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RECENT PROPOSALS FOR CHANGES IN BRAZIL'S CONSTITUTIONAL FUNDING FUNDS: THE ONGOING DISFIGUREMENT OF THE NATIONAL REGIONAL DEVELOPMENT POLICY (PNDR)

PROPOSTAS RECENTES DE MUDANÇAS NOS FUNDOS CONSTITUCIONAIS DE FINANCIAMENTO: EM CURSO A DESFIGURAÇÃO PROGRESSIVA DA POLÍTICA NACIONAL DE DESENVOLVIMENTO REGIONAL (PNDR)¹

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Abstract

This article aims to investigate legislative change proposals in the Regional Constitutional Funds that finance the National Policy for Regional Development (PNDR) in Brazil. Regional elites and federation entities dispute over the appropriation of the funds increasing resources. A review of the literature concerned with the funds functioning and effectiveness, and an analysis of parliamentary sessions and National Congress documents that addressed the process of draft laws and Proposed Constitutional Amendments showed that substantial changes in the normative, financial, administrative and managerial order are in progress. These changes misrepresent the fight against regional imbalances and, therefore, the PNDR principles.

Keywords: Constitucional Financing Fund. National Regional Development Plan (PNDR). Regional Policies.

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Resumo

O artigo tem como objetivo investigar propostas legislativas de alteração nos principais instrumentos de financiamento da Política Nacional de Desenvolvimento Regional (PNDR): os fundos constitucionais de financiamento. A disputa por seus recursos suscita os diferentes interesses de entes federativos e das elites regionais por sua apropriação. Através da revisão bibliográfica e análise de documentos do Congresso Nacional que tratam das Propostas de Lei e Propostas de Emenda Constitucional, observamos que estão em voga mudanças substanciais no ordenamento normativo, financeiro e administrativo dos fundos. Tais alterações estão desassociadas dos princípios que deveriam nortear o combate aos desequilíbrios regionais, portanto, desvinculadas da PNDR.

Palavras-Chave: Fundo Constitucional de Financiamento. Plano Nacional de Desenvolvimento Regional (PNDR). Políticas regionais.

Introduction

Since the promulgation of the National Policy for Regional Development (henceforth also PNDR – from the Portuguese “Política Nacional de Desenvolvimento Regional”) in Brazil, the Constitutional Financing Funds (Fundos Constitucionais de Financiamento - FCF) has followed the guidelines of the Brazilian regional policy, and has been an important instrument for the realization of this very policy. However, some proposals for financial, administrative and regulatory changes to the FCF have been under discussion in the Brazilian National Congress. The present article intends to analyze these proposals. Our main hypothesis is that the proposals in progress via Bills (Projetos de Lei - PL) and/or Constitutional Amendment Bills (Propostas de Emenda Constitucional - PEC) do not follow the principles that should guide the fight against regional imbalances and, therefore, are disconnected from the PNDR. Besides investigating this hypothesis, we noticed and pointed out two movements related to the spirit of the proposals being processed in the National Congress: 1) the reinforcement of the historical trend of deflating the Brazilian regional policy; and 2) the tendency to maintain the logic of the regional financing instruments actions guided more by the market's spatially concentrating interests than by concerns about enabling vectors for regional development. We conclude, therefore, that the change proposals, via PLs and PECs, were guided by localized demands, linked to sectorial (and not regional) interests, that maintain the FCFs as mere financiers of the current accumulation process, without necessarily honoring the PNDR's strategic objectives, i.e. the change proposals were aligned and subordinated to the short-term requirements of the market economy.

The present work follows two interconnected methodological paths. First, it conducts qualitative investigations through a bibliographic review of academic works, audit reports from the Brazilian Federal Court of Accounts (TCU) and official government reports that monitor the functioning and effectiveness of the funds. Second, it analyzes the congressional sessions that dealt with the processing of PLs and PECs about changes to the funds. We aimed to apprehend the perception of the actors involved and the interests behind the disputes over these public funds and to ascertain the (intended or actual) destination of its resources.

In addition to the introduction, this paper features four sections. In the first we address the progressive and relative depletion of the “regional issue”. In the second section, the relationship between the FCF and the PNDR is the focus of interest, in which we notice a gradual estrangement between the funds and the objectives that guide the Brazilian regional policy. In the third section, we verify the changes proposals under discussion for the FCF, via PLs and PECs that aim to allocate the resources to the accumulation cycle interests - to the detriment of the PNDR objectives. In the fourth section, we present our conclusions.

