

Financier of The Commanding Heights of The Brazilian Economy:
The National Bank for Economic and Social Development and 60 years of
Shifts in National Development Paradigms

Lopo Alvarez de Castro Neto

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Advisor: Matthew Taylor

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Abstract

Brazil's National Bank for Economic and Social Development (BNDES) is one of the largest institutions of its kind in the world. Its disbursements make up around 20% of all credit in Brazil over the past decade. The bank thus can be said to be one of the most important institutions, if not the most important, in Brazilian economic development. Given that there is still much light to be shed on the subject, and that Brazil's economic development trajectory is increasingly the subject of international interest, this paper focuses on the BNDES and its role in the economy throughout its 60 years of history.

By documenting three separate and distinct phases in the history of the BNDES, this paper analyzes the behavior of the BNDES in light of three overarching paradigms of national development strategy that were prevalent in three different periods. These are: developmentalism, neoliberalism and neodevelopmentalism. This latest paradigmatic shift has been characterized by Ian Bremmer, Sergio Lazzarini and Aldo Mussachio as the return of "state capitalism" and this paper uses the "industrial policy" perspective seen in the works of these authors as a base to understand how the state can play a key coordinative role in the economy to maximize economic performance. Using this perspective, specific sector of bank activity (export promotion) is analyzed in greater detail as a case study used to demonstrate how the bank has revised its role over time.

1. Introduction

Brazil's National Bank for Economic and Social Development (BNDES) is one of the largest institutions of its kind in the world.¹ Its disbursements make up around 20% of all credit in Brazil over the past decade, representing 5% of

¹ See table 1

GDP annually.² The bank thus can be said to be one of the most important institutions, if not the most important, in Brazilian economic development.³ It is said to be at the commanding heights of the Brazilian economy⁴ with equity stakes in many Brazilian multinationals such as JBS, Gerdau, Vale and Embraer.⁵ The bank is thus in a key position, able to coordinate and fund Brazilian industrial policies set by the government. Until recently little attention was paid to the bank, especially outside of Brazil. However, its importance to the Brazilian economy is hard to understate a fact that is increasingly being recognized.⁶ Given that there is still much light to be shed on the subject, and that Brazil's economic development trajectory is increasingly the subject of international interest, this paper will focus on the BNDES and its role in the economy throughout its 60 years of history.

This paper documents three separate and distinct phases in the history of the BNDES. In each of these, the BNDES has acted in different ways in different sectors of the economy. This paper thus seeks to analyze the behavior of the BNDES in light of the over-arching paradigm of the national development strategy of Brazil in each period. In other words, this paper shows that, even as

² Ermani Teixeira Torres Filho, "Mecanismos de Direcionamento do Crédito, Bancos de Desenvolvimento e a Experiência Recente do BNDES" in *Ensaio Sobre Economia Financeira*, ed. Francisco Marcelo Rocha Ferreira and Beatriz Barbosa Meirelles. (Rio de Janeiro: BNDES 2009), 35.

³ Jennifer Hermann, "Development Banks in the financial-liberalization era: the case of the BNDES in Brazil," *Cepal Review* 100 (2010): 189.

⁴ Kurt Mettenheim, "Para uma Análise Transdisciplinar dos Bancos Públicos Federais na Democracia Brasileira" in *Bancos Públicos e Desenvolvimento*, ed. Frederico G. Jayme and Marco Crocco, (Rio de Janeiro: Instituto de Pesquisa Econômica Aplicada, 2010), 106.

⁵ Kurt E. Von Mettenheim, *Federal Banking in Brazil: Policies and Competitive Advantages* (London: Pickering & Chatto 2010), 166.

⁶ http://www.bbc.co.uk/portuguese/noticias/2012/08/120813_bndes_60anos_ru.shtml and <http://www.guardian.co.uk/global-development/poverty-matters/2011/mar/29/development-banks-role-brazil-success>

development strategy shifted in each period, the bank has been crucial to the fulfillment of policy goals closely tied to the prevailing national development strategy of the time. A specific sector of bank activity is analyzed in order to demonstrate in greater detail how the bank has revised its role over time: the promotion and financing of Brazilian exports. In this case study, the BNDES' role has changed in accordance with changes in the prevailing paradigm of national development.

The paper is structured as follows. The first section provides a brief overview of development banks and their role in spurring economic development. Section two provides a historical overview of the BNDES, demonstrating how the bank's profile changed over time to meet the needs of the government, conforming to the prevailing national development paradigm of each period. The third section analyzes the case study of export promotion and financing activities of the BNDES using industrial policy as the framework. The fourth and last section is a brief assessment of the degree of change within the BNDES, before concluding.

This paper is not the first to address the BNDES and national development paradigms in Brazil. Past works have dealt with this issue and some have even separated bank activity by time periods in ways similar to this paper. The works of Jennifer Hermann, Kurt Von Mettenheim and Werner Baer are examples.⁷ They also developed typologies and comparisons based around general time periods, as this paper does. However, the unique

⁷ Hermann, "Development Banks in the financial-liberalization era", Von Mettenheim *Federal Banking in Brazil*, Baer and Villela *The Changing Nature of Development Banking in Brazil*.

contribution of this paper is the connection between the actions and policies of the BNDES and the prevailing paradigm that lie behind them. Thus, this paper analyzes the BNDES' performance over the past sixty years through the lens of three central paradigms of development theory: developmentalism, neoliberalism and neodevelopmentalism. This paper also differentiates itself by recognizing the advent of a new developmental paradigm, seen with the rise of left-leaning governments in Brazil: neodevelopmentalism. Authors such as Hermann⁸ fail to recognize this recent shift and others such as Arbix and Martin⁹ do not attribute the recent policy changes to a shift towards a neodevelopmentalist paradigm.

This typology for evaluating or analyzing/distinguishing between national development paradigms can be juxtaposed with a categorization of national development models recently created by Ian Bremmer¹⁰ and expanded on by Sergio Lazzarini and Aldo Mussachio.¹¹ These authors separate “liberal capitalism” from “state capitalism” where the latter is defined as, “the widespread influence of the government in the economy, either by owning majority or minority equity positions in companies or through the provision of subsidized credit and/or other privileges to private companies.”¹² Going further, “state capitalism” is subdivided into two types: one in which the state takes

⁸ Ibid.

⁹ Glauco Arbix and Scott B. Martin, “New Directions in Public Policy and State-Society Relations,” in *The Brazilian State: debate and Agenda*, ed. Mauricio A. Font and Laura Randall (Plymouth, UK: Lexington Books 2011), 77.

¹⁰ Ian Bremmer, *The End of the Free Market: Who Wins the War Between States and Corporations?* (New York: Penguin Group, 2010).

¹¹ Sergio Lazzarini and Aldo Mussachio. “Leviathan in Business: Varieties of State Capitalism and their Implications for Economic Performance” *Harvard Business School Working Papers* 12-108 (2012).

¹² Ibid., 3

majority control of enterprises, and in a second in which the state takes “a more hybrid [role . . .] through minority investments by development banks, pension funds, sovereign wealth funds and the government itself.”¹³ Comparing these categories with the national development paradigms mentioned previously, neoliberalism, developmentalism and neodevelopmentalism roughly parallel the categories of “liberal capitalism”, “state capitalism” with the state as a majoritarian stakeholder in business, and “state capitalism” with the state as a minority stakeholder. The case of “state capitalism” as a minority stakeholder for instance, is described as resulting from “the privatization and liberalization wave of the 1980s and 1990s [which] helped create a new form of hybrid capitalism where the government influences the investment decisions of private companies largely through minority capital.”¹⁴ According to Moraes and Saad-Filho this new economic development paradigm was premised on the macroeconomic stability achieved under neoliberalism tied with industrial policies as seen during the developmentalist period.¹⁵ In Brazil this latest paradigmatic shift occurred with the rise of the left-leaning PT to the presidency in 2002.¹⁶

It is important to note that this paper takes use the “industrial policy view” of state capitalism as described by Lazzarini and Mussachio.¹⁷ This approach sees state participation in the economy as a legitimate way for governments to

¹³ Ibid., 4

¹⁴ Ibid., 4

¹⁵ Lucio Moraes and Alfredo Saad-Filho, “Da economia política à política econômica: o novo-desenvolvimentismo e o governo Lula”, *Revista de Economia Política* 124, (2011): 507-527.

¹⁶ Partido dos Trabalhadores or Worker’s Party in English

¹⁷ Lazzarini and Mussachio. “Leviathan in Business,” 20

spur economic development using industrial policy. The reasons for this are two fold. Using industrial policy the state can act in the economy to correct market failures and thus maximize economic outcomes. And second, the state can play a key coordinative role in the economy to maximize economic performance. As will be seen the BNDES' existence is often justified along these lines, although with great controversy.¹⁸ Indeed there is much room for reform and infusion of greater market principals into the bank. However policy recommendations are not focus of this paper. Notwithstanding, this paper sees the bank in light of a comment made by prominent economist Jan Kregel "without the BNDES, Brazil would have no long term capital and no way to finance its industries".¹⁹ In the following subsection the role of development banks as tools of industrial policy will be discussed.

1.1 Development Banks

National development banks such as the BNDES were created to "promote national economic development in countries where the domestic financial system was unable to sustain a rapid expansion of aggregate investment."²⁰ Overall that is the central mission of these institutions. The main way these banks achieve their mission is by essentially "offering long-term

¹⁸ As can be seen with "Plataforma BNDE", which advocates for greater popular participation and transparency from the BNDES. <http://www.plataformabndes.org.br/site/>

¹⁹ Jan Kregel, "Sem BNDES, Brasil não financiava sua indústria, diz economista," *O Globo*, January 9 2012, <http://oglobo.globo.com/economia/sem-bndes-brasil-nao-financiava-sua-industria-diz-economista-3599460>.

