
BRAZIL BUSINESS BRIEF

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NEWS FROM THE BRAZILIAN CHAMBER
OF COMMERCE IN GREAT BRITAIN



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EDITORIAL



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LETTER FROM THE EDITOR

Dear members,

The previous edition of the *Brazil Business Brief* was published just as the COVID-19 pandemic was taking hold, and we find ourselves sending this one while the crisis is still having a profound effect on all our lives, though perhaps now there is a glimmer of light at the end of the tunnel. I'm sure we're all acutely aware that Brazil and the United Kingdom have suffered the second- and third-highest numbers of deaths respectively.

You won't be surprised, therefore, that the subject of COVID-19 looms large in this edition.

We are very pleased to be able to announce the return of the section of the magazine contributed by writers affiliated to the King's Brazil Institute, a department of King's College London that promotes research with and on Brazil. In this edition the section contains two articles, introduced on page 10 by the institute's director, Professor Anthony Pereira.

Our two interviews in this edition are with Fabio Abrahão, Director of Infrastructure, Concessions and Public-Private Partnerships at the Brazilian Development Bank (BNDES), and with our very own Vera Innes, Chair of the Brazilian Chamber. Vera has been a member of the council of the Chamber for 12 years and now holds the distinction of being the first woman to head the Chamber since its creation in 1942. We welcome Vera and wish her all the best in her stewardship of our organisation.

From Alexandre Manoel Angelo da Silva, an economist at Brazil's Institute for Applied Economic Research (IPEA), we have a forward-looking article that summarises the challenges and opportunities lying ahead for 'post-COVID-19' Brazil.

Our other article is an interesting one from Fernanda Rachel Zago of WePayOut, a Brazilian fintech working in the cross-border-payments industry. She explores the potential for fruitful cooperation between fintechs and more traditional financial institutions.

We hope that many of you will participate in our forthcoming webinars – see Vera's interview for further details – and of course we look forward to seeing you in person as soon as we are able to hold our networking and social events in the normal way.

Best wishes on behalf of everyone at the Chamber,

Lena Beraldo

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CHALLENGES AND OPPORTUNITIES FOR POST-COVID-19 BRAZIL

BY ALEXANDRE MANOEL ANGELO DA SILVA



The COVID-19 pandemic has had consequences in Brazil far beyond the spread of the disease itself – including the intensification of poverty and inequality, and a new coalition between executive power and political parties. Some economists

have estimated that Brazil's GDP will contract by 9% during 2020 and that the unemployment figure will reach 18 million. There are also estimates of a recovery during 2021, with projected GDP growth of 2.5%.

The federal government now has a vital role to play, and there is a huge challenge for ministers to think

strategically and use their collective experience to ensure a robust recovery for the Brazilian economy.

In the face of the pandemic, arguably the greatest challenge for President Bolsonaro has been to provide urgently needed assistance for people and organisations in the short term, for example through the implementation of a monthly payment a R\$600 (US\$120) to workers in the informal sector and to unemployed members of low-income families who are ineligible for other social benefits – a total of up to 50 million people – and also through the expansion of credit for micro and small enterprises.

It is also necessary, of course, to focus on what will come after COVID-19. The challenge of the recovery phase cannot be overstated, and there is no precedent from which to learn. The current economic crisis is one in which demand and supply have declined simultaneously, so it is extremely important for the federal government to respond with countercyclical policies, smoothing the economic cycle and accelerating the recovery.

The federal government also needs to act strategically and should be prepared to answer questions

THE FEDERAL GOVERNMENT ALSO NEEDS TO ACT STRATEGICALLY AND SHOULD BE PREPARED TO ANSWER QUESTIONS IN A TRANSPARENT WAY, MAKING THE PRODUCTIVE SECTOR AS AWARE AS POSSIBLE OF THE LIKELY OUTLOOK POST-COVID-19

in a transparent way, making the productive sector as aware as possible of the likely outlook post-COVID-19.

The questions that need frank answers include the following:

- How long will economic support remain in place?
- How will support vary over time?
- Should the government put in place a universal-basic-income programme, and could tax reform provide the means to create such a programme?
- Will there be new fiscal goals and a debt target with a new spending cap?

- How will the government incentivise the oil and gas sector to play a leading role in the economic recovery?

The present level of federal support can continue only for a limited period because Brazil's fiscal situation is not strong enough to sustain it indefinitely. There is sure to be a huge increase in poverty, unemployment and inequality in comparison to the situation pre-COVID-19, so the government should be prepared to respond to that, and needs to be aware that the consequences of rolling back support overnight would be very severe.

A rebound in federal public investment will be important in order to compensate for capital depreciation and to support economic recovery – it declined from an average level of 1.1% of GDP between 2014 and 2016 to 0.7% between 2017 and 2019. Brazil was hoping for a surge in private investment but the pandemic has made that a much less likely prospect.

It is essential for the government to create a new social programme, maybe one that amalgamates existing social programmes (such as *Bolsa Família*, *Abono Salarial*, *Salário-Família* and *Seguro Defeso*) in a more

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efficient way, allowing stakeholders to act strategically to facilitate the recovery. Such a programme could be accompanied by tax reform as well as a new structure for fiscal rules.

Indeed, the COVID-19 crisis might be seen as an opportunity for the reform of fiscal-monitoring rules in Brazil. Such a reform could maintain the current public-spending cap but provide some flexibility for a limited real variation in expenditure. The spending cap could be accompanied by a debt target instead of a primary-surplus target, bringing Brazil closer to the model adopted by the European Union. This would allow the implementation of an anti-cyclical fiscal policy while also reaffirming the federal government's commitment to fiscal responsibility.

A restructuring of taxes, social expenditure and fiscal targets could be complemented by sectoral policies helping to reduce unemployment and generate income. The oil and gas sector has a major contribution to make. The latest exploration auctions committed oil companies to invest, thus generating jobs and increasing public revenue. In their planning, those companies must take into account the impacts of the pandemic

A RESTRUCTURING OF TAXES, SOCIAL EXPENDITURE AND FISCAL TARGETS COULD BE COMPLEMENTED BY SECTORAL POLICIES HELPING TO REDUCE UNEMPLOYMENT AND GENERATE INCOME. THE OIL AND GAS SECTOR HAS A MAJOR CONTRIBUTION TO MAKE

and try to ensure that the industry remains attractive to private investors.

