

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BRAZIL

**IDB-BNDES MSME FINANCING EMERGENCY GLOBAL CREDIT PROGRAM
FOR SAFEGUARDING THE PRODUCTIVE FABRIC AND EMPLOYMENT**

(BR-L1557)

LOAN PROPOSAL

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CONTENTS

PROGRAM SUMMARY

| | | |
|------|---|----|
| I. | DESCRIPTION AND RESULTS MONITORING..... | 1 |
| A. | Background, problems to be addressed, and rationale | 1 |
| B. | Objectives, components, and cost | 10 |
| C. | Key results indicators | 11 |
| II. | FINANCING STRUCTURE AND MAIN RISKS | 12 |
| A. | Financing instruments | 12 |
| B. | Environmental and social safeguard risks..... | 13 |
| C. | Fiduciary risks | 13 |
| D. | Other key risks and issues..... | 13 |
| III. | IMPLEMENTATION AND MANAGEMENT PLAN | 14 |
| A. | Summary of implementation arrangements | 14 |
| B. | Summary of arrangements for monitoring of results | 17 |

| ANNEXES | |
|-----------|---|
| Annex I | Summary Development Effectiveness Matrix |
| Annex II | Results Matrix |
| Annex III | Fiduciary Agreements and Requirements (simplified format) |

| REQUIRED LINKS | |
|----------------|--|
| 1. | Simplified monitoring and evaluation plan |
| 2. | Environmental and social management report |

| OPTIONAL LINKS | |
|----------------|---|
| 1. | Economic viability rationale |
| 2. | Diagnostic assessment of MSME issues |
| 3. | Bibliography |
| 4. | Program operational flowchart |
| 5. | Brasil: Vulnerabilidad de sectores productivos ante expansión del COVID-19 |
| 6. | Program Operating Regulations |
| 7. | BNDES presentation on its MSME programs and COVID-19 response |
| 8. | Credenciamento de agentes financeiros do BNDES |
| 9. | Gestão e controle de riscos em operações indiretas no BNDES |
| 10. | Brasil: Resumen de las principales medidas de política económica, monetaria y financiera para atender la emergencia causada por la pandemia global COVID-19 |
| 11. | Informe Macroeconómico de América Latina y el Caribe 2020: Políticas para Combatir la Pandemia |
| 12. | Safeguard policy filter |

| ABBREVIATIONS | |
|---------------|--|
| AFIs | Accredited financial institutions |
| BCB | Banco Central do Brasil [Central Bank of Brazil] |
| BNDES | Banco Nacional de Desenvolvimento Econômico e Social |
| BPD | Banco Público de Desarrollo |
| CAGED | Cadastro Geral de Empregados e Desempregados [General Register of Employed and Unemployed Persons] |
| CGU | Controladoria-Geral da União [Office of the Comptroller General] |
| ECLAC | Economic Commission for Latin America and the Caribbean |
| IMF | International Monetary Fund |
| IPEA | Instituto de Pesquisa Econômica Aplicada [Institute for Applied Economic Research] |
| MARVIm | Modelo Automatizado em R de Verificação de Impacto [R-Automated Model for Impact Verification] |
| MSMEs | Micro, small, and medium-sized enterprises |
| R\$ | Brazilian reais |
| RAIS | Relação Anual de Informações Sociais [annual report of socioeconomic data compiled from a mandatory survey of employers in Brazil] |
| WHO | World Health Organization |
| WHO | World Health Organization |

PROGRAM SUMMARY

BRAZIL IDB-BNDES MSME FINANCING EMERGENCY GLOBAL CREDIT PROGRAM FOR SAFEGUARDING THE PRODUCTIVE FABRIC AND EMPLOYMENT (BR-L1557)

| Financial Terms and Conditions | | | | |
|--|-------------------------------|-------------------------------------|--|-------------------------------------|
| Borrower and executing agency: | | | Flexible Financing Facility^(a) | |
| Banco Nacional de Desenvolvimento Econômico e Social (BNDES) | | | Amortization period: | 25 years |
| Guarantor: | | | Disbursement period: | 2 years |
| Federative Republic of Brazil | | | Grace period: | 5.5 years ^(b) |
| Source | Amount (US\$ millions) | % | Interest rate: | LIBOR-based |
| IDB (Ordinary Capital): | 750 | 83 | Credit fee: | (c) |
| Local: | 150 | 17 | Inspection and supervision fee: | (c) |
| Total: | 900 | 100 | Average weighted life: | 15.25 years |
| | | | Approval currency: | U.S. dollar |
| Program at a Glance | | | | |
| Program objective/description: The program's general objective is to support the sustainability of micro, small, and medium-sized enterprises (MSMEs) as employment providers in Brazil amid the COVID-19 crisis. Its specific objectives are to: (i) support the short-term financial sustainability of MSMEs; and (ii) promote the economic recovery of MSMEs through access to production-oriented finance. | | | | |
| Special contractual conditions precedent to the first disbursement of the loan proceeds: As a special contractual condition precedent to the first disbursement of the loan proceeds, the program Operating Regulations will have been approved and entered into force in accordance with the terms previously agreed upon with the Bank (paragraph 3.9). | | | | |
| Exceptions to Bank policy: Like previous loan operations with BNDES, the guarantee of the Federative Republic of Brazil for this operation will be limited to BNDES' financial obligations under the loan (including repayment of principal, payment of interest, and other financial charges); and will not cover the performance obligations of BNDES or the local counterpart contribution. Consequently, it is proposed that a partial waiver to the Bank's policy on guarantees required from the Borrower (document GP-104-2) be approved by the Board of Executive Directors (paragraph 3.10). | | | | |
| Strategic Alignment | | | | |
| Challenges:^(d) | SI | <input checked="" type="checkbox"/> | PI | <input checked="" type="checkbox"/> |
| Crosscutting themes:^(e) | GD | <input type="checkbox"/> | CC | <input type="checkbox"/> |
| | | | IC | <input type="checkbox"/> |

(a) Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency, interest rate, and commodity conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

(b) Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

(c) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the relevant policies.

(d) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

(e) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problems to be addressed, and rationale

- 1.1 **Background.** On 11 March 2020, the World Health Organization (WHO) declared the COVID-19 outbreak a pandemic. COVID-19 is a respiratory disease caused by the 2019 novel coronavirus, or SARS-CoV-2.¹ According to the WHO, as of 26 August 2020, there were over 23 million confirmed cases in 216 countries, areas, and territories, resulting in 815,038 deaths, with 3,622,861 cases in Brazil and 115,309 deaths there.² Unfortunately, the particular situation of South America is increasingly concerning. The region has become a new epicenter of the disease, according to a recent statement by the WHO.³ Brazil has the second highest number of cases worldwide and the most cases in the region. Numbers of cases, deaths, and affected countries, territories, and areas are expected to continue growing.
- 1.2 **Macroeconomic and social context.** The situation across the globe has changed radically. As a result, the global economy is heading towards a recession, with the prospect of a sharp drop in GDP and revenue and an increase in short-term unemployment.⁴ The economic impacts of COVID-19 will be felt through different channels and different times. First are the direct costs related to the health sector response, associated with the priority of saving lives in the very near term. Second are the costs associated with the necessary changes in people's behavior to "flatten the curve" of COVID-19 progression, which will contribute to saving lives. These behaviors may be the result of government mandates (e.g. closing schools and canceling public events), decisions made by companies and other institutions (e.g. teleworking and cutting back production), and decisions made by consumers (reducing social contact).
- 1.3 These changes in behavior will lead to a very significant economic downturn with immediate manifestations and effects that will linger longer than expected, even once the health emergency is over. From a macroeconomic perspective, in addition to shrinking domestic demand, the Economic Commission for Latin America and the Caribbean (ECLAC) sees at least five channels through which the impacts of the crisis will be passed on to the region's economy:⁵ (i) slowing economic activity of key trading partners that will impact the demand for exports; (ii) less demand for tourism services; (iii) interruption of global value chains; (iv) falling commodity prices; and (v) worsening financial terms. At the micro level, the pandemic and resulting restrictions are expected to adversely impact the earnings of businesses of all sizes. According to one estimate, more than 50% of businesses worldwide will see their

¹ See [WHO Director-General's opening remarks at the media briefing on COVID-19](#), 11 March 2020.

² See [WHO COVID-19 Situation Dashboard](#), 26 August 2020.

³ See [WHO media briefing](#), 22 May 2020.

⁴ International Monetary Fund (IMF). [The Great Lockdown: Worst Economic Downturn Since the Great Depression](#). April 2020.

⁵ See [ECLAC press release](#), March 2020.

revenues and benefits adversely affected in 2020, and roughly 80% of Latin American consumers plan to spend less in 2020.⁶

- 1.4 In this context, the Brazilian economy faces a crisis at a time when growth had been gradually recovering after a negative period.⁷ COVID-19 is expected to have a strong impact on economic activity.⁸ The Focus report,⁹ which reflects the expectations of Brazil's financial market, projects a 6.5% decrease in GDP for 2020. To respond to the prospect of increased unemployment and decreased income, monetary and fiscal measures have been adopted as part of economic policies.¹⁰ In terms of unemployment, the interest rate and proportional required bank deposits were reduced, while measures were adopted to expand credit and increase liquidity through temporary adjustments to prudential regulations.¹¹ With respect to income, the measures implemented already exceed 10% of GDP.¹² These measures are intended to reduce the negative impact of the crisis on income, particularly for the low-income population; on jobs; and to the extent possible, on the productivity and situation of the country's micro, small, and medium-sized enterprises (MSMEs).¹³ For general aspects of the intervention, see [optional link 2](#) and [optional link 10](#).
- 1.5 **Current constraints on MSMEs' access to finance in Brazil.** In view of the crisis described above, supporting the MSME sector throughout Latin America and the Caribbean is considered key. In addition to the considerable toll taken on this sector's business activities sector due to the measures implemented to respond to the pandemic and the resulting contraction of the country's economy, the specific circumstances of MSMEs in Brazil justify the need for this support.
- 1.6 First, MSMEs are essential to the Brazilian economy, and particularly to employment. According to data of the *Relação Anual de Informações Sociais* (RAIS), MSMEs account for over 99.5% of all businesses, 58% of all formal-sector

⁶ Muniz, J. et al., "COVID-19 ameaça fechar pequenas empresas na América Latina," Boston Consulting Group, April 2020.