²⁰ Hermann, "Development Banks in the financial-liberalization era", 190

capital finance to projects that are deemed to generate positive externalities and [that would] . . . be under-financed by private creditors.”²¹ The BNDES is no exception to this conceptualization, as its stated mission is “to foster sustainable and competitive development in the Brazilian economy, generating employment while reducing social and regional inequalities.”²²

Historically development banks have been present since the start of industrialization.²³ The first government-sponsored bank, the “*Société Générale pour Favoriser l’Industrie Nationale*”²⁴ was created in 1821 in the Netherlands because “the existing commercial banks were unable to provide industry with long-term finance.”²⁵ These financial institutions were typically created as countries began their industrialization processes and governments looked to support and speed-up this process. Often overlooked in the period prior to World War II, these institutions played an important role in spurring the industrialization of Europe and Japan. For instance the French “*Crédit Mobilier*”²⁶ was key to the development of French railways and innovative in long term financing.²⁷ After World War II there was a significant growth in the number and

²¹ Eduardo Levy Yeyati, Alejandro Micco and Ugo Panizza, “State-Owned Banks: Do They Promote or Depress Financial Development and Economic Growth?” (paper prepared for the conference on Public Banks in Latin America: Myths and Reality Inter-American Development Bank, February 25, 2005), 16.

²² http://www.bndes.gov.br/SiteBNDES/bndes/bndes_en/Institucional/The_BNDES/mission.html

²³ United Nations, Department of Economic and Social Affairs, Financing for Development Office, “Rethinking the Role of National Development Banks” (paper was prepared by the staff of the Financing for Development Office of UN-DESA as an informal background document for the Ad Hoc Expert Group Meeting on “Rethinking the Role of National Development Banks” (New York, 1-2 December 2005), 5

²⁴ Beatriz Armendáriz de Aghion, “Development banking” *Journal of Development Economics* 58 (1999): 85.

²⁵ Ibid., 85

²⁶ The *Crédit Mobilier* was private bank with extremely close ties to the French government

²⁷ Ibid., 86

size of these institutions for three reasons. One, there was a “lack of long-term funding for investment projects.”²⁸ Second, the large number of newly independent states created after de-colonization, often created their own national development bank. And thirdly, there was the creation of many multilateral financial institutions such as the World Banks, Inter-American Development bank and the African Development Bank.²⁹

Currently there are over 750 national development banks in the world.³⁰ Many developed countries still make use of these institutions, including countries where many would say that the *raison d’être* for development bank is no longer present; as they have highly developed financial systems, where private banks are capable of providing firms with needed long term credit. Yet national development banks such as Germany’s KFW, Canada’s BDB and Japan’s DBJ persist.

The perseverance of development banks in developed countries seems to contest the idea that these institutions have as a final objective, a certain level of development. In other words, when a country’s financial system is developed enough these banks should be dismantled or sold to the private sector.³¹ However the industrial policy approach adopted in this paper explains the continued existence of development banks in both underdeveloped and developed financial systems. In a macroeconomic sense “financial markets are

²⁸ United Nations, “Rethinking the Role of National Development Banks”, 6

²⁹ Ibid., 6

³⁰ Ibid., 7

³¹ Jennifer Hermann, “Bancos Públicos em Sistemas Financeiros Maduros: perspectivas teóricas e desafios para os países em desenvolvimento” (paper presented at the Associação Keynesiana Brasileira (AKB) Second International Meeting on September, 2009), 4.

seen as inherently inefficient . . . because they tend to deny (or restrict) credit to economic sectors that are important to [that country's] development”³² even in more developed financial markets. Development banks thus fill gaps in the provision of credit and in that way intervene in the market to maximize outcomes. To put it simply, development banks try to correct an inherent flaw in the market.³³

According to Lazzarini and Mussachio, there are two “major sources of market failure”³⁴ in the lens of the industrial policy approach. The first source of market failure, as previously mentioned, is a shortage of privately provided long-term credit. Development banks act by “[alleviating] capital scarcity and [promoting] entrepreneurial action to boost new or existing industries.”³⁵ And secondly, there are coordination problems between state and private actors involving long-term projects. Coordination problems are such that the state can intervene to support auxiliary projects so that make the main project viable. Without the state coordinating capital neither the main or auxiliary projects would come about. Development banks can become that coordinating link between the state and the private sector and make projects more attractive to private investors. By coordinating and funding both state operated infrastructure projects with privately owned investment projects, development banks make possible for both projects to come to fruition, rather than none if the development bank had not stepped in.

³² Translated from Jennifer Hermann, “Bancos Públicos em Sistemas Financeiros Maduros”, 16.

³³ Hermann, “Bancos Públicos em Sistemas Financeiros Maduros”, 7.

³⁴ Lazzarini and Mussachio. “Leviathan in Business,” 21.

³⁵ Ibid.

As will be shown in the next section, the case of the BNDES has been consistent with the general conceptualization of development banks presented in this section. Over its 60 years of history the BNDES has shifted not whether or not the bank has provided credit to intervene in a perceived flaw in the market but in how it does this. Furthermore the next section will address how the BNDES evolved to become one of the largest, the most profitable and efficient institutions of its kind as shown in Table 1.

Table 1: The BNDES compared to other development banks

US\$ Billion	BNDES	IDB	World Bank	CAF*	China DB	KDB (Korea)	KFW (Germany)
Total Assets	330.4	87.2	428.3	15.8	665,1	123.3	591.4
Shareholders' Equity	39.7	21	165.8	5.2	55.1	17.3	21.2
Profit	6	0.3	1.7	0.2	4.6	1.4	3.5
Total Loans	101.4	10.3	26.3	11.6	543.1	n.a	n.a
Size of Staff	2,982	~2,000	~10,000	~400	n.a	2,266	4,531
Return on equity (%)	15.1	1.4	1.0	4.7	8.8	8.1	16.5
Return on assets %)	1.8	0.3	0.4	2.4	0.8	1.1	0.6
Profit per employee (US\$ million)	2	~0.2	~0.2	0.5	n.a	0.6	0.8
Assets/equity	8.3	4.2	2.6	3.0	12	7.1	28

US\$ Billion	BNDES	IDB	World Bank	CAF*	China DB	KDB (Korea)	KFW (Germany)
Assets per employee (US\$ million)	110.8	43.6	42.8	39.5	n.a	54.4	130.5
Year Founded	1952	1959	1945	1968	1994	1952	1948

*Corporación Andina de Fomento.

Sources: BNDES, (Lazzarini, Musacchio, de Mello, Marcon 2011) with updated information, from 2009 and 2010

2. Origins of the BNDES

For Brazil, the deep desire to develop and to join the ranks of the developed world became elevated to the status of national ethos in the first half of the twentieth century. Starting in the 1930's during the Getulio Vargas dictatorship, this desire became even more apparent. The renowned economist and former minister of finance, Luiz Carlos Bresser-Pereira assesses this period and shows how significant this time was in Brazil's history, "it is without a doubt that in 1930... Brazil properly enters in a phase of industrial revolution."³⁶ To Bresser-Pereira this can be attributed to "national-developmental pact"³⁷ that was forged between workers, industrialists, bureaucrats and the land owning oligarchs. These various elements of Brazilian

³⁶ Translated from: Luiz Carlos Bresser-Pereira, *Desenvolvimento e Crise no Brasil* (São Paulo: Editora Brasiliense, 1972), 33.

³⁷ Translated from: *ibid.*, 34.

society were brought together by Vargas who began to implement a national development strategy that would eventually become known as developmentalism.

Developmentalism is an economic development paradigm that seeks to develop a country's economy to the level achieved by the global north. The term developmentalism, according to Bresser- Pereira, is summed up as:

“the protection of national infant industries and the forced promotion of savings through the state. This strategy was called ‘developmentalism’ or ‘national-developmentalism’. The purpose of such a name was, first, to emphasize that the policy’s basic objective was to promote economic development and, second, to emphasize that in order for this to happen, the nation - that is, business leaders, the state bureaucracy, the middle classes and the workers joined together to face international competition - used the state as its principal instrument of collective action.”³⁸

As a set of policies, Developmentalism was most associated with the United Nations Economic Commission for Latin America and the Caribbean and its leader the economist Raul Prebisch. The commission also known by its acronym, ECLAC was very influential in the dissemination of the

³⁸ Luiz Carlos Bresser-Pereira, *Developing Brazil: overcoming the failure of the washington consensus*, (Bolder, CO: Lynne Rienner Publishers, 2009), 45

developmentalist paradigm. Through studies and technical mission, ECLAC had an profound impact in the economies of Latin America.

The historical roots of this development paradigm lie in mercantilist thinking of the late 18th and early 19th centuries. Mercantilism is economic philosophy that attributes great importance to protecting the balance of trade, with trade barriers and being economically independent. However when confronted with classical economic thought that brought with it the potential benefits of liberal market policies (such as free trade), the theory adapts to try to maximize the benefits of both lines of thought. Thus a form of compromise between mercantilism and liberalism form a hybrid where the state, by intervening in the economy, tries to shape which goods in which the country will have a comparative advantage. This framework takes the view that comparative advantage is dynamic rather than static. Economic orthodoxy sees a country's talent in producing a good as unchanging or changed only by market forces. However developmentalism takes the view that the state can foster new comparative advantages by giving the desired industry protections and subsidies, thus comparative advantage is seen as constantly changing or at least able to change. Thus a divergence between the interests of export-oriented sectors and the greater national interest of the country can exist if a country wishes to export goods with more value-added. Thus "the specialization of primary products must be hindered and industrialization in

form of substitution of imported goods must be promoted as the main strategic directive. Consequently there is an emphasis on nascent industry.”³⁹

According to the Prebisch-Singer hypothesis, the terms of trade of primary commodities falls in relation to manufactured goods over time. For example, in one year a ton of bananas cost about the same as a car, 20 years later it will take two tons of bananas to buy a car, thus the relative value of primary products depreciates over time. Using this model primary commodity producers such as Brazil will develop much more slowly than otherwise because they would have to export a every larger amount of primary goods to obtain the same import industrialized goods. Only with the production of value added goods can a country keep or increase the consumption of industrialized products. If this notion is applied world-wide, the periphery-core dichotomy is inherent in developmentalist thinking. Brazil, according to Bresser-Pereira is “a peripheral, or dependent, country”⁴⁰ that needs a strong state to break with the vicious circle of dependency in order to develop.

