April - May, 2014
BPC Policy Brief V. 4. N. 07

BPC Policy Brief

Monitor:

Private Investment and International Development: the Brazilian experience.

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BRICS Policy Center Centro de Estudos e Pesquisas - BRICS

SSC
South-South Cooperation

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Private Investment and International Development
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BPC Policy Brief V. 4. N. 07 - April - May/2014.
Rio de Janeiro. PUC. BRICS Policy Center
ISSN: 2318-1818
12p ; 29,7 cm
1. Development. 2. International Cooperation. 3. Private Investment

Summary

Executive Summary:

This Monitor discusses the increasing tendency that links development cooperation initiatives with private investment. Departing from two perspectives, one which identifies this association as ‘uncomfortable friends’ and the other one as ‘necessary partners’, the wide gamut of roles which the private sector has taken and the possible impacts upon development and international cooperation are assessed. This Monitor suggests that the reemergence of the economic growth paradigm associated with social equality and development sustainability is a trend that goes beyond the divide between North-South and South-South cooperation. The Brazilian experience is presented as case study in order to further debate upon private companies’ involvement in social projects, particularly on the African continent.

Private Investment and International Development: the Brazilian experience.

Manaíra Assunção,
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and Paulo Esteves

1. Development cooperation and private investment: beyond North and South?

The growing intersection between development cooperation and private sector initiatives constitutes one of the major trends in the evolving international development cooperation system, in spite of, or directly due to, the key role played by new providers of development cooperation and the introduction of new cooperation models and modalities

Is the private sector an 'uncomfortable friend' or a 'necessary partner' for development cooperation?

The link between development initiatives and private investment has given room to substantial debate, as questions as to whether the private sector is an 'uncomfortable friend' or a 'necessary partner' for development cooperation are frequently raised. This debate revolves around the alleged conflict between development goals and profit/investment returns on the one hand, and shortcomings in aid delivery and securing of development resources after the hit of the financial and economic crisis in 2007-08. The trend, however, seems to precede the crisis: since the 1990s, the share of Official Development Assistance (ODA) disbursed through NGOs or public-private partnerships has increased tenfold (Severino & Ray, 2009). The private sector has been recognised as an equal partner with an active stake in development within the UN and the OECD (1). The Monterrey Consensus (2003) is seen as a milestone for these partnerships, emphasizing the significance of the private sector and raising funds for development cooperation. Funds coming from multilateral development banks alone increased from $5b to $40b between 2000 and 2010 (2). Severino and Ray (2009) speak of a 'fading barrier between public and private solidarity', in which state agents as main actors for aid financing and channeling are being replaced by private ones through various practices of privatisation.

The dichotomy between altruistic and self-interested investment can be misleading and may not necessarily account for what happens on the ground.

The private sector has taken a wide range of roles within the development and cooperation agenda (3), and donors agree that the private sector plays a substantial part in growth and development processes. But there are significant differences in content and form of donors' strategies for private sector partnerships (4). The private sector holds three key advantages when engaging with donor agencies and development projects: (i) cost sharing; (ii) legitimacy; and (iii) complementary specialization/feeding off development agencies' experiences in dealing with governments and certain stakeholders, and building organisational framework.

The definition of private sector is very broad and not conceptually undisputed. States and markets are dealt with separately, for example, within the OECD. The dichotomy between altruistic and self-interested investment can be misleading and may not necessarily account for what happens on the ground. However, the recognition of industrial policy as a central issue and the question of how governments can create a favourable environment for innovation sheds light upon the symbiotic, and usually problematic, relationship between states, markets/private investment, and development. This relationship is directly linked to the context of the financial crisis and the political effects of emerging countries' economic policies, especially those of Brazil, China and India, shifting focus back to the role of the state in fostering development, mainly through its economic and industrial policies. This perspective holds that, rather than uncomfortable friends, the private sector is a necessary partner. This renewed focus is understood as the 'rediscovery of industrial policy' amongst not only bilateral donors, but international organisations as well, such as the World Bank and the OECD. The focus on economic growth has reemerged, incorporating aspects of social equality and development sustainability. In this sense, the intersection with the private sector within the 'aid community' and South-South cooperation goes beyond the North and South divide.

