

**Public Policies in Brazil's Northeast**  
**A Program**

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**IBI – Minerva XII – Fall – 2000**



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## 1 Introduction

This paper has two purposes. The first is to demystify government and multilateral organization expenditure in public policies in Brazil. It compares the expenditure in the rich region – the South and Southeast – with that in the poor region – the Northeast. The second purpose is to present a program to help development in this region, especially to help people who have smallholdings in the interior.

Most people in Brazil think that the federal government and other foreign agencies that have been financing development in the Northeast have wasted resources – both in the past and now - in the region without any worthwhile results. Most people believe that the money is embezzled by “smart” people, and that no matter how much money goes to the region, it will all be embezzled. This paper shows that this is not true. Most money from the government and from multilateral organizations has simply been spent in the South and the Southeast of Brazil, which are already the richest regions in the country.

It is known that interregional economic imbalances are striking in Brazil. It is also known that the biggest concentration of poverty in the country is located in the Brazilian Northeast. Keeping in mind the current difficulties in implanting any type of private or public activity that can generate jobs and income for those who live on a small plot of land in the Northeast, it is natural to assume that the social imbalances will get more extreme in the future.

It is unacceptable nowadays, however, for one portion of the country's population to live in excellent conditions and coexist with poverty-stricken people around them. There is a reason why crime rates have been increasing daily in urban centers. Many have no chance to generate income and survive, so they turn to illegal activities or to begging. If this situation continues, as the Secretary of State of the United States Madeleine Albright said, at the closing ceremony of the Annual Assembly of the Inter-American Development Bank (IDB), "the extreme poverty and the immense social inequality in Latin America, go to mine the fragile democracies of the region". The situation is even more drastic than she suggests. For example, if Brazil has a problem because of poverty, all South America will suffer the consequences. If all South America has a problem with poverty, the whole world will feel the repercussions. Indeed, social inequalities are a worldwide matter and need to be solved. "Poverty breeds poverty" (Economics Explained, by Robert Heilbroner and Lester Thurow)

Public policies and the actions of multilateral organizations have not been enough to promote development in the poor regions of Brazil, especially in the Northeast. The problem stems from many years of poverty accumulation and economic stagnation, with rare successes in "islands" scattered throughout the region.

The main problem facing development in the Northeast has been the way politicians – government – have faced the solution. The authorities of the richest regions in the Country, the South and the Southeast, face their problems in an institutional way. They make great plans, programs, or laws to benefit their regions, solving their financial or material difficulties. For example, there are the Programa Nacional de Fortalecimento da Agricultura Familiar – PRONAF (National Program to Strengthen Family Agriculture), the Banco da Terra (a program financing agrarian reform), among others. In the Northeast, in contrast, the solutions are short-term, politically clientelist, parochial. The solutions create political chances for financial embezzlement. Most time the money never goes to the region, but just appears in the news headlines.

The federal government does not have any planned and continuous public policy to improve northeastern development. Today a discussion has been raised again of transposing water from the San Francisco river to other places within the region. In fact, it might help a great part of the semiarid Northeast, but there is no agreement among the chieftains of the state politicians. This is a great cultural problem. In the Northeast there have been a lot of discussions about remodeling the agencies that act in the region. The results are always the same. The politicians from Bahia do not accept the water transposition from the San Francisco river and they refuse any changes in the Companhia de Desenvolvimento do Vale do Rio São Francisco – CODEVASF (a company financing projects in this river). The politicians from Ceará do not accept any changes in the Departamento Nacional de Obras Contra as Secas – DNOCS (an entity to work in regions affected by drought) and in the Banco do Nordeste – BNB (a bank financing projects in the Northeast). The politicians from Pernambuco do not accept any reformulation in the Superintendência de Desenvolvimento do Nordeste – SUDENE (another entity financing projects in the region). Each one is located in its respective state and commanded by its respective politicians. Therefore, the region continues to be weak and without resources for regional development, because of disputes of power, decision-making, and resources. The tools have become dispersed and weak.

Another issue of extreme importance is the form in which the government tries to detail programs for the Northeast's development. Most, including the multilateral organizations' programs, have been, and currently are, planned by people who are unaware of the northeastern situation from the practical point of view. Therefore, the efficiency of these programs is substandard because of diverse factors, misallocation and embezzlement of money among others. The programs for fruit irrigation and cotton cultivation are good examples of this failure.

There is also a cultural component in using the resources of some programs in the Northeast. Poor people do not use intensively programs designed for the population, for example PRONAF. This is not because the type of program is not good, but because the native of the interior is unfamiliar with aid, out of ignorance.

Technology, financing, and other tools that could be used for regional development in all northeastern cities are unknown to the majority of municipal administrators. Therefore, the

mayors of northeastern cities, generally, try to get resources that they do not have to pay for. Resources that they can manager the money. They do not try to stimulate the agriculturist and promote sustained development in the region. However, the money exists, the technology has already been developed, the northeastern has the disposition to work hard, and the land is there. To put the tools in place in an orderly and honest way is the target.

Celso Furtado, one of the most famous economists in Brazil, said in one interview (1996) published in 2000, in the book *Lições de Mestres*. "A national policy of development that gives priority to the Northeast is essential, because one third of the Brazilian population lives there and in the poorest conditions of any mass population in the hemisphere. Such a policy would have to rely on actions aimed at creating jobs and the growth of the local economy, using the advantages and vocation that the region has for intensive agriculture, which absorbs manpower". I.e. one integrated program between all federal agencies must be applied, and this is the objective argued throughout this paper. In this context, the action of the government must work as a catalyst, promoting the internal development of the region and searching to reduce the interregional imbalance. The solution for the social problems in the Northeast has been neglected for decades. Minimal actions can produce real miracles.

There is one observation that has to be made before presenting the figures in this paper. The exchange rate was calculated as one Real to one Dollar. This was done because the main idea is to compare the expenditure indices between the richest regions and the poorest region. How much was spent in each region is not the main point; another reason for the simple conversion is that most analyses was made in the last five years, and the substantial adjustment to exchange rates between the two currencies was two years ago. If the real conversion were done, the rates would still be the same and the numbers would not make sense.

## **2 Features of the Economic and Social Indices between the Northeast and the South and the Southeast (poor vs. rich).**

Before the features of the expenditure in public policies and an idea for a program to promote development in Brazil's Northeast is presented, it is necessary to know some characteristics of the economic and social indices in the country.

### **2.1 Area and Population**

Brazil has 8,547,403.5 Km<sup>2</sup> of total area and the Northeast Region occupies 1,561,177.9 Km<sup>2</sup>, i.e., 18.3% of the domestic territory. The North region occupies 45.3%, the Central West 18.9%, the Southeast 10.9%, and the South region 6.8%. The South and Southeast regions make up the richest part of the country and the Northeast region, despite all efforts, continues to be the one that presents the worst social and economic indices. The northeastern population represented 28.5% of the Brazilian population, in 1996, and its growth, in the last 36 years (1.1%) was low if compared with the national average (1.3%). These figures show that the Northeast has almost the same area compared with the South and the Southeast together.

### **2.2 The Gross Domestic Product – GDP, and the per capita GDP**

The Gross Domestic Product – GDP, and the per capita GDP, is a picture of the economic imbalance in Brazil. The Brazilian Northeast only produces 13.2% of the national GDP and the Southeast and the South produce 74% of the GDP. The richest regions of the country produce 5.6 times more than the poor region, and it is an impressive disparity. The northeastern population, which almost represents 1/3 of the country's population, produces a little more than 1/10 of the GDP. The per capita GDP of the Northeast is U\$2,494.00, in contrast to U\$7,436.00 in the Southeast and U\$6,402.00 in the South. The Northeast has less than half of the per capita income of the rich part of the country. The data do not take into account the high concentration of income that exists inside the Northeast.

### **2.3 Index of Human Development - IHD**

According of the Report "Surpassing the Poverty Human Being" from the UNDP (United Nations Development Program)"...about 15% of Brazilians are extremely poor, based on \$1-a-day poverty line... regional variations are pronounced: **the Northeast has about 30% of the country's population, but 62% of the poor.**" <http://www.undp.org.br/hdr/rdhpnud.htm>

## 2.4 Physical and Mental Disability

More data draw attention to the percentage of people with physical or mental disability. The Northeast is the region that presents the highest indices of problems, with 6.6% of the population affected, 25% (1.3/5.3) more than in the Southeast and 35% (1.7/4.9) more than in the South. The Northeast presents the highest percentage of total blindness, four times greater than the percentage in the richest regions, and twice the rate of insanity and backwardness.

### Percentage of People with Disability – Physical or Mental Per Type and Degree of Disability by Regions – 1989

Regions	Type and Degree of Disability (% of the population)								
	TOTAL	Blindness Total	Deafness Total	Deafness Partial	Paralysis Total	Paralysis Partial	Mental Illness	Backwardn ess	Lack of any Limb
<b>Brazil</b>	<b>5.5</b>	<b>0.1</b>	<b>0.3</b>	<b>2.2</b>	<b>0.2</b>	<b>0.6</b>	<b>0.9</b>	<b>0.7</b>	<b>0.5</b>
North	4.9	0.1	0.2	2.2	0.1	0.6	0.7	0.7	0.3
Northeast	6.6	0.4	0.3	2.4	0.2	0.7	1.3	1.0	0.3
Southeast	5.3	0.1	0.3	2.4	0.2	0.6	0.8	0.5	0.4
South	4.9	0.1	0.2	2.0	0.1	0.6	0.7	0.5	0.7
Central West	5.4	0.1	0.4	1.9	0.2	0.5	0.9	0.8	0.6

Source: IBGE/PNAD 1989

Data from DEISO/SANUT/IBGE

## 2.5 Education

The Northeast region presents particularities in relation to the physical conditions of its educational establishments and to the quality of teachers. In general, the schools are small and function without energy, water or sanitation. The region employs a high ratio of teachers who have not completed basic education. The Northeast presents higher rates of illiteracy compared with the other regions. If one considers the population at 7 years old, or up to 10 years old, the illiteracy rate in the Northeast is more than three times the rates from the rich regions. If one considers children between 10 and 14 years old, the rate in the Northeast is more than 10 times that in the South and Southeast. If one looks only at the rural zone, the indices are worse.

