1. Introduction

Regional disparities die hard. As far as the Northeast, Brazil’s poorest region, is concerned, GDP per capita in 1999 was 46.6 per cent of the country’s corresponding figure – almost exactly as it had been four decades before, in 1960. The latter is no arbitrary picking. (Recall that Sudene, the regional development institution, was created in December, 1959.) Truly, some improvement (and some deterioration) have happened in sub-periods between 1960 and the present. But fluctuations are fluctuations, and in the very long run, the lack of change in relative positions is striking. The more so because reducing the economic gap of the Northeastern region vis-à-vis the rest of the country has been for decades a persistent goal of the Brazilian state.

To be sure, there has been change in the territorial allocation of production, as previously economically non-existent regions began to show up in the statistics. Correspondingly, in the seventies, frontier states such as Mato Grosso and Goiás, have experienced strong growth. The same, if more recently, has happened to Rondônia and Tocantins. Part of this has been a consequence of government initiatives, in the form of infrastructure construction, the granting of tax holidays and incentives for private investment, and investment initiatives of the state enterprises. At the state level, convergence of per capita GDPs do appear in the statistics, especially from 1947 to the mid-1980s.

At the regional level, especially from the late 1960s on, the empty space of the Center-West has emerged as a dynamic agricultural region; also, after a long-lasting stagnation, the Northern states of Amazonas (thanks to the Manaus industrial pole), Pará (mostly iron ore mining, some cattle breeding, legal and illegal tree-cutting and wood products), and others (e.g. Rondônia, an agricultural frontier) have grown in the years 1968/1980 at rates well above the national average. But these were new fellows, unpopulated lands, going from nothing to little. A big lap, OK, and yet in a sense an easy one. Would someone bet that they will keep growing so fast, from now on? I doubt. Meanwhile, the old Northeastern economy expanded, also helped by the visible hand of government, but just at about the same speed as the whole country. Thus, for all the region’s dynamism, relative stagnation ensued.

1 Paper written to the OECD and Ceará State Government “International Conference on Regional Development and Foreign Direct Investment”, to be held in Fortaleza, Dec 12-13, 2002.

2 Ph. D. in Economics (University of Illinois at Urbana-Champaign, 1985); Director of Regional and Urban Studies of IPEA (Institute of Applied Economic Research, Ministry of Planning, Brazil); Professor at the Economics Department of the Federal University of Pernambuco, Recife, Brazil.
Social conditions have not been static, either. Historical records of education, health, and sanitation witness great improvement in all regions. But, here too, it is less clear whether relative distances between the Northeast and the rest of the country have changed much. Probably, they haven’t. As for the Center-West and the North, progress there was, not enough to dismiss the old rule, however: the richer the place, the better its social standing.

This paper has six sections. Following the Introduction, section 2 deals with regional economic and social disparities in Brazil, in a long-term perspective. For the description of the present state and the historical evolution of such disparities, I have used IPEA’s database on Municipal GDPs and IBGE’s 1947/99 series of state-level Gross Domestic Products (GDPs). As for the social indicators, IBGE’s PNADs (National Household Surveys) were the main source.

Section 3 (Regional Development Instruments and Institutions) is concerned with describing the instruments and institutions for regional development in Brazil. The institutions include the classical ones, such as former Sudene and Sudam (now Adene and ADA), regional development banks (BN, Banco do Nordeste, and BASA, Banco da Amazônia), DNOCS, SUFRAMA, and the like, but also institutions such as Banco do Brasil, Caixa Econômica Federal, and BNDES, usually forgotten in analyses of regional policy and development. Instruments range from fiscal incentives (FINOR, now FDN, and so on) to the regular credit advanced e.g. by the National Development Bank (BNDES).

Clusters and local competitive advantage in the broader regional development context is the subject of section 4. A new theme, both in Brazil and elsewhere, there is still not a good deal of empirical evidence on clusters. As a conscious public policy, clustering is too new to be assessed, especially as a regional development policy or strategy. Admittedly, not every cluster is as important as any other. Accordingly, in this section, particular emphasis will be given to the most promising clusters in the less developed regions.

Section 5 has to do with the regional development strategy of the incoming Lula da Silva government. On this, some basic ideas can be drawn from the PT electoral program. Although it is too early to say that the government-to-be will carry out its promises, general comments on the most likely regional development policy of the new government are in order. Section 6 puts together the concluding remarks.

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3 IBGE stands for Instituto Brasileiro de Geografia e Estatística (Brazilian Institute of Geography and Statistics), a government institution.

4 Sudene (now Adene) is the Superintendence (Agency) for the Development of Northeast, Sudam (now ADA) is the Superintence (now Agency) for the Development of the Amazon Region; (BN) is Bank of Northeast; BASA is Bank of the Amazon Region; DNOCS is the National Department for Anti-Drought Works; BNDES is the National Economic and Social Development Bank; Suframa is the Superintendency for the Manaus Free Trade Zone; BB is Bank of Brazil; CEF is the Federal Savings Bank (Caixa Econômica Federal).
2. Regional Economic and Social Disparities in Brazil

Social and economic disparities among Brazilian municipalities, states, and regions have always been and remain strong. In this section, the empirics of regional imbalances is set forward. Some interpretation is also in order.

2.1 Income Disparities: Growth, Convergence, Divergence

Map 1 displays GDP per capita of Brazilian Municipalities in 1999. Take a pen and draw a line starting from the southern border of Acre, going on to the southern borders of Amazonas, Pará, Tocantins, and Bahia. In so doing, you went from Brazil’s extreme West to the Atlantic Ocean (Eastern border for most of the states). Now you have two halves of a country: the North and the South. Your North, of course, includes the Northeast; your South, the Center-West and the Southeast. Now, look again at the map: the upper portion is light (lowest municipal GDPs per capita); the bottom one is dark (highest municipal GDPs per capita). Translation: the North is poor; the South is rich. And it has been so for a very long time.

Of course, there are spots of high per capita GDP in the North/ Northeast, as there are municipalities in the South/ Southeast/ Center-West where per capita GDP is low. Manaus, in the heart of the Amazonas state, is one of these exceptional cases: besides being the state capital (always a bless), it houses a sizeable industrial pole (mostly electronics and motorcycles) made up of iron, bricks, and tax incentives. Its GDP per capita is correspondingly high. Belém (state capital), Barcarena (a huge aluminum factory), and Serra Norte (Carajás project, iron ore mining), in Pará, also show up dark in the map. In the opposite side, it is noticeable that the poor Northeast in a sense penetrates deep into northern Minas Gerais (projects in the Jequitinhonha Valley, Minas Gerais, have been eligible for receiving the tax incentives of regional policy since the creation of Sudene,). Also, the northern part of Goiás is almost as poor as the south of Bahia.

No matter how significant those exceptions might be, the first impression sticks, and a very clear divide between the poor North (and Northeast), and the rich South (plus the Southeast and, to a lesser extent, the Center-West) stands out as the most important feature of the regional distribution of economic activity in Brazil.
MAP 1

GDP PER CAPITA OF BRAZILIAN MUNICIPALITIES, 1999

Obs: The lighter the color, the lower the municipal GDP per capita.

Source: IPEA (Department of Regional and Urban Studies)
A second-level of analysis of regional disparities in Brazil is that of the states. Table 1 shows estimates of annual growth rates of GDP per capita for each Brazilian state, between 1947 and 1999. Also shown are estimates of relative GDP per capita, and the ranks of the states according to per capita GDP in 1947 (or in the earliest year for which data was available) and in 1999.

Although this is not shown in table 1, the yearly rate of growth of Brazil’s per capita GDP (1947-99) was estimated at 3.23 per cent. The states that grew faster than the nation’s average were Amazonas, Pará, Piauí, Ceará, Sergipe, Bahia, Minas Gerais, Espírito Santo, Santa Catarina, Rio Grande do Sul and Goiás. The ones which grew slower than Brazil were Rondônia, Acre, Roraima, Amapá, Maranhão, Rio Grande do Norte, Paraíba, Pernambuco, Alagoas, Rio de Janeiro, São Paulo, Mato Grosso do Sul and Mato Grosso. (Some care is in order with the states of Rondônia, Roraima, Acre, and Mato Grosso do Sul as their rates of growth refer to periods other than 1947-99.) Paraná grew at the same speed of Brazil. A negative correlation was obtained between initial per capita GDP and rates of growth. This should indicate convergence, but the coefficient was not statistically different from zero.

