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FUNDS

Single Chapter – Funds

Federal Public Securities Debt Amortization Fund (FAD)

Basic legislation: Law 9,069, dated 6.29.1995 and Decree 1,980, dated 8.9.1996.

Objective: amortize the National Treasury internal securities debt.

Origin of the resources: By its nature, this is an accounting fund that will be constituted through deposit of the following, with the prior and express authorization of the President of the Republic:

a) nonvoting preferred shares held by the federal government;
b) common or preferred voting shares in excess of the quantity required to maintain federal government stock control of companies when this control is mandated by legal provision;
c) common or preferred voting shares of companies controlled by the federal government when there is no legal mandate that determines that this control must be maintained;
d) common or preferred shares, with or without voting rights, belonging to the federal government and in which it holds minority participation.

Workers Support Fund (FAT)

Basic legislation: Laws 7,998, dated 1.11.1990; 8,019, dated 4.11.1990; 8,458, dated 9.11.1992 and 8,900, dated 6.30.1994; Decree 1,643, dated 9.25.1995.

Objective: The FAT is subordinated to the Ministry of Labor and has the objective of providing for the current expenditures of the Unemployment Compensation Program, payment of wage bonuses to employees who participate in the PIS/Pasep Participation Fund and the financing of economic development programs under the responsibility of BNDES.

Origin of the resources: FAT resources are composed of:

a) the proceeds of the inflow of contributions due to PIS/Pasep;
b) the proceeds of charges due by contributors as a consequence of noncompliance with their obligations;
c) monetary indexing and interest due by the agent charged with investment of the Fund's resources, as well as by payment agents, assessed on the balance of the onlendings received;

d) the product of the inflow of the additional contribution of those companies in which the turnover rate of the workforce is higher than the average turnover rate of the sector (paragraph 4, article 239 of the Federal Constitution);
e) other resources that may come to be channeled to the Fund.

FAT resources will be components of the Social Security Budget, according to the terms of current legislation. Available FAT financial resources may, through Banco Central, be invested in National Treasury securities and special interest-bearing deposits at federal government financial institutions and such deposits should be available for immediate utilization. The result of these investments constitutes revenues of the fund itself which is to be managed by its deliberative council – Codefat.

Individual Programmed Retirement Fund (Fapi)

Basic legislation: Law 9,477, dated 7.24.1997; CMN Resolutions 2,424, dated 10.1.1997, and 2,466, dated 2.19.1998.

Objective: Fapi is an investment fund constituted in the form of an open condominium – individual quotas – with the objective of providing complementary worker retirement resources through investment of its resources on the financial and capital markets.

Origin of the resources: Fapi will be composed of contributions from workers, employers or both and such contributions will be transformed into individual quotas of a fund managed by financial institutions or insurance companies authorized to operate by the Private Security Authority (Susep). In order to achieve the full advantages of the system, these contributions will be periodic and will be compatible with the financial possibilities of workers in such a way as to meet future income expectations that workers desire to achieve, following a grace period of ten years as of the first contribution.

Once this period has elapsed, the participant will be entitled to effect total or partial redemption of the quotas plus earnings on the financial investment or transform the quotas into a policy characterized by periodic earnings and amortizations over a specified period of time. Such operations will be centered at a financial institution of the worker's choice that operates with this system.

Investments to be made by the funds with the resources of this program will be regulated by the CMN and inspected by Banco Central, the Securities and Exchange Commission (CVM) and Susep.

Individual persons may deduct acquisitions of quotas from their income tax assessment base up to the annual limit of R$ 2,400.00. In the case of legal entities, the limit is 10% of the gross wages of each employee, provided that the Programmed Individual Retirement Incentive Plan instituted by the entity in question encompasses at least 50% of its employees.

Fund for Combating and Eradicating Poverty

Basic legislation: Constitutional Amendment 31, dated 12.14.2000, and Complementary Law 111, dated 7.6.2001 (regulations).

