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The role of Brazilian public banks facing inequality

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The role of Brazilian public banks facing inequality

Adriana Nunes Ferreira
Ana Rosa Ribeiro de Mendonça
Simone Deos

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**THE ROLE OF BRAZILIAN PUBLIC
BANKS FACING INEQUALITY:
SOME REFLECTIONS ON THE CASE
OF BRAZILIAN DEVELOPMENT
BANK, CAIXA AND THE FEDERAL
REGIONAL BANKS**

Adriana Nunes Ferreira
Ana Rosa Ribeiro de Mendonça
Simone Deos

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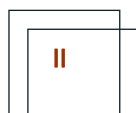
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ABSTRACT

In capitalist economies, money is a strategic asset as liquidity is desirable since the future is unknown and uncertainty exists. In these economies, banks are key agents, being creators of endogenous money. And like all capitalist agents, banks make decisions in pursuit of capital valorization and have liquidity preference. At the same time, they play an important role in financing fundamental spending decisions, which contribute to income and employment creation, and are crucial to promote economic and social development. Their supply of credit, which rests on the banks' decisions of capital application that, take into account their liquidity preference, would not necessarily be balanced among different activities, agents, sectors and regions. In order to face this, it is necessary to rely on count on institutions and policies that go against the typical market behavior.

Brazilian banking system is marked by the presence of large domestic banks, both private and public. At the end of 2012, the Brazilian public bank system was responsible for 43.8% of the country's banking system assets. Among them the Brazilian Development Bank, the *Banco do Brasil* and the *Caixa*,

This paper discussed some measures of the public financing system that affect inequality - even when they do not have the purpose of facing inequality as a mandate. The first one discussed is the countercyclical measures of BNDES, as the main provider of long-term financing investment and its estimated impact on employment generation. The second program is "*Minha Casa Minha Vida*" (MCMV), which intends to face the low income families housing deficit and also has an important countercyclical purpose. This program has been carried out by *Caixa*. The third and final, focuses on the use of the Constitutional Funds by the federal regional banks (BASA and BNB) and Banco do Brasil (BB) in measures that deal directly with regional inequalities.

The hypothesis of this paper was: since 2003, a development policy for the country began to be designed, although timidly and with too many constraints. In this perspective, the role performed by public banks expresses one dimension of the development policy undertaken by the Brazilian Government.

With that purpose, the paper was organized as follows: after this introductory section, a short presentation of the history of the most important Brazilian federal banks was made (second section). The three experiences were the subject of the third section. The last section brings together our final comments.

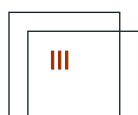
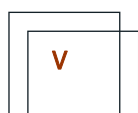


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1. INTRODUCTION

In capitalist economies, money is a strategic asset as liquidity is desirable since the future is unknown and uncertainty exists. In these economies, banks are key agents – they are not just intermediaries that promote or foster savings, but are also the creators of endogenous money. And like all capitalist agents, banks make decisions in pursuit of capital valorization and have liquidity preference. At the same time, they play an important role in financing fundamental spending decisions, which contribute to income and employment creation, and are crucial to promote economic and social development. Their supply of credit, which rests on the banks' decisions of capital application that, take into account their liquidity preference, would not necessarily be balanced among different activities, agents, sectors and regions. In order to face this, it is necessary to rely on count on institutions and policies that go against the typical market behavior.

The current stage of the Brazilian financial system arose through some deep structural transformations experienced since the early 1990's. Among them, one could highlight: (i) a financial liberalization process, which allowed foreign capital to enter the system and; (ii) a wide-ranging movement of mergers and takeovers, interventions and liquidations of private banks, extinction or privatization of banks owned by the state governments. The Brazilian financial system is complex, sophisticated and concentrated. This allows universal banks and specialized institutions to operate under strict regulation imposed by the Brazilian Central Bank. Despite the relevant increase of capital markets in the last decades, the banking system is still the main pillar of the financial market.

One important feature of the Brazilian banking system is the presence of large domestic banks, both private and public. In spite of the entry of foreign capital, the domestic banks still play a major role in the financial system. Regarding the public banks, the broad privatization program that took place in the 1990's decreased, on the one hand, the importance of banks owned by regional state governments, in a substantial manner. On the other hand, banks owned by federal government took a different approach.

At the end of 2012, the Brazilian public bank system had thirteen institutions, which were responsible for 43.8% of the country's banking system assets. Among these institutions, the Brazilian Development Bank (*Banco Nacional de Desenvolvimento Econômico e Social* BNDES), the *Banco do Brasil* and the *Caixa Econômica Federal*, stand out and provide 11.6%, 18.2% and 11.8% of the total assets of 2012, respectively. The system also has federal financial institutions that, in spite of not being large and not having a major impact on the national system, are very important in regional perspectives – they are *Banco da Amazônia* (BASA) and *Banco do Nordeste do Brasil* (BNB).

The aim of this paper is to discuss some measures of the public financing system that affect inequality - even when they do not have the purpose of facing inequality as a mandate. The first one discussed is the countercyclical measures of

BNDES, as the main provider of long-term financing investment and its estimated impact on employment generation. The second program is "*Minha Casa Minha Vida*" (MCMV), which intends to face the low income families housing deficit and also has an important countercyclical purpose. This program has been carried out by *Caixa Econômica Federal* (Caixa). The third and final, focuses on the use of the Constitutional Funds by the federal regional banks (BASA and BNB) and Banco do Brasil (BB) in measures that deal directly with regional inequalities.

The hypothesis of this paper is the following: Since 2003, a development policy for the country began to be designed, although timidly and with too many constraints¹. In this perspective, the role performed by public banks expresses one dimension of the development policy undertaken by the Brazilian Government.

With that purpose, the paper is structured as follows: after this introductory section, a short presentation of the history of the most important Brazilian federal banks will be made (second section). The three experiences will be the subject of the third section. The last section will bring together our final comments.

2. HISTORICAL PERSPECTIVE

As a development bank, BNDES (Brazilian bank for economic and social development, or Brazilian Development Bank), since its very foundation in 1952, has pursued the development model pushed forward by the Brazilian State. Practically the sole provider of long-term financing for industrial investments of the country's economy, BNDES has been the Brazilian State's main financial arm. Its role throughout the country's economic history has changed according to the particularities of the role of the State plays in the economy and of course, has been aligned to what development means for the different Governments.

The development path that guided the creation of the Bank, as well as its main activity, originated in the ideas of early authors of the Economic Commission for Latin America and the Caribbean (ECLAC). ECLAC's "structuralistic" school of thought, resulted in an important modification in the theoretical apparatus that surrounded the study of underdeveloped economies². The dynamics between the so-called "peripheral" economies and the "center" of the system should receive a treatment other than the one based on the classical and neoclassical theories.

People from ECLAC, Raul Prebisch in particular, formalized a movement that began in the early 1930s in those economies – the process of Import Substitution (for domestic production). It prescribed a set of policies whose central element was the induction of an industrialization process through Import Substitution. This, was argued, would be the path to the development of peripheral countries on

¹ This development policy was introduced and operated within a conventional macroeconomic framework, in spite of some differences in the operation of the macroeconomic policies regarding Lula's government (2003-2006 and 2007-2010) and Dilma Rousseff's government (since 2011) In this sense, one could say that there is a lack of coherence between the macroeconomic policies and the development policies in the period, as stated by Cunha, Ferrari and Bechara (2014).

²For a profound assessment of the developmentalist debate in Brazil, see Bielchovsky (2004).

stand-alone bases. The new model of Import Substitution would grant the State the main role, where it should get economically allied to national private groups to foster industrialization. Thus, the "dynamic axis" of these economies should consolidate as being internal to them – and the relationship with the central countries would operate on new bases, the role of national sovereignty guardian being held by the State.

The Import-Substitution model implied a strong protectionist structure led by the State, in favor of the local industry, at least in a first stage, and the presence of an interventionist and producer State who would fulfill the planning, financing and industrial complementation needs.

Latin American economies generally grew to significant rates in the decades of 1950 and 1960, and some of them managed to constitute a significant industrial structure. However, a multitude of imbalances accumulated during the expansion phase, and as early as the end of the 1960s, ECLAC-driven authors themselves spoke of exhaustion in the Import-Substitution process. In the early 1970s, the growth rates of these economies were slowing down, and the inflation and balance of payments instability were increasing.