To Bresser-Pereira this term was more than an ideology but a “series of institutions, and policies [...] with values oriented to [promoting growth] and economic development.”⁴¹ This gave the state another *raison d’être*. During the 1930’s the government centralized economic policy, promoted efforts to be less reliant on agricultural commodities as an economic base⁴² and fostered

³⁹ Translated from: Reinaldo Gonçalves, “Novo Desenvolvimentismo e Liberalismo Enraizado” *Serviço Social & Sociedade* 112 (2012): 649

⁴⁰ Bresser-Pereira, *Developing Brazil*, 46

⁴¹ Luiz Carlos Bresser-Pereira, *Macroeconomia da Estagnação: crítica da ortodoxia convencional no Brasil pós-1994* (São Paulo: Editora 34, 2007) 280

⁴² Here coffee is the main example.

incipient industrial development. The result was 90% growth in industrial output from 1925 to 1935.⁴³ The view was that industry was essential to development and that the government needed to, even if on its own, push the country through this process. Examples of this process are widespread during the developmentalist period. In 1938 the Vargas government nationalized the oil industry and in 1953 created Petrobras, the national oil company. Vale do Rio Doce, a large mining company was founded in 1942, a company to manage hydroelectric dams on the São Francisco river was founded in 1945. Also in 1946 the country's first steel mill opened in Volta Redonda, Rio de Janeiro. The state-owned Companhia Siderúrgica Nacional (CSN) operated the Volta Redonda plant, which was financed with American capital. CSN thus became the second prong⁴⁴ of the oil and steel strategy to develop base industries. Once established, these allow for industries with higher value added to develop. The government hoped that with a foundation in heavy industry, private industry would undertake more refined industrial production, which indeed did occur. In subsequent decades automobile and aeronautical industries established in the country.

With the state becoming an entrepreneur, controlling a vast swath of the economy, the concept of State capitalism with the "leviathan as a majority investor"⁴⁵ becomes more pertinent. Thus the real world application of developmentalism becomes the "leviathan as a majority investor" model as

⁴³ Luiz Carlos Bresser-Pereira, *Desenvolvimento e Crise no Brasil*, 39

⁴⁴ With Petrobras being the first prong.

⁴⁵ Lazzarini and Mussachio. "Leviathan in Business," 13

described by Lazzarini and Mussachio where “state involvement in enterprises took the form of command economies or mixed economies in which governments owned a large number of enterprises and directly controlled the allocation of strategic resources.”⁴⁶ Furthermore under this model development banks like the BNDES are given special mention as they not only fund, and thus make viable many of these state-owned enterprises, but also coordinate industrial policy between the government, the private sector and state-owned enterprises.

The increased government involvement in the economy that happened in the 1940's was motivated in large part by the findings of the Cooke Mission. This was a group of “US technicians”⁴⁷ who in 1942 conducted the first attempt at looking at the Brazilian economy holistically. The mission drew findings for the Brazilian government to implement in order to foster economic growth. Some of the main conclusions were that “inadequate transportation system ... Lack of funds for industrial capital ... An underdeveloped capacity to generate power”⁴⁸ were some of the main causes hindering industrial growth in the country. The report would become fundamental in the creation of the BNDE, as the need for long-term project financing for infrastructure as well as industrial projects had already become clear ten years before the founding of the bank.

The period following World War II brought with it a wave of pessimism as Brazil's continued reliance on primary products, such as coffee, and its open

⁴⁶ Lazzarini and Mussachio. “Leviathan in Business,” 4

⁴⁷ Werner Baer, *The Brazilian Economy: Growth and Development* (Bolder: Lynne Rienner, 2008), 45

⁴⁸ Ibid.

borders allowed for a wave of foreign products to flood the consumer market. The ousting of Getulio Vargas in 1945 was followed by a slowing down of the industrialization process, as the cruzeiro between 1946 and 1953 became overvalued and national industries could not compete with cheaper imports.⁴⁹ However Vargas regained the presidency through democratic means in 1951 and returned Brazil to the pro-industrialization policies of his previous administration. That same year the Joint-Brazil-United States Economic Commission started to work where the Cooke Mission left off and evaluated a series of specific projects that would boost the Brazilian economy. These projects would be funded in part by the World Bank and the US government. The group came up with 41 projects totaling \$392 million, 56% of which would go to railroad construction.⁵⁰ The commission also came up with another list of ways the Brazilian economy needed to improve its human capital and economic planning. Taking the input of the Joint Commission and riding on a wave of political optimism caused by promises of economic growth that the state planning initiatives could bring, the Minister of Finance, Horácio Lafer pushed the creation of the “Economic Re-equipment Fund”⁵¹ through Congress. Development banks, often start as a development fund, then become progressively more institutionalized as described:

“After World War II, the lack of long-term funding for investment projects encouraged many countries to establish Development

⁴⁹ Ibid., 55

⁵⁰ Maria da Conceição Tavares et al, “O Papel do BNDE na Industrialização do Brasil: os anos dourados do desenvolvimentismo, 1952-1980.” *Memórias do Desenvolvimento* 4 (2010), 19.

⁵¹ Ibid., 21

Finance Institutions by using public funds, to fill the financing gap. Specific stages in this evolution included “development *finance companies*” (public entities with non-banking activities), “development *funds*” (usually based on special accounts from the Central Bank), ending with what is today known as “national *development banks*”⁵²

This is certainly the case with the BNDE. The “Economic Re-equipment Fund” was set up to invest in projects like the ones suggested by the joint commission. Besides allowing foreign borrowing to set the fund up, the law required a compulsory “loan” of 15% of the income of very high incomes earners, which the BNDE would pay back. A new institution was needed to administer this fund, and in 1952 the federal government passes a law mandating the creation of the National Bank of Economic Development or BNDE for short.⁵³

2.1 The Developmentalist Phase (1952-1982)

The second Vargas administration lasted until 1954. During this second presidency, Vargas solidified dominance the paradigm of nationalist-developmentalism as Brazil’s grand strategy for development. This dominance lasted for the next 40 years, through a series of institutions, policies and laws. This model for development would come to an end in 1980’s when the

⁵² United Nations, “Rethinking the Role of National Development Banks”, 6

⁵³ The “S” for social would only be added in 1982 when the bank went through some reforms.

government could no longer sustain the cost of such a heavy involvement in the economy. The process dismantling the direct involvement of the state in the economy would begin to shift the country towards the neoliberal paradigm.

Industrial development during the developmentalist period was framed in the widely diffused notion of the “economic tripod”⁵⁴. As the name suggests, three entities made up this development scheme: private business, state owned enterprises and foreign business. Indeed these three actors throughout the 1954-1982 period were expected to contribute to economic development and the government was to oversee who would invest where and how. Thus the creation of the BNDE was crucial for the developmentalist vision of economic planning. The bank became the point convergence for these various agents and was to direct them in a way as to maximize their economic growth and ensure profitability. To achieve these goals the bank was to support diversification of industry by funding the creation of new industries in new sectors. The goal was to substitute imported goods to make the industrial structure of Brazil more complete. The very nature of these tasks implies that to a degree, the bank was also charged with formulating industrial policy.

At its onset the bank was charged with: 1) Being the primary financial intermediary between foreign investors and national investors, both private and public, 2) Being in effect a planning agency, in charge of defining investment policies and preparing projects themselves (rather than simply financing

⁵⁴ Carlos Eduardo Santos Pinho, “O Nacional-Desenvolvimentismo e o Novo-Desenvolvimentismo no Brasil: Expansão Interna e o Discurso Social Democrata,” *Achegas.net Revista de Ciência Política* 45 (2012), 5.

projects proposed by the private sector) and 3) Conducting a redistribution of financing, where the bank's disbursements favor the national private sector over other funding opportunities, especially in sectors of the economy not already supplied with financing.⁵⁵ This gave the BNDE an unprecedented position relative to the Brazilian economy. Indeed since its founding it has managed to maintain its position as one of the main instruments in the Federal Government's economic policy.

However, from the moment the bank was founded to the end of the Vargas second government in 1954, it was plagued with problems; many of these were typical of a new institution. Initially the capital provided to the bank via the Economic Re-equipment Fund proved to be insufficient for what the BNDE had been tasked to do. Many of the funds allocated to complete projects failed mainly because the amount proved to be insufficient a few years after the loan was made due to inflation corroding its real value⁵⁶ but also because of over-stretching of resources on the part of the bank

In 1956 Juscelino Kubitschek was elected president and on his first day in office he announced the "Plano de Metas" which promised to bring "50 years [of development] in 5."⁵⁷ During this five year plan the country saw the largest and arguably most successful expansion of public economic planning in Brazil. To carry out the plan, the president of the BNDE would sit as executive

⁵⁵ Alexandre de Santana Lima, "A Atuação do BNDES no Desenvolvimento Econômico Brasileiro: 1952-2002" (Masters Dissertation, PUC/SP, 2007), 47.

⁵⁶ Inflation went from 12.41% in 1951 to in 25.87% in 1954. Source: Lima, "A Atuação do BNDES no Desenvolvimento Econômico Brasileiro", 52

⁵⁷ Baer, *The Brazilian Economy*, 64

secretary on the National Development Council ⁵⁸, which in turn would manage the creation of a vast number of public and private companies. For instance the state-owned enterprises Eletrobras and the Rede Ferroviária Federal S.A. (RRFSA) were created during this period.