Purpose: The Fund for Combating and Eradicating Poverty was instituted with the objective of providing all Brazilians with access to specific levels of subsistence. With this objective in mind, the resources of the Fund will be invested in supplementary activities in the areas of nutrition, housing, education, health, strengthening family income and other programs of relevant social interest targeted at improving the quality of life.

Origin of resources:
a) the share corresponding to the additional 0.08 percentage point of the CPMF rate, in the period from 3.19.2001 to 6.17.2002;
b) the share of the proceeds of the inflow corresponding to the additional amount of five percentage points in the IPI rate, charged on superfluous products;
c) the proceeds of the inflow of the tax on large fortunes;
d) budget allocations;
e) donations of any nature whatsoever made by individuals or legal entities in Brazil and abroad;
f) other revenues to be defined in the Fund's regulations.

The resources received by the federal government as a result of the privatization of joint capital enterprises or public companies directly or indirectly subject to federal government control will constitute a fund. The earnings generated by the fund will, as of 6.18.2002, revert to the Fund for Combating and Eradicating Poverty.

The states, Federal District and municipalities will constitute Funds for Combating and Eradicating Poverty managed by entities in which representatives of civilian society participate and such funds will have the following sources of financing:
a) in the case of the state and Federal District funds, an additional amount of up to two percentage points may be added to the rate of the Tax on the Circulation of Merchandise and Services and on the Rendering of Interstate and Intermunicipal Transportation and Communications Services (ICMS) or another tax that may come to substitute the ICMS, on

superfluous products and services. The provision in article 158, indent IV of the Federal Constitution which targets 25% of the inflow of that tax to the municipalities is not applicable to the aforementioned additional amount;

b) in the case of municipal funds, an additional amount of up to one half of one percentage point may be created within the context of the Tax on Services (ISS), or another tax that may come to substitute it, which is levied on superfluous services.

Wage Variation Compensation Fund (FCVS)

Basic legislation: Resolution of the National Housing Bank (BNH) Council of Administration 25, dated 6.16.1967; Decree Laws 2,164, dated 9.19.1984 and 2,406, dated 1.5.1988; Laws 8,004, dated 3.14.1990, and 8,100, dated 12.5.1990; CMN Resolution 1,980, dated 4.30.1993; Provisional Measure 1,520, dated 9.24.1996 (converted into Law 10,150, dated 12.21.2001); Resolution 91, dated 6.24.1998, issued by the Curator Council of the Wage Variation Compensation Fund.

Objective: The FCVS was created by BNH Council of Administration Resolution 25, dated 6.16.1967, with the objective of establishing a ceiling on the period permitted for amortization of debts contracted by parties acquiring housing financed by the SFH. This Fund is charged with covering residual debt balances with financing agents resulting from differences in the monetary updating criteria applied to installments paid and the debt balances of these operations.

The residual debt balance to be covered by the FCVS increased to the extent that the federal government granted housing subsidies reducing the liabilities of holders of SFH mortgages, while holding the Fund responsible for covering the costs of these benefits without, however, providing it with the corresponding budgetary resources. The lag between growth in the debt balance and installments paid increased the FCVS deficit sharply and generated the insolvency of the system.

With issue of CMN Resolution 1,980, dated 4.30.1993, it was determined that housing financing would no longer be covered by the FCVS and that the borrower would be responsible for payment of the residual amount left at contract termination. Provisional Measure 1,520, dated 9.24.1996, introduced the process of securitization of the Fund’s liabilities.

Origin of the resources: Originally, the FCVS was constituted on the basis of BNH resources and monthly contributions by mortgage holders up to a limit of 3% of the value of their installments. Recognizing that this Fund had exhausted its financial feasibility, the federal government issued Decree 2,164/1984, determining that the contribution would be paid quarterly by SFH financing agents up to a ceiling of 0.025% of the balance of real estate financing granted. With issue of Provisional Measure 1,520/1996, this percentage was increased to 0.1%. It was originally planned that the federal budget would also contain allocations for the FCVS. However, in practical terms, these resources were never forthcoming.