However, downsides to this association are particularly worrying when donors use aid to benefit their own companies. The political dimensions that follow private sector, growth and development can easily be neglected in this context, introducing a market-oriented approach and a language of managerial efficiency to development. There are, still, divergent views upon who is in charge of defining the role the private sector should play and how it should operate: is it the donor country, the local partner country, or the international private sector? From a recipients' perspective, it is important to have clearly defined rules of engagement consistent with its national strategy and adaptable to its local administrative system. It is also necessary to evaluate and assess positive and negative impacts (direct and indirect) against one another. But the question remains as to whether the association is desirable, since this means of investment could leverage new conditionality and tied aid approaches. The major challenge is to establish an accountable and transparent structure for monitoring the possible entry points and mechanisms towards increased alignment between development and private initiatives, in order to prevent cooperation policy from being merely a legitimized means for the advancement of self-interested government strategies for private investment.

2. The Brazilian case

In the case of the BNDES, for example, the bank does not hold a mandate to pursue cooperation projects, which falls exclusively upon the Brazilian Agency for Cooperation (ABC), but its actions have impacts over cooperation and development

2.1. Relationship between development cooperation and investment – separation between arenas

Brazil makes a clear distinction between development cooperation activities – referring to the total amount of resources invested by the federal government in form of grants to other countries or international organisations aiming to contribute to international development, defined here as capacity-building of international organisations, groups or populations of other countries, in order to improve local socio-economic conditions – and private investment and trade (COBRADI, 2013). Therefore, Brazil claims to have a distinct concept of development cooperation from that of China, for example, which officially links development assistance to state investment and economic opportunities (Cook&Gu, 2009). Nevertheless, both development cooperation and the fostering of trade and investment have played an important role in Brazilian foreign policy in recent decades.

Two forms of investment promotion can be identified in this context: the increase in overseas investment and a strategy of proactive internationalisation of Brazilian enterprises. In 2006, Brazilian investment outflow amounted to US$ 28 billion. The diversification of economic and strategic partnerships since the Lula administration has been endorsed by institutions such as the Brazilian National Development Bank (BNDES) and the Brazilian Trade and Investment Promotion Agency (APEX) (5).

The development banks are not merely concerned with the feasibility of private investment. They take into account the impacts of private investment. 'BNDES does not hold a mandate to pursue cooperation projects, but its actions have impacts over cooperation and development. There has been higher coordination between the ABC and the BNDES in the execution of investment initiatives. However, Brazil officially maintains that these investments are not cooperation activities, aiming instead for Brazilian investment and trade promotion.

Box 1 : Brazilian Agency for Cooperation – ABC

The international cooperation initiatives of the Brazilian government are part of Brazil's foreign policy since the 1950s, but it was not until 1987 that the ABC was created. At that time, the Ministry of Foreign Affairs played a central role in promoting the technical cooperation agenda, which was previously conducted by the Ministry of Economic Planning. Initially, ABC's role was directed to managing the assistance Brazil received from other countries, however, over time it became an important instrument coordinating Brazilian cooperation with other developing countries.

The ABC is institutionally linked to the Undersecretariat-General for Cooperation, Culture and Trade Promotion (SGEC) of the Ministry of Foreign Affairs. It should be noted that although international development cooperation is based on the principle IX of the Article 4 of the Brazilian Constitution, there is a legal gap concerning official cooperation promoted by Brazil. Having a regulatory framework that focuses on Brazil as a recipient country makes it difficult for Brazil to perform international cooperation basic actions such as purchasing goods, hiring services or sending money abroad, often resulting in the ABC operating through international agencies such as the United Nations Development Program (UNDP).

Despite the regulatory gap, there has been substantial improvement in the collection and systematisation of Brazilian cooperation data. Together with the IPEA, the ABC released in 2010 the report "Brazilian Cooperation for International Development: 2005-2009", and later in 2013 a report regarding the year 2010. According to the report, these activities' total expenses reached R$ 2.9 billion during the period 2005-2009, most of which was destined for contributions to international and regional banks (76%) and organisations. In 2010, the government spent more than R$ 1.6 billion in international development cooperation, 22.58% of which, or almost R$ 65 million, were designated to Africa.

Source: De Renzio et al. (2013)

Box 2 : Brazilian Development Bank - BNDES

BNDES (a public enterprise with legal personality in private law and its own assets) supports programmes, projects and services relating to Brazilian development. Government sources make up the bulk of the BNDES' capital structure. Since 2002, when the BNDES' statutes of association were altered, the bank has been able to engage in financing overseas investment projects. But only in 2005, when overseas investment financing standards were approved, the bank became one of the major agents in the process of overseas investment for the internationalisation of Brazilian corporations. BNDES support for Brazilian goods and service exports can be pursued through two of the bank's existing programmes: BNDES Exim Pre-Shipment consists in support for production of goods and services for export, while BNDES Exim Post-Shipment supports the sale of Brazilian goods and services abroad.