Under this plan, the BNDE would be the main institution for financing electricity generation and transportation projects which were the main targets of the plan. Each of these sectors received 37.8% and 30.2% of the BNDE's resources respectively.⁵⁹

The funding problem from the first few years of the bank lasted until 1957 when a new law granting more funds for the bank was passed. With the “Plano de Metas” the BNDE needed a vastly superior amount of capital than what it had on hand. The bank would thus be responsible for administering several funds beside the initial Economic Re-equipment Fund. Now in its portfolio were “The Federal Electrification Fund, The Railway Renewal and Improvement Fund, Asset Renewal (of capital goods) Fund, The Pavement and Replacement of Rail Extension Fund, The Merchant Navy Fund and the National Ports Fund.”⁶⁰ The effects of these changes can be seen in the bank's balance sheet. From 1955 to 1959 available funds went from 3.5 billion Cruzeiros to 25.9 billion.⁶¹

⁵⁸ Von Mettenheim, *Federal Banking in Brazil*, 149

⁵⁹ Tavares, et al, *O Papel do BNDE na Industrialização do Brasil*, 70

⁶⁰ Translated from “Fundo Federal de Eletrificação, Fundo de Renovação e Melhoramento das Ferrovias e Fundo de Renovação Patrimonial, Fundo de Pavimentação e Fundo para Substituição de Ramais Ferroviários, Fundo de Marinha Mercante, Fundo Portuário Nacional”

⁶¹ Tavares, et al, *O Papel do BNDE na Industrialização do Brasil*, 66

The impact the “Plano de Metas” had in the Brazilian economy, as well as BNDE’s role in the process, is hard to overstate. During this time Brazil saw GDP growth rates of 7.8% ⁶² and the contribution that industry made to the GDP of Brazil went from 19.8% in 1947 to 27.2% in 1966,⁶³ thus showing the impact the plan had in industrializing the country. By financing hydroelectric dams, roadways and the auto industry; the BNDE helped to create a heavy reliance on automobiles for transportation and hydroelectricity for energy that is still present today.

Following the “Plano de Metas”, the BNDE’s focus shifted from infrastructure to intermediate goods industries.⁶⁴ Funding from the BNDE to such industries went from 14.7% of its total disbursements in 1956 to 40.8% in 1960. In the period that followed Kubitschek’s presidency this trend only grew. The idea was that with the basic infrastructure placed by the “Plano de Metas,” the government needed to focus on substituting imports, especially since the federal government’s growing balance of payments problems was a result of the heavy foreign loan investments of the “Plano de Metas”.

In the administrations that followed, the BNDE played a much less active role in managing industrial policy as compared to the Kubitschek era. During the period between the end of the Kubitschek presidency and the coup of 1964, there was no coherent economic policy as political instability set in.

Immediately following the 1964 coup, the BNDE was left to the margins of

⁶² Baer, *The Brazilian Economy*, 66

⁶³ Ibid., 67

⁶⁴ Interpretation of “Industrias de base”

economic policy and was left to finish some residual projects of the “Plano de Metas”. The military government was more concerned with stabilizing and undertaking structural reform in the financial market. To reduce a budgetary deficit, the government increased taxes (especially on electricity) and reduced spending. The result was a reduction of the rate of inflation and of wages. Thus with Roberto Campos and Octavio Gouveia de Bulhões, both adherents of neoclassical economics, at the helm of economic policy; the 1964-1968 period is marked with a shift from the developmentalist period that preceded it; towards more orthodox policies. However developmentalism, overall was still very much the norm.

Thus in 1965 the PAEG (Plano de Ação Econômica do Governo) was instituted. However the initial result was not the one hoped, as growth rates were slower than under the tumultuous post-Kubitschek period. However with the PAEG, solid institutional changes to the management of the economy were made..

With creation of the Ministry of Planning the bank was put under that institution. With that, came a mandate that the BNDE open regional offices to spread its resources to less developed regions. During this period, the capital markets were opened and allowed firms to obtain capital privately. As a result the BNDE was to be restricted to long term financing of industrial projects. The bank felt its importance diminish and lobbied for a series of new funds that had the result of fundamentally changing how the bank operates. These funds were: the Scientific Technical Development Fund (Funtec), the Agroindustrial

Reconversion Fund (Funar), the Fund for Financing of Acquisition of Industrial Machinery and Equipment (Finame), the Financing Program for Small and Medium Enterprises (Fipeme) and lastly the Fund for Financing Research Projects and Programs (FINEP).⁶⁵ Furthermore the main source of new capital for the bank shifted from the compulsory “loan” of 15% from the highest income bracket to 20% of all a direct appropriation of 20% of all income taxes,⁶⁶ which increased the bank’s capital substantially.

The result of these reforms was an institutionalization of the shift in how the BNDE impacts the economy. It went from an infrastructure project financier to a bank of diversified investments including some infrastructure projects but also heavy industries, light industries and even technological innovation. Evidence of this shift is clear in how the bank allocated its loans in the 1964-1967 period. In that period, 82% of the bank’s financing operations were directed to industry, especially metallurgy which received 55.5% of all funds, compared to 31% of the bank’s early years.⁶⁷ This led many to nickname the BNDE “the bank of steel.”⁶⁸

However in 1967 Costa e Silva, still under the military dictatorship assumed the presidency and appointed Delfim Netto to the Ministry of Finance. Costa e Silva died in 1969 and Emílio Médeci was instated as president by a

⁶⁵ Fundo de Desenvolvimento Técnico Científico (Funtec), 1964. Fundo Agroindustrial de Re conversão (Funar), 1964. Fundo de Financiamento para Aquisição de Máquinas e Equipamentos Industriais (Finame), 1964. Programa de Financiamento à Pequena e Média Empresas (Fipeme), 1965. Fundo de Financiamento de Estudos de Projetos e Programas (Finep), 1965.

⁶⁶ Tavares, et al, *O Papel do BNDE na Industrialização do Brasil*, 123

⁶⁷ Ibid. 130

⁶⁸ Ibid. 128

military junta. However this resulted in very few changes for economic policy. The short-lived “Programa Estratégico de Desenvolvimento” (PED) of 1968 gave the BNDE an even more prominent role in the economy. However, due to the briefness of the Costa e Silva presidency, much of the plan did not come to fruition. However the main feature of the PED that was implemented, was that the BNDE would be charged with financing fixed capital for business while the Banco do Brasil would provide working capital at discounted rates. The PED would be replaced by Médici who wanted to leave his own mark in the Economy. At around this time an important factor was the change in perception by the part of Delfim Netto was to what caused inflation. The previous plan assumed inflation as being caused by demand rather than being “cost pushed”, which led to more restrained government spending. However now that perception was inverted and the government wished to increase consumer demand rather than restrain it. Which meant that the government was going to push for a greater amount of lending from the BNDE.

Thus in 1970 the first “Plano Nacional de Desenvolvimento” (I PND) was announced. With it a series of institutional changes occurred. The BNDE was made into a state-owned enterprise, changing its previous status as a government agency. The move made the bank more autonomous and thus less subject to political interference. From 1971 to 1975, the bank increased its staff to deal with the demands from the I PND, going from 600 to 150 employees.⁶⁹ Having accumulated technical expertise the BNDE would be providing regional

⁶⁹ Von Mettenheim, *Federal Banking in Brazil*, 152.

development banks⁷⁰ with technical assistance as well becoming the center of a network of regional development banks. Along the lines of regional development, the BNDE was expected to direct at least 25% of its resources to underdeveloped regions of Brazil. In terms of the direction of finance, the BNDE was instructed to provide greater funds for small and medium enterprises. However emphasis on large projects remained, as these projects were in line with the thinking that the PND was to consolidate Brazil as a power. During the I PND the BNDE financed 60% of the “Pólo Petroquímico de Camaçari” in the state of Bahia. Furthermore the economic tripod came back into play as the BNDE played a role in promoting the “rule of thirds”, where direct investments in the economy were intended to have capital coming from the state, national private firms and foreign private sources, each contributing one third of the funds.

The 1968-1973 span witnessed the largest period of economic growth in Brazilian history. The period has been dubbed by many as “the Brazilian Miracle” due to its astonishing economic growth. Brazil grew on average 11.3%⁷¹ during that period and reached a peak of 13.97%⁷² in 1973. Even with more modest growth aimed for by the I PND, Brazil would join the ranks of developed nations “within one generation.”⁷³ However this did not occur. With the second edition of the “Plano Nacional de Desenvolvimento” (II PND) the miracle ended and it became clear that the developmentalist model could be in jeopardy.

⁷⁰ Examples of these include: Banco da Amazonia (BASA) and the Banco do Nordeste do Brasil (BNB)

⁷¹ Baer, *The Brazilian Economy*, 77.

⁷² From: <http://www.ipeadata.gov.br/>

⁷³ Tavares, et al, *O Papel do BNDE na Industrialização do Brasil*, 141.

In 1974 Geisel was announced president and a few months later unveiled the second PND. Following the precepts that the UN Economic Commission for Latin America and the Caribbean, had been advocating for in the 1970's, the administration rested the II PND on two stated principals. The first was that an active Import Substitution Industrialization policy must be deepened. In spite of being the norm between the late 1940's to 1964, the period between 1964 and 1974 saw more outward looking policies although it was a far cry from open borders.⁷⁴ The second was the promotion of industries the government knew would increase foreign currency inflow. These industries produce raw materials needed for internal industrial production, which the surplus could be sold at the international market, thus trying to balance currency issues that came with the 1973 oil shock. A key example of this is the heavy BNDE financing the state-owned mining company Vale do Rio Doce. The company was expected to export ore and thus obtain foreign currency which was used to help pay for the debt.

Once again the BNDE had a central role in economic planning and the bank's source of capital was altered to better suit the needs of the plan. The income tax contribution that fed the bank throughout the 1950's and 1960's was abandoned in favor of an even broader source of capital, a forced savings mechanism called "Programa de Integração Social" (PIS) and the "Programa de Formação do Patrimônio do Servidor Público" (Pasep). These programs channeled funds from payroll taxes to a retirement and savings fund, which the

⁷⁴ Baer, *The Brazilian Economy*, 181

BNDES was to be the manager of. This resulted in tremendous growth in the resources available to the BNDE. The available resources to the bank grew from 3.6% annually in the Médici government to 21% annually in the Geisel government ⁷⁵. Furthermore the plan allowed the BNDE to finance the private sector in more innovative ways than simply through loans for specific projects. A new Program, (Procap) allowed the bank to hold shares of enterprises as collateral for loans as a way to enable funding for projects. During the II PND, the BNDE continued to fund to large projects as before. The Hydroelectric dams of Tucuruí as well as Itaipu received BNDE support during that time.