The perplexity established in Latin American countries, shaken by violent and subsequent social, economic and political crises, gave way to the emergence of governments, in the 1980s, that thrived with a mixture of discourses and practices of liberalization. In Brazil, where the process of Import Substitution acquired a second breathe by implementing a bold development plan, effective from 1974 to 1979. The neoliberal response would come a little later - at the end of the decade of 1980 and stronger in the 1990s.

Both BB and CAIXA, the main federal public universal banks in activity in Brazil, were established in different historical moments and under different institutional arrangements³. Each has its own performance model and areas of expertise and both are considered of strategic importance for the Brazilian government.

Banco do Brasil (Bank of Brazil, BB henceforth) emerged in 1905, when a banking crisis took its predecessor, *Banco da República do Brasil* (Bank of the Republic of Brazil), to the threshold of bankruptcy. Due to the central position it occupied in the national financial system as the main holder of the country's deposits, and to its "semi-official" role as the government's banker, the National Treasury intervened to bail it out. The "new" bank, which emerged from this movement, was called *Banco do Brasil*, under direct control of the Federal Government. In this context, the President of the Republic could nominate the president and four directors of the bank, a sign of the great influence it exercised over the bank (Andrade and Deos, 2009).

³ BNDES works as a development bank. Caixa was created and has been taking a historical and current role on financing housing, especially to lower income families. In the last years, mainly, has taken a broader role, enlarging her actions to other sectors.

Only in 1923 did the National Treasury become the bank's majority shareholder, with the objective of using it to stabilize exchange rates. At that moment, BB became the government's only agent for transactions in foreign currency. In March 1942, BB's bylaws were rewritten, enhancing its joint measure as a monetary authority – as the bank, for example, guaranteed liquidity to the banking system and was an important piece in executing monetary policy – and a commercial bank (Andrade and Deos, 2009).

Later on, the Banking Reform Law of 1964 (Law no. 4.595) created the Brazilian Central Bank, which began to perform functions previously exercised by *Banco do Brasil*. However, an institutional model was defined for BB preserving its hybrid nature, mainly as it continued to exercise functions of a monetary authority while also operating as a development and a commercial bank (Andrade and Deos, 2009).

In 1986, in the context of the reforms that accompanied the monetary stabilization plan (Cruzado Plan), fundamental changes were introduced in the relevant regulation between *Banco do Brasil* and its relationship with both the Central Bank and the National Treasury. On the one hand, this effectively ended BB's role as a monetary authority. On the other hand, it was authorized to operate in every segment of the financial market, as a universal bank (or financial supermarket).

Caixa Econômica Federal, for its part, was created as a public bank in 1861 funded entirely by government capital, and it remains that way until today. With a function defined in terms of sectors and types of operation since its foundation, CAIXA became Brazil's main real estate financing bank.

The incorporation of *Banco Nacional de Habitação's* (BNH)⁴ functions and assets in 1986 – when CAIXA began to administer the *Fundo de Garantia do Tempo de Serviço* (FGTS)⁵ – consolidated this position, and the bank became the biggest national real estate financing and urban development agent. Vidotto (2002, p.303 and 304) suggests CAIXA's current profile explains the performance of three interconnected dimensions: the financing of infrastructure and urban sanitation, the credit promotion of the housing real estate activity and typically commercial banking activities.

According to the author:

As the main financial agent for the Housing Financial System (SFH), CAIXA is responsible for the absolute majority of real estate contracts in the banking network, with specific lines of credit for final borrowers as well as for the private and public construction activity... The FGTS, besides the social objectives for which it was constituted, provides parafiscal resources to urban infrastructure and housing. (Vidotto, 2002, p.304)

⁴ A former public bank, focused only in financing real state.

⁵ It will be the object of analysis in section 1.1.

In the 1980s, after overcoming the major challenges of industrialization, Brazil underwent a period of low growth rates and high inflation, in the wake of the foreign debt crisis, which unfolded into a fiscal crisis. It was the so called “lost decade”. The period also became characterized by significant difficulties in public banks. BB and CAIXA assets were significantly affected by the crisis. Furthermore, they also faced changes in their liability structure, losing subsidized funding and so having to look for resources in the market (Hermann, 2010). Meanwhile, they maintained their operations in public programs.

The 1990s, in turn, were marked on one hand by liberalizing reforms and, on the other, by the success of the monetary stabilization plan (Real Plan), in 1994, which was able to expressively reduce inflation rates. In relation to the banking system, the liberalizing reforms implied the privatization of almost all regional state public banks.

In turn, the effects of price level stability on the banking system were no less important, since the banks in general had progressively and profitably adjusted to a system of high inflation⁶. In this context, there were major transformations in the banking system, with liquidation of large private domestic banks⁷, privatization of regional state public banks, asset restructuring of federal public financial institutions and greater internationalization of the system.

The restructuring of public banks occurred under the umbrella of two different programs, one for regional state banks and the other for federal ones – respectively the “*Programa de Incentivo à Redução do Setor Público Estadual na Atividade Bancária*” (Proes)⁸ and “*Programa de Reestruturação dos Bancos Federais*” (Proef)⁹. Proes¹⁰ was launched in 1996 with the objective of privatizing regional state banks and reducing their share in the system. The program sought a fiscal readjustment of the regional states, since the state banks crisis reflected the fiscal crisis of their controllers (the governments). The origins of large, unpaid debts at these institutions were mainly from their respective controllers – the state governments and their state-owned companies – which had lost resources between 1960 and 1980, when tax resources became more centralized in the federal government. In this context, the banks financed important part of the states’ investments, as well as other expenses.

Proes’ main instruments were credit lines subsidized by the federal government to the states, which induced them to adopt the following alternatives regarding the financial institutions they controlled: i) extinguish, ii) privatize, iii) transform them into non-financial institutions, or iv) be acquired by the federal government, for subsequent privatization (Salviano Junior, 2004). The federal government

⁶ The so-called financial float, also known as inflationary collection, corresponded to approximately 1/3 of bank income, and was an important source of profitability. This revenue was obtained from allocating resources that were sitting at the banks at zero cost (such as cash deposits and fee payments) at high nominal interest rates (Salviano Junior, 2004).

⁷ The problems with large private domestic banks led the government to create Proer (Program for Stimulating the Restructuring and Strengthening of the National Finance System) in 1995.

⁸ Program for Reducing the Presence of the Regional State Public Sector in Banking Activity.

⁹ Program for Federal Banks Restructuring.

¹⁰ Regulated in 1997.

transferred the debt from the state financial institutions to the states' consolidated debt with the Union.

This set of regional state banks – basically created between 1920 and 1970 and disseminated present throughout every state in the country – was important to the system. In 1996, immediately after the start of Proes, there were 25 regional state banks (commercial and universal)¹¹. These included large institutions, such as the *Banco do Estado de São Paulo* (Banespa)¹², which was the third biggest bank in the country in volume of assets. In that same year, state banks held 17.6% of all banking system assets in Brazil. At the end of 2001, after the most significant privatization operations had occurred, this share had fallen to less than 5% (Salviano Junior, 2004).

With respect to the federal banks, the measures adopted during this period turned them into capitalized and diversified financial institutions while they strengthened their positions in the domestic credit market. Besides adjusting to the Basel Agreement guidelines, it is important to note the capitalization of BB in 1996, and CAIXA in 2001, as well as the launch of the "*Programa de Reestruturação dos Bancos Federais*" (Proef), in 2001 (Vidotto, 2005).

In response to the new conditions, the Brazilian government, while justifying the strategic nature of these banks – which would be instruments for carrying out credit policy as well as National Treasury agents – directed these institutions towards the typical logic of private banks, instead of focusing on its public action (Andrade and Deos, 2009). This pursuit was clearly initiated in 1995, based on the adjustment of federal public banks to Basel I standards, aimed at improving their solidity. CAIXA, specifically, in an attempt to circumvent the problem, began to operate as a universal bank, capturing cash deposits and operating in several markets. The events that followed after 1995 greatly reflected their compliance with these instructions.

At BB, its asset portfolio was so problematic that if not for the capitalization in 1996 (through the issuance of new shares), it would have gone bankrupt. The contribution of R\$ 8 billion¹³ in capital – divided among the National Treasury, BNDESPAR (a BNDES company) and BB's "*Fundo de Previdência dos Funcionários*" (PREVI)¹⁴ – adjusted the bank's amount of capital to Basel's requirements. *Caixa Econômica Federal*, in turn, considered a series of adjustments. They included the injection of R\$ 9.3 billion¹⁵ for its capitalization in 2001 (Ruocco, 2011).