In conclusion, the ongoing economic and health crisis presents huge challenges but also opportunities. The recent political coalition between the executive branch and the political grouping in Congress that has had an important role in passing legislation – the so-called *Centrão* – may show the way to seizing the opportunities to approve reforms, smoothing the economic cycle and accelerating Brazil's much-needed recovery in the post-COVID-19 period. ●

AN OPEN PATH TO PARTNERSHIPS BETWEEN FINTECHS AND TRADITIONAL INSTITUTIONS

FERNANDA RACHEL ZAGO



'As the finance industry grapples with what the next generation of banks and payment systems will look like, it's clear that partnerships are a linchpin for riding the wave of change successfully, whether you're a multibillion-dollar traditional bank or a startup looking to bring cutting-edge technology into the mainstream.'

Why Partnerships Are the Future for Fintech',
Wharton University

As early as 2016, a study by Professor Serguei Netessine at the Wharton School of the University of Pennsylvania indicated that most Global 500 companies had developed partnerships in a variety of startup models. The examples listed 'mergers, acquisitions and spin-offs, investment funds, accelerators, incubators and support services, among others – or a combination of many'.

This proves that the development of financial and payment systems is a result of partnerships and will continue to be guided by them.

Fintechs and traditional financial companies have cultures that are different but not necessarily opposing. Indeed, they are often complementary. The differences between their respective business structures mean that partnerships between them are a route to innovation.

We might think it is premature to

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say that the already-established and larger financial institutions would not have the knowledge to develop new solutions and keep up with the technology and innovations of fintechs. However, this conclusion is partly correct. Large institutions often have complex organisational structures and bureaucracy that make it difficult to develop and implement new projects.

In large and established financial institutions, new projects can be time-consuming to develop as a result of bureaucratic procedures, and there also tends to be a fear of adopting technologies not yet tested and used by other organisations. But fintechs and startups are the exact opposite. They are even free from obsolete regulatory and technological systems, one of the major barriers to new digital developments in traditional financial institutions.

And new ideas are not lacking. Last year the number of fintechs in Brazil increased by 96%, and there are now more than 600 of them.

It is a question of focus and possibilities. While large traditional companies offer structural and extensive products, fintech companies offer more specific/urgent and technologi-

IN LARGE AND ESTABLISHED FINANCIAL INSTITUTIONS, NEW PROJECTS CAN BE TIME-CONSUMING TO DEVELOP AS A RESULT OF BUREAUCRATIC PROCEDURES, AND THERE ALSO TENDS TO BE A FEAR OF ADOPTING TECHNOLOGIES NOT YET TESTED AND USED BY OTHER ORGANISATIONS

cal services.

If we look closely, we see that both categories of company are seeking to develop, and that they are in a sort of mutually dependent relationship. For startups to be able to achieve financial escalation, they need the initial contributions and structure of a large company. And for traditional institutions to target new markets and offer innovative solutions, it can be a rather slow and difficult process without the philosophy and partnership of a fintech.

FINTECH AND TRADITIONAL INSTITUTIONS

It is interesting to realise that what may seem a simple rendering of services develops into actual partnerships.

The cross-border-payments industry is a clear example. Traditional payment systems include several intermediaries and have structures that do not make it easy to process and analyse data and information quickly – gaps that fintech has successfully filled.

It is also worth remembering that in the processing of cross-border payments, the large banks (traditional financial institutions) are still part of the financial flow and currency conversion. Fintech adds further services that ease the onboarding process of new clients, and the handling of payments, and they do all this with their operational efficiency.

The processing of mass payments, for instance, is carried out in a faster, cheaper way due to the clarity of prices and conversions. It is also more efficient since these fintech companies verify data and information. Evidence from WePayOut reveals that the validation of bank

accounts allows for more than 90% approval of payments.

With the example of mass payments, a relationship of rendering payment-processing services tends to develop into actual partnership, as fintech companies usually provide their tools for process efficiency. These include compliance and onboarding. And because of the functioning of the business itself, they also bring new clients to these institutions, especially those that are not the target public.

This must also be taken into consideration. Because, according to a MindMiners survey, the number of Brazilians using fintech services doubled between 2017 and 2019.

But how does this partnership help clients who need to process cross-border payments?

Cross-border payments can be somewhat challenging for a foreign company.

When entering a new country, with its monetary and legal peculiarities, it is not an easy task for a company to choose between the various offerings from potential partners. Decision-making is likely to require the development of good legal and tax analyses.

TRADITIONAL INSTITUTIONS USUALLY HAVE AN ESTABLISHED BRAND AND REPUTATION, AS WELL AS POSSESSING LICENCES TO OPERATE. FINTECH COMPANIES ARE KNOWN FOR THEIR AGILITY AND SAFETY IN THEIR PROCEDURES. THEIR FOCUS IS ON THE CLIENT AS THE BASIS FOR PROCESS DEVELOPMENT

In partnerships between fintech and traditional institutions, decision-making is simplified.

Traditional institutions usually have an established brand and reputation, as well as possessing licences to operate. Fintech companies are known for their agility and safety in their procedures. Their focus is on the client as the basis for process development. Following clear regulation, procedural safety is guaranteed by the combination of traditional institutions' legal

assurance on one hand and fintechs' technological reliability on the other.

The combination of the above factors simplifies and speeds up the hiring or changing of processors.

The advantage to the customer (foreign companies):

- Speed in switching to a new payment solution
- Swift implementation and integration of the payment solution
- Simplified processes
- Safety
- Operation regulated
- Transparent financial flows
- Competitive and transparent pricing
- Top-quality service
- Technological solutions
- Quick onboarding
- Redundancy
- Diversification

The 'World FinTech Report 2020' indicates that effective structured collaboration is essential for a successful partnership between fintechs and banks. In other words, aligning businesses and expectations is fundamental. Creating this partnership is not easy, but when it is well structured, the customer wins. ●

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INTRODUCTION TO THE KING'S BRAZIL INSTITUTE SECTION

BY ANTHONY W. PEREIRA

outbreak, she echoes another King's academic, Octavio Ferraz, in writing that the spread of the coronavirus has exposed and exacerbated Brazil's social inequalities. Unfortunately, according to Maíra, despite Brazil's considerable capacity in the area of medical research and public health, its governmental response to the coronavirus so far has been marked by uncoordinated actions and political conflict, and at the time of writing the number of cases continues to rise. Brazil is experiencing simultaneously a public-health emergency, a sharp economic downturn, and a political crisis that includes conflict between most of the state governors (and many mayors) and the president. This is a tragedy, and it is to be hoped that municipal and state authorities will eventually be able to flatten the curve of rising infection.

