

Regional financial institutions and the role of BNDES in Latin America

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Resumo

A cooperação monetária e financeira sul-sul vem ganhando relevância desde a década de 2000. Nesse processo, não apenas instituições financeiras regionais, mas também bancos nacionais de desenvolvimento têm desempenhado papéis importantes. O caso do Banco Nacional de Desenvolvimento Econômico e Social (BNDES) na América Latina não é diferente. Apesar de seu mandato voltado para o desenvolvimento nacional, o BNDES vem aumentando o financiamento aos países da região através de programas de financiamento de exportações, especialmente em projetos de infraestrutura. Este artigo tem como objetivo avaliar o papel do BNDES no financiamento e integração regional, analisando a performance recente, possíveis motivações do aumento de recursos para a América Latina, bem como tratar das críticas às suas operações internacionais.

Abstract

Financial and monetary south-south cooperation have been gaining ground since the 2000s. In such process not only financial regional institutions, but also national development banks are playing an important role. It is not different with the Brazilian Development Bank (BNDES) in Latin America. Despite its mandate towards national development, BNDES has been increasing its financing to neighbors through its export financing program, especially on infrastructure projects. This paper aims to assess the role of BNDES on regional financing and integration, analyzing the recent performance, the possible motives for the increase of resources to Latin America as well as domestic and external criticisms related to its regional operations.

Introduction

The growing role emerging countries have been performing in the last decades can be seen in many fields, being the economic sphere one of the highlights, given their recent strong economic performances and increasing participation on world trade and investments. The “emergency” can also be seen on governance issues with emerging countries claiming for reforms and more space in international institutions such as the international monetary fund (IMF) and the World Bank (WB). Such claims gained momentum especially after the crises that hit emerging countries from the end of the

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1990s and with the outbreak of the Great Recession in 2007/2008². But, as argued by Wade (2011), economic weight and political (or governance) power are distinct features and given the obstacles advanced economies can pose for relevant changes, the space for emerging economies in multilateral institutions still does not reflect their increased economic importance. In this context, regional initiatives such as the Chiang Mai Initiative³ in Asia and the creation of the Bank of South in South America gained importance. The main highlight, however, may be given to the BRICS, which began as nothing else but a clever acronym in 2001⁴ and in 2014 had achieved important initiatives like the establishment of their own development bank and an emergency reserve fund⁵. However, not only multilateral institutions and South-South cooperation gained relevance, some national initiatives are also noteworthy since national development banks from countries like Brazil and China are becoming more important (in volume of lending) than institutions like the WB.

The objective of this paper is to analyze the role of the Brazilian Development Bank (BNDES for its acronym in Portuguese) on the financing of the development in Latin America (LA). In addition to this introduction, on the first section it is made a brief review on the arguments for monetary and financial cooperation and on the role of different regional financial institutions (RFIs) in LA. On the second, it is presented the functions and the recent performance of the BNDES on the financing of regional development as well as its role on the recent Brazilian foreign policy. The objective of section 3 is to point criticisms related not only to the role of BNDES in regional integration, but also of the kind of integration being promoted. Finally, the last section comprises the conclusions.

1. Monetary and financial cooperation: Theoretical features and the case of Latin America

1.1 The arguments for monetary and financial cooperation

According to UNCTAD (2007) initiatives for regional monetary cooperation have been increasing since the beginning of the 2000s as a response to lacks of initiatives to

² Although recent, it is not an unprecedented movement. In the beginning of the 1970s, it was discussed in the UN the formation of a New International Economic Order to give more space to underdeveloped countries. See UN (1974).

³ US\$240 billion in reserves in 2014

⁴ Only as BRIC, South Africa would join the group in 2011

⁵ The Bank's initial capital is US\$50billion and the fund's US\$100billion.

reform the international financial architecture and to help to put in practice national development strategies. Regionalism can be seen as part of a process in which bi and/or plurilateral agreements are reached to advance on issues where there can be a stalemate at the multilateral sphere⁶. Regional economic cooperation (REC) could also help developing countries to face the reduction on economic policy autonomy resulting from the process of globalization, a task that global governance structures have not fulfilled efficiently over the past decades. According to the report, there can be different types of REC and, in a broader sense, it focus on “increasing cross-border linkages and deepening interpenetration of economic activity for the mutual benefit of economies within a geographic region.” (*Ibid*:53). Finally, concerning the financing of infrastructure and industrial policy, given the large volume of resources, human capital and their long-term nature, regional cooperation and/or regional development banks would be a condition sine qua non for its feasibility (*Ibid*).

Ocampo (2006) sets different categories of arguments for regional financial cooperation. Firstly, the ones related to the needs of the very process of increased intraregional trade and investments that involves, among others, setting a line of defense against international financial crises through regional reserves funds and reciprocal credit agreements; the coordination of macroeconomic policies taking in account possible externalities against regional partners in order to avoid reactions like competitive devaluation processes; regional and sub-regional development banks to support investment in infrastructure and other “regional public goods”, that could be more efficiently managed when local control and idiosyncrasies are taken into account. The second and third categories relate to the joint action of international and regional institutions. They could operate in a complementary way: regional institutions could fill gaps in the international financial architecture being more prepared to understand and fulfill the needs of smaller economies. In this sense there be could be a “division of labor” in which global institutions focus on large economies and regional on the smaller ones regarding supervision and financial assistance. Finally, the fourth category is about the sentiment of “belonging” related to regional intuitions - in contrast with the

⁶ Which is one of the features of the so-called new regionalism being the other the strategy to integrate into the world economy through the access to advanced countries’ markets and attraction of foreign direct investment (FDI). See UNCTAD (2007: 54)

underrepresentation and lack of influence on international financial institutions- that may give more legitimacy and acceptance of such institutions⁷.

