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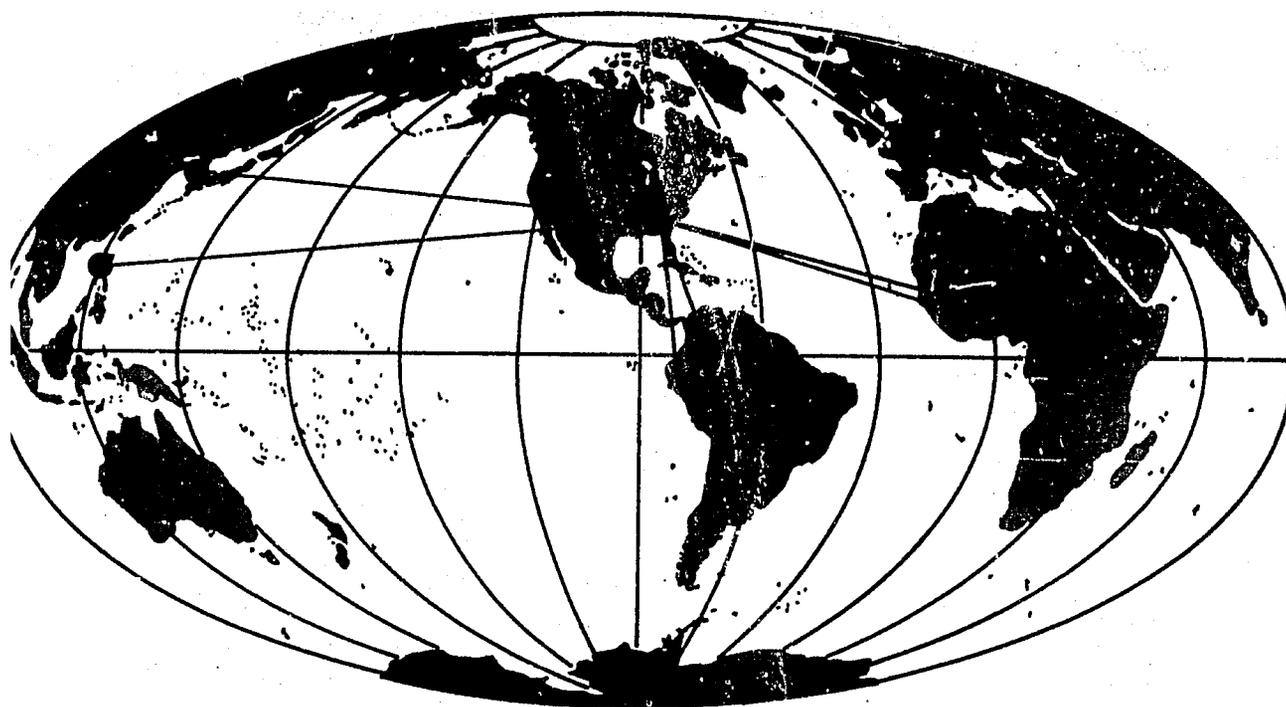
9. ABSTRACT
 Findings of a study of financing arrangements available to small entrepreneurs in the City of Tubarao, in Southern Brazil, with emphasis on the cost and supply of longer-term funds. Tubarao occupies 138 square miles in the state of Santa Catarina, and in 1970 had a population of 67,000. In 1969, Tubarao had 145 manufacturing establishments. They employed 2,909 persons. The average size of manufacturing establishments in Tubarao is smaller than the average size of all establishments in the state. Employment opportunities for women in Tubarao are very limited. Some 85% of all women above the age of 10 have no income. Thus, there is a substantial pool of potential labor available. Seven commercial banks have branches in Tubarao, including the Bank of Brazil, the dominant one, in which the government has the controlling interest. This bank also acts as financial agent for the National Treasury. Its activities are meshed with those of the Central Bank through the "monetary budget," which plans lending volumes and other operations related to expansion of the monetary base and money supply. In addition to the commercial banks, there is a branch of the Caixa Economica Federal, which is like a U.S. savings and loan association, except that it accepts demand deposits. Despite the appearance of a competitive banking market, little discretion is left to these institutions, particularly in credit allocations. Government priorities and programs control the pattern of investment, and the Bank of Brazil favors farm borrowers over small industry borrowers. Most new small businesses are financed by the Regional Economic Development Bank (BRDE), but officials at this bank stated that the smaller the enterprise financed by them, the greater their problems, i.e., lack of accounting data, default frequency, etc. Clearly, a type of agency for a U.S. Small Business Administration-Small Business Investment Company would be useful in Brazil to stimulate the development and growth of small industry. Without such government commitment to small business,

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EMPLOYMENT GENERATION THROUGH STIMULATION OF SMALL INDUSTRIES



FINANCING SMALL-SCALE INDUSTRY THE TUBARAO, BRAZIL, CASE

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FINANCING SMALL-SCALE INDUSTRY
THE TUBARAO, BRAZIL, CASE

by
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Summary and Conclusions

Tubarão is located in southern Brazil, about 10 miles from the Atlantic Ocean. It is in the state of Santa Catarina (one of 22 states in Brazil). Manufacturing is important to the economy of the state, as well as to the city of Tubarão. (Manufacturing employment was 3.9% and 3.7% of total population for the state and the city, respectively, as compared to 2.3% nationally.)

The salient feature of manufacturing activity in Tubarão is the small average size of its manufacturing establishments, as measured by number employed. (Tubarão has 7.8% of the manufacturing firms in the state, despite its slightly below average proportion of state employment in manufacturing.)

The employment opportunities for women in Tubarão are very limited. Some 85% of all women above the age of 10 have no income. Thus, there is a substantial pool of potential labor available.

The technical assistance provided small businesses through FESSC is doubtlessly needed and beneficial. The purpose of this particular study, however, was to examine a factor closely related to the viability of small business: the cost and availability of longer-term capital.

Certainly for new firms to become established, or older ones to expand and/or implement an appropriate technology, it is essential they have access to longer-term capital at reasonable rates. Generally, small firms everywhere are at a disadvantage in securing longer-term capital, but the degree of difficulty varies significantly by country.

Seven commercial banks have branches in Tubarão. The dominant one is the Banco do Brasil, S. A. (Bank of Brazil), in which the government has the controlling interest. This bank also acts as financial agent for the National Treasury. The activities of the Bank of Brazil are meshed with those of the Central Bank through the "monetary budget," which plans the lending volumes and other operations necessary to achieve the desired expansion of the monetary base and the money supply. In addition to the commercial banks, there is a branch of the Caixa Economica Federal (very much like a U. S. Savings and Loan Association except that it accepts demand deposits, called "popular deposits" in Brazil).

Despite the apparent existence of a competitive banking market, actually rather little discretion is left to these institutions, particularly in credit

allocations. Government priorities and programs virtually control the pattern of investment. In 1969, public sector investments were 49% of total investment and all but 10% (within the remaining 51%) of the nominally private sector investments were induced by four government programs. These programs were initiated by 1) the National Housing Bank (BNH), 2) the National Economic Development Bank (BNDE), 3) the National Agricultural Credit Law of 1965, and 4) the Northeast region programs.

Furthermore, the pervasiveness of governmental controls over the entire finance sector is such that private financial institutions are essentially auxiliary agents to implement governmental credit policy. Real and nominal rates on deposits, as well as on loans, are typically controlled, as are sectoral allocations of loans within the portfolios of some financial institutions.

The principal source of longer-term funds in Tubarão is the Bank of Brazil. Interest rates are typically very competitive with other sources, if not the lowest available. Much of the lending at the Bank of Brazil, however, is for agricultural purposes. Moreover, the manager of the branch expressed a preference for farm borrowers, saying they were ". . . more honest and sincere . . ." Small industry financing is the more difficult to arrange. In fact, one prominent member of the financial community stated that there is a complete lack of small industry financing in Tubarão. He claimed knowledge of several new potential enterprises that were being blocked by a lack of funds.

Most new small businesses are financed by the Regional Economic Development Bank (BRDE), but officials at this bank stated that the smaller the enterprise financed by them, the greater their problems, i.e., lack of accounting data, default frequency, etc.

Clearly, a U. S. Small Business Administration-Small Business Investment Company type of agency would seem useful in Brazil in order to further the development and growth of small industry. Without such firm and continuing governmental commitment to small business, longer-term capital will continue to be very difficult to obtain for such companies.