By 1947, Rio de Janeiro state had the country’s highest GDP per capita (209, as compared with Brazil = 100). São Paulo (184) was second, and Rio Grande do Sul (123), third. The lowest three GDPs per inhabitant were those of Ceará (36), Piauí (34), and Maranhão (26); all Northeastern states. Half a century later (1999), Paraná topped the list (160), followed by São Paulo (140), and Mato Grosso (128). At the bottom, the same three: Maranhão (31), Ceará (29), and Piauí (25). One would observe that, in p.c GDP relative terms, all of these states had lost ground, in the meantime.

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5 Estimates of the GDPs of some states of the North (the former Federal Districts, or Territories, as they were called) are only available for the years 1959-99. For Mato Grosso do Sul, the earliest estimate is for 1985. Tocantins, created in 1988, is left out of the analysis.
Table 1
States of Brazil
Rates of Growth (1947/99)*, Relative Values (1947 and 1999) and Ranks of per Capita
GDP (1947 and 1999)

<table>
<thead>
<tr>
<th>State</th>
<th>Annual Growth Rate (Percent)*</th>
<th>GDP Per Capita in Year Zero**</th>
<th>GDP Per Capita in 1999</th>
<th>Rank 1999</th>
<th>Rank 1947</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rondonia (1959)</td>
<td>2.19</td>
<td>79.30</td>
<td>65.22</td>
<td>9</td>
<td>11</td>
</tr>
<tr>
<td>Acre (1959)</td>
<td>2.47</td>
<td>54.13</td>
<td>49.66</td>
<td>15</td>
<td>17</td>
</tr>
<tr>
<td>Amazonas</td>
<td>4.5</td>
<td>100.51</td>
<td>101.50</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>Roraima (1959)</td>
<td>3.2</td>
<td>44.63</td>
<td>51.56</td>
<td>19</td>
<td>16</td>
</tr>
<tr>
<td>Pará</td>
<td>3.43</td>
<td>60.06</td>
<td>47.67</td>
<td>14</td>
<td>19</td>
</tr>
<tr>
<td>Amapá (1959)</td>
<td>1.78</td>
<td>109.91</td>
<td>60.62</td>
<td>4</td>
<td>12</td>
</tr>
<tr>
<td>Maranhão</td>
<td>2.87</td>
<td>26.04</td>
<td>30.52</td>
<td>25</td>
<td>23</td>
</tr>
<tr>
<td>Piauí</td>
<td>3.50</td>
<td>34.32</td>
<td>24.60</td>
<td>24</td>
<td>25</td>
</tr>
<tr>
<td>Ceará</td>
<td>3.63</td>
<td>35.80</td>
<td>29.16</td>
<td>23</td>
<td>24</td>
</tr>
<tr>
<td>Rio G do Norte</td>
<td>3.19</td>
<td>49.32</td>
<td>46.23</td>
<td>16</td>
<td>20</td>
</tr>
<tr>
<td>Paraíba</td>
<td>2.81</td>
<td>40.05</td>
<td>48.51</td>
<td>22</td>
<td>18</td>
</tr>
<tr>
<td>Pernambuco</td>
<td>3.03</td>
<td>61.78</td>
<td>39.60</td>
<td>13</td>
<td>22</td>
</tr>
<tr>
<td>Alagoas</td>
<td>3.17</td>
<td>44.18</td>
<td>57.80</td>
<td>20</td>
<td>13</td>
</tr>
<tr>
<td>Sergipe</td>
<td>3.93</td>
<td>45.07</td>
<td>39.90</td>
<td>18</td>
<td>21</td>
</tr>
<tr>
<td>Bahia</td>
<td>3.94</td>
<td>46.16</td>
<td>53.43</td>
<td>17</td>
<td>15</td>
</tr>
<tr>
<td>Minas Gerais</td>
<td>3.82</td>
<td>73.85</td>
<td>54.48</td>
<td>10</td>
<td>14</td>
</tr>
<tr>
<td>Espírito Santo</td>
<td>4.30</td>
<td>62.36</td>
<td>91.27</td>
<td>12</td>
<td>9</td>
</tr>
<tr>
<td>Rio de Janeiro</td>
<td>2.16</td>
<td>208.81</td>
<td>107.69</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>São Paulo</td>
<td>2.81</td>
<td>184.37</td>
<td>139.53</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Paraná</td>
<td>3.23</td>
<td>102.76</td>
<td>159.99</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Santa Catarina</td>
<td>4.15</td>
<td>99.29</td>
<td>119.05</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>Rio Grande do Sul</td>
<td>3.52</td>
<td>123.01</td>
<td>110.84</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>M G Sul (1985)</td>
<td>1.16</td>
<td>80.26</td>
<td>117.84</td>
<td>8</td>
<td>5</td>
</tr>
<tr>
<td>Mato Grosso</td>
<td>2.91</td>
<td>72.46</td>
<td>127.38</td>
<td>11</td>
<td>3</td>
</tr>
<tr>
<td>Goiás</td>
<td>3.80</td>
<td>41.75</td>
<td>90.57</td>
<td>21</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: Estimates by IPEA, Department of Urban and Regional Studies, on the basis of IBGE data. Rates were obtained by ordinary least-square regressions of GDP per capita against an independent variable \( t = 0\ldots n \), where \( t \) stands for a given year. [Functional form \( y_t = y_0 \times (1+r)^t \) which is linear in the logs].

* 1959/99 for Acre, Amapá, Rondônia, Roraima; 185/99 for Mato Grosso do Sul
** 1947, unless otherwise specified.

The right-most column of table 1 compares the 1947 and 1999 ranks of GDP per capita. A negative number indicates loss of rank (the number itself shows how many positions were lost); a positive number is assigned to states whose 1999 rank was higher than the corresponding figure to year zero. (Again, year zero is not the same to every state.) Big losers were Rio Grande do Norte (4 positions lost), Minas Gerais (also 4), Pará (5), Rio de Janeiro (6), Amapá (8, but remember that his year zero is 1959), and Pernambuco (9
positions lost). At the opposite side, Paraíba (4 positions gained), Paraná (also 4), Alagoas (7), Mato Grosso (8), and Goiás (11) were the winners.

In spite of those ups and downs, Figure 1, with yearly estimates of two inequality indexes of state per capita GDPS (Theil-L and the weighted Coefficient of Variation) shows that in the very long run there has been some convergence among the states of Brazil. But it also reveals that the path to a slight reduction in disparities was not a smooth one. One can identify five sub-periods, commented below:

**Figure 1**
Inequality of Per Capita GDP Among States, 1947-99

1947-56: **stable inequality.** Measured by the weighted Coefficient of Variation (WCV, the weights being the state populations), but for slight oscillations, inequality is unchanged from the beginning to the end of this period. Theil-L first shows an upward movement (increasing inequality), followed by an accommodation, in such a way that, looking just at the extreme years, inequality is stable. These were years of intense economic growth which culminated in the first half of implementation of Kubitscheck’s Target Plan (1955-59). In the absence of an explicit regional policy, it may happen that some key government programs, such as the construction of the new capital, Brasilia, and of the roads connecting it to the rest of the country, have played a role in avoiding the increase in inequality that was at the same time being produced by the spurt of industrial growth in the richest states.

1956-65: **decreasing inequality.** From 1956 to 1965, both Theil-L and WCV point to a decrease in inequality among state per capita GDPS. Recall that in 1960, Brazil’s economy entered a phase of slow growth, but it also started implementing a regional development policy favoring particularly the Northeastern states. Both factors may have worked to decreasing state inequalities, as the regional policy focused on the poorest states, while the economic crisis hit more intensely the richest, industrial, ones.
1965-71: rising inequality. Contrary to what had happened in the previous period, the years from 1965 to 1971 (slow growth at the beginning, then strong growth, from 1968 on) was a period when inequality among Brazilian states rose. No clear-cut relationship between that trend and government policy can be established, though.