In 2001, Proef, took the process initiated in 1995 even further. Within this program, there have been changes in capital requirement criteria, swaps of credit for National Treasury Bonds, and the Treasury's assumption of risk in official credit lines, among other benefits (Vidotto, 2005). Besides the asset restructuring measures, rules were also established to avoid new portfolio imbalances, to

¹³ Approximately US\$ 17.5 billion, in 2012 values.

¹⁴ BB's Employee Pension Fund.

¹⁵ Approximately US\$ 10.4 billion, in 2012 values.

ensure greater operational efficiency, as well as measures to strengthen corporate governance and improve internal controls at the institutions.

Banco da Amazônia (BASA) and *Banco do Nordeste do Brasil* (BNB), both regional banks owned by the federal government, as well as *Banco do Brasil*, are crucial agents to face regional inequality. These institutions are, by law, managers of the regional funds i) "*Fundo Constitucional de Financiamento do Norte*" (FNO), ii) "*Fundo Constitucional de Financiamento do Nordeste*" (FNE) and iii) "*Fundo Constitucional de Financiamento do centro-Oeste*" (FCO)¹⁶.

These Constitutional Funds were created by the Federal Constitution of 1988, as a response to 1980's context regarding regional policies, which included meaningful changes in the framework of these policies. In fact, during the 1980s, in the context of economic crisis as well as crisis of the State, the regional policies turned to be of less importance. During this time, the political pressure increased, forcing the creation of new sources of funds for regional policies and a need for new instruments (Ferreira, 2013). At their creation, according to the relevant regulation, these instruments should give priority to small farmers, small enterprises, as well as to a specific region¹⁷ and municipalities with low or even no economic dynamism.

According to the Brazilian Constitution of 1988, these funds use 3% of tax collections on income (IR)¹⁸ and on industrialized products (IPI)¹⁹ for investing in financing programs for productive sectors²⁰ in the North (FNO), Northeast (FNE) and Midwest (FCO) of Brazil. The following distribution of resources gathered from tax is observed: 0.6% to FNO, 1.8% to FNE and 0.6% to FCO. Besides that, the funds have others sources of income: revenues from loans and from financial applications.

Between 1994 and 2000, the amount of resources transferred from Treasury to funds barely grew. However, since 2001, there was a systematic growth in this amount – except in 2009. The data shows, as well, a relative stability in the amount of credit granted from 1989 to 2001, and an important growth since then.

¹⁶ Respectively, the Constitutional Funds for the Financing of the North (FNO), Northeast (FNE) and Midwest (FCO).

¹⁷ The so called "*semiárido nordestino*".

¹⁸ Income tax.

¹⁹ Industrialized Products Tax.

²⁰ The funds are especially important for the rural sector. Regarding the total funds for rural credit in 2012, almost 10 % came from constitutional funds.

3. PUBLIC BANKS FACING INEQUALITIES: THREE EXPERIENCES

Before going further into the discussion here proposed, it is important to highlight what this essay understands for “public banks”. The concept of “public bank” as discussed here is not limited by government owned banks, as is common in a majority of the relevant literature, mainly the conventional one. The “public” part refers here to the role played within society, that is, the contribution to improving the quality of life within it.

The “classical” defense of the public banks’ importance relies largely on the economic development literature of the 1960s, which justified the necessity of government-owned banks in situations marked by institutional and financial underdevelopment. However, in our perspective, the presence and the role of such institutions in Brazil in the first decades of the 2000s cannot be justified by this argument, as the Brazilian financial system is organized, developed and complex.

Here, we propose a broader understanding of the necessity and of the role to be played by such institutions. Our starting point is that even in an organized and developed financial system, operations in some segments, regions, pertaining to some agents or even in certain periods (both in the short and long runs) could remain of no interest to privately held institutions, which does not unequivocally mean operations with importance to economic, social or regional development.

If the case proposed in the previous paragraph indeed exists, the existence of public banks serve under a set of conditions that are not driven by private results in their entirety could be justified.

One outcome of this perspective, important to the appraisal and even to the maintenance of the existence of public banks, is that their efficiency should be understood differently and not limited to microeconomic efficiency. In fact, the results of their actions should be considered from a broader perspective, taking into account the economic, social and regional effects, which can be thought even from the standpoint of the fight against inequalities.

Going further with the broader perspective proposed here, public banks should be able to act in cooperation with the government in the implementation of social and economic policies. One can list different dimensions of their action as public banks, as i) in the credit systems, especially in earmarked credits²¹; ii) in the implementation of economic policy, both financial and social; iii) action as regulators of the competition in the financial market, either through the pricing or even the creation and development of financing mechanisms and/or financial instruments; iv) facing the results of the pro-cyclical nature of private banks actions; v) in the coordination of investments, particularly in the case of development banks.

²¹ Earmarked credits mean credit subject to directed lending requirements.

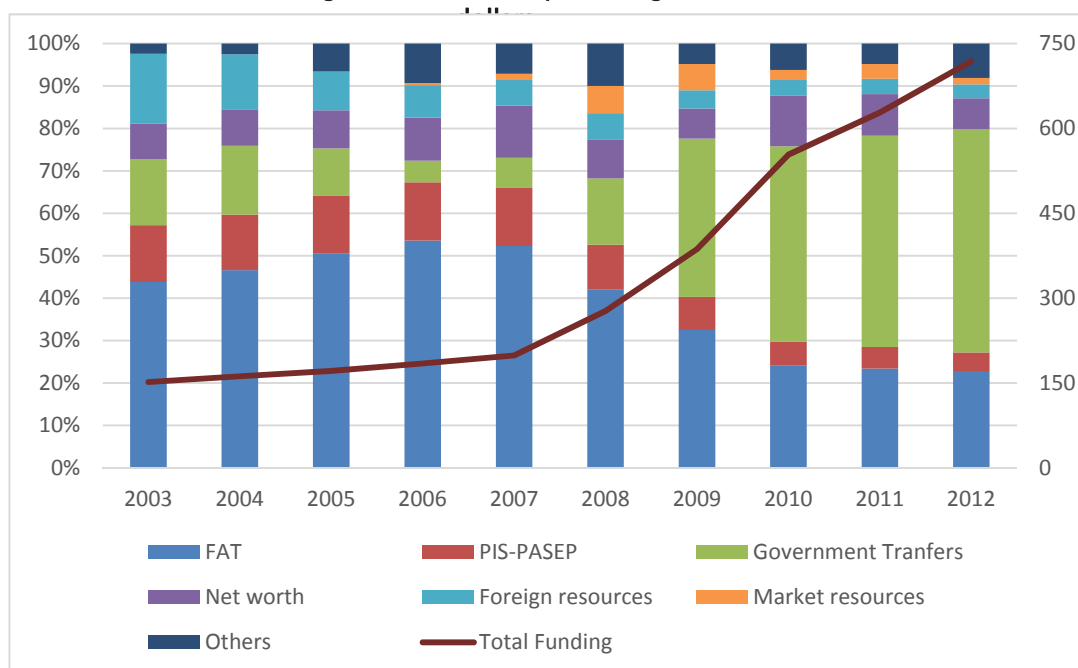
3.1 BNDES: long-term financing for industrial investment and employment generation.

The aim of this section is to evaluate the main lines of action of the BNDES between 2003 and 2012 – period marked by a left wing party government – in order to assess its impact on the reduction of the inequality. Two aspects will be highlighted: first, its importance in providing long term financing of the economy and counterbalancing the impacts of the international crisis and second, the impacts of its disbursement on the generation of employment.

Afterwards, the main types of funding of the Bank will be briefly analyzed, as well as its lines of action which, in our view, have a role in generating employment and facing inequality.

The FAT (Worker’s Support Fund) resources, at the center of many controversies in the period, were a fundamental source of resources for the bank throughout the 2000s, reaching 52,3 per cent of resource contribution in 2007 (Chart 1). For its qualities as a steady source of resources, it is of critical importance to the BNDES funding scheme.

Chart 1: Composition and evolution of contributions of BNDES Funding, 2003 to 2012, in percentage and in billions of 2010



Source: Own elaboration based on BNDES Annual Reports.

Different authors, opponents to the very existence of earmarked credit in the economy, argue that FAT’s resources should not have exclusive allocation from BNDES, serving also as funding for private banks, which could provide long-term credit.