One of the authors of the other article, Ursula Dias Peres of the University of São Paulo, was a visiting researcher at the King's Brazil Institute in late 2019 and early 2020. Ursula and her co-author Fábio Pereira dos Santos look at the impact of the coronavirus on the finances of state and municipal governments in Brazil. They argue that a drop in

revenue in the period 2014-2019 has made it difficult for states and municipalities to respond adequately to the demands on SUS and its sister network SUAS (Sistema Único de Assistência Social, or Unified Social Assistance System) triggered by the pandemic, and that the federal government is needed to coordinate the fiscal response and relax the existing rules about public debt. The authors also point to some of the underlying strengths of the Brazilian economy: a National Treasury that is capable and experienced when it comes to managing the public debt; the fact that 90% of the public debt is held by Brazilians and denominated in the national currency, the real; and that the country has over US\$300 billion in international reserves, buffering it from some of the turbulence in international markets.

Both articles confirm that Brazil, like the UK, has been hit hard by the coronavirus pandemic, while pointing to possible pathways out of the crisis in the future. This crisis, too, will eventually pass, and the challenge of reconstruction will begin. I hope that these articles will stimulate discussion, reflection, debate, and action among the readers of the BBB. ●

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Readers of the *Brazil Business Brief* (BBB) will be accustomed to seeing in each issue an article by someone affiliated to the King's Brazil Institute. The institute is a unit of King's College London that promotes research with and on Brazil. In this issue of the BBB, due to the extraordinary nature and impact of the coronavirus pandemic, we are breaking with tradition and offering you not one but two articles.

The first is by PhD student Maíra Fedatto. In analysing some of the Brazilian government's responses to the

THE COVID-19 OUTBREAK: CHALLENGES FOR BRAZIL, THE NEW HOTSPOT

MAÍRA FEDATTO

At the beginning of January 2020, 44 cases of pneumonia of unknown cause were reported to the World Health Organization (WHO) by officials in China. The first case of infection by the new coronavirus (SARS-CoV-2) outside China was confirmed in Thailand on 13 January. Since then, the COVID-19 pandemic has affected 215 countries and territories, with more than ten million cases and 500,000 deaths.

On 30 January, the WHO declared the outbreak a Public Health Emergency of International Concern. The next day, in Brazil, the Interministerial Executive Group on National and International Public Health Emergencies (GEI-ESPII) was re-established: its aims are to propose, monitor and coordinate measures to respond to health emergencies by recommending the allocation of budgetary-financial resources and establishing guidelines



for the implementation of public-health-emergency measures, and it is also responsible for preparing reports while keeping ministers informed.

Brazil's public health system (Sistema Único de Saúde – SUS) has been considered one of the most successful in the world, despite its underfunding and management problems in a broader context of economic and political crisis permeated by austerity measures. For example the Global Health Security Index (GHSI, 2019)¹ placed Brazil in ninth position in its ranking of

countries best prepared to respond quickly to an epidemic and minimise its spread, in twelfth position for early detection of diseases, and sixteenth for disease prevention. However, since the beginning of the COVID-19 outbreak in Brazil in late February, the country has witnessed a chaotic and uncoordinated response, exacerbated by political turmoil and by historical inequalities – social, economic, and with regard to the

1. <https://www.ghsindex.org/wp-content/uploads/2019/10/2019-Global-Health-Security-Index.pdf>

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geographical distribution of doctors and health facilities. Currently the greatest challenge is that of enforcing measures based on public-health science in order to curb the spread of the disease. Disagreements between the federal government and state and municipal administrations have not been conducive to an efficient response. At the federal level the focus is exclusively on the lethality of the disease, while the worldwide recommended strategy is to reduce transmission so that health services can be properly prepared to deal with the epidemic without exceeding hospitals' intensive-care capacity.

Latin America was experiencing very slow economic growth even before the pandemic, and the latest estimate from the World Bank predicted a 5% decrease in the region's GDP over the course of 2020. The longer the health crisis lasts, the greater the economic and social damage will be. Moreover, Latin America has some of the most enduring health inequalities in the world – for example, a very unequal distribution of health facilities and providers, resulting in shortage of primary-care physicians and absence of specialists in areas far from big cities.

LATIN AMERICA WAS EXPERIENCING VERY SLOW ECONOMIC GROWTH EVEN BEFORE THE PANDEMIC, AND THE LATEST ESTIMATE FROM THE WORLD BANK PREDICTED A 5% DECREASE IN THE REGION'S GDP OVER THE COURSE OF 2020

In response to the pandemic, the Organisation for Economic Cooperation and Development (OECD) advocates that governments should adopt a strategy based on four pillars.² The first is to support scientific research so as to ensure the availability of a vaccine or treatment; the second is coordinated government spending across the categories of 'health care' (e.g. testing, treatment, protection of vulnerable groups), 'people' (e.g. cash transfers for those unable

to work) and 'firms' (e.g. support packages for small and medium-sized enterprises); the third is to combine efforts for financial regulation and supervision, and the fourth is to restore confidence, which includes addressing economic inequalities as they 'deepen danger for the most vulnerable' and aggravate the shock.

The COVID-19 outbreak has exposed not only the well-known social inequalities in Brazil but also the unwillingness of policymakers to change them. An emergency-support package was finally launched in May after disagreements between the government and Congress regarding the necessary funding. The measure initially proposed by the economy minister was a payment to workers in the informal economy, owners of small businesses and the unemployed of R\$200 (about US\$35) per month for a period of three months, but the suggested amount then rose to R\$600 (US\$105) per month. However, bureaucratic issues have delayed the payment.

