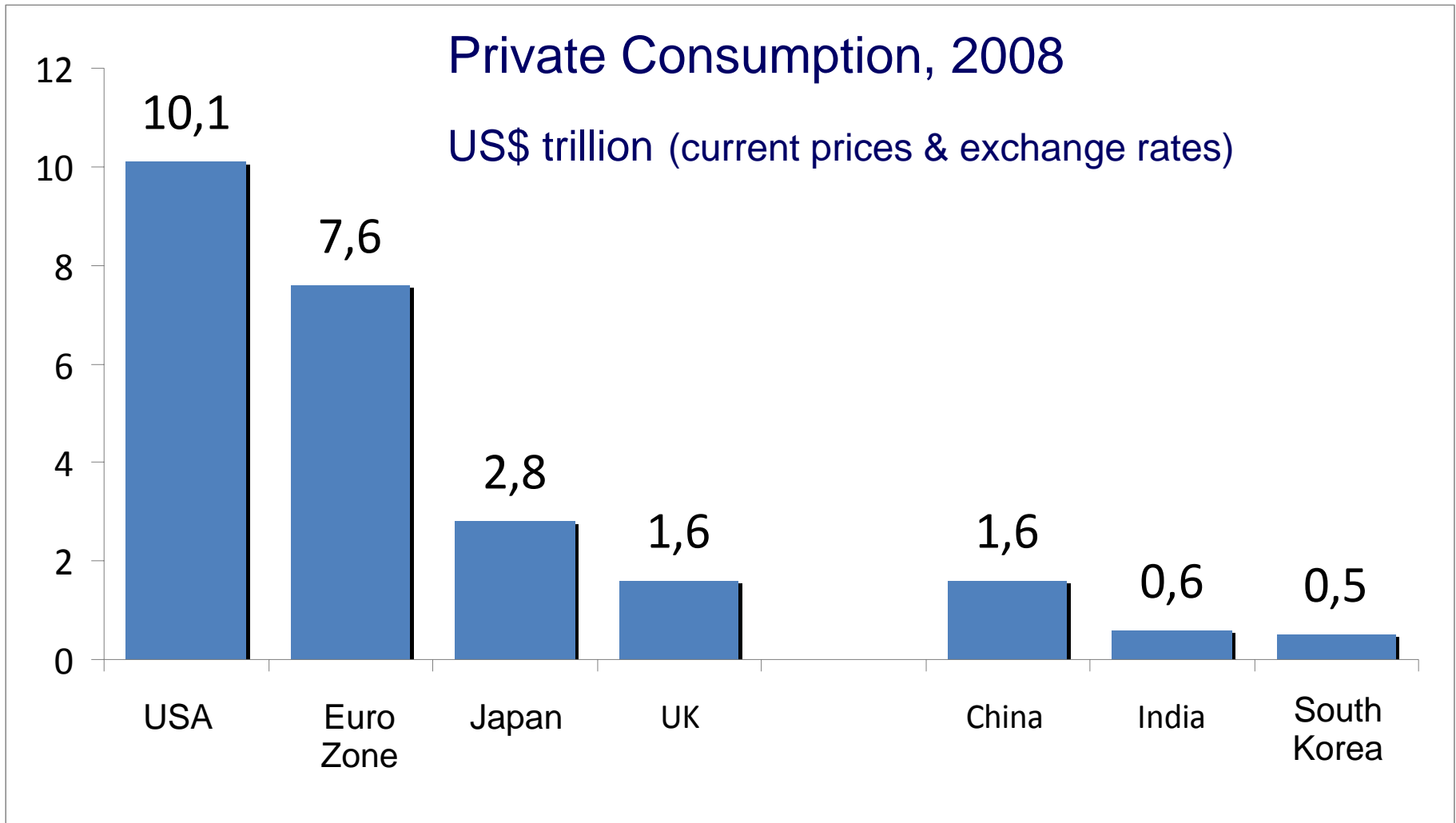
Against

- 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

But, attention!! Relevant demand still is and will be located in developed countries!!!