This does not mean to imply that some attention has not been given to the problems of small business. Under the BNDE, there is the Programa de Financiamento a Pequena Media Empresa (FIPEME), but since June 22, 1973, a maximum of only 40% of total financing is allowed under this program, except in the North

and North-East regions. The Central Bank also allows commercial banks to extend renewable credits of up to one year's duration for purchases of raw materials by firms that had annual sales under 18 million cruzeiros (in 1972). The interest rate allowed on such loans is somewhat under the going rates, so banks are not eager to make these loans. Thus, the significance of these existing small business loan programs is probably not very great.

Finally, from discussions with local business people, it would seem desirable to extend the present technical assistance offered small businesses to include financial planning and control. Many lenders find it difficult or impossible to appraise loan applications from small businesses. This stems from poor to spotty financial records presented by the prospective borrower coupled with a typically inadequate loan repayment program or plan.

INTRODUCTION

The economic development strategies of the less-developed nations appear to be giving increased attention to the stimulation of small-scale industries as a means to improve the distribution of income and wealth within the development process. Thus, an expanding middle class, augmented by successful new small-scale entrepreneurs, has become one of the more common goals of development strategies. Complementing this emphasis on small-scale industry development has been the application of "appropriate technologies" to reduce unemployment by raising labor intensity in productive processes. Further, lowering of fixed capital requirements is beneficial to new entrepreneurs, for it eases their longer-term financing problems.

Short-term, working capital loans are the primary business of commercial banks. Such loans have also been called "short-term inherently self liquidating"^{1/} because the loan purpose, i.e., a seasonal building of inventory or receivables, will permit an early repayment from the sales proceeds it makes possible for the business.

In general, the length of the financing term should match the life of the asset financed. Thus, the "permanent" assets of business should be financed with "permanent" funds, or a mix of debt and equity. It should be intuitively clear, for example, that financing a new building with a long-term mortgage is much preferable to using 90-day notes.

Longer-term loans, however, are riskier than short-term loans. Lenders can evaluate short-term loan requests by examining a current balance sheet of the applicant. For long-term loans, however, the value of a current balance sheet diminishes greatly, with subjective factors and expectations becoming more important. Thus, longer-term funds tend to be more difficult and costly to obtain.

If successful development of the small-scale industry subsector is desired, then it seems clear that adequate provision for financing their longer-term credit needs is essential. Usually, these needs are met by special

^{1/} Pearson Hunt, Charles M. Williams, Gordon Donaldson, editors, Basic Business Finance, Homewood, Illinois: Richard Irwin, Inc., 1966.

governmental programs, because the private competitive sector has been commonly judged as being deficient in providing such funds.

The purpose of the author's trip to Tubarão, Brazil (FEESC),^{2/} and of this report was to document and analyze on a micro scale the financing arrangements available to small entrepreneurs there, with particular emphasis on the cost and supply of longer-term funds.

^{2/} Fundação Educacional do Sul de Santa Catarina.

DEMOGRAPHY AND RESOURCES

Tubarão occupies 353 square kilometers (approximately 138 square miles) in the state of Santa Catarina. It is a local center of commerce, surrounded by a number of smaller towns. In 1970, it had a population of 67,000, 29% of whom were nine years old or under. Such an age distribution of population is common to countries with a high birth rate.

The state of Santa Catarina (one of 22 in Brazil) had a population of 2.9 million in 1970, or 3.1% of the nation's total. Gross domestic product for the state in 1968 was 2,076 million cruzeiros, or 2.6% of the national total. Agriculture accounted for 705 million, the industrial sector for 453 million, and the services sector for the remaining 918 million cruzeiros of this total.

In manufacturing, the state had 1,869 establishments at the end of 1969, employing 79,625 workers, or 3.9% of the total population. (Nationally, 2.3% of the population was engaged in manufacturing.) Value of production that year was 1,653,000 cruzeiros, and value added by manufacture amounted to 904,000 cruzeiros; these figures were 2.3% and 2.5%, respectively, of the national totals, somewhat less than the state's share of total population.

Tubarão had 145 manufacturing establishments in 1969, 7.8% of the state's total. They employed 2,909 persons, 3.7% of the state figure. With 2.3% of the state's population, it is thus a relatively important manufacturing center in an industrially underdeveloped state; however, the average size of the establishments there is much smaller than for the state generally. Tubarão, then, is a very suitable location for a program designed to aid small business.

Income distribution in the state of Santa Catarina is quite skewed, as Table 1 shows.

Striking features of Table 1 are that income earners begin at 10 years of age and that 85% of all women have no income. If one considers the female labor force potential, there is obviously an enormous pool of available labor in the state. Further, an appropriate development strategy might well encourage industries offering substantial employment opportunities for women. An expected by-product of a rising female labor force participation, moreover, would be an economically desirable fall in the birth rate. Certainly, a fall

Table 1
MONTHLY INCOME OF PERSONS 10 YEARS OF AGE OR OLDER
IN THE STATE OF SANTA CATARINA, 1970

Income (cruzeiros*)	Number of Recipients			Distribution	
	Male	Female	Total	Percent of Total	Cumulative Percentage
Without Income	374,919	847,151	1,222,070	61.3	61.3
Under 50	30,493	26,114	56,607	2.8	64.1
51-100	90,060	32,425	122,485	6.1	70.2
101-150	99,783	17,519	117,302	5.9	76.1
151-200	173,545	34,176	207,721	10.4	86.5
201-250	46,201	9,853	56,054	2.8	89.3
251-300	50,997	8,740	59,737	3.0	92.3
301-400	41,997	4,789	46,705	2.3	94.6
401-500	28,385	2,721	31,106	1.6	96.2
501-1,000	32,787	3,398	36,185	1.8	98.0
1,001-1,500	7,259	511	7,770	.4	98.4
1,501-2,000	3,798	215	4,013	.2	98.6
Over 2,000	4,048	206	4,254	.2	98.8
Not Reported	<u>16,782</u>	<u>4,593</u>	<u>21,375</u>	<u>1.1</u>	99.9
Total	1,000,973	992,411	1,993,384	100.0	

* U. S. \$1.00 = 4.95 "new" cruzeiros.

Source: Brazil, Instituto Brasileiro de Estatística, Censo Demografico: Santa Catarina, Vol. 1, 1970.

in the "dependency ratio," i.e., the fraction of consuming but not producing members of the society, for whatever reason, is not likely to affect per capita income adversely.

The natural resources of Tubarão and its surrounding hinterland favor the manufacture of food and kindred products, structural clay products, and pottery and related products. The nearby coal deposits also might provide the basis for carbo-chemical industry development.

Given the December 1970 Decree-Law and the subsequent Industrial Development Council (CDI) resolutions giving important fiscal and financial incentives

to selected industries,^{1/} some of which are located in or capable of being developed in the Tubarão area, the economic prospects of the area are encouraging.

^{1/} These industries are: 1) automotive equipment, 2) agricultural machinery, 3) road equipment, 4) machinery, 5) machine tools and equipment industries, 6) metallurgy, 7) chemicals and petrochemicals, 8) plastics, 9) textiles, 10) wearing apparel, 11) food processing, 12) paper and graphic arts, 13) leather goods, 14) electrical and electronics, 15) household appliances, 16) civil construction materials, 17) naval construction, 18) fishing, 19) forestation and reforestation, and 20) tourism and tourist hotels.

THE FINANCIAL SECTOR

Tubarão has seven commercial banks:

- Banco do Brasil, S. A. (Bank of Brazil)
- Banco Brasileiro de Descontos, S. A. (BRADESCO)
- Banco do Estado do Rio Grande do Sul, S. A.
- Banco do Estado de Santa Catarina, S. A. (BESC)
- Banco Mercantil e Industrial do Parana, S. A. (BAMERINDUS)
- Banco Real, S. A.
- Banco Sul Brasileiro, S. A.

All of these banks are branches of larger banking organizations and separate balance sheets for their operations are not available. (Appendix Table 1 gives consolidated balance sheet data on these banks.) The banking situation in Tubarão is not really unusual, since there has been a wave of bank mergers in recent years, with the Brazilian commercial banking "groups"^{1/} shrinking to about 105 from over 300 in 1964. These 105 banking groups have about 7,000 branches. The growing concentration of power has been encouraged by governmental policy actions, which have sought to achieve greater scale economies in banking.