The Brazilian government has been accused of putting the economy before human lives, with its approach condemned not only by human-rights and health institutions such

as the WHO and the UN Human Rights Council but also by economic organisations such as the OECD and the World Bank, with the latter arguing that 'while the economic scale of the crisis grabs attention, and could even paralyze us, the human toll is even more pressing'.³

At the time of writing (29 June), Brazil is the second-worst affected country in the world, behind only the United States, both in terms of the number of COVID-19 cases (1,352,708) and the number of deaths (57,774), and has recently reported the highest number of infections and deaths in a day. The Institute for Health Metrics and Evaluation (IHME),⁴ an independent global health research centre at the University of Washington, projects that the number of deaths in Brazil could reach approximately 166,000 by early October, depending on how the population behaves and whether policymakers act to efficiently curb the rate of transmission.

In a complex scenario where the outbreak has been hampered by political polarisation and a president who persistently downplays the virus, the Brazilian government now urgently needs to coordinate its response by

IN A COMPLEX SCENARIO WHERE THE OUTBREAK HAS BEEN HAMPERED BY POLITICAL POLARISATION AND A PRESIDENT WHO PERSISTENTLY DOWNPLAYS THE VIRUS, THE BRAZILIAN GOVERNMENT NOW URGENTLY NEEDS TO COORDINATE ITS RESPONSE BY FOLLOWING SCIENTIFIC AND EXPERT MEDICAL ADVICE

following scientific and expert medical advice. Since the beginning of the outbreak the WHO has encouraged so-called 'risk communication', which refers to the exchange of information, advice and opinions between specialists, aiming to allow people at risk to make decisions to protect themselves and their families. Effective communication of public-health risks is an essential component of emergency planning, preparedness and response. Moreover, as WHO director-general Tedros

Adhanom Ghebreyesus has warned, small observational, non-randomised studies are not the required answer. The use of untested drugs not only creates false hopes but can cause dangerous side-effects and lead to a shortage of medicines needed to treat other diseases.

Brazilian policymakers should focus on structural gaps that can potentially spread any infectious disease with devastating force. Urban problems such as overcrowded homes, large populations of homeless people and inadequate sanitation (running water and sewage treatment), combined with the highly unequal geographical distribution of doctors and medical facilities, could lead to the pandemic having devastating social and economic outcomes. ●

2. <http://www.oecd.org/newsroom/oecd-secretary-general-coronavirus-war-demands-joint-action.htm>

3. <https://blogs.worldbank.org/voices/broad-fast-action-save-lives-and-help-countries-rebuild>

4. <https://covid19.healthdata.org/brazil>

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THE FINANCIAL CRISIS FOR BRAZIL'S STATES AND CITIES, AND THE IMPORTANCE OF FEDERAL COORDINATION IN COMBATING COVID-19

BY URSULA DIAS PERES AND FÁBIO PEREIRA DOS SANTOS

The Brazilian federal government urgently needs to take responsibility for the fiscal coordination of the response to the COVID-19 crisis. Although the Brazilian state is federative, and each of the three levels of government – federal, state and municipal – is able to govern with autonomy, the states and the municipalities have only a limited capacity to finance policy responses, particularly in emergency situations. The federal government alone possesses the instruments and the legitimacy to bear the fiscal burden of the pandemic, and it must do so now in order to prevent an even greater crisis.

Brazil's states and municipalities have been acting to combat the pandemic through healthcare and social-assistance measures, but their fiscal capacity is much smaller than that of the federal government.

The states saw their revenues expand in the first decade of this century, but in 2014 they suffered a drop in income from which they have still not recovered. As for the revenues of municipal administrations, they have largely stagnated since 2014,



apart from slight increases in the case of a few state capitals. The majority of Brazil's cities are today facing financial difficulties.

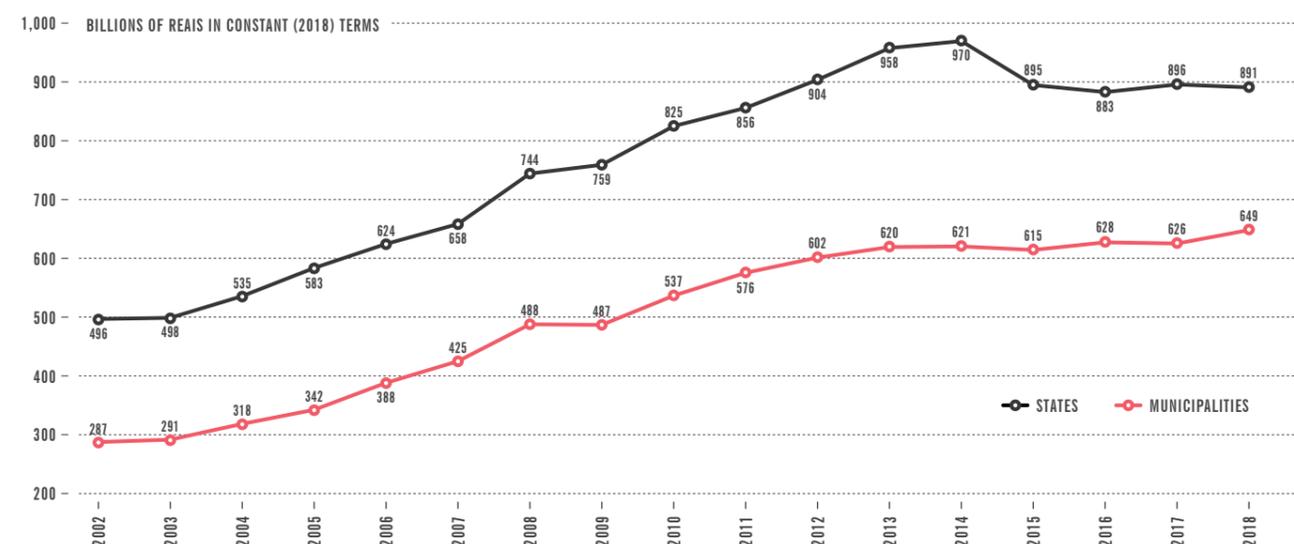
A further constraint is that, in accordance with the rules established by the Secretariat of the National Treasury (Secretaria do Tesouro Nacional – STN), only 11 of Brazil's states and fewer than one-third of its municipalities are permitted to go into debt.