Following UNCTAD (2007), regional monetary and financial cooperation occur in three different levels according to the degree of integration. The first involves providing long term financing by regional development banks and regional capital markets. The second seeks to deal with matters such as balance of payments constraints and currency mismatches through mechanisms like short-term external financing, local currency trade-related payments systems, bond issuances and loans. Deeper levels of integration would include exchange rate mechanisms and a monetary union.

1.2 Financial and monetary cooperation in Latin America

Over the last decades, short-term external financing and insufficient volume of long-term credit in Latin America were two of the main reasons for the low growth and higher instability when compared to other emerging countries, especially in Asia. Although the recent international environment of high liquidity allowed the countries of the region to accumulate international reserves alleviating the external restraint, the lack of long-term credit remains. According to Biancarelli (2011:15), efforts of cooperation in South America were directed towards the first two levels, while in the third cooperation was very unsatisfactory and with fewer initiatives.

Deos (2009) classifies regional financial institutions in two groups, according to their objectives. The first group encompasses those aimed to deal with balance of payment problems and include the Reciprocal Payment and Credit Agreement (CCR), the Latin America Reserve Fund (FLAR) and the Local Currency Payment System (SML⁸). The second includes those seeking to increase and improve access to long-term credit in the region such as the MERCOSUR's Structural Convergence Fund (FOCEM), the Financial Fund for the Development of the River Plate Basin (FonPlata), the Development Bank of Latin America (CAF), the Foreign Trade Bank of Latin America (BLADEX), the Brazilian Development Bank (BNDES) and the Bank of the South (whose operations have not started yet). Other institutions not mentioned by the author are worth noting, like the Venezuelan Economic and Social Development Bank (BANDES), the Inter-American Development Bank (IDB), and the Caribbean Development Bank (CDB).

⁷ Which according to the author also reflect on lower default rates

⁸ Restricted to Brazil and Argentina

As in Gudynas (2008:23), the *regional* character of *regional* financial institutions can be defined not only by geographical area of operation criterion, but also by whether or not authorities and decision processes are under the control of the governments of the region^{9,10}. In this sense, UNCTAD (2007) points that although the participation of developed countries in regional initiatives may foster the access of developing countries to international financial markets, it would also implicate less control over the decision process by the latter, weakening their regional character.

2. The regional role of the BNDES

2.1 The Brazilian Development Bank

Founded in 1952 to function as a provider of long-term financing, BNDES was a key actor on the process of development and industrialization of the Brazilian economy over the past decades. Although its main function as long-term credit provider did not change and that it remains as the main instrument performing such role in Brazil, its scope has been broadened over the decades and among its current responsibilities are the financing of investment projects, equipment acquisition and export of goods and services¹¹.

According to BNDES' statute¹², its main objective is to finance activities related to the Brazilian social and economic development. Regarding external activities, the Bank can finance the purchase of assets and investments made by national companies abroad provided that they *contribute to the national economic and social development* and finance and foment the export of goods and services *made by Brazil-based firms*. Cross-border activities that does not involve disbursements are also outlined, such as the providing of technical and financial support¹³ to project structuring that promote economic and social development or its integration to LA. The emphasis added above were to show that regardless of the high volume of external operations, the ultimate goal of the Banks is directed towards Brazilian development and the support of national firms.

⁹ The third feature pointed by the author is the focus of the financing, which should be on "conventional financing" (such as infrastructure and energy), support for private enterprises or technical cooperation.

¹⁰ By this criterion, the power exerted by USA on the BID would not allow to characterize it as a regional institution regarding Latin America. It would not share a sentiment of belonging either.

¹¹ http://www.bndes.gov.br/SiteBNDES/bndes/bndes_pt/Institucional/O_BNDES/A_Empresa/

¹² http://www.bndes.gov.br/SiteBNDES/bndes/bndes_pt/Institucional/O_BNDES/Legislacao/estatuto_bndes.html

¹³ That can be non-refundable

As Hochstetler (2014:3) states about the financing of goods and services: “If no Brazil-based firm or product is involved, neither is BNDES money.”

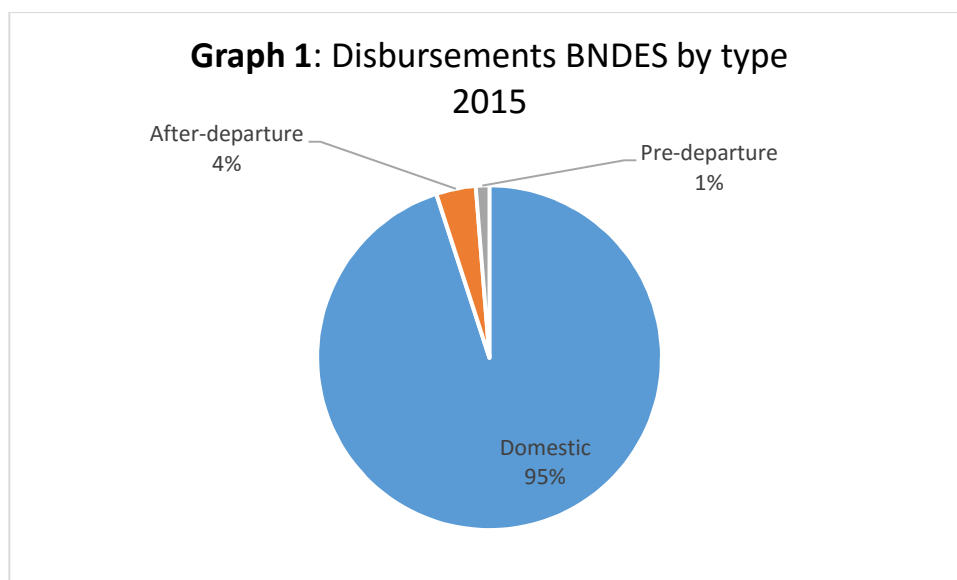
Regarding BNDES external operation, in 1990 the Bank started its export financing line called FINAMEX aimed to promote the export of capital goods. In 1997, when it acquired the current denomination, BNDES-exim, the program was extended to finance a broader range of products, like non-durable goods and engineering services. (Catermol, 2005). In 2002, the Bank’s statute changed to allow the financing of Brazilian companies operating abroad as long as they resulted in increased exports (until then the financing was only indirect, through variable income operations) (Alem and Cavalcanti, 2005).

