



When a coalition of civil society organizations began to pry into the finances of Brazil's powerful national development bank, it challenged the status quo and advanced the call for a more transparent, balanced, and democratic economic policy.

Photo courtesy of Ibase.

The following case describes the first efforts in Brazil, led by a network of civil society organizations, to demand accountability from the country's opaque development bank, the Banco Nacional de Desenvolvimento Econômico e Social. This is a summary of a more in-depth study prepared by Peter Spink as part of the Learning Program of the IBP's Partnership Initiative. The PI Learning Program seeks to assess and document the impact of civil society engagement in public budgeting. Download a PDF of the complete case study at <http://internationalbudget.org/wp-content/uploads/BNDES-Platform-Full-study.pdf>.

BRAZIL: CHIPPING AWAY AT THE POLICY WALL OF THE BNDES

When a group of civil society organizations (CSOs) initiated a seemingly straightforward campaign to push Brazil's development bank to be more transparent and accountable, they found much more at stake than they anticipated.

Through military dictatorships, and administrations both conservative and progressive, Brazil has steadily pursued an economic policy that has created powerful multinational corporations in industry and natural resources — all in the name of national interest.

At the center of this strategy is the *Banco Nacional de Desenvolvimento Econômico e Social* (BNDES), a state-owned development bank with a budget that now exceeds even that of the World Bank. Owing to its historic achievements and the professional credentials of its staff, the BNDES has enjoyed a unique privilege for a public entity of being excused from virtually any form of public oversight or scrutiny.

By challenging the BNDES, these small, poorly resourced organizations were confronting powerful and entrenched interests that had enjoyed the benefits of unquestioned economic dogma. And while Brazil has certainly made great strides under the stewardship of the BNDES, there are still millions of poor and disaffected Brazilians whose interests have been sacrificed — those who could have benefitted from a different

economic strategy, who have been displaced by dams and other industrial infrastructure projects, and who have borne the cost of environmental degradation from logging and mining.

This is not one of the unmitigated success stories of budget advocacy, but a case that demonstrates how prying into the finances of one state institution can unsettle the status quo and open the eyes of the public to the need for a more balanced and democratic economic policy.

THE ISSUES: AN INSTITUTION BEYOND REACH OR REPROACH

The BNDES is a hybrid. It is a private company that is publicly owned. It receives private returns from the interest paid by borrowers (which are shared, in part, with its employees), yet also periodically receives public funds to increase its capital. Additionally, through a subsidiary that makes capital investments, the BNDES has large shareholdings in a number of different companies.

So called “state-owned enterprises” like the BNDES may operate under direct government control, but they are treated legally as private businesses, with all of the protections and privacy that provides. A “parallel budget” is how some would describe the public resources that are channeled through state-owned enterprises — and the amount of resources controlled by the BNDES is enormous. Often raising the

money by selling bonds, the Treasury injected a total of US\$180 billion into the BNDES in the 2008-2010 period.

The BNDES has been an economic juggernaut since it was established in 1952. In the early days, it was known merely as the BNDE (before the S was added for *social*) and was instrumental in shaping Brazil's economic growth strategy of "import substitution industrialization," a policy of replacing foreign imports with domestically produced goods — often with state-led interventions to give national producers a competitive edge. In the 1990s the BNDES underwent a re-orientation of its activities toward export industries and export-oriented infrastructure.

One consistent feature of the BNDES' history, however, has been the lack of clear, systematic, or routine information on the firms that have received its support.

There is a strong belief within the organization that correctly selected and professional staff, following strict procedures, will do their work in the interest of the public without any need for external control or transparency. Indeed, the BNDES is known to attract the best and brightest, and sets a high standard in its highly competitive entrance exam. Still, because many of the staff come from similar backgrounds in business, economics, and engineering, and often from a handful of elite educational organizations, the BNDES has a narrow and legalistic view of its responsibilities.