With the exception of the Bank of Brazil, in which the federal government has controlling interest, these banks primarily supply short-term working capital loans to businesses. The Bank of Brazil reportedly has the largest deposits among the banks in Tubarão, and is the primary source for longer-term loans. Nationally, the Bank of Brazil accounts for about one third of all commercial loans to the private sector and its deposits were equal to about 20% of the money supply in October 1974.^{2/}

The role of the Bank of Brazil is to act as the financial agent of the National Treasury. It is under the direct supervision of the National Monetary Council or Conselho Monetario Nacional-CMN, the policymaking body created under the Banking Reform Law of 1964. This law also created the Central

^{1/} The banking "groups" typically have specialized financial subsidiaries so that they resemble bank holding companies in the U. S.

^{2/} Economic Affairs Committee of the American Chamber of Commerce in Rio de Janeiro, "Economic Affairs Report, A Review of 1974," Brazilian Business, March 1975.

Bank,^{3/} which assumed the central banking functions previously performed by the Bank of Brazil. The activities of the Bank of Brazil are meshed with those of the Central Bank through the "monetary budget," a quarterly planning instrument. The objective of this planning document is to estimate the magnitude of Central Bank monetary operations and the volumes of Bank of Brazil lending and other operations necessary to achieve the desired expansion of the monetary base and the money supply.

Monetary controls used are variable reserve requirements, rediscount rates and, since 1964 with the emergence of indexed Treasury bonds but particularly since mid-1970 with the development of Treasury bills, open market operations.

From an overall standpoint, the Brazilian economy is avowedly capitalistic, but in practice, much of the economy is controlled by the state. The "Brazilian Miracle" of rapid economic growth and development requires a massive and continuing investment program. This, in turn, requires an appropriate level of internal and external savings. Internal savings have been manipulated to this end since 1964 by systematically holding wage readjustments below the rate of inflation. The stinging criticism of the growing inequality of income distribution that has resulted has brought vigorous denials from government officials. As Mr. Mario H. Simonsen, Minister of Finance, retorts, the "criticism serves up tangible empirical evidence with a rich sauce of specious analysis."^{4/}

Nevertheless, it seems quite clear that the working classes are bearing most of the price for the "Brazilian Miracle."

Apart from forced savings, an improvement in tax collecting, restraint in current government expenditure, the creation of institutional savings programs, i.e., the Length of Service Guarantee Fund and the Social Integration Program, private savings incentives have also acted to raise the savings rate.

^{3/} The powers of the Central Bank include: 1) issuance of currency, as authorized by the CMN, 2) receiving voluntary and required deposits from financial institutions, 3) rediscounting, 4) complete credit controls, 5) control of foreign capital, and 6) authorizing the operation of financial institutions. The Central Bank is governed by a four-member board of directors appointed by the CMN.

^{4/} M. H. Simonsen and R. de O. Campos, The New Brazilian Economy, Rio de Janeiro: Crown, no pub. date, p. 140.

From the investment side, the latest available data (through 1969) show gross investment rather stable at about 17% of gross national product (GNP).^{5/} This seems surprisingly low, considering the growth rate of the Brazilian economy.

The pattern of investment is greatly influenced by government priorities and programs. In 1969, public-sector investments were 49% of total investment. Of the remaining 51% that were private-sector investments, all but 10% of this total were induced by four government programs.^{6/} These four programs were initiated by:

1. Banco Nacional de Habitação - BNH (the National Housing Bank).
2. Banco Nacional de Desenvolvimento Econômico - BNDE (the National Economic Development Bank).
3. The National Agricultural Credit Law of 1965. This is a five-phase program of:
 - a. Rural and commercial rural credit
 - b. Supervised credit
 - c. Cooperative credit
 - d. Price support credit
 - e. Agrarian reform program credit
4. Northeast region programs, to spur development in what is roughly Brazil's Appalachia.

Further, the pervasiveness of governmental controls over the finance sector is such that private financial institutions are essentially auxiliary agents to implement government credit policy. Real and nominal rates on deposits, as well as on loans (see Appendix Table 2), are typically controlled, as are the sectoral allocations within portfolios of some financial institutions. The commercial banks, for example, must place 10% of their loans into the agricultural sector. The Capital Markets Law of 1965 gives the CMN control over investment banks, finance companies, brokerage and distribution companies, and the stock market. The Fiscal Funds Decree-Law (No. 157) provides taxpayer relief to

^{5/} Ibid., p. 18.

^{6/} U. S. Army, Area Handbook for Brazil, Washington: U. S. Government Printing Office, 1971, p. 388.

further or promote savings which are channeled into Central Bank-approved investments.^{7/}

The sectoral allocations of investment in the governmental development plans of the post-revolutionary period (1964 on) are shown in Table 2.

Table 2
SECTORAL INVESTMENTS

<u>Sector</u>	<u>Plans^{1/}</u>		
	<u>PAEG^{2/}</u> <u>(1965)</u>	<u>PED^{3/}</u> <u>(1968-70)</u>	<u>PND^{4/}</u> <u>(1972-74)</u>
Housing	6.1%	23.7%	9.8%
Energy	31.1	26.9	13.6
Transportation	25.1	16.7	11.2
Communication	2.2	3.7	1.7
Agriculture	8.1	4.2 ^{5/}	8.7 ^{5/}
Industry	17.0	14.0	19.0 ^{7/}
Education	6.5	6.9 ^{6/}	18.4 ^{6/}
Health and Sanitation	1.5	3.9	8.5
Regional Development	2.4	-	5.9 ^{8/}
Social Integration	-	-	3.2
	100.0%	100.0%	100.0%

1/ The Federal Planning System was institutionalized by Decree 71-353 in 1972.

2/ PAEG - Programa de Ação Económica do Governo (Government Economic Action Plan).

3/ PED - Plano Estratégico de Desenvolvimento (Strategic Development Plan).

4/ PND - I° Plano Nacional de Desenvolvimento (First National Development Plan). The Second National Development Plan will cover the period 1975-79.

5/ Including food distribution.

6/ Including scientific and technological development.

7/ Including mining.

8/ Under heading of National Integration.

Source: Simonsen and Campos, op. cit., p. 60.

7/ Philip M. Huyck, "Brazil Vitalizes Its Capital Market," Columbia Journal of World Business, Vol. 7, November-December 1972.

From Table 2, it is clear that industrial development has maintained a rather steady level of importance in government planning. As may be seen, energy and transportation dominated the Government Action Plan (1965). These diminished steadily in relative importance in subsequent plans. In the Strategic Development Plan (1960-70), housing investment surged, and industrial development dipped. With the First National Development Plan, a more even balance in allocations emerges, making industry the most important sector, closely followed by education investment. Regional development, which includes the building of the Transamazonian Highway and PROTERRA program (distributing land and encouraging farm industry in the north and northeast), grew in importance, as did education, health and sanitation, agriculture, and social integration programs during the period 1972-74.

Turning next to the sources of long-term financing, Table 3 shows very clearly that governmental agencies are by far the most important.

Table 3
LOANS AND FINANCING TO THE PRIVATE SECTOR

<u>Classification</u>	<u>Balance, December 31, 1966 (million NCr\$)</u>	<u>Percentage of Total</u>
Short-Term		
Commercial and development banks	5,214.9	48.9
Bank of Brazil and CACEX	2,141.1	20.1
Finance companies	1,031.0	9.7
Savings banks	280.0	2.6
National Cooperative Credit Bank	17.7	0.2
Social welfare institutes and insurance companies	<u>18.0</u>	<u>0.2</u>
Subtotal	8,702.7	81.7
Long-Term		
National Economic Development Bank	858.0	8.1
Bank of Brazil	594.8	5.6
FINAME	114.8	1.1
Savings banks	250.0	2.3
National Housing Bank	88.5	0.8
National Cooperative Credit Bank and others	22.6	0.2
Social welfare institutes and insurance companies	<u>26.0</u>	<u>0.2</u>
Subtotal	1,954.7	18.3
GRAND TOTAL	10,657.4	100.0

Source: Central Bank. Includes mixed corporations and producing autarchies.

From Howard S. Ellis, The Economy of Brazil, Berkeley: University of California Press, 1969.