## Illiteracy Rate, 1996.

(%)

Regions	Illiteracy Rate According Ages Groups(%)		
	7 year-old or more(2)	10 year-old or more	10 a 14 year-old
North (1)	12.1	10.6	5.9
Northeast	29.2	27.3	20.2
Southeast	8.1	7.9	2.0
South	8.0	7.9	1.7
Central West	10.7	10.3	2.8
<b>Brazil</b>	<b>14.6</b>	<b>13.8</b>	<b>8.3</b>

Source: IBGE/PNAD/1996.

(1) Exclusive the rural population from Rondônia, Acre, Amazonas and Roraima.

(2) Including people with unknown age.

## 2.6 Agriculture

The evolution of cultivated areas and the production of grain deserves attention. The total planted area in Brazil did not increase between 1976 and 1996. However, the productivity of crops almost doubled.

### Planting Area – Evolution

x1000 hectares

Region	Crop 1976/1977	Crop 1996/1997
North/Northeast	9,283.0	9,286.5
Center/South	28,034.9	27,134.3
<b>Brazil</b>	<b>37,317.9</b>	<b>36,574.3</b>

Source: CONAB/DIPLA /Done for: CNA/DETEC

### Grain Production – Evolution

X 1000 ton

Region	Production 1976/1977	Production 1997/1998
North/Northeast	4,847.5	9,138.2
Center/South	42,094.8	70,074.5
<b>Brazil</b>	<b>46,942.3</b>	<b>77,932.7</b>

Source: CONAB/DIPLA /Done for: CNA/DETEC

It is important to point out that the Northeast equaled Brazilian productivity and almost doubled its production. The main contribution in the Northeast was from the south of Bahia State. These data are evidence of the power of productivity in the Northeast, when agriculture makes use of technology.

### **3 Public Policies in Relation to Regional Development**

The Brazilian Federal Government has been questioned not only with regard to its economic role, but also in relation to supplying social policies to diminish interregional imbalance and enormous income concentration. In the current structure of the country's public finances, the federal government sphere collects the majority of tax revenue from economic activity. The federal government then transfers a portion of the collected sum among the states in order to enable the decentralized execution of public actions. One important role of the official financial institutions is also to finance development all over the country, with institutions like BNDES (Banco Nacional de Desenvolvimento Econômico e Social – the National Economic and Social Development Bank).

A great step for northeastern development that provided the opportunity for innovation through low-cost programs was taken by the Ministry for the National Integration when it proposed the Medida Provisória (MP) N°1988 – xx, a kind of temporary but enforceable bill which will take action until Congress passes the law. An MP, which has the power of a law, has to be approved or rejected by the National Congress in thirty days. If it is not approved, the Executive has to re-propose it every thirty days in order for it to continue valid. The " xx " refers to number of editions of the bill. The MP established differentiated interest rates for poor regions of the country. With this act, a real door was opened to establish and install any project in the Northeast. This was a courageous attitude from the federal government, but it is yet to really promote development. The most difficult times are to come. How can the federal government establish policies so that low finance rates can attract investments and promote sustained development in the region?

The following part of the paper presents some expenditure on public policies in Brazil. The first section presents federal government expenditure in voluntary transference. The second presents federal government expenditure in financial transference. The third section presents federal government expenditure in the main social areas such as education and health. The fourth presents expenditure in social areas by the three spheres of government. The fifth section presents the state's liabilities and the implicit subsidy, an important expenditure in budgeting, which the federal government applies to the rich part of the country. The sixth section presents the expenditure of BNDES - the main agency in the country to finance private investments. The seventh and last section of this part of the paper presents the figures in relation to the last drought in the Northeast.

Why only present voluntary and financial transference, rather than show the entire federal budget? Because voluntary and financial transference are the main sources of money that many in the country believe is going to the Northeast and is being wasted there. Many in Brazil believe that voluntary and financial transference is the main tool that the federal government has to distribute resources between states. It is not true. To demystify this idea, below there is a budget picture – the main table which presents how the federal government distributed its budget.

## Federal Government Budget - 1998-2000

R\$ million

Revenue	1998		1999		2000 – Purpose	
	R\$	% GDP	R\$	% GDP	R\$	% GDP
<b>I. TOTAL REVENUE</b>	<b>183,983</b>	<b>20.41</b>	<b>211,052</b>	<b>21.68</b>	<b>229,216</b>	<b>21.34</b>
<b>II. TOTAL EXPENDITURE</b>	<b>178,553</b>	<b>19.81</b>	<b>186,698</b>	<b>19.18</b>	<b>200,753</b>	<b>18.69</b>
1. Civil servants	45,861	5.09	49,381	5.07	51,931	4.83
2. Social Security	53,375	5.92	58,086	5.97	62,956	5.86
3. Constitutional Distribution	39,139	4.34	43,541	4.47	46,500	4.33
3.1-Federal Financial Transfers	27,804	3.08	30,238	3.11	32,731	3.05
3.2-Subsides e Subventions	2,076	0.23	2,801	0.29	3,218	0.30
3.2-Others (FAT, Justice, L. Kandir Law an TDAe TDA)	9,259	1.03	10,502	1.08	10,551	0.98
4. Others	40,178	4.46	35,690	3.67	39,366	3.66
III. PRIMARY RESULT (I-II)	5,430	0.60	24,354	2.50	28,463	2.65
<b>IV. REAL (1)INTEREST RATE</b>	<b>51,897</b>	<b>5.76</b>	<b>73,297</b>	<b>7.53</b>	<b>25,827</b>	<b>2.40</b>
<b>V. RES. OPERATIONAL (III-IV)</b>	<b>(46,467)</b>	<b>(5.15)</b>	<b>(48,943)</b>	<b>(5.03)</b>	<b>2,636</b>	<b>0.25</b>
GDP (PIB)(2)	901,406.0		973,706.5		1,074,087.4	
% of GDP compare with last year		4.0		8.0		10.3

Source: PL nº 20, de 1999-CN, Mensagem

Data from Central Bank (1)

Data from SOF/MOG(2)

### 3.1 Voluntary Transference

Voluntary transference means resources transferred by the federal government to States, Federal District and Cities as a result of signing an agreement whose purpose is to build something and/or provide services of common and coincident interest among the three spheres of government. Voluntary transference does not include programs used by the federal government to promote public policies all over the country. In general it represents the part of the budget that the Federal Congress can shift during budget bill approval. The table below demonstrates the lack of initiative to diminish the interregional imbalance. The South, the smallest region in area terms, has the best living standards in the population and received the biggest per capita value of voluntary transference. The Northeast, the poorest region, received the lowest amount. It is Important to keep in mind that the amount of money in voluntary transference represents around 5% of the budget. I.e., it does not represent the main part of the budget.

## Voluntary Transference

Current value U\$ x1000

Brazilians Regions	1999 Accumulated	2000		Transfers/ Inhabitant
		February	Accumulated	
North	781,104	80,568	90,753	8.13
Northeast	3,155,468	317,061	357,748	7.95
Southeast	3,774,561	526,290	539,036	8.13
South	1,368,562	265,365	268,725	11.62
Central West	857,105	91,260	92,299	8.98
<b>Total</b>	<b>9,936,801</b>	<b>1,280,544</b>	<b>1,348,561</b>	<b>8.65</b>

Source: SIAFI Gerencial

*Last Actualization 20/03/2000*

Ministry of Economics – STN / CONED

### 3.2 Federal Financial Transfers

The Federal Financial Transfers represent around 15% of the budget, including FPE, FPM, FUNDEF, FNE, FINOR and FCO. The Northeast gets half of these resources, which represents around 7% of the budget.

#### 3.2.1 FINOR

Fundo de Investimento do Nordeste (FINOR) has an annual average budget of around U\$ 300 million. This money is destined to finance partial plans to expand or modernize in the SUDENE (financing body for semiarid lands) area. FINOR has already received much criticism. It also has a Special Committee in the Federal Congress to examine its effectiveness and irregularities in its management. FINOR's importance to the Northeast is unquestionable. The idea of SUDENE was as good for the region as the BNDES was for the South and Southeast. The misuse and embezzlement of money, however, changed the first idea.

#### 3.2.2 FNE

Fundo de Financiamento do Nordeste – FNE, had accumulated assets of R\$ 3.25 billion by the end of 1996. FNE is one of the most powerful instruments in financing the economic activities in the Northeast

### Transferred Values

U\$

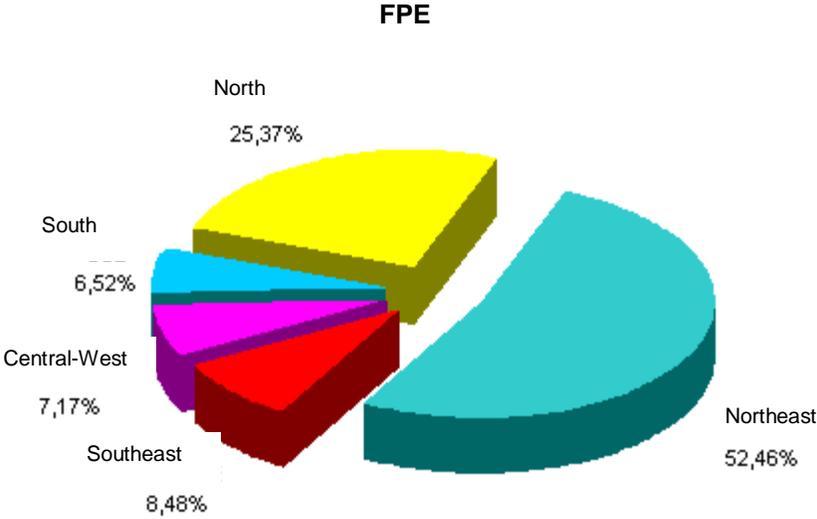
	1995	1996	1997	1998	1999
FNE	646,512,862.13	731,384,290.52	820,834,600.57	914,262,013.42	1,012,578,664.50