According to Catermol and Lautenschlager (2010), BNDES-exim perform a similar role as export credit agencies (ECA) around the world, like the American, Chinese and Indian eximbanks. ECAs can be public or private institutions operating under the mandate of national governments from their countries. Despite a recent trend of operating with practices closer to private institutions, they do not have the objective of competing with existing financial institutions. Their goal is to fill gaps in sector to which there is no credit from the private sector, such as long-term operations, finance and guarantees for exports to countries with low access to credit, support to small and medium enterprises, to sectors with high technological content and operating in markets with high competition, among others. In sum, ECAs finance operations that would not occur under regular market conditions (*Ibid*:10).

BNDES-exim provides two different credit lines, the after departure (*pós-embarque*) and pre-departure (*pré embarque*). To assess the performance of BNDES-exim, this section analyzes the disbursements of the after departure credit lines. The focus on disbursements (rather than requests) is justified by the length of time it can take from the moment a loan request is presented to BNDES to the approval and to the actual disbursement. Also, more important, there is a high “mortality rate” so that a substantial part of the requests may not be approved. The option for the after departure is due to the fact that pre-departure lines are internal operations since they finance the domestic stage of the production process while the after departure line finance foreign firms or financial institutions¹⁴. Henceforth, unless specified differently, all the disbursements figures mentioned refer to the after departure credit line and has BNDES as source.

¹⁴ The later through the BNDES Exim *Automático* line

Total (domestic+international) disbursement by BNDES in 2015 was R\$135 billion. Exports financing programs reached roughly 5% of the total, with R\$6.8 billion of which the after departure line accounted for 74 (or 4% of total). The figures show international operations (meaning after departure) still represent a marginal fraction of the Bank's total operations (see graph 01).

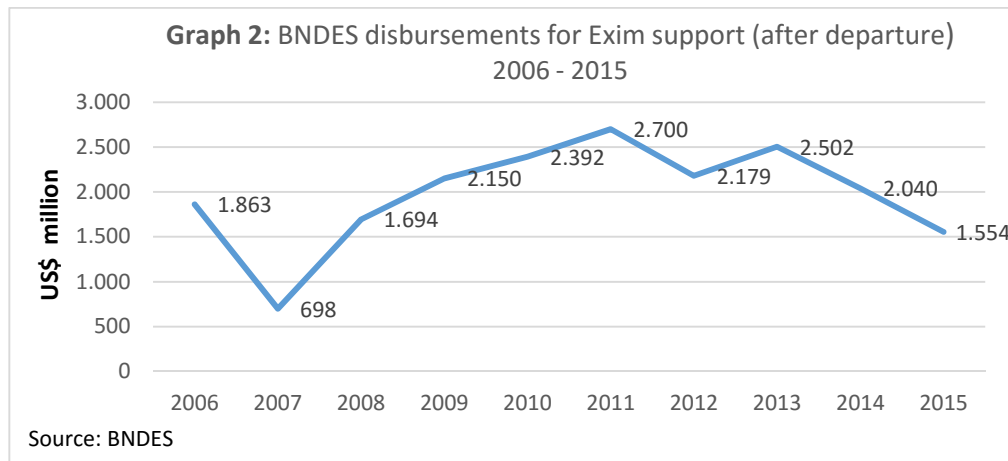


Source: BNDES

On the next section it is analyzed the after departure disbursements as a whole and on the following it is made an analysis of the resources directed to the infrastructure sector through the same credit line.