However, combating the crisis requires increased spending, both on health policies to address the

existing cases of COVID-19 and boost prevention, and on social-assistance policies for the low-income population and informal workers. Brazil's Unified Health System (Sistema Único de Saúde) and Unified Social Assistance System (Sistema Único de Assistência Social) are both federal in nature, funded and coordinated by the federal government, but they are directly administered by the municipalities and the states. And those municipalities and states have suffered a sharp decrease in revenue from taxation on goods and services

GRAPH 1

EVOLUTION OF TOTAL REVENUE OF BRAZILIAN STATES* AND MUNICIPALITIES, 2002-18



*Includes Federal District (DF)
Source: Siconfi/Secretariat of the National Treasury, Ministry of the Economy. Values corrected by the IPCA (inflation index).

(ICMS and ISS) as a result of the economic impact of social distancing, which has been the principal means of reducing contagion and trying to prevent Brazil's health services from becoming overloaded.

Figures from the National Finance Policy Council (Conselho Nacional de Política Fazendária) and the SNT show that revenues from the principal state and municipal taxes (ICMS and ISS) have fallen significantly, while

the Independent Fiscal Institution (Instituição Fiscal Independente – IFI) shows a fall in revenue from various federal taxes, hence diminishing the funds that are passed on to the states and municipalities (FPE e FPM). Even if it were possible to compensate for this loss of revenue through an exceptional authorisation for states and municipalities to go into debt, it would not be sufficient. The huge fiscal inequality among the

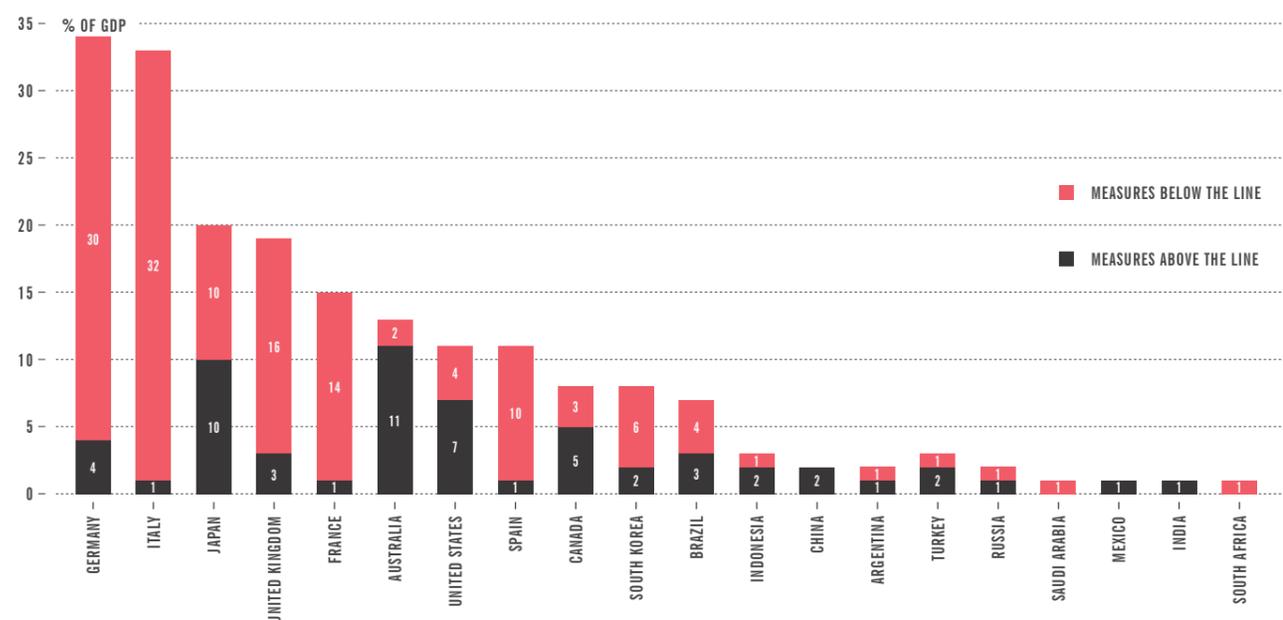
states and municipalities suggests that not all of them would be able to achieve access to credit, and in any case the federal government would ultimately need to provide guarantees for loans. This decentralisation of indebtedness would entail higher costs and risk of greater fiscal imbalances in the future.

In such circumstances the federal government has a crucial role to play in the fiscal response to the crisis.

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GRAPH 2

FISCAL RESPONSES TO THE COVID-19 PANDEMIC (% OF GDP)



Source: data from the IMF Fiscal Monitor database, April 2020, adapted by the authors

The federal government is already backed by the legislative decree that recognises a state of public calamity (*Lei Complementar 101/2000 [LRF]*, article 65), which allows it to generate funds not provided for in the budget law. Also, the federal government has been authorised by the Federal Supreme Court (Supremo Tribunal Federal) to issue government bonds to pay for current expenditure – in other

words the ‘golden rule’ of budgeting, which proscribes credit operations beyond the level of capital expenditure, has been suspended.

There is therefore a legal basis for the federal government to increase its borrowing as indeed is happening in many other countries. The graph below shows that various countries are combining ‘above the line’ measures (in green), which have a direct impact

on the primary fiscal balance, with ‘below the line’ measures (in grey), which involve loans and guarantees and do not immediately affect the primary fiscal balance.

Managing Brazil’s public debt is made easier by the fact that since the 1990s the National Treasury has accumulated extensive experience of administering federal bonds and controlling the indebtedness

of states and municipalities. Other helpful factors are that 90% of the public debt is held by domestic creditors in Brazilian reals and that the country has significant international reserves, virtually eliminating the risk of a balance-of-payments crisis (unlike in the case of other Latin American countries).

However, the federal government has been slow to take effective action. On 6 May, after much discussion, the Chamber of Deputies and the Senate passed Law no. 173/2020 as a way to assist the states and municipalities through federal transfers; the legislation was enacted on 27 May. The law provides for total aid of R\$125.8 billion, divided into four parts: 1) direct aid of R\$60.15bn; 2) R\$49.32bn through the suspension, for the rest of 2020, of states’ and municipalities’ debts to the federal government and banks; 3) R\$10.73bn through the renegotiation of debts to international organisations; and 4) R\$5.6bn through the suspension of the payments of municipalities’ social-security debts. The law prohibits the states and municipalities from increasing expenditure on public servants (with certain exceptions such as teachers and police officers).