The regional issue in the Brazilian Federal Constitutions and the historical devaluation of the theme

There is a vast literature in Brazil dedicated to investigate the role of public funds in financing public policies, especially those related to social issues, as discussed in Salvador (2010,

2012) and Behring (2010). These works seek to understand this important vector of government policies financing, its growth and its relationship with the process of capital valorization, through the tax system and the public budget. The State, by guaranteeing the general conditions for the reproduction of society through - but not only - public funds, brings into its budget the contradictory interests of various social groups. After all, both the budget and the public funds that fall within it are disputed by different fractions of capital and categories of workers with interests that are most often not convergent. The distribution and use of these resources reflect the stage of social struggles and the bargaining power of each class (with its multiple interests) in specific circumstances and defines different nationalist projects.

One of the aspects of this dispute is of interest: the conception and operationalization of Brazilian regional policy and, within it, the role of the FCFs, which are one of the main funders of explicit actions to combat regional inequalities.

The Federal Constitution (CF) of 1934 was the first to determine the obligation of resources allocation for action on a specific region. According to it, the Union had to reserve 4% of its total revenue for investment in the Northeast, with $\frac{3}{4}$ parts of it for construction and $\frac{1}{4}$ for assistance to those affected by weather conditions. Article 177 of the 1934 CF consolidated (and expanded) the 1919 legislative act of Epitácio Pessoa, which allocated 2% of the Union's revenue to irrigation projects in the Northeast (BONAVIDES, 1971). There was clearly a hydraulic or hydric interpretation of the region's problems, which was then treated as a natural issue and not as a social and economic problem arising from the region's formation (FURTADO, 1958; GTDN, 1959). Subsequently, the Law No. 175 of January 7, 1936 defined the parameters of state intervention plans. In its text, it is easily noticeable the interpretation that the drought was the great regional problem and that federal action would not only combat it but also reinforce the region's position as an agricultural area at a time when industrialization was gaining strength as a national aspiration.

The Federal Constitution of 1946, in turn, further expanded the State action on the territory through its article 199, which established the execution of the Amazon's economic valorization plan. According to it, for at least twenty consecutive years⁵, the Union had to invest not less than 3% of its tax income in the Amazon area – the same amount that should be allocated to the Northeast, according to article 198. Aside from this constitutionally guaranteed amount, article 29 of the Transitional Provisions guaranteed an additional resource to the Northeast. The article 29 was clearly inspired by the experience in the Tennessee Valley in the USA, as pointed out by Bonavides (1971), and required the Federal Government to invest, for twenty years, at least 1% of its tax income in the area of the São Francisco River and its tributaries. With this provision, the Northeast region maintained the amount of resources predicted in 1934, but had its role in the territorial division of labor in the country - as an agricultural producer – reinforced. This understanding of the region's role would only be partially revised with the creation of the Superintendence for the Development of the Northeast (Sudene) in 1959, which was guided by the search for the region's productive diversification. In total, 7% of the country's tax revenue was earmarked for regional intervention.

The Federal Constitution of 1988 reinstated the obligation of resources earmarking for federal action on specific regions after its disappearance in the 1967 CF. This time the CF earmarked 3% of the collection of taxes on income and earnings of any nature (IR) and of taxes on industrialized products (IPI) for financing productive sector programs in the North, Northeast and Midwest regions. Law No. 7,827 of 1989 regulated the use of these resources with the creation of the Constitutional Financing Funds (FCF) of the North (FNO), the Northeast (FNE) and the Center-West (FCO). Besides relying on these taxes, the FCF also had other sources of revenue that are growing over time⁶. Its objective is to contribute to the reduction of regional inequalities through the supply of credit by accredited regional federal financial institutions, which carry out financing programs for the productive sectors of the respective targeted regions⁷. Thus, the funds no longer operate

⁵ Constitutional Amendment No. 21 of November 30, 1966 modified this temporary deadline for a permanent transfer of federal resources to the Amazon.

⁶ The funds also have the returns of the applications made as a way of obtaining resources, acting in a feedback process. These sources, in addition to transfers from the treasury are, according to Macedo and Coelho (page 2, 2015, translated by us): "ii) the returns and results of their investments; iii) the result of the remuneration of resources that have not been applied for the moment, calculated based on an official index; iv) contributions, donations, financing and resources from other sources, granted by public or private entities, national or foreign; v) budget allocations or other resources provided for by law".

⁷ By law, the resources are distributed as follows: the FNE takes 1.8% of the 3% of the total IPI and Income Tax of the country that make up the funds, that is, this region is responsible for 60% of what is constitutionally allocated to the FCF. From the total volume of FNE resources, there is a constitutional provision for the application of half (0.9%) directed exclusively to the

based on the hydraulic solution (Northeast) or economic valorization (Amazon), but on the perspective of expanding the economic base of the regions that are said to be “lagging behind” and attracting productive capital to them. For this reason, the entire Center-West region used to be incorporated into the areas eligible for receiving funds, which were previously restricted to the northern part of the Amazon.

Among the different Federal Constitutions, there was a significant relative decrease in resources for regional policy. In **Table 1**, at December 2019 values, corrected by the IPCA, we can carry out a series of exercises that demonstrate the relative decrease in resources for regional policy.