Overall, the second “Plano Nacional de Desenvolvimento” was a relative success despite weaker growth of around 7% for the 1975-1979 period. Inflation was becoming an increasing concern, with a then unprecedented 77.24%⁷⁶ in 1979, due in large part to the second oil shock.⁷⁷ This led to a serious problem for the bank. The BNDE’s loans were subsidized to be under market rates, which make sense to spur development. However for investment projects between 1975 and 1979, the maximum interest rate for loans was 20%, which was less than the rate of inflation during the period, which was between 30% and 40%. This in essence meant the BNDE was giving away free money.

In 1979 the military regime was beginning to open up politically, and put its last military president in power, João Figueiredo. As president he brought

⁷⁵ Tavares, et al, *O Papel do BNDE na Industrialização do Brasil*, 164

⁷⁶ From: <http://www.ipeadata.gov.br/>

⁷⁷ Lima, “A Atuação do BNDES no Desenvolvimento Econômico Brasileiro”, 78

Delfim Netto back to deal with the growing macroeconomic concerns caused by the second oil shock in 1979. The government soon abandoned long-term growth prospects and focused on short-term solvency and inflation problems. The foreign debt problem became an all out crisis. The BNDE shifted accordingly. It went from promoting long term financing for economically viable projects that would substitute imports, to financing at times desperate, attempts to generate more exports to reduce the trade deficit. This is exemplified in the case of the Carajas iron ore-mining project, which was an uncompleted project of the II PND. The goal was to finance a vast mining facility that would generate a good amount of ore for export. However the mine at first proved to be economically unviable and even more financing had to be provided ⁷⁸ to make the project reasonably profitable.

The crisis can be felt in the level of financing done by the BNDE. Financing fell 50% between 1980-1989, and by 1990 funding levels had reached a quarter of their levels in 1975.⁷⁹ In subsequent years the bank became an “arbitrator of bankruptcies,”⁸⁰ where it selected which companies would receive life saving loans. The fiscal and inflationary situation brought to light many of the shortcomings of the developmentalist model and the need change became clear.

⁷⁸ For the Carajas Railroad for instance.

⁷⁹ Von Mettenheim, *Federal Banking in Brazil*, 156

⁸⁰ Ibid. 156.

According to some⁸¹ the early 1980's represented the end of the national-developmental phase of Brazilian economic policy. It was abandoned in favor of the adoption of orthodox policies, pushed by the IMF as conditions for the rescue loan the government took in 1982. Naturally whenever historical periods are designated it is hard to establish a single date for when a shift happens. In the case of the Brazilian economy, as well as the BNDE, shifting from national-developmental policies to neoliberal ones, the shift occurred over a relatively long period of time. Indeed during the 1980-1990 period the bank slowly made that transition by first being unable (or unwilling) to continue robust financing of long-term economic projects to being an agent in the de-nationalization of the economy and promoting privatization.

2.2 The Neoliberal Phase (1982-2003)

There is some debate as to when the developmentalist phase ended and when neoliberalism became the dominant development paradigm. For instance, Bresser-Pereira ends the developmentalist period in the 1980's, when the economy became stagnant. However, he subdivides the period adding another period after which Brazil became "fully subordinated to the dictums of the Washington Consensus"⁸² which would only occur in 1995 with the Real Plan. Thus, the 1980-1995 period was a transition of growing orthodoxy and

⁸¹ Tavares, et al, *O Papel do BNDE na Industrialização do Brasil* and Lima, "A Atuação do BNDES no Desenvolvimento Econômico Brasileiro".

⁸² Luiz Carlos Bresser-Pereira, *Developing Brazil*, 10

less government intervention in the economy. However, for Baer the Washington Consensus arrived much earlier in Brazil. By 1982 Brazil “submitted [itself] to the dictates of [... the IMF].”⁸³

Although exact dates are much less relevant than general trends that occurred over a set period, this paper defines the start of the implementation of orthodox economic policies within Brazil and specifically within the BNDES at 1982. That date marks the start of privatization and the implementation of social projects by the BNDES, both of which are included in Washington Consensus policies as defined by John Williamson, who coined the term. Although the policy changes of 1982 only go marginally in a neoliberal direction, this is an important first step towards less government involvement in the economy. As was previously stated, the 1980-1989 period was the first time the bank shrunk in size. Throughout the 1975-85 period the BNDES was responsible for 20% of gross capital formation, however that figure declined to 3.25 by 1990. The move towards the neoliberal period is gradual and incremental.

During the 1982-2003 period, the policies implemented can be said to be based on the neoliberal doctrine. Thus it becomes necessary to discuss this policy paradigm that influenced the administration of Collor and Cardoso. Neoliberal policies have their roots in liberal economic doctrine that originate as far back as the 18th century. Liberalism as an ideology seeks to promote three goals. The first is the continuous advocacy for the reduction in the size of the

⁸³ Baer, *The Brazilian Economy*, 87

state in the economy as well as for the defense of the use of the market.

Second, liberal thinking promotes fiscal and monetary balances as essential to a healthy economy. Third, liberals have a strong aversion to economic planning and measures that support industries, as the market is more efficient than the state at allocating resources in the economy.⁸⁴ The general outline of liberal economic thinking has long dominated mainstream economics. This paradigm has been labeled as “orthodox” for that reason.

In the 1980’s liberal economics was on the rise worldwide, with the elections of Ronald Reagan in the US and Margaret Thatcher in the UK. This ended an era of embedded liberalism where the state would coordinate and direct the market in order to maximize positive outcomes for society as a whole. However that system broke down in the 1970’s with the oil shocks being the initial signs of trouble. Thus to neoliberals the problem was the unnecessary and burdensome state involvement in the economy that led to massive waste, needlessly high tax rates and heavy budget deficits to spur economic growth. In the case of Brazil, that was main factor contributing to the failure of economic policy of the 1980’s. The path to return to economic growth and stability lies in the policies described by John Williamson’s ten points. His major focus is on fiscal discipline, trade liberalization, privatization of state-owned enterprises, deregulation of key markets, and strict protection of property rights.⁸⁵ In the

⁸⁴ Lima, “A Atuação do BNDES no Desenvolvimento Econômico Brasileiro”, 47

⁸⁵ John Williamson, “What Does Washington Mean by Policy Reform?” *Peterson Institute for International Economics*, November 2002, <http://www.iie.com/publications/papers/paper.cfm?researchid=486>

case of the BNDES, these policy guidelines ended up becoming the norm throughout the duration of the neoliberal phase of the bank's history.

Starting in 1979 Brazil was faced with a dire economic outlook. In 1982 the BNDE underwent significant changes in order to adapt its functions to suit the needs of the time. It consolidated three previous subsidiaries of the bank created during the second PND into the BNDESPAR. This consolidated entity (as the three previous subsidiaries) invested in private equity, with the intent of injecting companies with capital. The bank, in conjunction with other government organizations, was to have three goals during the crisis. First was to maximize exports. Second was to preserve the existing industries since growth was out of the question. The third goal was to finance social programs to lessen the impact of the economic downturn. To achieve this third goal a new fund was set up, called the Finsocial. Taking 0.5% of revenue of both public and private companies, the Finsocial would invest in housing, health and education. Due this added social component of the bank, in 1982 the bank was renamed, to the “Banco Nacional de Desenvolvimento Econômico e Social”, thus adding an “S” and becoming the BNDES. To enable the first goal of promoting exports, a program called “Proex” was created to support exporting companies. The second goal of saving national industry was carried out by prioritizing companies that were in financial trouble.

At the same time as these changes to the bank were happening, the first efforts to shirk the size of the involvement of the state in the economy occurred with the creation of the Special commission for De-Statization in 1981. The

commission found 140 privatizable firms and recommended that 50 be sold.⁸⁶ Twenty of these were sold in the 1981-1984 period, making \$190 million for the government. However many of these 20 companies actually were until recently private firms that the BNDES invested in through the BNDESPAR. The same process happened in the privatization of the 1984-1989 period. The 50 companies privatized then were also in previously private firms that the BNDES ended up being the majority shareholder in.

The bank became “de facto lenders of last resort”⁸⁷ to step in with subsidized equity investments, in order to bail out companies in trouble or to dismantle them completely, whenever the government needed something done fast. This is a clear deviation of the original purpose of the bank, marking its entrance into a new operating paradigm. With the completion of these changes in the bank’s *modus operandi*, the bank was forced to alter its own perception of its role in the economy, transitioning from a solvency-minded institution to an economic emergency fund. The lack of long-term development strategy in the series of economic development plans that since the 1950’s defined the Brazilian economy, is a reflection of the crisis inherent in the national-developmental mode. Such a model was not structured to handle the foreign debt crisis and the resulting lack of growth led to the paradigm shift that began in 1982.

In 1985, the first democratically elected president, José Sarney, took office and with that the military regimes ended. Sarney continued on the path of

⁸⁶ Baer, *The Brazilian Economy*, 227

⁸⁷ Von Mettenheim, *Federal Banking in Brazil*, 157

orthodox policies seeking to reduce deficits and control inflation. The government issued a hiring freeze and cut spending. The BNDES was faced with a choice, to follow the general trend towards economic conservatism or continue to actively promote economic development. The bank chose a middle road. Through the FINAME fund, the bank continued investment in the private sector. The emphasis was on high-tech products such as information technology, microelectronics, and biotechnology. However investment in infrastructure was minimal. With the neoliberal paradigm solidifying during this period, the BNDES was once again plays an active role in privatization. In 1985 Sarney sought to speed up the privatization process and entrusted the bank with negotiating the transfer of publicly held companies to their new majority stockowners. In 1988 a new constitution was passed. The BNDES was guaranteed a steady flow of resources, from the PIS-PASEP, which directed 40% of that tax's revenue to the bank.