1971-86: decreasing inequality. From 1971 to 1986, Brazil entered a long period of steady decline of state per capita GDP inequality. Several factors may help explaining this outcome. For one thing, the early seventies were years of opening up of new lands to agriculture, especially in the undeveloped Center-West region. This was stimulated, from the demand side, by the consolidation of Brasília as the country’s capital, and, from the supply side, by some important technical improvements that had made it possible extending large-scale commercial agriculture to the cerrado (savannah) lands of Goiás and Mato Grosso. Besides, investment by public enterprises peaked on the II National Development Plan years (1974-79). This benefited some less developed regions such as the Northeast, further contributing to the lowering of GDP disparities among states.

1986-99: again, inequality in the rise. From 1986 to 1999, the WCV indicator shows inequality rising. As to Theil-L, the picture is less clear-cut. The index moves upward, from 1986 to 1989, but it remains almost unchanged in the rest of the period. So, the end-to-end picture is one of a slight increase in inequality. Again, no obvious connection can be made between these trends in inequality and government policies or the general movement of the Brazilian economy. To be sure, with few exceptions, 1986 to 1999 were years of slow economic growth in Brazil. Public investment, which admittedly had been an equalizing factor in the preceding period (as the state enterprises, in particular, invested heavily in poorer regions), had collapsed. Instruments and institutions of regional development policy, by their turn, had already lost their strength. On its turn, globalization was also on the march, although its effect on regional inequalities is not easy to determine.

I started talking about regional disparities among Brazilian municipalities (Map 1); then I went on to deal with the states (table 1 and figure 1). Now, the regions are to be considered, as they are in table 2. In the whole 1947-99 period, the Center-West was the big winner, as in the average its p.c. GDP grew each year 1.1 percentage point above Brazil’s. As a matter of fact, all regions but the richest one (Southeast) grew faster than the national average, suggesting that interregional disparities in the country may have diminished in the second half of the twentieth century.

Taking 1960 as the starting year of implementation of an explicit regional policy in Brazil, it is possible to break 1947-99 into two sub-periods named in table 2 “Pre-Regional Policy Years” (1947-59), and “Years of Regional Policy” (1960-99). For Brazil as a whole, and for every region, average growth was higher in the first than in the latter period. In the 1947-59, the Northeast grew slower than Brazil, and also than the other regions. After 1960, the situation has reversed. This can perhaps be counted as an evidence of the effectiveness of regional policy, as it concerns the Northeast. The North has also grown more rapidly than the country, but this had happened in the previous period as well. The frontier region of Center West was ahead of all the others, in both sub-periods.

As to the sub-periods in table 2, a general observation is that when the Brazilian economy (most of all, the Southeast) decelerates, the rate of growth in the Northeast also goes down, but typically less than it does in the country as a whole, from which follows
that the product per head gap between the Northeast and the rest of the country decreases. The reverse happens, however, in times of rapid growth of the country as a whole.

Table 2
Brazil and Regions
Rates of Annual Growth of Per Capita GDP
(Several Periods between 1947 and 1999)
(Percent)

<table>
<thead>
<tr>
<th>Period</th>
<th>North</th>
<th>Northeast</th>
<th>Southeast</th>
<th>South</th>
<th>Center-West</th>
<th>Brazil</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-Regional Policy Years (1947-1959)</td>
<td>3.96</td>
<td>3.55</td>
<td>3.85</td>
<td>3.77</td>
<td>5.44</td>
<td>3.94</td>
</tr>
<tr>
<td>Years of Regional Policy (1960-99)</td>
<td>3.54</td>
<td>2.81</td>
<td>2.50</td>
<td>3.30</td>
<td>3.66</td>
<td>2.74</td>
</tr>
<tr>
<td>Slowdown of Sixties (1960-67)</td>
<td>-0.16</td>
<td>2.65</td>
<td>1.70</td>
<td>0.88</td>
<td>2.54</td>
<td>1.69</td>
</tr>
<tr>
<td>Economic Miracle (1968-73)</td>
<td>9.16</td>
<td>3.73</td>
<td>8.79</td>
<td>8.16</td>
<td>10.71</td>
<td>8.10</td>
</tr>
<tr>
<td>Adjusting to First Oil Shock (1974-79)</td>
<td>7.13</td>
<td>5.04</td>
<td>3.36</td>
<td>4.68</td>
<td>6.91</td>
<td>4.04</td>
</tr>
<tr>
<td>Debt Crisis (1980-83)</td>
<td>2.70</td>
<td>0.42</td>
<td>-2.98</td>
<td>-0.84</td>
<td>1.11</td>
<td>-1.82</td>
</tr>
<tr>
<td>High Inflation (1984-1994)</td>
<td>0.05</td>
<td>0.14</td>
<td>0.23</td>
<td>1.49</td>
<td>1.72</td>
<td>0.45</td>
</tr>
<tr>
<td>Stabilization and Slow Growth (1995-99)</td>
<td>-2.51</td>
<td>1.54</td>
<td>1.03</td>
<td>-0.05</td>
<td>2.07</td>
<td>0.80</td>
</tr>
</tbody>
</table>

Source: Estimates by IPEA, Department of Urban and Regional Studies, on the basis of IBGE data. Rates were obtained by ordinary least-square regressions of GDP per capita against an independent variable $t = 0...n$, where $t$ stands for a given year. [Functional form $y_t = y_0 (1+r)^t$ which is linear in the logs].

Except for the periods starting in 1947, the pair of variables $(x_t, y_t)$ used in the regressions refers to the year immediately preceding the one shown in each line of the table. For instance, the set of $(x,y)$ used to estimate the growth rate of p.c. GDP for 1960-99 include 1959 and the p.c. GDP for 1959. This procedure captures the rate of growth of $y$ observed in 1960.

Table 3 (and figure 2) displays estimates of Gross Domestic Product per capita for Brazil’s regions. As far as the Northeast is concerned, after an improvement in the fifties, GDP per capita in 1960 was 46 per cent the country’s corresponding figure. Then, ups and downs, just to end the nineties again at 46 percent – exactly as it had been four decades ago. The same story holds for the North. A comment suggests itself at this point: if convergence of a region’s GDP per capita to the country’s average is the ultimate criterion for judging the effectiveness of regional development policy, then it can be said that in Brazil such policy was far from being a great success, at least for the Northeast.6

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6 A word of caution: comparing observations for the extreme years may be somewhat misleading, as short-run fluctuations obliterate long-run trends. So, no excessive weight should be given to the assessment made in the text. As to a methodological observation, the constancy of Northeast relative p.c. GDP in 1960 and 1999 is compatible with the finding in table 2 that the region’s rate of growth from 1960 to 1999 was higher than Brazil’s. Remember that the estimation of growth rates in table 2 was made by fitting a constant-rate-of-growth curve to the data, while in table 3 one compares relative p.c. GDPs just in the two extreme years.
Table 3
Regions of Brazil
Gross Domestic Product per Capita
Selected Years (1965 to 1999)
(Index Numbers, Brazil = 100)

<table>
<thead>
<tr>
<th></th>
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<th></th>
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</tr>
</thead>
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<tr>
<td>North</td>
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<td>61</td>
<td>54</td>
<td>56</td>
<td>48</td>
<td>62</td>
<td>62</td>
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<td>Northeast</td>
<td>42</td>
<td>46</td>
<td>49</td>
<td>39</td>
<td>38</td>
<td>41</td>
<td>46</td>
<td>44</td>
<td>45</td>
<td>46</td>
</tr>
<tr>
<td>Southeast</td>
<td>150</td>
<td>145</td>
<td>143</td>
<td>153</td>
<td>149</td>
<td>144</td>
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<td>106</td>
<td>114</td>
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<tr>
<td>Center-West</td>
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<td>58</td>
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<td>73</td>
<td>87</td>
<td>104</td>
<td>122</td>
<td>90</td>
<td>94</td>
</tr>
</tbody>
</table>

Source: IBGE, National and Regional Accounts

A closer look at Table 3 reveals that, while Northeast’s relative per capita GDP declined from 1960 to 1970, it significantly increased in the ensuing 15 years, making up (and just this) for the losses of the sixties. From 1985 on, the region’s relative per capita GDP remained roughly stable. So, if there was a period for which regional policy can claim to have been successful, this is the years spanning from 1970 to 1985. From the vantage point of a 2002 observer, that does not seem an outstanding record. In 1985, it might have.