Table 1: Total Federal Taxes, IPI and IR Collection - (in million R\$)

Year	- IR	-IPI	(C) - B/A (%)	(D)- Tax Revenue (total)	(E)- (A+B)/D (%)	(F) -3% of IR+IPI	(G) - 4% of Total Tax Revenue	(H) -7% of Total Tax Revenue
1995	135.251	63.727	47,1	341.059	58,34	5.969	13.642	23.874
2000	182.829	60.713	33,2	443.221	54,95	7.306	17.729	31.025
2005	265.981	56.476	21,2	641.100	50,3	9.674	25.644	44.877
2010	355.515	68.207	19,2	868.364	48,8	12.712	34.735	60.785
2015	398.455	60.895	15,3	897.979	51,15	13.781	35.919	62.859
2019	442.879	57.940	13,1	961.276	52,1	15.025	38.451	67.289
Variation	227%	-9,10%		181,9%		151,7%	181,9%	181,9%
Total	7.445.449	1.520.951		17.265.284		64.467	166.611	290.710

Source: Secretaria do Tesouro Nacional, Ministério da Economia. (Brazilian National Treasury Secretariat, Ministry of Economy). Elaborated by the authors from Macedo (2014).
Note: December 2019 prices. Values adjusted by the IPCA.

In 2019, for example, if 4% of tax revenue were reserved for regional policy, as established by CF/1934 (column G), it would mean that between 1995 and 2019, R\$ 166.611 billion would have been allocated to the area. Instead, 3% of the IPI and IR was earmarked, as determined by the CF/88, that is the equivalent to around R\$ 64.467 billion (column F), which represents a difference of R\$ 101.653 billion, or an amount 2.5 times smaller. And, if the legal provision of 7% for the regional area was maintained in accordance with CF 1946 (Column H), the amount of resources would be 4.5 times greater (R\$ 290.710 billion) than what was actually allocated to the FNO, FNE and FCO in 2019.

Furthermore, in column E, in which the IR (column A) is added to the IPI (column B) and divided by the total tax revenue (column D), there is a percentage indicator of the weight of the IPI and the IR in tax revenue. As noted in Table 1, there was a gradual reduction from 58.3% in 1995 to 52.1% in 2019. In other words, taxes linked to the financing of regional policy are losing relative weight and the transfers to the funds are getting weaker. However, if we look at the transfer of FCF's values (column F), there was an increase of 151.4% (from 1995 -2019), but it is still at a lower rate than the total tax collection (column D), which grew 181.9% in the same period.

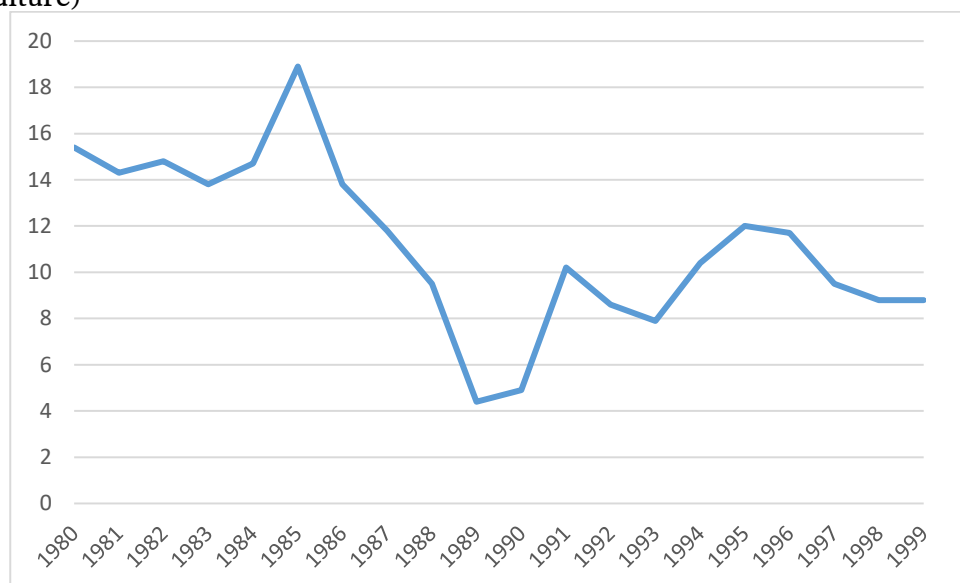
Three other factors reinforce the idea of regional issue devaluation over time in the country's public agenda. The first is the progressive depletion of regional development superintendencies related to the region's budgetary, financial and managerial capacities. Although they still finance productive investments in the eligible regions, they do so without the prestige, attributions or resources they had until the 1980s.