Haddad (Valor, 25-02-05), one of these opponents, criticizes the following:

"BNDES remunerates FAT to a maximum of 6 per cent a year, the difference is capitalized and loaned to the TJLP ... The money comes out of the worker at 6 per cent and is lent by BNDES at the base rate of 9.75 per cent, while its integral controller, the federal Government tries to reduce liquidity by paying 18.75 per cent²². The credit subsidy, which reached its lowest point of 5.5 per cent a year at the end of 2003, reaches today 9 per cent a year (...) But do not the loans represent new investments, that are good for the economy? Not necessarily. First, because there is in most cases a simple funding substitution. If a project is good and profitable, it will be done, with or without BNDES. The difference is that without the Bank, it would be done with retained earnings, with another financing mode, or through the capital market which, incidentally, is undeveloped in Brazil highly depending on the cheap alternative of BNDES. "

Another criticism is the following: a "good and profitable" project would find ways to get financed even without the BNDES, with retained earnings or through the capital market. Moreover, the very existence of BNDES would prevent the development of alternative financing channels.

In fact, BNDES has an important role in financing the Brazilian economy: on the one hand it accounts for half of the country's earmarked credit, which in turn corresponds to one third of the total available credit of the country. The defenders' response to BNDES's earmarked credit, on the other hand, is an argument of "*fungibility*²³" between BNDES's credits and credits with free resources – i.e. that there are no obstacles for companies to finance their investments in market conditions – does not apply. In fact, what happens is that many of those investment projects would be considered not profitable if the long-term credit had as its reference the short-term basic rate, SELIC²⁴, and if investors had to take into account the fluctuation risks of such fee²⁵.

During the time of coping with the effects of the international crisis in Brazil, a new funding source of great importance arises: National Treasury loans. Chart 1 shows a large increase in participation of these resources, reaching almost 50 per cent of the amount contributed in 2010 and 2011, in a phase of major expansion in the total amount of resources.

Evidently, the contribution of R\$265 billion (Brazilian currency) in loans from the National Treasury between 2009 and 2011 was severely criticized . This would be a misuse of public funds, since the rate charged by the Treasury was lower than the rate that it received from government bonds buyers. The proponents of the loans argued that the effects of the government's anti-cyclical action through

²² In Brazil, the Long Term Interest Rate (TJLP) is considerably lower than the short-term interest rate.

²³ In the sense of perfect substitutability.

²⁴ The Sistema Especial de Liquidação e Custódia (SELIC) "(Special Clearance and Escrow System)" is the Brazilian Central Bank's system for performing open market operations in execution of monetary policy.

²⁵ João Paulo dos Reis Velloso, President of the National Forum – center of studies and debates about the country's problems, in the context of the National Institute of High Studies (Instituto Nacional de Altos Estudos -Inae) goes further, arguing that the Bank should manage FAT entirely – and not just the 40 per cent that the 1988 Constitution assigned (Revista Rumos., No 37. March-April 2012).

loans to the Bank outweigh their costs: firstly, BNDES's profits resulting from these transactions return to the National Treasury through dividends, taxes and retained earnings, since the Union is the Bank's sole shareholder; secondly, tax gains due to the expansion of economic output and income through the increase of investments made possible by the Treasury loans; and finally, long term social and economic benefits resulting from the productive activity elevation in the coming years.

In regards to the Bank's main lines of action during this period: Despite being quite conservative, the conduct of Luiz Inacio Lula da Silva's (Lula) first administration policy carries an important initiative in terms of development policy: during the short Carlos Lessa's tenure as the Bank's chairman, an industrial policy agenda began to be built. In March 2004, an industrial, technology and foreign trade policy (PITCE – Ministry of development, industry and trade, MDIC, 2007) was released. As for the PITCE, government programs for export impulse, the only ones with growing space in the Bank's disbursements began to be integrated to industrial development support programs, having as main targets the sectors with a high innovation capacity in order to increase competitiveness. The Bank, in addition to participating in the formulation of the plan, was one of its main creditors.

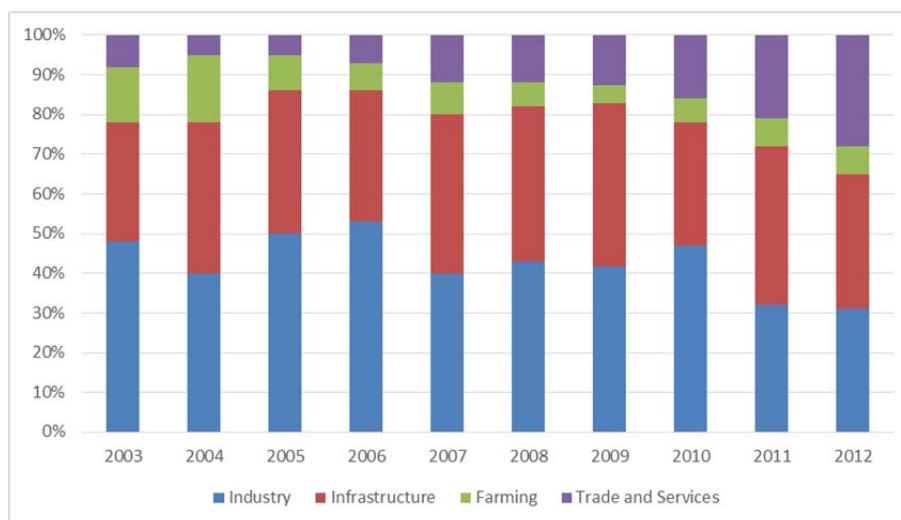
But it was during Lula's second term that the Bank took on its structuring role more decisively. The choice for Luciano Coutinho as its chairman, who brought together the qualities of having a markedly Keynesian orientation, having a profound knowledge and being a staunch defender of industrial policy, was a clear indicator of this change of direction. The new priorities announced were: the stimulus to infrastructure, innovation, to micro and small enterprises and the internationalization of Brazilian companies. A series of Plans with industrial and technological policy actions would be launched thereafter.

The first were the Productive Development Policy (PDP) – from 2008 to 2010 – and the Action Plan for Science, Technology and Innovation for National Development (PACTI) – 2007 to 2010. Along with these, in August 2007 the Growth Acceleration Program (PAC), a broad program of public and private investments in infrastructure (especially in transport and energy) was implemented, with a capital of R\$500 billion for the period comprised between 2007 and 2010.

An important part of these disbursements was intended for Petrobras, which expanded significantly its investments as a result of the exploitation of the pre-salt layer. In 2010, PAC 2 was announced – envisioning investments of R\$1 trillion by 2014, two-thirds of which are in the energy sector.

The increase in disbursements for the infrastructure sector is apparent on the Chart 2, discriminating the Bank's disbursements by sector of economic activity. Between 2006 and 2007, the infrastructure sector participation in the Bank's disbursements jumps from 33 to 40 per cent, a proportion repeated in 2011.

Chart 2: BNDES's disbursements per activity sector, 2003-2012 (in per cent)



Source: Own elaboration on BNDES data

In 2012, the government launched a program called *Brasil Maior* (bigger Brazil), whose slogan "Innovate to Compete, Compete to Grow" revealed its emphasis on the support for innovation and internationalization of national companies. *Brasil Maior* is organized into five segments of productive systems: I, Mechanical, Electronics and health systems ii; Intensive scale-production systems iii; intensive labour-production systems iv; Agribusiness production systems and v; trade, logistics and services. Each one of them is coordinated (or counts on a vice-coordination) by a member of BNDES's bureaucracy.

BNDES has had a decisive role both in designing plans and in providing support to private sector companies in every area. The Bank itself implemented, in July 2009, the BNDES Program of Investment Support (PSI), which was later extended in two occasions, and lasted until 12/31/2013. It focuses financing capital goods (especially the purchase of machinery and equipment), innovation and exporting sectors.

