

Critiquing the Bank: 60 Years of BNDES in the Academy

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Abstract. This article offers a critical analysis of scholarship produced about Brazil's Banco Nacional de Desenvolvimento Econômico e Social (BNDES) since its founding, in 1952, to 2013. BNDES has performed an important, if changing and sometimes controversial, role in Brazil's economic development over the past 60 years, especially as provider of long-term finance. This analysis of almost 1,000 texts highlights discussions about its initial organisation and mission and how the role and activities of the bank changed over time, guided by turbulent national political and economic contexts. In spite of the bank's institutional importance, however, the literature is more narrative than analytical and of limited scholarly impact, dominated as it is by the bank's authorship. We argue for independent, evidence-driven, critical analyses of the effectiveness of this important institution in promoting Brazil's economic and social development.

Keywords: BNDES, long-term financing, development bank, Brazilian economy

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Introduction

This article offers a critical analysis of scholarship produced about Brazil's National Bank for Economic and Social Development (BNDES) since its founding in 1952. BNDES has performed an important, if changing and sometimes controversial, role in Brazil's economic development over the past 60 years, especially as provider of long-term finance. The bank has been a major financial instrument of economic policy, but its actions and roles have been determined by how the major obstacles to Brazilian development have been defined and by the macroeconomic conditions in which it has operated.

The origin of BNDES lies in the broad transformations that occurred in the world economy between World War I and II when the disruption of international commercial and financial flows caused many countries to promote domestic economic development through incentives, protectionist policies and preferential access to credit. In Latin American countries, finance for this expansion could not come from the private banking system, which focused on short-term credit, nor from the capital markets, because of their inherent weakness. Many countries created public development banks to support industrial and infrastructural expansion. The experience of the developed countries in the creation of government banks like the United States' Export-Import bank offers evidence of the broad acceptance of this institutional innovation. These institutions continued to operate, and indeed even broadened their scope, after World War II.¹

It was in this context that BNDES was created and gradually took on a major role in Brazilian investment finance. In spite of the centrality of the bank to the Brazilian economy, however, there has been no systematic analysis of the scholarship regarding it. This article presents a comprehensive analysis of literature produced about BNDES from its creation in 1952 to recent times. Using theoretical works about development banks' potential to promote economic growth and development, largely drawn from Keynesian theory about their importance in promoting capital accumulation under conditions of instability, uncertainty and market imperfections, we sought to identify how scholars have characterised and assessed BNDES. In all, we identified almost 1,000 works published between 1952 and mid-2013 that directly engaged the bank's history. We identified important changes in the bank's performance and found that the literature grew increasingly critical from one era to the next. None of the works, however, challenge the premise of the bank's

¹ Marcelo Rougier, 'Estado, empresas y crédito en la Argentina. Los orígenes del Banco Nacional de Desarrollo, 1967–1973', *Desarrollo Económico*, 43, n. 172 (Jan.–Mar, 2004), pp. 518–19. Marcelo Rougier (ed.), *La banca de desarrollo en América Latina: luces y sombras en la industrialización de la región* (Buenos Aires: Fondo de Cultura Económica, 2011).

Table 1. *Principal Themes and Findings from the Readings*

1952–64	
Definition and initial organisation	<p>Authors define a clear developmentalist mission, implemented through strategic planning and long-term finance to industry and infrastructure</p> <p>BNDE mission and leadership informed by heterodox theoretical and ideological perspectives</p> <p>Political independence and meritocratic professional culture both essential to bank's mission, but dependence on government for funding resulted in a chronic shortage of resources</p>
Impact on development	<p>Incipient in import substitution industrialisation due to insufficient resources but important for eliminating infrastructural bottlenecks, especially in transportation, electricity and basic inputs</p> <p>Lending at negative real interest rates created implicit subsidies to private enterprise at an enormous public cost</p> <p>Little consideration of sectoral and regional imbalances of bank-planned and backed Target Plan</p>
Critique of the literature	Tendency toward narratives, largely uncritical assessments
1964–80	
Instability of resources	Continued dependence on the government for resources into early 1970s; improved autonomy of resources from 1974 (PIS/PASEP), leading to expanded funding of basic inputs and capital goods
Development policies	<p>Shift from investment in state-owned enterprises to domestic private sector</p> <p>Powerful agent of II PND</p> <p>Partial indexation of loans to minimise inflation risk to private sector, subsidisation of private sector with public funds weakened the bank in subsequent decades. Lending at negative real interest rates contributed to accelerating concentration of wealth</p>
Autonomy	Debate over the degree of political autonomy, that is, whether bank was a mere executor of government policy or agent with capacity to make independent decisions
Critique of the literature	Lasting effects of bank actions on socio-economic development are little analysed or discussed
1980–90	
Effects of subsidised finance	Loans with partial monetary correction in an inflationary environment transferred billions of dollars from public to private sector
Redefinition of bank's role	<p>Reprivatisation process removed bank as shareholder from private firms that received BNDES funding. Return to safety in time of macroeconomic instability, with bank prioritising its own difficult financial position over the sectors it served</p> <p>In lieu of investment, bank engaged in strategic planning (as in 1950s)</p> <p>Bank abandoned developmentalist industrial promotion, adopting neoliberal policies</p> <p>Growing concern about regional inequalities</p>

Critique of the literature	Little attention paid to social role of bank in era when ‘S’ added to bank’s acronym. Dearth of critical analysis of bank programme outcomes
1990–2002 New roles for BNDES	Retreat from economic developmentalism in favour of neoliberal policies; no longer financing initiatives underserved by private sector For some, BNDES a ‘neutral’ and efficient privatisation agent following directives in implementing government policy; for others, BNDES played leading role in defining privatisation strategy and neoliberal policies, manipulating public opinion in favour of government policies
Impact of BNDES actions in Brazilian economy	Last vestiges of original mission: bank remained almost sole long-term financier of Brazilian economy and of infrastructure development Bank provided export stimulus through financing foreign buyers of Brazilian products (BNDES-Exim) Empirical analysis, with mixed findings, regarding the bank responses to currency crises and its impact on investment, employment, and productivity
Critique of the literature	New econometric analysis of bank performance constituted a positive development; lack of critical studies about bank’s role in privatisation process or deeper reflection on the role of BNDES in the social arena
2002–13 Role of development banks in the Brazilian financial market	Role of development banks vis-à-vis private financial market development, analysis of the level of complementarity between BNDES and private market lending Concerns about BNDES lack of transparency, lower efficiency of resource allocation, influence of political factors in decision-making
Empirical evaluation of bank policy	Questions of bank as instrument of industrial and technological policy that acts in incomplete markets Mixed findings regarding the impact on firm productivity, employment levels, return on assets Promotional research to support bank’s role in internationalisation of Brazilian firms, export finance, foreign investment finance, regional integration finance
Critique of the literature	Great increase in number of publications about BNDES, with clear distinction between internal and external scholarship. Internal tends toward uncritical support; external more analytical, critical, scholarly

Source: The authors’ own elaboration, based on our bibliographic research.

existence or the alternative forms of development it may have pursued. In this way, most scholarship tends to react to the bank as it presented itself, not critique the bank for lost opportunities.

This article is organised into five historical periods from the bank's founding to today that correspond to changes in the ways it operated. Each section begins with a brief synopsis of the Brazilian economic context and a summary of BNDES activities. The texts are then discussed according to the major themes, trends and methodologies they employ or address, and the criticisms they raise about the bank's performance. Finally, each section presents a summary of the results and a critical assessment of the literature of the period.

Anticipating our main conclusions, we find that in spite of the institutional importance of BNDES, for better or for worse, the scholarship is broadly ineffectual. This major development bank whose funding represents a very large portion of Brazilian public finance and whose disbursements in Brazil rival the World Bank's for the entire western hemisphere has not garnered robust academic investigation or debate. Of the almost 1,000 academic works, few had much scholarly impact: just 17 works were widely cited; the network of people and institutions collaborating on research about BNDES was weak; and, most troubling of all, the most important source of academic works about the bank – about one-third of the total – was the bank itself, with a strong narrative bent and generous interpretive approach.² This is especially worrying given the bank's most recent policy of 'picking winners', a policy that has led to something like insider lending with public funds on a massive scale. It is our hope that this survey of the academic literature will reverse this tendency toward indifference and promote critical research and analysis about BNDES.

1952 to 1964

Between the early 1950s and 1960 the Brazilian economy experienced an intense process of growth through import substitution industrialisation. It was in this context of state industrial promotion and the insufficiency of financial resources or institutions for the expansion of industrial investments and infrastructure that the BNDE was created in 1952.³ Before the 1930s, Brazilian development policy was indirect, through profit guarantees, subsidies, incentives, and protection. The bank's creation during the second Vargas government (1951–54) was part of a new state-led development policy that

² A full description of our methodology and results of our quantitative bibliometric analysis can be found in, 'A Quantitative Analysis of the Academic Economic Literature Regarding the Brazilian Development Bank (BNDES)', *Economia*, 23 July 2015, available at <http://dx.doi.org/10.1016/j.econ.2015.03.006>.