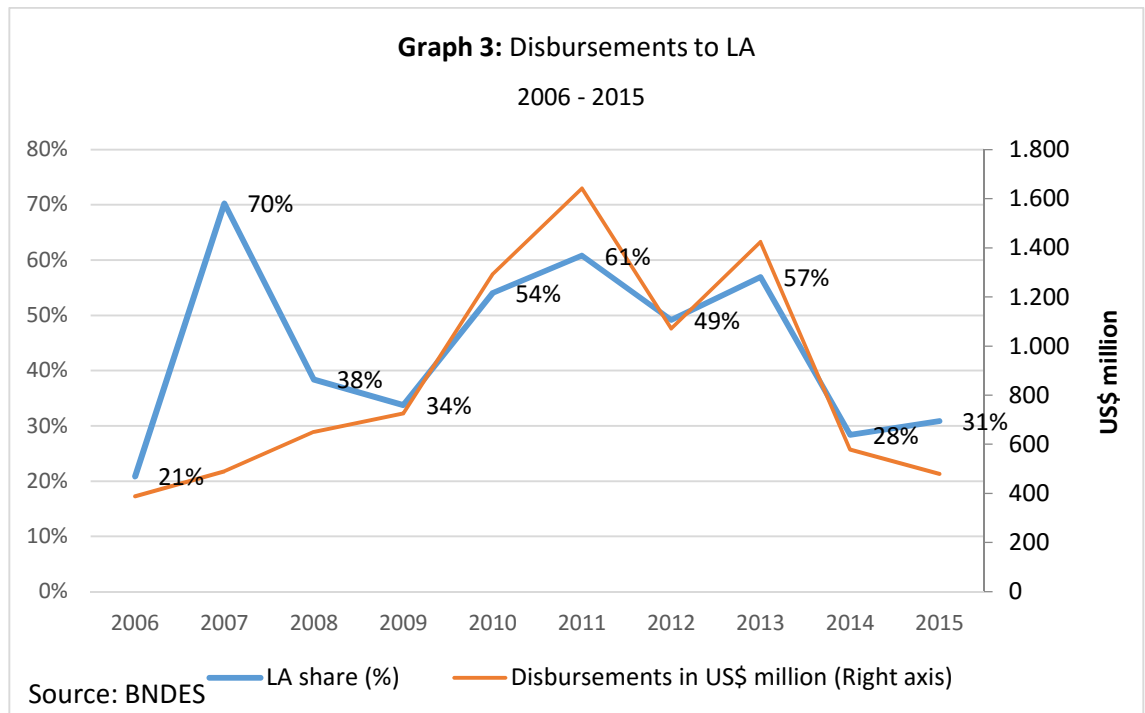
2.2 Financing of BNDES to Latin America

As it is seen on the next section, infrastructure and capital goods answer for roughly the total after departure credit. Since such operations involve large amount of resources, individual projects can change yearly volumes substantially, distorting annual analysis. To avoid such distortions and to be able to identify tendencies, besides the more recent figures available (2015), the cumulative values (in most case of the past five years (2011-2015)) disbursements by country or region are also presented. Firstly, graph 2 shows the evolution of disbursements in the past ten years. As it can be seen, disbursement grew almost four times and have been decreasing rapidly since 2013.



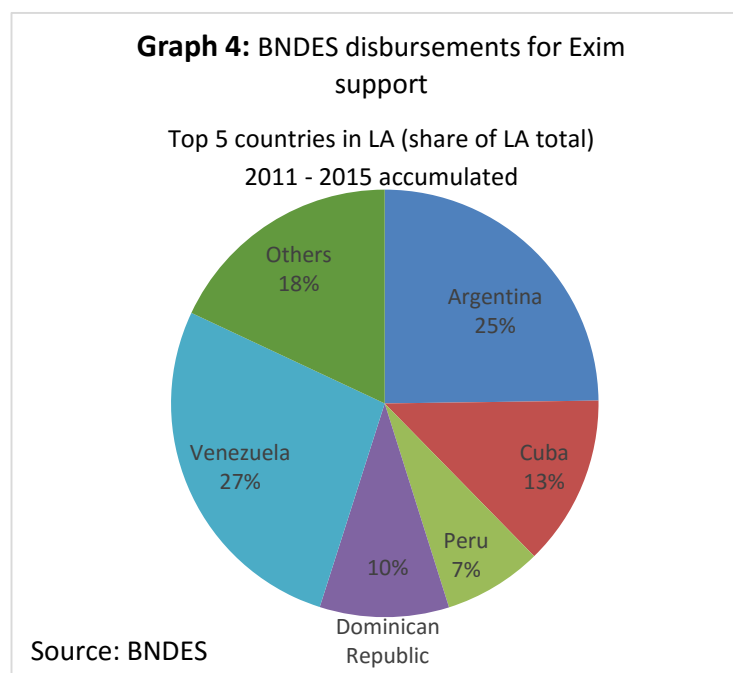
Analyzing the disbursement by destination of financed exports, the country with largest volume of finance in 2015 was the USA with US\$ 934.3 million (37%), followed by Venezuela (8%), Dominican Republic (5%), Mozambique (3%) and Angola (2%). Considering the accumulated value from 2011 to 2015, USA comes first with US\$3.1 billion, 34.3% of the total, followed by Angola (20.1%), Venezuela (15.8%), Argentina (14.4%) (12.4%) and Cuba (7.5%).

Focusing on Latin America, by graph 3 one can see that over the past ten years the relative importance of the region (left axis) reached its peak in 2007, with 70% of the total and in 2015, 31% of the financing was directed to the region. Although the recent decrease, over the period it answered for at least 30% of the total in 8 of out of the 10 years analyzed. The spike from 2006 to 2007 (21% to 70%) can be explained by the a sharp drop of financing for exports to the USA, which until then (since 1999) had been responsible for more than 50% of the disbursements and dropped roughly to zero (US\$1 billion to US\$659,000) with the beginning of the Great Recession in 2007. Despite the gradual recovery, in 2015 the figures for the USA were still 91% of the prevailing in 2006.

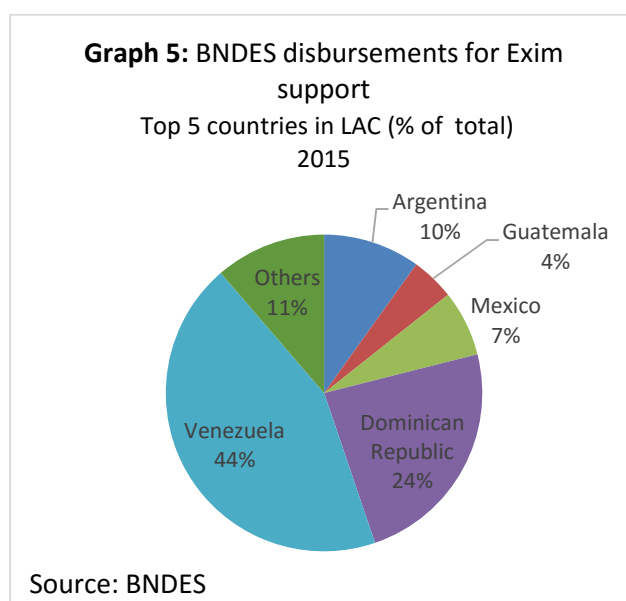


Taking nominal values (right axis) the peak was in 2013, with US\$1.4 billion and in 2015 was at US\$480 million, the lowest since 2006. Nevertheless, except for 2007 and 2014, the importance of the region for BNDES' loans accompanied the increase in nominal values and not the reduction of other countries or regions, as it can be seen by the graph 3.

