



# Board of Executive Directors

## No-Objection Procedure

Expires on 9 October 2020

PR-4836  
25 September 2020  
Original: Spanish  
**Public**  
**Simultaneous Disclosure**

**To:** The Executive Directors  
**From:** The Secretary  
**Subject:** Brazil. Loan proposal for the "Investment Guarantee Fund Emergency Global Credit Program for Access to Credit"

**Basic Information:** Loan type ..... Global Credit Operation (GCR)  
Borrower ..... Federative Republic of Brazil  
Amount ..... up to US\$200,000,000  
Source ..... Ordinary Capital

**Inquiries to:** María Netto (extension 2009) or Daniel Fonseca (extension 3451)

**Remarks:** Management has determined that this loan proposal meets the requirements for presentation by No-Objection Procedure, in accordance with Part III, Section 2 (paragraph 3.29 (b)) of the Regulations of the Board of Executive Directors and Part III, paragraph 3.5 of document GN-1838-3.

The Executive Directors are requested to inform the Secretary, in writing with copy to "**SEC-EXE**", no later than **9 October 2020**, if they wish to interrupt this procedure. If no such communication is received by that date, the attached resolution will be considered adopted by the Board of Executive Directors, and a record to that effect will be made in the minutes of a forthcoming meeting.

**Reference:** AB-3190-2(4/19), GN-1838-3(6/18), GN-2667-2(7/12), GN-2768-7(7/17), GN-2973(8/19), GN-2996(3/20), GN-2991-3(8/20),



DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**BRAZIL**

**INVESTMENT GUARANTEE FUND (FGI) GLOBAL EMERGENCY CREDIT  
PROGRAM FOR ACCESS TO CREDIT (FGI-PEAC)**

**(BR-L1559)**

**LOAN PROPOSAL**

This document was prepared by the project team consisting of: Maria Netto (IFD/CMF), Project Team Leader; Daniel Fonseca (IFD/CMF), Alternate Project Team Leader; Luciano Schweizer, Rafael Cavazzoni Lima, María Carmen Fernández Díez, Isabelle Braly-Cartillier, Eduardo Sierra, Rodrigo Pereira Porto, Claudia Márquez, Cecilia Bernedo, and Fanny Porras (IFD/CMF); Oscar Mitnik and Jacqueline Bueso Merriam (SPD/SDV); Guillermo Eschoyez (LEG/SGO); Mario Ricardo Castañeda, Leise Villela, and Karina Miriam Diaz Briones (VPC/FMP); Juliana Bettini and Octavio Damiani (CSD/RND); Raúl Rodríguez (INE/TSP); Guilherme Piereck (INT/TIN); Arturo Alarcón and Carlos Echeverria (INE/ENE); Christiaan Gischler (INE/INE); Diego Cortes Arce (CSC/CSC); Marcia Groszmann Faria (INO/FLI); Daniel Hincapie (OPR/REM) and Fernando Pacheco Machado Dias and José Luiz Rossi Junior (CSC/CBR).

In accordance with the Access to Information Policy, this document is being released to the public and distributed to the Bank's Board of Executive Directors simultaneously. This document has not been approved by the Board. Should the Board approve the document with amendments, a revised version will be made available to the public, thus superseding and replacing the original version.



## CONTENTS

### PROGRAM SUMMARY

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

## APPENDICES

Proposed resolution

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

REQUIRED LINKS	
1.	<a href="#">Simplified monitoring and evaluation plan</a>
2.	<a href="#">Environmental and social management report</a>