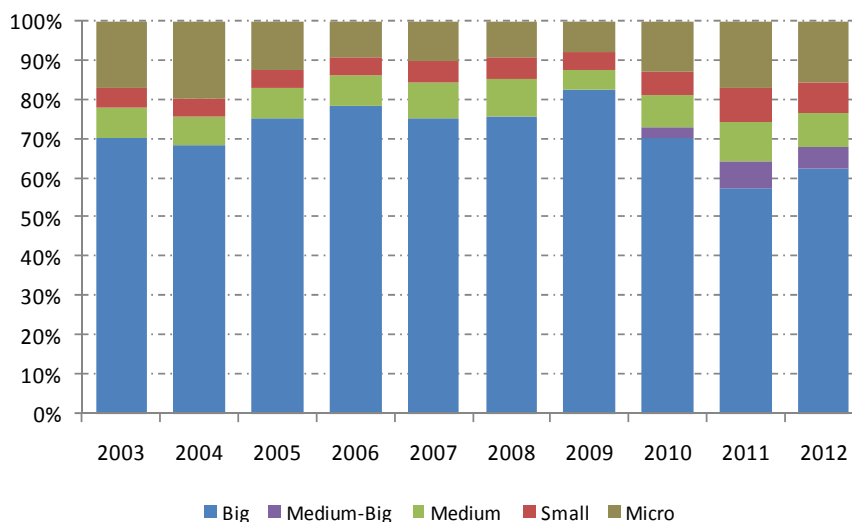
It should be considered that nearly half of the PSI resources, up until December 2011, were intended to micro, small and medium enterprises (MSMEs). This line fits the Bank's discourse on the need to enhance access to this category of companies to long-term credit as a step toward a better income distribution and to an increase in employment levels. The creation of the BNDES Card is one more action towards the strengthening of micro and small enterprises²⁶.

Chart 3 shows the distribution of the Bank's disbursement by company size. It is clear, especially from 2010, the increased participation of micro and small enterprises in the amount of disbursement. In terms of the number of operations,

²⁶ The BNDES card is a pre-approved credit line intended to purchase necessary items to MPMEs activities which have manufacturing department in the country and which are registered at the BNDES Card Operation Portal, by properly registered suppliers.

adding micro and small companies to natural persons²⁷ (individuals), a recent BNDES document shows that these amounted 87 per cent of the total approved by the Bank in 2011. (BNDES, 2011)

Chart 3: BNDES disbursement per company size – 2003-2012 (per cent)



Source: Own elaboration on BNDES data

It is worth emphasizing the importance of BNDES’s counter-cyclical action in confronting the effects of the international crisis in the country²⁸: Between the last quarter of 2008 and the end of 2009, there was a strong contraction of private bank credit, and the Bank had a fundamental compensatory role by extending its direct funding and launching new lines of credit²⁹: Table 1 shows the effects of this action on credit directed to the corporate sector: BNDES’s participation in total earmarked credit directed to the corporate sector increased from 47.2 per cent to 53.8 per cent between September 2008 and December 2009, reaching an amount equivalent to 5 per cent of the Gross Internal Product (GIP). Still based on Table 1, note that, with the recovery of economic activity in 2010, direct funding granted by BNDES began to grow at a slower pace than the indirect operations (or on lending operations) from BNDES, whose credit risk is taken over by the distributing financial agents. This evolution reflects the pro-cyclical nature of private institutions behavior that accelerated the credit granting to the private sector in an effort to regain lost market shares for public banks in the bulge of the crisis.

²⁷The individuals entitled to receive BNDES financing are the micro entrepreneurs, farmers and self-employed haulers.

²⁸For an analysis of the role of the Brazilian federal public banks in facing the international crisis, Mendonça and Deos (2010).

²⁹For example, in addition to the aforementioned PSI, BNDES launched, in December 2008, a new line intended to grant working capital, called Special Credit Programme (SGP), with term until June 30, 2009.

Table 1: Credit with resources to the corporate private sector by modality

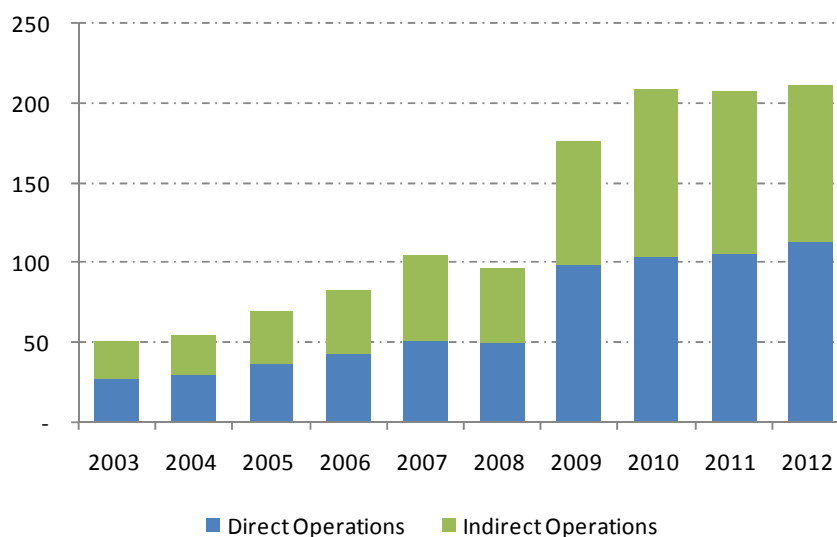
	BNDES			
	Direct Operations ¹		Indirect Operations ²	
	% GIP	% of earmarked credit	% GIP	% of earmarked credit
2003	3,1	32,5	2,8	29,1
2004	3,1	32,8	2,6	28,0
2005	3,1	32,6	2,7	28,5
2006	3,0	30,6	2,8	28,7
2007	2,9	28,3	3,1	29,9
2008	3,5	30,3	3,3	28,5
2009	4,9	34,4	3,9	27,2
2010	4,7	30,2	4,8	30,5
2011	5,2	29,6	5,0	28,3
2012	5,7	28,9	5,0	25,1

1. Financing granted by BNDES directly to the final borrower
2. BNDES's resources funding transferred to the final borrower through financial agents

Source: BCB, apud Freitas (2011).

All of these Bank's lines of action³⁰ resulted in a huge increase in the Bank's disbursements reaching in 2012, US\$ 83.2 billion. Chart 4 brings the evolution in the Bank's disbursements during the period 2003-2012, discriminating between direct and indirect operations.

Chart 4: The Bank's total disbursement by mode (US\$ Billion)



Source: Own Elaboration on BNDES, 2011

³⁰ It must be also taken into account that there is a significant amount of resources engaged in works related to the World Cup in Brazil-what does not fit properly in any strategic line of action, in response solely to short-term needs.

The growth in disbursements, especially from 2007, suggests a new phase of the Bank's engagement in the Brazilian economy, in which there is a resumption of its structuring role. Furthermore, the jump in the years 2008 to 2010 expresses the importance of this institution as a crucial financial arm of the State, in conducting its counter-cyclical policy.

It is also important to mention the role of BNDES in fostering employment, via the investment projects that it finances. The Bank itself constructs a model to estimate the impact of the disbursements of the banks to the job generation. The estimated number of workers needed (jobs created or maintained) in the implementation phase of the Bank-supported investments are obtained by Generation Model Jobs (MGE), an input-output model for the Brazilian economy that uses official data System of National Accounts of IBGE, as well as the input-output matrix. Importantly, the number of jobs resulting from MGE does not correspond to the net generation of jobs in the economy, but to the number of jobs related to interventions in order to enable them.

The estimated number of jobs can be decomposed into three types:

- I. direct employment - occurs in a sector that has its final demand activated, i.e. mainly in construction, manufacturing machinery and equipment and business services;
- II. indirect employment - jobs created in the productive chains that cater to sectors directly affected by the increase in demand, and
- III. income-effect employment - jobs that arise from the expenditure of the direct and indirect employees in consumption, especially in sectors producing wage-goods (food, clothing, household services, etc.).

The estimates based on MGE are shown in Table 2 below.

Table 2: Employment Generated and Maintained by Investment Backed by BNDES Accumulated in the year (R \$ million investment and employment in thousands)

Period	Disbursement	Total investment	Employment			
			Direct	indirect	income-effect	total
2011	138,873	322,652	1,299.2	1,115.4	2,428.4	4,843.0
2012	155,992	338,006	1,272.5	1,134.8	2,626.0	5,033.3
Source: BNDES, IBGE and FGV						

In 2012, BNDES disbursements totaled approximately R\$ 156 billion, which were linked to investments totaling R\$ 338 billion (understood as the value of BNDES support plus the counterparts of entrepreneurs). The number of jobs needed to enable this amount of investment, according to estimates from the MGE, was approximately 5 million.

Regarding the composition of employment by type, 2012 showed very similar results to the previous year, with about 52% coming jobs represented by the income effect, 25% of direct jobs and 23% of indirect jobs. The average number of jobs created or maintained per million invested in the economy also remained stable at around 23, which means that the distribution of sectors impacted by projects supported also did not change significantly.