BRAZIL HAS ANNOUNCED A SERIES OF MEASURES, INCLUDING THE POSSIBILITY OF INCREASED INDEBTEDNESS, BUT THEY DO NOT GO FAR ENOUGH AND HAVE NOT YET BEEN TRANSLATED INTO CONCRETE ACTIONS

This assistance was urgently needed but fell short of expectations. The federal government took 21 days to enact the legislation after it had passed through Congress. And today (10 June), almost three months on from the beginning of discussions about the aid package, the funds have still not been transferred to the states and municipalities. This reflects the federal government’s fear that it will need to provide a huge amount of resources if the COVID-19 crisis proves to be a long-term one, as indeed seems likely.

But if there are fears about indebtedness, the government could turn to another source of funds: income tax. Brazil’s taxation system is quite regressive, with the tax

burden falling much more heavily on consumption and production than on the incomes of high earners. With the country facing an unprecedented health, economic and social crisis, it seems vitally important to adjust the level of income tax (while also accepting increased debt) in order to create a substantial fund for the purpose of combating COVID-19.

The most important thing right now is to act. Brazil has announced a series of measures, including the possibility of increased indebtedness, but they do not go far enough and have not yet been translated into concrete actions. The vital operations of the country’s state and municipal administrations need urgently to be coordinated and supported by the federal government so that we can reduce the impact of COVID-19 on health and the economy. Combining a centralised debt strategy with an emergency increase in income tax for high earners seems to us to be the best way to respond to this grave national crisis. ●

This is an adapted version of an article originally published in the *Estado de São Paulo* on 6 May – see <https://politica.estadao.com.br/blogs/gestao-politica-e-sociedade/a-crise-de-financiamento-dos-estados-e-municipios-brasileiros-e-a-importancia-da-coordenacao-federal-para-o-enfrentamento-da-covid-19>

INTERVIEWS



VERA INNES

BRAZILIAN CHAMBER OF COMMERCE

BY IEDA GOMES
BRAZIL BUSINESS BRIEF

Vera is a Brazilian lawyer working in the United Kingdom. Based in London, she has been advising British companies with interests in Brazil since 1993. Her areas of expertise are Brazilian corporate law and international private law. For the last ten years she has been working closely with energy companies doing business in Brazil. She became Chair of the Brazilian Chamber of Commerce in February 2020.

Could you briefly describe your background and career?

I was born and raised in Brazil, where I studied law at the University

of São Paulo and then qualified as a lawyer. In the 1990s I moved to Portugal and qualified to practise law there. I have been living permanently in the UK since 1993, qualifying as a solicitor in the England and Wales jurisdiction in 2007. Since the beginning of my career I have worked in Brazilian corporate law – particularly, in the last ten years, with Brazilian energy law. I advise British companies on legal aspects of doing business in Brazil.

Could you tell us a little about the Chamber and how it adds value to the commercial relationship between Brazil and the UK?

The bylaws of the Chamber state

that it exists to ‘promote and extend the trade and economic relations’ between Brazil and the UK, and to ‘promote their industries and the exploitation of their natural resources’. This objective was as important in 1942, when the Chamber was created, as it is today, and throughout all these years it is what the Chamber has been working to achieve.

Stable economic relations depend on a variety of factors, such as mutual trust and an understanding of the opportunities that will help countries achieve their strategic objectives of progress and economic development. We make our contribution by holding seminars and webinars that publicise those

opportunities, along with the challenges involved in the bilateral relations between Brazil and the UK. And we hold – when possible – receptions that enable our members to meet and create business opportunities.

Obviously the COVID-19 crisis has changed the face of our activities. Since March, as people can’t gather together in the usual way, we’ve been using webinars to discuss topics of interest. These offer opportunities for professional enhancement as you can watch a team of specialists talking about a given theme. They also allow the speakers to promote their businesses.

In all of this we’re creating value for our members and, ultimately, for the commercial relations between Brazil and the UK.

We also have an informative role. We create online publications, such as this *Brazil Business Brief*, which allow our members to access information on various different subjects, such as energy or the legal field.

And once a year we have our Gala Dinner, where we present awards to individuals who have made a particularly important contribution to the Brazil-UK commercial relationship.

WE MAKE OUR CONTRIBUTION BY HOLDING SEMINARS AND WEBINARS THAT PUBLICISE THOSE OPPORTUNITIES, ALONG WITH THE CHALLENGES INVOLVED IN THE BILATERAL RELATIONS BETWEEN BRAZIL AND THE UK

What are the Chamber’s key activities and priorities for 2020?

The priority is to continue to create value for our members.

We have a number of webinars planned for the near future, potentially on subjects such as force majeure in contracts in this time of COVID-19, China’s role in business in Brazil, oil and gas, investment in tech companies; and the environmental impact of the current crisis.

We also want to encourage greater participation from our members by means of surveys and direct personal communication – albeit just by phone and email for the time being. It’s very important to listen to what our members have to say.

How do you aim to increase the Chamber’s footprint and membership?

Through activities that are of interest to current and potential members – webinars like those described above, while it’s still not possible to meet in person; publishing news items and articles; encouraging more direct communication with our members; and, of course, planning an excellent Gala Dinner in 2021, as present circumstances mean we can’t have one in 2020.

You specialise in foreign investment in Brazil and Brazilian corporate and energy law, especially in the oil and gas sector. What has been the impact of COVID-19 on foreign investment?

In April, FDI [foreign direct investment] in Brazil was US\$234.3 million, according to the Central Bank. That’s the lowest total in the month of April since 1995, and came at a time when the Brazilian economy was becoming almost paralysed because of COVID-19.

However, we’ve also seen Brazil return – for the first time since 2019 – to the list of 25 most trustworthy countries for FDI, published by the American consultancy A.T. Kearney. The list, published on 16 June, is

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based on research finalised in March, before the pandemic really started to take hold.

We usually talk about British companies investing in Brazil. Do you also see Brazilian companies interested in investing here in the UK?

Yes. Financial services, food and information technology are the most sought-after sectors.

COVID-19 has changed the ways companies communicate with their employees and clients. How is the Chamber adapting to a new wave of virtual working and communication?

Through our focus on webinars, which we've been organising since March. Their content has been excellent and we've been receiving positive feedback from members.

You've been involved with the Chamber for many years and are now the first female chair in its long history. What's your advice for female professionals looking to develop their careers in a competitive environment?