⁷ Economic activity data indicated that as of 2018, the recovery of Brazil's economy had gained some traction. As of January 2020, the debt was projected to reach 78.2% of GDP that year and later decrease to 67.3% by 2028. Fiscal policy changes had reduced the growth of public-sector debt and improved the prospects for its future path. See [Carta de conjuntura](#) (Institute for Applied Economic Research, 2019) and [Relatório de Projeções da Dívida Pública](#) (National Treasury of Brazil, 2019).

⁸ A dynamic (and interregional) computable general equilibrium model can be used to estimate the economic impacts of COVID-19 more precisely in Brazil. A study led by Porsee et al. (2020) considers two simulation scenarios. The first considers two transmission channels on the economic system: a labor supply shock due to the morbidity and mortality rates caused by the pandemic; and a temporary (two-month) shutdown of economic activity due to social distancing. The second adds the effects of fiscal stimulus measures adopted at the federal level to counter the impact of COVID-19 on the Brazilian economy. The findings point to a 1.87% reduction in national GDP growth in the first scenario and a 1.21% reduction in the second. The federal government measures evaluated in this study help mitigate roughly 35% of the projected drop in GDP growth. See [Impactos Econômicos da COVID-19 no Brasil](#), Universidade Federal do Paraná, April 2020.

⁹ [Focus report](#), July 2020.

¹⁰ [Measures to Face the COVID-19 Crisis](#). Central Bank of Brazil (BCB), 2020.

¹¹ See [Banco Central injeta R\\$ 135 bilhões na economia](#), for details on BCB's relaxed prudential regulations.

¹² See [Economic Policy in Latin America and the Caribbean in the Time of COVID-19](#) (IMF, 2020).

¹³ [Carta de conjuntura](#). Institute for Applied Economic Research, 2020.

jobs, and 44.3% of wages in the formal private sector.¹⁴ Brazilian MSMEs, however, have historically faced obstacles to viability, growth, and productivity. MSMEs have far lower productivity levels than large companies. According to estimates, microenterprises are only 10% as productive as large businesses; small enterprises, only 25% as productive; and medium-sized enterprises, only 40%.¹⁵ Since low productivity means lower economic returns, MSMEs are less capable of making the investments needed to increase output and productivity, thus generating a vicious cycle of low investment and low productivity. This pattern is typical in normal economic conditions and is exacerbated in times of crisis.

1.7 Second, MSMEs in Brazil start out facing greater constraints on credit than large businesses,¹⁶ primarily due to financial institutions' perceptions of high risk in lending to this segment. This risk perception stems from a lack of available or reliable information; low transaction volumes, which hinder the use of sophisticated risk analysis tools; and a lack of available assets to meet collateral requirements.¹⁷ The data presented in the following paragraphs illustrate the magnitude of the problem (see [optional link 2](#)).

- (i) The volume of lending to MSMEs has been declining each year, from R\$742.7 billion (US\$148.5 billion) in 2014 to R\$515.9 billion (US\$103.2 billion) in 2019. MSMEs' share of the total portfolio of loans to legally established corporations fell from 46.6% in 2014 to 37.4% in 2019.
- (ii) MSMEs' share of loan operations for working capital (36.6% of the financial system's operations with MSMEs) has trended upward, reaching 66% in 2019 (above the 54% average for the 2014-2019 period). This suggests that MSMEs are increasingly reliant on liquidity resources, but it may also signal the constraints faced by MSMEs in securing finance for investment under suitable terms and conditions.
- (iii) Along these same lines, investment lending to MSMEs has steadily declined in recent years, hitting R\$177.9 billion in 2019, just over half the amount in 2015 MSME lending portfolio. This is only 23.5% of total investment lending by the financial system. Greater reliance on liquidity, therefore, is compounded by other needs associated with increased constraints on investment lending to ensure funds are available for enhancing productivity and covering lending costs to help make businesses sustainable over the medium and long terms.

¹⁴ These figures include private businesses with up to 249 employees, which are classified as MSMEs by the Brazilian Institute of Geography and Statistics.

¹⁵ Organisation for Economic Co-operation and Development and Economic Commission for Latin America and the Caribbean (ECLAC), Latin America Economic Outlook 2013: SME Policies for Structural Change.

¹⁶ Ambrozio, A. et al., "Credit Scarcity in Developing Countries: An Empirical Investigation Using Brazilian Firm-level data," *EconomiA*, Vol. 18, No. 1, 2017.

¹⁷ Barboza, R., et al., "O BNDES e as micro, pequenas e médias empresas," BNDES, Discussion Paper No. 146, 2019.

- (iv) MSMEs have considerably higher arrears rates in the financial system (10% for microenterprises, 8.3% for small enterprises, and 5.9% for medium-sized enterprises) than large enterprises (3.3%). This drives up interest rates, particularly for microenterprises and small businesses.¹⁸
- 1.8 Third, MSMEs are more vulnerable to economic shocks. Due to their relatively fragile financial structure, smaller businesses are more reliant on financing for liquidity amid fluctuations in the economic cycle.¹⁹ As credit tightens in times of crisis, MSME production and employment can fall below desired levels. An example of this tightening can be seen in how lending was impacted during Brazil's most recent crisis, from 2015 to 2018: while lending to large enterprises declined 10.2%, lending to MSMEs dropped by nearly a combined 50%.²⁰
- 1.9 Financing, therefore, provides essential support to MSMEs, as it has the capacity to: (i) increase the likelihood that MSMEs with competitive advantages can enter the marketplace, stake their position, and grow, in addition to narrowing productivity gaps by providing resources to help these businesses modernize production and gain a foothold in the marketplace; and (ii) ensure the survival of MSMEs in a context of adverse shocks, particularly amid tightening credit in times of crisis.
- 1.10 **Challenges and progress.** This scenario is exacerbated by the current health crisis, thus jeopardizing the short-term financial sustainability of Brazilian MSMEs. In safeguarding Brazil's productive fabric from the economic hardships associated with the COVID-19 crisis, the challenge will be to keep open as many as possible of the MSMEs that were commercially viable before the crisis, while supporting the recovery of those that can continue operating normally through financing for production-oriented investments.
- 1.11 While pandemic-related restrictions are expected to hurt businesses of all sizes, MSMEs are particularly vulnerable to the lockdown and the resulting recession (see paragraph 1.8) and therefore face significant fallout over the short and long terms. For example, the projected demand shock will put an estimated 20% to 25% of traditional commercial establishments at risk of shutting down.²¹ In a recent survey of the impact of COVID-19 on small businesses in Brazil,²² 88.9% of business owners reported drops in revenue averaging 69% compared to a normal week; 58.9% said they had temporarily shut down; and about 68.1% said they needed financing to continue operating without downsizing staff.

¹⁸ [Optional link 2](#). Brazil: Diagnostic assessment of MSME issues.

¹⁹ There is literature showing that MSMEs are more sensitive to economic fluctuations because their access to credit is more limited. See Gertler, M. and S. Gilchrist, "Monetary Policy, Business Cycles, and the Behavior of Small Manufacturing Firms," *The Quarterly Journal of Economics*, vol. 109, no. 2, 1994.

²⁰ Barboza, R., et al., "O BNDES e as micro, pequenas e médias empresas," BNDES, Discussion Paper no. 146, 2019. The cited figures on lending are based on data from the Central Bank of Brazil.

²¹ Muñiz, J. et al., "COVID-19 ameaça fechar pequenas empresas na América Latina," Boston Consulting Group, April 2020.

²² Brazilian Support Service for Microenterprises and Small Businesses (SEBRAE) and FGV Projetos, [Crédito no Brasil para MPes em tempo de COVID-19](#), May 2020, and [optional link 2](#).

- 1.12 Brazil ranks below the median—92nd out of 137 countries—in financial market development²³ and placed 105th out of 190 countries in the “Getting Credit” category of the World Bank’s [Doing Business](#) report. Structural flaws in Brazil’s financial system heighten the need to promote lending in sectors with high positive externalities for the economy. The financial system is highly concentrated.²⁴ Generally speaking, financial services are scarcely affordable, and financial institutions are relatively inefficient.
- 1.13 The Brazilian government is taking measures to soften the economic impact of the crisis on the business community.²⁵ The government, particularly the country’s central bank, has acted decisively to provide economic and financial support. The government is coordinating efforts through the central bank to inject nearly US\$130 billion into the financial system to boost its lending capacity. Public banks—mainly the federal Banco Nacional de Desenvolvimento Econômico e Social (BNDES), Caixa Econômica Federal, and Banco do Brasil, along with other lending institutions at the state level—have approved emergency loan programs to confront the COVID-19 crisis. BNDES, in particular, announced two packages of [COVID-19 emergency measures](#) (see [optional link 7](#) and paragraph 3.2). In terms of lending, these measures are initially aimed at providing financial liquidity to help businesses survive and protect their revenues and jobs. Actions are also planned to facilitate the assumption of financial risk and renegotiate loans in order to resume financial activity more swiftly and help keep the banking system on sound footing²⁶ (see [optional link 10](#)). The government has also instituted special procedures to streamline the evaluation and authorization of externally financed programs in view of the declaration of a public emergency due to the health crisis.²⁷
- 1.14 Brazil’s public development banks have helped to narrow the MSME finance gap and have played a significant countercyclical role by supporting investment and resource mobilization in previous crises, thereby assisting governments in the economic recovery. Since the onset of the current health crisis, Brazil’s public development banks have announced more than R\$250 billion in measures to mitigate the economic effects of the lockdown. This includes specific financing for the health sector, renegotiation of outstanding debts, improved terms of existing lines of credit, and special terms for new credit lines. A total of R\$45.9 billion in credit lines specifically for MSMEs have been announced. Still, a survey by the Brazilian Development Association found that at least another R\$6 billion is needed to meet current demand (see [optional link 2](#)). As a second-tier financial institution, BNDES

²³ World Economic Forum, 2017-2018 Global Competitiveness Index, 2018.