3.2 Minha Casa Minha Vida Program (MCMV)³¹

This section presents the MCMV Program and discusses it as a policy to cope with the housing deficit of low-income families in Brazil. The treatment of MCMV in this paper is justified as it is understood here as a way of dealing with the income inequality. There are two reasons for this understanding: first, it allows the serving of the basic right of an appropriate house to a part of the Brazilian population that would never has access to the housing credit market and second; it ensures that at end of the proceedings, it will be incorporated as a property of these families.

It is worth noting that among the motivations for the establishment and implementation of the MCMV, besides facing the housing deficit - already diagnosed by a broad study that originated the National Program for Social Interest Housing (*Programa Nacional de Habitação de Interesse Social* - PNHIS) - was the concern with carrying out a countercyclical policy, in order to deal with the effects of the international crisis on the Brazilian economy. Not by coincidence, the Program was launched in March 2009. Important to highlight that, the civil construction sector, broadly stimulated by the MCMV, presents a great capacity for generating income and employment. This dual feature of the Program is clear in the *Plano Nacional de Habitação* (National Housing Plan), published by the *Ministério das Cidades*,

The main objective of the program is to create a reliable economic environment that stimulates growth of the formal housing and credit markets, as well as employment generation. [...] As an interventionist action that combines, at one time, economic incentive and mechanisms of income distribution, the MCMV follows the development model implemented by the Federal Government, according to which the country's economic development is achieved jointly with income distribution and social inclusion. (Brasil, 2009, p. 192 and 194)

Therefore, the program can be analyzed by the results on the promotion of the access to housing and on the employment generation. This section will point out the former. The understanding of the amplitude of the program requests the presentation, even that brief, of the diagnosis of housing deficit that supports it.³²

The development of the Brazilian government's housing policy is supported by the concept of housing deficit as a failure of the housing stock. This incorporates the inadequate housing, the ones that need to be replaced, and the new houses

³¹ In a free translation: My Home, My Life.

³² Note that, due to severity of the problem in Brazilian, there is a wide range of researches that try to deal and develop concepts of housing deficit and housing demand.

due to the cohabitation or to the existence of houses in inappropriate places. Therefore, the concept of the housing deficit is a result of the needs for replacement and the increase in housing stock (Caixa, 2011). In 2008, this deficit was approximately 5.55 million houses, both in urban and rural areas, mainly concentrated in metropolitan (1.54 million) and low-income population (FJP/*Ministério das Cidades*, 2011, Table 3). It is important to highlight that a substantial part of the low income population is not able to buy houses or even pay the benefits of housing finance, according to the rules and prices of the regular housing market. In other words, in the absence of public low income housing policies, part of the population will not be able to have access to adequate housing.

Table 3: Urban Housing Deficit by Family Income bands Deficit (%)

	<3 MW ¹	3 > MW ¹ < 5	5 > MW ¹ < 10	> 10 MW ¹	Total
Brazil	89,6	7,0	2,8	0,6	100,0
Metropolitan areas	88,0	8,0	3,3	0,7	100,0

¹. Minimum Wage³³.

Source: FJP/*Ministério das Cidades*, 2011, p. 38.

3.2.1 The program's structure

Launched in March 2009 in order to "create mechanisms to encourage the production and purchase of new housing units by families with income of up to ten minimum wages" (MP. Medida Provisória nº 459, p. 1), the MCMV program was originally proposed to make possible the construction of 1 million houses, and was announced as a landmark in the policy of access to housing, an initiative that sought to address, in an effective way, the large housing deficit concentrated on the low income population. As previously noted, among its assumptions and goals were social inclusion, by the access to housing, and the countercyclical role, by the generation of employment and income through increasing investments in civil construction (Brazil, 2009).

The establishment of the program was supported by a wide institutional framework, either by mechanisms, instruments or rules already present or purposely created. The main funding is provided by significant budgetary resources and by the Guarantee Fund for Employees (FGTS).³⁴ One important feature of the program is its political articulation, as it involves the three tiers of

³³ According to the Brazilian Law, there is a minimum level for the wages, yearly determined.

	2008	2009	2010	2011	2012	2013
R\$	415,00	465,00	510,00	545,00	622,00	678,00

³⁴ FGTS is a typical *parafiscal* fund, which has as origin of resources a specific contribution. It holds functions of social insurance and contributes to the financing of investments of a social nature in the areas of housing, sanitation and urban infrastructure. For a more detailed analysis, see Mendonça (2009).

government: federal, state and municipal, and also private construction entrepreneurs. Central role has been carried out by Caixa Economica Federal (Caixa) as the program operating agent program. It's worth pointing out that Caixa is one of the major federal public financial institutions and has been playing a historical role in the housing financing.

Figure 1: MCMV Institutional Framework

Government tiers	Funding	Operation agent	Other agents
Federal government	Budgetary resources	Caixa	Private enterprises
State government	FGTS		Nonprofit entities
Municipal government			

The MCMV is based on three different lines of action, Bands 1, 2 and 3, which takes into account the family income of the target population, as already said, the low income population.³⁵

3.2.1.1 Band 1

Band 1 aims to assist families with monthly income of up to R\$1,600.00, which accounts for the largest part of the housing deficit as previously stated, one that cannot afford to access the system traditional housing financing.

In this band, the families are met through different avenues, depending on the size of the city where the house will be constructed: the Residential Leasing Fund (FAR) for operations in large and medium cities, and Public Offering of Resources (OPR) for cities up to 50 000 inhabitants. There is a third modality, focused on cooperatives and housing associations. (Krause et al, 2013). When the MCMV started in 2009, the goal was to build 400 000 housing units in this band, which was later expanded to 860,000 up to the year 2014, for transactions contracted by resources provided by FAR.

Regarding the articulation between the different actors involved in the process, some measures should be taken by local government (states, municipalities and the Federal District) in order to guarantee the viability the operations.³⁶

- Residential Leasing Fund (FAR)

FAR operations count on the legal and financial framework of an existing program, the Residential Leasing Program (PAR). The operations start with the adherence of state or municipal government to the program through

³⁵ The MCMV comprises two programs: the National Urban Housing (PNHU) and the National Rural Housing (PNHR). This paper will treat only the first, since it accounts for about 84% of housing deficit (FJP/Ministério das Cidades, 2011).

³⁶ Which includes: adhesion to the program through proposals and contracts with Caixa; registration and selection of beneficiaries; implementation of actions to facilitate the projects, such as tax relief; and last but not least, financial contributions, mainly by land donation, and urban planning actions (Krause et al). The land donated by public entities, including government, goes to the FAR, which promotes the construction of housing units under the MCMV.

commitment signed with Caixa, which to receive proposals from construction companies, who afterwards is in charge of carrying out the construction. Caixa is responsible for the risk analysis, the selection of proposals presented by the companies and the monitoring of constructions. Moreover, in the leasing system, Caixa, on behalf of the FAR, purchases the housing units from the construction companies, alienating them to the beneficiaries. This type of systematic greatly diminishes the risks taken by the construction companies, which do not have to worry about selling the housing units, and could be understood as a stimulus to this operations, aims to face the larger part of the housing deficit. One can note that Caixa plays a central role, operating the process in all its stages, acting much more as a service provider, managing the FAR resources and transferring them to the contractors, than as a funder or credit provider. Regarding the other actors involved in the process, it is worth noting that, in these operations, the risks of default are covered, ultimately, by the National Treasury, and the property shall be transferred to the borrowers/beneficiaries only when all the payments are ended.

The housing units maximum cost to be financed must lie in the range between R\$ 57,000 (countryside of some central-west and northeastern states) to R\$76,000 (São Paulo capital and the Federal District). The beneficiary/borrowers families are due monthly payments of 10% of their income over a period of 10 years, which cannot be less than R\$ 50^{37,38}. It is worth mentioning that, due to these characteristics the amount of the subsidies can get close to the total financed amount.

The funding of these operations and mainly of the subsidies, results of an articulation between Federal Government Budget, which transfers resources to the FAR, and the FGTS resources. It is worth remembering that the latter, which has historically been the main source of housing financing to low-income borrowers, is becoming also an important source of subsidies³⁹ (Brasil, 2009).