To the Center-West, the story went differently, as there is steady improvement from 1960 to 1990, then sharp decline between 1990 and 1995, and a slight recovery from the latter year to 1999. This is a success story, of course, but remember that the Center-West was and to an extent still is a frontier region whose development is better explained by the
opening up of new lands (even though this is not unrelated to government actions) than as a consequence of an explicit regional development policy.

A final comment is in order. Changes of GDP per capita are the joint product of variations of total GDP and of population. Explicit regional development policy aims at fostering the growth rate of a lagged region’s total GDP; adjustments in population are more related to market forces. So, it is interesting to take a look at the growth records of the regions’ total GDP, as shown in table 4.

Table 4
Brazil and Regions
Gross Domestic Product
Selected Years (1965 to 1999)
(Index Numbers, 1960 = 100)

<table>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>North</td>
<td>100</td>
<td>114</td>
<td>177</td>
<td>277</td>
<td>578</td>
<td>769</td>
<td>947</td>
<td>1.180</td>
<td>1.212</td>
</tr>
<tr>
<td>Northeast</td>
<td>100</td>
<td>127</td>
<td>144</td>
<td>225</td>
<td>338</td>
<td>401</td>
<td>418</td>
<td>490</td>
<td>538</td>
</tr>
<tr>
<td>Southeast</td>
<td>100</td>
<td>121</td>
<td>190</td>
<td>301</td>
<td>415</td>
<td>416</td>
<td>459</td>
<td>530</td>
<td>563</td>
</tr>
<tr>
<td>South</td>
<td>100</td>
<td>122</td>
<td>171</td>
<td>300</td>
<td>399</td>
<td>442</td>
<td>442</td>
<td>570</td>
<td>606</td>
</tr>
<tr>
<td>Center-West</td>
<td>100</td>
<td>175</td>
<td>287</td>
<td>511</td>
<td>935</td>
<td>1.137</td>
<td>1.536</td>
<td>1.377</td>
<td>1.591</td>
</tr>
<tr>
<td>Brazil</td>
<td>100</td>
<td>123</td>
<td>182</td>
<td>294</td>
<td>417</td>
<td>444</td>
<td>487</td>
<td>567</td>
<td>607</td>
</tr>
</tbody>
</table>

Source: IBGE, National and Regional Accounts

Data in table 4 show that, from 1960 to 1999 (i.e. the “Years of Regional Policy”), the Northeast, target-region number one, grew less than every other region and also, as a consequence, than the country as a whole. And more: but for a minor exception (1965), the cumulative growth of Northeast’s total GDP was consistently smaller that those of the other regions. If you put together this finding and the ones previously commented (rate of growth of Northeast’s per capita GDP slightly greater than Brazil’s; constancy of Northeast’s per capita GDPs relative to Brazil’s), it turns out that out-migration of people from the Northeast was the key factor preventing the region from losses in relative per capita GDP. This certainly does not add up to a positive assessment of regional policy effectiveness, at least as far as the Northeast is concerned.

The other target regions (the North and the Center-West) tell a different story. Both have reached cumulative total GDP growth well above Brazil’s. Sparsely populated lands, the more so in the beginning of the period under consideration, these regions have been strongly favored by the opening up of roads and the building of other infrastructures. As a result of such public undertakings, high growth ensued, and people did come in. Good news for a positive assessment of Brazil’s regional policy, of course, but keep in mind that those were (and to a degree still are) frontier regions. Easy growth.

### 2.2 Social Disparities: Present and Past

Present-day social disparities among Brazilian regions are shown in table 5. The Northeast has the worst figures in income per head, literacy, formal employment and years of schooling, and the second-worst in income distribution. The North is below the national
averages in income per head and formal employment. It is (in a positive welfare scale) well below the Southeast in every indicator, but in years of schooling (but remember that this figure is just for the urban North). The Center-West is better off than Brazil as a whole in some indicators, such as income per head, literacy, years of schooling, and worse off in formal employment and income distribution.

Table 5
Brazil and Regions
Selected Social Indicators, 2001(a)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>North</td>
<td>576,84</td>
<td>7.8</td>
<td>45.3</td>
<td>6.3(d)</td>
<td>0.598</td>
</tr>
<tr>
<td>Northeast</td>
<td>448,45</td>
<td>17.7</td>
<td>43.2</td>
<td>5.3</td>
<td>0.617</td>
</tr>
<tr>
<td>Southeast</td>
<td>944,72</td>
<td>7.1</td>
<td>68.3</td>
<td>6.2</td>
<td>0.586</td>
</tr>
<tr>
<td>South</td>
<td>796,26</td>
<td>5.4</td>
<td>71.2</td>
<td>6.6</td>
<td>0.572</td>
</tr>
<tr>
<td>Center-West</td>
<td>855,83</td>
<td>9.2</td>
<td>52.9</td>
<td>6.7</td>
<td>0.622</td>
</tr>
<tr>
<td>Brazil</td>
<td>768,83</td>
<td>11.4</td>
<td>61.3</td>
<td>6.2</td>
<td>0.609</td>
</tr>
</tbody>
</table>

Source: IBGE, Demographic Census (2000), and PNAD (2001)
(a) Or latest year available, as stated in each column.
(b) Average monthly nominal income of householders with a non-zero nominal income.
(c) Gini Index of Personal Income Distribution of nominal income of householders with a non-zero nominal income.
(d) Urban North.

It is difficult to observe trends in social indicators over the long run. In any case, table 6 shows estimates of poverty incidence for the regions of Brazil in selected years, from 1970 to 1999. The ratio of poor people to total population has declined in Brazil and all its regions in the last three decades (table 6 and figure 3), a result that followed from a combination of economic growth and social policies. Since, as seen before, the aggregate growth of Northeast’s per capita and total GDP can only marginally be attributed to regional development policy, and since social policies are not part of regional development policies, it follows that the latter has little bearing on the improvement of social conditions observed in the Northeast over the past thirty years. Again, we do not come up with pleasant conclusions as to the effectiveness of regional (development) policy for the Northeast. But improvement in social conditions, as represented by the proportion of poor people in total population, did happen.
Table 6  
Brazil and Regions  
Percentage of Poor People in Total Population  
Selected Years (1970 to 1999)  
(Percentage)  

<table>
<thead>
<tr>
<th>Regions / Years</th>
<th>IPEA / UNDP Estimates (1)</th>
<th>GVF Estimates (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>North</td>
<td>80.10</td>
<td>51.29</td>
</tr>
<tr>
<td>Northeast</td>
<td>87.85</td>
<td>66.53</td>
</tr>
<tr>
<td>Southeast</td>
<td>50.60</td>
<td>22.65</td>
</tr>
<tr>
<td>South</td>
<td>69.89</td>
<td>31.92</td>
</tr>
<tr>
<td>Center-West</td>
<td>73.71</td>
<td>37.48</td>
</tr>
<tr>
<td>Brazil</td>
<td>67.90</td>
<td>39.47</td>
</tr>
</tbody>
</table>


Figure 3  
Poverty Incidence in Regions, 1970-1999  
(Percentages)

3. Regional Development Institutions and Instruments

3.1 Regional Development Institutions

The Bank of the Amazon is now 60-year old. Originally named Banco da Borracha (literally, Bank of Rubber, i.e. a credit agency specialized in the financing of just one, if important, sector), BASA is nowadays a development bank, something it was not when it
started operations. Bank of Northeast (BN) was created, in 1952, from the start, as a development bank. But it is generally accepted that the modern period of regional development policy in Brazil began only seven years later when Sudene (the Superintendence for the Development of Northeast) came into being. Development, more precisely economic development, was then the word of the day.