THE LOCAL AND REGIONAL FINANCE MARKET

The primary source of longer-term funds in Tubarão is the Bank of Brazil. Moreover, the rates charged on loans are typically very competitive, if not the lowest available. The range of rates charged is from 5% to 12%, plus monetary correction to adjust for inflation.^{1/}

Much of the lending at the Bank of Brazil is for agricultural purposes. The general manager of the Tubarão branch also expressed a clear preference for agricultural loans over industrial or commercial loans. He said farm borrowers "are more sincere and honest" than the others. Perhaps as a consequence, larger risks seem to be taken in financing agriculture or agriculture-related enterprises.^{2/} This preference for agricultural loans also seems to extend to BRDE,^{3/} the government-owned development bank. For example, a new rabbit farm recently received almost total financing from the BRDE. Similarly situated industrial enterprises appear to have a somewhat more difficult time getting financing.

One prominent member of the financial community (not at the Bank of Brazil) stated that there is a complete lack of small industry financing in Tubarão. He knows of potential entrepreneurs in the area that are blocked by a lack of funds. Substantial personal resources provide the only means for financing, in his opinion. This situation, of course, is common to competitive economies, but it does suggest that an SBA-SBIC type of agency would be useful.

Another important source of financing in Tubarão is BESC, the state-owned bank, a regional source of longer-term funds, especially for smaller entrepreneurs.

Mr. J. F. Borges, manager of Banco Sul Brasileiro, estimates that 80% of new small businesses are financed through the BRDE. The borrowing rates there

^{1/} Time deposits pay 6% plus monetary correction. Interest on demand deposits (called popular deposits) is illegal.

^{2/} Another banker also felt that agribusiness loans are easier to obtain than for manufacturing generally. Moreover, the governmental emphasis on agricultural development (which includes subsidies to offset part of the interest payment made by farm borrowers) is likely to continue for some time, observed one seasoned banker.

^{3/} Banco Regional de Desenvolvimento Econômico.

are the most attractive and the terms the longest. The basic terms and conditions of BRDE loans are shown in Appendix Table 3.

As may be seen from Appendix Table 3, up to 70% of total investment in a project may be provided by BRDE on a long-term basis (up to 10 years). Interest rates are also quite low in real terms, 5%, but with the adjustment for inflation added, the nominal rate may well be in the 30% plus range. The uncertainties surrounding the nominal rate are a continuing problem facing borrowers and constitute the major drawback to using this financial source. (This is treated more fully in the chapter on "Longer-Term Financing.") It is important to note, however, that the BRDE officials stated that the smaller the industrial enterprise financed, the greater their troubles, i.e., lack of accounting data, default frequency, etc. Currently, commercial fishing loans account for almost one half of all defaulted loans, causing a new screening for such loans to be implemented.

Another possible source of longer-term financing in Tubarão is the Caixa Econômica Federal, a branch of the federal institution specializing in housing loans. It accepts deposits, demand (or "popular deposits") and time (90% of deposits), and also acts as agent for the federal lotteries. The current portfolio of the Tubarão branch shows 82% invested in mortgages on housing (with 54% in Banco Nacional de Habitação - BNH - system loans), 13% in personal loans, and 5% in automobile loans. It is not involved in any industry financing at the present time, because the minimum loan size to industry has been set by the federal organization at Cr\$ 300,000. As a federal institution, the Caixa Econômica Federal charges a monetary correction on its loans and also pays the monetary correction on deposits. Withdrawals of savings, however, are subject to three months' notice to avoid loss of interest by the depositor. Withdrawals of savings may occur at any time; however, in such case, the interest and monetary correction is calculated on the minimum value of the balance in the last quarter. Such autocratic rules suggest a low level of competition for savings deposits and/or effective collusion by deposit-accepting institutions.

The commercial banks in Tubarão operate under a 120-day maximum re-discount period. Thus, consumer or term sales loans for over 120 days are handled by *financieras*, which are typically wholly owned bank subsidiaries, usually operating under the same roof. With the specialization in short-term

loans by commercial banks, the need for six- to 24-month credit to finance consumer and producer durables was met by the emergence of financieras in the 1960's. The essential reason for the financiera form stemmed from a 1933 law setting a 12% usury limit and an anti-gold clause which effectively prohibited indexing, coupled with the need to secure higher rates due to rapid inflation. The means used to evade the usury limit was to issue "exchange notes" (letras de cambio). These notes were obtained by borrowers from finance companies in exchange for promissory notes. Borrowers then sold the notes at a discount on the stock exchange. For the payer of a note, the discount was not subject to the usury law. (See Werner Baer and Paul Beckerman, "Indexing in Brazil," World Development, Vol. 2, No. 10-12, October-December 1974.) Current regulations of the Central Bank require financieras to have at least 40% of their financing allocated to durable consumer and producer goods.

Lending by commercial banks tends to be to depositors, with the maximum amount lent up to five times the average balance held. The commercial banks are the primary source of short-term funds, and most businesses, even if they are long-term borrowers at the Banco do Brasil or BRDE, typically use short-term borrowing to provide working capital. Such short-term funds are available at about 20% interest, without monetary correction, and are a low-cost source of credit, given the alternatives. Further, with the rate of inflation well in excess of 20% annually, the real rate becomes negative. While negative real interest rates on bank loans seem incredible, it occurs because of Central Bank-imposed limits placed on nominal interest rates charged by banks coupled with an inflation rate in excess of those limits. For example, agribusiness loans have a 15% maximum interest rate, without monetary correction. Given that a minimum percentage of bank loans must be in agriculture, it is easily seen how a negative real rate can occur. On the supply side, the bank had non-interest bearing demand deposits (popular deposits) as a source of funds. Table 4 shows monetary and real rates for 1964-1968.

The very negative real rates that occurred in 1964 probably provided the final impetus for the Capital Market Law of 1964. This act sought to revitalize the capital market, which had seen the virtual disappearance of medium- and long-term debt instruments. While private bond issues have again reappeared, the yearly volume of new issues varies greatly. (See Appendix Table 4.)

Table 4
MONETARY AND REAL RATES OF INTEREST, 1964-1968

		Average Rate of Interest (i_m) ^{1/}	Inflation (p) ^{2/}	Real Rate of Interest (i_r) ^{3/}
1964	1st Semester	28.7	70.9	-24.7
	2nd Semester	33.4	71.9	-22.4
1965	1st Semester	37.8	33.9	2.9
	2nd Semester	33.6	24.7	7.1
1966	1st Semester	37.2	50.0	- 8.5
	2nd Semester	36.8	26.5	8.1
1967	1st Semester	32.9	22.0	8.9
	2nd Semester	32.1	19.8	10.3
1968	1st Semester	32.4	24.5	5.5

^{1/} The average rate of interest is the weighted mean of the commercial banks' credits, the loans of the Bank of Brazil, and credit granted by the investment companies.

^{2/} Wholesale price index as of June 30 and December 31 each year.

^{3/} $i_r = \frac{100 - i}{100 - p} m - 1$

Computed from data in Central Bank of Brazil, Relatorio, 1968.

Source: H. Jon Rosenbaum and William G. Tyler, Contemporary Brazil: Issues in Economic and Political Development, New York: Praeger Publishers, 1973.

BUSINESSMEN'S BORROWING EXPERIENCES

In examining the market for longer-term funds in Tubarão, a small sample of businessmen were interviewed to gain their perception of this market. The following cases also illustrate the importance of the BRDE as a source of longer-term financing.

Case Number 1: O. J. Kliemann e Filhos Ltda.
Rua Antonia Hilse, 441
Tubarão, Brazil

Mr. Oscar Kliemann began the business in 1944 with an original capital of 100 cruzieros (\$12 U. S., in 1975 dollars), which came from family savings. Original employment was five persons. Today, the firm has a capitalization of Cr\$ 500,000, carries between Cr\$ 5-6 million in inventory and work in process, employs 105 persons, and has recently completed the addition of a 4,000-square meter plant to its fixed assets. The firm is rather diversified, manufacturing tobacco processing equipment and aluminum window frames, as well as selling construction materials. It also operates a branch in Jacinto Machado.

The primary reasons for selecting this firm to interview were as follows: 1) It has recently completed a major expansion with borrowed funds, and 2) one of the two sons of the owner is a student at FESSC, just completing his degree requirements, and a high level of cooperation could be expected.

The primary bank connections of the firm are the Bank of Brazil and BESC, although some relations are maintained at all banks. The reasons for selecting the Bank of Brazil as the primary bank were: 1) It is the official bank of the federal government; 2) it has larger resources.

About 10% of the firm's capital is borrowed from short-term sources at an interest cost of 20%, without monetary correction. A long-term (five-year) loan from BRDE for Cr\$ 1.5 million was used to finance construction of the new plant. The curious thing about the loan is that the original loan request was for Cr\$ 600,000, but they were advised to raise the amount to Cr\$ 1.5 million. Usually the converse is true. Further, the use of BRDE as a source of funds seems to have been influenced by the general recovery assistance offered by that governmental agency after the flood in the spring of 1974.