Let us then investigate the dynamics of the financing of exports to the region. Considering the past five years, Venezuela was the Latin American country with high participation on disbursements (27% and a total of US\$1.4 billion lagging behind only USA and Angola when considering all countries), the second was Argentina with 25%, Cuba with 13%, Dominican Republic with 10% and Peru with 7%. These five countries combined were responsible for 82% of the LA total. (see graph 4).



In 2015 (see graph 5), with disbursements of US\$211 million, Venezuela received 44% of the total for Latin American, followed by Dominican Republic (24%), Argentina (10%), Mexico (7%) and Guatemala (4%).



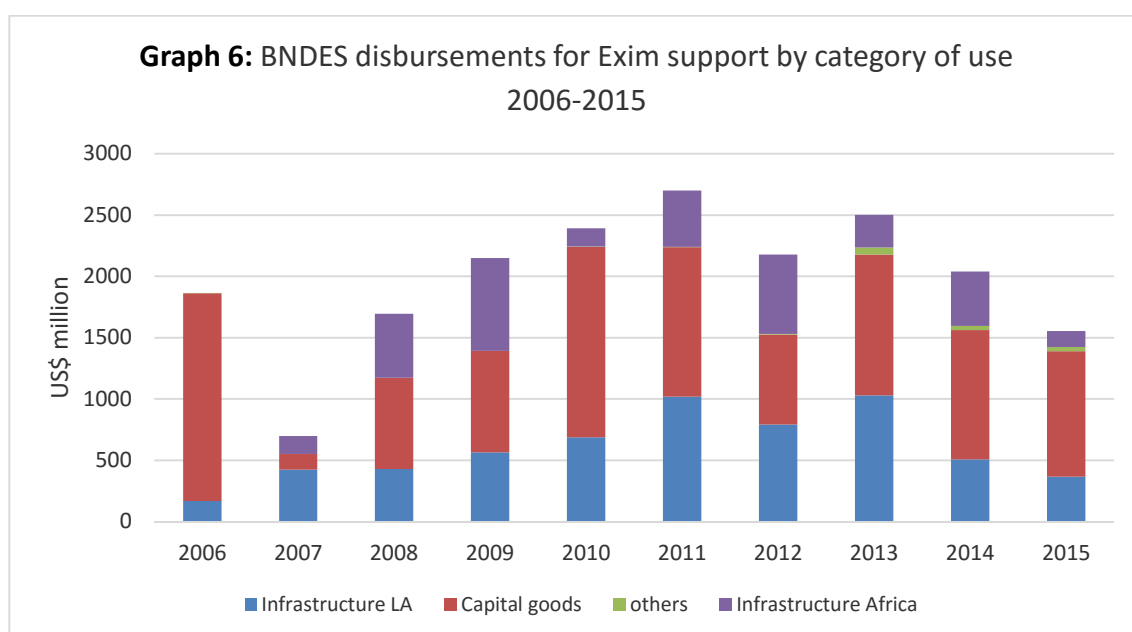
2.2.1 Disbursement for infrastructure in Latin America

From 2011 to 2015, around 99% of the disbursements went to the infrastructure¹⁵ and the capital goods sectors, 516% (US\$5.7 billion) and 47.2% (US\$5.2 billion)

¹⁵ One important reminder is that the BNDES does not finance projects as a whole, but the exports of Brazilian goods and services involved in them (Nyko, 2011)

respectively. In 2015, US\$495 million (32%) went to infrastructure, US\$1.02 billion (66%) to capital goods and US\$35 million (2%) to other sectors. Therefore, almost the totality of the disbursements was directed to investments, showing how important the after departure credit lines can be to the regional infrastructure sector.

Over the past five years (2011-2015), the total volume of disbursement to infrastructure was US\$5.7 billion. The peak was in 2011, with US\$5.5 billion and in 2015 reached US\$495million (see graph 5), the lowest value since 2006. Focusing on Latin America, disbursements for the exports of infrastructure goods and services stood at US\$365 million in 2015, 74% of the infrastructure total and 24% of total disbursements. From 2011 to 2015, disbursements to the sector in LA summed US\$3.7 billion, 66% of total disbursements for infrastructure and 22% of the total. According to the data available and to information from the BNDES' staff, financing for infrastructure is restricted to LA and Africa¹⁶, what allows us to conclude that the remaining share (25% in 2015 and 34% for the period) represents financing of exports to Africa. Graph 6 shows disbursements in infrastructure to LA relative to other disbursements over the past ten years. It is possible to see it gained relevance on the Bank's portfolio over the period, despite the recent drop.



Source: BNDES

¹⁶ Still according to the staff, this is so because the financing conditions for infrastructure in Europe, Asia and North America are better than the ones offered by BNDES.

The analysis of the disbursements by exporting company shows that construction, capital goods and engineering services exports sectors are the largest receptors. The volumes directed to those companies¹⁷ reflect the importance of regional exports for these sectors and the South American market became strategic for the Brazilian infrastructure companies. The geographical proximity and the knowledge of Brazilian companies on the regional market specificities are a natural advantage for them. Moreover, they would be more prone than their European and North-American counterparts to deal with political risks associated to the region (Carvalho e Sennes, 2009).

2.3 Financing for Latin America - Market or State driven?

According to UNCTAD (2007), the nature of the cooperation will depend on specific conditions (historical, geographical and political) as well as on the balance between market and State. In this sense, it would be possible to make a distinction between processes of integration conducted by market forces (regionalization) or by national states (regionalism) (*Ibid*). This is an important matter concerning the role and operation of BNDES in the region. As a *national* development bank, the expansion of disbursements to Latin America would be more related to market forces than to the will of integration by national states and the Brazilian foreign policy in particular.