²⁴ The financial system is highly concentrated, with the five largest banking institutions accounting for 79.5% of total assets, 82.9% of deposits, and 82.2% of total lending in Brazil (Central Bank of Brazil, 2019). The system’s high degree of concentration tends to keep interest rates high due to limited competition. It has also been argued that greater competition reduces the likelihood of a systemic banking crisis, since concentration and fragility in the banking system are positively correlated. See Boyd and De Nicoló, “The Theory of Bank Risk Taking and Competition Revisited,” 2005.

²⁵ [Optional link 10](#) and World Bank, [Map of SME-Support Measures in Response to COVID-19](#), 2020.

²⁶ This includes measures for debt payment deferral, loan restructuring and reprogramming, new lines of concessional credit, and support for financial institutions through guarantees and margins for capital requirements.

²⁷ External Financing Commission (COFIEX) Resolution No. 2 of 13 April 2020 shortens timelines and eases requirements for external loan operations, allowing projects to be authorized as they are presented, without having to wait on approval meetings that in previous years were held two to four times per year.

has been playing a particularly important role in enhancing the capillarity of lending for MSMEs through an extensive network of accredited financial institutions (AFIs) (see [optional link 8](#) and [optional link 9](#))²⁸ and through the [use of technology, digital platforms, and fintech solutions](#) to reduce transactional costs, provide additional services, and facilitate MSME access to credit. Smaller AFIs, such as credit unions and development agencies, have most of their loan portfolios concentrated in MSMEs, and there is evidence that BNDES's capillarity through AFIs helps to make the system less concentrated, which positively impacts lending costs and helps to remedy one of the causes of credit constraints (paragraphs 1.30 and 3.2).

- 1.15 **Summary of the problems to be addressed and proposed solutions.** As described above, Brazil's financial sector is up against a series of constraints on providing all the financing that MSMEs will need during this crisis (paragraphs 1.12 through 1.14), both in the short term, to ensure MSMEs' immediate survival, and in the medium term, to stimulate a rapid recovery of economic activity and employment in the country.
- 1.16 To supplement Brazil's efforts, the proposed intervention focuses on supporting financial mechanisms to stimulate the supply of short-term liquidity and medium-term financing for MSMEs through a global credit program, by channeling resources through the lines of second-tier MSME financing offered by BNDES, Brazil's leading public development bank (paragraph 3.2). The program will use a demand-based multisector approach to provide MSMEs with access to financing, while seeking to alleviate the constraints on access to credit faced by MSMEs in the sectors most vulnerable to the effects of the COVID-19 crisis, thus supporting their survival and safeguarding employment. This, in turn, will minimize the burden on social protection systems and help speed of economic recovery, once the health emergency has passed (paragraph 1.18).
- 1.17 The Bank's vulnerability analysis, which was carried out in coordination with the country,²⁹ concludes that the activities of Brazil's production-related sectors seen as most vulnerable to the COVID-19 crisis include agrifood, machinery and equipment, retail trade, carriage of passengers and cargo, tourism, and energy. This diagnostic assessment focuses on the sectors where jobs are most likely to be lost if the following risks associated with the COVID-19 crisis materialize:³⁰ (i) supply contraction factors, such as constraints on the use of labor, insufficient quantity and quality of variable inputs, higher cost of production factors, and value chain disruptions; (ii) demand contraction factors, such as changes in consumer behavior

²⁸ BNDES's network of AFIs provides a high degree of capillarity throughout the country (serving 95% of Brazilian municipalities) and makes credit much more widely available, on average, than the Brazilian financial system: 58.9% of BNDES's indirect loan portfolio is concentrated in the country's five largest banks, compared to 79.4% of the national financial system's portfolio.

²⁹ See [optional link 5](#). The following should be borne in mind when interpreting the findings of the vulnerability analysis: (i) the impact of COVID-19 on economic activity of the sample (collected through 23 April) is already assumed; therefore, a low vulnerability score is abnormal; and (ii) the global index should not be construed as a measure for prioritizing the financing needs of the sectors analyzed, but should also consider other factors and the inherent financing needs of the sectors themselves, as presented in [optional link 2](#) (Table 4).

³⁰ Sectors with a severe degree of impact are the ones most vulnerable to the economic shocks of COVID-19 in terms of the intensity of lost economic activity and jobs. Their representativeness in terms of GDP and employment offers a measure of the effects the pandemic is having on the productive fabric. See [optional link 5](#).

and preferences, liquidity constraints on customers, and lower export demand; (iii) financial factors, such as delays and interruptions in payment cycles, reductions or interruptions in financing, higher financing costs, and asset factors (i.e. lower asset values and accumulation of liabilities); and (iv) other risks of a systemic nature or in the regulatory environment, such as institutional and legal uncertainty and political and social instability.

- 1.18 The program takes a multisector approach to meet demand, using only BNDES's existing eligible credit lines under each subcomponent (paragraphs 1.28 and 1.29). This multisector approach, however, undoubtedly includes sectors identified as vulnerable. Indeed, a preliminary analysis of the sectors most represented in BNDES's MSME portfolio under program-eligible credit lines is consistent with the sectors identified in the vulnerability analysis described in paragraph 1.17. For example, sectors in which businesses of all sizes are vulnerable received most of the disbursements to MSMEs in 2019. More than 96%, 94%, and 76% of disbursements to micro, small, and medium-sized enterprises, respectively, go to agriculture, commerce and services, food and beverages, and ground transportation and construction,³¹ and 62% of the working capital operations approved under the BNDES Crédito Pequenas Empresas financing line since mid-March 2020 have been for the agriculture, service, and commerce sectors.³² All of these sectors generally face risks associated with weaker domestic demand, as well as other financial and asset-related risks such as the disruption of payment cycles, accumulation of liabilities (rents and wages), reduced short-, medium-, and long-term financing, and supply-side risks such as constraints on the use of labor and insufficient quantity or quality of inputs.³³ The analysis of the potential of the BNDES portfolio, to be supported through this program, has identified an average loan amount of between US\$63,500 and US\$105,000, resulting in a greater proportion of financing for microenterprises and small businesses, which are especially vulnerable to the crisis.
- 1.19 **The Bank's experience.** The Bank has extensive experience in designing sovereign guaranteed loan programs aimed at improving MSME access to finance through financial intermediaries. These programs have been implemented in times of economic expansion, when support focuses on access to long-term finance for production-oriented investments, and in times of economic recession, when support focuses on ensuring that MSMEs do not lose access to liquidity to continue their economic activity. In the last financial crisis confronted by the region in 2007, the Bank played a countercyclical role by expanding the amount of financing and facilities used to address the lack of access to credit faced by the region's MSMEs. For example, liquidity programs for growth sustainability³⁴ were approved in 2008 and 2009 with the aim of reestablishing access to finance for working capital and foreign trade in the productive sectors. This helped to temporarily offset part of the deficit in financing flows to MSMEs resulting from the international financial crisis. With the same objective of stimulating the supply of credit to the productive sectors,

³¹ BNDES, [Estatísticas Operacionais do Sistema BNDES](#), accessed 1 May 2020.

³² BNDES, [Atuação das instituições financeiras na linha BNDES Crédito Pequenas Empresas \(capital de giro\)](#), accessed 1 May 2020.

³³ See [optional link 5](#).

³⁴ In 2008, the IDB created the Liquidity Program for Growth Sustainability under the emergency lending category (document GN-2492-3).

the period following the crisis (2009-2013) saw the approval of contingent credit lines³⁵ for providing liquidity to the financial sector, as well as global multisector credit programs and—by far the majority—specific productive financing programs for MSMEs.

- 1.20 Specifically in Brazil, the Bank has supported multisector interventions with the aim of facilitating capital investment, promoting, productivity, and diversifying funding channels for MSMEs with BNDES (paragraph 3.3), including loan [2236/OC-BR](#) and, more recently, loan [4672/OC-BR](#) as part of the Conditional Credit Line for Investment Projects (CCLIP) [BR-O0001](#), soon to begin execution. In 2014, the Bank's Office of Evaluation and Oversight published the findings of an empirical analysis of IDB programs supporting MSMEs in Brazil.³⁶ This analysis found that interventions to support credit were the only ones that significantly impacted all performance variables, with the most positive impact on employment and wages. Moreover, multiple studies³⁷ have found that MSME access to public credit in Brazil has a significant positive impact on employment and gross business revenues.
- 1.21 **Lessons learned.** The Bank has extensive experience and has generated substantial knowledge regarding the design and implementation of policies to support MSME finance³⁸ with a special focus on certain sectors or value chains. For these public policy solutions to be effective, it is crucial to: (i) identify the market failure to be addressed; (ii) strengthen cooperation among public actors with expertise in the relevant area; (iii) strengthen cooperation between the public and private sectors, since the latter can help find solutions to problems; (iv) focus actions on overcoming the obstacles found; (v) identify the financial instrument or set of instruments that can be implemented in each situation; and (vi) utilize the most cost-effective combination of instruments for each situation.
- 1.22 Lessons learned from the Bank's experience, especially as regards the design and execution of multisector credit programs with BNDES (paragraphs 1.20 and 3.3), have been incorporated in designing this program. These include the importance of: (i) ensuring effective supervision of financial terms for final beneficiaries, so as to avoid losing additionality throughout the intermediation chain and prevent market distortions; (ii) promoting a formal, program-specific monitoring and evaluation system, in accordance with the Bank's latest guidelines, while anticipating any potential significant deviations in execution times that might impact the fulfillment of targets and the capacity to gather data to monitor targets; and (iii) in line with this previous lesson, compiling, managing, and systematically maintaining program data

³⁵ "Development Sustainability Credit Line" under the "Proposal to Establish a Set of Contingent Lending Instruments of the IDB. Revised version." (document GN-2667-2).

³⁶ A Comparative Analysis of IDB Approaches Supporting SMEs: Assessing Results in the Brazilian Manufacturing Sector, IDB, 2014. This analysis defines MSMEs as businesses with 1 to 250 employees and covers programs implemented in Brazil from 2003 to 2012.

³⁷ DeNegri, J., et al., "The Impact of Public Credit Programs on Brazilian Firms." IDB Working Paper Series 293, 2011; Machado, L., et al., *Avaliação de impacto do uso do Cartão BNDES sobre o emprego nas empresas de menor porte*, BNDES, 2011; Albuquerque, B. et al. *Uma solução automatizada para avaliações quantitativas de impacto: primeiros resultados do MARVIm*, BNDES, Brazil, 2017.