I am indeed the first female chair since 1942, when the Chamber was created! I see it not as a personal achievement but as an affirmation

I SEE IT NOT AS A PERSONAL ACHIEVEMENT BUT AS AN AFFIRMATION THAT WOMEN ARE AS CAPABLE AS MEN OF TAKING UP PROMINENT POSITIONS

that women are as capable as men of taking up prominent positions, and as another step forward on the long road to equality. I'm of course happy to be able to contribute to that.

I'd say to women that they should invest in their education, that they should set and manage targets in their careers, and that they should give time in networking, which is not only enriching but also fun!

In the long term, what do you think are the key opportunities for business between Brazil and the UK?

For Brazilian companies in the UK, as I mentioned before, the key areas are financial services, the food industry and IT. For UK companies in Brazil the spectrum is very wide, but the areas of energy, infrastructure and pharmaceuticals are particularly prominent. ●



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Brazilian Chamber
of Commerce in Great Britain

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FABIO ABRAHÃO BNDES

BY IEDA GOMES
BRAZIL BUSINESS BRIEF

Fabio Abrahão is Director of Infrastructure, Concessions and Public-Private Partnerships at the Brazilian Development Bank (BNDES). Previously he was a special advisor to the Minister of the Economy. As a founding partner of Infra Partners Investimentos he led more than 40 infrastructure investment decisions and turnaround initiatives. He was the founder of two technology-based logistics operators, operating throughout Brazil and also elsewhere in Latin America.

Could you please summarise BNDES's mission, objectives and reporting line?

Our mission is to make viable the necessary investments for Brazil's sustainable development.

BNDES is the main financing agent for development in Brazil. Since its foundation in 1952 it has played a fundamental role in stimulating the expansion of the country's industry and infrastructure. BNDES's operations have evolved in accordance with Brazil's socio-economic challenges, and now they also include support for exports, technological innovation, sustainable socio-environmental development and the modernisation of public administration. BNDES is now also being repositioned to serve as 'the public sector's investment bank', expanding its operations to provide privatisation structuring services, for both a concession-based approach to infrastructure projects and the divestitures of several public enterprises and state-owned assets in

order to have more 'bankable' projects and therefore catalyse more private investment to meet the country's financing needs.

By March 2020 there were already 57 projects [25 federal, 21 state and 11 municipal] in our portfolio, with a total of expected capex of R\$188 billion.

What are BNDES's main sources of funding and current investment portfolio?

Our resources come mostly from government funds, the main one being the Workers' Assistance Fund [Fundo de Amparo ao Trabalhador – FAT]. In the recent past we received loans directly from the Treasury – a policy that no longer stands, because BNDES has been prepaying these funds. Other than that, we normally access both domestic and international

capital-markets transactions, i.e. local debentures, international bond issuances and private placements in Brazil. It's important to mention that we traditionally seek funding with loans from international financial institutions (DFIs) such as the Interamerican Development Bank, KfW, JBIC, the China Development Bank and the US International Development Finance Corporation.

What are BNDES's investment capacity and priorities for 2020–21, and how have those priorities been impacted by COVID-19?

COVID-19 has turned BNDES's attention to short-term measures, with emergency actions related to the health sector, waiver of payments of principal and interest due by clients, and many measures for MSMEs. Besides that, additional measures are under discussion for specific sectors such as aviation, in accordance with the priorities set by the Special Secretary for Productivity, Jobs and Competitiveness [Secretaria Especial de Produtividade, Empregos e Competitividade] in the Ministry of the Economy.

Our sectorial solutions are being structured and implemented together

COVID-19 HAS TURNED BNDES'S ATTENTION TO SHORT-TERM MEASURES, WITH EMERGENCY ACTIONS RELATED TO THE HEALTH SECTOR, WAIVER OF PAYMENTS OF PRINCIPAL AND INTEREST DUE BY CLIENTS, AND MANY MEASURES FOR MSMEs

with the private credit market, which is to say the private banks that operate in Brazil, and also, in some cases, the capital market.

However, project-preparation activities have not been suspended or interrupted. The idea is to provide investors with a number projects or investment options that will be ready for bidding as soon as we have the proper market conditions. The success of these bids will be fundamental to Brazil's economic recovery, and therefore they're a priority for BNDES. Our current infrastructure concession's pipeline, to be launched during the next two and a half years, is R\$200bn, and we want to attract both financial and strategic international investors to take part in it.

It's important to mention that we also developed a Three-Year Plan, for 2020–22, which was unveiled last year. This is crucial for Brazil's economic recovery. The numbers and disbursement previsions are currently being reassessed because of the COVID-19 crisis, but its initial goals can be listed as follows:

CREDIT

1. Education: services for an additional 1 million students;
2. Health: 150 new units (hospitals and other health facilities);
3. Public security: 20 projects;
4. Focus on MSMEs, reaching up to 450 thousand enterprises;
5. Creation of 3 million jobs;
6. Energy – a renewable-energy goal of 2.0 GW and expansion of natural-gas distribution to 1,600 km;
7. Logistics – 2,500 km of railways and 5,000 km of roads;
8. Urban mobility for another 1 million passengers;
9. Sanitation – provide another 5.5 million Brazilians with sewage treatment and 900 thousand with running water;

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10. Telecommunications – broadband internet for another 8 million people.

SERVICES

1. Prepare projects that provide access to water treatment for another 20 million people;
2. Structure projects to promote private investment through privatisations, public-private partnerships and concessions for ports that account for at least 30% of Brazil's external trade, and in more than 20,000 km of toll roads;
3. Provide high-quality street lighting for areas that are home to 14 million people;
4. Privatise 30 federal- or state-owned owned companies;
5. Launch five real-estate funds.

The combination of COVID-19 and the oil-price crash has had a huge impact on the finances of oil & gas and power projects, and on the prospects for future investment. What is the situation now in Brazil?

Of course we are living through a very unusual period, with an unprecedented oil-price crash. WTI was negotiated at negative prices

PETROBRAS, THE LARGEST OIL PRODUCER IN BRAZIL, PUT 62 PLATFORMS IN LAY-UP AND HAD TO CUT PRODUCTION. IT ALSO HAD TO CHANGE ITS OIL PRODUCT MIX IN ORDER TO MEET GROWING LPG DEMAND FROM HOUSEHOLDS, COMBINED WITH THE REDUCTION OF GASOLINE AND DIESEL PRODUCTION

because producers would have nowhere to store their production. Petrobras, the largest oil producer in Brazil, put 62 platforms in lay-up and had to cut production. It also had to change its oil product mix in order to meet growing LPG demand from households, combined with the reduction of gasoline and diesel production.