³ The S for Social was added in 1982.

alternated between mainstream orthodox policies and heterodox policies that borrowed from a broad range theories and took social and historical factors into account, often within a single administration. After a brief interregnum following Vargas's suicide in 1954, the government of Juscelino Kubitschek (1956–61) ramped up the promotion of economic development with its *Plano de Metas*, or Target Plan, an ambitious development initiative of state-led or state-directed economic investment in infrastructure and industry through import substitution. BNDE assisted in formulating the Target Plan and, subsequently, in evaluating projects and identifying strategic sectors for investment. It acted as a coordinating body to assess and prioritise the flow of resources to strategic sectors, on the one hand, and addressed the insufficiency of financial resources to directly engage in financing the projects, on the other.

By 1960, the economy had slowed, inflation accelerated, public deficits and external debt were rising, and foreign markets constricted, alarming the political establishment. Both populist Jânio Quadros (1961) and his leftist successor João Goulart (1961–64) pursued orthodox economic policies to confront these problems. Goulart's planning minister, the structuralist economist Celso Furtado, introduced the orthodox Plano Trienal de Desenvolvimento Econômico to control inflation. The plan could not withstand political pressures, however, and was abandoned after a few months. The result was a deepening economic and political crisis: the government proved incapable of providing adequate responses to the economic challenges of inflation and debt, which contributed to its overthrow by military coup in 1964.

BNDE's role in this tumultuous period, that of planning and carrying out infrastructural and industrial investment, was shaped and limited by its resource base. Finance for its initial operations came from an additional rate imposed on the income tax, which was not fully passed along in the bank's first years of operation. Once the flow of funds improved after 1957, BNDE offered direct funding in local currency and indirect financing through foreign loan guarantees, especially for projects in transportation, electricity and steel. From 1957 to 1963, disbursements reached about one-half percentage point of Gross Domestic Product (GDP). Its major projects included supporting the electrical energy sector to resolve the problem of power shortages that threatened the growth of the economy, and funding the steel industry. The main topics addressed in the literature about BNDE in this period were the definition and organisation of the new institution, its key role in strategic planning, investments in infrastructure to support the industrial sector, initial investments in basic industries, and the impact of its actions on the economic development of the country.

The main factors behind the formation and initial mission of the bank were the lack of a capital market capable of providing long-term capital to the

national industrial sector and the growing state intervention in industrial policy in the 1930s and 1940s, according to Currello, Lima and Araújo. Private initiative had been suffocated by uncertainty about future returns in a scenario of high inflation with few instruments of protection. Brazil needed capital to finance long-term investments in basic industrial inputs, capital goods and transportation and energy infrastructure to support the industrial base. This development bank was formed to invest in sectors where the risks inherent in long-term investment depressed the expected returns and discouraged entry of private capital.⁴

The bank's mission evolved out of various theoretical and ideological perspectives and institutional changes in the decades leading up to its formation, which culminated in the policy of state-led development. The bank was part of the toolkit of industrial promotion through import substitution to reduce dependence on external markets while permitting foreign capital participation for pragmatic reasons. Theoretically, the possibility of founding a development bank generated polemical debates about the merits of market-driven versus state-led economic development, domestic versus foreign funding, and nationalist-protectionist policies versus international participation of such an institution.⁵

The bank was created to be a public development bank seeking social and economic outcomes with positive externalities for the economy and society in general, increasing the supply of long-term capital. For Geddes, Araújo, Willis and others, the bank fulfilled this mission largely because of the initial commitment of the state to keep it free from political pressures, followed by the bank's determination to defend this autonomy.⁶ Lima highlights the decision to integrate economists of various theoretical convictions in leadership positions to bring multiple perspectives to the bank's analysis and performance. His study of the composition of BNDE leadership and staff emphasised its role in articulating and advancing the developmentalist ideology in Brazilian economic policy. Economists of various ideological lines held positions of

⁴ Cláudia Regina Baddini Currello, 'A atuação do sistema BNDES como instituição financeira de fomento no período 1952–1996', unpubl. MA thesis, Universidade Estadual de Campinas, 1998; Alexandre de Santana Lima, 'A atuação do BNDES no desenvolvimento econômico brasileiro: 1952–2002', unpubl. MA thesis, PUC-SP, 2007; Victor Leonardo Figueiredo Carvalho de Araújo, 'Revisitando o desenvolvimentismo brasileiro: o BNDE e o financiamento de longo prazo – 1952/1964', unpubl. PhD diss., UFF, 2007.

⁵ Lima, 'A atuação do BNDES'; Araújo, 'Revisitando'; Maria da Conceição Tavares, Hildete Pereira de Melo, Ana Claudia Caputo, Glória Maria Moraes da Costa e Victor Leonardo de Araújo, 'O papel do BNDE na industrialização do Brasil: os anos dourados do desenvolvimentismo, 1952–1980', *Memórias do Desenvolvimento*, 4: 4 (2010), pp. 13–196.

⁶ Barbara Geddes, 'Building "State" Autonomy in Brazil, 1930–1964', *Comparative Politics*, 22: 2 (1990), pp. 217–35; Araújo, 'Revisitando'; Eliza Jean Willis, 'An Enduring Pocket of Effectiveness: The Case of the National Economic Development Bank of Brazil (BNDE)', in Michael Roll (ed.), *The Politics of Public Sector Performance: Pockets of Effectiveness in Developing Countries* (London: Routledge, 2014), pp. 74–96.

leadership, while staff members were recruited for skills and competencies rather than patronage. Dias and Diniz agree that significant development of human capital resources achieved by the late 1950s was essential for the good performance of the bank. For Baer and Villela, these initial decisions created a culture of professionalism and flexibility in the evaluation of projects and disbursement of funds.⁷ Willis agrees that the effectiveness of BNDE resulted from the internal culture of the bank, which she characterised as ‘an unusually strong “esprit de corps” guided by a clear sense of mission’ that ‘led to effective action even in the face of occasional political pressures and the chronic lack of funds’.⁸ Some authors including Lafer, Willis and Geddes argue, however, that the bank’s ability to implement projects was highly conditioned or even dependent on the political will of the president in power.⁹

Whether BNDE’s autonomy from political influence was actual or professed, the bank suffered from a chronic shortage of resources resulting from its very real financial dependence on the government, according to scholars. This reflected a tension between the self-interest of the state to maintain the bank as agent for development, and the disposition of the government to pay for this role.¹⁰ Between 1952 and 1958, only about half of the Additional Tax on the income tax, the principal source of the bank’s funding, was passed along, so BNDE lacked resources to finance approved projects. Because of this failure, the bank focused its efforts on strategic planning, utilising priorities shaped by macroeconomic factors (such as potential multiplier effects resulting from the investment) and microeconomic factors (including sectoral bottlenecks).¹¹ For Diniz, this planning role made BNDE as much mentor as agent for the implementation of the Target Plan. To Lessa, Monteiro Filha, Dias and Currello, this planning role was vital to the Target Plan’s success.¹²

⁷ Marco Antônio Albuquerque de Araújo Lima, ‘O desenvolvimento inacabado do Brasil: O BNDE e a Convenção do Crescimento de 1952 a 1978’, unpubl. MA thesis, UFFRJ, 2006; José Luciano Dias, *O BNDES e o Plano de Metas* (Rio de Janeiro: FGV-RJ, 1996); Adriana Nascimento Diniz, ‘BNDES: de agente desenvolvimentista a gestor da privatização – 1952–2002’, unpubl. MA thesis, UNICAMP, 2004. Werner Baer and Annibal V. Villela, ‘The Changing Nature of Development Banking in Brazil’, *Journal of Interamerican Studies and World Affairs*, 22: 4 (1980), pp. 423–40.

⁸ Willis, ‘An Enduring Pocket of Effectiveness’, p. 43.

⁹ Celso Lafer, ‘The Planning Process and the Political System in Brazil: A Study of Kubitschek’s Target Plan – 1956–1961’, unpubl. PhD diss., Cornell University, 1980; Eliza Jean Willis, ‘The State as Banker: The Expansion of the Public Sector in Brazil’, unpubl. PhD diss., University of Texas, Austin, 1986; Geddes, ‘Building “State” Autonomy’, pp. 217–35.

¹⁰ Baer and Villela, ‘The Changing Nature’, pp. 423–40.

¹¹ Henrique Rattner, *Instituições financeiras e desenvolvimento tecnológico autônomo: o banco nacional de desenvolvimento econômico e social* (São Paulo: IPE-USP, 1991); Dias, *O BNDES e o Plano de Metas*.