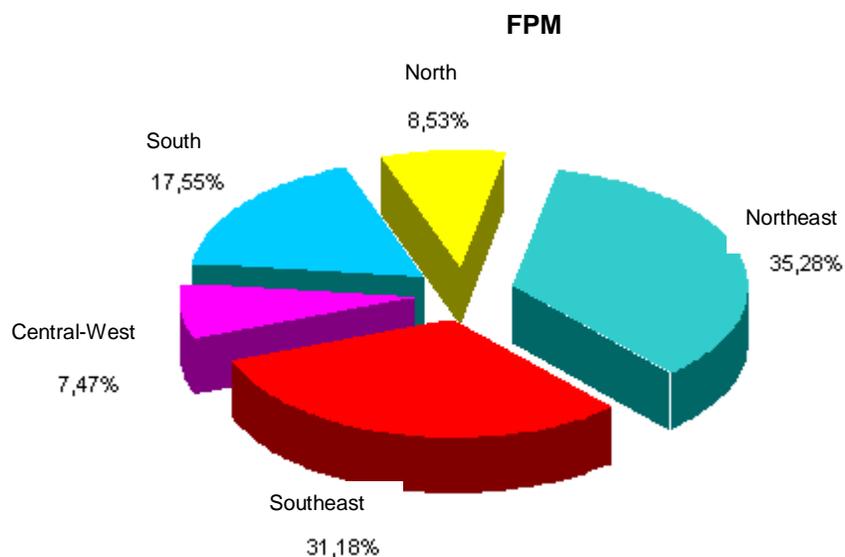
The Northeast has two more federal agencies for regional performance. The Companhia de Desenvolvimento do Vale do São Francisco – CODEVASF (to finance plans in the

São Francisco and Paraíba rivers) and Departamento Nacional de Obras Contra as Secas – DNOCS (agency to make plans to help places that suffer from dry weather). These agencies have difficulty in performing because they lack financial resources. The agencies often threaten to close their doors.

**3.2.3 FPE and FPM**

FPE and FPM are a constitutional determination that drives resources to State Governments, the Federal District and Cities. FPM and FPE are an important tool for income redistribution. However, these transferences are the main resources for the states and cities in the Northeast region. The states and cities only use these resources for administrative survival. It is not possible to use these resources to promote any development. A deep analysis about the level of autonomy and the level of dependence comparing the greetings of resources transfer with the states government’s own collection can be found at the written paper by José R. de S. Mota “Federal Financial Transfers: Importance and Impact for State and Municipalities”. (Fall 2000 – Institute Brazilian’s Issues – IBI, GWU)





Source: STN Homepage

### 3.2.4 FUNDEF

FUNDEF is an equitable mechanism for resource distribution for basic public education maintenance. FUNDEF has not solved educational problems, but it has made important corrections possible. In the interior of each state, the resources for each pupil tend to equal out on a reasonable level; moreover, thanks to the action of the federal government, a national minimum value per pupil was guaranteed. If it was not excellent, it at least meant a substantial improvement for the students in poor regions. The resources were predicted only for the public network and is distributed using the criterion of proportional pupil numbers.

#### **Financial Impact of the FUNDEF, per Region, in 1998 and the Forecast to 1999 – the Federal Government Complementation**

(U\$ millions)

Region	1998	1999 (forecast)
North	113.7	155.5
Northeast	410.5	693.0
Central West	0,0	0,0
Southeast	0,0	0,0
South	0,0	0,0

Source: Reporter from FUNDEF, the first year Balance

The North and Northeast regions made a substantial profit with the advent of FUNDEF. There is no doubt that the amount of resources contributes to promoting regional development, but there are also no doubts that the action is slight in relation to the regional necessities.

Concerning the form of FUNDEF resource distribution, there are some issues to investigate. Is it true that the financing necessity for the northeastern students is the same as for the students from the South and Southeast? Is it true that the teachers' qualification in the Northeast is the same as for teachers in the South and Southeast? Of course neither of the two hypotheses is true. Living conditions in the Northeast are much worse and the social and economic indices are the proof of this. The FUNDEF resources distribution would have to consider other factors in its calculation. The illiteracy rate, the student failure rate, the school evasion, health conditions, malnutrition and poverty are examples of living conditions that have to be considered in the calculation and not only the number of registered pupils, which is the way today's calculation is made.

There is a distortion practiced by the Constitutional Funds (FNE, FCO, FINAM and FINOR) in their management. A recent article (13/03/2000) published in the newspaper "Folha de São Paulo", presented a fact that draws attention to this distortion but no action was taken by the federal government; i.e., the inertia of the federal government holds sway one more time and the poor regions suffer the consequences. This article affirms that "... federal banks had been getting, in the last ten years, R\$ 1.9 billion destined from the Union to finance plans to development of the North, Northeast and Central West regions - it corresponds to the payment of regional funds management. Government accounts indicate that by the end of 2002, the rate paid to federal banks will add R\$ 3 billion. In the last ten years, this has meant 200 thousand jobs that have not been created as a consequence of this ".

### **3.3 The Federal Government Budget**

Despite the federal financial transference (FPE, FPM, FNE, FINAM, FINOR, FCO) which tries to compensate for the inequalities in the country, this represents only a small part of the budget as shown before. These resources are used today only for administrative survival of the poor states and cities because they do not have enough local tax revenue to provide the money necessary to invest and promote development inside the region. The federal government has the biggest part of the budget to promote development and public policies. Below is shown the expenditure on education and health - areas that are the most important tools for promoting welfare and population development. It does not mean that the other areas such as infrastructure, nutrition and agriculture are not important to promote development. Also shown below are the implicit subsidies that the federal government spends on the liability of the states and cities.

### 3.3.1 Education

The expenditure on education in the country over the last years shows that there has not been any concentrated effort on behalf of the federal government to improve educational levels in the Northeast. It should be noted that, even without any concentrated efforts, the educational levels in the region have been improving over recent years.

Glancing at the evolution of the expenditure between 1996 and 1999, the expenses increased in the Northeast by approximately 8%, while in the Southeast the increase was 15% and in the South 10%. Once again, the figures show that the wrong direction has been taken, i.e., more money has been invested where it already exists.

#### Budgetary Execution – Ministry of Education 1996-1999

Em US\$

Region	1996	1997	1998	1999
North	382,899,034	396,550,115	417,031,778	462,262,484
Northeast	1,590,573,514	1,710,811,639	1,741,114,616	1,729,400,423
Central West	520,760,078	741,133,072	962,960,898	898,251,057
Southeast	1,987,713,355	1,941,089,512	2,019,359,953	2,289,923,944
South	1,074,698,696	1,109,466,324	1,163,251,429	1,184,615,570
<b>National</b>	<b>3,726,333,536</b>	<b>3,357,211,778</b>	<b>3,856,891,524</b>	<b>4,587,925,650</b>

Source: Budgetary Adviser from the Federal Senate/SIAFI

In terms of basic education, taking into account the claim that the Northeast presents the lowest development indices, the federal government spent in the South and Southeast double what they spent in the Northeast. Therefore, with this distribution of resources, the reality in the country will hardly change. The table below shows the expenditure in FNDE (fund to develop education).

#### FNDE – Resources sent to States

US\$

Region	1999
North	234,201,178
Northeast	845,040,387
Central West	231,644,815
Southeast	1,325,683,636
South	384,038,637
<b>Total</b>	<b>3,020,608,653</b>

Source: Ministry of Education

### 3.3.2 Health

In general terms, the Ministry of Health expenditure follows what is described below: the Northeast consumed between 23% and 25% over the period, while the South and Southeast together consumed around 63% of the expenses. The numbers seem logical if compared to the populations in each region, but they are completely illogical if compared with the necessities of each region. Again, it is obvious that the population of the poor region has a greater need for assistance than the rich regions, but the reality of the expenses is the reverse.

#### Expenses Transfer per Region

U\$

Region	1996		1997		1998		1999	
	U\$	%	U\$	%	U\$	%	U\$	%
North	394,213,293	4.61	459,675,633	4.84	498,710,613	5.00	667,290,841	5.40
Northeast	2,100,602,777	24.56	2,329,629,954	24.53	2,353,115,264	23.60	2,927,413,472	23.71
Southeast	3,931,733,046	45.97	4,363,991,785	45.96	4,541,893,239	45.54	5,769,496,419	46.73
South	1,525,420,808	17.84	1,684,186,238	17.74	1,710,090,275	17.15	2,152,588,256	17.44
Central West	600,571,269	7.02	657,928,286	6.93	868,543,482	8.71	829,463,095	6.72
Total	8,552,541,193	100.00	9,495,411,896	100.00	9,972,352,873	100.00	12,346,252,083	100.00

Source: Ministry of Health

The fact that the calculation uses the number of inhabitants, as in FUNDEF, is a wrong premise. We can obviously assume that health services, mainly preventive, must be more necessary where living conditions are worse. Therefore, the criteria of expenses in health must be reviewed. The concentration of resources in rich centers is an attraction for people to migrate from the poor region to the rich region to seek better medical service conditions.

### 3.4 The Social Expenses in the Three Spheres of Government.

The Instituto de Pesquisas Econômicas Aplicadas – IPEA (Institute of Economic Applied Research), an agency of the Federal Government, did a survey (1995) of the social expenses in the three spheres of government (Appendix I). The areas studied were education and culture, health, food and nutrition, sanitation, environmental protection and social assistance, among others.

In the Country as a whole, the sum of the expenditures in the South and Southeast regions was almost a constant and triple that of the expenses in the Northeast region, with rare exceptions which are cited below. This does not mean that the governments have to stop investing in rich regions for invest in poor regions. This would be shortsighted. What is interesting to note is that the poor regions of the country have to receive more attention, at least in the social area.

The Northeast has 30% of the Brazilian population and 18% of the country area, and the South and Southeast, added together, have 60% of the population and 17% of the area.