In 2008, the bank provided US$ 477 million in loans to Brazilian companies with operations in Africa. In 2010 this amount reached US$ 649 million. The post-Shipment disbursement grew even more in 2012, granting US$ 654.4 million to Angola and US$ 27.53 million to Mozambique. This presence reflects the government's support for the expansion of Brazilian companies in the region.

In May 2013, in Addis Ababa, President Rousseff announced a US$897.1 million debt relief of 12 African countries. While officially presented as an act of solidarity to the "African sister", there were commercial interests involved, since the BNDES is not able to grant credit to investments for countries in debt with Brazil. In addition, in December 2013, the BNDES opened a representative office in South Africa.

Source: BNDES transparente website

2.2. Brazilian companies: experiences in Africa

Brazil's emphasis on the African continent has been marked by an increased presence in trade and businesses, alongside development cooperation initiatives. This presence goes back to the 1980s, but a 'second wave' followed in the early 2000s, leading to Brazilian businesses having offices in 22 African countries (6). The more prominent actors are large corporations such as Andrade Guiterrez, Camagro Corrêa, Odebrecht, Petrobras, and Vale. Angola, Mozambique and South Africa are the primary African destinations for Brazilian companies. These initiatives are coupled with large public financing projects in the region. This suggests that Brazilian foreign policy combines public financing, expansions of trade, investment and businesses.

Brazilian companies seem to have different individual experiences abroad and key issues evolve around the use of local labor and undifferentiated treatment between Brazilian and African employees; transparency in the relations between African governments and Brazilian companies and civil society engagement, as well as, the completion and impacts of large infrastructure projects. Considering those aspects, these companies have also changed their overall social investment policies over the years (see Boxes 3 and 4 below) and one must recognise that large firms do have the capacity to support large social projects. The question is how they decide what to do and where to end their engagement.

Box 3 : Camargo Corrêa S.A

Camargo Corrêa is a holding company privately held and family-owned with 74 years of existence, having a solid reputation in engineering and civil construction. Its business in cement is united under the holding InterCement, which after acquisition of Cimpor became one of the ten leading international producers in the sector with, prominence in Latin America and Africa. The Group Camargo Corrêa is present in 19 countries and by the end of 2012 had 57,700 employees.

Since 2000, the company created its Corporate Social Investment division, followed by a set of initiatives/sustainability strategies: in 2006 it published its Sustainability Letter; in 2009, its Climate Agenda; in 2011, its Methodology for Financial Investments; in 2012, its Amazon Drivers, and, in 2013, its Water Agenda.

In Matola, where InterCement holds a cement factory, in response to protests of civil society between 1990 and 2000, the company decided to replace carbon with natural gas, minimizing its carbon emissions, and established open meetings with various stakeholders, in addition to the creation of vocational training centres. The company understands that cement is the main ingredient of development (especially infrastructure), since it is the second most widely consumed good in the world.

Source: Presentation by Carla Duprat, Workshop 'Beyond North and South', BRICS Policy center, March 17th, 2014; official website: http://www.camargocorrea.com.br/

Box 4 : Vale

Vale (formerly Companhia Vale do Rio Doce) is a Brazilian multinational mining company, presently the third largest in the world, with investments in mining, logistics, energy and steelmaking and activities in five continents, employing over 130,000 people including indirect employees and contractors. Its logistics network integrates mines, railroads, ports and ships with infrastructure in Brazil, Indonesia, Mozambique, Oman, Philippines and Argentina. The company is currently investing in energy generation solutions and developing renewable sources, such as biodiesel. According to the company, one of the main focuses has been the investment in logistic corridors, since they are important catalyzers for development: they reduce costs with transportation and enable other industries/businesses to install in the region, which would otherwise not be feasible.

In Africa, its major projects are: Implementation of Zogota mine in Guinea; Development of the Nacala logistics corridor in Malawi; Mozatize Coal Mine and Expansion project, Logistics operation in Beira Corridor and development of Nacala Corridor, Mineral exploration projects for Coal and Base Metals in Mozambique; and Lubambe Mine in Zambia. All of those are being implemented through exploration offices and joint ventures. Future investments are estimated to reach US$ 6.4 billion.

The Nacala Corredor is one of the largest regional integrated transport investments ever undertaken in Southern Africa and total investement will reach US$ 4.4 billion. Vale stresses its potential to unleash the region's capacity for economic growth, bringing economies of scale and global market access to northern Mozambique, Malawi and neighboring regions.

In Mozambique, social investment accounts for ca. 1.100 companies with US$ 2.5 billion in local procurement, creating 13,826 jobs (85% of local workforce), training over 800 workers since 2008 (186 with training through Brazilian exchange programmes), having invested over US$ 38 million in social programmes since 2010.