In 2010, for example, when public prosecutors from the State of Pará in the north of Brazil pressured the BNDES to stop providing loans to companies that face charges of illegal tree removal for cattle ranching, the BNDES refused to do so on the basis that the companies were "innocent until proven guilty," citing the defense given by the companies in question that violations were by third-party contractors who had not obeyed orders. According to activists, it is useless to take the "moral high ground" with the BNDES when it replies with strictly legal arguments.

To be fair, the BNDES has seldom been the object of advocacy and protest; it is more often the BNDES' clients. Local activists across Latin America and Africa have organized protests against the large-scale public works projects sponsored by the bank that have displaced citizens, threatened the environment, and undermined the livelihoods of traditional communities.

But that is changing, and perhaps due to the efforts described in this case study. The BNDES has increasingly been the object of diverse concerns among civil society organizations. Some organizations have been focused on promoting greater fairness at the bank given the vastly different success rates with financing that different economic actors appear to enjoy. Other advocates have been agitating for the BNDES to assume a more effective social policy, including the way in which direct donations (grants) are made from its large social fund, which receives a compulsory share of the bank's profits. Finally, there are those who lament the lack of an effective governance structure and reporting mechanisms that would provide the necessary transparency for a robust public debate on many of these issues. Finally, some critics view the BNDES as the lynchpin of Brazil's current developmental model, which favors large-scale, almost monopolistic, corporations in the export sectors.

The BNDES' unique legal position, its connections with the Brazilian elite, its organizational culture, and the lack of a clear agenda among its potential critics are factors that have made advocacy a challenge, as the

campaign led by one Brazilian CSO will illustrate.

THE CAMPAIGN

Concerns with the presence of the bank in various environmentally and socially sensitive areas, its increasing influence, and the persistent lack of transparency contributed to the decision by a Rio de Janeiro-based civil society organization, *Instituto Brasileiro de Análises Sociais e Econômicas* (Ibase), to launch a program on "Development and Rights" in 2005. The objectives of the program were: to create an independent base of information for social movements and civil society organizations concerned with the way the bank interpreted its public mission; to build channels for social participation; and to help to formulate proposals for redirecting the bank's actions toward alternative development approaches with a greater emphasis on eradicating social and economic inequalities. In 2007, building upon this earlier effort, 25 social organizations and networks, many involved in sector-based mobilization movements, got together to create the BNDES Platform — the focus of the case study.

Before the BNDES Platform was formally established, Ibase and the Brazilian Network for Multilateral Financial Institutions (*Rede Brasil*) held meetings with BNDES' Social Directorate to discuss, among other things, an open information policy. Though staff at the BNDES were initially supportive of the idea, a change in the BNDES' leadership brought an end to the bank's cooperative attitude; by 2007, not even a draft information policy had been produced.

It became clear then to the organizations involved in the discussions that the bank would not budge without greater social mobilization. By June 2007 Ibase had brought together the initial members of the BNDES Platform. Together, they issued a 20-page consensus policy document and made a formal request for a meeting with the new BNDES president.

At that meeting, responding to the demands of the Platform, the BNDES' president agreed to make public the 50 largest private project loans in each of the bank's thematic areas and also to adopt social clauses in the bank's contracts to cover economic slave labor and racial and gender discrimination.

In early 2008 the BNDES began to release details on its largest projects under a new program, Transparent BNDES, and the Platform unveiled its own website aggregating and presenting all the systematically available information on the BNDES' activities. Meanwhile, members of the Platform continued to dialogue with the bank on sectors of special concern, such as ethanol and hydroelectricity. A year later, the BNDES for the first time published a complete list of all investment loans made in the previous year. The information, however, was limited.

The BNDES did not give enough information to identify the specific location of many projects and the data was released in a format that would not allow statistical work without extensive transcription.

Meanwhile, in other areas, dialogue was coming to a halt: planned thematic meetings were being postponed, and some of the most sympathetic figures in the bank made career moves that shifted their focus.