Assuming that the expenses in the rich regions (compared with the Northeast) are based on the population criterion, the expenditure should be double and not triple, as occurred. If the expenditure is based on the area criterion, the expenses should be equal. The only item that presented equality was food and nutrition, where the federal government equaled, in the Northeast, the values that it had been spending for the state governments in the rich regions. This shows that, at least in this field, the South and Southeast regions have absolute capacity to survive on their own income, and the Northeast has to receive aid from the federal government.

Other discrepancies observed were in the expenses of the South and Southeast regions in environmental protection, which were more than 20 times higher than the expenses in the Northeast. The resources spent came on the whole from the state government. This shows two options: either the incapacity for investment in this issue on the part of the governments in the poor regions, or the negligence of these governments in relation to the environment.

The issues of habitation and urbanization, and urban mass transportation - with 5.3 and 11.5 times more investments in the South and Southeast regions than in the Northeast - showed the highest investments from the municipal governments. In this case, it could not be different because the urban population concentrates itself in rich regions which compel a massive investment in these actions.

In terms of agrarian organization, the Northeast invested ten times more than the South and Southeast, with a concentration in state investments. In Bahia and Ceará states public management appeared to be better not only in terms of the region, but also in relation to the country. This evaluation sample shows, in fact, that there was no special effort made by the governments to diminish the poverty and interregional imbalance among the regions. As the government has been working in the social area, everything leads us to believe that the differences will tend to increase in the future. The state and municipal governments in the Northeast do not have the slightest capacity to invest and promote development without the direct participation of the federal government.

### **3.5 State Liability and the Implicit Subsidy**

It is important to highlight this issue because it is one part of the budget that does not appear as an investment in development, even though it once did.

The resource distribution is not only different at the present moment, but the distribution was also different in the past. The total state debts by regions, according to the bulletin of the Central Bank of Brazil, shows that the South and Southeast (together) have a debt 6 times than the Northeast. I.e., in the past, they spent, in some way, six times more resources than the Northeast region.

## Liabilities from the Direct and Indirect Administration of the States and Federal District – October 1999

U\$ x1000

Region	(1)	(2)	(3)	(4)
North	1,208,645	5,341,469	487,305	7,037,420
Northeast	5,562,432	24,842,368	2,182,863	32,587,660
Central West	2,801,453	14,500,853	370,862	17,673,168
Southeast	42,939,665	101,873,489	5,669,705	150,482,860
South	5,776,012	24,875,496	2,467,494	33,119,003
<b>Total</b>	<b>58,288,207</b>	<b>171,433,675</b>	<b>11,178,229</b>	<b>240,900,111</b>

(1) Bonded + Contractual + Banking + Others + Fluctuant

(2) Treasure

(3) External

(4) Total General

Source: BACEN/DEDIP; BACEN/DEMAB; States Governments, Federal District and Capital's Cities.

Others – includes INSS, FGTS, PASEP, and others projected.

The debt with the National Treasury (2), where the South and Southeast have a debt to the public treasury five times bigger than the Northeast region, means that as the Union remunerates around 20% of interest rates a year, it gives 14% implicit subsidy to the rich regions in the management of the liabilities. This has happened because the state and municipal debts had been renegotiated with the federal government, using interest rates of around 6% a year. This implies that the rich regions of the country (South and Southeast) indirectly receive from the federal government around 14% of U\$ 126 billion per year, something in the region of U\$17.7 billion. If the share from the Northeast is deducted, U\$ 24.8 billion, there still remains a difference of over U\$ 100 billion. This totals an implicit subsidy of U\$ 14 billion in favor of the richest regions of the country. One year's application of these resources in the Northeast, with small agriculturists targeted, would be the salvation of the region.

### 3.6 Banco Nacional de Desenvolvimento Econômico e Social - BNDES (Brazilian Development Bank)

The BNDES is today the biggest leverage in the Brazilian public economy, and perhaps the only agency that really has resources to invest. In 1995, the BNDES spent U\$7,098.00 million and this number has been growing every year. In 1997, the applied value was U\$17,894.00 million, and in 1999 U\$19,900.00 million. The BNDES invested in the North, Northeast and Center-West regions more than double the constitutional funds destined for these regions (FINOR, FNE and FCO). These were the numbers presented by Mr. Andrea Calabi, the BNDES president (1999), in a lecture in the Federal Senate. The application of resources formed the ratio of 80% in the South and Southeast and 20% in the North, Northeast and Central West. This fact is a "social"

discrepancy. The BNDES, which should be a bank to promote economic and social development, is in fact promoting an increase in interregional inequalities. The loan distribution from BNDES is very concentrated in Brazil.

This was the explanation given by the bank's president to justify the disparity in the investments. "The outlay of BNDES System in the North, Northeast and Central West regions represented, in the 90s, around 20% of the total investment of the bank. It is the equivalent value of the regions' participation in the national GDP, which was 23.7% in 1997 ... the BNDES applications, on the other hand, are not so different and are fairly close to the tax revenue in the region". With this mentality, the economic differences between "rich Brazil" and "poor Brazil" will tend to increase. To balance the national development between regions, this figure must not be equal to the GDP; it must be greater than the GDP in the developing regions and lower than the GDP in the developed regions.

The BNDES is still practically doing nothing in the poor regions of the country and thus is leading to damage, from the social point of view, to the so-called developed regions when it provokes more income concentration and migration from the developing regions.

### 3.7 The Drought Figures in the Northeast

To give some idea of the expenditure in the Northeast Region in the periods of dry weather - with expenses that are only to provide assistance, i.e., they do not bring benefit that can promote regional sustained development – the figures between 1998 and 1999 and their respective programs were:

#### Expenditure in the Semi-arid Region during Dry Weather

	U\$	
Type of Expenditure	1988	1999
Salaries	493,131,707	494,023,462
Food Distributions	153,000,000	162,747,000
Rural Credit	450,000,000	0
Water Supply	15,250,000	52,145,000
Fundamental Education and Training	35,519,000	24,327,000
Buying Seeds	10,000,000	8,841,000
Sinking wells	71,000,000	0
<b>Total</b>	<b>1,227,900,707</b>	<b>742,083,462</b>

Source: SUDENE, April de 2000

The sum of the expenditure, only including the years 1998 and 1999, totals more than R\$ 1.9 billion. These resources, if well used, could promote better regional development than it promoted. It is necessary to point out that aid from the Nation does not include the damage

caused by the invasion of cities, destroying supermarkets, and despoiling food stocks. These things have happened in the last years when the population is under severe hardship.

The number of workers registered as eligible for aid is shown below. It is, however, a moot point if they can be called workers, as the government pretends that it pays them, but this is less than the "minimum wage", close to U\$30.00 a month, and the workers pretend that they work. In the end, the situation (poverty) did not changed.

### **Number of People Enrolled to Receive Help from the Federal Government**

<b>Year</b>	<b>Number of People</b>
1970	499,544
1976	325,255
1979/83	2,979,130
1987	936,560
1993	1,942,905
1998	1,192,905
1999	1,092,621

Source: SUDENE, April de 2000

The register does not take into account all the needy population in the region. In each family, only one is signed up, so many families would not have been taken care of with the "alms" from the governments. There were not enough resources in 1998 and 1999 to help everybody.

This kind of resource application will never solve nor even minimize the agony of the northeastern people who live with drought. More direct and efficient actions must be used. There have been several suggestions in many papers written at various times in Brazil's history. Diverting water from the San Francisco river was first suggested during imperial times and, up to today has never left the drawing board. The aid funds in 1998 and 1999 would have been enough to carry out the program, which will be described in the second part of this paper. The sum would have been enough to irrigate a good part of the San Francisco river valley, a task that the northeastern states that rely on water from "Old Chico" - as the river is known - complain of perpetually.

The Report by the Special Committee of the National Congress that studied the Interregional Economic Imbalance in Brazil, written by Senator Beni Veras - from Ceará State - presented a series of suggestions to promote regional development, and a few of them have been found to be impractical. The House of Representatives published a book produced by a group from the Northeast, which highlights a series of actions that could be taken by the federal government, and which could also promote sustained development of the Region.

Many other papers have been published and many suggestions have been made over the years. The federal government, despite supposed attempts, has not obtained enough

results for the situation in the Northeast. An efficient use of the tools that exist today could certainly help development of the region.

#### **4 The Role of Multilateral Organizations**

The question of efficiency of application of resources coming from multilateral organizations to reduce poverty in the world is currently high on the agenda. In Brazil the performance has not been very different from that of the rest of the world, i. e., inefficient. There is no doubt that inputting external resources to financing or donation is welcome and helpful. The truth is that the effectiveness of these resources has been and is too low to reduce interregional imbalance – between countries and between regions inside Brazil, for instance.

There are a lot of hypotheses to explain this fact. First, the ritual for approving projects is extremely difficult and excludes poor regions. The procedures are complex and compel states or cities, rich or poor, to contract specialized companies to have access to the benefits. This procedure excludes the small towns of the Brazilian Northeast, which are unaware of how to access these funds, even unaware of their existence. The Northeast cities do not have the financial capacity to guarantee any loan. The multilateral organizations do not interact with small "partners". What happens? The resources continue going to the richest and most powerful. To avoid this problem, the multilateral organizations send the loans to the state government or to the federal government and the vicious circle continues. In the first case, when the multilateral organization sends the loan to the state, the rich governments once again reap huge benefits in having a greater financial capacity to make contracts - the numbers below confirm this. In the second case, when the loan is to the federal government, as previously examined, the government shares out the money badly and it continues benefiting the richest states and cities.

Second, definitions of the programs are made by the federal government technocrats, who normally know too little about the real necessities and how the actions would be implemented at the end of the line (the needy population from the poorest region). In general, these technocrats, usually well intentioned, only know the northeastern situation from the newspaper or from books published by Brazilian or foreign universities. The definition and the orientation of the plans must be reformulated. The strategies of assistance of the World Bank and the Inter-American Development Bank – IDB, which are the main financiers, do not address the most important factors. The real financial capacity of the customer (customers = small towns in the Northeast); the administrative capacity of the customer; the honesty of the customer; the real situation of each customer. As an example, in a sanitation program, the treatment that is given to the city of São Paulo is the same as the treatment that is given to a small northeastern city. Therefore, better-organized management takes advantage in all the process phases, contraction, inspection and application of the resources gained.