Due to the crisis, liquid-fuel consumption in Brazil dropped by about 50% in large cities. Refineries have adjusted their processes – they're now working at 60–70%

of their capacity and have had to sell their products at a discount to those who still had free fuel-storage capacity. Gas companies have also had to deal with the problem of decreased consumption, mainly from industry, as well as an increase in consumer defaults on payments, and have negotiated with Petrobras a relaxation in the take-or-pay and ship-or-pay obligations.

In a context where more and more assets are put in lay-up, the remaining productive assets generate less value for oil companies, so the impacts on finances are huge. Oil companies have been reporting their results for the first quarter [of 2020], many of them already showing significant losses, not only due to reduced revenue but also because they've had to record impairments or write off assets.

As for investments, the oil companies have had to review their business plans. They have cut their planned future investments by 20–25%. Petrobras, for example, has already reduced its 2020 investments by 30%. But it's worth highlighting that the pre-salt fields present a very competitive break-even, and that we see oil companies sticking to their long-term agendas not only for oil

production but also for the associated flows of natural gas.

In this context BNDES has a major role to play in coordinating public and private actors, and in structuring long-term actions in order to catalyse the development of Brazil's natural-gas market. At the moment we're working with various market players to enable the implementation of a pipeline network to allow the expansion of pre-salt gas production. These huge investments will certainly require the support of international investors and operators.

Does BNDES provide funding for international investors interested in acquiring existing assets and also for entering into greenfield projects?

BNDES can extend loans or consider equity instruments for investment projects in Brazil. We make no distinction between Brazilian and international investors: the only requirement is that a company is incorporated in Brazil under Brazilian laws and regulations.

What is BNDES's role in financing renewable-energy projects and initiatives to combat climate change?

BNDES is one of the biggest

IN 2017 WE BECAME THE FIRST BRAZILIAN FINANCIAL INSTITUTION TO ISSUE A GREEN BOND, RAISING US\$1BN IN THE INTERNATIONAL CAPITAL MARKETS

backers of renewable energy – particularly solar, hydro and wind power – in the world. Between 2004 and 2018 we came top in BloombergNEF's ranking of lenders to clean-energy projects. In 2017 we became the first Brazilian financial institution to issue a green bond, raising US\$1bn in the international capital markets. BNDES is also committed to Brazil's National Policy on Climate Change and is the Manager of the Climate Fund, which channels resources to investment projects and studies related to the reduction of greenhouse-gas emissions and to adaptation to climate change and its effects.

Modernising and decarbonising Brazil's energy matrix is a key

objective in our strategic agenda, therefore – as can be seen in the 2020–22 Three-Year Plan. We believe solar, hydro and wind are important energy sources – and so too is natural gas, which has a key role to play in energy transition. Our role in the development of Brazil's natural-gas market is aimed also at boosting the use of gas as fuel for buses and trucks, contributing to emissions reductions and social welfare.

Does BNDES cooperate with private banks and multilateral/bilateral agencies to provide financing?

BNDES partners with several international investors, commercial banks and DFIs in the development and co-financing of industrial and infrastructure projects in Brazil. Multilateral institutions such as the Interamerican Development Bank, European Investment Bank and Nordic Investment Bank have a long history of cooperation with BNDES. National DFIs such as KfW and JBIC are also long-standing partners. In terms of policy, it's our goal to increase the number of operations of syndicated loans and co-finance, opening space to create more impact with less utilisation of

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allocated capital. We are currently in touch with both DFC and China Development Bank representatives regarding the structuring of new partnership operations.

Does BNDES provide financing for Brazilian companies interested in investing abroad?

In the credit-assessment process BNDES aims to get a holistic view of companies' business plans, with the central principle being that of supporting investments that will generate jobs and incomes in Brazil. BNDES also plays an important role in export credit, supporting exports of Brazilian goods and services. We gave crucial backing to the Brazilian aircraft manufacturer Embraer, for instance – almost 30% of Embraer's aircraft exports have been financed by BNDES. We are also authorised to provide financial support for foreign investments by Brazilian companies. Funding requests for internationalisation endeavours are evaluated on a case-by-case basis.

Last year you visited London with the Minister of Infrastructure to present information on the opportunities for infrastructure investment in Brazil.

WE GAVE CRUCIAL BACKING TO THE BRAZILIAN AIRCRAFT MANUFACTURER EMBRAER, FOR INSTANCE – ALMOST 30% OF EMBRAER'S AIRCRAFT EXPORTS HAVE BEEN FINANCED BY BNDES

How is that programme progressing, given the current difficulties for the world economy?

As I mentioned before, our current infrastructure concession's pipeline, to be launched during the next two and a half years, is R\$200bn, and we want to attract both financial and strategic international investors to take part in it.

Partnership projects in infrastructure sectors are moving forward. From the ministry point of view, the first half of 2020 was dedicated mainly to studies, project designs and internal approval phases, including for regulatory agencies and a court of accounts – and, yes, the portfolio presented in London is very

much part of the ministry's schedule.

For BNDES, the first half of 2020 saw important milestones in our the partnership with the Ministry of Infrastructure, including the signing of two major agreements: studies for toll-road concessions of up to 7,200 km, and for a public-private partnership in the port of Santos [São Paulo state].

For those interested in further details on project portfolios, we suggest they visit the website of the Ministry of Infrastructure (in English). <https://infraestrutura.gov.br/concessoes/?lang=en>

Specifically regarding the water and sanitation sector, information on BNDES's partnership project's pipeline is available (also in English) on our website. <https://waterandsanitation.bndes.gov.br/>

We're currently working on creating an online platform to provide international investors with detailed information on our complete pipeline of partnership projects, along with a newsletter, webinars and a matchmaking environment. An initial version of the platform is expected to go live by August this year, and the more advanced version by November. ●

EDITORIAL

BRAZIL BUSINESS BRIEF, AUGUST 2020

NEWS FROM THE
BRAZILIAN CHAMBER OF COMMERCE
IN GREAT BRITAIN

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