³⁸ Section IV of the Support to SMEs and Financial Access/Supervision Sector Framework Document (document GN-2768-7) discusses a more extensive and detailed set of lessons learned from the Bank's experience in the sector, as well as the experience of other multilaterals, academic researchers, and other major stakeholders in public policy design of to support MSMEs.

to ensure that results can be analyzed in a timely and appropriate manner and used to benefit future interventions.

- 1.23 BNDES's effectiveness in working with MSMEs, particularly through the product lines eligible for program resources, has been demonstrated in a series of thorough impact evaluations.³⁹ The analysis of lending for procurement of capital goods found a positive impact on business volume, employment, and investment in the supported MSMEs. In addition, the Cartão BNDES credit line was found to have a positive impact on beneficiary MSMEs in terms of employment, revenues, and investment, as well as a positive impact in terms of startup creation and survival. Five out of the seven evaluations of BNDES's products for MSMEs found a positive impact on employment.⁴⁰
- 1.24 **Coordination with other IDB Group projects.** The program also coordinates efforts on another project with BNDES (loan 4672/OC-BR) that is expected to begin execution in Brazil shortly. That project will focus on offering MSMEs medium- and long-term financing for working capital, promote analysis of the impact of these investments on MSME productivity, and diversify BNDES's financing channels through the [Canal MPME](#) digital platform of technological innovations, which was developed together with financial technology companies (fintechs). The program also complements initiatives led by IDB Invest in Brazil to address MSME financing in coordination with private financial sector institutions, specifically operations [12948-02](#), [12979-01](#), [11843-02](#), and [12433-01](#). This coordination seeks to leverage synergies to increase the impact of the Bank actions, consistent with fiscal sustainability, through: (i) temporary application of measures to ensure that their short-term impact on the public finances is controlled; and (ii) support in financial terms for MSMEs, to ease the cost of financing and preserve jobs, thus contributing to a recovery in tax revenue, as well as other initiatives in preparation to address the needs arising from the pandemic.
- 1.25 **Strategic alignment.** The program is consistent with the second Update to the Institutional Strategy (document AB-3190-2) and aligned with the challenges of: (i) social inclusion and equality, through an approach that pairs support for MSMEs and the most vulnerable sectors; and (ii) productivity and innovation, through support for MSME productive financing. The program will contribute to the Corporate Results Framework 2020-2023 (document GN-2727-12) through the indicator of the number of MSMEs financed. The program is aligned with the Proposal for the IDB Group's Governance Response to the COVID-19 Pandemic Outbreak (document GN-2996), as part of efforts to safeguard the productive fabric and employment; and is consistent with the Support to SMEs and Financial Access/Supervision Sector Framework Document (document GN-2768-7), which emphasizes the importance of promoting access to finance by the productive sector. Lastly, the operation is included in the update of Annex III of the 2020 Operational Program Report (document GN-2991-3).

³⁹ These evaluations use microdata and econometric methods aimed at isolating the causal effect of BNDES, i.e. factoring out other variables that can also affect business performance. The most common method is to compare similarly situated businesses prior to the support and changes over time in supported versus unsupported businesses, while controlling observable characteristics.

⁴⁰ Barboza, R., et al., "O BNDES e as micro, pequenas e médias empresas," BNDES, Discussion Paper No. 146, 2019. The cited figures on lending are based on data from the Central Bank of Brazil.

B. Objectives, components, and cost

- 1.26 **Objectives.** The program's general objective is to support the sustainability of MSMEs as employment providers in Brazil amid the COVID-19 crisis. Its specific objectives are to: (i) support the short-term financial sustainability of MSMEs; and (ii) promote the economic recovery of MSMEs through access to production-oriented finance.
- 1.27 **Component. Support for MSME financing.** BNDES will use the program's resources to provide loans to MSMEs through its extensive network of AFIs (see [optional link 4](#), [optional link 8](#), and [optional link 9](#)) as measures to counter the scarcity of short-term capital and to promote the recovery of productive investment by small companies through its existing credit lines described below. This component is structured in two subcomponents:
- 1.28 **Subcomponent 1. Support for improvement of short-term financial capacity (US\$450 million).** Resources under this subcomponent will be used to help MSMEs affected by the COVID-19 crisis (paragraph 1.18) overcome temporary liquidity problems and continue operating. This subcomponent will provide liquidity to MSMEs through loans under the [BNDES Crédito Pequenas Empresas](#) financing line, which is now part of BNDES's package of emergency measures to confront the effects of the COVID-19 pandemic.
- 1.29 **Subcomponent 2. Support for access to production-oriented finance for economic recovery (US\$450 million).** Resources under this subcomponent will be used to issue subloans that will in turn support the economic recovery of MSMEs affected by the COVID-19 health crisis (paragraph 1.18). The product lines eligible for these resources will be those aimed at financing investment and procurement of production-oriented assets (machinery, equipment, vehicles, goods, and services for production), including the [Cartão BNDES](#), [BNDES Automático](#), and [BNDES Finame](#) lines.⁴¹
- 1.30 Both subcomponents will target MSMEs using a multisector approach with disbursements based on demand, although the beneficiaries of all lines eligible for the program already belong primarily to sectors identified as vulnerable (paragraph 1.18) and, as a result, these lines are considered suitable vehicles for serving these sectors. The resources channeled by BNDES are expected to encourage financial intermediaries to issue loans they would not otherwise issue. In lending for productive activity, since BNDES's funding has a relatively longer repayment period, longer terms can be offered to final beneficiaries, thus facilitating investment lending. In addition, BNDES resources are used by financial agents more likely to lend to MSMEs, and these agents are not necessarily commercial banks with the largest market shares. The resulting deconcentration has a positive effect on lending costs, thus helping to remedy one of the main causes of constraints on

⁴¹ Under BNDES's directive for product lines eligible under this subcomponent, the loans to MSMEs can be for up to 100% of the asset's value. If a product or service eligible under these lines can be part of a broader investment project, the loan will be administered as a separate credit transaction, thereby providing flexible and prompt access to credit for the beneficiary. For this reason, no targets have been set for the leveraging of resources at the project level.

credit.⁴² Also, business models based on fintech and digital platforms, which have already been implemented by BNDES for this segment (paragraph 3.2), help reduce operating and transactional costs, primarily by optimizing processes traditionally conducted on paper and through personal interaction, such as loan applications and credit checks.

- 1.31 **Beneficiaries.** The direct beneficiaries of the operation will be MSMEs that, as described above, are vulnerable to crises; these MSMEs are estimated to number around 11,300.⁴³ Although the program provides multisector support and the issuance of loans will be subject to demand, the credit lines supported by the program have been shown to provide broad coverage for the most vulnerable sectors. In addition, the operation is expected to indirectly benefit the beneficiary enterprises' overarching strategic chains. The community at large will also benefit indirectly from the reduced impact on rents and employment, the sustainability of services, and the availability of outputs from the operations of the surviving MSMEs that benefit from the program.
- 1.32 Consistent with standard practice among domestic financial institutions in Brazil, including BNDES, this program classifies MSMEs according to gross annual sales revenue. Micro, small, and medium-sized enterprises are thus defined as bringing in less than R\$360,000, between R\$360,000 and R\$4.8 million, and between R\$4.8 million and R\$300 million per year, respectively. The [program Operating Regulations](#) (paragraph 3.8) provide detailed information on the eligibility criteria for beneficiaries, BNDES lines of financing eligible for the program (paragraphs 1.28 and 1.29), the maximum loan amount (US\$1 million), the exclusion of operations classified as category "A" or "B" (paragraph 2.3) due to their social and environmental risks, and other topics.⁴⁴

C. Key results indicators

- 1.33 **Expected outcomes.** The program's expected impact is to support the sustainability of MSMEs amid the COVID-19 crisis, as measured by the: (i) average change in sales revenue at the companies supported by the program compared to the control group; and (ii) average change in employment at the companies supported by the program compared to the control group. The outcome indicators for the program will be as follows:
- (i) Under specific objective 1: (i) rate of arrears in the portfolio of the BNDES Crédito Pequenas Empresas financing line at six and 12 months after program start, compared with the rate of arrears in the MSME portfolio of the national financial system; and (ii) rate of survival among companies supported with the BNDES Crédito Pequenas Empresas line at year-end 2020.

⁴² Barboza, R., et al., "O BNDES e as micro, pequenas e médias empresas," BNDES, Discussion Paper 146, 2019. The report presents evidence that some of BNDES's indirect products are less concentrated than the lending market and foster a higher degree of competition.

⁴³ Since disbursements are subject to demand, this number is merely indicative and has been calculated using short-term demand projections. See [optional link 2](#).

⁴⁴ See [program Operating Regulations](#).

- (ii) Under specific objective 2: (i) rate of arrears in the portfolio comprised of the Cartão BNDES, BNDES Automático, and BNDES Finame financing lines six months after the end of the program, compared with rate of arrears in the MSME portfolio of the national financial system; (ii) percentage of long-term credit (more than 60 months) in the Cartão BNDES, BNDES Automático, and BNDES Finame financing lines portfolio; and (iii) total amount of the production-oriented finance portfolio under the Cartão BNDES, BNDES Automático, and BNDES Finame financing lines.

1.34 **Economic viability.** The economic evaluation identifies the flows of benefits and costs generated by the program. The benefits consist of the economic value of the reduction in sales revenue losses, the benefits derived from a higher rate of business survival, and the benefits of jobs preserved as a result of the program. Calculations of the aforementioned flows (discounted at a rate of 12%) yield benefits of US\$590.88 and an internal rate of return of 25.1%. The sensitivity analysis also shows that the program's net present value remains positive amid a series of changes in the values of the main parameters examined ([optional link 1](#)).

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

2.1 The total amount of the proposed program will be US\$900 million, composed of US\$750 from the Bank's Ordinary Capital resources and US\$150 million in local counterpart resources. The operation is structured as a global credit loan, since it involves financial intermediation to the beneficiary MSMEs. The disbursement period will be 24 months.