¹² Diniz, ‘BNDES: de agente desenvolvimentista’; Carlos Lessa, *Quinze anos de política econômica* (Rio de Janeiro: CEPAL/BNDE, 1982); Dulce Corrêa Monteiro Filha, ‘A aplicação de fundos compulsórios pelo BNDES na formação da estrutura setorial da

While scholars agree that its impact on developing the industrial base was incipient due to lack of resources, for Monteiro Filha, who analyses data on its investments over the decades, the bank provided critical long-term capital to repair the failures of infrastructure and set the stage for investment in basic industry. Dias, Lessa and Viana conclude that contributions to infrastructure during the Target Plan were essential for Brazilian national industrialisation. Indeed, as bottlenecks were overcome, the focus changed from infrastructure to investments in steel, chemicals and fertilisers, non-ferrous metals, and transportation. The bank used incentives to encourage private investment, subsidised through low-interest loans and guarantees on foreign loans. For Tavares *et al.*, BNDE in this era was an innovative institution that used its financial and human resources to promote investment in Brazilian economic development.¹³

If scholars see this period as a ‘golden age’ in the bank’s history as an institution of development finance, some criticise policies that failed to consider their overall effects. For Viana and Correa, the bank’s fragile financial base – using medium-term resources (up to five years) to offer long-term financing (up to 20 years) at negative interest rates in inflationary conditions – created an implicit subsidy to private enterprise at enormous public cost. Maia calculated a 43 per cent subsidy on debt incurred in 1958 and repaid by 1964. For Lessa, the Target Plan’s central concern for infrastructure and industrial support caused an almost total lack of consideration of the imbalances it introduced. Agricultural productivity stagnated; large variations in regional income per capita persisted or rose; and internal migration increased poverty in urban areas. The negative effects of funding and lack of social and sectoral concerns that could have addressed the structural problems of poverty and inequality are critiques that will appear in the literature on later periods, as we shall see below.¹⁴ Tavares *et al.* are more forgiving, stating that the concentration of resources in the Rio de Janeiro–São Paulo–Minas Gerais triangle occurred ‘even when presaging the benefit of infrastructure investments in other regions’, because ‘in terms of urban and regional

indústria: 1952 a 1989’, unpubl. PhD diss., UFRJ, 1994; Dias, *O BNDES e o Plano de Metas*; Currello, ‘A atuação do sistema BNDES’.

¹³ Monteiro Filha, ‘A aplicação de fundos compulsórios’; Dias, *O BNDES e o Plano de Metas*; Lessa, *Quinze anos*; Ana Luiza d’Ávila Viana, ‘O BNDE e a industrialização brasileira: 1952–1961’, unpubl. MA thesis, UNICAMP, 1981; Tavares *et al.*, ‘O papel do BNDE’, pp. 13–196.

¹⁴ Viana, ‘O BNDE e a industrialização brasileira’; Vanessa Petrelli Corrêa, ‘A estrutura de financiamento brasileira e a oferta de financiamento de longo prazo ao investimento’, unpubl. PhD diss., UNICAMP, 1995; Rosane de Almeida Maia, ‘Estado e industrialização no Brasil: estudo dos incentivos ao setor privado, nos quadros do programa de metas do governo Kubitschek’, unpubl. MA thesis, USP, 1986; Lessa, *Quinze anos*.

planning, Brazil crawled, not yet having accumulated the necessary skills'.¹⁵ Geddes argues that the bank was a successful development institution not in its own right, but largely because presidents supported it. Its autonomy was threatened by the military regime's distrust of it, and its performance was later recast by macroeconomic concerns such as oil shock, inflation and neo-liberal policies.¹⁶

According to the literature, which for this time period tends toward narratives based on reports and data from the bank, BNDE did important work on strategic planning and investment in infrastructure and incipient industry. Academic debate about the performance of the bank or about whether other development agendas may have been more appropriate for addressing the structural issues that promoted Brazilian underdevelopment, however, is almost absent from the literature. These studies barely evaluate the distortions arising from otherwise celebrated policies, distortions which became accentuated after the military coup.

1964 to 1980

The military coup in 1964 opened up a new phase in Brazilian economic development, including a profound restructuring of regulation and state participation in the economy, especially in the monetary and financial sector. The Castello Branco government (1964–67) created the Central Bank and the National Monetary Council, and passed a 1965 law promoting the development of private capital markets, particularly investment banks, as alternatives to BNDE long-term finance. The so-called 'conservative modernisation' tackled inflation and promoted institutional reforms in the tax, financial and international sectors. These changes, along with more favourable foreign collaboration, initiated a new growth cycle in the final years of the 1960s. This trend was disrupted after 1974, however. Changes in the international economy and deficiencies in the Brazilian capital goods and infrastructure sectors led to the development and implementation of the *II Plano Nacional de Desenvolvimento* or Second National Development Plan (II PND) in the Geisel administration (1974–79). This plan comprised a set of ambitious investments in infrastructure, capital goods and intermediate goods to advance the industrialisation process even in the unfavourable international context of the first oil shock. Within the government, however, there were concerns about the inflationary consequences of the oil shock and the need to adopt stabilisation policies advocated by the Finance Minister Mário Henrique Simonsen.

¹⁵ Tavares *et al.*, 'O papel do BNDE', p. 82.

¹⁶ Geddes, 'Building "State" Autonomy', pp. 217–35.

In this new period, a profound restructuring of operations altered both the sources of BNDE funds – eliminating the additional income tax and endowing the bank with new funding sources – and their investment in various sectors of the economy. BNDE disbursements experienced a strong expansion after the 1964 coup; by the mid-1970s, BNDE loans reached two percentage points of GDP as new resources were channelled to the bank. The reorientation of BNDE reflected the growing concern that resources should be more broadly applied across all sectors of industry, as well as to private sector firms and in regions that had not received support. It became linked to the Ministry of Planning in 1967 and began to administer specific funds with targeted purposes. One good example was the Financing of Machinery and Equipment or *Finame* created to extend lines of credit for the purchase of national capital goods by small and medium enterprises. While some attention was given to export stimulus policies after 1964, import substitution continued to be the development standard in the period 1964–80. The literature about BNDE remained focused on issues highlighted in the previous section, particularly the continued instability of funding sources of the bank and the forms of financing in different sectors; the bank's role in financing industry and infrastructure; the policy of lending at negative real interest rates in an inflationary environment; and the bank's relative autonomy from the federal government.

The importance of the bank's shifting sources of finance to its effectiveness as a development institution was a constant theme throughout the literature on this period. Baer and Villela argue that the elimination of the Additional Income Tax to fund the bank's operations early in the military regime heightened its dependence on budget allocations into the early 1970s. The II PND of 1974 endowed the BNDE with its own resources by channelling the funds from the Programme for Social Integration / Patrimony of the Public Servant (PIS/PASEP) – Brazil's social security employer contributions – to it, thereby guaranteeing a regular and growing revenue stream and elevating the bank to a strategic position inside government planning in this period. Prochnik's extensive survey of the funding sources that underwrote BNDE operations finds that the bank enjoyed greater autonomy of resources in this phase than the last. The bank used this expanded funding to increase national investments in basic inputs and capital goods, investments that aligned with the strategic plan to complete the import substitution process.¹⁷

In his influential work written during the execution of the II PND, Lessa argues that the decision to reorganise industrial policy in 1974 required a financial change to support priority sectors.¹⁸ No longer did the bank invest in state-owned enterprises, which now looked abroad for funding. The new

¹⁷ Baer and Villela, 'The Changing Nature'; Marta Prochnik, 'Fontes de recursos do BNDES', *Revista do BNDES*, 2: 4 (1995), pp. 143–80.

¹⁸ Carlos Lessa, *A estratégia de desenvolvimento, 1974/76* (Campinas: UNICAMP, 1998).

focus of government funding – channelled through BNDE – was on the domestic private sector, diagnosed as fragile both in terms of technology and investments. Lessa and others point out that by channelling PIS/PASEP resources to BNDE, the bank became the main financial backer of the II PND. It multiplied its contributions through the new requirement that companies receiving finance as well as the banks that served as the intermediaries of BNDE finance put up matching resources.¹⁹ Amsden finds that the bank was a key part of the II PND's strategy, accounting for a significant share of industrial investments and surpassing investment rates of development banks in other emerging countries of the era.²⁰ At the same time, however, BNDE displayed little concern in supporting technological development and innovation, which was a priority area for many other development banks.²¹

Given the difficulty of encouraging private investment in an inflationary environment, the government opted to absorb some of the cost of inflation by partially indexing loans during the II PND and transferring the risk of accelerating inflation to BNDE.²² This strategy aimed to strengthen the domestic private sector, especially capital goods, but created a subsidy through negative real interest rates beginning in the mid-1970s. Najberg's thesis, one of the most widely referenced for this period and one of the most quantitative and analytical of early scholarship on the bank, examined 13,000 contracts and found an extraordinary amount of public resources were transferred to the private sector as a result of the indexation policy: at least US\$ 3.2 billion in current dollars were transferred between 1975 and 1987, or 74 per cent of total funds released.²³ Accelerating inflation worsened the problem and undermined BNDE's financial capacity, because the resources of the PIS/PASEP were fully indexed. This imbalance led it to restrict monetary correction after 1976, thus avoiding an even bigger crisis, but the consensus among scholars is that the resource transfer weakened the bank in the 1980s.