Mr. Kliemann also felt that loan defaults by local borrowers from BRDE were very likely, because some that he knew used part of the loan proceeds for personal consumption expenditures and would be unable to meet future repayment provisions of the loan. This seemed very unusual, since most lenders exercise considerable care in controlling the application of loans. In any case, a number of defaults, if they occur, are likely to be damaging to the local economy.

The loan taken by Mr. Kliemann from BRDE calls for a 6% per year interest rate plus monetary correction. The unexpectedly high nominal rate this produced has caused very considerable anxiety for the Kliemanns, and the plans for the firm now call for an accelerated repayment schedule to "get out from under." In general, the monetary correction factor is feared by businessmen because of the uncertainty it entails.

Case Number 2: Henrique Meneghel
Rua Santos Dumont
Tubarão, Brazil

This firm began 51 years ago manufacturing furniture. As recently as seven years ago, it employed 40 people. Now it only supplies materials for furniture manufacturers and employs four people. This firm was selected for examination because it seemed to represent a typical established small firm. The son who inherited the business, however, does not believe in borrowing. His use of banks (BESC and Banco Real and Caixa Econômica Federal) is only for deposits. The experience he had investigating a loan possibility soured him completely on borrowing and he operates on a cash-only basis with his customers. Many local banks have contacted him about his account, but unless he has cosigners, they will not lend to him. All personal loans require cosigners, according to local bankers. These banks must perceive him as a high loan risk (and quite properly).

He also stated that the local banks he approached for a loan had asked for a 4.5% per month interest rate in addition to guaranties plus monetary correction. Local bankers believe such terms unlikely, unless they were offered a decade or more ago. Under no circumstance would he agree to pay a monetary correction, let alone that high an interest rate.

The education of this entrepreneur stopped at the high school level, and he has had no business training. Perhaps a finance counterpart to

production-oriented technical assistance might have helped him. The future prospects of this firm are, of course, very bleak, and it seems very likely that four persons will be unemployed in the near future.

Case Number 3: Irmãos Fernandez and Cia. Ltda.
Av. Getulio Vargas 4073
Tubarão, Brazil

This firm entered the commercial field 13 years ago and five years ago expanded further into the manufacturing business. The current employment is 85 persons. The original capital was provided by three brothers. Initially, it distributed office furniture; now it also manufactures office furniture (Rodflex) and has opened sales offices in Rio de Janeiro and São Paulo. Very recently, it began manufacturing a combination meat grinder and cuber, so that in addition to the metal furniture frame construction taking place in the plant, the company is now fabricating a rather complex product with an electric motor and mechanical gearing. Mr. Fernandez hopes to get an international patent on this new product and has high hopes for its commercial success. A surprising element in the production of this grinder is that the firm buys scrap aluminum (auto bumpers, pots and pans, etc.) which is then smelted to mold the heavy housing of the machine. Casting molds are produced on site, and the electric motors are purchased.

This firm was interviewed because it too received a large BRDE loan, which was used to construct a 700-square meter building. The amount of the loan was not disclosed, but the terms call for interest only the first two years, then quarterly payments on principal for five years. The interest rate charged is 7% plus monetary correction (a 35% nominal rate is expected by the management), and the loan is financing 80% of the construction. This is greater than the stated participation limit for BRDE loans, but it resulted from overestimating (on the part of BRDE) construction costs for the building.

The bank relations maintained by the firm are with Bank of Brazil, BRADESCO, and BESC. These banks are viewed as offering larger lines of credit and also have wide geographical representation, important to a manufacturer with nationwide distribution.

Management policy has been to borrow as much as possible on a short-term basis from the local commercial banks, at about a 25% interest rate without monetary correction, before borrowing from BRDE. Currently, a working capital

loan request is being formulated for presentation to BESC, because the firm's billings are expected to triple soon.

The monetary correction factor was a worrisome aspect of BRDE loans for Mr. Fernandez. He also echoes Mr. Kliemann's fears that defaults on BRDE loans are inevitable because a number of borrowers after the flood used loan proceeds for consumption purposes. Further, his opinion was that commercial borrowers generally tend to have more difficulty keeping profits up during an inflation than do manufacturers^{1/} and would thus be the most likely source of defaults. This touches on the more general question of how profits behave generally during an inflation. If they lag the inflation, then a monetary correction factor becomes an extremely onerous burden. The evidence for the U. S. economy is mixed on profits during inflation periods. In most cases, however, they have lagged, and this is likely to be the case in Brazil.

^{1/} Despite the existence of direct price controls for main industrial products.

GOVERNMENTAL POLICIES AND SMALLER-SCALE BUSINESS FINANCING

At the present time, no special governmental programs are in effect to aid the development of smaller businesses.^{1/} Moreover, the growing inequality of income distribution in Brazil, shown in Table 5, has not prompted a program to encourage small entrepreneurs as it has in the Philippines, for example.

Table 5
PER CAPITA INCOME DISTRIBUTION IN BRAZIL, 1960 AND 1970

<u>Income Class</u>	<u>Percent Distribution</u>		<u>Amount (U. S. Dollars)</u>	
	<u>1960</u>	<u>1970</u>	<u>1960</u>	<u>1970</u>
Lowest 40%	11.2	9.0	84	90
Next 40%	34.3	27.8	257	278
Next 15%	27.0	27.0	540	720
Top 5%	27.4	36.3	1,645	2,940
All Classes	100.0	100.0	300	400

Source: Werner Baer, "The Brazilian Boom, 1968-72: An Explanation and Interpretation," World Development, Vol. 1, No. 8, August 1973.

Some limited assistance is offered small and medium-sized businesses from the commercial banks. For example, the Central Bank on January 16, 1973, allowed renewable credits of up to one year's duration for the purchase of raw materials to firms whose sales did not exceed 18 million cruzeiros in 1972. Monthly interest of 1.3%, calculated half-yearly, plus an annual commission of 0.5% are the maximum rates allowed on such loans. This compares with a rate structure for production or marketing loans of commercial banks set at that time of 1.3% per month for loans up to 60 days and 1.4% per month for loans over 60 days. The maximum rate on loans to private individuals was set at 2.3% per month. From the commercial bankers' viewpoint, however, these concessionary terms

^{1/} There does exist the Institute for Financing Small Business (Programa de Financiamento a Pequena Media Empresa - FIPEME), which until June 22, 1973, was limited to providing a maximum of total financing under the program. After that date, the maximum was reduced by the BNDE to 40% with the exception of the North and North-East, which was set at 60%. (Bolsa Review, Vol. 7, No. 75, March 1973.)

were clearly not in their best interest and would be acted upon only to the extent they lacked better alternatives. Thus, the significance of such governmental policy actions for smaller businesses is probably not very great.

More generally, the economy of Brazil since the mid 1960's has been fueled by massive government investment, with a decided emphasis on large-scale projects. To appreciate the role of the government in this "capitalistic" economy, consider the following data:^{2/}

1. Since the period 1956-1962, gross capital formation has been stable at about 16.6% of GDP, but government investment grew from 3.9% of GDP to 5.8% in 1969, with private sector investment declining from 12.7% to 10.8% during that period, while direct and indirect taxation as a percentage of GDP rose from 18.8% to 27.9% over the same period.

2. Government expenditures have risen from 17.1% of GDP in 1947 to 32.2% by the early 1970's.

3. Considering commercial banks, the government's banks accounted for 55% of deposits and 58% of loans.

4. Over 60% of the loans of the entire financial system to the private sector were from governmental financial institutions.

5. Of the top 25 firms in Brazil, based on sales in 1971, eight were government firms and they accounted for 31% of sales.

6. Of the top 25 firms in Brazil in terms of employment in 1971, seven were government firms and they accounted for 51% of employment.

7. Of the top 25 firms in Brazil in terms of assets, 17 were government firms and they accounted for 82% of assets.

8. Government firms in 1971 held 80% of the power generating capacity and some 72% of the assets in the steel industry; government-owned Petrobras held 81% of the assets in petroleum and petrochemicals, while Cia. Bale do Rio Doce, also government-owned, exported 80% of Brazil's iron ore. Other government firms hold quasi-monopoly positions in shipping, communications, railroad transportation, and other public service enterprises.