The BNDES has an undefined role in the 1980's. The bank, as well as the country, was at a crossroads. While the developmentalist model was dying, there was little desire on the part of the government to replace it with liberal policies, which are often unpopular. For example, privatization has the short-term effect of generating large numbers of laid-off employees. Furthermore the government was more concerned with the short-term fiscal situation than long-term development. This period was marked by a lack of direction on the part of the BNDES. Its main role had ceased to be that of a financier of infrastructure and large industrial projects that were present in the bank's portfolio in the early

1980's. It simply continued supporting private investments on a much smaller scale and privatized a small number of companies through the BNDESPAR.

The neoliberal paradigm consolidated itself by 1990 with the election of Fernando Collor. He immediately put a series of new economic policies in place to try to stabilize and grow the economy. In 1990 Collor enacted the “Plano Nacional de Desestatização” (PND), which clearly stated that its goal was to “transfer to private enterprise activities that have wrongly been performed by the public sector.”⁸⁸ Central to the plan was the privatization of many public companies in a scope much larger than that of the Sarney years. The plan initially chose 18 public companies to be privatized, amongst which were two large ironworks companies. The plan places the BNDES as the main manager of the “Fundo Nacional de Desestatização” which would receive the money generated from the sales of the companies. Furthermore the plan prohibited the bank from making loans to state-owned companies in an effort to make the BNDES support private enterprise completely. In the next 3 years the sales of public enterprises would generate \$11.9 billion for state coffers, the largest sale would be the auction of USIMINAS, which by itself sold at auction for \$10.9 billion.⁸⁹

By 1994 the “Plano Real” was in place and the bank played its part in the continued reduction of the size of the state in the economy. To support the new policies the scarce resources provided for public projects were diverted to back the newly privatized companies to make sure they stayed afloat. By 1994 96%

⁸⁸ Lima, “A Atuação do BNDES no Desenvolvimento Econômico Brasileiro”, 99

⁸⁹ Ibid., 102

of loans were given to the private sector.⁹⁰ Seeing that this was key to the success of the Plano Real, the bank's disbursements increased accordingly driven by new liberalizing regulation that allowed the bank to borrow internationally⁹¹. With moderate economic growth returning to the country, the funds coming from the PIS-PASEP increased. The bank was thus finally being able to leave the historic low disbursements of 1990 when they were at a mere \$2.6 billion.⁹² Between 1993 and 1998 the bank's disbursements increased from \$3.22 billion to \$16.34 billion.⁹³

In 1995 Fernando Henrique Cardoso, riding the popularity of his "Plano Real" became president and deepened the implementation of neoliberal oriented policies. The privatization process picked up considerable speed. "While privatizations began as early as 1991, they were mostly concentrated in the period 1996- 2000 (84% of sales between 1991 and 2001) and, in particular, in 1996 and 1997 (63% of sales up to 2001)."⁹⁴ The BNDES was included in the heavy privatization of that period to arrange pre and post sale financing. The bank was "to clean up" the state-owned enterprises that were up for sale and aid in the purchase of these companies. Thus through the BNDES' involvement, privatization efforts were paradoxically still very state-centric.

⁹⁰ Adriana Nascimento Diniz, "BNDES: de agente desenvolvimentista, a gestor da privatização - 1952-2002", (Masters Dissertation, UNICAMP, 2004), 93

⁹¹ Lima, "A Atuação do BNDES no Desenvolvimento Econômico Brasileiro", 103

⁹² Lício Velasco Jr., "Documento histórico: A privatização no Sistema BNDES" *Revista do BNDES* 33 (2010), 325.

⁹³ Banco Nacional de Desenvolvimento Econômico e Social, "Anos 90," in *BNDES 50 Anos* (2002).

⁹⁴ Hermann, "Development Banks in the financial-liberalization era", 199

Also in 1994, the bank instituted what would become one of its most important tools of development financing. The “Taxa de Juros de Longo Prazo” (TJLP) became the base interest rate which the bank used to give loans and manage the funds under its supervision. The TJLP is a highly subsidized interest rate, derived from the projected rate of inflation times a “risk premium” coefficient set by the Central Bank. This rate was extremely low compared to other private banks.

In 1996, the RFFSA federal railroad network was sold. Sold for \$1.7 billion ⁹⁵, the sale of the RFFSA served as an important milestone demonstrating the trend for the banks in previous years. That state-owned company was created 3 years after the BNDES, under the same developmentalist imperatives of subsidies to foster industrial development. The company was terribly run and ran massive deficits throughout its existence and privatization brought a greatly improved system of rail transportation for the country.

Privatization continued until 2003, however after 2000 revenue from privatization was close to negligible; from a high of \$37.5 billion in 1998 to around \$2 billion in 2000. During the neoliberal period the bank changed its profile from a traditional development bank to an entity almost exclusively focused on the private sector, making it “shift the bank further in the direction of investment banking.” ⁹⁶ Further market-centered plans were made for the coming years called “Avança Brasil”. However these were put on hold in 2003

⁹⁵ Lima, “A Atuação do BNDES no Desenvolvimento Econômico Brasileiro”, 111

⁹⁶ Von Mettenheim, *Federal Banking in Brazil*, 159

with the presidential election of Lula, which brought an end to the neoliberal period.

2.3 Neodevelopmentalist Phase (2003 - Present)

Luiz Inácio “Lula” da Silva, a left wing union organizer, was elected president in 2002. To calm some anxiety that the market had in relation to some of his extreme views, Lula essentially maintained the basic outlines of macroeconomic policy that had been in place since 1999. These were based on a combination of a regime of inflation targeting with a floating exchange rate and the policy of maintaining primary fiscal surplus.⁹⁷ To meet the inflation target, the central bank continued to set the benchmark interest rate at very high levels, despite all the adverse effects.⁹⁸ In 2003, the Brazilian economy continued to show mediocre growth seen since the post 1982 period. This was evidence of a trend of having a slower average growth rate in comparison to other major developing countries. However, the sharp devaluation of the Real at the end of the Cardoso government increased the competitiveness of exports, which contributed to reducing the trade deficit of manufactured goods in 2003.

In 2003, Lula (for the first time since the II PND of the late 1970's) put in place a holistic set of policies that aimed to promote the growth of Industry with the support of the state. This set of policies was embodied in the “Política

⁹⁷ In other words, maintaining a surplus to pay debts beyond interest payments

⁹⁸ Hermann, “Development Banks in the financial-liberalization era”, 197

Industrial, Tecnológica e de Comércio Exterior” (PITCE) which lasted until 2008. The plan had three main policy “axles”. These were technological innovation, export promotion, industrial modernization and the expansion of productive capacity. All three of which the BNDES was to be heavily involved in. The government thus reconciled “the basic principles of the “liberalization model” with a return to the type of industrial policy that had been abandoned in the early 1990s.”⁹⁹ The combination of a market-oriented approach, with the funding and support of the state was a clear shift from the past two decades of neoliberal policies. Neodevelopmentalism became the new economic development paradigm as left-leading figures took control of institutions such as Carlos Lessa, a noted neodevelopmentalist, who became president of the BNDES in 2003. These new policies set in place a shift that Lazzarini and Mussachio have designated as State capitalism with the state as a “minority investor.”¹⁰⁰

Neodevelopmentalism is a national development strategy that, while having its roots in the version of developmentalism seen between the 1930’s and 1980’s, takes a critical view of the precedent development paradigms. To Bresser-Pereira¹⁰¹, this new economic development paradigm differentiates itself in three ways from its original counterpart. First, it completely abandons the notion of import substitution as a way to industrialize. In fact medium income countries have already passed the phase of incipient industrialization

⁹⁹ Compare to the PICE (Política Industrial e de Comércio Exterior) of the Collor administration which essentially was a set of neoliberal oriented policies that opened borders and reduced subsidies.

¹⁰⁰ Lazzarini and Mussachio. “Leviathan in Business,” 8.

¹⁰¹ Bresser-Pereira, *Macroeconomia da Estagnação*, 282

and should open their markets to foreign competition. Furthermore, the state should incentive, support and even fund a pro-export model. Secondly, the new paradigm also rejects the developmentalist idea that economic growth based on current account deficits is an option. The debt crisis seen in the 1980's is a direct result of this failed policy, where public spending was chronically deficient. Lastly, while both development paradigms see the importance of state funded infrastructure and investment, the current paradigm sees it as no longer a necessity for the state to engage in forced savings.¹⁰² The economy will still benefit if the state does force savings and invest them through a development bank like the BNDES, however the private sector can for the most part fund itself now.

As was mentioned, the new development paradigm is a shift rather than a complete break with the previous two development strategies. It is in fact a hybrid economic development paradigm that seeks to incorporate aspects of both neoliberal and developmentalist models. For an economy to develop, growth is necessary. While the neoliberal period brought with it macroeconomic stability, growth was lagging. Thus neodevelopmentalism aims to “speed up social and economic development ... With the maintenance of macroeconomic stability, that is with the inflation [rate] controlled, reduced public debt and reduction of the vulnerability of foreign accounts to international shocks.”¹⁰³

¹⁰² Forced savings through taxes (usually on payroll) are a importance source of funds for the state to invest back in the economy. In the case of the BNDES the FAT (fundo de amparo ao trabalhador) is its forced savings mechanism.