A main concern of scholars was whether the bank maintained its autonomy from the federal government. Using data from bank reports, Martins, Willis and Evans show the early and growing autonomy of the bank in relation to the traditional bureaucratic structure of the state, based on its creative role as formulator and executor of development policies, its role in forging relations among interest groups, its transition to become a public company in 1971, and

¹⁹ Lessa, *A estratégia*; Baer and Villela, 'The Changing Nature', pp. 432–40.

²⁰ Alice H. Amsden, *The Rise of 'The Rest': Challenges to the West from Late-Industrializing Economies* (Oxford: Oxford University Press, 2001).

²¹ Rattner, *Instituições financeiras*.

²² Werner Baer, *A industrialização e o desenvolvimento econômico do Brasil* (Rio de Janeiro: FGV-RJ, 1988).

²³ Sheila Najberg, 'Privatização de recursos públicos: os empréstimos do sistema BNDES ao setor privado nacional com correção monetária parcial', unpubl. MA thesis, PUC-Rio, 1989.

the metamorphoses in its advocacy of policies.²⁴ In contrast, Lessa and Currallero stress the close link between the bank's actions and federal macro-economic policy, especially in the II PND, reducing its internal capacity to determine its actions.²⁵ Baer and Villela argue that the bank began to experience shortages of personnel qualified to evaluate projects and coordinate within regions, raising the possibility of political influence in the choice of projects.²⁶ For Willis, the bank enjoyed greater relative autonomy in funding, personnel matters and priority setting before 1964 than during the period of military dictatorship, but not absolute independence.²⁷

Despite attempts by the government and the bank to promote capital market development during the period, the literature is silent on this topic. Aside from the debate on the autonomy of the bank, the few questions raised by the literature focus on its role as an agent of economic policy. Negative real interest rates on loans in a period of accelerating concentration of wealth in the country are quite controversial, but little discussed in the literature. In light of the process of democratisation and expansion of social demands in recent decades, the decisions taken in the period 1964–80 proved even more controversial. Often, the privileged sector did not have to live up to the commitment to be internationally competitive, since there was no prospect of opening up the economy through reduced tariffs. Without BNDE as financier, the state-owned enterprises borrowed abroad, greatly increasing the risk for the public sector. Finally, when the country stopped growing in the 1980s, investments that had been made possible with funds transferred by the bank were now idle and even abandoned.

1980 to 1990

The period from 1980 to 1990, the so-called 'lost decade', was characterised by great macroeconomic difficulties. After the second oil shock, with growing inflation in many countries and the subsequent increase in international interest rates, the cost of the military government's decision to finance investments made during the II PND via external borrowing, especially for state-owned enterprises, was made abundantly clear. These phenomena greatly degraded Brazil's balance of payments accounts culminating with the debt crisis that marked the first half of the 1980s, during the Figueiredo administration

²⁴ Luciano Martins, *Estado capitalista e burocracia no Brasil pós-64* (Rio de Janeiro: Paz e Terra, 1985); Willis, 'The State as Banker'; Peter Evans, 'Reinventing the Bourgeoisie: State Entrepreneurship and Class Formation in Dependent Capitalist Development', *American Journal of Sociology*, 88 (1982), pp. 210–47. See also, Diniz, 'BNDES: de agente desenvolvimentista'.

²⁵ Lessa, *A estratégia*; Currallero, 'A atuação do sistema BNDES'.

²⁶ Baer and Villela, 'The Changing Nature', pp. 432–40.

²⁷ Willis, 'The State as Banker'.

(1979–85). If on the one hand, financial assistance from the International Monetary Fund (IMF), the policy of increasing the trade surplus (via slowing domestic activity), and the recovery of the international economy meant that the balance of payments accounts were normalised, on the other, inflation continued to increase giving rise to discussions about its inertial character. During the Sarney presidency (1985–90) several schemes were adopted, all including price freezes to one degree or another, in an attempt to contain the inflationary spiral. Each had only momentary success.

Economic instability restricted the possibility of long-term planning by businesses, while fiscal difficulties restricted direct actions like public investment by the government. These difficulties affected the performance of BNDES. The bank continued to benefit from PIS/PASEP and subsequently the Fundo de Amparo ao Trabalhador or Worker's Support Fund (FAT), to finance its disbursements, which reached a maximum of two percentage points of GDP in the first half of the decade, but they retracted to less than half a point some years later, reinforcing the overall modest performance of the bank during this decade. It was in this period that the bank added the 'S' to its acronym, becoming the National Bank for Economic and *Social* Development through the management of the newly created Social Investment Fund, or *Finsocial*, that aimed to provide social services like food, housing, healthcare and education to low-income Brazilians. Given the macroeconomic context, the bank's activities in this period are best characterised as reactive, unfocused because of the impediments to its traditional role as development financier, even becoming defensive as it acted in the interest of self-preservation.

Changes in the profile of bank activity in the context of macroeconomic instability and restriction of available resources provoked a shift in focus in the literature about this decade. One thread began to focus on the limitations of providing funding for industry and infrastructure, while another thread discussed the changes in the performance of bank itself. This, in turn, raised two additional relevant discussions: its significant role in the privatisation process and the changing role of BNDES in the Brazilian financial system. Many of these changes were related not only to macroeconomic difficulties, but also to the international spread of economic orthodoxy during the 1980s and 1990s.

Financing with negative real interest rates given the environment of high inflation, a theme in the discussion about the previous decade, was again an important issue during the 1980s. Najberg's 1989 study of thousands of contracts had found that billions of dollars were transferred from the public to the private sector between 1975 and 1987, a time of rising inflation during which contracts were only partially indexed. At the same time, the bank worked to disentangle itself from the companies it funded through a process scholars

termed ‘reprivatisation’.²⁸ Reprivatisation, different from the privatisation of state enterprises that would occur a decade later, was the process by which the bank removed itself as shareholder from private companies that had received BNDES funding in previous years in exchange for an equity position. This was part of the bank’s new focus on protecting its own institutional interests in the face of the macroeconomic instability and fiscal difficulties of this decade. According to Mourão and Costa, the 1980s were a period of internal redesign of BNDES, embodied in the Strategic Planning and Competitive Integration programme, where the bank’s difficult financial conditions were prioritised over the problems of the sectors it served. Strategic planning emerged – again – as an alternative to ensure some independence for the bank from the government and other state entities, as well as a way to discuss the redirection of their activities given the new reality of the Brazilian economy in the 1980s.²⁹ Strategic plans prioritised projects aimed at modernising production facilities, restructuring and focusing companies in industries with economies of scale, and encouraging investments towards exports.³⁰

This return to safety and self-preservation was symptomatic of the bank’s struggle to (re)define itself in this decade. Based on analysis of various financial indicators and disbursements, Diniz finds that the bank abandoned its role of promoting Brazilian industrialisation during the 1980s and 1990s, instead promoting liberal strategies and assuming a managerial role in the privatisation process. Monteiro Filha also points to a lack of definition in the priorities of the bank, where the number of funded sectors continued to increase but the amounts approved declined because of the government’s fiscal difficulties. An enthusiastic supporter of the bank, she concludes that it continued to be an important fiscal agent and instrument of the state.³¹

An important theme in scholarship about the 1980s was the performance of BNDES in the Brazilian financial system. Hermann gave the bank high marks for serving as the nucleus for compulsory savings and providing strategic

²⁸ Najberg, ‘Privatização de recursos públicos’; Josué Alfredo Pellegrini, ‘Sistema BNDES – atuação recente, diagnóstico da situação atual e perspectivas’, *Estudos Econômicos*, 23: 3 (1993), pp. 401–44; Monteiro Filha, ‘A aplicação de fundos compulsórios’; Dulce Corrêa Monteiro Filha, ‘A contribuição do BNDES para a formação da estrutura setorial da indústria brasileira no período 1952/89’, *Revista do BNDES*, 2: 3 (1995), pp. 151–66; Diniz, ‘BNDES: de agente desenvolvimentista’; Ana Paula da Silva Bernardino, ‘Fontes de recursos e atuação do BNDES sob uma perspectiva histórica’, *Revista do BNDES*, 12: 23 (2005), pp. 53–72; Lima, ‘A atuação do BNDES’.