Table 1. Estimated program costs (US\$)

| Component | IDB | Local | Total | % |
|--|--------------------|--------------------|--------------------|------------|
| Subcomponent 1. Support for improvement of short-term financial capacity | 375,000,000 | 75,000,000 | 450,000,000 | 50 |
| Subcomponent 2. Support for access to production-oriented finance for economic recovery | 375,000,000 | 75,000,000 | 450,000,000 | 50 |
| Total | 750,000,000 | 150,000,000 | 900,000,000 | 100 |

Note: Per standard practice, BNDES will cover the administration, evaluation, and audit costs of the program with its administrative resources as part of its normal operations.

Table 2. Disbursement schedule (US\$)

| Source | Year 1 | Year 2 | Total |
|--------------|--------------------|--------------------|--------------------|
| IDB | 375,000,000 | 375,000,000 | 750,000,000 |
| BNDES | 75,000,000 | 75,000,000 | 150,000,000 |
| Total | 450,000,000 | 450,000,000 | 900,000,000 |
| % | 50% | 50% | 100% |

B. Environmental and social safeguard risks

- 2.2 In accordance with directive B.13 of the Environment and Safeguards Compliance Policy (Operational Policy OP-703), this operation cannot be classified ex ante, since it involves financial intermediation. The environmental and social due diligence was performed in compliance with Directive B.13, analyzing the program's potential socioenvironmental risks and the executing agency's ability to manage them. Based on the due diligence findings, this operation is regarded as having a medium level of financial intermediation risk, considering the size of the operation and the considerable number of subprojects to be financed. Given the nature and very limited size of the potential socioenvironmental impacts identified for the subprojects to receive financing (small-scale projects for MSME working capital and/or investments), only category "C" subprojects will be eligible. Projects or activities in categories "A" and "B" will be ineligible for financing.
- 2.3 The operation's resources will not be used to finance any activities on the program's exclusion list (see Annex C), or activities that entail: (i) involuntary physical or economic resettlement; (ii) negative impact on indigenous groups; (iii) damage to cultural sites or critical cultural sites; (iv) negative impact on protected areas or Ramsar convention sites; or (v) the use of invasive species. Financing will be limited to a maximum of US\$500,000 for subprojects in high-risk sectors and up to US\$1 million in any sector.
- 2.4 The potential social and environmental risks and impacts identified in the program are classified as "low" and will be managed through the environmental and social risk administration system that will be included in the [program Operating Regulations](#), to be approved by the Bank is a condition precedent to the first disbursement (see [environmental and social management report](#)).

C. Fiduciary risks

- 2.5 The Bank has extensive experience with BNDES. The Bank updated its institutional capacity assessment of BNDES in the course of preparing a global credit program in 2020, and BNDES was found to have maintained a high level of technical capacity, with suitable information systems and internal and external controls. In addition, its high capacity for implementation was confirmed in the satisfactory execution of loan 3866/OC-BR. Accordingly, the fiduciary risk for this operation is low (see Annex III).

D. Other key risks and issues

- 2.6 **Development risk.** There is a medium-level risk that resources will be insufficient to meet the demand for MSME finance. To mitigate this risk, the Bank has designed the intervention to yield the maximum possible impact and has sought to coordinate with all relevant stakeholders to ensure that the response is commensurate with MSME financing needs.
- 2.7 **Public management and governance risk.** There is a medium-level risk that implementation of the measures included in this program will be delayed as a consequence of the emergency priorities managed by the government, so the resources might not reach the beneficiary MSMEs in a timely manner. To mitigate this risk, the Bank has designed the program to expedite approval processing and

execute rapidly. Specifically, the preparation of the [program Operating Regulations](#) are very far along and reflect the coordination and agreements reached with BNDES, which will also expedite the start of implementation.

- 2.8 **Macroeconomic and fiscal sustainability risk.** There is a medium-level risk that the combination of the health and economic crisis and external factors, such as the falling price of oil, will significantly affect the country's fiscal and debt position, jeopardizing fiscal sustainability. To mitigate this risk, the Bank, together with other international organizations, is providing technical assistance to the country to prepare and monitor the implementation of post-pandemic economic and fiscal recovery plans that will help put the public finances back on a sustainable trajectory.
- 2.9 **Sustainability.** The program is expected to contribute to easing the temporary difficulties faced by MSMEs as a consequence of the COVID-19 pandemic. Nonetheless, it offers the country the opportunity to leave support mechanisms in place for future emergencies. The demonstration effect of the interventions is expected to enable preventive programs to be developed that reduce MSME vulnerability.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 **Borrower and executing agency.** The borrower for this operation will be BNDES, and the Federative Republic of Brazil will be the guarantor of the financial obligations associated with the loan.
- 3.2 **Execution and administration.** BNDES has an extensive track record financing MSMEs and cooperating with the Bank. It has been increasing MSMEs' share of its loan portfolio since 2015, and MSMEs accounted for 49% of the total amount disbursed in 2019 (98% of all operations), with 97% of the country's municipalities served. Indirect operations through AFIs (see [optional link 8](#), [optional link 9](#), and paragraph 3.5) account for 99% of BNDES's transactions with MSMEs, and 98% of these operations are conducted through digital platforms and processes to streamline lending and improve the beneficiary's experience (paragraph 1.14). This is particularly important in the current crisis, as the program can benefit from the expedited and remote nature of BNDES's usual operations with the MSME sector. In the first round of [COVID-19 emergency measures](#), BNDES approved R\$55 billion in support for the crisis response, of which R\$5 billion is exclusively to finance working capital and investments for MSMEs through its BNDES Crédito Pequenas Empresas financing line (see [optional link 7](#)).

- 3.3 The Bank has a significant track record working with BNDES, including the satisfactory completion of multiple global credit operations. BNDES has prior experience financing MSMEs, and the Bank has determined that BNDES is financially and institutionally sound. BNDES is expected to continue⁴⁵ its satisfactory performance in executing this program.
- 3.4 **Implementation considerations.** The program will be executed in close coordination with a number of actions taken by the Brazilian government (paragraph 1.13) and as part of the actions agreed upon with the Brazilian development system (paragraph 1.14). BNDES will use its existing structure to administer, execute, supervise, and monitor the operation. BNDES's responsibilities will include: (i) overseeing the appropriate use of the program's financial resources and providing timely human and technical resources for program execution; (ii) issuing disbursements to eligible AFIs for loans to MSMEs; (iii) preparing execution reports and submitting them to the Bank; (iv) monitoring the fulfillment of environmental and social safeguards; and (v) monitoring and evaluating the program.
- 3.5 To issue the loans using program resources, BNDES will sign agreements or use its legal instruments currently in place with its AFIs. The eligibility of financial institutions is subject to central bank regulations, and AFIs will be accredited and supervised in accordance with BNDES's accreditation and risk management policies and procedures. The financial institutions will sign legal instruments with each beneficiary MSME, laying out the terms and conditions for each loan (maturity period, interest rates, and fees), which will depend on the nature of the investment, the internal rate of return, and the risk profile.
- 3.6 AFIs include public and private commercial banks, development agencies, and credit unions. To be eligible under this program, AFIs must comply with BNDES's accreditation and risk management policies and procedures, including a formal assessment of legal and technical capacity, thorough qualitative and quantitative risk assessments and process evaluations for each institution, and continuous monitoring.⁴⁶ BNDES will verify that all AFIs meet these requirements in order to remain eligible for the IDB program.
- 3.7 To be eligible, MSMEs must have proven administrative, technical, financial, legal, and environmental capacity to run their businesses and execute eligible investments, in addition to meeting the criteria described in paragraphs 1.31 and 1.32.
- 3.8 **Program Operating Regulations.** The [program Operating Regulations](#) will describe the specific procedures, conditions, and requirements for the use of program resources, including: (i) technical, regulatory, and financial criteria for

⁴⁵ The Bank has had six operations with BNDES in the past decade, including loans [1608/OC-BR](#), [1860/OC-BR](#), [2023/OC-BR](#), [2236/OC-BR](#), [3866/OC-BR](#), and [4672/OC-BR](#). See Annex III, as well as the [presentation on BNDES's performance](#) and the [BNDES strategic plan](#).

⁴⁶ BNDES, [Instituições financeiras credenciadas. Como se credenciar](#), April 2020; [optional link 8](#); and [optional link 9](#).

subloans; (ii) disbursement mechanisms; (iii) eligibility criteria for AFIs and MSMEs; and (iv) monitoring and evaluation requirements.

- 3.9 **Special contractual conditions precedent to the first disbursement of the loan proceeds. As a special condition precedent to the first disbursement of the loan proceeds, evidence will be submitted that the [program Operating Regulations](#) have been approved by the borrower and entered into force.** This condition is needed to establish the structure, guidelines, and procedures to be followed by the executing agency for successful program execution.
- 3.10 **Exceptions to Bank policies.** As in previous loan operations with BNDES,⁴⁷ the guarantee of the Federative Republic of Brazil will be limited to the development bank's financial obligations under the loan (including the amortization of principal, interest, and other lending fees); it will not cover the performance obligations of BNDES or the local counterpart contribution. It is therefore proposed that the Board of Executive Directors approve a partial waiver to the Bank's policy on guarantees required of the borrower (document GP-104-2). This is deemed necessary because Brazilian law does not authorize Brazil's federal government to guarantee the borrower's performance or the local counterpart contribution. BNDES is a solvent, financially autonomous entity with ample operational and financial capacity to honor its obligations to the Bank. This waiver will not affect the Bank's risk profile.
- 3.11 **Retroactive financing.** The Bank may retroactively finance up to US\$150 million (20% of the loan amount) for eligible expenditures (paragraph **Error! Reference source not found.**) incurred by the borrower for Subcomponents 1 and 2 of the program (paragraph **Error! Reference source not found.**) prior to the loan approval date, provided that requirements substantially similar to those established in the loan contract were met. Given that retroactive financing is especially useful in the context of COVID-19 insofar as speedy disbursements facilitate immediate action in response to the crisis, and considering the significant increase in the demand for credit in recent months,⁴⁸ such expenditures must have been made on or after [24 March 2020](#), which is the date BNDES announced a series of measures to respond to the pandemic crisis caused by COVID-19.⁴⁹ Even though this predates the project officially entering the pipeline (document GN-2259-1), authorization of the retroactive financing on an exceptional basis is justified as of that date, given the exceptional circumstances surrounding the global health emergency.
- 3.12 Amortization payments and prepayments of subloans recovered by BNDES above what it needed to service the loan with the Bank, will be used to finance new subloans for up to five years from the date of the last disbursement of the loan.
- 3.13 **Procurement.** As a demand-driven financial intermediation program, no procurement of goods, works, or consulting services is likely to be required as part of execution. For additional details, see the Fiduciary Agreements and Requirements (Annex III).