Industrialized Products Export Compensation Fund (FPEX)

Basic legislation: Art. 159 to 162 of the Federal Constitution and Art. 34 of the Transitory Provisions; Complementary Laws 59, dated 12.22.1988; 62, dated 12.28.1989 and 74, dated 4.30.1993; and Normative Decision 6, dated 12.13.1994, issued by the National Budget Court.

Objective: compensate states for revenue losses, since the new constitutional text prohibits levying of the IPI and ICMS on manufactured goods to be channeled to the export market.

Origin of the resources: 10% of the IPI inflow.

Social Development Fund (FDS)

Basic legislation: Decrees 103, dated 4.22.1991, and 640, dated 8.26.1992; Law 8,677, dated 7.13.1993;

Objective: The FDS was instituted and is managed by the Federal Savings Bank (CEF) and has the purpose of financing investment projects of social interest in the areas of low-cost housing. Financing of infrastructure and basic sanitation works are also permitted, provided they be connected to housing programs, at the same time in which community equipment projects are also apt for financing. The objective of the fund is to finance projects put forward at the initiative of individual persons and companies or private sector entities. Granting of financing to projects put forward by entities of the direct administration, semi-autonomous agencies and foundations of the federal government, states, Federal District or municipalities or by entities under their direct or indirect control is strictly prohibited.

Origin of the resources: The Fund's resources are composed of:

a) resources generated by compulsory acquisitions by financial investment funds of quotas issued by the Social Development Fund itself, according to regulations issued by Banco Central;

b) resources generated by voluntary acquisitions by individual persons or legal entities of quotas issued by the Social Development Fund itself;
c) the proceeds of its investments;
d) other amounts that may come to be ascribed to it.

The totality of Fund resources should be equivalent to:
a) a minimum of 50% and a maximum of 90% in project financing;
b) 10% in liquidity reserves, of which 5% are concentrated in public securities and 5% in CEF security issues.

The FDS will be subject to accounting norms issued by Banco Central and the National Monetary Council.

Fiscal Stabilization Fund (FEF)[8]

Basic legislation: Constitutional Review Amendment 1, dated 3.1.1994; Constitutional Amendments 10, dated 3.4.1996, and 17, dated 11.22.1997.

Objective: financial reorganization of the Federal Public Treasury and economic stabilization. In terms of the channeling of the Fund's resources, priority is to be given to covering the current expenditures of health and education system activities, including the providing of complementary resources to the Fund for the Support and Development of Primary Education and Enhancement of the Teaching Career (Fundef), social security benefits and assistance of a continuous nature, including liquidation of social security liabilities and budget outlays consequent upon matters of relevant economic and social interest.

Origin of the resources:
a) income withholding tax on payments effected by the federal government, its semi-autonomous agencies and foundations, under any heading whatsoever;
b) 100% of the IOF on free portfolio funds;
c) gains consequent upon the increase from 0.65% to 0.75% in the PIS paid by financial institutions;
d) 5.6% of the entire income tax inflow after deduction of the amount to which letter “a” above refers;
e) 20% of the inflow of federal government taxes and contributions, after deduction of items “a”, “b”, “c” and “d”, as well as the State and Municipal Revenue Sharing Funds, the FPEX and the Constitutional Funds for the Financing of the North, Northeast and Central-West Regions.

8/ When the FEF which had lasted up to 12.31.1999 was abolished, the DRU was created to remain in effect up to 2003 (see analysis of the DRU under Title VIII – Other Matters of an Economic Nature).

Export Guaranty Fund (FGE)

Basic legislation: Laws 6,704, dated 10.26.1979 and 9,818, dated 8.23.1999; Decree 2,369, dated 11.10.1997.