9. Asset growth rates for government and private firms are indicated by Table 6.

^{2/} Werner Baer, loc. cit.

Table 6

RATE OF GROWTH OF ADJUSTED FIXED ASSETS OF 10 LARGEST GOVERNMENT FIRMS
AND SELECTED PRIVATE ENTERPRISES, 1967-1971
(yearly growth rate)

<u>Government Firms</u>	<u>Growth Rate</u>	<u>Private Firms</u>	<u>Growth Rate</u>
Petrobras	7.5	Light S. A.	19.7
CESP	28.8	VW	49.3
Electrobras	54.3	General Motors	18.6
CEMIG	31.1	Ford	41.1
CHESF	37.1	Cia. Belgo Mineira	1.4
COSIPA	4.1	General Electric	- 0.4
CSN	21.4	Klabin Cel.	12.1
USIMINAS	3.3	Ind. Villares	21.7
Furnas	19.2	Itau	12.5
Cia. Vale do Rio Doce	21.9	S. A. White Martins	10.2
Average	24.4	Votorantim	46.4
		Brahma	14.6
		Nova America	14.3
		Cobrasma	-12.9
		Rhodia	52.3

Source: Calculated from balance sheet data of firms which have been published yearly since 1968 by the magazine Visão in its October special issue called "Quem e quem na economia Brasileira." To get the change in the real value of fixed assets, the data were adjusted by the Fundação Getulio Vargas' wholesale price index for industrial products (1965-7 =100).

From Werner Baer, "The Brazilian Boom, 1968-72: An Explanation and Interpretation," World Development, Vol. 1, No. 8, August 1973.

From the above, it seems quite evident that government is a big and growing component of Brazil's GDP. Further, the path of Brazil's future development may take the form of the Japanese "Zaibatsu," in which financial and industrial groups combine. Various incentive programs of the government favoring mergers have been passed and the prohibition on financial institutions mixing loan and equity purchases in the same company was partially lifted in May 1971 by a Central Bank resolution (known now as the "Zaibatsu resolution"). Moreover, the

government has indicated an intent to develop large trading companies on the Japanese model to effectively penetrate foreign markets.^{3/}

To the extent such a development path is taken, there is likely to be some diminution of the opportunities for smaller-scale entrepreneurs, unless the government also provides assistance simultaneously to the small-scale industry sector. This latter possibility, however, would seem small. Thus, the small-scale efforts through FESSC should continue to be directed to those industries where vertical integration has not been very significant and scale economies are relatively unimportant. Some form of agribusiness that meets these requirements would be ideal, particularly since agricultural activities tend to receive easier financing at the Bank of Brazil.

^{3/} P. M. Huyck, loc. cit.

LONGER-TERM FINANCING WITH A MONETARY CORRECTION FACTOR

The distortions in the money and capital markets of Brazil by 1964, produced by the combination of a 12% usury limit and rampant inflation, were met by: 1) emergency tax reform (Law 4357 of July 16, 1964), which introduced monetary correction into private and public accounting, i.e., permitting upward revisions in the book value of assets and depreciation allowances; 2) the application of monetary correction to government bonds of three to 20 years' maturity; 3) Law 4380 of August 21, 1964, which created the National Housing Bank (BNH) and applied monetary correction to real estate contracts and mortgages (and to rents on urban buildings in November 1964); 4) creation of a Central Bank in December 1964 to better control the money and supply; 5) the Capital Markets Law of July 14, 1965, which allowed banks to accept deposits and make loans subject to monetary correction (interest on demand or "popular" deposits, however, was abolished).

The essential principle behind monetary correction is an updating of values. Such changes do not constitute taxable income.

The measure of monetary correction is established by the monthly change in the readjustable obligations of the National Treasury (ORTN). Loans and deposits subject to monetary correction are thus quoted in terms of ORTN equivalents.

The effects of indexing on the Brazilian economy are difficult to assess. Certainly it has changed the composition of financial assets.^{1/} Yet, gross capital formation has remained stable at around 16.6% of GDP. Unless the capital formation data are wrong, the monetary correction effect parallels, to some extent, that observed in Colombia,^{2/} where increased deposits at savings and loans offering monetary correction are probably transfers from other sectors, rather than new savings.

^{1/} The volume of debenture issues has fluctuated widely in recent years. See Appendix Table 4.

^{2/} Albert Goltz and Desmond Lachman, "Monetary Correction and Colombia's Savings and Loan System," Finance and Development, Vol. 11, No. 3, September 1974.

From a theoretical standpoint, income is the primary determinant of savings, and although interest rates are a secondary factor, their effect in these LDC's may not be very significant.

The total volume of loans might be expected to be relatively stable, given a relatively constant real interest rate produced by monetary correction. Of course, fluctuations in the general level of economic activity could be expected to alter investment volumes even given a constant borrowing cost. (More technically, the presence of an induced investment component will cause total investment to vary systematically with the level of that factor, i.e., GDP or national income, etc.)

There is, however, another element here also. It is the behavior of profits during an inflationary cycle. If profits lag inflation, then a constant real interest rate produced by monetary correction will not generate the investment volume it otherwise would. In such case, an automatic contra-cyclical force would be set in motion, reducing the expansionary influence of the government deficits being generated by ambitious development projects.

APPENDIX TABLES

Appendix Table 1

CONSOLIDATED BALANCE SHEET DATA FOR THE BANKS LOCATED IN TUBARAO, BRAZIL
(thousands of cruzeiros)

Bancos	Anos	Depósitos	Depósitos		Reservas	Patrimônio		Empré- timos	Imobilizado	Valores e Bens	Lucro Líquido	Reservas/	L. Líquido/	Número de	L. Líquido	Nº Ordem
			a Prazo	Capital		Líquido	Capital					Capital (%)	Capital (%)		per Agência	
Do Brasil, S. A. al	1970	16,262,915	123,906	720,000	1,105,737	1,825,737*	18,433,574	93,406	606,900	546,833	153.57	-	-	-	-	1
	1971	21,336,009	405,845	900,000	1,804,469	4,616,196	25,262,697	195,909	757,573	1,059,609	200.50	1.17	811	1,307	1	
	1972	23,278,156	535,454	1,800,000	3,366,958	7,884,156	31,755,801	961,270	1,173,036	812,108	187.05	0.45	813	999	1	
	1973	33,478,374	845,493	2,880,000	4,251,256	10,453,157	44,280,641	1,259,913	2,339,259	1,173,714	147.61	0.40	812	1,445	1	
	1974	52,821,696	2,637,913	5,760,000	5,234,322	16,337,162	80,265,698	1,755,324	3,468,066	2,363,140	90.87	0.41	860	2,747	1	
Brasileiro de Descontos, S. A. (BRADESCO)	1970	1,708,764	13,664	131,250	142,496	273,746*	1,200,338	209,201	279,319	69,668	108.57	-	-	-	-	3
	1971	2,309,514	77,624	250,000	201,354	482,907	1,949,264	280,505	419,157	110,808	80.54	0.44	449	247	3	
	1972	3,529,635	217,671	335,000	288,240	540,397	3,012,733	458,283	500,162	128,768	81.19	0.38	-	282	3	
	1973	6,638,741	284,273	600,000	447,735	1,030,803	5,804,917	681,232	1,024,421	239,248	74.62	0.39	-	333	3	
	1974	10,317,776	503,508	600,000	491,591	1,134,152	8,680,238	1,025,231	1,650,042	344,199	81.93	0.57	-	168	3	
Real, S. A.	1970	1,003,282	66,104	55,479	64,901	120,380*	704,386	88,815	131,828	16,622	116.98	-	-	-	-	6
	1971	1,717,729	230,846	70,000	101,316	163,246	1,411,711	105,488	276,997	29,953	144.74	0.43	-	83	5	
	1972	1,918,768	66,323	170,000	107,761	317,501F	1,618,921	134,570	459,730	52,428	63.38	0.30	362	144	8	
	1973	2,631,369	51,964	270,000	139,672	472,323	2,473,488	167,207	597,146	75,258	51.73	0.27	362	207	6	
	1974	4,359,302	110,439	400,000	142,583	637,351	4,325,217	306,179	586,341	103,903	35.64	0.25	522	199	5	
Bamerindus do Brasil	1970**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	1971	729,794	36,351	72,000	47,735	123,478	651,207	69,509	101,039	42,853	66.30	0.60	299	143	14	
	1972	1,309,698	119,723	93,250	73,983	163,463	1,095,884	105,191	157,370	62,453	79.34	0.66	303	205	13	
	1973	2,140,916	169,120	160,000	101,769	279,467F	1,882,833	124,415	293,225	94,454	63.60	0.59	320	295	10	
	1974	3,066,650	222,773	350,000	157,960	590,894	3,113,475	229,326	403,673	155,242	45.13	0.44	340	456	9	
Estado Rio Grande do Sul, S. A. al	1970	346,132	30,064	40,298	19,966	60,264*	558,756	32,088	41,610	7,283	49.55	-	-	-	-	23
	1971	525,455	43,285	80,000	67,956	149,605	741,742	37,264	61,512	16,347	84.95	0.20	159	103	20	
	1972	923,859	155,912	80,000	111,044	183,114	1,154,694	79,520	84,428	18,335	138.81	0.22	161	113	16	
	1973	1,069,319	97,530	80,000	140,571	208,053	1,531,278	93,415	139,977	37,222	175.71	0.46	170	218	24	
	1974	1,455,773	82,530	150,000	143,343	305,755F	2,531,689	130,817	188,577	70,155	95.56	0.46	175	400	21	
Sul Brasileiro, S. A.	1970	679,980	51,506	85,897	94,115	180,012*	724,719	110,627	123,907	23,538	109.57	0.27	-	-	-	
	1971	937,889	96,929	148,610	118,741	272,055	1,161,960	131,383	183,695	36,935	79.90	0.25	346	107	-	
	1972	1,227,881	226,196	159,810	159,393	350,608F	1,652,252	152,146	213,602	61,199	99.74	0.38	342	179	-	
	1973	1,708,887	212,007	192,000	187,567	350,553	2,037,029	163,747	351,728	46,441	97.69	0.24	267	173	14	
	1974	2,068,655	205,410	192,000	190,313	375,293	2,702,248	55,503	667,571	64,056	99.12	0.33	293	218	14	
Estado de Santa Catarina, S. A. al	1970	104,563	515	10,000	14,400	24,400*	183,641	7,627	10,722	10,838	144.00	-	-	-	-	52
	1971	164,682	290	10,000	76,238	85,868	264,970	9,297	17,575	10,105	762.38	1.01	41	246	49	
	1972	224,419	600	42,000	53,125	93,912	372,357	13,432	31,913	18,168	126.49	0.43	42	430	46	
	1973	309,525	4,372	50,400	56,518	107,068	540,814	20,458	57,282	24,905	112.13	0.49	46	541	45	
	1974	387,158	3,447	66,000	51,713	115,064	957,233	30,271	78,904	33,438	78.35	0.50	52	643	43	