The second factor is the decrease in expenditures to combat regional imbalances in the federal government's budget execution. In a time series from 1980 to 1999, from which it is possible to compare data from the Secretary of the National Treasury (STN), there is a noticeable drop in spendings on regional development over the period, as shown in Graph 1. In addition, ordinance 42

Brazilian semi-arid region. The FNO and FCO each receive 0.6%, making up a share of 1.2%, that is, 40% of the tax collection that finances these funds.

from 1999 of the Brazilian Ministry of Planning, Budget and Management definitively took away the status of budgetary function from the regional development (PORTUGAL; SILVA, 2020).

Graph 1: Participation (in %) of the Regional Development function in the federal budget (settled expenditure)



Source: Secretaria do Tesouro Nacional, Ministério da Economia. (Brazilian National Treasury Secretariat, Ministry of Economy). Elaborated by the authors.

The third factor is the tendency to prioritize sectorial policies in relation to regional ones after the 1966 tax reform. This tendency exists because, with the tax reform, sectorial incentives were generalized and, as they could be used in any region of the country, without any commitment to territorial equity, they reduced the strength of regional policy. The questionable and most recent tax relief policies, analyzed in detail by Goularti (2020), also contributed to the weakening, as they reduced the IPI and IR collection base that make up the funding of the FCFs, which curbs their capacity to leverage beneficiary regional economies.

The Constitutional Financing Funds (FCFs) and the Brazilian Regional Policy

A crucial point to the debate is that, in addition to their relative weakening, the FCF is being distanced from the guiding objectives of the PNDR.

The extinction, in the early 2000s, of the Superintendencies for Regional Development represented the peak of the weakening of federal action on the Brazilian regional issue. However, in the subsequent period, under new government guidance, the regional policy started to take effect institutionally again in 2007 with Decree No. 6,047, which instituted the National Policy for Regional Development (PNDR)⁸.

Despite being a milestone, the first version of the PNDR did not work as a planning policy. According to Rocha and Alves (2014), this should be mainly attributed to the plan's lack of political maturity. Thus, in 2012, a few years after its legal implementation, the PNDR underwent a review. The resulting second version of the policy was made official only in 2019, by Decree-Law No. 9,810, of May 30, 2019.

However, even after the officialization of this new version, the PNDR was not truly implemented. This happened not because of a lack of “technical-theoretical” elements, but because it competed with other policies and programs that gained greater political relevance, as Monteiro Neto (2015) points out. Therefore, the PNDR did not reach the status of an essential public policy, and is far from reaching relevance and primacy in the management of Brazilian regional

⁸ In this limbo, there were government programs oriented towards the regional issue, such as the regulatory agencies (see ADENE and ANA) whose focus was the regulation and inspection of the private sector with concerns with the market valuation mechanisms, without necessarily worrying about the formulation of policies linked to regional development, as shown by Carvalho (2001).

development. In fact, the Brazilian regional reality has undergone changes that have little to do with the actions derived from the regional policy itself.

Several studies and authors in the field, such as Monteiro Neto (2015); Coelho (2017); Macedo; Porto (2018); Brandão (2020), among others, point out the reasons that resulted in the policy's low effectiveness over the Brazilian regional dynamics. Among the most cited reasons is the fact that a new specific fund for the PNDR has not been established, even though the FCFs, which started to follow the guiding principles of the PNDR, are used as a "financial arm" of the regional policy and are regimentally declared its "explicit instrument". The conceptual difference between a specific fund for the PNDR and the FCFs is crucial. The idea of a national fund that existed specifically for regional policies – which did not come true – would imply in federal budget resources directed to the financing of federal actions and programs in the nature of cooperation and coordination with subnational entities. While the FCFs, in their current format of a financial and non-budgetary nature, cannot be used by subnational governments, so they are loanable resources to companies and, thus, limiting to the achievement of several of the objectives of the PNDR. They are mere financiers of private ventures with no commitment to increase the local Gross Value Added, to increase cross-sector multipliers and to seek systemic gains in productivity and competitiveness. Hence, they are insufficient to promote structural change in the regions (and micro-regions) where they operate.

In addition, there are other problems related to the effectiveness of FCFs. The regional financial institutions that manage and execute the funds' resources, by acting under banking-financial guidance and legislation of the Ministry of Finance (currently the Ministry of Economy), tend to operate the resources with the sole aim of guaranteeing financial returns. Thus, they have opted to finance the private investments that are oriented by their privileged location in larger areas, with better externalities and competitiveness, and greater economic dynamism and market size, especially around large capitals and export enclaves (MACEDO; PIRES; SAMPAIO, 2017).

Audits⁹ carried out by the Brazilian Federal Court of Accounts (TCU) also detect elements of administrative, managerial, normative, inspectional and financial nature influencing the performance of the funds. Thus, despite the fact that the FCFs fill part of the credit gap, their performance in general is of low effectiveness, with localized and concentrating¹⁰ effects of small magnitude. All this is added to the fact that they have not been following their objectives fully as an instrument of regional policy.