- Public Offer Resources (OPR)

The second modality of operation under the Band 1 is the Public Offer Resources (OPR) transactions, which aims to finance housing units in small towns (less than 50,000 inhabitants). The system is distinct from the operations by FAR. The proposals are submitted by local governments and the selections are made by the *Ministério das Cidades*⁴⁰, when the public offerings are finalized. Financial institutions authorized by the Central Bank and financial agents which are participants of the Housing Finance System are selected in the Public Offering Resources to perform the contracts of financing the beneficiaries/borrowers

³⁷ Besides, the beneficiaries/borrowers families count on subsidized insurances rates for death, disability and physical damage on the housing unit, funded by the Fundo Garantidor de Habitação Popular (FGHAB).

³⁸ Some of the sources, even the government ones, presents different numbers: 5% of the income, which can be no less than R\$25,00.

³⁹ Resolutions taken by the FGTS Council in 2004 and 2006 (Resoluções do Conselho Curador do FGTS/2004 e 2006) allowed the use of FGTS financial revenue to finance subsidies to low income families (incomes lower than 3 minimum wages (Krause et al, 2013).

⁴⁰ Urban Development Ministry.

families. Thus, the subsidies are operated by financial institutions and agents. Besides the selection of proposals, the *Ministério das Cidades* is in charge of monitoring the constructions. Also different from FAR operations, there are not definitions of the maximum cost of housing units but instead, of the quota subsidy contracted (Krause et al, 2013).⁴¹

3.2.1.2 Band 2

Band 2 aims to assist families that earn monthly incomes ranging between R\$ 1,600 and R\$ 3,275. These operations are funded by the low income housing area budgetary resources of the FGTS, and are included within the boundaries of the housing unit costs and terms set by the Fund. The families that fall into this band are benefited by subsidies in the form of discounts, which can reach R\$ 25,000, by the coverage of the Social Housing Guarantee Fund (Fundo Garantidor de Habitação Popular -FGHAB)⁴² by the reduction of costs of registration offices, and may qualify for reductions in the interest rates. In this Band, the logic of action of MCMV is quite distinct from that observed in the operations of Band 1: it encourages more traditional operations of the housing financial system and stimulates the growth of real estate market. It is worth noting that the results already achieved by MCMV indicate that the largest number of operations and resources were negotiated within that modality.⁴³

3.2.1.3 Band 3

Band 3 aims to assist families with monthly income between R\$ 3,275 and R\$ 4,300 (R\$ 5,400.00 in state capitals, metropolitan areas and some large cities). The operations are also funded by FGTS and do not support direct subsidies, but guarantees both to beneficiaries as well as borrower families their access to discounts on insurance costs and the possibility of reductions in interest rates.

⁴¹ The subsidies quota was of R\$ 12,000/R\$ 16,000 in the initial stage and increased to \$ 25,000.

⁴² The FGHAB contributes to the reduction of final cost of housing finance, as it ensures the payments in case of unemployment and/or temporary reduction in the payment capacity, and take the outstanding mortgage in case of death or permanent disability. (Caixa, access in17/out/2013: http://www.caixa.gov.br/novo_habitacao/minha_casa/compra/mcmv/habitacao_urbana/fam_renda_5.000.00/aquisicao_de_imovel_novo/index.asp).

⁴³ In 2012, the resources contributed by the FGTS to the discounts were approximately U.S. \$ 6.6 billion.

Figure 2: MCMV Resume

Lines of action	Band 1	Band 2	Band 3
Family Income (R\$)	> 1,600	1,600<X< 3,275	3,275<X< 4,300
Modalities	<ul style="list-style-type: none"> ▪ FAR¹ ▪ OPR² ▪ Nonprofit entities³ 		
Original goals (2009)	400,000	300,000	300,000
Funding	<ul style="list-style-type: none"> ▪ Budgetary resources ▪ FGTS 	FGTS	FGTS
Benefits	Maximum monthly payments of 10% of their income, for 10 years ⁴	Discounts of up to R\$ 25,000	discounts on insurance costs and possible reductions in interest rates

¹ Residential Leasing Fund, for operations in large and medium cities.

² Public Offering of Resources, for cities up to 50 000 inhabitants.

³ Cooperatives and housing associations.

⁴ No less than R\$ 50.

Assessments of the MCMV are still very precarious, as an important part of the data on the program is not available for the public. In this sense, a more accurate assessment by bands and modalities, regions and size of cities is quite difficult. Even in quantitative terms, it is hard to make considerations on whether the program has effectively helped the population and areas where the largest deficit is concentrated: low-income population of the big cities, especially metropolitan areas. On the other side, data on the housing deficit are not available yet, as the collection, which is made by in site and sample survey, and publication occur in longer periods.

Table 4: Minha Casa Minha Vida Performance

Income Bands	Housing Units under contract (number)		Housing Units delivered (number)
	2009/2010	2009/2013 ¹	2009/2013 ¹
Band 1		1,272,624	340,774
Band 2		1,184,942	822,361
Band 3		325,709	84,724
Total	1,038,000	2,783,275²	1,200.000

¹ August 2013.

² More than 1.7 contracted from 2011. Investments of R\$ 177.5 billion, around 46% in subsidies.

Source: Valor Econômico (www.valoreconomico.com.br)

Even conscious of those limitations, some comments can be made, based on estimations of the housing deficit and information published by the media.

First, there was a dramatic increase on the granting of resources and, as a consequence, on the construction of housing units (Table 4). According to the Brazilian Central Bank, who publishes information on real estate credit not restricted to MCMV, the rate of real estate loans to GDP increased from 2.42% to 6.78%, from March 2009 to December 2012.⁴⁴

Second, the total amount of housing units that was contracted and produced is expressive. Even though it is not possible to go any further in the analysis, (especially if the housing units were constructed in the “right place, in the right way and for the right people”), it is possible to affirm that, considering the bands of income of people who can access the instruments, people who would not be able to access the housing credit market even with FGTS resources, could benefit from the program and, according to the Ministry of Finance, the fiscal costs of the program were of 0.04%, 0.2% and 0.3% of the GDP in the years from 2010 to 2012. It could be argued that the costs were quite low, considering the expected results : facing the housing deficits and the creation of employment and income.

Third, an estimate of the housing deficits between the years 2009 and 2011 points that there was an increase on the number of domiciles, which led to a decrease, on absolute and relative terms, on the deficit. The decrease could be explained by the diminishing on the situation of precarious housing and cohabitation.

⁴⁴ 7,85%, in August 2013.

Table 5: Estimated Housing Deficit

	2007	2008	2009	2011
Number of Domicilies	55.918.038	57.703.161	58.684.603	61.470.054
Housing Deficit	5.593.191	5.191.565	5.703.003	5.409.210
Precarious	1.244.028	1.139.729	1.074.637	1.163.631
Rustic	1.135.644	1.039.445	1.005.875	1.034.725
Improvised	108.384	100.284	68.762	128.906
Cohabitation	2.307.379	2.032.334	2.315.701	1.808.314
Rooms	214.476	190.213	224.120	237.914
cohabitants who wish to change	2.094.410	1.842.670	2.094.953	1.571.581
exceeding by rent	1.756.369	1.735.474	2.020.899	2.110.409
crowding by rent	526.900	500.925	539.582	512.925
Housing Deficit	10,00%	9,00%	9,72%	8,80%
Precarious	2,22%	1,98%	1,83%	1,89%
Cohabitation	4,13%	3,52%	3,95%	2,94%
exceeding by rent	3,14%	3,01%	3,44%	3,43%
crowding by rent	0,94%	0,87%	0,92%	0,83%

Source: Furtado, Bernardo Alves; Lima Neto, Vicente; Krause, Cleandro.

3.3 Regional Banks Facing Inequality

The aim of this section is to discuss the use of the Constitutional Funds by the federal banks between 2003-2012 – period that encompasses Lula's two mandates and half of Dilma Rousseff's mandate as President of Brazil - regarding actions that dealt with regional inequalities.

According to Ferreira (2013), more recently the funds has been responsible for intraregional concentration of resources, as well as concentration in larger units⁴⁵. This suggests difficulty in going against the pro cyclical market forces.