Source: Presentation by Rafael Benke, Workshop 'Beyond North and South', BRICS Policy Center, March 17th, 2014;
official website: http://www.vale.com/PT/Paginas/Landing.aspx.

3. Concluding remarks

The increasing relevance of private investments and private agents within the field of international development is blurring the North-South divide. Public and private agents from North and South recognise the centrality of private investment in fostering development. Nevertheless, as many analysts have pointed out, there is no obvious or direct link between private investment and development or poverty reduction. Economic growth does not necessarily lead to human and sustainable development. The intersection between private investment and international development raises two key questions: (i) How likely are private sector interests to supersede international development goals, and (ii) What are the odds of returning to/reinforcing conditionalities or tied aid? This highly unpredictable scenario brings up the need for control mechanisms and models to evaluate this intersection and prevent private sector investment from disguising as development initiatives. Hence, to assume that private investment has a role in fostering international development means that development concerns and principles should be embedded within private investment policies and practices. Furthermore, the potentially negative impacts of private investment - environmental degradation, labour rights and human rights-related conflicts, housing deficit and displacement – should be addressed. If development agencies both in the North and in the South are willing to incorporate private investment into their policies and programs, these issues should be addressed in the common standards to be agreed upon.

It is important to rebuild the international development normative framework both at the multilateral and domestic levels in order to guide partners (public, private and CSO's) towards a common set of sustainable development goals. To do so, a dialogue on the ways private investment should integrate development principles into its policies and practices is and must be seen as indispensable.

(1) The 2010 United Nations Summit on the MDGs issued the Bilateral Donor´s Statement in Support of Private Sector Partnerships for Development, and Fourth High-Level Meeting on Aid Effectiveness assigned a prominent role to the private sector for "advancing innovation, creating wealth, income and jobs, mobilizing domestic resources and in turn contributing to poverty reduction" (HLF-4, 2011, p.10). The concept note on The Role of Business in Development Cooperation emphasizes the shared value of aligning development and business goals (3rd Steering Committee Meeting, Addis Ababa, 25– 26 July 2013). The Global Partnership for Effective Development Cooperation (GPEDC) understands that its task is to "help nations, business and organizations work better together to end poverty" and provided for the establishment of one seat for a private sector representative, consolidating its constituency. The first GPEDC´s High-Level Meeting, held on April 15th-16th in Mexico, redefined GPEDC´s Co-Chairs, one of which is the Dutch Minister for Foreign Trade and Development Cooperation, Lilianne Ploumen.

(2) Kublbock, K. & Staritz, C. Private Sector Development – Business Plan or Development Strategy? Theoretical approaches, concepts and critical analysis of private sector development. Osterreichische Entwicklungspolitik 2013. Private Sector Development.

(3) Examples are: mobilisers of resources; contributors to financial and in-kind-resources; providers of goods and services as implementers/contractors in aid projects; dialogue partners and advocacy; partners in public-private partnerships (PPPs); drivers of innovation; challenge funds ; Business Call to Action (inclusive business models) etc. In general terms, there are two ways of engagement usually associated with the achievement of broader development outcomes: one is promoting private sector development and partnering with the private sector, while the other one involves the establishment of partnerships to leverage alternative sources of development financing and for the provision of goods and services to poorer populations (private sector-managed solutions). Two modalities can be highlighted: (i) Development Finance Institutions (DFIs) such as World Banks' International Finance Corporation (IFC); (ii) Partnering and supporting private sector development, where a wide range of direct and indirect donor programs support private sector development (PSD) and private sector partnerships (public-private partnerships, or PPPs).

(4) Some donors have formulated their own private sector development strategies and others prefer to follow broad guidelines and principles as contained in UN Global Compact, OECD Guidelines on Multinational Enterprises, Extractive Industries Transparency Initiative, International Labour Organization convention and other UN conventions and declarations.

(5) Menezes, N. A Política Governamental Brasileira de Incentivo à Internacionalização de Empresas (1997-2005). Seminário Brasileiro de Estudos Estratégicos Internacionais SEBREEI. Integração Regional e Cooperação Sul-Sul no Século XXI, June 20-22nd, 2012, Porto Alegre, Brazil. Available at: <http://www.ufrgs.br/sebreei/2012/wp-content/uploads/2013/01/Nadia-B-Menezes.pdf>.

(6) De Renzio, P; Seifert, J.; Gomes, G.Z.; Assunção, M. Solidarity Among Brothers? Brazil in Africa: trade, investment and cooperation. BRICS Policy Center - Policy Brief (2013).

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FAPERJ Fundação Carlos Chagas Filho de Amparo à Pesquisa do Estado do Rio de Janeiro