¹⁰³ Translated from: Lecio Morais and Alfredo Saad-Filho, “Da economia política à política econômica: o novo-desenvolvimentismo e o governo Lula,” *Revista de Política Econômica* 41 (2011): 516

A strong state that can invest when needed and keep the market stable is needed for that to occur. In comparing the neodevelopmentalist paradigm with its neoliberal antecedent, Bresser-Pereira summed up the three main tenants of this new model. “While the [... neoliberal] tripod is high interest rates, an overvalued currency and a minimal state, the neodevelopmentalist tripod is low interest rates, a balanced currency which make industrial enterprises that use modern technology competitive and the strategic role of the estate [in the economy].”¹⁰⁴

This last principal is the main focus of this paper. The “strategic role of the state in the economy has meant a much larger and active industrial policy, and for the BNDES this meant a huge growth in disbursements. In 2002 total disbursements were on the order of R\$ 37.4 billion and by 2008 that figure rose to R\$90.8 billion.”¹⁰⁵ This growth did not simply mean more of the same. With the adoption of this new paradigm, the role of the BNDES in this new framework shifted when compared to its operations of the 1990’s. There was a significant return to the infrastructure and industrial roots of the banks; with the profits from those sectors growing R\$600 million in 1999 to R\$3.2 billion in 2005.¹⁰⁶ Furthermore the PITCE placed a large emphasis on SMEs¹⁰⁷ as well as in innovation. This new kind of state planning, supporting and coordinating

¹⁰⁴ Translated from: Luiz Carlos Bresser-Pereira, “De volta ao desenvolvimentismo,” *Folha de São Paulo*, 26 September 2011.

¹⁰⁵ Including equity investments made by BNDESPAR. Source: http://www.bndes.gov.br/SiteBNDES/bndes/bndes_pt/Institucional/BNDES_Transparente/Estatisticas_Operacionais/

¹⁰⁶ “Estatísticas Operacionais do Sistema BNDES” http://www.bndes.gov.br/SiteBNDES/bndes/bndes_pt/Institucional/BNDES_Transparente/Estatisticas_Operacionais/

¹⁰⁷ Small and Medium sized Enterprises

the direction of the real economy as seen with the PITCE, continued with the “Política de Desenvolvimento Produtivo (PDP) and then in 2011 with the “Plano Brasil Maior” (PBM) which is to last until 2014. Both the PDP and the PBM served to further the PITCE’s main purpose, which is to increase by state support the competitiveness of Brazilian industry. This represents a significant break with the internal market emphasis of the developmentalist period. Now the goal is as the “Brasil Maior” slogan states, “innovate in order to compete, compete in order to grow”. Another large program seen as related to shift to neodevelopmentalism is the “Programa de Aceleração do Crescimento” (PAC), which centralized and coordinated major government investments in infrastructure. Naturally the BNDES played a very central role in providing funds for the projects listed on in the plan.

Since 2007 the bank has been under the leadership of Luciano Coutinho. Under his presidency the bank has been pursuing a “full service approach”,¹⁰⁸ where the bank provides help for start-ups and other innovative firms; continues support for already large and successful corporations; while also remaining a large lender to other federal banks. Coutinho has kept the bank slim with roughly only 2500 employees; other institutions of the same caliber such as the World Bank have upwards of 10,000 employees.¹⁰⁹ This efficiency also suggests that the bank has been less susceptible to spoils systems¹¹⁰ found in other Brazilian government agencies.

¹⁰⁸ Von Mettenheim, *Federal Banking in Brazil*, 160

¹⁰⁹ See Table 1

¹¹⁰ A practice of political patronage, where allies of the ruling coalition are put into positions of the bureaucracy.

However in terms of significant changes to the ownership structure of the economy, the end of the privatization period which the BNDES assisted both with funds and expertise in; did not signify that the bank left the equity business. On the contrary, the bank's most significant changes in the neodevelopmentalist period occurred in the BNDES private equity arm. The BNDESPAR as of 2007 was worth around R\$91 billion and had participation in stock holdings of 261 firms, and 25 mutual funds.¹¹¹ This gives the bank a major role to in effect pick winners and losers in the economy, all under the veil of industrial policy. Furthermore, the bank is in the center of a network of ownership schemes that has the bank directly participating in stock holdings of 11 of the country's 30 largest corporations and indirect participation in stock holdings of 22 of those 30.¹¹² This substantially increases its role as the main point of contact between large business groups in Brazil, clearly something unconventional for development banks.

3. Policy Comparison

As demonstrated in the previous section, the bank has gone from a key agent of import-substitution industrialization in the developmentalist phase, to the main financier of privatization in the liberalization phase, to its current role as sponsor of the creation of new Brazilian comparative advantages. This

¹¹¹ Von Mettenheim, *Federal Banking in Brazil*, 164

¹¹² Mansueto Almeida, "Desafios da real política industrial brasileira no século XXI," *IPEA Texto para discussão* 1452 (2009).

paper now looks at a case study of how the BNDES has acted to demonstrate the paradigmatic changes through the multiple phases described in previous sections.

The main area that this section will focus on is export promotion and financing. This policy area was chosen for its importance to the field of industrial policy of which development banks are a central tool for the implementation of such policies.¹¹³ A classical broad definition of Industrial policy includes “i) Innovation and technology policies; ii) educational and skill formation policies; iii) trade policies;¹¹⁴ iv) targeted industrial support; v) sectorial competitiveness policies vi) competition-regulation policies”¹¹⁵ as the main components of industrial policy.

At least since World War II, trade policies in general were not part of national development strategies in Latin America. Import substitution industrialization focused on heavy protectionist measures to create new industries without implementing measures that would encourage efficiency and competitive production. Representative of this line of thought was that during ISI “active exports policies had been much more limited.”¹¹⁶ An exception to this was Brazil, which had, as will be shown, an incipient export promotion program. However since ISI, through the neoliberal period to the present; export promotion has been a staple of industrial policy. As a key implementer of

¹¹³ Michele Di Maio, “Industrial Policies in Developing Countries: History and Perspectives” in *Industrial Policy and Development: The Political Economy of Capabilities Accumulation*, ed. Mario Cimoli, Giovanni Dosi and Joseph Stiglitz, (Oxford: Oxford University Press, 2009): 120.

¹¹⁴ Which includes export financing

¹¹⁵ Di Maio, “Industrial Policies in Developing Countries”, 107

¹¹⁶ Di Maio, “Industrial Policies in Developing Countries”, 118

industrial policy the BNDES was (at least indirectly at first) vital to the creation of export promotion policy and its financing.

3.1 Export Financing and Promotion

Until 1990, the BNDES did not play a major role in promoting international trade. Up until the bank's shift to agent of a neoliberal paradigm in fact trade policy was highly concentrated in the *Carteira de Comércio Exterior* (CACEX), a department of the state owned *Banco do Brasil*. State-sponsored promotion and support of exports had its origins in 1953 with the creation of the CACEX as one of the five constituent portfolios of the *Banco do Brasil* (BB).¹¹⁷ The CACEX was charged with a wide variety of functions ranging from providing export and import licenses, supplying foreign currency exchange transactions for imports and exports and conducting market research and promoting Brazilian goods abroad.¹¹⁸ In 1966 the *Fundo de Financiamento à exportação* (FINEX) was created to further encourage exports by providing subsidized loans below market rates for the purchase of Brazilian capital and durable goods.¹¹⁹ With that, export finance was incorporated into the roster of functions that the CACEX was charged with. This exact function has been taken over by the BNDES with the creation of the BNDES-EXIM in 1990.

¹¹⁷ Von Mettenheim, *Federal Banking in Brazil*, 75

¹¹⁸ Ibid.

¹¹⁹ Pedro da Motta Veiga and Roberto Iglesias, "Políticas de Incentivo as exportações no Brasil entre 1964 e 2002: resenha de estudos selecionados" *Temas de Economia Internacional* 2, Secretaria de assuntos Internacionais, Ministerio da Fazenda do Brasil (2003).

CACEX lasted until 1990 when export promotion was decentralized by the Collor administration and several institutions were created with more specific goals and narrow mandate. The Collor administration, as was shown in the section regarding the neoliberal phase of the bank, represents the paradigmatic change towards the Washington consensus. One of the key components of neoliberal policy is “outward orientation and expanding exports.”¹²⁰

There are two main reasons for the lack of involvement of the BNDES in export promotion and finance during the developmentalist period. First, under the trade promotion structure of the time, the Banco do Brasil which had previous experience with currency exchange was at the time the only financial institution that professionally could handle a job like that. Secondly, the absence of the BNDES in export promotion is indicative of the anti-export bias of the national development strategy of the time.¹²¹ The lack of attention to exports is completely coherent with the import-substitution industrialization strategy where local currency was kept overvalued to minimize and cheapen imports necessary for industrialization. The result was that “exchange rate overvaluation acted as a restraint on the expansion of traditional and new exports.”¹²² For those two reasons, official export financing and promotion was delegated to the national commercial bank, the Banco do Brasil rather than the BNDES.

¹²⁰ Williamson, “What Does Washington Mean by Policy Reform?”

¹²¹ Veiga and Iglesias, “Políticas de Incentivo as exportações no Brasil entre 1964 e 2002”.

¹²² Baer, *The Brazilian Economy*, 180

In 1990 Brazilian trade policy changed substantially. With the dismantling of the CACEX, Brazilian trade policy was “pulverized”¹²³ and the responsibilities of the CACEX were spread to different institutions. Issues of tariffs and other tax issues were left to the Ministry of Finance, while issues of product promotion were assigned to the Ministry of Foreign Affairs; Export finance was left to the BNDES.¹²⁴

The bank started to encourage exports by first financing the export only of capital goods under a program called FINAMEX in 1990. The program started small, disbursing only \$32.9 million.¹²⁵ The following year the bank added a post-shipment option, complementing the pre-shipment nature of FINAMEX. Since then the BNDES has financed exports in those two ways: pre-shipment and post shipment. The first is aimed at financing the production processes of Brazilian firms that intend to export. The second finances the export sale per se; by either giving foreign buyers of Brazilian goods credit to buy the good or by giving the Brazilian exporter the expected amount of a sale before the transaction is completed as a form of insurance.¹²⁶ At the time the emphasis was on Latin America, with 100% of the exports financed being sold to countries of the region.¹²⁷

¹²³ Carlos Américo Pacheco and Solange Corder, “Mapeamento institucional e de medidas de política com impacto sobre a inovação produtiva e a diversificação das exportações,” *CEPAL - colección Documentos de proyectos* (2010): 57

¹²⁴ Another export fund at the same time was set up in the Banco do Brasil called PROEX.

