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FEATURED Q&A

What Will Changes at BNDES Mean for Brazil's Businesses?



Brazil's president tapped former Finance Minister Joaquim Levy to lead the Brazilian Development Bank, or BNDES. // File Photo: Brazilian Government.

Q Brazilian President Jair Bolsonaro has pledged to investigate alleged corruption at state-run development bank BNDES, a massive institution comparable in size to the World Bank. Before he took office in January, Bolsonaro also criticized the development bank, saying it funded projects that were unrelated to Brazilian national interests, such as a container terminal at Cuba's port of Mariel. What are the most important actions Bolsonaro's government is taking at BNDES? Who will be the biggest winners and losers resulting from proposed reforms at the development bank? How will changes at BNDES affect Brazil's business sector?

A Amanda Mattingly, senior director at The Arkin Group in New York: "Brazilian President Jair Bolsonaro came into office with a team of neoliberal economists ready to institute market-friendly reforms in Brazil. Bolsonaro sees the private sector as the engine for growth and development and thus, wants to privatize or reform a number of state-owned entities, including the Brazilian Development Bank (BNDES). It is not surprising, given that BNDES has for some time been criticized for murky deals and lending state funds to private corporations with corrupt practices or that could have financed themselves through international capital markets. For example, Odebrecht, the large Brazilian construction company at the center of the Lava Jato corruption scandal, received large loans from BNDES in the past. Even before Bolsonaro campaigned for president, BNDES came under scrutiny for loans that benefited projects and workers outside of Brazil. The \$700

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TODAY'S NEWS

POLITICAL

Venezuela's Guaidó Stripped of Immunity From Prosecution

Venezuela's powerful government-aligned Constituent Assembly stripped opposition leader Juan Guaidó of his immunity from prosecution. It was the government's latest move against Guaidó, whom dozens of countries recognize as the country's acting president.

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ECONOMIC

Mexican Gov't Cuts Planned Spending

The government said it would cut \$6.2 billion from the budget amid lower expected oil production and economic growth.

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POLITICAL

Brazil's Temer Indicted on Graft Charges

Former Brazilian President Michel Temer stands accused of taking part in a bribery scheme related to a nuclear power plant complex.

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Temer // File Photo: Brazilian Government.

POLITICAL NEWS

Venezuela's Guaidó Stripped of Immunity From Prosecution

Venezuela's Constituent Assembly, which is aligned with President Nicolás Maduro, on Tuesday stripped opposition leader Juan Guaidó of his legislative immunity from prosecution, *The New York Times* reported. Guaidó, the president of Venezuela's National Assembly, has international recognition as the country's acting president. The move by the Constituent Assembly, which Maduro's government created in 2017 to circumvent the opposition-controlled National Assembly, paves the way for Guaidó's potential arrest. Stripping Guaidó of his immunity was the government's latest move against the opposition leader. In recent weeks, Maduro's government has prohibited him from traveling, frozen his bank accounts, banned him from running for office, started investigating him on terrorism allegations and arrested his chief of staff. However, government agents so far have not arrested him. The United States, which is

among the countries that recognize Guaidó as Venezuela's president, has said that any attack on him would lead to a severe reaction. "The regime believes that by attacking me, they will stop us," Guaidó told supporters late Tuesday. Meantime, thousands of Venezuelans, fleeing the deteriorating living conditions in their home country, on Tuesday pushed through barricades along the border with Colombia, Reuters reported, citing Colombia's migration office. In February, Maduro's government used trucks and containers to block two bridges between the countries in an effort to stop U.S.-backed humanitarian aid from entering Venezuela. Millions of Venezuelans have fled into Colombia and other Latin American nations in recent years.

ECONOMIC NEWS

Mexican Gov't Cuts Planned Spending

Mexico's Finance Ministry said Tuesday that it would cut \$6.2 billion in spending from this year's planned \$296 billion budget amid slower economic growth and lower oil production, *The*

NEWS BRIEFS

Brazil's Temer Indicted on Corruption Charges

Authorities in Brazil indicted former President Michel Temer on Tuesday on corruption charges that allege he took part in a bribery scheme in connection with the Angra 3 nuclear power plant complex near Rio de Janeiro, Reuters reported. Temer, who left office Jan. 1, denies wrongdoing. Federal Judge Marcelo Bretas accepted charges of corruption and money laundering against the former president and his energy minister, Wellington Moreira Franco, and six other aides. The case is part of the massive "Lava Jato," or Car Wash, probe.