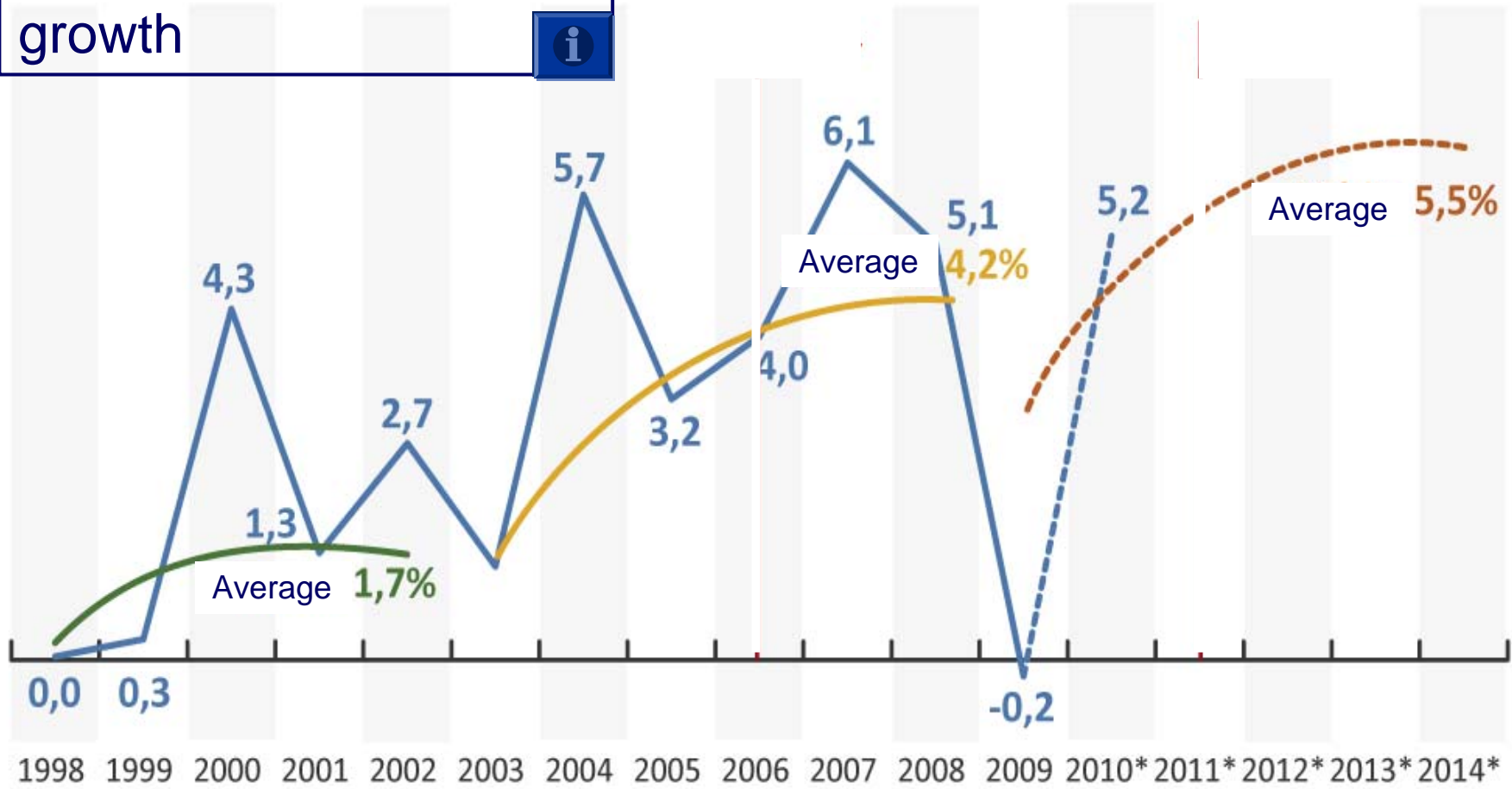
Brazilian assets & challenges and growth trends and prospects