Projects in Execution or to be Signed or in Preparation  
BID, Word Bank, OECF/JAPAN, KFW, FIDA, FONPLATA, GEF, ITÁLIA,  
EXIMBANK/JAPÃO, FOCOEX/EUROBAN

U\$ millions	
Regions	Valor
Northeast	2,805.10
North	350.90
South	1,582.60
Central West	581.60
Southeast	5,566.00
<b>Total</b>	<b>10,886.20</b>

Source: Ministry of Budgetary/2000/July

Glancing at the applications from the multilateral organizations shows the resource distribution among Brazilian' regions. The South and Southeast receive 66% of the resources and the Northeast receives only 26%. If the objective of these organizations is to develop poor regions, the practical actions do not support this. In fact, multilateral financial aid has been increasing in rich regions and forgetting the effect that bad investment distribution can have on society.

These figures do not include the resources that are being signed up and are in preparation for the federal government. This sum is U\$23.9 million and the regional distribution of these resources is not available in any of the involved entities, as the amounts of money are generic. It can be safely assumed that the distribution will not be very different from how it has been up to now – more to the rich and less to the poor.

There is a final commentary on the two biggest sponsors to Brazil. The Brazilian newspaper Valor Econômico wrote, "The World Bank plans to lend U\$ 5.0 billion to Brazil in the next two years: U\$ 2.0 billion will be for helping the government in the fulfillment of the goals defined by the IMF. The IDB, from the U\$ 3.0 billion spent last year, 55% was not to promote development or to reduce poverty, but to finance economic aid to the country" (issue of 05/23/2000). Despite the good intentions of multilateral organizations, the federal government influences the decisions of these entities. As a result, assistance does not work in Brazil as it should.

Therefore, if the intention of these organizations is to make the world free of poverty, they are certainly on the wrong track. At the same time, it never is too late to change development strategy and try, effectively, to diminish poverty in Brazil. It should preferably be started where poverty is more evident and deep-seated, in the Brazilian Northeast.

## 5 One Program to Promote Integrated Development

The Northeast covers a very large area of land, and the population is in constant migration to great urban centers because of periodic droughts that devastate the region. There is an urgent necessity to establish public policies capable of keeping people in work and with enough income to survive.

The Northeast cannot always be dealt with using financial aid such as it has been receiving until today. The culture of city administrators who think that the federal government has to give everything must be changed. In general, northeastern mayors do not have the ability to recognize their own mistake and the population is still waiting for good weather to enable them to get through one more year. The population is also still waiting for the federal government to implement programs to distribute basic food in periods of drought.

Ubiratan Aguiar wrote "It is good to point out that the Northeast shelters some great experiments in its interior, which come from irrigation plans in the middle San Francisco river – in Bahia and Pernambuco – and the Açu valley, in the state of Rio Grande do Norte. There, fruit growing based on advanced technology and counting on governmental incentives has transformed some areas into islands of prosperity... without depending on rains and able to survive drought years "(Modelo Politico para o Novo Milênio).

In the same way, cotton and cashew are important crops that generate a lot of jobs where they are grown. EMBRAPA (Empresa Brasileira de Pesquisa Agropecuária – the federal agency to develop technology for agriculture and animal breeding) has developed techniques using selected seeds that have increased production and allowed producers to survive pests and drought. Even during periods of poor rain distribution and low rainfall, excellent results have been achieved. The results of experiments have been used in various cities in Ceará State with extraordinary success. This action provides employment, generates wealth in cities and promotes development.

Until now, the interior of the Northeast has had to wait for rain to practice subsistence agriculture. A new model of development that can guarantee the growth of the region must be found. How can the government generate work and distribute income in a place where a great portion of the population is illiterate and has no professional qualifications? How can the government overcome regional inequalities when it is known that these inequalities become bigger with concentration of investment?

The Program that will be presented, however, does not pretend to solve all the problems in the poorest region of the country. The Program is only a suggestion capable of minimizing extreme poverty in the most remote place in the Northeast. Indeed, the northeastern needs to get into the work market: needs to become a productive force: needs not to be treated as a problem.

Henry Hazlitt in Economics in One Lesson quoted William Graham Sumner's 1883 text: " Here is the poor family... It is cruel and wasteful to put them on relief... set them up in business; make productive and self-respecting citizens of them; let them add to the total national product and pay the loan off out of what they produce... Let him increase his productivity; he can repay the loan out of the proceeds of his increased crops. In that way you not only enrich him and put him on his feet; you enrich the whole community by that much added out put. And the loan, concludes the argument, costs the government and the taxpayers less than nothing, because it is self-liquidating. The art of economics consists in looking not merely at the immediate but at the longer effects of any act or policy; it consists in tracing the consequences of that policy not merely for one group but for all groups"

Before starting the presentation of how the Program works, it is necessary to explain briefly two entities in Brazil which are absolutely essential in the Program suggested. They are PRONAF and EMBRAPA.

## 5.1 PRONAF

PRONAF is a referential body that demonstrates how to finance the small agriculturist. It already exists, is structured and known. A fuller explanation can be accessed at the following address: <http://www.incra.gov.br/ministerio/PRONAF.htm#lei0> . PRONAF is a program that can be used to promote regional development, but has been, basically, used in financing the South and Southeast regions, but not for PRONAF own purpose, but for a bad cultural condition which exists in the Northeast. (vide complete analysis at [http://www.ipea.gov.br/pub/td/td\\_99/td\\_641.pdf](http://www.ipea.gov.br/pub/td/td_99/td_641.pdf)). Active government participation is necessary to encourage the northeastern agriculturist to use this existing tool.

This is a summary from the government homepage (INCRA): "Throughout Brazil's history, family agriculture has been excluded from public policies and from development planing. The Confederação Nacional dos Trabalhadores na Agricultura (CONTAG - National Confederation of Workers in Agriculture) has been demanding a program with differentiated policies exclusively for small producers of the country. This has been led the creation of a program exclusively assigned to family agriculture that was constructed with the effective participation of the agricultural workers.

PRONAF is a program designed to kick start rural development. It starts by strengthening family agriculture, which in turn generates jobs and income. The program functions in a decentralized manner and its protagonists are the small agriculturists themselves and their organizations. The program finances the outlay and investment in farming, fishing, or extractive activities. These people or their organizations, individually or collectively, can have access to financing that meets the criteria of the Program.

In 2000, R\$5.0 billion (US\$2.5 billion) was placed in the Program and the estimated public is 4.5 million family agriculturists, including the beneficiaries of agrarian reform all over the

country. A study by Brazilian Development Bank (BNDES) shows that for each R\$1 million (US\$0.5 million) invested, 89 direct jobs and 24 indirect jobs are created, totaling 113 new jobs in the work market. This allows the BNDES to estimate that the R\$3.4 billion (US\$1.7 billion) from PRONAF/Planta Brazil would generate 400 thousand jobs this year. In the Northeast, this ratio could be bigger because of the types of crop that are grown there, such as cotton and cashew, which use intensive manpower. The insolvency rate in the financing granted for PRONAF is the lowest registered in the banking system, placed at 2.9%.

In 1999, a study resulted in the standardizing of family agriculturists into four categories. As a consequence of negotiations with the sectorial agencies, the modalities of rural credit were extended to these different categories of family agriculturists. It now includes as a family unit productive property and not only agriculturist activities.”

Why does PRONAF does not work in the Northeast? Basically because the region does not have a tradition of financing because of climatic uncertainties, i.e., the agriculturists often lose all production because they use “outdated technology” – outdated technology means no technology to produce - and because of dry weather. A second reason is that the agriculturist population is ignorant both of financing and of technology and also of how to used the two together. Another reason is the way financing is contracted; at PRONAF, the bank is responsible for the money. So, if the project fails and the agriculturist does not pay back the loan, the bank must pay. In other words, it is a commercial loan transaction not a social or public policy loan transaction – if there is no rain, the agriculturist loses the land. Government back is vital to change this situation.

## **5.2 EMBRAPA**

Empresa Brasileira de Pesquisa Agropecuária – EMBRAPA is an agency that looks for solutions to promote sustainable development in Brazilian agribusiness. This means that it develops technologies to produce special seeds and special system procedures adapted to each Brazilian region. The research done by EMBRAPA aims to improve productive efficiency in family agriculture and incorporate small producers in agribusiness. A complete explanation can be found at <http://www.EMBRAPA.br/>. There are several special techniques already developed by EMBRAPA for the Northeast in, for example, the growing of corn, cotton and fruit, among others.