²⁹ Júlio Olímpio Fusaro Mourão, ‘A integração competitiva e o planejamento estratégico no Sistema BNDES’, *Revista do BNDES*, 1: 2 (1994), pp. 3–26; Karen Fernández Costa, ‘Mudança de rumo, mesma função – o BNDES na segunda metade dos anos 80’, unpubl. MA thesis, PUC-São Paulo, 2003.

³⁰ Pellegrini, ‘Sistema BNDES’, pp. 401–44.

³¹ Diniz, ‘BNDES: de agente desenvolvimentista’; Monteiro Filha, ‘A aplicação de fundos compulsórios’ and ‘A contribuição do BNDES’, pp. 151–66.

investments, given the low levels of private sector finance. This was largely thanks to the allocation of special funds such as the FAT, Finsocial and the transfer of the Merchant Marine Fund to the bank to finance ethanol production, export-oriented agriculture, small and medium enterprises and social investment. These maintained the bank's participation in gross fixed capital formation (GFCF) at stable levels until 1988. Gorgulho analysed one such example – BNDES's Capitalisation Programme for Technology-Based Companies (Contec) – which funded risk capital for small and medium-sized technology-based companies operating in an environment of limited capital market development and few regulatory and fiscal incentives. He found that Contec funding resulted in an increase in revenues, investment and job creation compared to companies that did not receive funding.³²

Some references regarding this period saw the bank grow more concerned about the distribution of resources across geographic regions, especially in less developed parts of the country. According to Sousa, its disbursements directed some sectors to less developed regions and generated spatial dispersion of investments. These results are supported by the study of Monteiro Neto, who found that the expansion of the agropecuary and minerals frontiers towards the North, Northeast and Centre-west regions, as specified in II PND, required high investments in economic infrastructure, in part from BNDES. This made 1970–85 the period of greatest convergence of state-level per capita incomes in Brazil. This decentralisation of credit cooled in later years, however, when BNDES returned to supplying credit to areas of higher economic development.³³

Research on the 1980s suggests that macroeconomic instability had a major influence on the projects undertaken by the bank during this period and led to a redefinition of the profile of the bank's role in the Brazilian economy when it began to focus on the issue of competitive integration, strategic planning, and privatisation processes. Curiously, while this was the era when the 'S' for Social was added to bank's acronym, ostensibly a major change to its mission, there is a near total absence of literature on the social role of BNDES. In methodological terms, most studies continued in the descriptive/narrative style of earlier periods. They exploit statistics concerning bank

³² Jennifer Hermann, 'Financial Structure and Financing Models: The Brazilian Experience over the 1964–1997 Period', *Journal of Latin American Studies*, 34: 1 (2002), pp. 71–114; 'Development Banks in the Financial-Liberalization era: The Case of BNDES in Brazil', *Cepal Review*, 100 (2010), pp. 189–203; Luciane F. Gorgulho, 'O capital de risco como alternativa de financiamento às pequenas e médias empresas de base tecnológica: o caso do Contec/BNDES', unpubl. MA thesis, UFRJ, 1996.

³³ Filipe Lage de Sousa, 'O papel do BNDES na distribuição geográfica da indústria de transformação', *Revista do BNDES*, 10: 19 (2003), pp. 3–20; Aristedes Monteiro Neto, 'Desenvolvimento regional em crise: políticas econômicas liberais e restrições à intervenção estatal no Brasil dos anos 90', unpubl. PhD diss., UNICAMP, 2005.

disbursements, but there is otherwise a dearth of studies that critically analyse the outcomes of BNDES programmes and priorities.

1990 to 2002

From the early 1990s until 2002, Brazil underwent profound changes. This was a period of inflections in the institutional, economic and political areas, during which Brazil experienced significant alterations in its economic development model (with the dominance of neoclassical ideas), a balance of payments crisis, and a turn to the IMF on two occasions. Two processes that began timidly in the previous decade were consolidated in this period beginning in the Collor government (1990–92): trade liberalisation and privatisation. Effective measures for financial openness were taken early in the period, ensuring greater freedom of entry and exit of capital from the country. After several failures to contain inflation (1986–91), the Real Plan of the Franco administration (1993–94) finally managed to stabilise prices.

During the Cardoso administration (1995–2002), the state reduced its entrepreneurial role in the economy and pursued stabilisation through a three-pronged macroeconomic policy that targeted inflation and maintained a primary surplus and floating exchange rate. The results of these policies were greater insertion in trade and international capital flows, and fiscal and external imbalances. It was in this context of redefining Brazil's insertion in the world economy and the role of the state in the economy that the direction of BNDES activity evolved. The bank, which had played a key role in the capitalisation and consolidation of the public sector, now became the manager of the privatisation of state-owned enterprises. As it executed this new role, BNDES disbursements grew from less than 0.5 per cent of GDP at the beginning of the period to more than 2 per cent at the end.

Observations about the changing role of BNDES and its implications appeared extensively in the literature. Much scholarship focused on the bank's relative autonomy and initiative in its own transformation and in the privatisation process. Some studies examined the main sectors served by the bank, especially infrastructure and export, while others focused on the bank's contributions to firm productivity, competitiveness and gross fixed capital formation. Finally, we found some interest – particularly by researchers linked to the bank itself – in evaluating BNDES's contribution to solving a number of economic and social problems: unemployment, regional concentration and technological development.

The major concern in the literature relates to the broader range of activities undertaken by BNDES, both on its own initiative and in response to external concerns, than in previous decades. One of the biggest questions regarding the performance of BNDES referred to its position in the Brazilian financial

system in an era dominated by neoliberal ideas advocating a smaller role of the state in the economy. Some authors feel BNDES abandoned its development priorities when it no longer sought to finance important sectors underserved by the private sector, like research and development (R&D) and small business infrastructure, and began to prioritise profit and risk reduction at the expense of the socio-economic benefits.³⁴ For others, the close association of the bank with past development models does not mean that it was irrelevant in the 'liberal era' as main coordinator and financier of investment projects, especially in major infrastructure project finance.³⁵ Hermann finds modest growth of the credit markets and private capital between 1990 and 2006 during the period of financial liberalisation, at the same time that the bank expanded its participation in the domestic credit market and in gross fixed capital formation.³⁶

It is curious that while a) BNDES was the main manager of the privatisation process and b) privatisation was a major concern of scholars in works on this period, so little was said about the role of BNDES in this process. The literature primarily describes privatisation without analysing the role of the bank, treating it instead as a neutral actor with the technical competence to perform the task.³⁷ Two works – both critical – are the exception. Diniz's thesis, which merges historical narrative with analysis of bank documents, presents a rather negative view of the bank's role in privatisation, accusing it of 'manipulating public opinion in favour of the sale of state-owned enterprises' and the exorbitant amounts spent on consultants and auditors.³⁸ When it

³⁴ Felipe Cerqueira Guth, 'O BNDES nos anos 1990: uma análise keynesiana', unpubl. MA thesis, UFRJ, 2006; Lima, 'A atuação do BNDES'.

³⁵ Regis Bonelli and Armando Castelar Pinheiro, 'O papel da poupança compulsória no financiamento do desenvolvimento: desafios para o BNDES', *Revista do BNDES*, 1: 1 (1994), pp. 17–36; Daniela Magalhães Prates, Marcos Antonio Macedo Cintra and Maria Cristina Penido de Freitas, 'O papel desempenhado pelo BNDES e diferentes iniciativas de expansão do financiamento de longo prazo no Brasil dos anos 90', *Economia e Sociedade*, 15 (2000), pp. 85–116; Diniz, 'BNDES: de agente desenvolvimentista'; Guth, 'O BNDES nos anos 1990'.

³⁶ Hermann, 'Development Banks', pp. 189–203.

³⁷ Licínio Velasco 'A economia política das políticas públicas: fatores que favoreceram as privatizações no período 1985/94', BNDES area de planejamento, texto para discussão, 1997; Marina Figueira de Mello, 'A privatização no Brasil: análise dos seus fundamentos e experiências internacionais', unpubl. PhD diss., USP, 1992; Francisco Anuatti Neto, Milton Barossi Filho and Roberto Macedo, 'Costs and Benefits of Privatization: Evidence from Brazil', Inter-American Development Bank Working Paper 455 (2003); Amando Castelar Pinheiro and Fábio Giambiagi, 'As empresas estatais e o programa de privatização do governo Collor', *Pesquisa e planejamento econômico*, 22: 2 (1992), pp. 241–88; 'Brazilian Privatization in the 1990s', *World Development*, 22: 5 (1994), pp. 737–53; 'Lucratividade, dividendos e investimentos das empresas estatais: uma contribuição para o debate sobre a privatização no Brasil', *Revista Brasileira de Economia*, 51: 1 (1997), pp. 93–132.