- 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 

A long & winding road towards sustained growth

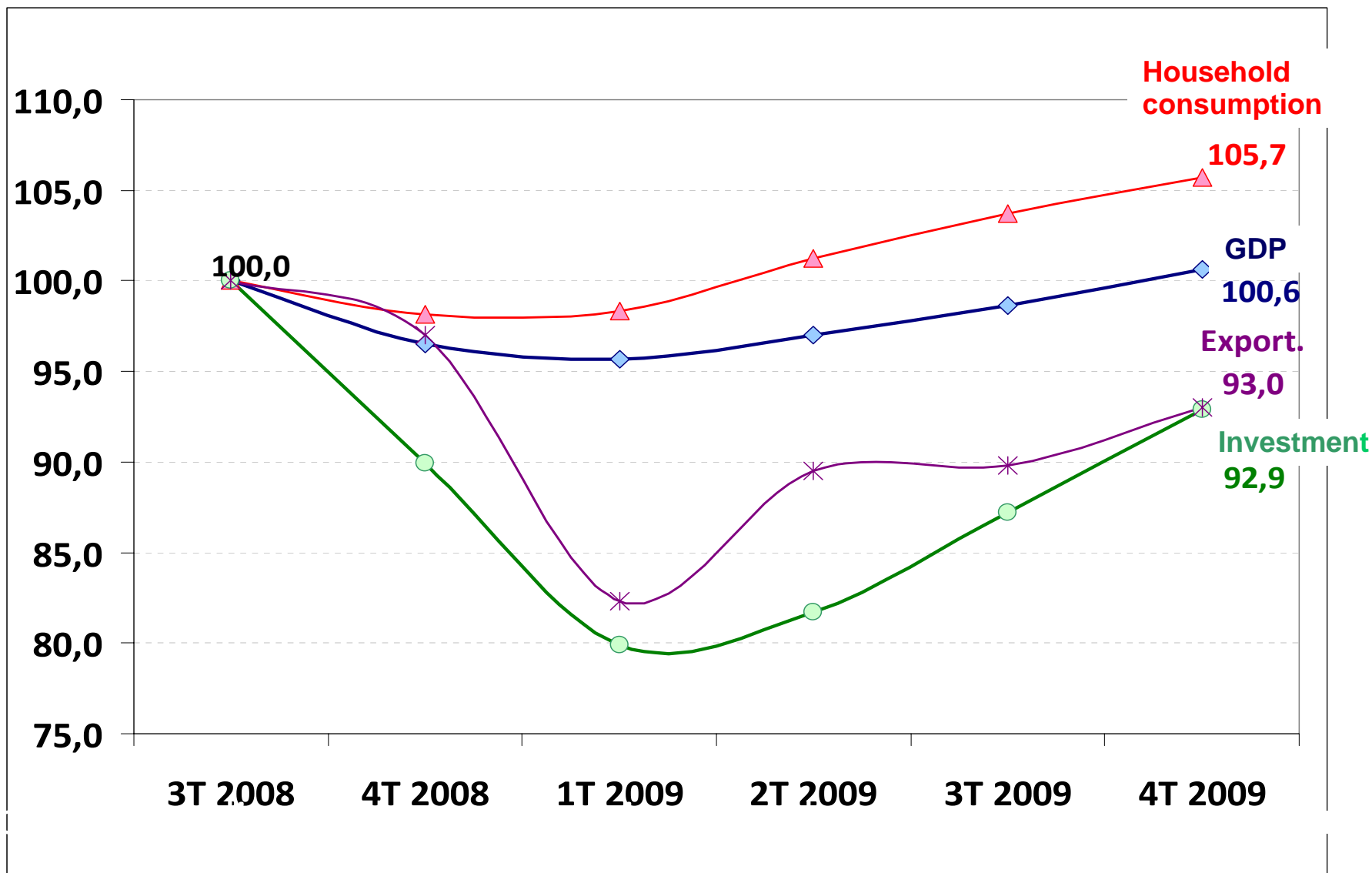
And job creation has been associated with growth 

Brazil: GDP Annual Growth Rate (%)