In late 2009 the Platform held a roundtable discussion for communities that had been affected by various BNDES projects, which culminated with a demonstration outside the BNDES. This marked a critical juncture

for the Platform. There was a sense among some members that dialogue had failed, and that direct action was needed.



TACTICS FOR MAKING THE BNDES MORE TRANSPARENT AND ACCOUNTABLE

Coalition Building

- Forming a network of civil society organizations and formulating a consensus document with specific demands
- Hosting discussions among researchers, activists, and academics on the broader issues at stake
- Publishing a report with an in-depth analysis of the implications of the BNDES' financial activities

Grassroots Mobilization and Media Outreach

- Mobilizing communities affected by BNDES activity and organizing protests
- Helping journalists to investigate and penning opinion pieces
- Creating a website to aggregate in an accessible manner all of the systematically available information on BNDES activities

Engaging Government

- Direct appeals to BNDES directors for demands, including an open information policy and for social clauses in its loan contracts
- Maintaining dialogue with sympathetic staff inside the bank

Strategic Litigation

- Threatening a lawsuit based on Brazil's legal concept of "co-responsibility"

Ibase, which was acting as the secretariat of the Platform, had always followed an advocacy strategy that stressed the need to find a common, positive agenda with government institutions, and it was reluctant to mobilize protests. So when the BNDES announced that it would help to finance the controversial Belo Monte hydroelectric plan, members of the Platform, acting independently, took the lead. Protests grew larger and larger outside of the BNDES' headquarters.

The Platform itself focused on developing an interactive map of the BNDES' projects, and continued to push the bank's technical staff for access to more information, but it was pulled again toward a more confrontational strategy when Brazil's federal vice prosecutor began to investigate the potential responsibility of the BNDES in violating people's rights by financing the Belo Monte dam.

Organizations with connections to the communities felt compelled to make a statement, and did. Including Ibase and *Rede Brasil*, 45 CSOs issued a statement to the BNDES saying it would be held "co-responsible" for any environmental impacts caused by the Belo Monte complex.

The Platform members became divided in this period over the direction of the advocacy strategy; though members acted independently of the platform, a lack of consensus may have hampered the Platform as a whole.

Still, the Platform was able to organize a series of seminars with academics, activists, and members of the Applied Economic Research Institute to discuss the role of the BNDES and other state-owned enterprises in Brazil. Ibase used its skills in budget monitoring to do an in-depth analysis of BNDES funding to inform these discussions. And amid the controversy over Belo Monte, the press also regained a strong interest in the BNDES. The Platform, which had previously found it had little influence over news reporting, now found that journalists were beginning to consult its website for their stories. Ibase and the Platform also published a joint opinion piece in one of Brazil's leading newspapers saying that the debate over the BNDES called into question the country's current development model.

Ibase, though somewhat reluctantly, was beginning to take a bolder stance. Unfortunately, funding shortages forced the organization to cut its staff by a third just as it was gaining confidence and momentum. In spite of the loss, Ibase and the Platform have remained relevant.

The BNDES became embroiled in another controversial deal in 2011, this time related to a loan in support of a buy-out by Brazil's largest supermarket chain, *Pão de Açúcar*, of French retail giant Carrefour. The BNDES came under fire at the time because the loan, it appeared, had been arranged through a private meeting between the president of *Pão de Açúcar* and the president of the bank, exposing a bit too conspicuously the nature of the bank's relationship with the country's business elite.

The controversy expanded and later spilled into the legislature. Proposals were formulated by the opposition to place a limit on the federal emission of public debt, particularly to limit the sale of bonds to fund capital increases of the BNDES. While it was clear that the President's Office would veto this, the issue was now on the table. The Platform was able to take another stand in this period, drafting a report that was read out and formally submitted to the commission debating debt issuance. While no changes were ultimately made to debt sales that year, the Platform felt it had won a moral victory.

