■ BRAZIL

Inverted priorities

While more than 40% of the population live in zones without sewerage systems and so live with open sewers, the National Bank for Economic and Social Development, with a budget greater than that of the World Bank, does not operate as a development promotion institution generating policies geared to inclusion and well-being.

IBASE
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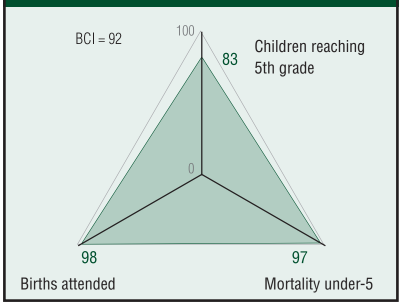
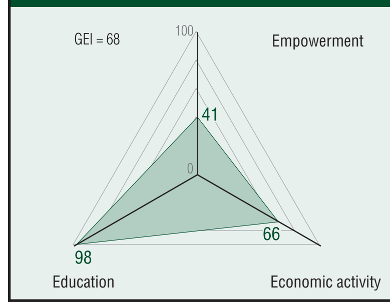
Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



With continental dimensions, a population of 184 million and countless inequalities to overcome, the country viewed with concern a growth rate of 2.3% in 2005. It is necessary to return to the path of development and emphasize not only financial resources but also a right orientation of economic and social policy. As Carvalho (2004) says, development results from the conjunction of sustainable economic growth and social, political and institutional transformations that translate into reduced inequality and increased democracy.

Orthodox economic policy

The adoption of a restrictive and austere monetary and fiscal policy has in various ways obscured the pressing need to resume economic growth and to translate an increased Gross Domestic Product (GDP) into raised social indicators. In recent years, macro-economic policy based on economic orthodoxy has been geared exclusively to achieving price stability and fiscal balance. Out of a static vision for maintaining this balance, high interest rates, aimed at containing demand and inflation, have been combined with contracted public expenditure and investment.[2] The net government debt representing 51.6% of GDP continues to keep the base interest rate at 15.25%, which explains last year's poor growth.

One of the main tasks to be undertaken for the revitalization of development is to go beyond the neo-liberal agenda by implementing a macroeconomic policy geared to the creation of employment and the redistribution of income and wealth. The current orthodox policy has devastated the State's investment capacity. The data in Chart 1 shows that a substantial part of the national budget goes to service public debt, using resources that could otherwise drive development. In 2005 the government had to pay BRL 139 billion (USD 62.5 billion) in interest on the debt, and with a primary surplus of only BRL 93.5 billion (USD 42 billion), the difference became more debt.

This perverse mechanism has contributed to a concentration of wealth and income. It is estimated that interest payments on the debt will rise to BRL 180 billion (USD 80.4 billion) in 2006. In contrast, little more than BRL 7 billion (USD 3.1 billion) will be spent on the Family Basket programme.

This economic policy has an effect on the financial capacity of the State in that private investors will only invest in a widening of the production base if they can see that economic growth is likely. Otherwise it is much safer and more profitable to invest in financial assets.

Questionable usage of public resources

To finance its development Brazil has a public bank with a larger budget than that of the World Bank. In 2005 the National Bank for Economic and Social Development (BNDES) spent BRL 47 billion (USD 21.1 billion), while "investment" spending by the federal government did not exceed BRL 9.7 billion (USD 4.4 billion). In a country with an underdeveloped capital market and high interest rates and in which private banks have attached little importance to long term project funding, this public body, operating with a long term interest rate of 8.15%, is central to financing development.

BNDES was created in the 1950s in a political and historical context that recognized the importance of the State's role as promoter of development. However in the 1980s with the import substitution process ending and an economic policy geared to stability, the State distanced itself from its central role in economic development and BNDES lost its original focus. During the following decade the Bank assumed a principal role in the privatization process and the sale of a significant part of the nation's assets to foreign capital, placing all its technical and financial capacities at the service of this new orientation.

There is at present a certain ambiguity about BNDES in that it is increasingly operating as an investment bank, with a profitability and insolvency rating[3] that reflect its healthy performance as a financial institution, while as a public institution for the promotion of economic and social development its performance is unclear. Although operating with capital from the Workers' Protection Fund, which comes from taxes on workers' wages and company income, as BNDES does not have a public information policy, comprehensive data on its operations are not available, which makes a more detailed evaluation of its investment activities impossible. The scarcity of available information is not encouraging. The Bank does not apply social evaluation parameters in its analysis of the projects it funds or its own programmes.

A look at the different regions demonstrates BNDES's inability to promote inequity reduction. In 2005, consistent with the trend over recent years, the north and northeast regions, which are the lowest ones on the Human Development Index, received 4% and 8% respectively of the Bank's total outlay while the southeast, the richest region, received 60%.

Another example is the amount of expenditure allocated to the Social Inclusion area, which was BRL 1.1 billion (USD 464 million) in 2005, a figure lower than in 2004 and equivalent to 24% of the BNDES budget. Over a three-year period, from a

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2 The 2005 primary surplus represented 4.84% of GDP.

3 In 2005 BNDES made a profit of BRL 3.2 billion (USD 1.44 billion) while 90.1% of its credit operations portfolio was classified between AA and B risk levels.

total of BRL 122 billion (USD 51.5 billion), the Bank only provided BRL 4.5 billion (USD 1.9 billion) for the financing of projects considered as social, just 3.6% of its total budget.