⁴⁷ Similar partial waivers were approved for all previous loan operations between the IDB and BNDES, including loans [1608/OC-BR](#), [1860/OC-BR](#), [2023/OC-BR](#), [2236/OC-BR](#), [3866/OC-BR](#), and [4672/OC-BR](#).

⁴⁸ See slides 12 through 16 of [optional link 7](#).

⁴⁹ This date is subsequent to the date the pandemic was declared in Brazil (4 February 2020) and by the WHO (11 March 2020, paragraph **Error! Reference source not found.**).

- 3.14 **Disbursements.** Resources for the program will be disbursed by the IDB to BNDES via the modality of advance of funds and/or reimbursement as established in the Financial Management Guidelines for IDB-financed Projects (document OP-273-12) or current IDB policies. Disbursements will be made as reimbursements to BNDES for transfers made to financial intermediaries that have both available credit and have submitted contracts for subloans in compliance with the eligibility criteria established in the [program Operating Regulations](#); or for advances of funds in accordance with the Bank's policies. Disbursement verification will be on an ex post basis, subject to onsite review of the subloans.
- 3.15 **Financial statements and audit.** The executing agency will deliver annual audited financial statements for the program under the terms of reference agreed upon with the Bank, as part of the executing agency's annual financial statements. The financial statements and the annual audited financial statements for the program will be delivered within 120 days after the close of each fiscal year. The final financial statements for the program will be delivered within 120 days after the expiration of the disbursement period or any extensions thereof. In addition, a program audit will be performed by the supreme audit authority or a Bank-eligible external audit firm under the procedures established in the current audit guidelines.

B. Summary of arrangements for monitoring results

- 3.16 **Monitoring.** Program execution will be monitored via semiannual progress reports prepared by the executing agency and delivered within 60 days after the close of each six-month period. The reports will be based on the reporting commitments included in the results matrix for each operation, as well as compliance with the eligibility criteria set out in the [program Operating Regulations](#) (see [required link 1](#)). These reports will be reflected in the progress monitoring reports. For outcome indicators, BNDES will report the final values according to the portfolio report to be submitted as part of the final program report. For impact indicators, the data from the *Relação Anual de Informações Sociais* database of the Ministry of the Economy will be used. This database contains information on numbers of employees, wage bill, and economic sector, and it can be used for an impact evaluation based on the methodology described in paragraph 3.17(ii).
- 3.17 **Evaluation.** Various approaches will be used as part of the strategy for evaluating program results: (i) a reflexive evaluation, before and after the program, to determine the extent of outcomes and impacts; and (ii) a quasi-experimental difference-in-differences impact evaluation with a treatment group consisting of MSME beneficiaries of the program, and a control group consisting of MSMEs in other sectors affected by the COVID-19 crisis but not receiving program benefits. These studies will assess impacts on the reduction of lost sales revenue and the benefits of jobs preserved as a result of the program. The evaluation strategy is described in the [monitoring and evaluation plan](#). The executing agency will bear the costs of evaluation and monitoring in all cases.
- 3.18 **Information for program monitoring and evaluation.** The executing agency will be responsible for maintaining data gathering and monitoring systems, including maintenance of a system for monitoring and evaluation of all subcomponents, which it will use to prepare the reports and data delivered to the Bank and safeguard all information, indicators, and parameters necessary to prepare the project completion

report. The executing agency will bear the costs of evaluation and monitoring in all cases. The additional information required for the evaluation process will be drawn from national and international secondary sources of statistical data and, potentially, reports of relevant organizations relevantes (see [monitoring and evaluation plan](#)).

| Development Effectiveness Matrix | | |
|--|--|---|
| Summary | | BR-L1557 |
| I. Corporate and Country Priorities | | |
| 1. IDB Group Strategic Priorities and CRF Indicators | | |
| Development Challenges & Cross-cutting Themes | -Social Inclusion and Equality -Productivity and Innovation | |
| CRF Level 2 Indicators: IDB Group Contributions to Development Results | -Micro / small / medium enterprises financed (#) | |
| 2. Country Development Objectives | | |
| Country Strategy Results Matrix | | |
| Country Program Results Matrix | GN-2991-3 | The intervention is included in the 2020 Operational Program. |
| Relevance of this project to country development challenges (If not aligned to country strategy or country program) | | As explained in paragraph 1.26, and justified in paragraphs 1.15 to 1.18, this program is part of IDB response to the pandemic caused by the COVID-19 crisis declared by WHO as of 30 January 2020. |
| II. Development Outcomes - Evaluability | | Evaluable |
| 3. Evidence-based Assessment & Solution | | 10.0 |
| 3.1 Program Diagnosis | | 3.0 |
| 3.2 Proposed Interventions or Solutions | | 4.0 |
| 3.3 Results Matrix Quality | | 3.0 |
| 4. Ex ante Economic Analysis | | 10.0 |
| 4.1 Program has an ERR/NPV, or key outcomes identified for CEA | | 3.0 |
| 4.2 Identified and Quantified Benefits and Costs | | 3.0 |
| 4.3 Reasonable Assumptions | | 1.0 |
| 4.4 Sensitivity Analysis | | 2.0 |
| 4.5 Consistency with results matrix | | 1.0 |
| 5. Monitoring and Evaluation | | 9.3 |
| 5.1 Monitoring Mechanisms | | 2.5 |
| 5.2 Evaluation Plan | | 6.8 |
| III. Risks & Mitigation Monitoring Matrix | | |
| Overall risks rate = magnitude of risks*likelihood | | Low |
| Identified risks have been rated for magnitude and likelihood | | Yes |
| Mitigation measures have been identified for major risks | | Yes |
| Mitigation measures have indicators for tracking their implementation | | Yes |
| Environmental & social risk classification | | B.13 |
| IV. IDB's Role - Additionality | | |
| The project relies on the use of country systems | | |
| Fiduciary (VPC/FMP Criteria) | Yes | Financial Management: External Control. |
| Non-Fiduciary | Yes | Environmental Assessment National System. |
| The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions: | | |
| Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project | | |

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

Evaluability Note:

The program, BR-L1557, in the amount of USD900 million, is framed within the Bank's operational response to the COVID-19 Pandemic, Global Credit Program from the Defense of the Productive Economy & Employment. The general objective of the program is to support MSMEs' sustainability in the face of the COVID-19 crisis as a pillar of employment in Brazil. The specific objectives are to: (i) support the short-term financial sustainability of MSMEs; and (ii) promote the economic recovery of MSMEs through access to financing for productive investment.

The loan proposal presents a solid diagnosis of the problem and a review of international evidence. The proposed solution is an appropriate response for the identified problem and its contributing factors. In view of the crisis MSMEs in the country face incremental challenges to their survival and economic recovery which the program seeks to mitigate through the provision of financing. The program's focus is multisectoral and uptake is subject to demand, but the team verified the supported credit lines amply serve the most vulnerable sectors in face of the crisis.

The Results Matrix is coherent with the project's vertical logic, presenting adequate indicators at the outcome and impact level. Outcome indicators are properly defined to measure the program's achievement and fulfillment of its specific objectives. One of the main results is centered on measuring the survival of benefitted companies in comparison to a control group. Moreover, the program's counter-cyclical role will be analyzed in the targeted portfolio for productive investment for MSMEs. The impact indicators – sales and employment of supported companies – reflect the contribution to the project's general objective.

The economic analysis shows that the operation is efficient with an IRR of 25% and an NPV of USD590MM. In a context of high uncertainty, the analysis captures the benefits derived from (i) the reduction in the decrease in the incomes of beneficiary firms and (ii) the preservation of employment in firms that survive thanks to the program.

The monitoring and evaluation plan proposes a reflexive analysis of outcome indicators in the Results Matrix, complemented by a qualitative analysis of the main challenges during execution and the proposed solutions. Moreover, an impact evaluation will be conducted utilizing propensity score matching and differences-in-differences for the measurement of the firm-survival indicator of beneficiary companies in comparison to a control group. The monitoring and evaluation activities shall be conducted by BND, as executing agency, in coordination with the Bank.

RESULTS MATRIX

| | |
|---------------------------|---|
| Program Objective: | The program's general objective is to support the sustainability of micro, small, and medium-sized enterprises (MSMEs) as employment providers in Brazil amid the COVID-19 crisis. Its specific objectives are to: (i) support the short-term financial sustainability of MSMEs; and (ii) promote the economic recovery of MSMEs through access to production-oriented finance. |
|---------------------------|---|

EXPECTED IMPACT

| Indicators | Unit of measure | Baseline (2020) | Final target | Means of verification | Comments |
|---|-----------------|-----------------|--------------|--|--|
| GENERAL OBJECTIVE: Support the sustainability of MSMEs during the COVID-19 crisis | | | | | |
| Indicator 1. Average change in sales revenue at companies supported by the program compared to the control group | % | 0 | 2 | Data of the Relação Anual de Informações Sociais (RAIS), an agency of the Ministry of the Economy of Brazil ¹ | <p>The annual employment database can be used to estimate the companies' sales revenue using a forecasting model developed by the BNDES data science team. An impact evaluation of sales revenue will be conducted using the R-Automated Model for Impact Verification (MARVIm). This model uses techniques such as propensity-score matching and reweighting to estimate impact.</p> <p>The indicator will measure the difference in sales revenue in the absence of program support. The evaluation will only look at companies supported by the program 2020 for which 2020 RAIS data are available and consider a reasonable timeframe in which impact can be evaluated. Consequently, the findings of the evaluation and the values of this indicator will be reported after the program has been officially closed and its completion report issued.</p> <p>Because the companies that are to receive program support and those of the control group are similar, the baseline is zero.</p> <p>The proposed target is in line with the estimates obtained using the <i>MARVIm</i> model for other previous IDB support initiatives and programs.</p> |
| Indicator 2. Average change in employment at companies supported by the program compared to the control group | % | 0 | 4 | RAIS data, Ministry of the Economy | <p>RAIS data can be used to calculate the number of employees at each company. An impact evaluation on employment will be conducted based on MARVIm data. This model uses techniques such as propensity-score matching and reweighting to estimate impact.</p> <p>The indicator will measure difference in the rates with and without program support. The evaluation will only look at companies supported by the program 2020 for which 2020 RAIS data are available and consider a reasonable timeframe in which impact can be evaluated. Consequently, the findings of the evaluation and the values of this indicator will be reported after the program has been officially closed and its completion report issued.</p> <p>The baseline is zero, since the companies supported by the program and those of the control group are similar.</p> <p>The proposed target is in line with the estimates obtained using the <i>MARVIm</i> model for other previous IDB support initiatives and programs.</p> |

¹ The information contained in the RAIS includes data on the number of employees, wage bill, and sectors.

