



# *BNDES and the Transformation of Brazilian Capitalism*

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**Brazil's New Role as an Economic Power: Opportunities & Challenges**  
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# Some basic facts about BNDES

- Founded in 1952, on US advice, HQ in Rio de Janeiro, 2,500 employees
- a federal public company in Brazil, linked to the Ministry of Development, Industry, and Foreign Trade (MDIC), managed under private law
- Raises funds through FAT (Fundo de Amparo ao Trabalhador, Worker Support Fund ) and Treasury, as well as financial markets
- Key instrument for implementation of government policies
  - Social development
  - Industrial (incl. innovation and corporate internationalization)
  - Infrastructure
- Main provider of long-term financing in Brazil
  - Direct and indirect operations
  - Export finance
  - Project finance
  - Equity investments (BNDESPar)

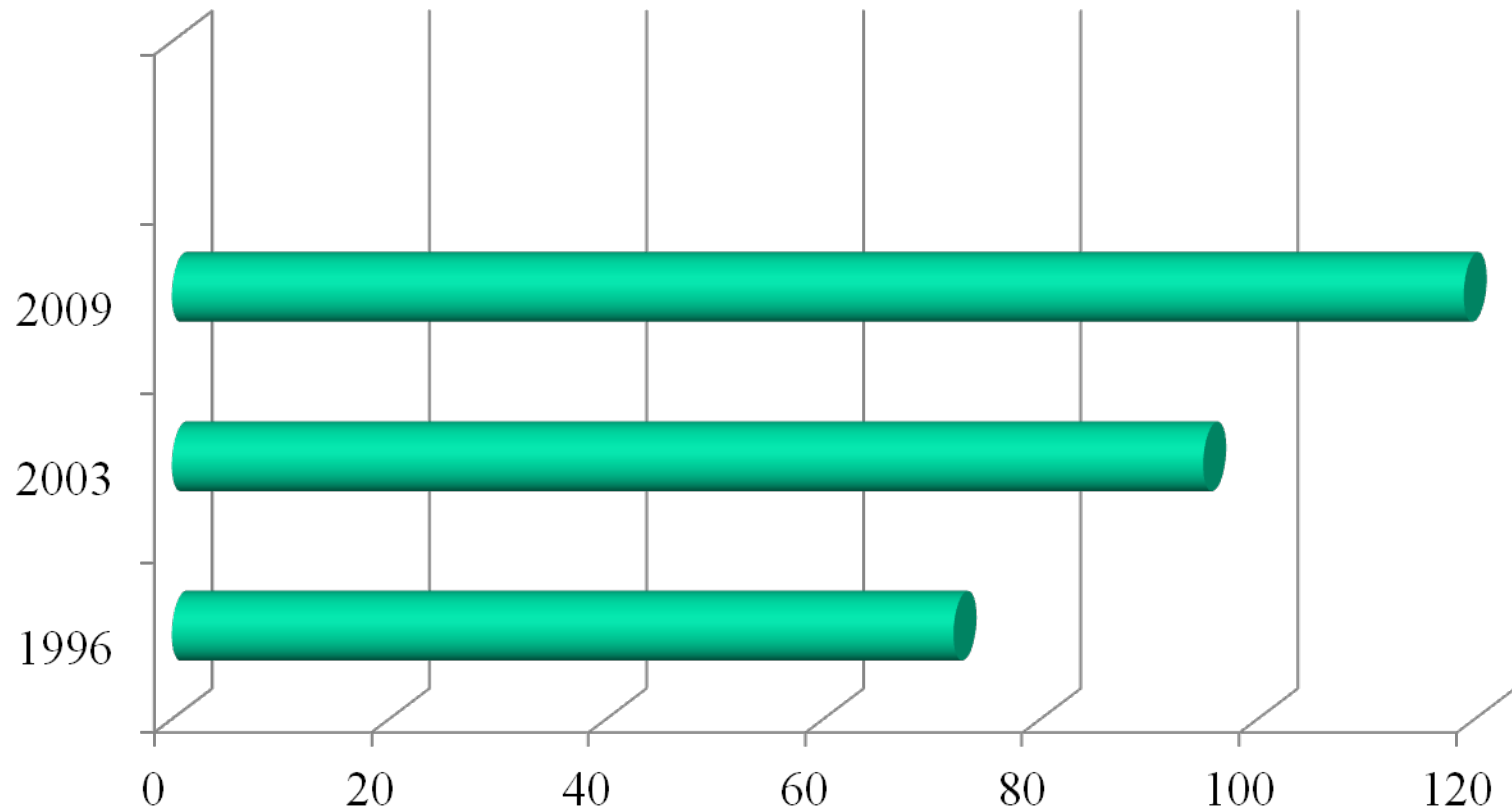
# BNDES' Accountability

- subject to CMN (National Monetary Council) discipline
- held accountable by
  - Federal Control Department (SFC)
  - National Privatization Board (CND)
  - Department for Control and Coordination of State Companies (DEST), from which BNDES requires a number of pre budget-related approvals.