al - Bancos oficiais. * Capital plus Reservas. ** Inicicion atividade em 1971. F - Sujeito a Retificações, emfunças de informações insuficientes no Balanco.

Ponte: Revistas Visão 24-4-1972, 23-4-1973, e 28-4-1975.

Appendix Table 2

MAXIMUM INTEREST RATES ON SOME SELECTED TRANSACTIONS

Item	12/01/68 to 30/05/69	01/06/69 to 14/06/69	15/06/69 to 01/03/70	02/03/70 to 28/02/71	01/03/71 to 15/02/72	16/02/72 to 15/01/73	16/01/73 to 05/05/74	06/05/74 to 22/07/74	23/07/74 to 24/10/74	After 25/10/74
Banco Central do Brasil										
For Commercial Banks										
Liquidity Rediscount	22.0% a.a.	K	20.0% a.a.	K	20.0% a.a.	K	18.0% a.a.	K	K	K
Exportable Manufactured Products	4.0% a.a.	K	K	K	K	K	K	K	K	K
Manufactured Products Deposited in Entrepôts	-	-	-	-	-	-	9.0% a.a.	K	K	K
Agricultural Trade, Coffee, Cocoa, Tobacco, Castor Oil and Sisal	8.0% a.a.	K	K	K	K	K	K	K	K	K
For Finance Co. and Investment Banks	-	-	-	-	-	-	-	captação 2.0% a.a.	20.6% a.a.	K
Commercial Banks										
Advances to Depositors	-	-	-	-	-	-	-	-	K	2.3% a.m.
Commercial Loans up to 60 Days	2.0% a.m.	1.8% a.m.	K	1.6% a.m.	K	1.4% a.m.	1.3% a.m.	K	K	K
Commercial Loans Beyond 60 Days	-	2.0% a.m.	K	1.8% a.m.	K	1.6% a.m.	1.4% a.m.	K	K	K
Personal Loans	-	2.2% a.m.	K	livre	K	2.5% a.m.	2.3% a.m.	K	-	-
Average Interest of Loans	2.2% a.m.	-	-	-	-	-	-	-	-	-
Rural Credits (General)	2.5% a.m.	-	-	-	-	-	-	-	-	-
Modern Inputs	18.0% a.a.	K	K	17.0% a.a.	K	15.0% a.a.	K	K	K	K
Loans for Small and Medium Enterprises	-	-	-	7.0% a.a.	K	K	K	K	K	K
Foreign Loans (Resolution No. 63) ^{1/}	livre	K	K	1.5% a.m.	K	1.4% a.m.	1.3% a.m.	K	K	K
Demand Deposits	3.0% a.m.	O	K	K	K	K	K	K	K	K
Time Indexed Deposits	livre	2.2% a.m.	K	livre	K	24.0% a.a.	21.0% a.a.	24.0% a.a.	26.0% a.a.	K
Finance Companies										
Consumer Loans	livre	K	(-12.0%) ^{2/}	K	K	K	(-3.56%) ^{3/}	(+3%) ^{3/}	K	K
Bills of Exchange	livre	K	K	K	K	26.5% a.a.	23.0% a.a.	26.0% a.a.	29.0% a.a.	K
Investment Banks										
Exchange Acceptances										
Loans	livre	K	(-12.0%) ^{2/}	(-10.0%) ^{2/}	K	K	29.0% a.a.	K	34.0% a.a.	36.0% a.a.
General Loans	livre	K	(-12.0%) ^{2/}	(-10.0%) ^{2/}	K	K	29.0% a.a.	captação +7.0% a.a.	34.0% a.a.	36.0% a.a.
Foreign Investment										
Loans (Resolution No. 63) ^{1/}	livre	K	K	K	K	livre	livre	K	K	K
Bills of Exchange	livre	K	K	K	K	26.5% a.a.	23.0% a.a.	25.0% a.a.	27.0% a.a.	K
Time Indexed Deposits	livre	K	K	K	K	24.0% a.a.	21.0% a.a.	25.0% a.a.	28.0% a.a.	K

K = no change.

^{1/} Reserve requirements with Banco Central were asked between October 19, 1972, and July 12, 1973 (25%), and between August 31, 1973, and February 2, 1974 (40%).^{2/} Decrease on previous financial tables adopted, in percent.^{3/} Idem, in percent points per year.Source: Central Bank of Brazil, Relatorio, 1974.

Appendix Table 3
PROGRAMA DE OPERAÇÕES CONJUNTAS - POC
II REGIÃO
(Resolução nº 5/75, do BNDE)

<u>Discriminação</u>	<u>Operação Programa Fixo/Misto</u>	<u>Operação Pacote Fixo/Misto</u>	<u>Operação Projecto Fixo/Misto</u>
- Juros finais incluídos o "Del Credere"	5%	5%	A ser definido em cada operação
- Comissão de Reserva de Crédito	0,1% ao mes sobre o saldo não utilizado	0,1% ao mes sobre o saldo não utilizado	0,1% ao mes sobre o saldo não utilizado
- Participação máxima do BNDE s/o investimento global	70%	70%	60%
Garantias:	130%	130%	130%
Prazos: Total	10 anos	8 anos	10 anos
Carencia máxima	3 anos	2 anos	3 anos
Carencia mínima	3 meses	3 meses	3 meses
Enquadramento:	Carta Consulta	Automático, observada a lista negativa do BNDE	- Ativo fixo futuro superior a 500.000 ORTN's - Financiamento BNDE não inferior a 150.000 ORTN's - Carta consulta

OBS.: - Pequena e Média empresa, para efeito do POC, compreende as de ativo fixo futuro até 500.000 ORTN's (..... Cr\$ 59.635.000,00) ou que não integrem grupo económico de patrimonio líquido superior a 1.000.000 de ORTN Cr\$ 119.270.000,00) - ORTN de Julho/75 = Cr\$ 119,27.