Different authors point to changes on the Brazilian foreign policy to the region since 2003 when Luis Inacio Lula da Silva became president. According to Lessa (2010), the period under Lula saw a more proactive and propositional profile of Brazilian foreign policy on different fields of global governance and the strengthening of South-South political coordination. From then on, more importance was given to sub regional (South America¹⁸) and South-South integration, what could be seen in initiatives like the Union of South American Nations (Unasur) created in 2008 (Mariano, 2014). Another important feature is that the strengthening and development of South American regional mechanisms (such as Unasur) gained importance relatively to Mercosur (Lessa, 210:122). It is noteworthy that whereas diversifying economic partners among non-advanced economies, increasing efforts on multilateral initiatives and on South-South cooperation, Brazil also sought to reinforce ties with “traditional” partners like US and Europe

¹⁷ See section 2.4

¹⁸ By regional, it is understood South American and not Latin America. The later did not came up as a priority for Brazilian foreign policy.

(Menezes, 2012). Under Dilma Rousseff (2011-2014), the diplomacy of affirmation of Brazil as an emerging power, would have seen not a reversion, but a slight decline, with a less assertive international insertion (Cervo e Lessa, 2014).

Cervo (2010) points two features as cores of the recent Brazilian foreign policy: reciprocal multilateralism and economic internationalization. The first involves two presuppositions: “the existence of rules to govern the international order, without which the power disparity will prevail in favor of the great powers; and the joint formulation of these rules, so that they will not favor the interests of some to the detriment of the interests of others.” (*Ibid*: 11).

Economic internationalization by its turn referred to the development of mechanisms designated to turn Brazilian companies into large corporations able to compete on global markets and the support from BNDES and other public institutions was key to such strategy (*Ibid*). Government’s support can take the form of, among others, liberalization of capital outflows, technical assistance, fiscal incentives and financing (Alem and Cavalcanti, 2005). Half of OECD’s countries provides financial support as a mechanism for the internationalization of companies, and among emerging economies, structured internationalization policies are more common at Asian countries (*Ibid*). For Carvalho and Sennes (2009:29), the international expansion of emerging countries’ companies has the disadvantage of an initial weaker competitive position related to their competitors from advanced economies. In order to overcome that, a combined state-private sector strategy through public policies and proactive foreign policy would be necessary.

For Carvalho and Sennes (2009), due to its historical external financial vulnerability. Brazil always had a more defensive, rather than proactive, strategy regarding international financial issues (even regionally), contrarily to what happens on international trade. On the past decade, however, the government sought to alter this historical tendency in South America increasing its engagement in different mechanisms and institutions, like CAF and ALADI. Nevertheless, the authors add the caveat that the will of integration of the Brazilian government and private actors would still be stronger towards advanced than emerging economies in the sense that there is still some cautious regarding initiatives like the Bank of South or mechanism of payments in local currencies.

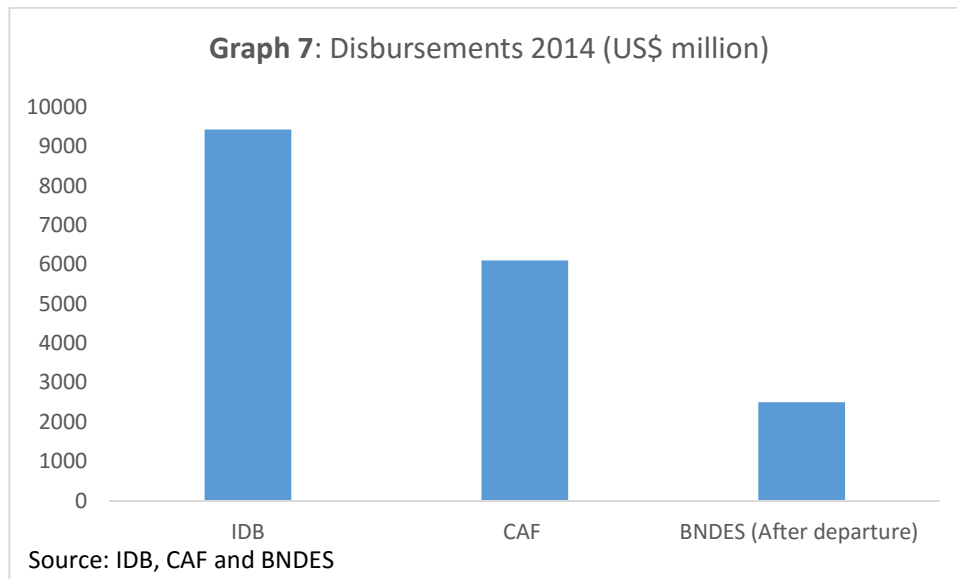
Therefore, despite the more active role of BNDES in financing regional exports, this change cannot be seen as an autonomous strategy, unrelated from Brazilian industrial and foreign policy. Internationalization was seen as a way to promote the competitive

integration of Brazilian companies to global markets and also foster strategic projects of regional integration (Alem and Cavalcanti, 2005:70). It was the first time that internationalization of Brazilian companies was part of Brazilian foreign policy strategy (Cervo, 2010:21). Until then, the successful attempts of internationalization were a result of strategies from the companies themselves rather than of public policies. The Brazilian government, especially under president Lula claimed the use of the Bank as a funding mechanism to regional development in a more “solidary” basis in comparison with the financing from “traditional” multilateral development banks (Hochstetler, 2014:361).

When comparing the foreign policy to the actual performance of BNDES, however, it is not so clear that this broader change influenced its acting. As Hochstetler (2014:362) shows: “Given BNDES’ cautious and market-oriented approach to funding, quantities based on financing contracts actually signed by the bank are inevitably more restrained than rhetoric would suggest.” The author calls attention for, among others factors, the length and legal restrictions from the consult or the intention until the approval and the actual use of the resources.