³⁸ Diniz, 'BNDES: de agente desenvolvimentista', p. 107.

comes to unfavourable assessments of BNDES in the privatisation process, hardly any work surpasses Biondi. Using data, internal studies, and statements by BNDES leaders, this study offers an unfavourable evaluation of the bank's conduct.³⁹

In the 1990s BNDES stopped acting as a classic development bank and came to manage privatisation and the implementation of neoliberal policy. The question for many authors was whether the bank was an active or passive participant in this newly defined role. The vast majority found that the bank was just following government policy directives. Some, however, mainly BNDES technocrats, highlighted the leading role played by the bank in the definition of the privatisation strategy.⁴⁰ Fernández draws attention to 'the recurring ability [of BNDES] to anticipate the government programmes that later became the nation's agenda and were placed in practice, as well as its fundamental role in making these policies concrete', such as the strategy of competitive integration prepared by BNDES and later adopted by governments.⁴¹ Diniz agrees: when BNDES ceased financing economic development, began prioritising neoliberal strategies, and took on the role of manager of the privatisation process, it did so as an active partner in this new economic strategy.⁴² One of the most cited and best quality works about this period, Velasco Jr., also attributed a decisive role to BNDES in the definition of the privatisation programme at a time when 'there was no consensus in Brazilian society ... about a change in the developmentalist role of the state'.⁴³ This scholarship argues, almost proudly, that the bank was complicit in its decision to abandon its original mission.

One of the few remnants of its original mission was that it remained as the main and almost sole long-term financier in the Brazilian economy, because the hope that financial openness would increase the lines of private long-term funding did not materialise.⁴⁴ The other remnant of the bank's past was its continued role as financier of infrastructure development, a role consistently affirmed by scholars who observe the need for government intervention in this sector in view of the large gaps between private and social rates of return. Bonelli and Pinheiro present investment data, disbursements and loans

³⁹ Aloysio Biondi, *O Brasil privatizado: um balanço do desmonte do Estado* (São Paulo: Fundação Perseu Abramo, 2003).

⁴⁰ Júlio Olímpio Fusaro Mourão, 'A integração competitiva e o planejamento estratégico no Sistema BNDES', *Revista do BNDES*, 1: 2 (1994), pp. 3–26.

⁴¹ Karen Fernández, 'BNDES: atuação, papel e ideário nos governos Fernando Henrique e Lula', presented at the 30th annual meeting of ANPOCS, São Paulo, Brasil, 27 Oct. 2006, p. 3.

⁴² Diniz, 'BNDES: de agente desenvolvimentista'.

⁴³ Velasco 'A economia política', p. 9.

⁴⁴ Prates *et al.*, 'O papel desempenhado pelo BNDES', pp. 85–116; Hermann, 'Development Banks', pp. 189–203.

from the BNDES system to conclude that the bank's role in financing infrastructure was still relevant in the new economic context.⁴⁵

A serious problem experienced by the Brazilian economy in the second half of the 1990s were the currency crises, largely related to the resurgence of trade deficits after more than a decade of positive balances. One of policy-makers' main concerns became the mitigation of these deficits, especially because of the acute instability of the world economy. BNDES was 'recruited' to collaborate in this effort to increase the competitiveness of Brazilian companies geared to the external sector through more favourable payment terms for international buyers. In other words, the bank now financed foreign buyers of Brazilian products. The role of BNDES in stimulating exports through BNDES-Exim, its new Export-Import fund, received a positive assessment from Além and Prates *et al.*, even as these authors note the benefits of this programme returned to large companies. Catermol examined the evolution and role of BNDES export finance from its inception in 1990 until 2005 and found evidence for the increased relevance of BNDES-Exim disbursements to finance higher value added manufactured exports, especially in high-tech capital goods and especially the aircraft industry.⁴⁶

The redefinition of BNDES activities came in response to major crises in the Brazilian economy, such as currency crises, reduced investment, high unemployment and low productivity. Scholars began to ask how BNDES responded to these crises, increasingly using empirical analysis of extensive databases to measure the effectiveness of bank actions, and arriving at mixed conclusions. Studies by Plattek, Ottaviano and Sousa, Pereira, and Sousa stand out.⁴⁷ Plattek evaluates the importance of BNDES disbursements for GFCF of the Brazilian economy in the 1990s, finding that BNDES disbursements as a percentage of GFCF expanded in the 1990s from 3.3 per cent to 5.9 per cent. Ottaviano and Sousa, analysing the relationship between BNDES activities and corporate productivity, found a negative impact on smaller projects and positive impact for larger projects. Sousa's research compares more than

⁴⁵ Bonelli and Pinheiro, 'O papel da poupança compulsória', pp. 17–36.

⁴⁶ Ana Claudia Além, 'O desempenho do BNDES no período recente e as metas da política econômica', Texto para Discussão do BNDES, 65, 1998; Prates *et al.*, 'O papel desempenhado pelo BNDES', pp. 85–116; Fabrício Catermol, 'BNDES-exim: 15 anos de apoio às exportações brasileiras', *Revista do BNDES*, 12: 24 (2005), pp. 3–30.

⁴⁷ Mauro Plattek, 'Contribuição dos desembolsos do BNDES para a formação bruta de capital fixo: uma análise para a década de 90', *Revista do BNDES*, 8: 15 (2001), pp. 103–24; Gianmarco I. P. Ottaviano and Filipe Lage de Sousa, 'O efeito do BNDES na produtividade das empresas', in João Aberto De Negri and Luis Cláudio Kubota (eds.), *Políticas de incentivo à inovação tecnológica no Brasil* (Rio de Janeiro: IPEA, 2008), pp. 361–86; Roberto de Oliveira Pereira, 'Ação do BNDES sobre o emprego formal: efeito nas empresas financiadas', *Revista do BNDES*, 14: 27 (2007), pp. 27–42; Filipe Lage de Sousa, 'O papel do BNDES na distribuição geográfica da indústria de transformação', *Revista do BNDES*, 10: 19 (2003), pp. 3–20; 'Custos, BNDES e produtividade', Texto para discussão, Universidade Federal Fluminense, 2010.

2,200 companies that received BNDES financing during 1996–2003 with about 15,000 that did not to evaluate the effects of BNDES finance. It finds no signs ‘of any impact on firm productivity’.⁴⁸ Pereira compares companies of similar sizes that received BNDES funding and companies that did not, finding that companies backed by BNDES, over time, generated more jobs. Finally, Sousa’s research on the de-concentration of regional incomes between states and sectors concludes that ‘most sectors were positively influenced by [BNDES’s] strategy of promoting regional development from 1985 to 1996/97’.⁴⁹ In this instance, the bank appeared to act in its old developmentalist role by reducing geographic inequality.

A striking aspect of this literature is the predominance of empirical work backed by extensive quantitative survey data to evaluate the bank performance in specific areas. Some studies continued to emphasise the historical narrative, but some econometric work emerged in recent years thanks to the evolution in knowledge of quantitative methods and advancements in computer technology. Authors began to evaluate BNDES performance in specific areas like productivity, employment and regional investment and decentralisation. These themes reflected the new set of expectations that society had for BNDES, attributing much broader responsibilities to it and no longer considering it solely as an agent of long-term finance. Still, this period continued to lack critical studies about the role of the bank in the privatisation process or deeper reflection on the role of BNDES in the social arena.

2002 to 2013

Brazil experienced an economic boom from 2004 until the outbreak of the 2008 recession. Economic stabilisation was consolidated and the Lula government (2003–10) maintained the previous administration’s tripod of targeting inflation, delivering a primary surplus and using a floating exchange rate. The Lula government also implemented more effective social policies like *Bolsa Família*, a federal programme of conditional cash transfers to the poorest Brazilians; expanded access to education; and encouraged and facilitated the formalisation of businesses, employment and public-private partnerships. These measures contributed to a resumption of growth, reduction in unemployment, improvement in income distribution, significant increase in credit operations and strengthening of the capital market. The outbreak of the global financial crisis in 2008, however, reversed Brazil’s economic expansion and weakened the participation of the capital market and private credit in investment finance. Economic policy experienced a reversal: the main objective

⁴⁸ Ottaviano and Sousa, ‘O efeito do BNDES’, pp. 30–1.

⁴⁹ Sousa, ‘O papel do BNDES’, p. 18.

became to react to the crisis through the use of all available fiscal and monetary instruments.

Before 2008, greater involvement of private capital markets in long-term finance allowed BNDES to reduce its participation in total credit operations in the economy. However, by 2007, funding and support for the Growth Acceleration Programme (PAC) and Programme for Productive Development (PDP) came to be part of BNDES operational policies. In this way, the bank became the central actor in the country's policies of development and investment support. The global crisis also highlighted the countercyclical role of the bank and its effort to sustain rates of investment and growth in the context of shrinking external sources, retraction of capital markets, and unwillingness of private banks to expand credit. Once again the bank seemed to return to its developmental role. It experienced a substantial increase in financial capacity, becoming one of the largest development banks in the world. Disbursements reached an all-time high during this decade, fluctuating between 2 per cent and 3 per cent of GDP before the crisis, and rising as high as 4.5 per cent of GDP after 2009 through its countercyclical policies. This required a new definition of adequate funding sources to sustain its operations.