Regional economic activity, the exporting model and the changes at play in the Constitutional Financing Funds.

The FCFs, despite the aforementioned deficiencies, are an important instrument for the policy of regional development, since they finance the economic activity of the target regions, — as long as they have resources available—, facilitate loan taking, stimulate the productive sector and boost the multiplier effects of the investment, thus extending the time horizon of spending decisions and adjusting agents' expectations. Therefore, the FCF became an important part to the "gear" of the financing alternatives of the regional economic systems. Given this relevance, several proposals for changes to the funds have been formulated in order to increase the coverage of their loans and resources to a wider range of segments, sectors and economic activities.

The political economy behind the allocation of FCF resources (as determined by already institutionalized changes or by changes that are still proposals) must be highlighted. That is, it is necessary not only to present the changes themselves, but also to point out their implicit actors, interest groups and (re)orientation. This leads us to think about the role of the Brazilian State in the current context marked by capital accumulation that entails the weakening of industry in Brazil and by the dynamism of activities linked to the production and exportation of commodities and to the

⁹ For the FNE, the audits performed by the TCU are TC 027.660/2018-4, TC-021.629/2017-0 and TC-023.407/2018-2; For the FNO, TC 023.099/2018-6 and TC 015.567/2018-4; and for the FCO the TC-023.270/2018-7.

¹⁰ It is worth considering that, despite the emptying of the FCFs as an instrument of regional policy and its low effectiveness, Macedo; Porto (2020) showed that stagnant and low-income regions have, since 2005, had an increase in the volume of resources from the funds. In this sense, the PNDR has had a positive effect on the application of its typology.

exploitation of natural resources¹¹. The dispute over funds resources attracts the heterogeneous political class that wants to allocate them to various fronts, purposes and diffuse interests.

At the time of writing, 118 changes have been verified — including revocations, alterations, complements, etc. — in Law No. 7,827/1989, that instituted the funds. The changes already instituted are aggregated into 15 laws, complementary laws, provisional measures and revocations that modify the governance structure, the territorial coverage and the regulatory, financial, managerial and administrative ordinance of the FCF.

Briefly, these laws can be grouped according to key objectives: i) change in financial methodology¹²; ii) expansion of territorial coverage¹³; iii) new items of expenditure and debt concession¹⁴; and iv) changes in governance and of organizational, normative and managerial nature¹⁵. Several of these laws are valid for more than one objective, but to clarify the analysis, we decided to allocate each of them to only one of these groups. Two of the most significant changes was i) Law No. 13,682/2018, which substitutes the collection of long-term interest rate (TJLP) controlled by the National Monetary Council (CMN) by the long-term rate (TLP) subject to market variations and the fees charged by commercial banks, imposing a pro-market operation logic on the funds, and ii) Law No. 13.530/2017, which instituted, in the Student Financing Fund (Novo Fies), a credit line with FCFs' resources. This last law had a relevant role in this institutional trajectory of weakening the FCFs because, from it, a breach was created for the financing of other sectorial funds by the FCFs themselves, which expands the scope and the coverage of the objectives assigned to them, without the premise of these objectives necessarily having a connection with the regional issue.

In addition to these consolidated changes, we found through the institutional portals of the Brazilian Federal Chamber and the Senate that between January 2019 and August 2020 alone there were 31 projects — Bills (PL), Supplementary Bills (PLP), Constitutional Amendment Project (PEC), among others — still in progress in the Legislative Houses aiming to legally change the funds.

Due to the impossibility of diving into the particularities of all these projects, we also decided to group them according to the predominant purposes in each one. **Figure 1** better illustrates the categories and ramifications into which these proposed changes to the funds are allocated. In this figure, we decided to consider only PLs and PLPs, reserving the PECs that deal with changes in the funds for a more specific analysis.

¹¹ Authors such as Jaime Osório (2012) call this Latin American model of production and external insertion the “Export Capital of Productive Specialization Reproduction Standard”; Sampaio Jr, in turn, calls it a “neocolonial reversal” (2012); and Macedo (2010) and Cano (2014) call it “regressive specialization”.