- Accounts reviewed TCU (Government Accounts Tribunal)
- also accountable to the FAT deliberative board regarding the transfer of that fund's resources
- Supervised by the Central Bank of Brazil.

# BNDES and industrial policy

- Política industrial, Tecnológica e de Comércio Exterior (PITCE)
  - Support Program for the Development of the Pharmaceutical Productive Chain (Profarma)
  - Program for the Development of the National Software and Related Services Industry (Prosoft)
- BNDES Exim
  - created in 1997 (proportion of total disbursements)
    - 7% in 1995-1998 → 27% in 1999-2003 → 28% in 2004-2006
- BNDESpAr
  - Privatizations
    - Political economy
    - Brazilian ownership of CVRD

# Number of Brazilian firms in which BNDESPar, Previ, Petros and Funcef hold equity stakes



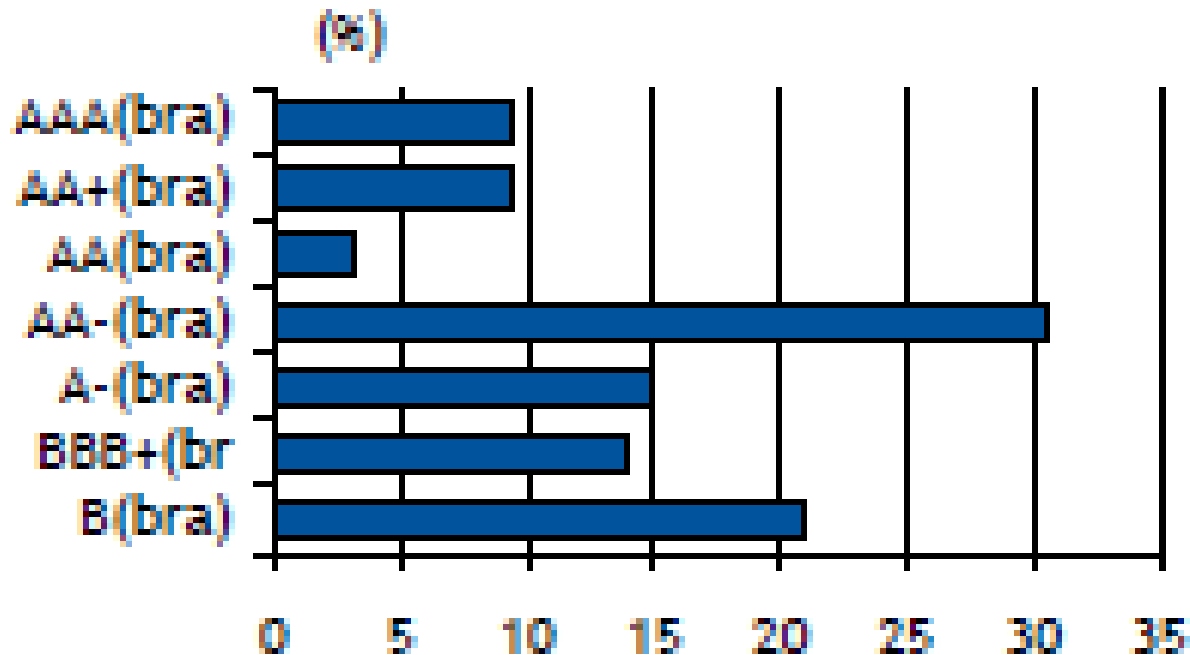
Source: Sérgio Lazzarini

# BNDES corporate lending (Fitch 2011)

- 82 corporates Fitch rates in Brazil:
  - BNDES loans to 47
  - BNDES equity stake in 16
- Size of debt outstanding
  - with BNDES financial support = R\$442 billion (R\$91 from BNDES)
  - without BNDES financial support = R\$68 billion
- “Fitch generally views the presence of BNDES in the capital structure as a positive credit factor.”