Objective: The FGE is an accounting Fund subordinated to the Ministry of Finance and was created with the purpose of providing coverage to the guaranties given by the federal government in export credit insurance operations:

a) against political and extraordinary risks, for the total period of the operation;
b) against commercial risk, for the period that exceeds two years.

Origin of the resources: The initial assets of the FGE will be composed of transfer of 98 billion nominal preferred shares issued by Banco do Brasil and 1.2 billion nominal preferred shares issued by Telebrás, which are deposited in the FAD, which was created by Law 9,069, dated June 29, 1995. With authorization of the President of the Republic, other shares belonging to the government and traded on the stock exchanges, including those deposited in FAD, may also be incorporated into the FGE.

Fund resources are composed as follows:

a) the proceeds of stock sales;
b) reversion of balances not invested;
c) stock dividends and capital earnings;
d) the result of financial investment of the resources;
e) commissions consequent on the providing of guaranties;
f) resources originating in OGU budget allocations. The proceeds of the sale of stocks transferred to the FGE should constitute a liquidity reserve and the remainder will be invested in federal public securities, with anticipated redemption clauses.

Deposit and Real Estate Bond Guaranty Fund (FGDLI)

Basic legislation: CMN Resolutions 1,861, dated 8.28.1991; 2,169, dated 6.30.1995 and 2,189, dated 8.17.1995.

Objective: The FGDLI was created by Resolution 3, issued by the Council of Administration of the extinct National Housing Bank on 1.25.1967, and transferred to Banco Central by Decree Law 2,291, dated 11.21.1986, and Resolution 1,219, dated 11.24.1986. Duration of the Fund is undetermined. Its purpose is to guaranty savings deposits and real estate bonds of varying modalities, conditions and values as determined by the CMN. Only savings account depositors and bearers of real estate bonds issued by institutions that are Fund contributors will be entitled to the aforementioned guaranty, which does not encompass the rural savings account modality.

Origin of the resources: The assets of the Fund consist of an initial capital allocation made on 1.25.1967, plus the contributions received and earnings on investment of available resources, less payments made by the Fund and not recovered.

The sources of funding are as follows:
a) contributions from participating institutions;
b) earnings on investments;
c) others, of an occasional nature.

The obligatory contributors to the Fund are:
a) multiple banks with real estate credit portfolios;
b) Savings and Loan Associations (APE);
c) Real Estate Credit Companies (SCI).

Competitive Enhancement Guaranty Fund (FGPC)

Basic legislation: Law 9,531, dated 12.10.1997 and Decree 2,509, dated 3.6.1998

Objective: The FGPC is an accounting fund instituted by Law 9,531, dated 12.10.1997 and has the purpose of providing resources to guaranty risk in BNDES and Special Industrial Financing Agency (Finame) operations, either directly or with the intermediation of financial onlending institutions.

The FGPC will provide resources to guaranty risk in operations with:
a) microbusinesses and small scale companies with gross annual operating revenues of not more than R$720,000.00 (seven hundred and twenty thousand reals);
b) medium and small businesses with net operating revenues of no more than R$15,000.00 (fifteen thousand reals) and that export or manufacture inputs used directly in productive processes, assembly or packaging of products for the export market.

For purposes of Decree 2,509, dated 3.6.1998, gross annual operating revenues are understood as the revenues of the calendar year corresponding to the proceeds of sales of goods and services in operations carried out by the business itself, the price of the services rendered and the result of operations in the accounts of others, not including cancelled sales and discounts granted with no conditioning factors.

Annual net operating revenues are understood as the annual gross operating revenues, calculated according to the terms of the previous paragraph and earned during the calendar year after deduction of taxes levied on sales.

Employment Compensation Guaranty Fund (FGTS)

Basic legislation: Laws 5,107, dated 9.13.1966, and 8,036, dated 5.11.1990; Decrees 99,684, dated 11.8.1990, 1,522, dated 6.13.1995, and 3,361, dated 2.10.2000 and Provisional Measure 1,986, dated 12.13.1999 (converted into Law 10,208, dated 3.23.2001); Complementary Law 110, dated 6.29.2001; and Decrees 3,913, dated 9.11.2001, and 3,914, dated 9.11.2001.