EXPECTED OUTCOMES

| Indicators | Unit of measure | Baseline (2020) | Final target | Means of verification | Comments |
|--|-----------------|-----------------|--------------|---|---|
| SPECIFIC OBJECTIVE 1. Support the short-term financial sustainability of MSMEs | | | | | |
| Indicator 1. Rate of arrears in the portfolio of the BNDES Crédito Pequenas Empresas line at 6 months after program start, compared with the rate of arrears in the MSME portfolio of the national financial system | % | 90 | 90 | Information reported to the Central Bank of Brazil (BCB) and BNDES by accredited financial institutions (Documento 3040) ² | <p>The rate of arrears in the portfolio of the BNDES Crédito Pequenas Empresas line will be calculated on the basis of data submitted to the development bank by those of its financial agents that provide such data, accounting for 53% of disbursements³ that meet the characteristics of this program subcomponent. It will consider the percentage of the portfolio with at least one payment more than 90 days past due.</p> <p>Each month, the BCB reports the rate of arrears in the MSME portfolio of the national financial system, using the same definition of arrears (percentage of the portfolio with at least one payment more than 90 days past due).</p> <p>The baseline corresponds to the rate as of March 2020 (rate of between 3.42 and 3.78).</p> <p>The current baseline should be maintained for the target since both of the portfolios to be analyzed are expected to deteriorate to the same extent. Any value below the established target will be considered an achievement.</p> |

² [Documento 3040](#) is included among the documents financial institutions are required to periodically submit to the BCB. BNDES also asks that its financial agents provide it with the data collected in Documento 3040 for operations involving BNDES resources. Most of BNDES's financial provide it with Documento 3040 data, but not all due to banking confidentiality concerns.

³ This figure was verified for disbursements made between 11 March 2020 and 26 May 2020 in online operations of the BNDES Crédito Pequenas Empresas line.

| Indicators | Unit of measure | Baseline (2020) | Final target | Means of verification | Comments |
|---|------------------|-----------------|--------------|---|---|
| SPECIFIC OBJECTIVE 1. Support the short-term financial sustainability of MSMEs | | | | | |
| Indicator 2. Rate of arrears in the portfolio of the BNDES Crédito Pequenas Empresas line at 12 months after program start, compared with the rate of arrears in the MSME portfolio of the national financial system | % | 90 | 90 | Information reported to the BCB and BNDES by accredited financial institutions (Documento 3040) | <p>The rate of arrears in the portfolio of the BNDES Crédito Pequenas Empresas line will be calculated on the basis of data submitted to the development bank by those of its financial agents that provide such data, accounting for 53% of disbursements⁴ that meet the characteristics of this program subcomponent. It will consider the percentage of the portfolio with at least one payment more than 90 days past due.</p> <p>Each month, the BCB reports the rate of arrears in the MSME portfolio of the national financial system, using the same definition of arrears (percentage of the portfolio with at least one payment more than 90 days past due).</p> <p>The baseline corresponds reflects the values as of March 2020 (rate of between 3.42 and 3.78).</p> <p>The current baseline should be maintained for the target since both of the portfolios to be analyzed are expected to deteriorate to the same extent. Any value below the established target will be considered an achievement.</p> |
| Indicator 3. Difference between the rate of survival among companies supported with the BNDES Crédito Pequenas Empresas line at year-end 2020 compared with the corresponding rate of the control group | Percentage point | 0 | 0.5 | Annual employment database and General Register of Employed and Unemployed Persons (CAGED) of the Ministry of the Economy | <p>This indicator will be calculated on the assumption that a company that survives retains its employees, whereas a company that did not survive would not. RAIS data and the CAGED registry will be used to identify the companies supported that retain employees. CAGED compiles monthly data which are reported several months after the month of reference.</p> <p>An business survival evaluation will be conducted based on the MARVIm model. That model uses techniques such as propensity-score matching, reweighting, and differences-in-differences to estimate impact. The indicator will measure the difference in rates without the program. This evaluation will compare the data of the supported companies at year-end 2020 due to the short-term and urgent nature of the subcomponent's target financing. Owing to the availability of monthly workforce data from CAGED, the evaluation may be conducted within six months after the close of the program.</p> <p>The baseline is zero, since the companies supported by the program and those of the control group are similar.</p> <p>The proposed target is in line with the estimated impact observed on Cartão BNDES line yields, based on previous BNDES evaluations that draw on the same sources of key inputs and taking into account the severe and universal nature of this crisis. The evaluation will draw on BNDES data on requests and transactions associated with the corresponding product and RAIS data on formal-economy businesses and employees.</p> |

⁴ This figure was verified for disbursements made between 11 March 2020 and 26 May 2020 in online operations of the BNDES Crédito Pequenas Empresas line.

| Indicators | Unit of measure | Baseline (2020) | Final target | Means of verification | Comments |
|--|-----------------|-----------------|--------------|---|---|
| SPECIFIC OBJECTIVE 2. Promote the economic recovery of MSMEs through access to production-oriented finance | | | | | |
| Indicator 1. Rate of arrears in the portfolio comprised of the Cartão BNDES, BNDES Automático, and BNDES Finame (not including the BNDES Crédito Pequenas Empresas) lines 6 months after the end of the program, compared with rate of arrears in the MSME portfolio of the national financial system | % | 22 | 22 | Information reported to the BCB and BNDES by accredited financial institutions (Documento 3040) | <p>The rate of arrears in the credit portfolio of the BNDES lines will be calculated on the basis of data submitted to the development bank by those of its financial agents that provide such data, accounting for 69% of disbursements⁵ that meet the characteristics of this program subcomponent. It will consider the percentage of the portfolio with at least one payment more than 90 days past due.</p> <p>Each month, the BCB reports the rate of arrears in the MSME portfolio of the national financial system, using the same definition of arrears (percentage of the portfolio with at least one payment more than 90 days past due).</p> <p>The baseline reflects the values as of March 2020 (rate of between 0.82 and 3.78).</p> <p>The current baseline should be maintained for the target since both of the portfolios to be analyzed are expected to deteriorate to the same extent. Any value below the established target will be considered an achievement.</p> |
| Indicator 2. Percentage of long-term credit (more than 60 months) in the Cartão BNDES, BNDES Automático, and BNDES Finame financing lines portfolio | % | 64 | 50 | BNDES internal information | <p>A term of 60 months is considered long-term credit, based on the characteristics of the credit market in Brazil.</p> <p>The baseline is the portfolio balance of MSME operations under the Cartão BNDES, BNDES Automático, and BNDES Finame lines, with terms of more than 60 months.</p> <p>The proposed target is based on the projected reduction in long-term credit, due to the potential impact of the crisis on investment credit lines for MSMEs associated with: a generalized reduction in credit offerings, which has more of an impact on the MSME segment more than large companies; and greater short-term liquidity needs. The IDB resources are expected to help prevent a more precipitous reduction in this indicator (countercyclical role). Consequently, any value above the established target will be considered an achievement, even if it falls below the baseline. Without the program, BNDES projects that the percentage drop in its long-term credit portfolio would have been greater.</p> |

⁵ This figure was verified for disbursements made between 11 March 2020 and 26 May 2020 in operations of the Cartão BNDES, BNDES Automático (except for BNDES Crédito Pequenas Empresas), and BNDES Finame.

| Indicators | Unit of measure | Baseline (2020) | Final target | Means of verification | Comments |
|---|-----------------|-----------------|--------------|----------------------------|---|
| SPECIFIC OBJECTIVE 2. Promote the economic recovery of MSMEs through access to production-oriented finance | | | | | |
| Indicator 3: Total amount of the production-oriented finance portfolio under the Cartão BNDES, BNDES Automático, and BNDES Finame credit lines | R\$ billions | 75 | 60 | BNDES internal information | <p>This indicator measures the MSME portfolio balance for the lines eligible under this subcomponent (i.e. Cartão BNDES, FINAME, and BNDES Automático). The baseline corresponds to the portfolio value as of March 2020.</p> <p>The proposed target is based on the expected drop in this portfolio due to: (i) the decrease in directed versus unsecured credit observed in recent years, (this is a directed credit line); and (ii) the potential and long-term effects of the crisis on investment credit lines for MSMEs, which often face liquidity problems during the execution period, opting to use short-term emergency credit lines instead of investment credit lines that would facilitate their growth. According to BNDES projections, the IDB resources will help prevent this indicator from falling further (countercyclical role), which, according to estimates, would be 23% without the program. The target takes into account the portfolio value expected at the end of the program plus the resources contributed by the IDB for this subcomponent. Consequently, any value above the established target will be considered an achievement, even if it falls below the baseline.</p> <p>To determine the contribution of IDB resources to the target, an exchange rate of R\$5/US\$ (US\$450 million = R\$2.25 billion).</p> <p>In summary, in the absence of the program, the projected amount issued under these credit lines would have fallen to R\$57.75 billion. The R\$2.25 billion injection of IDB resources is expected to offset this expected R\$17.25 billion loss by 13%. The target is R\$60 billion = R\$57.75 billion + R\$2.25 billion.</p> |