The difference between rhetoric (or intention) and performance is also highlighted when assessing the Brazilian and BNDES’ importance for the financing of projects under the Initiative for the Integration of the Regional Infrastructure of South America (IIRSA). The IIRSA was established in 2000¹⁹ under strong influence of the Brazilian government with them main goal of promoting infrastructure, more specifically the transportation, energy and telecommunication sectors, and aiming the physical integration of South America (Nyko, 2011). According to the author, the main entities financing the IIRSA are the CAF and the IDB and until 2010 none of the projects of the initiative were financed by the after departure line. Such difference holds not only for IIRSA, as shown in graph 7, which compares BNDES’ after departure disbursements with the resources provided by IDB and CAF.

¹⁹ Since the creation of the Unasur, IIRSA is the technical forum of the South American Council of Infrastructure and Planning (*Cosiplan*). See www.iirsa.org



As seen above, CAF and IDB have a more prominent role on the financing in LA than BNDES, with around three and four times more disbursements, respectively. Thus, although presenting an expressive volume of total (domestic and external) disbursements, the importance of BNDES as a regional lender is still to be seen.

As showed previously, Venezuela, USA, Argentina are among the main Brazilian importers. That helps explaining the high volumes of disbursements for exports to these countries. In his analysis of the after departure disbursements until 2009, Nyko (2011) argues that the position of the main recipients of disbursements was compatible with its economic importance and trade flows with Brazil²⁰. Thus, contrarily to the theory on regional banks' functions, which states finance should flow towards less developed countries²¹, BNDES' disbursements seemed to follow the dynamics of Brazilian trade in the period of analysis, with relative independence from the Brazilian foreign policy. The years following Nyko's analysis reinforces his argument, since the growth of disbursements was higher for the countries with better economic performance, suggesting that the acting on the BNDES is not so influenced by the government policy towards deeper integration.

²⁰ According to his analysis, Ecuador and Colombia would be exceptions. The first for having a high volume of financing compared to trade flows and the second for the opposite reason, a low proportion of finance relative to its importance for Brazilian exports.

²¹ The position of the USA is the most striking example.

As showed previously, disbursements of the after departure program are directed almost only to the infrastructure and capital goods, a profile compatible with a development bank. In such cases, it is expected that a single operation (especially in infrastructure) involves large volume of resources and that could lead a country with a not so large economy or trade flow with Brazil to the first positions as loan receiver. Venezuela for instance contracted 46 operations from 1998 to 2013, much less than Bolivia in the same period (364) but still had higher volumes of disbursements. Venezuelan operations involved three subway lines in Caracas and one in Los Teques, a shipyard, a steel mill, airplanes for the air force, among others, while Bolivia financed mostly the imports of transportation goods (Volvo, Mercedes-Benz and Volkswagen were the companies with higher financing for exports to Bolivia) help explaining the difference in number of operations contracted and disbursements. Thus, a country going through a period of rapid economic growth and/or an investment boom could be an important “candidate” for BNDES’ resources, regardless of its previous position as importer of Brazilian goods and services. Due to the nature of the operations financed, a difference in the position (or in the volume) of disbursements and trade does not allow a conclusion towards a foreign policy driven strategy.

The degree of development may also be relevant in the sense that countries with more needs on infrastructure and lesser conditions for such investments will be more likely to receive BNDES’ resources than one with a more developed and complex industrial structure. The same goes for the financial system. In the absence of a private or public financial institution providing long-term credit, the demand for BNDES’ loans would be stronger than in a country with a mature financial systems.

Disbursements can also be explained by industrial policy and the international competition in some sectors, like aircrafts. To promote the competitiveness of Embraer (and consequently the national aircraft industry), BNDES finances its clients through the after departure line. The financing of Embraer’s buyers is the key factor explaining the high volume of disbursements do the USA in recent years. This would be a good example of the acting of BNDES under the strategy of promoting the internationalization of Brazilian companies and not of a regional institution promoting regional development.

Therefore, if foreign policy and the will for integration are not factors to be disregarded, the corroboration of the economic or market motivations requires a further analysis with more desegregated data, especially on services, and an analysis year by year of the operations for each country, a task beyond this scope of this paper.

3. The debate over the regional role of the BNDES

Without the pretension to exhaust the subject, this section presents criticisms of different natures against the international role of the BNDES. Firstly, there is the domestic opposition who question the reasons for providing finance to other countries' companies and governments (in the case of public infrastructure projects) while Brazil itself still has serious infrastructure and credit needs. Credit directed to left-oriented countries, like Cuba²² and Venezuela, are particularly questioned because of the possible political motivations.

The concentration of resources directed to some companies is also focus of domestic criticism. Over the past five years (2011-2015), Embraer exports received at least 39% of the total (63% in 2015). Financing to Odebrecht's exports was also very relevant (a peak of 42% in 2014), although in 2015 dropped to 15%, possibility related to the recent legal issues involving the company. In 2015, only other three companies had shares of more than 1%, Andrade Gutierrez (construction) with 14.2%, OAS (construction) with 3,5% and Queiroz Galvao (construction) with 1.1%.

Opposition also comes from countries receiving BNDES credit for large infrastructure projects. The criticism is related to the sustainability feature of such projects and even to a supposedly Brazilian imperialist strategy²³. Gudynas (2008) questions the Brazilian policy for the region (of which BNDES is part of) and of the Latin American regional financial institutions in general for the high environmental and social impacts of projects financed by them and by gaps in key subjects like indigenous rights, better access to information, transparency and active citizen participation.

In addition to that, Mariano (2014) points that the Brazilian government has maintained negotiations on the intergovernmental basis rather than through supranational regional institutions in order to preserve its autonomy, which could be pointed as a lack on the regional governance matter.