Uruguay's President Fires Top Military Leaders for Alleged Cover-Up

Uruguayan President Tabaré Vázquez has dismissed the country's defense minister, his deputy, the army chief and two generals for allegedly covering up human rights abuses committed during the military rule from 1973-85, *BBC News* reported Tuesday. The move came days after a Uruguayan newspaper revealed details of a military tribunal last year regarding the disappearance of a left-wing rebel in 1973. The army chief and two generals were accused of failing to pass this information on to the judiciary, as required by the tribunal's rules.

Banks Top LinkedIn's List of Top Employers in Brazil

Banks are at the top of a list, compiled by professional-networking site LinkedIn, of the best employers to work for in Brazil, *CNBC* reported today. Heading the list is lender Itaú Unibanco, which also came in first in LinkedIn's ranking last year of best companies to work for. In second place this year was Banco Santander, which moved up in the ranking from 21st place last year. Also in the top 10 are venture capital company Movel, pharmaceutical company Bayer and energy company Raízen.

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million Mariel port project in Cuba was one. So far, Bolsonaro's most significant action at BNDES is the appointment of Joaquim Levy to run the bank and initiate the reforms. Levy comes to the job with a lot of experience, having served in previous administrations and most recently at the World Bank. Reportedly, Levy is charged with uncovering corrupt lending practices and opening the so-called 'black box' of secret transactions at BNDES. Whether or not secret transactions are actually revealed, BNDES reforms may just mean that the bank scales back its funding in areas such as agriculture, infrastructure or energy that would have benefited Brazil and other countries in the region, leaving the private sector to provide longer-term financing of such development projects."

A **Monica de Bolle, director of the Latin American Studies program at the Johns Hopkins University School of Advanced Interna-**

tional Studies: "Bolsonaro has appointed former Finance Minister Joaquim Levy to head BNDES. Given Levy's vast experience in the public sector and in development banks such as the World Bank, he is taking steps to ensure that the development bank is well-focused on key priorities. BNDES experienced massive balance sheet growth during Lula's second term in office, and especially during Dilma Rousseff's first term. A number of opaque loans were either made directly to governments in the region—among them Cuba and Venezuela—as well as to companies operating in those countries and deeply

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Wall Street Journal reported. At the same time, the ministry said it would keep its goal of maintaining the budget shortfall at no more than 2.5 percent of annual economic output. The Finance Ministry said the loss of revenue was due to state oil company Pemex's lower expected output of oil, gas and refined products. By matching the expected loss of revenue with spending cuts, the government is signaling a commitment to fiscal discipline, Credit Suisse's chief Latin America economist Alonso Cervera told The Wall Street Journal.

BUSINESS NEWS

Peru Indigenous Group Refuses Talks With Government

The Fuerabamba indigenous community in Peru, which has been blocking roads to a Chinese-operated copper mine, has decided not to negotiate with the government until the group's lawyers have been released from jail, the community's leader said Tuesday, El Comercio reported. Since February, members of the Fuerabamba community have blockaded a road leading to Chinese miner MMG's Las Bambas complex, halting exports from the copper mine, which produces roughly 400,000 metric tons of copper per year, or about 2 percent of global copper production and 1 percent of Peru's gross domestic product, Reuters reported. The road crosses the community's farmland. The head of the community, Gregorio Rojas, met with the government in Lima on Sunday, which offered to call back emergency measures authorizing the use of military force in the region in exchange for an end to blockades. However, after meeting with members of the community, Rojas rejected the offer, saying the community opposed it. The group's attorneys, brothers Jorge and Frank Chávez, were arrested two weeks ago, along with Rojas, on allegations that they organized the roadblock to extort MMG. Rojas was released last Friday without charges, but the lawyers remain jailed and under investigation.

THE DIALOGUE CONTINUES

Will 5G Services Live Up to the Hype in Latin America?

Q In February, Chile officially announced its plans to begin an auction process as it seeks to soon roll out 5G connectivity nationwide. 5G services can bring benefits such as improved data speeds and more efficient energy use, but the expected costs involved with building 5G technology have been higher than anticipated, according to a McKinsey study published last year. To what extent should Chile be focusing on improving existing infrastructure instead of rolling out 5G connectivity, and how can the government and telecommunications companies mitigate high costs? Would 5G services benefit consumers in Latin American markets, and can they afford the bills that would pay for the network buildout? What are economic models of success for 5G rollouts in other parts of the world, and what can Latin America learn from them?