In this context of dramatic shifts from boom to crisis, the literature about BNDES ranged from the theoretical to the empirical. The theoretical work questions the relationship between development banks and private capital markets, while the empirical works analyse the potential effects of BNDES funding on variables such as formal employment, economic productivity and corporate performance. Internal studies by bank personnel have sought to promote the bank's operations, especially BNDES support for the internationalisation of Brazilian companies. The literature regarding recent BNDES policies has increased significantly, but, not surprisingly given its recent nature, no consensus has emerged on any point.

The debate over the role of development banks in the Brazilian economy encompasses a range of arguments running from their detrimental effect on financial market development to their palliative impact in times of economic crisis. On the one hand, Pinheiro argues that public development banks may inhibit the development of the financial market. Research by Yeyati *et al.* find no strong evidence of this effect but their empirical evidence did not support the argument that public banks promote financial development either. Arida questions the functionality of the compulsory transfer mechanisms for financing BNDES investment, like the FAT and the Fundo de Garantia por Tempo de Serviço (FGTS), a severance pay fund created in 1966, particularly their management and pricing mechanisms. He suggests that greater involvement of private institutions would allow costs to reflect prevailing domestic term structures and interest rates in the country, increasing efficiency in the

management and allocation of resources. Both Arida and Pinheiro highlight the lack of transparency, and competition criteria that favoured the influence of political factors, with lower efficiency in resource allocation, as do Lazzarini *et al.* Bacha agrees, asking what the role of public banks would be in a context of financial standards in which reducing uncertainty and strengthening the private financial market would eliminate the justification for the existence of public banks. Such a context would reduce both the number of banks and their size, allowing market mechanisms to determine the allocation of resources and costs.⁵⁰

Some studies argue that the credit directed by BNDES was complementary to the private market, given that some types of investments such as infrastructure, R&D and innovation will always require special funding or guarantee schemes provided by the public sector.⁵¹ In addition, much of the capital market strengthening would depend on initiatives of the BNDES, such as the acquisition of minority interests and support for public offerings in the market. Another important contribution was BNDES's countercyclical role: Torres Filho, for example, argues that the fact that the sources of BNDES funds are stable and autonomous creates favourable conditions for the countercyclical operations of the bank. Additionally, the debate on the role of the bank in assuming investment risks in sectors where private capital has no interest (a topic widely discussed in the literature for the period 1952–64) became relevant once again. Schapiro argues that the new tools to encourage innovation and R&D represent a paradigm shift for a bank that only funded physical assets of large companies.⁵²

⁵⁰ Amando Castelar Pinheiro, 'Bancos públicos no Brasil: Para onde ir?', in Armando Castelar Pinheiro e Luiz Chrysostomo de Oliveira Filho (eds.), *Mercado de capitais e bancos públicos: experiências comparadas* (Rio de Janeiro: Contra Capa, 2007), pp. 159–263; Eduardo Levy Yeyati, Alejandro Micco and Ugo Panizza, 'Should the Government be in the Banking Business? The Role of State-owned and Development Banks', IADB Working Paper, 2004; Persio Arida, 'Mecanismos compulsórios e mercados de capitais: propostas de política econômica', Texto para Discussão n. 8, Instituto de Estudos de Política Econômica (2005); Sergio G. Lazzarini, Aldo Musacchio, Rodrigo Bandeira-de-Mello and Rosilene Marcon, 'What do Development Banks Do? Evidence from Brazil, 2002–2009', SSRN Working Paper (May 2012); Edmar Bacha, 'Bancos públicos: o que fazer?', in Armando Castelar Pinheiro e Luiz Chrysostomo de Oliveira Filho (eds.), *Mercado de capitais e bancos públicos*, pp. 265–9.

⁵¹ Ernani Teixeira Torres Filho, 'Crédito direcionado e direcionamento do crédito: situação atual e perspectivas', *Revista do BNDES*, 13: 25 (2006), pp. 35–50; 'Mecanismos de direcionamento do crédito, bancos de desenvolvimento e a experiência recente do BNDES', in Francisco Marcelo Rocha Ferreira, and Beatriz Barbosa Meirelles, (eds.), *Ensaio sobre economia financeira* (Rio de Janeiro: BNDES, 2009), pp. 11–56; Maria Cristina Penido de Freitas, 'Desafios do financiamento de longo prazo no Brasil', *Boletim de Economia da Fundap*, 4 (2011), pp. 15–26; Hermann, 'Development Banks', pp. 189–203.

⁵² Ernani Teixeira Torres Filho, 'A reforma do sistema FAT-BNDES: críticas à proposta Arida', *Revista do BNDES*, 12: 24 (2005), pp. 31–42; Mario Gomes Schapiro, 'Making

Does BNDES act as an instrument for industrial and technological policy that seeks to act in incomplete markets? The incompatibility of the Basel Accords – rules developed to establish an internationally agreed upon level of capital reserves maintained by banks – with development banking suggests that banks like BNDES are no longer viable as instruments of development policy. Prado and Monteiro Filha and Sobreira and Martins find that adaptation to Basel I Accords did not represent an impediment to BNDES functions, but its operational strategy of funding low-risk firms probably generated a selection bias that did not resolve the underlying theoretical problem.⁵³

Studies seeking to evaluate this question more precisely find that the highly concentrated character of loans from public banks end up favouring large firms. Far from correcting market failures, BNDES sought to reduce risks in a similar way as private banks and financed companies that would be attended by the private market.⁵⁴ On the other hand, Coutinho *et al.* show that BNDES managed to expand its support for micro and small enterprises significantly through specific programmes of microcredit.⁵⁵

The importance of BNDES in disbursing funds and acting as a development bank, especially during the crisis, highlighted other issues such as the reduction in the bank's financial capacity.⁵⁶ The problem of a resource gap has become even more relevant in the context of greater difficulty in raising external funds after the international crisis, increasing the weight of transfers from the National Treasury to the bank. This greater reliance on the Treasury raised several questions: the ability of the Treasury to bring sufficient resources for the expansion of BNDES operations; the stability of resources; and the fiscal cost of operations compared with the costs of raising the rates on loans. Scholars articulated other questions and concerns about the size of the bank, how to achieve a reduction in the spread and extend maturities,

the Developmental State Work: How Does a Mandate Matter for the Brazilian Development Bank?', Fundação Getúlio Vargas Working Paper, 2012.

⁵³ Luiz Carlos Prado and Dulce Monteiro Filha, 'O BNDES e os acordos de capital de Basileia', *Revista do BNDES*, 12: 23 (2005), pp. 177–200; Rogério Sobreira and Norberto Montani Martins, 'Os acordos de Basileia e bancos de desenvolvimento no Brasil: uma avaliação do BNDES e do BNB', *Revista de Administração Pública*, 42: 2 (2011), pp. 349–76.

⁵⁴ Prado and Monteiro Filha, 'O BNDES e os acordos', pp. 177–200; Lazzarini *et al.*, 'What do Development Banks do?'

⁵⁵ Luciano Galvão Coutinho, Antonio Marcos Ambrozio, André Albuquerque Sant'Anna, and Guilherme Castanho Franco Montoro, 'Inclusão financeira no Brasil: o papel do BNDES', in Luis Edson Feltrim, Elvira Cruvinel Ferreira Ventura, and Alessandra von Borowski Dodl (eds.), *Perspectivas e desafios para inclusão financeira no Brasil: visão de diferentes atores* (Brasília: Banco Central do Brasil, 2009).

