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Regional development agencies want to finance infrastructure projects

By **Flavia Lima** | São Paulo

As Brazil needs long-term financing for infrastructure projects, regional development agencies are seeking a more prominent role, acting to increase their financial autonomy. They plan to circumvent severe fiscal restrictions that local governments are grappling with, getting over the bad experience of misuse of state banks in past decades.

The 13 regional agencies in Brazil are seeking regulatory approval to raise funds by issuing financial bills (LF), a longer-term security meant for the so-called qualified investors, or those with over R\$1 million in financial investments. Currently only development banks are allowed to sell such debt. The Brazilian Development Association (ABDE), entity that gathers the agencies, is handling the talks with the Central Bank and the Planning and Finance ministries.

Their effort is to convince the regulator that the rules applied to development agencies are too strict, since the group has no revenue alternatives beyond those coming from loans, whose interest rates are too low.

At the same time, the agencies are seeking to exorcise bad experiences of the 1980s, when state banks were used as veritable currency issuers and ended up bankrupt — the trigger for the regulator, when authorizing the creation of development agencies in the 2000s, to prevent fundraising on the market. Today, the agencies are limited to operating amounts transferred by the government or by institutions such as the Brazilian Development Bank (BNDES) or the Financing Agency for Studies and Projects (Finep), according to limits set by them.

Milton Luiz de Melo Santos, the ABDE president, says that the agencies have similar costs to those of a private lender, especially with compliance, to follow Central Bank rules, but don't have the diversity of alternatives to produce revenues as commercial banks have.

He says the idea is not to raise funds as banks do by issuing certificates of deposit (CDBs), for example, but by issuing longer-term debt to qualified investors to finance sanitation and infrastructure projects. "We could serve not only companies, but projects in municipalities where our limitation today is very big," says Mr. Santos, who is also ahead of Desenvolve SP, the development agency of São Paulo state.

As a way of mitigating risks, he suggests the Central Bank (BC) could define a maximum percentage of regulatory capital to raise funds. Pegged to that, part of the institution's assets could be used as collateral. "The BC itself authorized cooperatives to do this. If they can, why can't a development agency?"

In the National Monetary Council (CMN), the restrictions would not come so much from the BC, but mainly from the Finance and Planning ministries, worried about the access to market of less-structured agencies from the governance standpoint. Mr. Santos admits there are institutions that need capital injection and management improvement. Contacted by Valor, the BC and the Finance Ministry said through their press offices that they wouldn't comment on the matter. The Planning Ministry said the matter is not in the agenda now.

Talks exist, Mr. Santos says, find echo among other parties and also include BNDES. At meetings with the BNDES management, the agencies suggested the bank to start using them as local operational arms. Today, the agencies allocate funds of programs predefined by the bank, which not always make sense in the regional realities. The issue is in discussion.

In addition to raising funds on the market and from BNDES, the agencies also seek access to other wallets. They are negotiating with the BC, for example, the possibility of managing private-equity funds, interested in the administration fees of that type of service and also in the freedom to allocate the capital. Today, the development agencies may only buy shares in funds managed by third parties, as long as directed to tech and innovation companies.

Felipe Rezende, an expert in development agencies and banks, points out that the lack of more precise management mechanisms gave way to abuses in the past and that, regardless of the current financing type, a clear and transparent management process is necessary.

José Roberto Afonso, researcher of the Brazilian Institute of Economics of Fundação Getulio Vargas (Ibre/FGV) and professor of the Brasília Institute of Public Law (IDP), doesn't see additional risk in the possibility of agencies issuing financial bills, unless the CMN sets "loose" rules and the Central Bank "fails in the supervision." Mr. Afonso says it is not possible to compare the size and situation of the development agencies with the old state banks. "The Basel [capital-adequacy] ratios are applied today and were not in the past. Moreover, the Fiscal Responsibility Law forbids the agency to lend to its own owner."

Mr. Rezende, an assistant professor at the economics department of the Hobart and William Smith Colleges in Geneva, New York, says the issue, in the case of possibility of selling financial bills, is another one. He says issuing securities at market rates would simply make the projects not viable, given the size of the Selic benchmark interest rate. Moreover, the appetite for such debt is low in Brazil, and the maturity is usually no more than five years on average, which would mean a big mismatch to these agencies' balance sheets.

The offering's risk, Mr. Rezende says, could be mitigated by a more active presence of the Central Bank in this game. He says the BC could buy the securities issued by these development agencies, keeping them in its portfolio and thus financing the regional infrastructure — something like the American quantitative easing. "The BCs of the world had a strong expansion of their balance sheets and the Brazilian BC, in a way, underwent this expansion because of the program of acquisition of foreign-exchange reserves. Money, therefore, exists."

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