## **5.3 The Program**

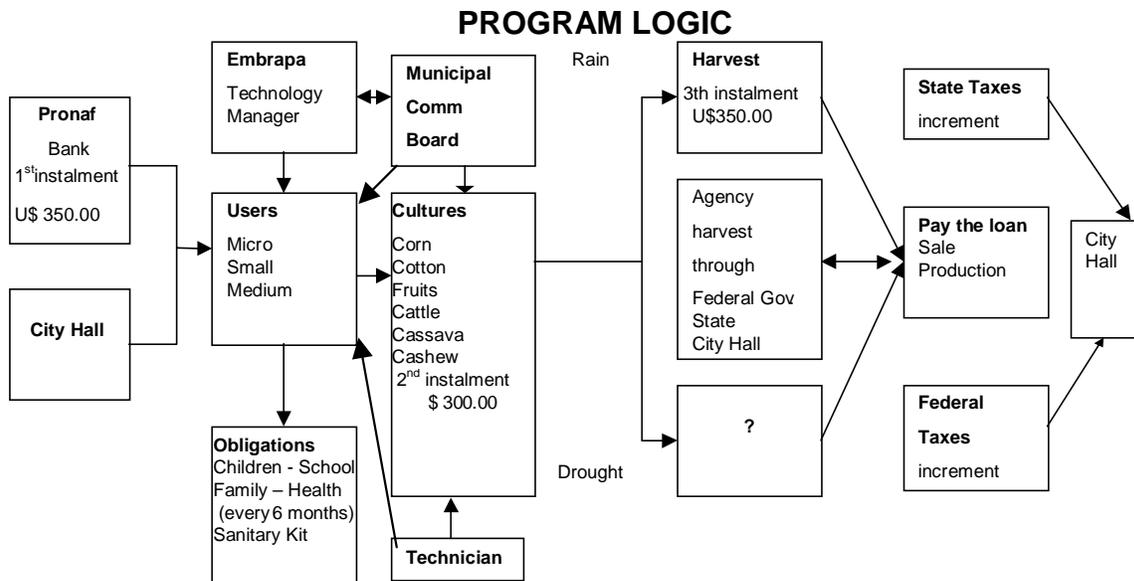
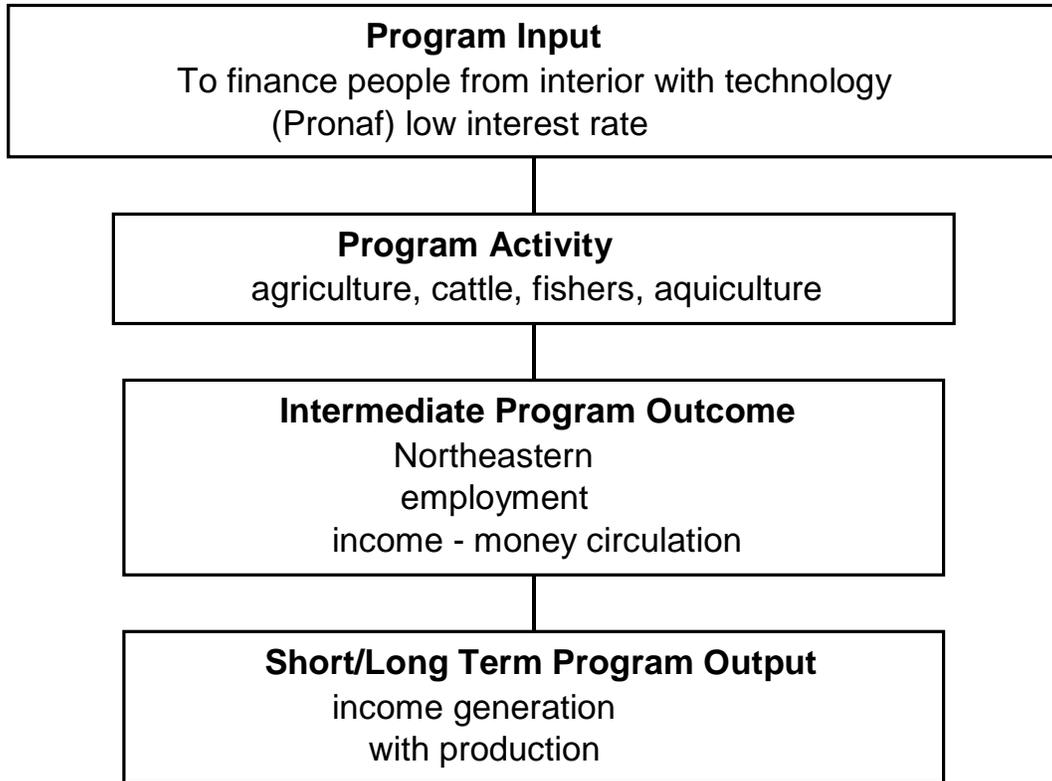
The Program suggested is based on the use of the already existing tools. It only matches the government actions in an integrated effort for supported and continuous development. The Program consists of financing farming production, which is a natural aptitude and a tradition in the Northeast of Brazil. It also intends to revitalize the region using technology and technical

assistance. The northeasterners are essentially agriculturist and became urban only because they need to survive.

#### **5.4 The Program's Function**

The Program's function is to invigorate and finance the implementation of farming projects, fisheries projects, water culture projects, and extraction, among other kinds of small projects in the Northeast. The Program intends to put a finish to a lot of problems that there are in the Northeast:

- The agriculturist does not contract a loan because he or she is afraid to lose the land;
- Misuse of technology and developed seeds adapted to the region;
- Misuse of technical assistance;
- Living with dry weather;
- Embezzlement and misuse of public money;
- Resources go to the city halls but never go to the poor population;
- Low level of infrastructure;
- Bad rates of education and health;
- Hunger in the region, especially during dry weather;
- Lack of investment and opportunity in the region.



## 5.5 How the Program Works

The agriculturist from the Northeast, with the encouragement of the city Community Board (explained in more detail below) and with the three spheres of government, gets a loan from the bank, using PRONAF as a model. The bank can be the Bank of Brazil, state banks, or private banks. This loan must be given to the agriculturist at a subsidized interest rate. The loan must be given to the agriculturist in three installments and must take out insurance for a failed harvest because of the uncertainty of dry weather. The first loan installment is paid at the beginning of the contract; the second installment is paid during the execution of the project; and the third is paid during the harvest or at the end of the project – depending on the kind of project, if agricultural, or small industry or factoring, etc. **This action provides an opportunity for poor population of the Northeast interior to receive financing for production; gives the agriculturist the security that, if there is no rain or enough rain for a good harvest, he or she will not lose the land; provides the outlay for production and keeps away the threat of starvation; finally, it keeps people in the land.**

To get the loan, the agriculturist must grow the crop or build a small project that must receive Community Board approval (details below). All projects must receive the orientation and approval of the federal, state or municipal government with EMBRAPA supervision. The project must be monitored by a technician contracted by the city hall or by the Community Board. The technician must be trained in technology developed by EMBRAPA and must receive a special registration to work. The project, if agricultural, must use special seeds sold to the agriculturist by an authorized provider (EMBRAPA gives the registration) or by the city hall or Community Board (which must buy the seeds from an authorized provider). The agriculturist's family or group of agriculturists can get the loan in the Program only if, during the execution of the project, they: register and show the regular attendance of children under 16 years old in elementary school; visit or receive a visit from the health visitor or doctor; show their immunization card. These mandatory actions must take place at least twice a year or when receiving the financing installments. **This action gives the security of using the right technology and the right seed; assures the use of the educational system; and assures the assistance and monitoring of the health system.**

Parallel to these actions, the federal government must create an attractive procedure to lure city halls to the Program. It only can be done with financial investments that the mayor can apply for. The best way to “lure” the city hall to the Program is to tie the city investments to the project. The installation of a “Sanitary Kit” and the construction of housing is the best and cheapest way to attract city halls. The investment can be made within two years of using the project. In the first year, the city hall builds the sanitary sewer (cesspit), obligatory in the house of the agriculturist that contracts the loan. The inspection should be done by the Community Board, the agriculturist and the technician. In the second year, the city hall builds the minimal housing structure, obligatory in the same house that received the sanitary installation before. **This action**

**ends a lot of problems: it stops mayors from looking for money in Brasília (most of them are unsuccessful in such a pilgrimage) to invest in this kind of construction - sometimes the money is not used correctly; rewards the efficiency of city halls in developing the cities, i.e., how much people begin to produce with the right technology relates to, how much money and help that the cities are likely to receive from the federal government; gives sewerage systems that improve the welfare, quality of life and health of the population; builds houses for the poor and follows the new constitutional precept that they have a “right to housing”; and decreases the degree of misuse of public money – because of the user’s directly inspection.**

All the Program phases described above are hard to implement because of the cultural inertia that there is in the region. All the steps the Program’s execution must be followed by the government to assure no mistakes in its implementation. Then, after these phases, there are two climatic possibilities: a normal rain period or low rain period, which means drought. If the rainfall distribution is not good, the harvest forecast is imprecise, but of course there will be some harvest – the technology assures this. If the rainfall is good, the harvest forecast will be pretty good. In both cases, the government must be prepared to “drain” the harvest. The agriculturist in the Northeast only produces a small quantity to survive, and he or she is not able to sell the harvest. It can not be lost or wasted because, if the harvest is not “drained”, the Program loses credibility and functionality. The government can attract trade to private companies or, as a last resort, buy up the harvest. **This action brings trade opportunities to the region.**

When the agriculturist pays back the loan to the bank, one portion of the payment must create a fund to assure financing to EMBRAPA to research new technologies for the region and create a fund to assure resource to the insurance harvest.

Some observations have to be made about the success of the Program.

- the users’ features are defined by PRONAF (and its subprograms). Initially the loan must be given preferentially to families who do not have a defined family income, or income inferior to the monthly minimum wage (Poverty Line). The Community Board has to define which criteria have to be used to decide which agriculturist is able to get the loan first;
- each city must create a Municipal Community Board which will define the type of project that could be implanted in each microregion of the city (obviously respecting the potential and vocation of each microregion by EMBRAPA orientation). The criteria about the components of the Board, adapted for agricultural, are the same as those used in the other areas of the federal government such as in REFORSUS (Minister of Health) and in FUNDEF (Minister of Education);
- the resources destined to construct the "Sanitary Kit" and the resources necessary to build houses are the responsibility of the federal government;

- the federal government has to define policies, goals and chronology of the Program application to implant projects in the various northeastern cities;
- the federal government must define general norms about the financing and inspection of the projects, and it must allocate specific amounts of money to financing and insurance;
- EMBRAPA must participate in developing suitable new technologies for the climatic conditions of the region (through research);
- EMBRAPA has to train technicians graduated from the Federal Agrarian School according to the necessity of the region;
- the number of technicians and necessary help depends on the type of crop;
- the technician must live in the city that contracts him;
- the Municipal Community Board must promote the association and cooperation; which are not northeastern traditions;
- the Program must start in strategic cities to serve as a stimulus to others.

## **5.6 The Program Resources**

The Program resources can come from: the Brazilian Development Bank-BNDES; consigned endowments in the federal government budget and in add credits; consigned endowments in the states and the city budgets; donations from national and multilateral, public or private entities; from agreements, contracts and accords signed between agencies and entities of the federal, state or municipal public management; loans from national and multilateral financial organizations; resources destined for PRONAF; and constitutional funds.