A bird’s-eye view of regional development institutions in contemporary Brazil is now given.

**A. Sudene / Adene.** Up to May 2001, Sudene was Brazil’s most important regional development institution, in the sense that it was nominally responsible for coordinating the actions of every branch of the federal government operating in the Northeast, the number one problem-region. Also, on its inception, and shortly afterwards, Sudene commanded a huge amount of financial resources. On its heyday, Sudene administered Finor (Northeast Investment Fund, made up of parcels of the corporate income tax), granted or denied other tax incentive also related to the corporate income tax, and had some bearing upon the FNE (Northeast Constitutional Loan Fund).

This all notwithstanding, in May 2001, Sudene was extinguished, and a new successor body, Adene (Agency for the Development of Northeast) was created. After a long delay, its directors took office by August 2002, but they were never given the human and financial means even to put together the administrative apparatus of the institution. So far, therefore, Adene has been but an acronym, with no real existence whatsoever. The President-elect Lula da Silva has said that his government will recreate Sudene. With some money, or none? With outstanding and well-paid new personnel, or not? With a shadow of the former power, or not? No one knows.

Sudene’s headquarters (as well as Adene’s) are located in Recife, Pernambuco. It is to be noticed that, since the failure of Sudene (which of course precedes its official abolition by decades), the institutional apparatus of regional policy in Northeast has been in a state of disarray.

**B. Sudam / ADA.** (Superintendence for the Development of the Amazon Region) was also extinguished in May 2001, together with Sudene, under suspicions of corruption. Created in 1974, Sudam administered Finam (the Amazon Investment Fund, counterpart of Finor), and the other fiscal incentives for regional development (already referred to in relation to Sudene). ADA (Agency for the Development of the Amazon Region) is Sudam’s successor institution. The same comments made to Adene also hold true to ADA, whose headquarters (as were Sudam’s) are in Belém.

**C. Banco do Nordeste** (Bank of Northeast, BN). Established in 1952, Banco do Nordeste, describes itself as today’s leading financial institution of the region. BN, in its own words “a unique combination of development, investment and commercial bank”, has 174 branches covering over 1955 cities in the region, which today includes parts of Minas Gerais and Espírito Santo states. It supplies about 78 per cent of all the rural and industrial loans in the Northeast. As of now, total assets of BN are about R$ 13.5 billion. BN headquarters are located in Fortaleza, Ceará.

Banco do Nordeste used to have a central role in the administration of regional tax incentives (by being the sole institution responsible for the financial operations related to Finor-supported projects); it is by and large responsible for managing FNE (Northeast
Constitutional Loan Fund), operates as a retail bank for BNDES (the National Economic and Social Development Bank), and in recent years has been able to bring in sizeable amounts of funds from the Inter-American Development Bank and from private sources in Europe and the United States.

**D. BASA** (Bank of the Amazon Region) was created as Banco de Crédito da Borracha (Bank of Credit for Rubber, 1942) to supply credit for rubber production in order to help in war effort of the Allies. After the War, it was renamed Banco de Crédito da Amazônia (Bank of Credit for the Amazon Region) and, in 1966, as Banco da Amazônia. It is nowadays a development bank responsible for administering FNO (North Constitutional Loan Fund). Belém is the city where the central administration of BASA is located.

**E. Codevasf**, (Company for the Development of the São Francisco and Parnaíba Valleys) today is mainly concerned with constructing and administrating irrigation projects. Despite its many shortcomings, Codevasf deserves credit for carrying on some of the most successful economic development experiments ever tried in Northeast. The Petrolina-Juazeiro irrigation pole, for instance, has become a profitable and sustainable case of economic and social development. Codevasf’s headquarters are in Brasília.

**F. DNOCS**, (National Department for Public Works Against the Droughts), the oldest of regional federal institutions (its ancestor, IOCS, was created in 1909) is widely taken as a dismantled body, in charge of administering several loss-making irrigation projects scattered in Northeast, and still responsible for constructing dams (of varied sizes) and small-scale wells in the region. DNOCS headquarters are located in Fortaleza, Ceará.

**G. Chesf**, (São Francisco Hydroelectricity Company). Although not explicitly a regional development institution, Chesf (created in 1948) has played so important a role in Northeast that it has to be mentioned. Still a public enterprise, Chesf operates in the generation and transmission sector of electric power. Even though the precise figure is not available, it can safely be said that Chesf is responsible for over 95 per cent of the total generation of electric power in Northeast (Maranhão state excluded, since it is supplied by Eletronorte). Its headquarters are in Recife, Pernambuco.  

**H. Eletronorte** (The Hydroelectricity Company for the Northern Region) was created in 1972. Located in Brasília, Eletronorte is responsible for the generation and transmission of electric power in the Northern region.

**I. BNDES** (National Bank for Economic and Social Development), created in 1952 (as was BN), is not a regional, but a national institution. Occasionally, however, BNDES has made unique contributions for the development of the Northeast and, to a lesser extent, the North and Center-West. The bank was one of the main sources of funds for the financing of path-breaking projects such as the petrochemical pole of Camaçari (Bahia state), the hydroelectric power generation plant of Xingó (São Francisco river, states of Alagoas and Sergipe), and the new automobile assembly plant of Ford in Bahia. BNDES operates Nordeste Competitivo (Competitive Northeast), and Amazônia Integrada (Integrated Amazon) credit programs purposely designed to foster the regions’ economic potentiality.

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7 Eletronorte is the state-owned electric power company of the Northern region. See below.
According to the Bank, “Regional action by the BNDES has the objective of elevating the salaries and living conditions in the underdeveloped regions of Brazil, thus reducing social and economic inequality observed in those regions. Consequently, BNDES action has been directed to making viable the greatest number of possible investments in those regions, where credit is offered through better financing conditions, lower interest rates, extended payment schedules and increased financing participation in the total value of the investments. Similar initiatives are being taken with respect to the Northeast and Central-West region, as well as other micro-regions that are in need of economic revitalization.”

Other federal banks such as Banco do Brasil (Bank of Brazil, BB) and Caixa Econômica Federal (Federal Savings Bank, CEF) also operate in the lagged regions, although none of them could properly be named a development institution. (Even less so, a regional development institution.) In spite of this, by financing agricultural activities (BB), and being the only source of funding for low-income housing and public sanitation works (CEF), both institutions have made significant contribution to the development of Northeast.

3.2 Instruments for the Development of Lagged Regions

The instruments of regional development promotion can be broadly divided into three categories: tax and financial incentives; long-term and short-term credit; and public investment, both of the government properly said, and of the state enterprises. They are considered in more detail in this section.

Four federal banks supplying credit as a development instrument are present in Northeast and the Amazon region. They are Banco do Nordeste (BN), BASA (Bank of the Amazon Region), Banco Nacional de Desenvolvimento Econômico e Social (BNDES), Caixa Econômica Federal (CEF), and Banco do Brasil (BB).

3.2.1 Banco do Nordeste

BN is responsible for administering FNE (the Constitutional Loan Fund for the Northeast). Other resources of BN include funds provided by the Inter-American Development Bank and by BNDES. As of now, the main credit programs offered by BN are:

A. Industrial (Industrial Credit). Clients are private industrial enterprises of any size, provided they are under the control of Brazilians. Cooperatives and associations are eligible for credit. The program provides long-term loans for the creation, expansion, modernization and relocation of industrial plants.

B. Programa Nordeste Competitivo (Competitive Northeast Program). A development program created by BNDES, but also operated by BN. (See additional information in the section on BNDES).

C. PMPE, Programa de Apoio às Micro e Pequenas Empresas, (Program for Micro and Small Enterprises). Urban-based micro and small private-sector enterprises under the control of Brazilians are eligible as recipients of long-term loans for the creation, expansion, modernization and relocation of plants. Funds are available for fixed (building, machines, etc) and working capital.
D. **Proatur**, Programa de Apoio ao Turismo Regional (Program for Regional Tourism Promotion). For Brazilian private enterprises located in places selected as tourist poles by Embratur (Brazilian Tourism Enterprise). Offers credit for creation, expansion, modernization and reform of ventures in the tourist sector.