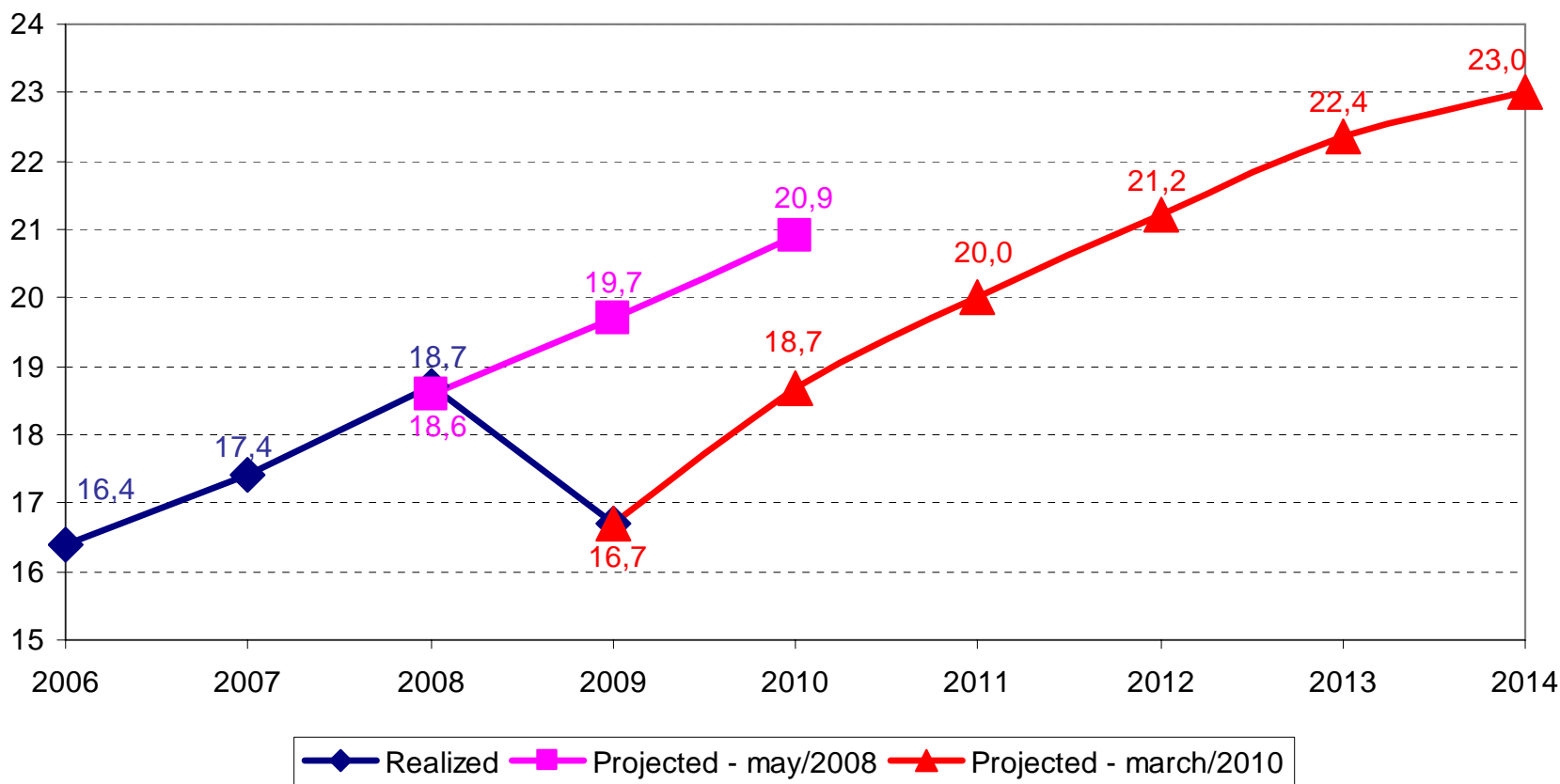
Source: Ministry of Finance

The tale of a crisis: Consumption & GDP return before Investment and Exports








Investments (% of GDP)