OUTPUTS

| Outputs | Unit of measure | Baseline (2020) | 2021 | 2022 | Final target | Means of verification |
|---|-----------------|-----------------|------|------|--------------|---|
| SUBCOMPONENT 1: Support for improvement of short-term financial capacity (US\$450 million) | | | | | | |
| Output 1: Amount of program resources provided to finance short-term needs under the BNDES Crédito Pequenas Empresas line | US\$ | 0 | 300 | 150 | 450 | Tracking and monitoring data processed by BNDES |
| Annual cost: | US\$ millions | 0 | 300 | 150 | 450 | |
| SUBCOMPONENT 2: Support for access to production-oriented finance for economic recovery (US\$450 million). | | | | | | |
| Output 1: Amount of program resources provided for production-oriented finance under the Cartão BNDES, BNDES Automático, and BNDES Finame credit lines | US\$ | 0 | 150 | 300 | 450 | Tracking and monitoring data processed by BNDES |
| Annual cost: | US\$ millions | 0 | 150 | 300 | 450 | |

Country: Brazil **Sector:** CMF
Cofinancing: Not applicable

Program number: BR-L1557
Co-execution: Not applicable

Year: 2020

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Executing agency: Banco Nacional de Desenvolvimento Econômico e Social (BNDES)
Program name: IDB-BNDES MSME Financing Emergency Global Credit Program for Safeguarding the Productive Fabric and Employment

I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

1. Use of country systems in program¹

| | | | |
|--|--|--|---|
| Budget <input checked="" type="checkbox"/> | Reports <input checked="" type="checkbox"/> | Information system <input checked="" type="checkbox"/> | National competitive bidding (NCB) <input type="checkbox"/> |
| Treasury <input checked="" type="checkbox"/> | Internal audit <input checked="" type="checkbox"/> | Shopping <input checked="" type="checkbox"/> | Advanced NCB <input type="checkbox"/> |
| Accounting <input checked="" type="checkbox"/> | External control <input checked="" type="checkbox"/> | Individual consultants <input type="checkbox"/> | Consulting firm <input type="checkbox"/> |

Applicable laws/regulations: Law 8,666 (federal law on procurement), Law 10,520 (on electronic auction), and Law 13,303 of 2016 (on State-owned enterprises).

2. Fiduciary capacity of the executing agency

The institutional capacity assessment, updated in the course of preparing loan 3866/OC-BR, found that financial management and program coordination are suitable for administering the operation and that technical capacity is high. According to the project completion report for that operation, performance was “satisfactory.”

3. Fiduciary risks and mitigation measures

Fiduciary risk: High ☐; Medium ☐; Low ☒

| Risk | Level of risk | Mitigation plan |
|-------------------------------------|---------------|-----------------|
| No fiduciary risks were identified. | | |

II. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE CONTRACT

| |
|---|
| Conditions precedent to the first disbursement: None. |
| Exchange rate: For purposes of accountability, the exchange rate will be the buy rate published by the Central Bank of Brazil on the date of BNDES's disbursement of funds to the accredited financial institution for financing of the eligible operation. |
| Audited financial statements: The audited financial statements, after being reviewed by the Office of the General Comptroller (CGU), will be submitted within 120 days after the close of BNDES's fiscal year in accordance with the terms of reference agreed upon with the Bank. |

¹ Any system or subsystem subsequently approved may be applicable to the operation, in accordance with the terms of the Bank's validation thereof.

III. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

Exceptions to policies and guidelines

No exceptions to Bank policies are anticipated. The following special temporary measures relative to the Bank's procurement policies, approved by the Board of Executive Directors and set forth in paragraph 4.2 of document GN-2996-10 and paragraph 2 of Resolution DE-28/20, may apply as appropriate:

1. Goods originating from nonmember countries of the Bank may be eligible for procurement, and suppliers, contractors, consultants, and service providers from nonmember countries of the Bank may be eligible for procurement processes.

| | |
|---|--|
| Retroactive financing and/or advance procurement² | <ul style="list-style-type: none"> The Bank may retroactively finance up to US\$150 million (20% of the loan amount) in eligible expenditures (see paragraph 1.13 of the main document) incurred by the borrower prior to the loan approval date for expenditures eligible under Subcomponents 1 and 2 of the program (see paragraph 1.27 of the main document), provided that requirements substantially similar to those established in the loan contract have been met. Given the urgent need to respond to COVID-19, retroactive financing is a valuable tool for immediately addressing the emergency, and considering the significant increase in the demand for credit in recent months,³ these expenditures must have been incurred on or after 24 March 2020, the date BNDES announced a set of measures in response to the COVID-19 pandemic.⁴ Even though this predates the program's official entry into the pipeline (document GN-2259-1), authorization of retroactive financing on an exceptional basis is justified as of that date, given the exceptional circumstances surrounding the global health emergency. |
| Additional procurement support | <ul style="list-style-type: none"> Not applicable |
| Alternative procurement arrangements | <ul style="list-style-type: none"> Not applicable |
| Projects with financial intermediaries | <ul style="list-style-type: none"> As this loan is for global credit programs and other operations in which resources are provided to financial intermediaries that will in turn issue subloans or resources via other onlending modalities, it will be stipulated that the Bank's prohibited practices clauses are to be included in the agreements between the borrower and its financial intermediaries, and those between the latter and the subborrowers. Alternatively, if the effective inclusion of these clauses in the aforementioned contracts is not possible or practical in view of the program's circumstances, the project |

² In accordance with the Bank's policy on retroactive financing, recognition of expenditures, and advance procurement (document GN-2259-1), or the equivalent policy in effect at the time of the operation.

³ See slides 12 through 16 of [optional link 7](#).

⁴ This date is subsequent to the date the pandemic was declared in Brazil (4 February 2020) and by the WHO (11 March 2020, paragraph **Error! Reference source not found.**).

| | |
|---------------------------|---|
| | team may examine other mechanisms to adopt acceptable controls and duly bind the relevant third parties to the Sanctions Procedures. The design of such mechanisms will be coordinated with the Office of Institutional Integrity, with support from the Legal Department, and described in the program Operating Regulations . |
| Procurement agents | <ul style="list-style-type: none"> Not applicable |
| Direct contracting | <ul style="list-style-type: none"> Not applicable |

| | |
|---|--|
| Operating expenses: <input type="checkbox"/> Not applicable | Domestic preference: <input type="checkbox"/> Not applicable |
|---|--|

| |
|---|
| General program procurement supervision method: Not applicable |
| Supervision method: Not applicable For: Not applicable |

Country thresholds: www.iadb.org/procurement.

IV. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

| | |
|---|--|
| Programming and budget | <ul style="list-style-type: none"> BNDES is a State-owned enterprise with legal status and its own assets. As such, it is not funded by the federal government budget. BNDES complies with local regulations set forth in the annual budget law and maintains advanced financial management systems. Its planning and programming functions and responsibilities are documented in the financial planning and programming manual, as well as in the planning policies authorized by its board of directors. |
| Treasury and disbursement management | <ul style="list-style-type: none"> Loan proceeds will be disbursed in U.S. dollars in the form of reimbursements of expenditures and/or, alternatively, advances of funds. Disbursement requests will be submitted to the Bank as stipulated in the loan contract, the program Operating Regulations, and the Bank's financial management guidelines. For advances of funds, BNDES will submit a financial plan with estimates of how resources will be used for a period of up to six months. Expenditures for at least 80% of previously advanced funds must be justified before further advances may be requested. The Bank will conduct its verifications via sampling on an ex post basis. The Bank will reimburse BNDES for up to US\$1 million in transfers per financed operation eligible under the program. The Bank will process disbursements and deposit funds in U.S. dollars into the bank account designated by BNDES. |
| Accounting, information systems, and reporting | <ul style="list-style-type: none"> BNDES has a robust information system that supports accounting and financial recordkeeping for its operations. For second-tier operations, the accredited financial agent submits operation information online to BNDES. The lending process is digitized and approval automated through the "BNDES Online" platform. This reduces transaction costs, boosts compliance, and enhances security in transactions. |

| | |
|--------------------------------------|--|
| | <ul style="list-style-type: none"> • BNDES will disburse funds to the financial agent, who in turn will disburse them to the final beneficiary. These operations will be recorded in BNDES's operations system. • BNDES complies with central bank regulations for Brazilian banks and follows Brazilian reporting standards. BNDES also publishes its reports, for informational purposes, pursuant to International Public Sector Accounting Standards. • BNDES's debt-related recordkeeping and oversight operations, as well as its collection system, are indexed to multiple currencies, thus allowing for records to be kept in local currency and in U.S. dollars. BNDES will record all IDB loan transactions in its own systems, using the exchange rate in effect on the day the transfer is made to the accredited financial institution. |
| External control | <ul style="list-style-type: none"> • BNDES will submit the program's audited financial statements to the Bank within 120 days after the close of each fiscal year. This report will be audited by the CGU in accordance with the terms of reference previously agreed upon with the Bank. |
| Program financial supervision | <ul style="list-style-type: none"> • The Bank will conduct its verifications of the program via sampling on an ex post basis. |

V. RELEVANT INFORMATION FOR THE OPERATION

Policies and guidelines applicable to the operation

| Financial management | Procurement |
|--|--|
| <ul style="list-style-type: none"> • Document GN-2811 [OP-273-12] | <ul style="list-style-type: none"> • Document GN-2349-15 • Document GN-2350-15 |

Records and files

| |
|---|
| As noted in the previous section, BNDES has a robust, fully digitized information system, including digital platforms to assist small and medium-sized enterprises ("Front Office Digital" and "BNDES Online"), thus ensuring a high level of accountability. |
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DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-____/20

Brazil. Loan ____/OC-BR to Banco Nacional de Desenvolvimento Econômico e Social - BNDES. IDB-BNDES MSME Financing Emergency Global Credit Program for Safeguarding the Productive Fabric and Employment

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with Banco Nacional de Desenvolvimento Econômico e Social - BNDES, as borrower, and with the Federative Republic of Brazil, as Guarantor, for the purpose of granting the former a financing aimed at cooperating in the execution of the IDB-BNDES MSME Financing Emergency Global Credit Program for Safeguarding the Productive Fabric and Employment. Such financing will be in the amount of up to US\$750,000,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ____ 2020)