A Patricio Soto, research and telecommunications manager of IDC Chile: "At the Mobile World Congress on Feb. 25, Chilean Telecommunications Undersecretary Pamela Gidi announced the government's intentions to soon begin the spectrum allocation process to make 5G deployment a reality in Chile. Subtel has been preparing for this moment for quite some time, and we believe that the government's proposal to the Tribunal for the Defense of Free Competition, its consultation for the national spectrum plan and the caps established are all in line with this preparation. For the correct deployment of the band, the regulatory body must ensure that the process favors healthy competition, including the participation of a large number of actors, thus enabling a varied and attractive offer for consumers. However, this technology's development must also be accompanied by significant investment from

telecommunications operators and the willingness of the public sector and the public to enable the deployment of infrastructure that enables it. An important factor in determining the 5G implementation deadlines is the spectrum auctions, especially at 28 GHz and 39 GHz. Global auctions are expect-

“The regulatory body must ensure that the process favors healthy competition...”

– Patricio Soto

ed during this and next year. Given that spectrum allocation is essential to any 5G deployment, the way in which it is assigned and how to it interacts with legacy technology will be fundamental to 5G implementation plans. Chile uses the 'beauty contest' model, which differs somewhat of the auction model. Moreover, international experiences have shown that the auctions model for spectrum access has made it possible to collect money that can also be used to palliate the expenses incurred when deploying 5G. While both models have advantages and disadvantages, it is important to analyze which of these models is best-suited for an optimal implementation of 5G. By 2022, 50 percent of the United States, England and Chile's revenues will come from the mobile Internet, BAM and M2M markets, Internet of Things solutions, smart cities and augmented reality, among others, which in turn will be leveraged in the deployment of 5G."

EDITOR'S NOTE: The comment above is a continuation of the Q&A published in Tuesday's Advisor.

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involved in corruption scandals, such as Odebrecht. Over the past few years, the bank has been trying to make its lending practices more transparent, but there's still a ways to go. Therefore, the most important priorities are ensuring transparency and formulating a clear mandate for the bank. If done correctly, measures would remove distortions from the Brazilian financial sector and improve access to financing, especially for small and medium enterprises."

A **Joel Korn, president of WKI Brasil and senior international partner at UPITE Consulting Services:** "As part of the highly regarded economic team that Economy Minister Paulo Guedes assembled, the appointment of former Finance Minister Joaquim Levy as the new president of BNDES reinforces confidence that the institution will be subject to sound governance practices and its role as a development bank will be fully aligned with the government's liberal economic policies. As such, the bank will be actively engaged in the support of privatization/public concessions programs and priority infrastructure projects. Moreover, BNDES will be committed to significantly expand its support to micro/small-size companies, recognizing its importance in the promotion of economic growth and employment generation. This was confirmed by the recent announcement of a new 1.3 billion-real program targeting this specific segment. Unlike the experience in the past three administrations, it is anticipated that the bank will not be subject to undue political influences that led the institution to finance questionable projects, especially cross-border. Rather, BNDES is expected to focus on sound lending activities that are consistent with the priority demands of the Brazilian economy. The private sector will benefit significantly as BNDES leverages its role in the promotion of economic and social development through further impetus in overdue productivity gains while stimulating innovation, environmental

responsibility and competitiveness across a broad spectrum of economic activities. Evidently, opportunities will be limited for companies that fail to adjust to this new reality and continue to rely on protective measures, as opposed to taking bold actions to become intrinsically competitive. The long-awaited social security reform, crucial to addressing the country's severe fiscal constraints, along with the planned liberalization and microeconomic policies aimed at deregulation and reduction of the huge cost of doing business, represent cornerstone factors for stimulating new investments and economic growth. In this scenario, BNDES will have a key role to play for a constructive impact on Brazil's business sector."

A **Welber Barral, senior consultant at BMJ Consultores Associados and former Brazilian foreign trade secretary:** "The new BNDES president, Joaquim Levy, is a former finance minister and seasoned economist. He declared that BNDES will be more active on innovation and infrastructure, rather than competing with commercial banks. This assertion also reflects the government's view that state-owned banks should be less interventionist in the financial market. BNDES will reduce its credit offer to traditional industries. It will be useful in the promised privatization process of state-owned companies. It will focus its credit lines on SMEs, start-ups and infrastructure projects. Some sectors that received incentives and were not internationally competitive will have to look for alternative credit lines. Trade finance, for example, was dominated by BNDES and Banco do Brasil in the last decades, and exporters will be forced to look for structured operations with financial institutions and fintechs."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

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