## **5.7 Form of Financing**

The model of the financing forms already used in PRONAF is the best one to apply in the Program, but some small changes must be carried out to lure the agriculturist, at least in the Program's first years. One example of a change that could be made is to reduce 100% of the interest rates in the first year of the Program, 50% in the second year, and so on. Another way to attract the agriculturist's or the Community Board's adherence to the Program is to define goals to be reached for each microregion or city. In cases of an increase in the adherence of a definite number of projects, and if the results of these adherences are positive in productivity terms, the interest rates for the years ahead could be reduced.

## 5.8 The Program's Estimated Cost

The simulation that will now be presented is an estimation which will serve as a starting point for more accurate calculation adapted to the conditions of federal government wishes – if the Program is implanted. The most important thing is that the amount of money that is applied in the Program will go result in production (outlay) and promote great financial movement in the Northeast region. It will bring benefits to the region, better than the *parochial and clientelist* aid currently provided.

The northeastern agricultural population, according to the last official census (1996), is of approximately 15.5 million inhabitants. If one considers an average of five people in each family, the number of possible beneficiaries represents 3.0 million families. If one assumes that all the small agriculturists join the Program, and that each one of them requests U\$1,000.00 in the first year to finance seed, outlays and harvest, the total cost of the Program is U\$ 3.0 billion. If this result is compared with the expenses in the South and Southeast regions, previously described, or even with the resources used by PRONAF in the year 2000, it is evident that the cost of the enterprise is not very high considering the value of economic and social benefits that it will bring to the country. In 1998 and 1999, in the last period of drought, the government spent U\$ 2.0 billions in the Northeast, and nothing was produced there. The money evaporated. U\$ 3.0 billions is not a high sum - in the macroeconomic context - for a whole region that lives in abject poverty, representing one third of the national population and 20% of the Brazilian territory, to become productive.

We should keep in mind that not all the agricultural population is formed by small agriculturists. There are also employees of the big and medium-sized *latifundia* – the large landowners. The families that live together on the same piece of land and promote the same type of agricultural activity would contract just one loan. If one removes all these possibilities, the calculated value of the result would be less. Further, one must consider that the money is a loan and not a donation. The investment would be wasted only in cases of catastrophic drought when all the harvest would be lost and no payment of the loan would be made to the bank. Even so, one third of the financing (U\$350.00) will not be paid to the agriculturist because the third installment will only be paid if there is a harvest. This situation is unlikely to occur. If the investment in parallel actions such as sanitation and housing is made, there is an upgrade in welfare in the region.

At the other extremity, in cases of good weather and no losses, the incentive for the Program is only in the subsidized interest rate. If one considers the interest rate 12% a year - defined in the Federal Constitution - the value not paid or subsidized is only U\$ 360.00 million (U\$3,000.00 million x 12%). This money is negligible compared with the production that will occur with the Program's application. This money is also negligible compared with the implicit subsidy that the federal government gives to the rich region of the country, as discussed before.

The Program should not necessarily be done in one year. Pilot projects must be carried out. In cases of a significant number of agriculturists entering the production market, certainly, there would be a spontaneous joining of the Program system, not necessarily financed or subsidized by the federal government. A positive cycle would be formed and the Northeast would shake off its inertia. The Northeast would participate actively in national productivity and would generate wealth and prosperity for the entire Nation.

There is one suggestion about implementation of the Program. Multilateral organizations could provide the resources to finance the agriculturist – U\$ 1,000.00 for each contract, using some cities as pilot projects. The federal government would pay the insurance and subsidize the interest rate, pay for the “Sanitary Kit” for each contract, and also assure the use of technology and the technical training. Today, the federal government already makes these types of expenditures in more random and in dispersed projects. The target is make them all working together.

The federal government has for the Northeast, in its budget for 2000, R\$136.00 million (U\$70 million) to spend in sanitation and R\$32.80 million (U\$17million) in housing. If the government apply these resources together with the resources from PRONAF – R\$5.0 billion (U\$ 2.5 billion), the program is ready to start. Therefore, money is not the worse problem to implement the idea of the Program.

## 6 Conclusion

One of the great myths entrenched in all Brazilian people minds is that a lot of money has already been sent to the Northeast and the "politicians and the elite" have taken possession of it, so that the really needy people could not receive any benefits. This is not completely inaccurate. A lot of money was misappropriated in many programs that should have helped the needy northeasterner. But much prominent have been the promises of money, which never left the newspaper headlines. Their only propose was to promote governments that are completely unaware of the true northeastern situation. In addition, the embezzlement of public money in Brazil has not happened only in the Northeast. It happens with much higher sums in other regions of the country.

The data throughout this paper show that not much (and not enough) money has been sent to the Northeast. Most federal spending has been in rich regions of the country, in contrast to what is believed. The small amount of resources that has been sent to the Northeast for special programs has not been spent in the right way. The money did not benefit the poor who live there. The money benefited the elite's industries and the elite's businesses. Few resources and little help actually gets close to needy people.

The idea of this paper is not to recommend that money should be taken from the rich regions of the country (rich) and spent massively in the Northeast. The idea of this paper is to show that something has to be done to reduce poverty and that a good program using the same money could do this.

There is nothing new in the described Program above. However, some special features can be noted from the point of view of extent and management.

I - The money effectively engaged in the Program's implementation will not obligatorily, pass through the hands of any administrator from municipal, state or federal government. The sums of money will always be small (individually) and with the users themselves. The poor that have always complained about the lack of help will receive the money directly. Society will get the benefits directly and will inspect the application of the money directly. There will be no inspectors to bribe.

II – Joining the Program will be attractive to the city administrator. The volume of money that will circulate in the city will increase the tax revenue - federal, state and local. It will promote investments in infrastructure within the constructions that will run alongside the projects - "Sanitary Kit's" and housing. If the federal government imposes a condition that the resources are released to the city halls when the mayor joins the Program, the response will be stronger.

III – The city hall will save money by not spending it's scarce resources on assisting the poor. There will be some improvement in the population's social welfare because of the actions which are mandatory for Program users: the obligatory registration in basic education; the periodic

medical care, the sewerage systems, and housing. All these actions provide better welfare for the poor. These types of expenditure on assistance constitute an enormous daily problem for all city administrators.

IV - Another benefit for the city hall is that, as the agriculturist is producing, he or she has enough money to survive during the period of drought. This happens because the financing takes annual outlay into account. The city will not be invaded by the destitute, or at least on a much lesser scale. The use of technology, during even a short period of rain, will lead to production and will mean that the agriculturist has enough money to survive.

V - As well as the increase in tax revenue in a region that always was treated as burden, the federal government will not have to spend money during periods of drought. Therefore, for each family that joins the Program, there is one family less receiving the type of aid (basic food and finance) that does not promote any development.

VI – Within the integrated actions such as sanitation, preventive health, education and housing, the federal government will not only be fulfilling its main role for the needy society, but it will also have a real picture of these people within a current census, at least from the regions where the Program is implanted.

VII – The fundamental point is that the action will move away from the threat of embezzlement and haphazard actions that do not lead anywhere. The Program will promote social justice and will take people out of destitution, people who do not deserve to be living in such conditions.

VIII – The best action of the Program is the elimination of the mayors' trips to Brasília to beg for money. The money will go to the city hall as an award connected to the Program. The money will go to the city only if the mayor work at promoting development and at establishing rural dwellers in a successful production cycle.

Until today, the Northeast has never fought against the Nation for its own rights. In the past, the elite got benefits from the federal government; they did not defend the real interests of the uninformed population. Today, information is entering people's houses through medium of television - which is more democratized and has long since ceased being a luxury item; it is entering through thousands of community radio transmissions that are spread across the most remote region of the country; it is entering through the Internet; and it is entering through the educational system. People from the Northeast are starting to know their potential, and the "real users" of public policies that had never really been implemented in their favor. It is not possible to prevent the spread of information. People from the Northeast are leaving behind the belief that "it was God who wanted this" and looking for a more forceful claim against the policy makers who are the politicians.

Some economists, certainly, will be against this plan because its application needs a strong and obligatory input from the government. What these economists need to know is that government interference in rich regions of Brazil happened before. For decades, investments were

carried out in the South and Southeast regions of the country. The analysis of public expenses in the last years shows evidence of this.

With a free economy, the poor regions of the country will not be able to compete. The rich regions will get richer and the poor will get poorer. It is very easy to say that a free economy promotes equal development of the population. If the country started today from zero – in the same conditions - competition could be accepted and, certainly, the Northeast might grow at the same rate as the rest of the country, or faster. But the fact is that the inequalities are already entrenched and the trend is that market conditions make competition and inequality stronger all the time. So direct government participation to make up for lost time is needed so that northeasterners are in a position to compete. The error of government interference has already been made, and now this must be put right as fast as possible, before irreparable damage is done.

Therefore, Brazil will never be rich if the Northeast continues to be unproductive, a mere consumer of the excess of wealth produced in the rest of the country. Brazil will never be rich if the poor population from the Northeast continues congregating in the urban periphery of big cities and reducing government capacity to invest.

## 7 References

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Legislative Adviser of the Federal Senate from Brazil.

Mota, José R. de S.(Fall - 2000). Federal Financial Transfers: Importance and Impact for States and Municipalities – Institute Brazilian's Issues.