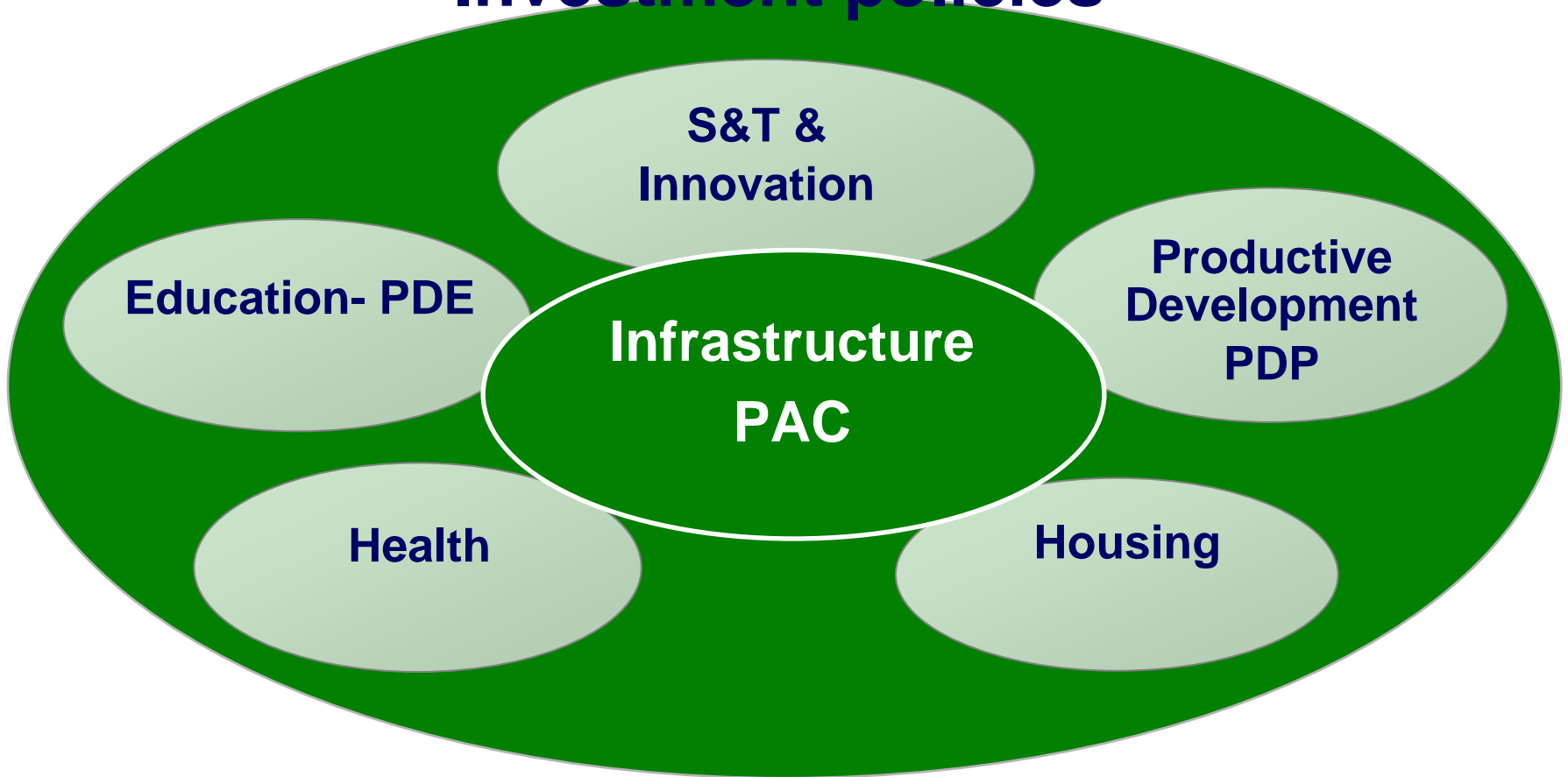


The State:

acting for the short and for the long term

- 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%) 

Investment policies



The challenge: to have them as permanent State policies

Planned investments - US\$ billion

	PAC 1 2007-2010	PAC 2 2011-2014	Total
Logistics	49.4	52.3	101.7
Energy	151.8	232.8	384.6
Social & Urban development	130.8	194.5	325.3
Total	332.0	479.6	811.6