Objective: The FGTS was instituted by Law 5,107/1966 with the objective of providing workers with earnings corresponding to the time period during which they have effectively worked. As of 10.5.1988, the right to participate in the FGTS system has been ensured to both urban and rural workers, excluding only those who do not have steady employment, the self-employed and civilian and military public sector employees who are subject to a specific employment system.

The law obligates employers to effect monthly deposits in the amount of 8% of the wages paid or due to each worker in the immediately previous month. The amount is to be deposited in a bank account in the name of the worker and the assessment base includes the worker's monthly wages plus what is known as the 13th monthly salary or Christmas bonus.

With issue of Provisional Measure 1,986, dated 12.13.1999, employers were given the opportunity to include domestic workers in the FGTS system. This may be done by means of a petition submitted by the employer according to the terms of the regulations instituted by Decree 3,361, dated 2.10.2000.

Origin of the resources: FGTS resources are composed of the balances of the aforementioned accounts and other resources incorporated into the system, including:

a) possible balances of financial resources earned by the CEF in the period between transfer of the resources from the banks and deposit of the same in workers' accounts, after payment of the fees charged by the depositor banks and coverage of the administrative expenditures of the Fund;
b) specific budget allocations;
c) results of investments of the Fund's resources;
d) fines, monetary indexing and interest on arrears due;
e) other asset-based and financial revenues.

FGTS resources are to be invested in housing, basic sanitation works and urban infrastructure. The investment program is to channel a minimum of 60% into investments in low-cost housing.

FGTS updating is quarterly capitalized by TR plus a 3% annual interest rate (Law 8,036, dated 5.11.1990). The National Congress approved Complementary Law 110, dated 6.29.2001, which defined measures to supplement the monetary updating of FGTS deposits, referring to the so called Summer Plan dating January 1989 (16.64%) and the Collor Plan-I, dating March 1990 (44.8%). The same law instituted two contributions to which employers are liable: the first one, having a 10% rate on the amount of deposits due during the period of time the work contracts are in force, in case the employee is dismissed with no good cause; the seconde one, with a 0.5% rate on the payment due to each worker in the previous month. The law also defines the percentage reduction values over the total amount for supplementing the monetary updating which is due to the workers. It also defines the way and the terms the monetary updating deposits are to be made.

Amazônia Investment Fund (Finam)

Basic legislation: Decree Law 1,376, dated 12.12.1974.

Objective: accelerate the process of development of the Amazon Region with due respect for the environment. The purpose is to diminish disparities in terms of income, quality of life and social benefits, in comparison to the south and southeast regions of the country.

Origin of the resources: deduction of part of the income tax due by legal entities established in all parts of the country; the results of investments and voluntary subscription of quotas. Finam resources are adminestered by the Basa according to deliberation of the Superintendency for the Development of the Amazon Region (Sudam).

Northeast Investment Fund (Finor)

Basic legislation: Decree Law 1,376, dated 12.12.1974.

Objective: accelerate the process of development of the Northeast Region. The purpose is to diminish disparities in terms of income, quality of life and social benefits, in comparison with the south and southeast regions of the country.

Origin of the resources:
a) deductible shares of the income tax due by legal entities established in all parts of the country;

b) subscriptions made by the federal government;
c) returns and results of investments and other resources specified in law. Finor resources are managed by the Banco do Nordeste do Brasil, as determined by the Northeast Development Authority (Sudene).

Fund for the Support and Development of Primary Education and Enhancement of the Teaching Career (Fundef)

Basic legislation: Constitutional Amendment 14, dated 9.12.1996, Law 9,424, dated 12.24.1996 and Provisional Measure 1,668, dated 6.16.1998.

Objective: the program is designed to support and develop public primary education and seek enhancement of the teaching career.