CHANGES DUE TO THE CAMPAIGN

When it was decided in 2009 that a team of researchers would follow the work of Ibase and the BNDES Platform, it seemed that change at the BNDES was imminent. In retrospect, the practices of the BNDES have proven to be more resistant to change than anticipated. This led the research team to coin the term "policy wall" to describe what they consider to be a strategic point in a larger structure of entrenched interests. The BNDES' policies and practices put at stake more than just the organization's accountability, but also an array of high-profile investments and a model of economic development that has created Brazil's business and political elite.

But cracks in the policy wall are beginning to show. Attributing those cracks directly to the Platform alone would be to overstate its importance; yet it has been important.

Ibase and the BNDES Platform were pioneers in their early conversations with the BNDES. And while many of the promises made have not been fulfilled, the Platform opened a space for debate *within* the

organization that had not previously existed. Though many of the steps taken by the BNDES under its Transparent BNDES program have been tokenistic, these have often been in direct response to the demands made by the Platform and its members and are, if nothing else, a start.



OUTCOMES OF THE BNDES PLATFORM'S CAMPAIGN

- The Transparent BNDES program was initiated to share information about BNDES loans
- The BNDES invited social movements to discuss its procedures for the first time in its history
- A roundtable discussion for communities affected by BNDES-financed projects initiated a series of protests
- A loosely connected network of activist groups has increasingly focused their efforts on the BNDES
- Journalists and academics have been more effective at raising their concerns about the BNDES
- A report by the Platform was tabled as evidence to a congressional committee reviewing procedures of debt issuance
- There is greater awareness about the centrality of the BNDES to a number of important political issues

The Platform has also become the central clearinghouse for information on the BNDES. New data on BNDES activities, press releases, and calls to action go out to hundreds of people within the network and beyond, including the press. Arguably, the efforts of the Platform and its key members to organize public discussions on the role of the BNDES has gradually encouraged new voices to express their concerns, including a top business school director, who wrote an excoriating opinion piece calling the BNDES a dispenser of corporate welfare.

Perhaps most important, the Platform has been a training ground of sorts for civil society organizations. The debates between Platform members over whether to pursue a strategy of direct action or to take a more collaborative approach has helped the organizations to sharpen their sense of purpose and resolve. And the Platform has been a launching pad for others. While Ibase was adapting to its smaller staff, several of its former employees formed a new organization, More Democracy, which decided to focus on the too cozy relationship between the State (including state-owned enterprises) and leading economic groups. When Brazil's access-to-information law came into effect in May 2012, More Democracy immediately used it to request more information on BNDES activities, projects, impact surveys, and other documents.

The Platform may have never coalesced into a cohesive movement, but it has left its mark on the significant and continuing efforts to democratize the BNDES.

CONCLUSIONS

Someone always has to make the first move. For every instance of successful advocacy, there is usually a less successful case that set the stage first.

The BNDES Platform is that pioneering effort, but it is no longer alone. The media and other institutional actors, including the academic community, are adding pressure to the BNDES. While the "policy wall" may not yet have been breached, there is certainly a new advocacy coalition forming, and the BNDES Platform has played a pivotal role in the shifting tide.

The Platform has demonstrated that the BNDES' procedures are political choices masquerading as technical decisions. And is likely that a new generation of activists and critics is going to make sure that those choices are made transparently and democratically.

International Budget Partnership Offices

820 First Street NE Suite 510
Washington, DC 20002 USA
Tel: +1 202 408 1080
Fax: +1 202 408 8173

Xicotencatl 370-601
Del Carmen, Coyoacán,
C.P. 04100 México, D.F.
Tel: +5255 5658 3165
+5255 5282 0036

The Armoury, 2nd Floor,
Buchanan Square
160 Sir Lowry Road
Woodstock, South Africa
Tel: +27 021 461 7211
Fax: +27 021 461 7213

802 Raj Atlantis
Near SVP School,
off Mira-Bhayender Road,
Beverly Park, Mira Road (E)
401107 Mumbai, India
Tel: +91 22 2811 4868
+91 96 6507 1392