E. **Rural**, Programa de Apoio ao Desenvolvimento Rural do Nordeste (Program for the Rural Development of Northeast). Aims at promoting the development of livestock-farming through infrastructure modernization of the livestock farms; increasing production and productivity of farms in the sector.

F. **Agrin**, Programa de Apoio ao Desenvolvimento da Agroindústria do Nordeste (Program for the Development of Agriculturally-Based Industries). The program has as its purpose to facilitate the creation, expansion, modernization and relocation of agriculturally-based industrial plants making it possible for them to open up new employment opportunities and bring economic progress to rural areas in Northeast.

G. **Proger**, Programa de Fomento à Geração de Emprego e Renda do Nordeste do Brasil (Program for Job and Income Creation in Brazil’s Northeast). The program has as its clients small individual producers and enterprises in the rural and urban sectors. It helps credit-takers to create jobs and income through support to new production, training of manpower and infrastructure creation.

H. **Prodetec**, Programa de Apoio ao Desenvolvimento Tecnológico (Program Stimulus to the Technological Development). The program’s objectives are to accelerate the technological development of the region with emphasis on the promotion of efficiency and competitiveness of rural and industrial enterprises.

I. **Banco da Terra**, (Bank of the Land). It is aimed at reaching rural landless workers, especially wage-earners, sharecroppers, and small landowners with areas smaller than the minimum. The program provides loans for landownership reorganization and settlement.

J. **FNE-Verde**, Programa de Financiamento à Conservação e Controle do Meio Ambiente (Green FNE, Credit Program for the Conservation and Control of the Environment). Aims at financing the development of environmentally sound productive activities, and expenditures of environmental conservation and control.

K. **Prodesa**, Programa de Apoio à Reorientação da Pequena e Média Unidade Rural do Semi-Árido Nordestino (Program of Support for the Reorientation of the Small and Medium-Size Rural Enterprise of the Semi-Arid Region). Oriented to agricultural engineers rural proprietors that commit themselves to full time dedication to the agricultural activity. The program has as objectives restructuring, strengthening and modernizing small and medium-size farms of the Semi-Arid region, giving priority to the diversification of the activities and to technological updating.

L. **Pronaf**, Programa Nacional de Fortalecimento da Agricultura Familiar (National Program for the Development of Family-Based Agriculture). See below section 7 for more details on this program.

M. **Programa de Apoio ao Aperfeiçoamento Tecnológico e Gerencial da Empresa Nordestina**, (Program of Support to the Technological and Managerial Improvement of Northeastern Company). Northeastern companies are eligible. The focus of the program is
placed upon the managerial improvement of companies, especially by application of methods of total quality.

**N. Cédula da Terra.** Projeto Piloto de Apoio à Reforma Agrária (Bill of the Land) is a pilot project for agrarian reform. Associations of rural landless workers are eligible for obtaining loans for acquisition of land in governmental land reform projects.

**O. Protrabalho.** Programa de Promoção do Emprego e Melhoria da Qualidade de Vida do Trabalhador na Região Nordeste (Pro-Work). Companies of any size based on Northeast are eligible. Objectives include job generation and betterment of life conditions of workers.

**P. Pro-Solo.** Programa de Incentivo ao Uso de Corretivos de Solos (Pro-Soil). Rural producers of any farm size are eligible. The program aims at increasing productivity of Northeastern agriculture by stimulating the adequate chemical treatment of soils.

**Q. Crediamigo.** Centro Nordestino de Micro-Crédito (Northeast Micro-Credit Center). The purpose of the program is to contribute to the development of the micro-business sector in the region. As of now, more than 400 thousand operations of credit concession have been made. Target population are small entrepreneurs who develop service, commerce and other sector productive activities who need credit for working capital and purchase of equipment. Access is easy and bureaucratic controls greatly simplified.

### 3.2.2 Banco da Amazônia

Bank of the Amazon administers FNO, the North Constitutional Fund, which is its main source of funds. BASA has programs such as Brasil Empreendedor (Pro-Entrepreneurship Program); Proinfra (Credit for Infrastructure); and special credit lines for investment in tourism, industry and agriculture.

The main source of funds for BASA is FNO (North Constitutional Loan Fund). The bank has also intermittently operated as an agent for BNDES in the Amazon region.

### 3.2.3 BNDES

BNDES provides long-term financing of investments for private companies in all areas, including foreign companies operating in Brazil. Many of the companies that participated in the privatization program have received financial support from BNDES. The bank activities include financing and co-financing, security subscriptions (of stock and debentures) for the capital markets and project finance. Regional programs are:

**Nordeste Competitivo.** (Competitive Northeast). With very few exceptions, BNDES credit programs are open to companies located in any Brazilian region. In an attempt to better suit the less developed areas, however, BNDES has created some regional programs such as Nordeste Competitivo (Competitive Northeast) for Northeast. Companies located in the area under jurisdiction of former Sudene (Northeast and parts of the Minas Gerais and of the Espírito Santo states) are eligible for credit concession.

Nordeste Competitivo is but a new brand name for the same old credit programs of BNDES, such as Finem (Financiamento a Empreendimentos, Financing for Undertakings), BNDES Automático (Automatic BNDES), and Finame (Financiamento de Máquinas e
Equipamentos, Financing for Machinery and Equipment). Projects in sectors in which the region has demonstrated competitiveness can ask for credit under special conditions. These include interest rate rebates (in relation to rates charged by BNDES to similar operations in other regions) and a lower threshold for direct financing by the bank. BNDES has allocated R$ 5 billion to the program, which is due to end by April 2002. Up to May 2001, R$3.3 billion had been lent by BNDES in credit concession under Nordeste Competitivo.8

The other regional programs of BNDES, namely, Amazônia Integrada (Integrated Amazon), Programa do Centro-Oeste (Center-West Program), and Reconversul (Programa de Reconversão Produtiva da Metade Sul e do Noroeste do Rio Grande do Sul, Program for the Productive Restructuring of the Southern Half and the North-West of Rio Grande do Sul) have similar features.

According to the Bank, the regional programs of BNDES aim at raising income and social standards of Brazil’s less developed regions. The bank’s strategic orientation is to finance as many viable projects as possible in those regions, by offering credit in favorable terms: lower interest rates, longer amortization periods, and a higher proportion of BNDES funds in total costs of the projects. Over the last five years, BNDES granted R$19.3 billion through the regional programs to projects in the Northeast, the Center-West, the Amazon, and the southern part of the Rio Grande do Sul state.

3.2.4 Caixa Econômica Federal

Although never a regional development bank, Caixa Econômica Federal (Federal Savings Bank, CEF) is the only source of long run credit for the housing and sanitation sector in Brazil and the regions. With total assets of R$ 121.5 billion, CEF is the second largest bank in Latin America. Caixa Econômica has no special program or favored conditions for projects in Northeast or the North. Their credit programs have to be mentioned, however, given the significance of the two above mentioned sectors.

3.2.5 Banco do Brasil

Largest bank in Latin America (total assets of R$ 138.4 billion), Banco do Brasil supplies agricultural credit and is responsible for the implementation of some government development programs. The bank has no specially tailored credit program for Northeast. Table 4.8 displays figures on credit concession by Bank of Brazil for investment in agriculture and livestock by state of Northeast, from 1996 to 1999.

3.2.6 Finor, Finam and other fiscal incentives

Up to May 2001, companies interested in setting new plants or expand existing ones in the Northeast (plus parts of the states of Minas Gerais and Espírito Santo) and the Amazon could count on a system of tax and financial incentives offered by the Federal government and administered by former Sudene and Sudam. Incentives included the ones provided by Finor, Fundo de Investimentos do Nordeste (Northeast Investment Fund), Finam (the

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8 When it was created, Nordeste Competitivo would only finance projects in a few pre-selected sectors. Later, these restrictive conditions were relaxed and every competitive project became in principle eligible.
Amazon Investment Fund) and the special incentives of reduction and reinvestment of income tax portions.

**A. Finor / Finam.** The main source of Finor and Finam was the deduction of 18 per cent of the corporate income tax. Companies in the manufacturing sector, agribusiness, agriculture, tourism, and infrastructure with new projects or projects for expanding or modernizing existing plants were eligible for support by the fund whose operating conditions were recently (May 2001) modified.