- 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

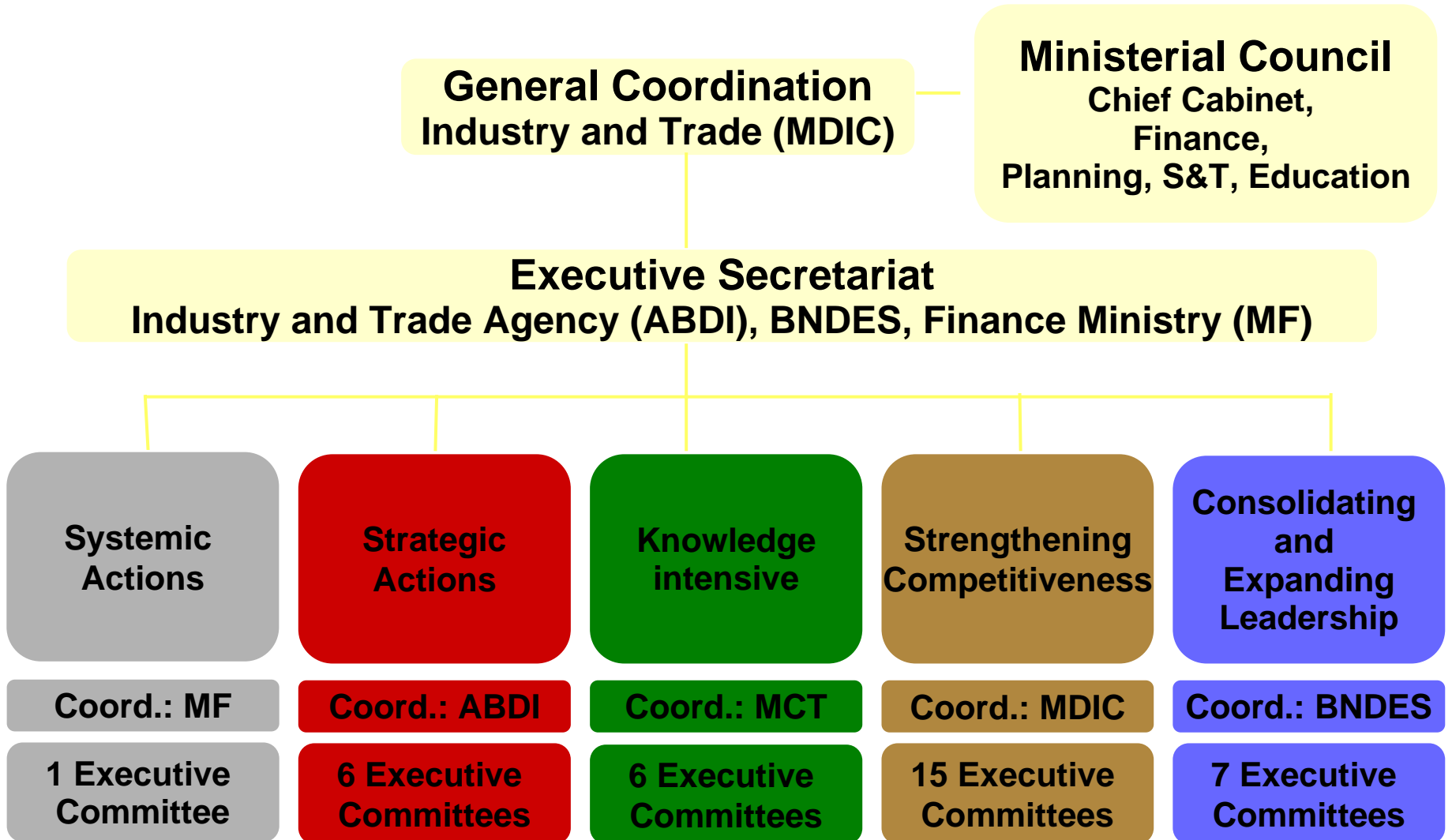
Financing US\$ 76 bi for US\$ 138 bi of investments (70% → energy)

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

PDP Governance: hierarchical structure and clear mandates



The challenge: coordinating 500 civil servants; over 60 public agencies

PDP designed for the complexity and level of development of each segment

Consolidating and Expanding Leadership

Aeronautics

Oil, Gas and Petrochemicals

Bio-ethanol

Meat

Mining

Steel

Pulp and Paper

Strengthening Competitiveness

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			
	US\$ Billion		
	Assets	Equity	Disbursement
World Bank	275.4	40.0	18.6
BNDES	222.0	15.9	68.8
IADB	84.0	20.7	11.4