### 7.2 Official Sites of the Brazilian Government

Instituto de Pesquisa Econômica Aplicada - IPEA - [www.ipea.gov.br](http://www.ipea.gov.br)

Instituto Brasileiro de Geografia e Estatística - IBGE - [www.ibge.gov.br](http://www.ibge.gov.br)

Ministry of Labor - [www.mtb.gov.br](http://www.mtb.gov.br)

Ministry of Health - [www.saude.gov.br](http://www.saude.gov.br)

Ministry of Planning - [www.planejamento.gov.br](http://www.planejamento.gov.br)

Palácio do Planalto (House of President) - [www.planalto.gov.br](http://www.planalto.gov.br)

Brazilian Central Bank – [www.bacen.gov.br](http://www.bacen.gov.br)

Instituto Nacional de Colonização e Reforma Agrária - [www.incra.gov.br](http://www.incra.gov.br)

### **7.3 Nonofficial Sites**

Confederação Nacional de Agricultura CNA - [www.cna-rural.com.br](http://www.cna-rural.com.br)

## 8 Appendix I

### The Social Expenses in the Three Spheres of Government – 1995

Sources: STN/SERPRO for federal government

IBGE/DECNA for states and cities

Elaboration: IPEA/DISOC

Resources in R\$ thousands

REGION	EDUCATION AND CULTURE			
	Government Federal	Government State	Government Municipal	Total Consolidated
NORTH	433,750	878,162	267,684	1,579,596
NORTHEAST	1,527,691	2,177,963	1,423,376	5,129,030
SOUTHEAST	2,000,732	7,255,504	4,263,993	13,520,229
SOUTH	999,117	1,737,139	1,371,724	4,107,981
CENTRAL-W	1,058,401	901,208	357,069	2,316,679
NATIONAL	922,383			922,383
TOTAL BRAZIL	6,942,074	12,949,977	7,683,846	27,575,897
% of GDP	1.07	2.00	1.19	4.27
% of area	25.17	46.96	27.86	100.00

REGION	HEALTH			
	Government Federal	Government State	Government Municipal	Total Consolidated
NORTH	601,631	332,807	82,069	1,016,506
NORTHEAST	2,654,230	790,835	641,882	4,086,947
SOUTHEAST	5,703,513	2,643,709	2,357,237	10,704,458
SOUTH	1,725,837	248,201	617,738	2,591,776
CENTRAL-W	1,090,140	192,048	119,469	1,401,657
NATIONAL	2,200,340			2,200,340
TOTAL BRAZIL	13,975,690	4,207,600	3,818,395	22,001,684
% of GDP	2.16	0.65	0.59	3.40
% of area	63.52	19.12	17.36	100,00

REGION	FOOD AND NUTRITION			
	Government Federal	Government State	Government Municipal	Total Consolidated
NORTH	58,574	7,451	131	66,156
NORTHEAST	220,471	807	3,714	224,992
SOUTHEAST		72,744	11,034	225,222
SOUTH	80,190		6,822	87,012
CENTRAL-W	47,285			47,285
NATIONAL	167,879			167,879
TOTAL BRAZIL	574,399	81,002	21,701	818,545
% of GDP	0.09	0.01	0.00	0.13
% of area	70.17	9.90	2.65	100.00

REGION	SEWERAGE			
	Government Federal	Government State	Government Municipal	Total Consolidated
NORTH	32,071	34,220	31,123	97,415
NORTHEAST	38,295	160,115	104,521	302,931
SOUTHEAST	12,602	124,031	574,397	711,029
SOUTH	40,632	36,438	67,707	144,777
CENTRAL-W	34,573	90		34,663
NATIONAL	9,838			9,838
TOTAL BRAZIL	168,012	354,894	777,748	1,300,654
% of GDP	0.03	0.05	0.12	0.20
% of area	12.92	27.29	59.80	100.00

REGION	ENVIRONMENTAL PROTECTION			
	Government Federal	Government State	Government Municipal	Total Consolidated
NORTH	3,583	4,680	2,757	11,020
NORTHEAST	151	2,995	11,659	14,806
SOUTHEAST	35	136,512	96,386	232,933
SOUTH	1,699	66,738	16,370	84,807
CENTRAL-W	24	5,426	2,172	7,621
NATIONAL	63,468			63,468
TOTAL BRAZIL	68,960	216,351	129,344	414,655
% of GDP	0.01	0.03	0.02	0.06
% of area	16.63	52.18	31.19	100.00

REGION	SOCIAL ASSISTANCE			
	Government Federal	Government State	Government Municipal	Total Consolidated
NORTH	16,429	135,714	41,365	193,509
NORTHEAST	121,216	305,968	145,408	572,593
SOUTHEAST	220,895	214,995	414,721	850,611
SOUTH	90,457	277,090	147,142	514,689
CENTRAL-W	99,850	207,195	24,346	331,391
NATIONAL	474,536			474,536
TOTAL BRAZIL	1,023,384	1,140,962	772,983	2,937,329
% of GDP	0.16	0.18	0.12	0.45
% of area	34.84	38.84	26.32	100.00

REGION	SOCIAL SECURITY			
	Government Federal	Government State	Government Municipal	Total Consolidated
NORTH	1,122,579			1,122,579
NORTHEAST	7,773,109	5	954	7,774,068
SOUTHEAST	18,659,473	165,374	5,510	18,830,357
SOUTH	5,574,319		9,041	5,583,360
CENTRAL-W	1,947,601			1,947,601
NATIONAL	3,471			3,471
TOTAL BRAZIL	35,080,552	165,379	15,505	35,261,437
% of GDP	5.43	0.03	0.00	5.46
% of area	99.49	0.47	0.04	100.00

REGION	URBANIZATION AND HOUSING			
	Government Federal	Government State	Government Municipal	Total Consolidated
NORTH	17,466	97,544	256,220	371,230
NORTHEAST	76,028	63,470	826,294	965,792
SOUTHEAST		732,853	3,572,226	4,305,079
SOUTH	29,847	151,915	632,597	814,359
CENTRAL-W	11,644	95,733	218,356	325,733
NATIONAL				
TOTAL BRAZIL	134,985	1,141,515	5,505,692	6,782,193
% of GDP	0.02	0.18	0.85	1.05
% of area	1.99	16.83	81.18	100.00

REGION	URBAN MASS TRANSPORTATION			
	Government Federal	Government State	Government Municipal	Total Consolidated
NORTH		125,018	44,984	170,002
NORTHEAST	28,475	117,126	43,666	189,267
SOUTHEAST	409,380	50,170	1,499,331	1,958,881
SOUTH	61,747	33,908	114,998	210,654
CENTRAL-W	4,271	71,576	49,524	125,371
NATIONAL				
TOTAL BRAZIL	503,874	397,798	1,752,503	2,654,175
% of GDP	0.08	0.06	0.27	0.41
% of area	18.98	14.99	66.03	100.00

REGION	CIVIL SERVANT BENEFITS			
	Government Federal	Government State	Government Municipal	Total Consolidated
<i>NORTH</i>	1,156,284	386,343	39,469	1,582,096
<i>NORTHEAST</i>	4,356,745	1,690,727	226,482	6,273,953
<i>SOUTHEAST</i>	8,382,605	5,951,150	1,334,446	15,668,202
<i>SOUTH</i>	1,693,103	2,453,988	197,480	4,344,511
<i>CENTRAL-W</i>	1,908,786	735,956	62,978	2,707,721
<i>NATIONAL</i>	80,126			80,126
TOTAL BRAZIL	17,577,649	11,218,165	1,860,855	30,656,608
% of GDP	2.72	1.74	0.29	4.74
% of area	57.34	36.59	6.07	100.00

REGION	EMPLOYMENT AND WORKER PROTECTION			
	Government Federal	Government State	Government Municipal	Total Consolidated
<i>NORTH</i>	84,309	3,188	886	88,384
<i>NORTHEAST</i>	380,339	28,704	5,071	414,114
<i>SOUTHEAST</i>	1,715,639	18,096	10,982	1,744,717
<i>SOUTH</i>	514,482	1,242	41,447	557,171
<i>CENTRAL-W</i>	208,652	6,295		214,947
<i>NATIONAL</i>	62,525			62,525
TOTAL BRAZIL	2,965,946	57,525	58,387	3,081,857
% of GDP	0.46	0.01	0.01	0.48
% of area	96.24	1.87	1.89	100.00

REGION	AGRARIAN ORGANIZATION			
	Government Federal	Government State	Government Municipal	Total Consolidated
<i>NORTH</i>	19,802	39,352	6,021	65,175
<i>NORTHEAST</i>	15,909	184,671	43	200,623
<i>SOUTHEAST</i>	1,883	14,681	86	16,650
<i>SOUTH</i>	1,735	1,177	560	3,473
<i>CENTRAL-W</i>	14,732	1,488	3,557	19,776
<i>NATIONAL</i>	887,224			887,224
TOTAL BRAZIL	941,285	241,369	10,267	1,192,921
% of GDP	0.15	0.04	0.00	0.18
% of area	78.91	20.23	0.86	100.00

REGION	SCIENCE AND TECHNOLOGY			
	Government Federal	Government State	Government Municipal	Total Consolidated
NORTH	10,374			10,374
NORTHEAST	242			242
SOUTHEAST	47,304			47,304
SOUTH				
CENTRAL-W	9,825			9,825
NATIONAL	426,429			426,429
TOTAL BRAZIL	494,175			494,175
% of GDP	0.08			0.08
% of area	100.00			100.00

REGION	TRAINING OF HUMAN RESOURCES			
	Government Federal	Government State	Government Municipal	Total Consolidated
NORTH	2,124			2,124
NORTHEAST	6,194			6,194
SOUTHEAST	16,186			16,186
SOUTH	1,165			1,165
CENTRAL-W	4,377			4,377
NATIONAL	4,666			4,666
TOTAL BRAZIL	34,712			34,712
% of GDP	0.01			0.01
% of area	100.00			100.00

REGION	TOTAL SOCIAL PUBLIC SPENDING			
	Government Federal	Government State	Government Municipal	Total Consolidated
NORTH		2,044,480	772,708	6,376,164
NORTHEAST	17,199,097	5,523,387	3,433,070	26,155,553
SOUTHEAST	37,606,847	17,094,240	14,130,772	68,831,859
SOUTH	10,814,331	5,007,836	3,223,627	19,045,794
CENTRAL-W	6,440,160	2,217,015	837,470	9,494,645
NATIONAL	5,302,886			5,302,886
TOTAL BRAZIL	80,922,297	31,886,958	22,397,647	135,206,902
% of GDP	12.52	4.93	3.47	20.92
% of area	59.85	23.58	16.57	100.00