Projects supported by Finor and Finam were of two main types. Under article 5, companies with approved projects would receive money and give in exchange debentures to the Fund. By the time the new project started operations, 70 per cent of those debentures could be exchanged for stock of the company who owned the supported project; 30 per cent had to be repaid in money (plus interest and other charges). This had always been more a theoretical proposition than a matter-of-fact one for very few of the inconvertible debentures have ever been repaid.

Under article 9, large companies would form joint ventures for setting new plants in the Northeast or the Amazon. Provided their project was approved, those companies could write debentures and exchange them for money from Finor or Finam. The total amount these companies could channel to the new project was 70 per cent of their contribution to the Fund (i.e. 70 per cent of the 18 per cent of their payable income tax). By the time the new production unit went into operation, the debentures could be converted into stock.

**B. Special Incentives.** Until the changes decreed by May 2001, industrial and agricultural companies which planned to implement new undertakings in the Northeast or the Amazon region were entitled to a 75 per cent reduction in their income tax. The incentive was good for a period of ten years. (Several changes in the operating procedures were made along the years). The value not paid as income tax had to be productively invested in the region.

Companies already operating were also eligible for income tax reductions, in that case with an upper bound of 37.5 per cent. There also was an incentive for reinvestment of income tax portions favoring industrial, agricultural and civil construction companies operating in Northeast. These companies could deduct part of their income tax which, together with an equal amount of their own funds could be earmarked for upgrading of their equipment.

The special incentives of income tax reductions were valued by some companies as almost as important as the Finor and Finam incentives. A generous interpretation of the law had made concession of the special incentives nearly mandatory, something that greatly reduced the effectiveness of the instrument for promotion of regional development.

**C. The newly created FDN and FDA.** By a Provisional Act (Medida Provisória) n. 2146-1, issued on May 4, 2001, the federal government abolished Sudene, created ADN, the Agency for the Development of the Northeast, and gave birth to a new fund (called FDN, Fundo para o Desenvolvimento do Nordeste, Northeast Development Fund). Finor was not abolished: previous arrangements (mainly article 9) that involved the allocation of parts of the income tax of some companies for specific projects in the region will be kept; commitments of Finor with already under construction “article 5” projects will also be
honored. In the long-run, i.e. once such previous commitments are worked out, Finor would, of course, vanish.9

The big change of the new (FDN) fund, as compared with Finor is its public character. Under the laws regulating Finor, the money entering the fund was never considered public money. Rather, the funds were legally defined as private property, even though their administration was mainly made by the government. With FDN, things will be different: the money is, from the beginning, public, in the sense that it will be collected as taxes. As a public fund, FDN will be included in the Federal Government fiscal budget. To be spent, resources of FDN will have to follow the same bureaucratic channels of every other public money. This is supposed to be a good thing, as a more strict control of payments could in principle be obtained. In practical terms, may end up as being just another hindrance, with no real positive consequence for regional development.

At the moment, the Medida Provisória (twice renewed) is under the scrutiny of Congress, with a view of transforming it (or not) in ordinary law. No one can foretell what is going to come out of this process. A good guess would be that nothing will happen, at least not during the Cardoso government. In this scenario, the government will continue renewing its Medida Provisória; no effective creation of either ADN or FDN will take place; and everyone will wait for the next government to try to settle the matter.

3.3 Regional Transfers of Income

As of now, the most important regional policy instrument in Brazil has nothing to do with Sudene, Sudam, Adene, ADA, Banco do Nordeste, BNDES, tax incentives, public investment or the like. It is embodied in the transfers programs of the Social Security, of the Health, and the Education Minister, to name just the biggest. As Table 7 demonstrates, the yearly amount of money that those programs unwittingly transfer from other regions to the Northeast is more that ten times greater than the average annual Finor; about seven times the annual FNE, twenty times the yearly credit conceded by Banco do Brasil to investments in the region, and so on. I am talking of net transfers, i.e., of gross transfers less the contribution of the region to the financing of each program. The North is also a recipient, if relatively less so.

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9 Provisional Act (MP) 2146-1 was later modified by MP 2146-6 (June 6, 2001) and MP 2146-3 (June 28, 2001). Few substantial changes other than treating separately (in two MPs) the cases of Sudene and of Sudam (the Superintendency for the Development of the Amazon Region) were made.
Table 7  
Brazil and Regions  
Estimates of Transfers of Income Among Regions, 1999  
(In R$ million and percentage)

<table>
<thead>
<tr>
<th>Regions / Brazil</th>
<th>North</th>
<th>Northeast</th>
<th>Southeast</th>
<th>South</th>
<th>Center-West</th>
<th>Brazil</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Income</td>
<td>24.254</td>
<td>104.771</td>
<td>362.103</td>
<td>115.851</td>
<td>50.265</td>
<td>-</td>
</tr>
<tr>
<td>as a percentage</td>
<td>3.8%</td>
<td>7.7%</td>
<td>(1.9)%</td>
<td>0.6%</td>
<td>(5.3)%</td>
<td>0</td>
</tr>
<tr>
<td>Gross Transfers</td>
<td>2.969</td>
<td>16.755</td>
<td>42.522</td>
<td>12.925</td>
<td>3.480</td>
<td>78.652</td>
</tr>
<tr>
<td>of National Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financing of Transfers</td>
<td>2.044</td>
<td>8.728</td>
<td>49.466</td>
<td>12.265</td>
<td>6.149</td>
<td>78.652</td>
</tr>
<tr>
<td>Net Transfers</td>
<td>925</td>
<td>8.028</td>
<td>(6.944)</td>
<td>660</td>
<td>(2.669)</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: IPEA (Department of Regional and Urban Studies)  
Obs: Transfers include payments of social security benefits, in-kind benefits (e.g. free meals in public schools), free medical assistance; free education, and others.

Although the short-term benefits of such transfers are noticeable, one could ask whether this policy is not antithetical to economic development. Given that the amount of social expenditures has reached in Brazil such levels as to nearly eliminate public investment, I do think that there are problems here. With the state so busy implementing this sort of policy, it is not likely that economic development will revive in the country or its regions. In retrospect, it seems that stagnation has been the rule, and that the brief period of strong growth of the seventies, the exception. Income transfers do nothing to permanently eliminating poverty in the less developed regions. In due time, a new fiscal crisis will ensue, transfers of income will have to be drastically cut, and we will discover that the Northeast, in particular, is as vulnerable as it was forty years ago, when Sudene was created, and great expectations were in order.

4. Clusters and Local Competitive Advantage

4.1 Clusters and Regional Development in Brazil

In the literature on regional development, cluster has become a fashionable word. A recent work by IPEA researched several industrial clusters in Brazil, located off the biggest industrial cities. Among them, the clusters of furniture in Espírito Santo, Ubá city (Minas Gerais) and Serra Gaúcha (Gaucho Hills, Rio Grande do Sul state); shoemaking in Franca (São Paulo) and Nova Serrana (Minas Gerais); textiles and dressmaking in Nova Friburgo (Rio de Janeiro), and Campina Grande (Paraiba); ecological tourism in Bonito (Mato Grosso do Sul); software in Joinville (Santa Catarina).

It is well known that clusters centered on agricultural activities (fruit production) have developed in far-away places such as Petrolina (Pernambuco) / Juazeiro (Bahia); and Mossoró / Assu (Rio Grande do Norte). Grain (mostly soybean) production has also heavily concentrated in the previously undeveloped (and unpopulated) lands around Barreiras (Bahia), Balsas (Maranhão), and the south of Piauí. Some years ago, the same had happened to the lands of Mato Grosso and Goiás.
A detailed map of industrial and agro-based clusters in less developed parts of Brazil is still lacking. A generalized belief is that in many places clustering is paving the way for development, especially for the development of lagged regions.

### 4.2 Policies for Cluster Promotion

Clustering is a new word in regional development promotion, in Brazil and elsewhere. In the case of Northeast, two things deserve mention: the so-called Pro-Northeast Initiative, and Banco do Nordeste’s Development Lighthouse.