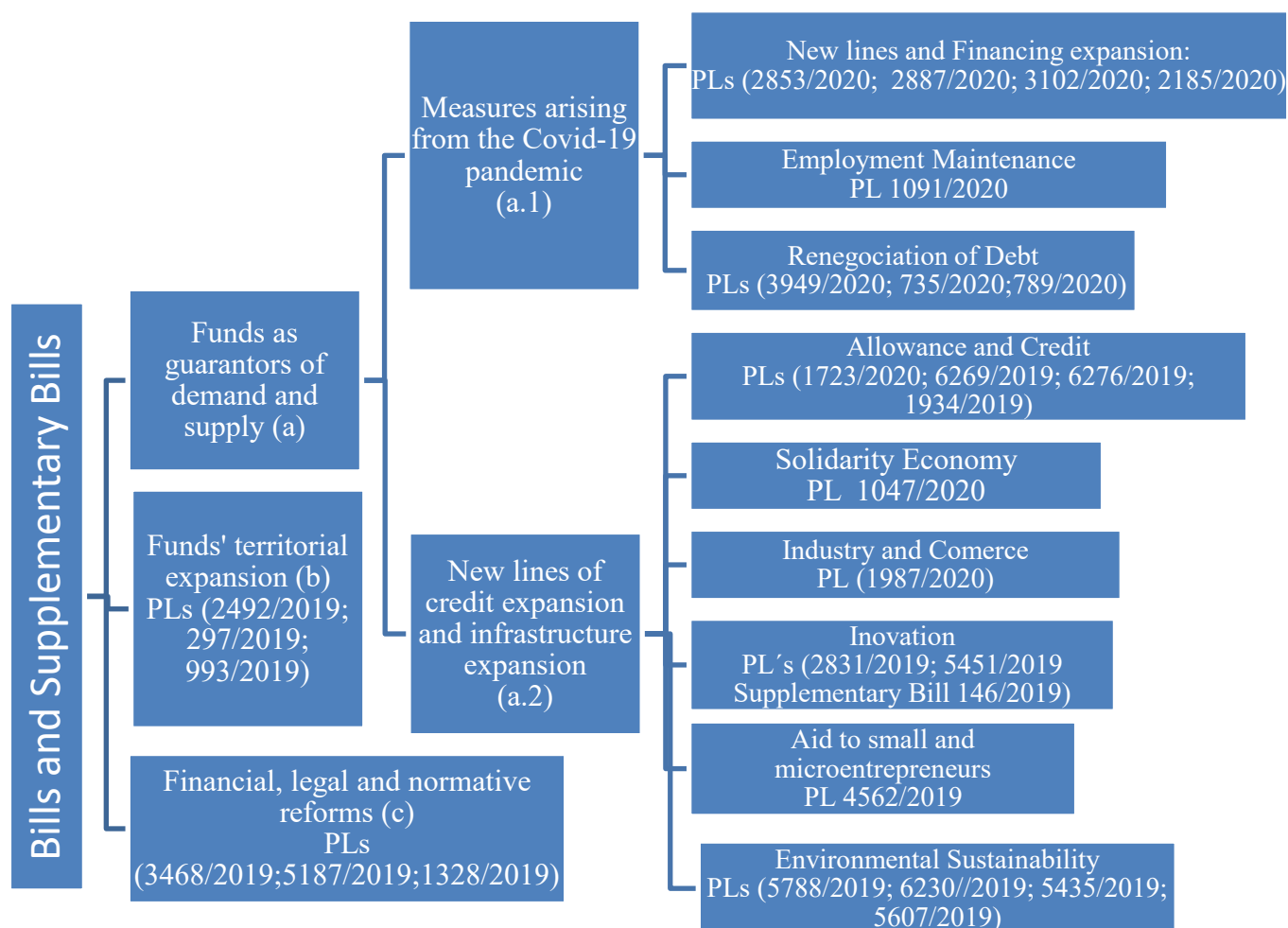
¹² Laws No. 9.126/1995; No. 12.793/2013; No. 13.682/2018; No. 13.986/2020 and provisional measure 2.193-3/2001.

¹³ Law No. 9.808/1999;

¹⁴ Laws No. 10.260/2001; No. 10.177/2001; No. 11.775/2008; No. 11.945/2009; No. 13.530/2017 and Supplementary Law No. 125/2007.

¹⁵ Laws No. 11.524/2007 and No. 12.716/2012 and Supplementary Law No. 129/2009.

Figure 1: PLs and PLPs about the FCFs organized by “key purpose”



Source: Brazil’s National Congress(2020); Brazil’s Federal Senate (2020) Elaborated by the authors.

Although they are still proposals, the Bills and Supplementary Bills in progress indicate the intended directions for the governmental agenda and the allocation of public resources with regard to the regional development.

We organize the PLs and PLPs into three thematic axes according to the purpose of their proposals. The proposals of axis "a" concern the action on macroeconomic aggregates, which are, by the way, within the intrinsic goals of the FCFs, whose performance as a credit provider results in stimulating spending, consumption, investment and production determinants of the economy, increasing not only the aggregated demand of the economic system, but also generating employment and income. Axis “b” comprises proposals for expanding the funds' territorial coverage, incorporating new municipalities into the FCF's areas of action. Axis “c”, on the other hand, groups the PLs that are about reforms in governance and in the normative, administrative and managerial rules of the funds.

Axis “a”, called “funds as guarantors of demand and supply”, is divided into two. The “a.1” branches into four classes that propose changes to the rules of the funds justified or arising from the SARS-CoV-2 pandemic. These measures may or may not be temporary in nature. The “a.2” is associated with new lines of credit expansion and infrastructure expansion. The two subdivisions bring together measures at the macro and microeconomic level to stimulate the consumption circuit or, at least, to maintain demand, and also measures about the supply structure by including the infrastructure sector in the list of FCF loans.