Origin of the resources: 15% (fifteen percent) of the following items are included in the fund:
a) of the share of the ICMS belonging to the Federal District, states and municipalities;
b) of the States and Federal District (FPE) and Municipal (FPM) Revenue Sharing Fund;
c) of the share of the IPI targeted to the states and Federal District to offset revenue losses on exports (corresponds to 10% of the tax inflow).

Should the amount per student in a given state and the Federal District not reach the nationally defined minimum, the federal government will complete the fund’s resources. The fund’s resources, including the additional resources injected by the federal government when this case arises, will be utilized by the states, Federal District and municipalities, ensuring that at least 60% (sixty percent) will be used for the earnings of teaching professionals who are effectively exercising their activities in public primary education.

Land and Agrarian Reform Fund – Land Bank

Basic legislation: Law 10,126, dated 2.12.2001, Complementary Law 93, dated 2.4.1998; Decrees 3,027, dated 4.13.1999, and 3,475, dated 5.19.2000 (Regulations) and CMN Resolution 2,610, dated 6.8.1999.

Objective: Finance landholding restructuring programs and rural settlements.

Origin of the resources: The Land Bank will be composed of:

a) a share of the amounts originating in deposit accounts under any heading whatsoever when the reference information on such accounts was not updated according to the terms of National Monetary Council Resolutions 2,025, dated 11.24.1993, and 2,078, dated 6.15.1994;
b) a share of the resources reserved to the financing of economic development programs through the BNDES, as treated in article 239, §1 of the Federal Constitution, based on conditions determined by the executive branch;
c) Agrarian Debt Securities (TDA);
d) allocations set aside in the General National Budget and additional credits;
e) allocations set aside in the general budgets of the states, Federal District and municipalities;
f) resources originating in amortizations of financing operations;
g) allocations made by national and international public or private entities;
h) resources consequent upon agreements, arrangements and contracts formalized with organs and entities of the federal, state or municipal public administration;
i) loans from national and international financial institutions;
j) sundry resources.

The revenues that are included in the Land and Agrarian Reform Fund will be used for land purchases and implementation of infrastructure in rural settlements established by the federal government according to the terms of Complementary Law 93 by public state and municipal entities and by cooperatives and associations of those who have been settled into such areas.

Land donated or acquired in the benefit of the Land and Agrarian Reform Fund will be incorporated into the assets of the nation and will be administered by the entity charged with management of the fund.

The Land and Agrarian Reform Fund – Land Bank – will finance purchases of rural real estate with amortization terms of up to twenty years, including a grace period of up to thirty six months.

Interest on the financing granted by the fund will be limited to up to 12% per year and, duly complying with the annual rebate ceiling per beneficiary to be determined by the executive branch, reduction factors of up to fifty percent may be applied to installments of amortizations of principal and financial charges during the entire term of the operations.

Credit Guaranty Fund (FGC)

Basic legislation: CMN Resolutions 2,197, dated 8.31.1995, 2,211, dated 11.16.1995, 2,227, dated 12.20.1995, and 2,249, dated 2.8.1996.

Objective: The FGC is a nonprofit civil association governed by private law and has the objective of providing guaranties to credits against participating institutions in those instances in which the institution is placed under a special administrative system or when Banco Central do Brasil determines that the financial institution is in a state of insolvency. The participants are financial institutions and savings and loan associations operating in the country (except credit cooperatives and the credit sections of cooperatives) that receive demand deposits, time deposits and operate with savings accounts; effect bills of exchange acceptances; and contract resources through placements of Real Estate Bills and Mortgage Bonds. The total credit of each account holder against a single institution or against all the institutions of the same financial conglomerate is guarantied up to a ceiling of R$20,000.00. The monthly contribution of FGC participants was set at 0.025% of the volume of the balances of the accounts corresponding to the liabilities covered by such guaranties. The calculation is based on data drawn from the balance sheets of the immediately previous month.