#### A. Pro-Northeast Initiative

Pro-Northeast Initiative (Iniciativa pelo Nordeste) was an attempt to coordinate cluster promoting actions by three state governments (Bahia, Ceará, and Pernambuco) in four sectors or would-be clusters: irrigated fruits (Pernambuco and Bahia), soybean (Bahia), tourism (Pernambuco, Ceará, Bahia), and software/hardware production (Pernambuco and Bahia). The Initiative received support from the World Bank, BNDES, and IPEA. It started in mid-1997 and lasted until the end of 1999. In Pernambuco, work begun by the Iniciativa was continued under the coordination of Condepe, the state’s Planning Institute.

In spite of its limited scope, lack of resources, and other flaws, the Iniciativa may claim to have been the first attempt to bring into Brazil the very idea of clustering. Entrepreneurs in the software production (Recife, Pernambuco) credit the Iniciativa for the establishment of profitable commercial links with the US market. In tourism, some of the ideas brought in by the Iniciativa (such as the creation of a brand name Nordeste for promoting the region as a whole) seem to have taken root. Of course, there are few more concrete results to be reported. In any case, the idea of clustering as the basic component of a regional development strategy has become established. Shortly before being abolished, Sudene was in the course of devising a broad strategy for the development of Northeast centered on clustering. The Rio Grande do Norte state is nowadays implementing its own version of the Iniciativa. It may have been a promising starting point. Or not.

#### B. Banco do Nordeste’s Development Lighthouse

Working independently, and refusing to use the word cluster, Banco do Nordeste announced in 1998 a much broader initiative, under the brand name Development Lighthouse (Farol do Desenvolvimento). According to the bank, Development Lighthouse is an entrepreneurial activity that aims at creating in each locality a climate favorable to the promotion of its own sustainable development.

The Farol is present in all municipalities of Northeast, North of Minas Gerais and North of Espírito Santo states. It is essentially a regular forum, whose members (representatives of local executive, legislative and judiciary powers, labor unions, public enterprises, employer associations, religious leaders, NGO, and others) meet at least six times a year, under the leadership of local staff of Banco do Nordeste.

Specific objectives of the Farol include:

- Developing the economic opportunities of each municipality, and contributing to the enhancement of competitiveness of local producers;
- Contributing to the integration of productive networks relevant to the specific municipality;
Coordinating the joint actions of contiguous municipalities, in order to reach solutions for shared problems;

Taking initiatives to establish useful partnerships to solve problems of local of infrastructure;

Developing a view of the future shared by the relevant agents in each municipality.

Although in many cases the above objectives may seem too ambitious, or abstract, the weight of the Bank has been a relevant factor in the achievement of solutions to specific problems of several municipalities. By putting together people who better know the local world, the Farol seems to be a very good idea and one that may bring slow but steady benefits to the communities.

C. BASA’s New Strategy. Since 2000, Bank of the Amazon has worked with IPEA in the identification of the main clusters in the Region, as well as its problems, potential, obstacles to further development, and the like. On the basis of such knowledge, BASA is already pursuing a strategy of cluster promotion in the Amazon, in an attempt to foster the Region’s development. It has been proposed that cluster promotion become a key element of BASA’s action, especially as it relates to the allocation of FNO funds.

5. Regional Development and the Lula da Silva Government\textsuperscript{10}

As a candidate, Mr. Lula da Silva promised to promote a more balanced regional development in his would-be government. It is thus expected that he will stimulate the implementation of a nation-wide regional development policy, with an eye at promoting the development of lagged regions, and facilitating their adaptation to a globalized world. Lula’s new regional policy will be negotiated with the States and the Municipalities, and it will take into high consideration the productive potential of each region, as well as the obstacles to its full development and insertion in the international economy.

Starting from the productive capacity already installed in a region, the new policy will work for the region’s strengthening. The main objectives and strategies are as follows:

A. Reduction of regional inequalities. Equity is the key word here. That principle will translate into a tireless fight for reducing the inequalities of income among regions, for opening up new economic opportunities for lagged regions, and for improving the working conditions all over the country.

B. Efficiency and Competitiveness. Designing mechanisms to orient public and private investment decisions toward reaching higher levels of efficiency and competitiveness (especially) in less developed regions is to be another fundamental principle of the new regional policy.

C. Territorial fragmentation. For the new government, large economies such as ours are in need of policies capable of combining the internal integrative effort with a progressive opening to the world market. While some regions are already relatively open to

\textsuperscript{10} This section follows very closely (in some cases, translate) the chapter on regional development policy of (then) presidential candidate Luís Inácio Lula da Silva’s program.
external trade, a deliberate effort is in order to avoid that certain areas be kept at the margin, more and more condemned to a state of permanent poverty.

D. Fiscal war among states. The lack of a true regional development policy has paved the way for the unhealthy competition between states and, in some cases, even municipalities, known as fiscal war. With the help of the federal government, this current state of things will be replaced by the responsible and flexible coordination of state and municipal actions, doing away with the fiscal war, without eliminating a certain degree of healthy competition among states and municipalities.

E. Concentration of production. The government will stimulate a reduction of regional concentration of productive assets and of production, by strengthening local specializations. The new regional policy will deal differently with the various kinds of regions. A proposed classification is as following: (1) Dynamic Areas (i.e. areas that are doing well, and whose productive capacity is modern and competitive); (2) Areas Under Restructuring (i.e. areas which used to be rich and competitive; have been changing their economic structure; but still are potentially competitive); (3) Stagnated Areas (areas of low economic dynamism); (4) Undeveloped Areas (i.e. areas that have been kept aside of the economic development process, and whose potential has to be better known and explored); (5) Borderline Areas (i.e. areas near the country’s Western and Northern borders, that present specific problems and need special attention of the federal government).

F. The National Council of Regional Policy. The new government will propose the creation of a National Council of Regional Policy, and of a National Fund of Regional Development, the latter conceived of as an instrument that will enable the government to reach the objective of reducing regional inequalities. It will be a statutory responsibility of the Council to analyze the regional impacts of sector policies. The new regional policy will be partly financed by the National Fund, whose administration will be democratized.

6. Concluding Remarks

Good news, and bad news. In the pleasant side, there has been convergence of per capita GDPs among the Brazilian states, although this has not been true for every sub-period between 1947 and 1999. As to the official regions (North, Northeast, Center-West, Southeast, and South), the trend is less clear, the more so because of troublesome Northeast. All in all, in the last half-century, growth at a reasonable speed has been the rule for states and regions. Social conditions have also improved everywhere. The bad news is that disparities, be they economic or social, among regions, states, and municipalities remain great. The worn-out expression “the two Brazils” still holds, as anyone can testify looking at the map with p. c. GDPs of the country’s municipalities: a divide between a rich South and a poor North is easily seen. And, worse than all this, in the last fifteen years or so, convergence among state p.c. GDPs has stopped, if not been reversed.

The extent to which regional policies have been responsible for the good or bad news, however, is far from clear. No doubt that, in more recent times, regional policy institutions and instruments were dismantled, and convergence lost speed, or was reversed. But causation may be in either way, i.e. from the withdrawal of the state to the end of convergence, or from the latter to the former. In any case, little has been left of the old regional policies. Today’s situation is one of scarcity of resources (especially for vitally
important infrastructure construction); plenty of uncoordinated actions; worsening trends in both aspects.

There is of course good news too. Bank of Northeast has transformed itself into a veritable development agency; and BASA seems to be in the same track. President-elect Lula da Silva has announced that he will recreate Sudene, and give the institution a strong support. For the good or worse, some state governments have achieved success in attracting out-of-state capital and better utilizing their own resources; and, in the Northeast, particularly, new economic poles other than the big state capitals (e.g. Petrolina-Juazeiro, PE/BA; Mossoró-Açu, RN, Barreiras, BA) have reached a sort of Rostowian self-sustained growth, partly as a result of healthy regional development policy initiatives of the past. Regional impacts of globalization are still uncertain but, surely, in this area, there are challenges, but also opportunities.

(São Paulo, Dec 8, 2002)