Now that the PLs and PLPs are presented by major thematic axes, we turn to the PECs. This time, instead of organizing them into big groups, we will briefly unravel each one.

First, we analyzed the PEC 99/2019, authored by Federal Deputy Juarez Costa (MDB-MT), which is being processed in the National Congress and aims to allow the use of a maximum of 30% of the value of each of the funds in their respective macro-regions to finance public works with half of the resources destined to the Northeast being guaranteed to the semi-arid region of the region. The motive behind this proposal, according to its text, is to overcome, through the contribution of the funds, the difficulties that the Brazilian economic and fiscal crisis imposes on investments in public works. That is, a short-term justification — although the crisis is prolonged — is defining an action that should be long-term. The public works postulated by the aforementioned PEC aim to modernize, expand and reinforce the infrastructure (especially railways and highways) to support the "export corridors", which would enable the transport of large amounts of natural resources, commodities and raw materials from the Brazilian interior to the country's ports. No concerns with other "types" of infrastructure, such as social, energetic, urban, sanitary, for telecommunications, etc., are mentioned, which reveals the PEC's maximum responsibility in favor of agribusiness interests, corroborating the current process of reprimarization of our exports and the passive insertion of the Brazilian economy in the international division of labor.

The other two PECs are being processed in the Federal Senate. One of them is 167/2019, under the leadership of Senator Jayme Campos (DEM/MT), but authored by a heterogeneous group of Senators, with names linked to several distinct parties - from the PSL to the PT. In other words, the PEC brings together opposing political agendas, but which agree with a new application of the funds' resources.

The proposal intent to implement the temporary investment of part of the resources in financing programs for the infrastructure of the States, the Federal District and the Municipalities. The motivation is based both on the lack of resources of subnational entities for investments for this purpose, as well as on the need to expand the infrastructure for greater Brazilian commercial viability. We emphasize that this PEC expands the range of actions and credit offer beyond the transport, communication and logistics infrastructure and also includes infrastructure related to urban mobility, the supply of water resources, the prevention of natural disasters and sanitation. However, it is not clear how much would be allocated to each area and ends up being a vague proposal, which can either be focused on supporting the extractive and agricultural sector, or directed to urban social needs, depending on the correlation of political forces with greater agglutinating power at a given conjuncture.

The other PEC that is being processed in the Senate is PEC 119/2019, led by Senator Kátia Abreu (PDT/TO). It also has a large group of authors linked to parties with quite different political/ideological orientations. Its two main objectives are: i) to change the allocation of funds for 15 years, shifting a third of these to "structuring projects"; ii) to authorize certain financial institutions, such as credit cooperatives, the Caixa Econômica Federal and state funding agencies, to offer loans with FCF resources. Thus, if approved, this PEC would, in the Northeast and North regions, reduce the role of regional development public banks and, in the Midwest, transfer part of the resources operated by Banco do Brasil to other institutions.

The motives for allowing other financial institutions to operationalize the FCFs lies both in the unfounded idea of increasing the stimulus to competition between these agents — which could reduce the average contract value — and in the territorial capillarity of these other financial institutions which could help them reach the claimants residing in cities with lower urban hierarchy, making resources more accessible. It so happens that these so-called new institutions, however, have no tradition in dealing with the regional issue, which reinforces the perception of the depletion of the theme analyzed in section 2 of this text. The motivation for the mandatory allocation of 1/3 of the resources for investments in structural works is based on the perception of the existence of a "cash leftover" in the funds in recent years. According to the PEC text, this financial surplus is explained, by: i) drops in the demand for private sector financing, which is linked to infrastructure obstacles that hinder the competitiveness and the potentiality of the private sector and ii) priority orientation of the Union investments for the area of education and its decrease for infrastructure, which would explain the channeling of credit from the funds for this last purpose.

There has been opposition to this PEC, mainly by union organizations of regional development banks. See, for example, the technical study by the Employees Association of Banco da Amazônia (AEBA, 2019), that explains the impacts and problems of the PEC, and the text available

on the Association of Employees of Banco do Nordeste do Brasil (AFBNB, 2019) website, that also criticizes the PEC. The focus of the criticism turned to the idea that credit management by financial institutions extraneous to regional issues would naturally lead to greater dispersion of resources and distance the FCFs from the guiding principles of the PNDR. The PEC would then result in more inefficiency, since banks or private entities would work with goals and objectives of obtaining private profits without being guided necessarily by the premises of regional development.