⁵⁶ Fabio Giambiagi, Fernando Rieche and Manoel Amorim, 'As finanças do BNDES: evolução recente e tendências', *Revista do BNDES*, 16: 31 (2009), pp. 3–40; Marta Prochnik and Vivian Machado, 'Fontes de recursos do BNDES: 1995–2007', *Revista do BNDES*, 14: 29 (2008), pp. 3–34.

and how to provide a combination of sources needed for the bank's funding in a context of non-negligible budget constraints.⁵⁷

Empirical studies based on large databases using quantitative methods to assess the impact of BNDES actions in the Brazilian economy were important in this period and quite mixed in their findings. Reiff *et al.* and Pereira find a positive impact of BNDES actions on formal employment. Sousa finds no signs of impact on firms' productivity. Coelho and De Negri observe that BNDES financing positively affected the growth rates of total factor productivity, labour productivity, the number of employees, and net sales. Moreover, the firms that most benefited from BNDES financing were those with high total factor productivity. Lazzarini and Musacchio assess the impact of BNDES participation as a minority shareholder, via BNDES Participações S. A., and find a positive and significant effect on companies' return on assets and on the volume of investment in companies that have BNDES as minority investor.⁵⁸

Finally, it is noteworthy that several publications were internal studies whose purpose was to promote the bank's policies, especially in support of international expansion of Brazilian companies. According to Ramalho, Café and Costa, support for the internationalisation of national groups became part of the bank's Corporate Plan for the period 2009–14. Além and Cavalcanti and Além and Madeira, who study the benefits and criticisms associated with the internationalisation process, aim to justify BNDES's role through the formation of large national groups via mergers and acquisitions, and through financing foreign investments. The performance of BNDES in financing exports is also the subject of discussion by Catermol, while the performance of BNDES as a financier of infrastructure projects for South American regional integration is discussed in Mendonça, Wegner and De Deos, Nova and Carvalho.⁵⁹ If there is one defining characteristic of the

⁵⁷ Giambiagi *et al.*, 'As finanças do BNDES', pp. 3–40; Guilherme Lamenza, Felipe Pinheiro and Fabio Giambiagi, 'A capacidade de desembolso do BNDES durante a década de 2010', *Revista do BNDES*, 18: 36 (2011), pp. 43–88.

⁵⁸ Luís Otávio de Abreu Reiff, Gustavo Antônio Galvão dos Santos and Luís Henrique Rosati Rocha, 'Emprego formal, qualidade de vida e o papel do BNDES', *Revista do BNDES*, 14: 27 (2007), pp. 5–26; Pereira, 'Ação do BNDES', pp. 27–42; Sousa, 'Custos, BNDES e produtividade'; Danilo Coelho and João Alberto de Negri, 'Impacto do financiamento do BNDES sobre a produtividade das empresas: uma aplicação do efeito quantílico de tratamento', Working Paper, IPEA, 2010; Sergio G. Lazzarini and Aldo Musacchio, 'Leviathan as a Minority Shareholder: A Study of Equity Purchases by the Brazilian National Development Bank (BNDES), 1995–2003', SSRN Working Paper (November 2010).

⁵⁹ Ana Claudia Além e Carlos Eduardo Cavalcanti, 'O BNDES e o apoio à internacionalização das empresas brasileiras: algumas reflexões', *Revista do BNDES*, 12: 24 (2005), pp. 43–76; Ana Claudia Além e Rodrigo Madeira, 'Internacionalização e competitividade: a importância da criação de empresas multinacionais brasileiras', in Ana Claudia Além e Fabio Giambiagi, *O BNDES em um Brasil em transição* (Rio de Janeiro: BNDES, 2010), pp. 39–56; Catermol, 'BNDES – exim', pp. 3–30; Ana Rosa Ribeiro de Mendonça, Rubia

literature about the recent past it is this: articles published in the *Revista do BNDES* journal and other bank-supported outlets were largely supportive or defensive, while research by scholars outside the bank was more objective and analytical. As in earlier periods, however, scholarship continues to react to bank policies rather than critically reflect on its institutional performance writ large.

Conclusion

Our survey of the literature about the bank's role in the Brazilian economy over the past 60 years found that BNDES often served as an important agent of government policies but that it moved away from its role as classic development bank by the 1980s. Along the decades there have been some policies that promoted regional equality and integration, small and medium-sized business promotion, and support for Brazilian R&D, but its propensity to fund major businesses that could be funded through private capital markets calls its developmentalist mission into question. Political scandals have not helped. BNDES loans have been entangled in the current and ongoing 'Lava Jato' corruption investigation, a massive kickback scheme that implicates executives of the state-controlled oil company Petrobras, large construction firm magnates, and Brazilian legislators. Even without the scandal, recent policies of loan expansion based on subsidies from the National Treasury, of using public funds to favour large companies, and of financing Brazilian contractors' business abroad to promote their internationalisation produced limited economic results.⁶⁰ Given this situation and the economic, fiscal and political crisis assailing Brazil, the role of BNDES in promoting economic

Wegner and Simone de Deos, 'Financiamento do investimento em um contexto de cooperação financeira: avaliação dos avanços no âmbito do Mercosul', in David Kupfer, Celio Hiratuka and Mariano F. Laplane (eds.), *Perspectivas do investimento no Brasil: temas transversais* (Rio de Janeiro: UFRJ/UNICAMP, 2010), pp. 251–93; Luis Fernando Nova, 'O Brasil e seu "desbordamento": o papel central do BNDES na expansão das empresas transnacionais brasileiras na América do Sul', in Instituto Rosa Luxemburg Stiftung (ed.), *Empresas transnacionais brasileiras na América Latina: em debate necessário* (São Paulo: Editora Expressão Popular, 2009), pp. 188–204; Clarissa Barbosa Ramos Prudência de Carvalho, 'A atuação do BNDES na integração da América do Sul', unpubl. MA thesis, Universidade Federal de Pernambuco, 2011; Yolanda Ramalho, Sonia Lebre Café and Gisele Costa, 'Planejamento corporativo 2009–2014', in Ana Cláudia Além e Fabio Giambiagi (eds.), *O BNDES em um Brasil em transição* (Rio de Janeiro: BNDES, 2010), pp. 93–104.

⁶⁰ Mansueto Almeida and Ben Ross Schneider, 'Globalization, Democratization, and New Industrial Policies in Brazil', in Wonhyuk Lim and Richard Locke (eds.), *Industrial Policies* (World Bank and Korean Development Institute, forthcoming), available at: <https://mansueto.files.wordpress.com/2013/08/almeida-schneider-2012.pdf>.

development remains debatable and the bank's mission going forward is uncertain.

The very real sense that the bank has fundamentally moved away from a development mission has been insufficiently reflected in the literature over the past 60 years, which reports on shifts in policies without taking a sustained critical look at BNDES operations. With the exception of a few recent studies, what is missing from this literature, aside from any consideration to the question of whether a broader definition of underdevelopment may have produced a very different institution, is whether any of the bank's actions helped. Did its focus on bottlenecks in the 1950s contribute to Brazilian industrialisation? Was the now-documented massive transfer of public funds to private firms in subsequent decades worth it? Has the more recent policy of picking winners and backing large corporations harmed the development of capital markets? Have BNDES programmes done the work we associate with development banks: providing capital to regions and sectors that can contribute to economic growth and development yet are unlikely to attract private capital at competitive rates? We do not know, because the bulk of the literature on the BNDES – one of the largest development banks in the world – has not asked these questions. Moreover, the existing literature has had little impact on academic debate. Internally produced scholarship is unfailingly supportive and upbeat, while externally produced scholarship has been overwhelmingly descriptive for most of the past 60 years. It is our hope that this review ignites an active, evidence-driven critical analysis of this major institution.

Spanish and Portuguese abstracts

Spanish abstract. Este artículo ofrece un análisis crítico de la investigación sobre el Banco Nacional para el Desarrollo Económico y Social de Brasil (BNDES) desde su fundación en 1952 hasta 2013. El BNDES ha jugado un papel importante, si bien cambiante y a veces controvertido, en el desarrollo económico de Brasil en los últimos 60 años, especialmente como proveedor de financiamiento de largo plazo. Este análisis de cerca de 1,000 textos subraya las discusiones sobre su organización y misión inicial y describe cómo el papel de las actividades del banco cambió a lo largo del tiempo, en un contexto político y económico turbulento. Pese a la importancia institucional del banco, sin embargo, la literatura es más narrativa que analítica y de impacto académico limitado, ya que proviene principalmente de autores del mismo banco. Nosotros consideramos importante que se promuevan análisis independientes, basados en evidencias y que sean críticos sobre la efectividad de esta importante institución que promueve el desarrollo económico y social de Brasil.

Spanish keywords: BNDES, financiamiento de largo plazo, banco de desarrollo, economía brasileña

Portuguese abstract. Este artigo oferece uma análise crítica acerca da literatura acadêmica produzida a respeito do Banco Nacional de Desenvolvimento Econômico e Social do Brasil (BNDES), desde sua fundação em 1952 até o ano de 2013. O BNDES tem desempenhado um importante papel, ainda que mutável e muitas vezes controverso, no desenvolvimento econômico do Brasil nos últimos 60 anos, especialmente como provedor de financiamentos de longo prazo. Esta análise de quase mil textos destaca os debates acerca da organização inicial e missão do banco, e como suas atividades passaram por mudanças ao longo do tempo, guiadas por contextos nacionais econômicos e políticos turbulentos. Apesar da importância institucional do banco, a literatura apresenta-se mais narrativa que analítica, com impacto acadêmico limitado, dominada pela autoria do próprio banco. Defendemos uma análise independente, baseada em evidências e crítica a respeito da efetividade desta importante instituição em promover o desenvolvimento econômico e social brasileiro.

Portuguese keywords: BNDES, financiamento de longo prazo, banco de desenvolvimento, economia brasileira