# BNDES Ownership Interest as % of Total Capital

(Avg. by Rating Category as of 12/31/10)



Source: Fitch and company financial statements.

# Jennifer Hermann (2010)

- The *raison d'être* of development banks stems from the “incomplete” nature of financial markets in segments that are extremely important for economic growth, namely long-term investments, and innovations and activities for which the estimated social return is greater than the private return.
- **In theory**, as those markets develop, the scope for development banks tends to become restricted.
- After trade and financial liberalization, development challenges hinge on increasing competitiveness and hence the capacity of local enterprises to
  - innovate;
  - export;
  - go regional and global
- **In practice**, on the domestic capital and credit markets the scale of operations is insufficient in providing financing for the firms in question and a development bank is a stabilizing device (esp. during crisis)

# Jorge Arbache (2010)

	Aceleração do crescimento	Desaceleração do crescimento
Formação bruta de capital fixo (taxa de cresc.)	+	-
Formação bruta de capital fixo - construção (taxa de cresc.)	+	-
Formação bruta de capital fixo - maq. e equip. (taxa de cresc.)	+	-
Produtividade total dos fatores (taxa de crescimento)	+	-
Crédito ao setor privado (taxa de cresc.)	+	
Desembolsos do BNDES (taxa de cresc.)	+	-
Termos de troca	+	
Libor (%)	-	
Taxa de crescimento mundial (%)	+	
Valor adicionado da indústria (taxa de cresc.)	+	-
Valor adicionado dos serviços (taxa de cresc.)	+	-
Transações correntes		+
Conta capital e financeira		-
Deflador do PIB (%)	-	+

Notas: resultados de modelos probit. Estatísticas z significativas a 5%.

Variáveis dependentes: aceleração e desaceleração do crescimento.

- ✓ Episódios de aceleração do crescimento estão associados ao aumento dos investimentos, da PTF, do crédito, dos termos de troca, da expansão da economia mundial, dos setores industrial e de serviços e menores taxas de inflação e dos juros internacionais
- ✓ Episódios de colapso estão associados à deterioração das transações correntes e aumento dos capitais de curto prazo e da inflação, e queda dos investimentos, do crédito e da PTF
- ✓ PTF é a variável com pseudo-R<sup>2</sup> mais elevado nos modelos econométricos

*WARNING: this exercise helps in identifying associations, which doesn't mean causality*

# Mansueto de Almeida, IPEA

## Samuel Pessôa, FGV

- O banco remunera o Tesouro pela Taxa de Juros de Longo Prazo (TJLP), enquanto o Tesouro paga ao mercado a taxa Selic.
- Critical of BNDESPar's strategy
  - Support to national champions (e.g. Votorantim + Aracruz = Fibria)
  - Internationalization of Marfrig and JBS meat packers
  - Acquisition of shares in MPX (Eike Batista)
  - Petrobras capital increase
  - “Paper loss” R\$ 3,04 bilhões
  - R\$ 3,9 bilhões support for Diniz-Carrefour proposed deal for Pão de Açúcar
- “O problema é que o BNDESPar tem atuado como banco de investimento. Entra em grandes operações, sem benefícios claros para a sociedade. Estão sendo incentivados setores que já são competitivos, como de exportação de carnes, papel e celulose, energia. É preciso se indagar se essa seria a destinação de recursos que o país precisa”.

# Lazzarini and Mustacchio (2011)

- No strong selection effect (no evidence that BNDES selected to invest either in the most profitable or the most distressed firms)
- positive effects (higher return on assets and higher capital investment), with no discernible effect on debt levels.
- no positive effects when BNDES purchases equity in companies that belong to a business group, especially if the company belongs to a state-owned business group.
- Explanations:
  - firms in Brazil face significant capital constraints → government purchases of equity can alleviate such constraints.
  - perhaps having the government as a minority shareholder in a company reduces some of the corruption, principal-agent, and in general moral hazard problems which are typically observed in SOEs, but those positive effects disappear when companies are part of a business group.

*Obrigado!*

*Tak!*