After examining the PECs, PLs and PLPs, we observe that such proposals indicate and encourage the reorientation of the State role in the regional issue. It is a reorientation towards the reinforcement of the installed trajectory of deindustrialization¹⁶ and regressive specialization of the national productive structure. This redefinition underway is derived from the increasingly frequent instruction that public funds should focus primarily on the sector of infrastructure of logistics and transport, which ends up reinforcing the commercial and productive insertion of Brazil into the international system as a mere producer of agro-mineral commodities. The State, then, is oriented to supply — financially and productively — the demands of the sectors, classes and territories of interest linked to export activities¹⁷.

The subordinate way in which the regions and their productive structures are being articulated with the operating logic of multinationals interested in the country has reoriented the demand for FCFs. This funds not only finance this harmful link to a national development path through the consolidation of a robust and regionally articulated domestic market, but also promote the redefinition of functions, forms, processes and structures of regional spaces, modifying and adapting them according to the logistical and communication needs of global players, which leads to their opposite, that is, to the fragmentation of the internal market. Furthermore, the pressure to allocate FCF resources to infrastructure projects as a way to compensate for the drop in BNDES financing has grown, as shown by Macedo and Silva (2019) in a study about the role of the FNE for the semi-arid area.

In short, the changes proposed for the destination and operationalization of the FCFs do not mention at any moment a deeper coherency between their action and the guiding principles of the PNDR. They are little concerned with the technical and productive strengthening of regional economies. In fact, the proposed changes go in the opposite direction, increasingly linked to the logic of neoliberal accumulation by deepening productive specialization and local-global articulation, so that regions become coordinated and articulated by disparate global interests. This leads them to become more subject to variations in commodity price cycles and currency exchange in the presence of increased leakage of income abroad and of a reduction in the internal tax collection potential. All of this contributes to the harmful regional fragmentation.

Conclusion

The expansion of FCFs' revenues over the past two decades has been accompanied by a greater concern with the allocation of their resources. On one side of the discussion, there are regional producer groups interested in making changes in the use of available resources, tending to produce allocative dispersion and distancing from the PNDR objectives. On the other side, there are governmental and public instances, represented either by TCU's audit reports or by internal assessments conducted by the Ministries of Finance (currently of Economy) and Regional Development, with the objective of optimizing the use of resources and meeting the pressures of the TCU so that the funds meet the principles for which they were created and are in line with the PNDR, which usually does not happen.

Interest in the FCFs is also present in the National Congress, as we presented in the evaluations of a group of proposals by deputies and senators to change the legislation on the funds. We saw that the motivations for this are varied, but reflect, in part, federative disputes for the use of a safe and stable source of resources — constitutionally guaranteed — that does not suffer from the problem of contingency aggravated by the economic crisis that has dragged on since 2015. This crisis, in turn, boosted by the SARS-CoV-2 pandemic in 2020, expands the federative dispute over public funds. Proposals for the use of FCFs resources soon appeared with the most disparate

¹⁶ On the deindustrialization process in Brazil, see Cano (2014); Sampaio (2015); Morceiro (2019).

¹⁷ We should not forget that sectors that produce agricultural commodities could, in different governments and for successive decades, count on ample public resources for the national agricultural policy and on tax exemptions and/or tax facilitation measures for their exports.

objectives, going from the financing of the private higher education policy via FIES and the partial coverage of the Basic Education Fund - FUNDEB to the financial assistance of insolvent states, as seen in Otta (2020).

Claimants in the business sector are also very interested in the FCFs, which can complement (or even replace) other sources of funds, mainly by reducing the contributions of BNDES to the production system and subnational governments. Investments in infrastructure have grown in the FCFs' investment portfolio not by mere chance, and, in fact, the main proposals for changes in progress in the National Congress are related to this tendency, especially when it comes to financing projects to support the export of commodities.

Public funds, especially FCFs, thus, are an important element that drives the economic accumulation and surplus. And, depending on the correlation of political forces, they can also guarantee the maintenance of regional elites to the international order by financing them. Access to and control of this portion of the public budget is, therefore, an important matter for economic and political groups with different interests.

Given the prevailing role of fund management today — guided more by short-term market criteria and less by strategic guidelines of regional policy — as well as the role of proposed changes under discussion, what we observe from this dispute over the budget of the FCF is that the pendulum is preferentially tending to support the internationally determined productive logic — which, within the country, also encompasses the fractions of national capital that participate in this process — of directing public resources to promote the opening of new expansion fronts of the capital and an economic integration better articulated with the foreign market via investments in transport, communication and logistics infrastructure. Thus, the development of regional fragmenting forces is promoted.

Finally, we point out that the FCFs are at serious risk of being disfigured and losing their capacity to contribute to the consolidation of regional development trajectories with a focus on diversification and on increasing the added value of the productive structure and of technical complexity. The legislative proposals to change objectives and purposes lead to an increasingly dispersed and uncoordinated sectorial and territorial scope of application, contributing, contrary to what is expected, to the reduction of its transforming effect on regional economies.

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