¹²⁵ Fabricio Catermol, “BNDES-exim: 15 anos de apoio as exportações Brasileiras” *Revista do BNDES* 24 (2005): 6

¹²⁶

http://www.bndes.gov.br/SiteBNDES/bndes/bndes_pt/Institucional/Apoio_Financeiro/Produtos/BNDES_Exim/

¹²⁷ Catermol “BNDES-exim,” 6

In 1996 the FINAMEX program was expanded to finance exports of products beyond capital goods. With that, the program was renamed to BNDES-EXIM to reflect the changed nature in the export promotion scheme of the bank. Despite the increase in the range of financeable goods, the bank chose to limit its support to goods that have high value added such as “chemical products, textiles, electronics, shoes, leather and processed foods.”¹²⁸ However some primary goods are also allowed to receive financing due to their difficult regulatory nature. These include bovine meat, seafood and some fruits. The result of this widening of scope was a sharp increase of disbursements under the BNDES-EXIM from around \$390 million in 1996 to \$2.06 billion.¹²⁹

The program was widened to include more and more goods that were not considered of high value added until 2002.¹³⁰ This contradicts the driving motive behind supporting the export of goods considered of high value added. The rationale was the need to balance the support of riskier exports (of which sales might not pan out) with safer stable goods (usually commodities that have many takers in the international market). Many industries supported by the BNDES-EXIM program were indeed manufactured goods, which normally implies a higher value added than commodities. However manufactured goods frequently include low value added goods; such as orange juice and laminated steel.¹³¹ These two goods were the fourth and fifth biggest manufactured

¹²⁸ Ibid., 15

¹²⁹ Ibid., 15

¹³⁰ Ibid., 9

¹³¹ Ibid., 10

exports in 1997. This appears to show a slight paradigmatic shift, to be more aligned to the dominant neoliberal trend present in other major economic institutions of Brazil. As was mentioned previously, the neoliberal paradigm encourages governments to support exports regardless of what they may be. Thus the bank went from supporting the creation of new comparative advantages to simply supplying already competitive markets with cheap financing.

In 2002 with the new Lula administration the BNDES-EXIM was restructured. The program was designated to support large firms exclusively, while the Banco do Brasil's smaller PROEX program was to finance small and medium enterprises, of revenues of less than R\$60 million.¹³² This eliminated overlapping functions between the export financing programs of the BNDES and the Banco do Brasil. In an effort to return the bank to the creation of comparative advantages of goods of high value added; the BNDES created a list in 2003 limiting the products that are able to receive finance.¹³³ Currently these products are grouped in three categories; capital goods, intermediate and consumer goods and automobiles, weapons and some chemical products.¹³⁴

It becomes clear that this excludes commodities and other goods of low value added and thus steers the bank back to promoting industries that have "greater added value [and] reduced vulnerability of a deterioration of [those

¹³² Veiga and Iglesias, "Políticas de Incentivo as exportações no Brasil entre 1964 e 2002".

¹³³ Catermol "BNDES-exim," 18

¹³⁴ Ibid., 19

good's] terms of trade.”¹³⁵ As was shown previously, around the year 2002 the bank shifted its operations to a paradigm of greater state participation in the economy, called by many authors neodevelopmentalism. The shift in export finance policy is in concurrence with that as “export-led growth”¹³⁶ becomes central to Brazilian development strategy.

The BNDES' financing of the sales of Embraer jets is a well-known case of export financing emblematic of the paradigmatic shifts drawn in this paper. Indeed Embraer is frequently touted as one of the biggest success stories of Brazilian industrial and technological capabilities. However it is also a success story of the creation of new comparative advantages and an example of how the three national development paradigms discussed in this paper have impacted the direction of a firm. In many ways the story of Embraer is a story of Brazil in the second half of the 20th century.

The firm was founded in 1969 as a state owned enterprise and sold to private investors in 1994. Since its privatization the firm has become the third largest civil aircraft manufacturer with revenues of R\$8.3 billion in 2006.¹³⁷ Company was born in the Ministry of Aeronautics, through the creation of a project to build a light multipurpose aircraft for cargo and passenger transport. Since the project had problems receiving private companies as contractors and because of the strategic importance given to national defense technologies.

¹³⁵ Fabricio Catermol, “O BNDES e o apoio às Exportações” in *O BNDES em um Brasil em Transição* ed. Ana Cláudia Além and Fabio Giambiagi (Rio de Janeiro: BNDES, 2010):168

¹³⁶ Catermol, “O BNDES e o apoio às Exportações,” 164

¹³⁷ Guilherme Castanho Franco Montoro et al, “Introdução” in *Cadeia produtiva aeronáutica brasileira: oportunidades e desafios*, ed. Guilherme Castanho Franco Montoro, Marcio Nobre Migon (Rio de Janeiro: BNDES, 2009), 15.

The motives behind these developments can be found in the developmentalist paradigm prevalent in 1970's. The creation of state owned enterprises in what were deemed to be strategic sectors such as aeronautics, was one of the most important ways that the state sought to develop the country. It also fits the "state as majority stakeholder" model mentioned in section one of this paper.

Until its privatization under the Cardoso administration, Embraer was almost exclusively dependent on government contracts for revenues and was on the verge of bankruptcy.¹³⁸ The same macroeconomic issues that brought economic hardship for the rest of the country in the 1980's had its effect on Embraer and the company was sold for a mere US\$ 182.7 million.¹³⁹ One point to note is that the BNDES was largely absent from financing the company until this point. Even the privatization process was largely done through the Banco do Brasil. The BNDES steps in after company is sold to ensure the success of the privatization program. The hard times faced by Embraer and its ultimate transition from public to private can also be seen as emblematic of the paradigmatic shift from developmentalism to neoliberalism.

Market efficiency is placed in front of nationalistic sentiments and its product strategy shifts from being a defense contractor to a small to mid-size commercial aircraft manufacturer. Embraer is then injected with US\$126 million¹⁴⁰ from the BNDES, to support a project that will develop a commercially

¹³⁸ Paulus Vinicius da Rocha Fonseca, "Embraer: um caso de sucesso com o apoio do BNDES" *Revista do BNDES* 37 (2012), 44

¹³⁹ *Ibid.* 46

¹⁴⁰ *ibid.* 52

viable aircraft, the ERJ-145. Along side these developments the company cuts costs and increased its sales of aircraft from 4 in 1996 to 246 in 2010.¹⁴¹

Along the way the BNDES has been crucial for the success of the company. The main way the bank has supported Embraer was through the EXIM program mentioned previously. The bank has been responsible for the financing of 50% of sales between 1999 and 2006.¹⁴² This way the pro-export component of both neoliberalism and neodevelopmentalism can be seen in practice here. The neodevelopmentalist paradigm becomes evident in the case of Embraer when the BNDES creates a whole program designed to promote added value along the aeronautical supply chain. Called “ProAeronáutica” the program’s goals are to “strengthen the national aviation industry ... [by allowing local industries] to compete with international suppliers and become suppliers for other manufacturers”¹⁴³. In other words, BNDES plans to support this industry to create new comparative advantages. Thus further neodevelopmentalist thinking by helping to keep the market as well as the state strong.

The most current performance figures for Embraer have demonstrated that indeed the BNDES as well other Brazilian government agencies have been largely successful in creating and maintaining a competitive aeronautical industry. Without state support Embraer “would have most likely have not

¹⁴¹ Ibid.

¹⁴² Ibid.

¹⁴³ Ibid. 55

reached its level of production and relevance and the country would have ran the risk ... of losing the relevance and technological capabilities it enjoys”¹⁴⁴

In all, the participation of the bank in export finance has resulted in the BNDES becoming the main source of EXIM activity in Brazil, ¹⁴⁵ becoming the country’s *de facto* export-import bank. The BNDES-EXIM program reached a record of \$8.3 billion in disbursements in 2009.

Table 2: Comparison of Policy Choice and Intensity throughout the three paradigmatic periods

National Development Paradigm	Developmentalist (1954-1982)	Neoliberal (1982-2003)	Neodevelopmentalist (2003 - Present)
Industrial policy	Somewhat active	Less Active	Very Active
Export support	Indirect and light	Direct and Light	Direct and heavy

4. Conclusion

Over its 60 years of history, Brazil’s National Bank for Economic and Social Development has changed its behavior to keep up with the prevailing economic development paradigm and this has ensured its continued relevance in the Brazilian polity. This paper has shown how in three separate periods the BNDES adopted three distinct economic development paradigms each with

¹⁴⁴ *ibid.* 63

¹⁴⁵ Catermol, “O BNDES e o apoio às Exportações,” 167

their own set of rationales and implemented policies. Furthermore it has been made clear that the most recent shift has occurred in the first Lula administration in 2003 where new economic plans resulting in greater state involvement in the economy were implemented, such as the PITCE and the PAC. Furthermore in the case study of export policy and promotion, the bank's track record has been shown to be more nuanced and has behaved in ways that do not follow to a strict use of the dominant economic development paradigm of the time. This reaffirms the bank's pragmatic nature. In spite of this, the BNDES has, for all three periods, continued to be a vital tool of economic policy and Brazil and has shown no signs of reducing its importance in the coming years.

Table 3: Comparison of the three economic development paradigms and their respective roots, policies prescriptions and corresponding economic models

Economic Development Paradigm	Developmentalist (1954-1982)	Neoliberal (1982-2003)	Neodevelopmentalist (2003 - Present)
Ideological roots	Mercantilism, Development Economics and Modernization theory	Conventional Orthodoxy, classical liberalism.	Social Democracy, Keynesianism.

Economic Development Paradigm	Developmentalist (1954-1982)	Neoliberal (1982-2003)	Neodevelopmentalist (2003 - Present)
Policy prescriptions	Corporatism (economic tripod), Import substitution Industrialization and active state participation in the economy (SOEs)	Opening of markets, reduction of state involvement in the economy and increased social spending.	Hybrid of market based mechanisms with state direction, coordination and support to create new comparative advantages. As well as increased social spending.
Corresponding Economic Model:	State Capitalism, Government as majority investor	Liberal Market Capitalism	State Capitalism, Government as minority investor