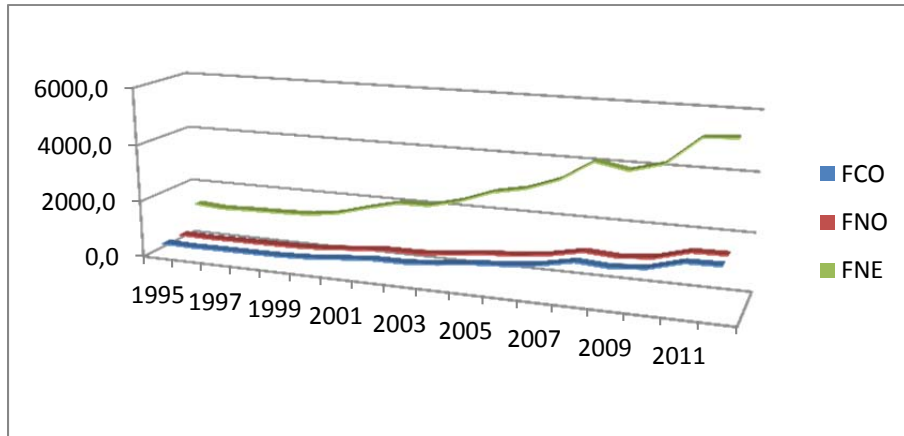
Regarding the interest rates charged to borrowers, they have been fixed since 2000, varying more recently (since 2008) within a range of 3.53% to 10% per year, according to the size of the borrowers. The main guiding principle was to guarantee affordable conditions for the producers, especially the small ones (Ferreira, 2013).

From the beginning of their operations in 1999, until 2012, the Constitutional Funds have received approximately R\$ 90 billion (approximately US\$ 41.6 billion) from the Treasury. These resources allowed for six million credit operations, totaling about R\$ 130 billion (approximately US\$ 60 billion). It is important to note that the amount of resources transferred to the funds grew during this period (1989-2012), but different behavior can be noticed along the period.

⁴⁵ The classification of agents by size has changed during the period.

Between 1994 and 2000, the amount of resources transferred from Treasury to funds barely grew. Since 2001 however, there was a systematic growth in this amount – except in 2009. In fact, in 2009, reflecting the contagion effect of the international crisis in Brazil, the amount of resources transferred to the funds decreased relatively to the previous year, due to the impact of the crises on tax collection. However there was an upward shift in 2010, and the trend, along the period, was unequivocally positive.

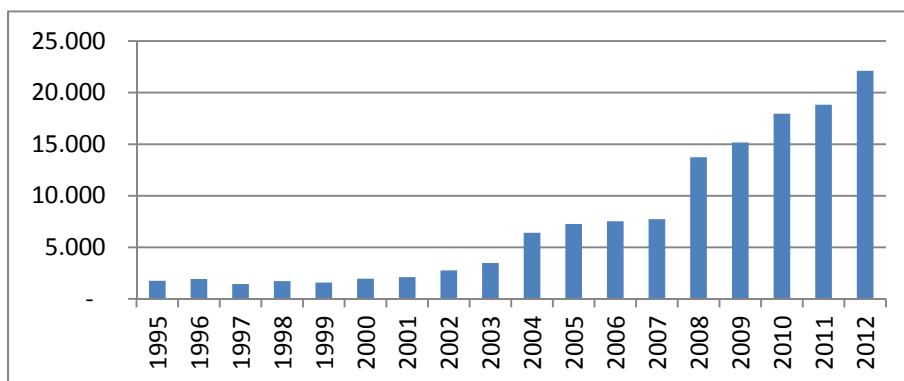
Chart 5: Annual transfers from the National Treasury to the Constitutional Funds: FCO, FNO and FNE. 1995-2012 – Millions of R\$



Source: National Treasury of Brazil.

The data shows, as well, a relative stability in the amount of credit granted from 1989 to 2001, and an important growth since then (Chart 6). There was an acceleration of growth since 2008, as a result of the coordinated anti-cyclical performance of the public banks, in order to face the crisis.

Chart 6: Contracted Loans: FCO, FNO and FNE . 1995-2012 – Millions of R\$

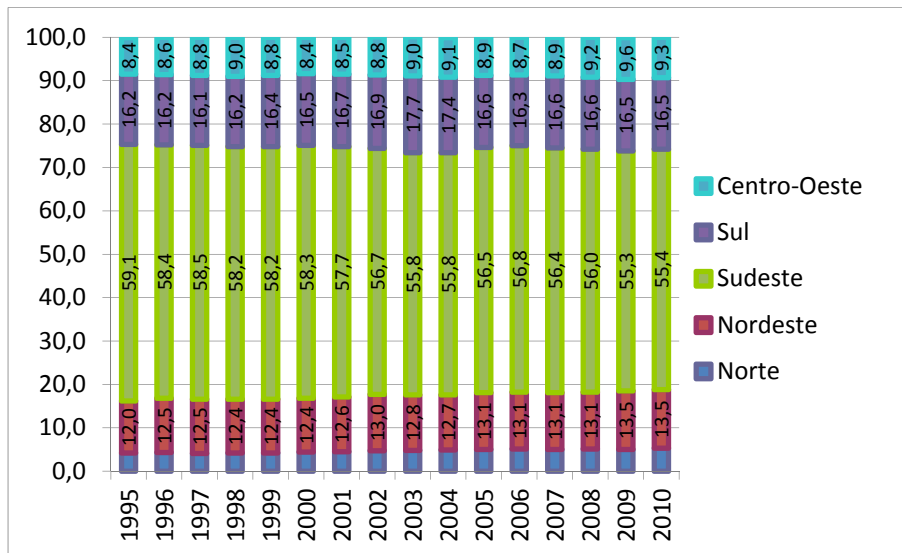


Source: National Treasury of Brazil.

According to Brasil (2008), approximately 9.5 million direct and indirect jobs were created as a result of the use of the constitutional funds from 1990 to 2009. Besides that, and in spite of still having a high regional concentration of income, it

is also important to notice that, from 1995 to 2010, North, Northeast and Midwest regions increased their share in national income. However, at the same time, that these funds have been responsible for concentrating credit inside the less developed regions, by offering credit to larger agents located in the most dynamic municipalities (Ferreira, 2013).

Chart 7: Regions Share in GDP



Source: IBGE/ National Accounts

4. CONCLUDING REMARKS

This paper discussed some lines of actions of the Brazilian system of public financing that, in some sense, may affect inequality. The main focus of the analysis was the credit cycle that started in 2003 and the participation of the public banks in this movement.

Since 2001, after the reform program was launched, *Banco do Brasil* and Caixa significantly increased the credit supply to several sectors of the economy. Nevertheless, they continued with their dominant position in specialized segments. Indeed, as concluded by Freitas (2007), the operations of the two main federal banks – *Banco do Brasil* and *Caixa Econômica Federal* – began to be guided by private standards of profitability and risk. Since 2002, these institutions have obtained high profit rates, reflecting the strategy adopted to approach private management standards.

However, if on one hand, the reform program enhanced this reassignment, putting into question the public function of these institutions, on the other, it allowed the success of the banks' counter-cyclical operations during the crisis of 2007. As argued by Vidotto (2010), the success of counter-cyclical measures performed by Brazilian public banks occurred thanks to three main factors: the relative size of these institutions within the system, the diversity of operations and the management quality. Indeed, these factors were mainly enabled by the restructuring that began in the mid-1990s.

During Lula's first mandate, the government led its economic policy in a more conservative way, in order to appease the fears created in the market by the rise to power of a politician who had his origins in the union movement. The alliances made by the Workers' Party with conservative sectors and the orthodox features of their economic policy, very similar to its predecessor's caused discomfort in various sectors of the left wing. However, it is worth pointing out that the Brazilian public banking system started to be reoriented in a "structuring" direction.

It was during his second term, however, that the public mission of these banks was more clearly evidenced. Moreover, the other federal public banks had a decisive role as the Government's financial policy arm in coping with the effects of the international crisis in the Brazilian economy.

The perspective adopted here is that public banks have a role that goes far beyond filling the gaps unfulfilled by the markets. They, it is argued, should have a structuring role, being very important actors in the implementation of public economic and social policies.

The role of the Brazilian public banks dealing both directly and indirectly with inequality is illustrated by the three experiences presented in this paper. BNDES is historically the main long term funds provider of the industry in Brazil, and thus an important channel to employment generation. Caixa, through the program *Minha Casa Minha Vida*, has faced the dramatic housing deficit of the country.

Finally, regional banks, have been an instrument to face the important regional inequalities in Brazil. It was also shown that the public banking system strongly acted counter-cyclically in the face of the crisis, when the private credit shrank. From all these experiences, the importance of the funding structure of these public banks was pointed out.

What the Brazilian case shows is that, more than a public banking system, what is needed is that the public banks carry a *public mission*. According to the broader perspective proposed here, public banks should act together with the government in the implementation of social and economic policies, being part of the national development policy.

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