Origin of the resources:
a) the current expenditures of the guaranties provided will be covered by resources originating in the ordinary contributions of participants;
b) service fees charged as a result of issue of checks without sufficient backing;
c) recovery of credit rights;
d) net result of the services rendered by the fund and earnings on its investments;
e) revenues from other sources[9].

National Development Fund (FND)

Basic legislation: Decree Laws 288, dated 7.23.1986; 2,383, dated 12.17.1987; Decrees 93,538, dated 11.6.1986 (Regulations) and 193, dated 8.21.1991; Laws 7,862, dated 10.30.1989 and 9,094, dated 9.14.1995.

9/ On 3.14.1996, in response to a case brought before the court by the Workers Party questioning the constitutionality of utilizing the aforementioned resources in the formation of the FGC, the Federal Supreme Court issued a temporary injunction. This decision was taken on the basis of art. 192 of the Federal Constitution which prohibits utilization of federal government resources in funds or insurance systems with the objective of protecting the savings of the population.

Objective: Provide resources for the nation to effect capital investments through the federal government, as required to instill new dynamics into the national development effort and provide support to private initiative in the organization and expansion of its economic activities.

Origin of the resources: The FND will issue quotas in accounting or nominal endorsable form corresponding to a specified fraction of the assets of the Fund. FND quotas will be underwritten by the nation through the use of budget resources.

The FND may issue nominal endorsable quotas and long-term securities with the objective of contracting resources with private investors, as well as with semi-autonomous government entities, public sector companies, joint-capital corporations, their subsidiaries and controlled companies or any other companies subject to the direct or indirect control of the nation.

Constitutional Funds for the Financing of the North (FNO), Northeast (FNE) and Central-West (FCO) Regions

Basic legislation: Arts. 159 to 162 of the Federal Constitution and art. 34 of the Transitory Provisions; Complementary Laws 59, dated 12.22.1988; 62, dated 12.28.1989, and 74, dated 4.30.1993; Laws 7,827, dated 9.27.1989, and 9,126, dated 11.10.1995; Provisional Measure 1,727, dated 11.6.1998; and Normative Decision 6, dated 12.13.1994, issued by the National Budget Court.

Objective: The FNO, FNE and FCO were created with the objective of contributing to the economic and social development of the north, northeast and central-west regions of the country. This was to be done through federal financial institutions of a regional nature structured for the purpose of making financing mechanisms available to productive sectors in a manner considered compatible with the respective regional development plans.

The investments of these Funds were not subject to temporary monetary control restrictions and were designed to channel credits in a manner that was clearly different from the practices normally adopted by financial institutions. In this way, these institutions were to respond directly to the real needs of the beneficiary regions.

Origin of the resources: 3% (three percent) of the inflow of the income tax and industrialized products tax.

Of the overall volume of these resources, 60% are targeted to the northeast region, 20% to the north region and 20% to the central-west region.

State and Municipal Revenue Sharing Funds (FPE/FPM)

Basic legislation: Arts. 159 to 162 of the Federal Constitution and art. 34 of the Transitory Provisions Act; Complementary Laws 59, dated 12.22.1988; 62, dated 12.28.1989, and 74, dated 4.30.1993; and Normative Decision 6, dated 12.13.1994, issued by the National Budget Court.

Objective: redistribute income among the various states of the Federation.

Origin of the resources: 44% of the inflow of the income tax and industrialized products tax, distributed as follows: 21.5% to the FPE and 22.5% to the FPM. Of the total amount channeled to the FPE, 85% is targeted to the states of the north, northeast and central-west regions and 15% to the states of the southeast and south. FPM resources, in turn, are distributed as follows: 10% to state capitals, 86.4% to interior municipalities with population levels of less than 156,216 inhabitants and the remaining 3.6% to municipalities with population levels above that mark. At the regional level, FPM resources are distributed as follows: 35.3% for the northeast region, 31.2% to the southeast region and 33.5% to the north, central-west and south regions.