- Correção monetária - Para este fim, todos os valores serão expressos em ORTN's.

- Aprovação da operação: Dentro da alçada - Serão unicamente encaminhados ao BNDE as fichas (Anexo II) e de pedido de liberação da primeira ou única parcela (Anexo I).

Acima da alçada - Serão encaminhados relatórios de análise ao BNDE com os documentos pertinentes e fichas (Anexo II).

- As liberações do BNDE não poderão em nenhuma hipótese ser inferiores a 1.000 ORTN's (observar nos quadros de Usos e Fontes) e não poderao ser feitas nos 5 últimos dias de cada mes.

- Empresa já financiada pelo POC não poderá ter nova colaboração antes da liquidação do empréstimo existente.

- Setor Industrial - observar a lista negativa do BNDE.

- Setor Comércio e Serviços - Observar a lista positiva do BNDE.

Source: Banco Regional de Desenvolvimento Económico, Florianópolis.

Appendix Table 4

STOCKS AND DEBENTURES ISSUES - REGISTERS AT BANCO CENTRAL
(Yearly accumulated flow and value in millions of cruzeiros)

Item	No.	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
TOTAL											
Market Value (1+2=5+24+37)	T1	23.5	19.0	85.9	527.0	468.3	530.5	2,946.1	648.9	901.8	802.1
No. of Registers (1C+2C=7+26+39)	T2	11	19	58	143	150	137	314	115	57	78
Stocks - Market Value (1A+1B=8+27+37)	1	3.6	2.8	79.1	381.9	457.9	444.3	2,944.1	648.9	780.6	702.1
Preferred (11+30+40)	1A	1.3	0.1	58.0	207.7	259.2	262.2	2,008.3	434.9	554.1	481.0
Common (13+32+40)	1B	2.3	2.7	21.1	174.2	198.7	152.1	935.8	214.0	226.5	218.1
No. of Registers (10+29+39)	1C	5	3	50	138	145	131	313	115	52	75
Debentures - Market Value (2A+2B=15+34)	2	19.9	16.2	6.3	145.1	10.4	86.2	2.0	-	121.2	100.0
Common (18)	2A	19.9	12.7	3.3	141.0	8.3	18.6	2.0	-	50.0	90.0
Convertible (21+34)	2B	-	3.5	3.5	4.1	2.1	67.6	-	-	71.2	10.0
No. of Registers (17+36)	2C	6	16	8	5	5	6	1	-	5	3
TOTAL ORDINARY PUBLIC ISSUE + DECREE-LAW NO. 157											
Market Value (3+4=5+24)	T3	23.5	19.0	85.5	518.9	463.7	408.4	2,208.6	426.5	492.0	455.6
No. of Registers (3C+4C=7+26)	T4	11	19	57	141	146	122	223	78	23	37
Stocks - Market Value (3A+3B=8+27)	3	3.6	2.8	78.7	373.8	453.3	322.2	2,206.6	426.5	370.8	355.6
Preferred (11+30)	3A	1.3	0.1	57.6	200.7	254.6	158.1	1,424.3	242.2	233.1	
Common (13+32)	3B	2.3	2.7	21.1	173.1	198.7	164.1	782.3	183.9	138.6	122.5
No. of Registers (10+29)	3C	5	3	49	136	141	116	222	78	18	34
Debentures - Market Value (4A+4B=15+34)	4	19.9	16.2	6.8	145.1	10.4	86.2	2.0	-	121.2	100.0
Common (18)	4A	19.9	12.7	3.3	141.0	8.3	18.6	2.0	-	50.0	90.0
Convertible (21+34)	4B	-	3.5	3.5	4.1	2.1	67.6	-	-	71.2	10.0
No. of Registers (17+36)	4C	6	16	8	5	5	6	1	-	5	3
ORDINARY PUBLIC ISSUES											
Market Value (8+15)	5	23.5	19.0	26.2	401.4	174.7	300.5	2,013.0	409.9	492.0	455.6
Nominal Value (9+16)	6	23.5	19.0	26.2	401.4	174.7	300.5	1,323.3	268.1	450.4	449.2
No. of Registers (10+17)	7	11	19	9	31	51	78	180	69	23	37
Stocks											
Market Value (11+13)	8	3.6	2.8	22.0	260.0	166.3	218.1	2,011.0	409.9	370.8	355.6
Nominal Value (12+14)	9	3.6	2.8	22.0	260.0	166.3	218.1	1,321.3	268.1	329.2	349.2
No. of Registers	10	5	3	3	28	47	73	179	69	18	34

(continued)

Appendix Table 4 (continued)

<u>Item</u>	<u>No.</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
ORDINARY PUBLIC ISSUES											
(Continued)											
Preferred Stocks											
Market Value	11	1.3	0.1	16.5	114.7	87.8	105.7	1,315.6	230.2	232.2	233.1
Nominal Value	12	1.3	0.1	16.5	114.7	87.8	105.7	896.5	145.1	207.8	229.3
Common Stocks											
Market Value	13	2.3	2.7	5.5	145.3	78.5	112.4	695.4	179.7	138.6	122.5
Nominal Value	14	2.3	2.7	5.5	145.3	78.5	112.4	424.8	123.0	121.4	119.9
Debentures - Market											
Value (18+21)	15	19.9	16.2	4.2	141.4	8.4	82.4	2.0	-	121.2	100.0
Nominal Value (19+22)	16	19.9	16.2	4.2	141.4	8.4	82.4	2.0	-	121.2	100.0
No. of Registers (20+23)	17	3	16	6	3	4	5	1	-	5	3
Common Debentures											
Market Value	18	19.9	12.7	3.3	141.0	8.3	18.6	2.0	-	50.0	90.0
Nominal Value	19	19.9	12.7	3.3	141.0	8.3	18.6	2.0	-	50.0	90.0
No. of Registers	20	6	14	4	2	3	2	1	-	1	2
Convertible Debentures											
Market Value	21	-	3.5	0.9	0.4	0.1	63.8	-	-	71.2	10.0
Nominal Value	22	-	3.5	0.9	0.4	0.1	63.8	-	-	71.2	10.0
No. of Registers	23	-	2	2	1	1	3	-	-	4	1
DECREE-LAW NO. 157											
Market Value (27+34)	24	-	-	59.3	117.5	289.0	107.9	195.6	16.6	-	-
Nominal Value (28+35)	25	-	-	60.3	117.5	289.0	107.9	165.6	13.2	-	-
No. of Registers (29+36)	26	-	-	48	110	95	44	43	9	-	-
Stocks											
Market Value (30+32)	27	-	-	58.7	113.8	287.0	104.1	195.6	16.6	-	-
Nominal Value (31+33)	28	-	-	57.7	113.8	287.0	104.1	105.6	13.2	-	-
No. of Registers	29	-	-	46	108	94	43	43	9	-	-
Preferred Stocks											
Market Value	30	-	-	41.1	86.0	166.8	52.4	108.7	12.4	-	-
Nominal Value	31	-	-	42.1	86.0	166.8	52.4	55.0	9.6	-	-
Common Stocks											
Market Value	32	-	-	15.6	27.8	120.2	51.7	86.9	4.2	-	-
Nominal Value	33	-	-	15.6	27.8	120.2	51.7	50.6	3.6	-	-
Convertible Debentures											
Market Value	34	-	-	2.6	3.7	2.0	3.8	-	-	-	-
Nominal Value	35	-	-	2.6	3.7	2.0	3.8	-	-	-	-
No. of Registers	36	-	-	2	2	1	1	-	-	-	-
FISCAL INCENTIVES -											
ART. 14											
Stocks											
Market Value (40+42)	37	-	-	0.4	8.1	4.6	122.1	737.5	222.4	409.8	346.5
Nominal Value (41+43)	38	-	-	0.4	8.1	4.6	122.1	607.8	216.4	458.1	341.7
No. of Registers	39	-	-	1	2	4	15	91	37	34	41
Preferred Stocks											
Market Value	40	-	-	0.4	7.0	4.6	104.1	584.0	192.3	321.9	250.9
Nominal Value	41	-	-	0.4	7.0	4.6	104.1	432.8	186.6	371.6	246.8
Common Stocks											
Market Value	42	-	-	-	1.1	-	18.0	153.5	30.1	87.9	95.6
Nominal Value	43	-	-	-	1.1	-	18.0	125.0	29.8	86.5	94.9

Source: Central Bank of Brazil, Relatorio, 1974.

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