Brazilian procedure continues to be strictly intergovernmental and its actions as paymaster, referring to physical integration, are concentrated on the employment of national mechanisms (like BNDES) over which

²² With the beginning of the distress on USA-Cuba relations since the end of 2014, the recent investments from Brazilian private companies in Cuba and the financing of infrastructure projects like the port of Mariel by BNDES are beginning to be seen as a wise strategic decision.

²³ For more references on the subject, see Hochstetler (2014:361).

it has capacity do determine and direct the necessary investments (*Ibid*: 263)²⁴

Still on the governance matter, the creation of the Bank of South illustrate this preference of national over multilateral intitutions. According to Carvalho and Sennes (2009), the initial proposal for the Bank (from Venezuela, Argentina, Bolivia and Ecuador) involved an institution with functions such as development bank, regional central bank, and even issuer of a regional currency. The Brazilian government however managed to narrow the scope of the bank to a regional development bank and with a lower volume of capital than initially proposed. For the authors, that reflected the Brazilian objective to promote integration through its own national institutions, rather than on regional ones. On the specific case of the BNDES, being a national institution and with a legal mission of promoting national development, a more democratic regional governance would require significant changes in its statute. Thus, it would be a highly controversial question in its legal and political aspects.

Finally, the Brazilian role on the regional (South America) integration, of which BNDES is one of the main instruments, is also questioned concerning its potential as a regional development strategy. Regarding the integration feature, although claiming for “integration”, not only the BNDES financing but also initiatives like IIRSA are directed towards mere “connections” among the countries, which would a necessary but not sufficient condition for economic integration²⁵ (Gudynas, 2008). Nevertheless, according to Nyko (2011), not even the necessary connection was being promoted, since most of the projects had as objective improve domestic infrastructure and not physical linkages among countries.

Figures show BNDES as an important agent for the financing of Brazilian exports to South America – notably in engineering services and large infrastructure projects. At first sight, such increasing importance seems compatible with the declared priorities of the Brazilian external policy to the region. A more detailed examination, however, raises doubts about is potential regarding the physical integration of the sub-continent (...) (*Ibid*, 2011:95)²⁶

For Gudynas (2005) they reinforces the idea of open regionalism in which regional integration is just a first step of preparation and adjustment to global integration. As argued by Teixeira and Desiderá Neto (2014), contrary to the initial propositions of Raul

²⁴ Translated by the author

²⁵ Not to mention political, productive, cultural and so on.

²⁶ Translated by the author

Prebisch, for whom regional integration was necessary to promote industrialization and reduce external vulnerability, recent initiatives reflect a view that prioritizes commercial benefits and in which structural change and technological progress have no role. Not to mention the potential to give dynamism and promote industrialization to small economies through the integration of markets that would give them the necessary economies of scale (*Ibid*). According to Medeiros (2008:244), by prioritizing the construction of export corridors and investment in infrastructure, IIRSA tends to reinforce the traditional international insertion of the regional, based in the export of primary goods, and the regional asymmetries.

Still regarding the nature of the integration, Honty (2006) criticizes the absence of sustainability concerns on the energy integration process, which referred only to the building a more efficient system through the provision of cheaper energy than each country could produce in isolation. Such process was restricted to physical interconnection to transport electricity and natural gas without any commitment to regional sustainable development (*Ibid*: 126). The biggest challenge, points the author, would be to conciliate the provision of the energy required to sustain economic growth with sustainable development, which would not occur with an energy matrix based on oil, natural gas and hydroelectric energy like it is the case in the region. Such matrix could result in a development strategy with high environmental impacts. Thus, an energy integration with the sole concern of producing cheap energy would be in contrast with a strategy of sustainable development. For the last to be achieved it would be necessary measures such as the transferring of environmental costs (like pollution and loss on biodiversity) of the producing countries to the prices as well as common regulation regarding pollution control.

Conclusions

BNDES is a national development bank whose ultimate goal is to promote national development. Even though, through the after departure credit line it has been directing a substantial volume of resources to finance the purchase of Brazilian goods and services by foreign companies and governments. The concentration of resources on infrastructure and capital goods and the increasing volumes of disbursements to the region relative to other areas suggests an important role on the finance of regional investment.

The rationale for a mechanism like the after departure line has been outlined on the paper, as well as the role of BNDES as an instrument of Brazilian foreign policy. The evidence presented, however, does not support the argument for a purely market-driven dynamics, in which the bank respond the demand from companies and the evidence is even weaker to corroborate a foreign-policy oriented strategy, when the bank would use its resources to accomplish the national government's goals, like internationalization of domestic companies and the promote on of regional integration. In this sense, the integration promoted by BNDES would be more a regionalization (conducted by market forces) than a regionalism (by national states).

Regarding BNDES as an agent of regional integration, legal and domestic political constraints are relevant obstacles that makes the Bank an instrument with lower potential than a regional institution. The matter, though, goes beyond the potential and or legal requirements for loans. If regional integration is a genuine objective, it has to be carried through multilateral institutions that could provide a better (more democratic) governance so that the process will not be subject (although not immune) to the will of a sole country and to the swings of its foreign and/or economic policy orientation. In some degree, integration implies and requires lessening policy autonomy and a preference for national institutions may reflect a desire to play a prominent role.

Finally, there is the question if regional integration refers to the building of physical connections or to means that promote sustainable development, help the region overcome secular problems and reduce regional asymmetries. For the latter to be achieved, more than being a paymaster, the key question is directing resources towards investments that could allow the filling of technological and human capital gaps, reducing external vulnerability and the integration of domestic economies to dynamic value global chains. Social and environmental requisites for loans also have to be a major concern for BNDES or any regional financial institution. With better economic (length and cost) conditions and more strict social and environmental requirements, these institution could play a truly alternative way to private finance and make sustainable projects viable.

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