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

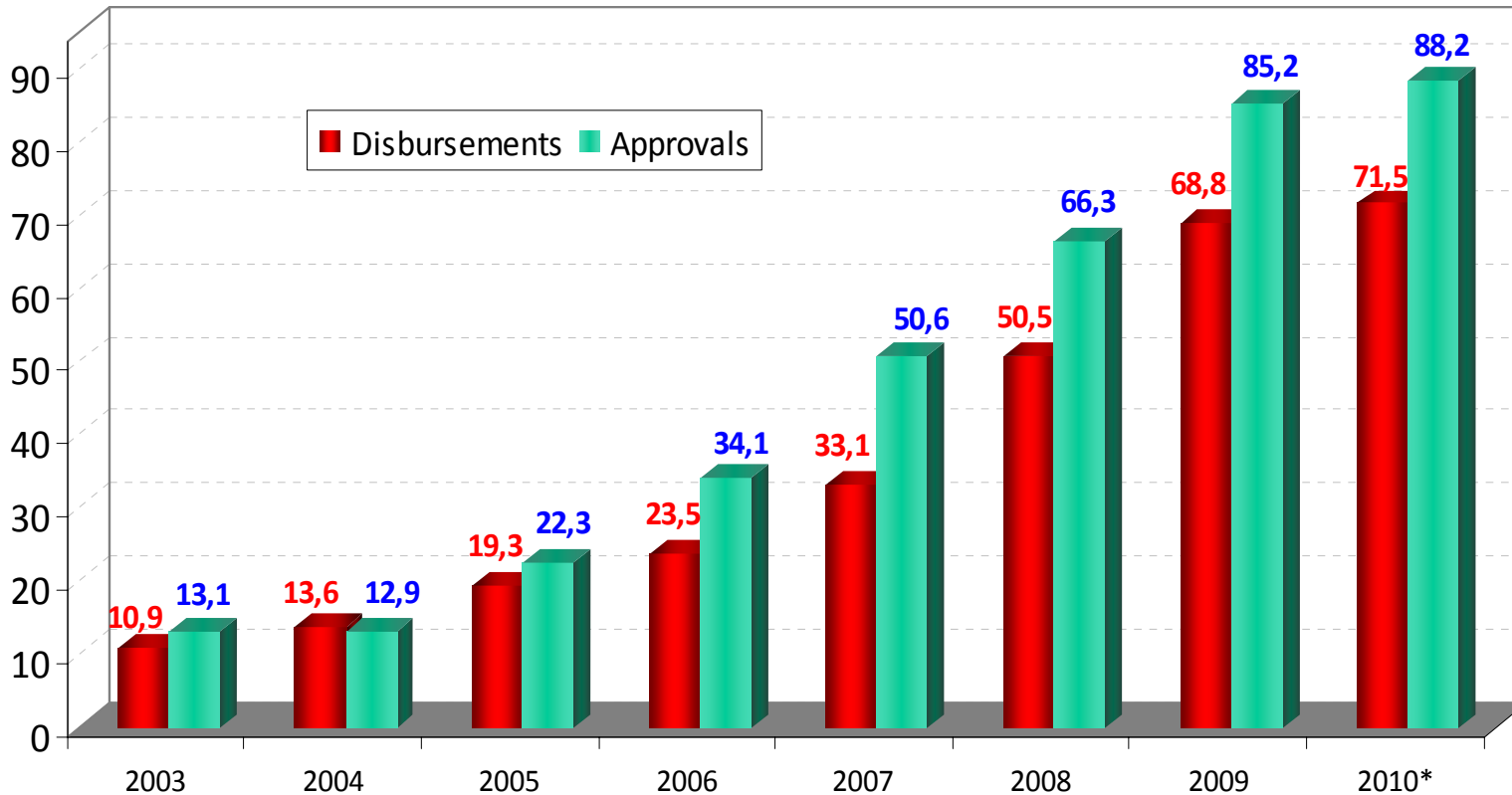
World Bank as of June 30th.

Non Performing Loans 2009: 0.20 (%)

BNDES' performance: expansion to support Brazilian growth

Approvals and disbursements

US\$ billion



* 2010:
projected

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)

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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