The Bank argues that the nature of its outlays is not a consequence of deliberate policy but rather stems from commercial demand, which confirms that it does not operate as a development promotion institution. Following this logic, in 2005 it provided BRL 2.5 billion (USD 1 billion) to finance the pulp and paper company Suzano Bahia Sul. This sum represented 5.5% of the Bank's total outlay during that year. In terms of promoting a more democratic development model that redistributes income and is environmentally responsible, this loan to the Suzano Company is questionable as the sector has a large negative environmental impact and has been at the centre of many land use conflicts.

Exclusive development

The development finance issue is not only concerned with acquiring financial means but also involves choices about their allocation; in the case of Brazil, the existence of a State bank with surplus capital to invest provides a good example. The choice of development model can contribute, or not, to social development and the elimination of inequality. Development involves other dimensions beyond the mere quantification of GDP growth rates and a more critical vision is needed when choosing projects for economic and social development in Brazil.

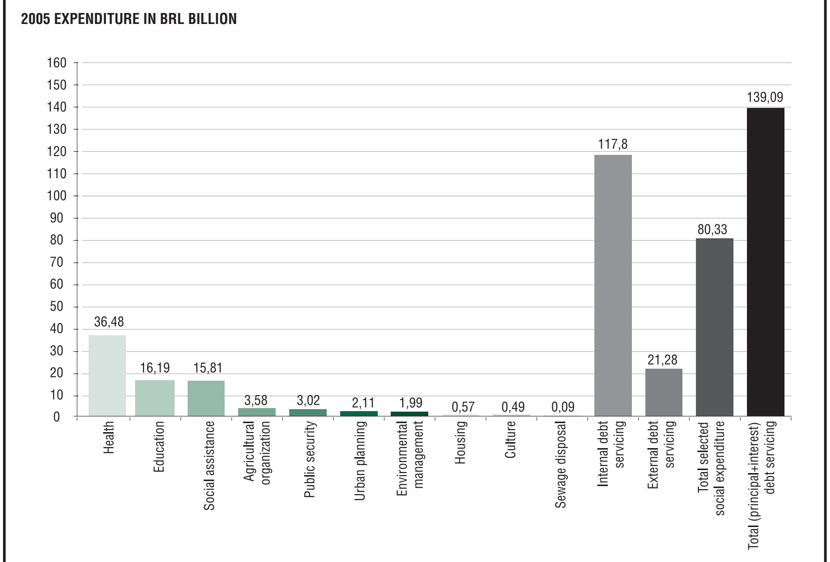
As described by Mineiro, the Brazilian government has adopted a "short term pragmatism" that is made apparent by the importance attached to external account adjustments and in its emphasis on a rapid increase in the balance of payments (Mineiro, 2005). This strategy justifies the ever-increasing provision of finance to the pulp and paper sector by BNDES. The volume of loans to this sector grew by 145% in 2005 while the sectors of food and drink, textiles, clothing and accessories, leather, and domestic appliances registered a fall of 5%, 51%, 52% and 58% respectively.[4] If there was a relation between Government economic policy and the adoption of incentives for BNDES loan contracts, these sectors should be given priority. It is well known that the manufacture of products for mass consumption is labour intensive and therefore contributes to reducing unemployment. These sectors are able to drive the virtuous cycle of an increase in working families' income, a broader mass consumption base, investment, increased productivity and competitiveness, further increasing working families' income.

Additionally, BNDES could look for ways of investing in social infrastructure that use intensive labour. According to the Brazilian Institute of Geography and Statistics 42.7% of the population lack access to sewerage networks or a septic tank, which means that more than 80 million people live with open sewers.

4 See *Boletim Desenvolvimento, Democracia e Direitos:* www.ibase.br/dvdn/edicao-15122005.htm

CHART 1

Federal Government – Fiscal and Social Security Budget



Source: Brazil Budget Forum

Another question to consider beyond the availability of resources is whether certain projects presented as "big development projects" are really promoting development in a broad sense. As Novoa (2006) says, due to their dimensions and scope some infrastructure projects have the power to consolidate development trends that in reality follow the logic of private interests.

Building development strategies involves an inversion of this logic and a redefinition of priorities to reorientate the use of financial resources. It is estimated that between BRL 9 - 10 billion (USD 3.8 - 4.2 billion) a year would have to be invested over 20 years in order for most Brazilians to benefit from basic sewage disposal systems.[5] If BNDES is a development promotion bank why does it not use part of its resources to solve these problems? Instead of financing the construction of new hydroelectric plants with large-scale negative socio-environmental impacts, BNDES could invest in projects orientated towards the cheapest way of solving the energy deficit.[6]

However, as we have endeavoured to demonstrate, such decisions have not been technical but political and have reinforced the interests of groups benefiting from a model that is not committed to fighting inequality or protecting the environment. Commercial agriculture in Brazil is an emblematic example of this. In May 2006 the government provided BRL 50 billion (USD 20.4 billion) to assist agricultural producers thus demonstrating the political influence of soy, timber and agricultural produce exporters who have been partly responsible for the deforestation of the Amazonian and central-west regions, which has had wide international repercussions.

An important step for improving this situation could be the re-politicization of the economy by the definition of values that orientate decisions towards favouring an inclusive development. Although Brazil has consolidated its democracy during the last 25 years, this has not had much effect on the structure of economic relations and for this reason growth continues to feed social inequity and the denial of rights while damaging its natural and cultural assets. ■

5 National Industry Confederation data quoted in an interview in *O Globo* journal, 24 May 2006.

6 A study sponsored by the World Bank and the United Nations Environment Programme concluded that China, India and Brazil could reduce their energy consumption by 25% through adopting simple low cost measures.

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