OPTIONAL LINKS	
1.	<a href="#">Economic viability rationale</a>
2.	<a href="#">Diagnostic assessment of MSME issues</a>
3.	<a href="#">Bibliography</a>
4.	<a href="#">Program operational flow diagram</a>
5.	<a href="#">Brazil: Vulnerability of productive sectors in the face of the COVID-19 spread</a>
6.	<a href="#">Program Operating Regulations</a>
7.	<a href="#">Introduction to the Emergency Credit Access Program (FGI-PEAC)</a>
8.	<a href="#">Summary of the main economic, monetary, and financial measures adopted in response to the COVID-19 global pandemic emergency in Brazil</a>
9.	<a href="#">BRASIL: Fundos de Aval como Mecanismo de Garantia para Micro, Pequenas e Médias Empresas</a>
10.	<a href="#">Safeguard policy filter</a>

## ABBREVIATIONS

BACEN	Banco Central do Brasil [Central Bank of Brazil]
BNDES	Banco Nacional de Desenvolvimento Econômico e Social [Brazilian Development Bank]
CAGED	Cadastro Geral de Empregados e Desempregados [General Registry of Employed and Unemployed Persons]
CGU	Controladoria Geral da União (Office of the Comptroller General of Brazil)
ECLAC	Economic Commission for Latin America and the Caribbean
ESMR	Environmental and social management report
FAMPE	Fundo de Aval às Micro e Pequenas Empresas [Microenterprise and Small Business Guarantee Fund]
FGI	Fundo Garantidor para Investimentos [Investment Guarantee Fund]
FGI-PEAC	Investment Guarantee Fund Global Emergency Credit Program for Access to Credit
FGO	Fundo Garantidor de Operações [Operations Guarantee Fund]
IMF	International Monetary Fund
IPEA	Instituto de Pesquisa Econômica Aplicada [Institute for Applied Economic Research]
LIBOR	London Interbank Offered Rate
MARVIm	Modelo Automatizado em R de Verificação de Impacto [Automated R-Model for Impact Verification]
MSMEs	Micro, small, and medium-sized enterprises
NCB	National competitive bidding
NDB	New Development Bank
PRONAMPE	Programa Nacional de Apoio às Microempresas e Empresas de Pequeno Porte [National Support Program for Microenterprises and Small Businesses]
RAIS	Relação Anual de Informações Sociais [annual report of socioeconomic data compiled from a mandatory survey of employers in Brazil]
SEBRAE	Serviço Brasileiro de Apoio às Micro e Pequenas Empresas [Brazilian Support Service for Microenterprises and Small Businesses]
SMEs	Small and medium-sized enterprises
WHO	World Health Organization





## PROGRAM SUMMARY

### BRAZIL

#### INVESTMENT GUARANTEE FUND (FGI) GLOBAL EMERGENCY CREDIT PROGRAM FOR ACCESS TO CREDIT (FGI-PEAC) (BR-L1559)

Financial Terms and Conditions				
Borrower:			Flexible Financing Facility <sup>(a)</sup>	
Federative Republic of Brazil			Amortization period:	25 years
Executing agency:			Disbursement period:	1 year
Banco Nacional de Desenvolvimento Econômico e Social (BNDES)			Grace period:	5.5 years <sup>(b)</sup>
Source	Amount (US\$)	%	Interest rate:	LIBOR-based
IDB (Ordinary Capital)	200	100	Credit fee:	(c)
			Inspection and supervision fee:	(c)
Total	200	100	Weighted average life:	15.25 years
			Approval currency:	U.S. dollar
Program at a Glance				
<b>Program objective/description:</b> The general objective of the program is to support the survival of small and medium-sized enterprises (SMEs) as employment providers in Brazil amid the COVID-19 crisis. The specific objective is to support the short-term financial sustainability of SMEs.				
<b>Special contractual conditions precedent to the first disbursement of the loan proceeds:</b> The following will be conditions precedent for the first disbursement of the loan proceeds: (i) evidence that the <a href="#">program Operating Regulations</a> have been approved by the borrower and the executing agency, and have entered into force in accordance with a draft that was previously agreed upon with the Bank; and (ii) evidence that the borrower has signed a subsidiary agreement with BNDES governing the resources provided to the FGI-PEAC and execution of program activities, in accordance with a draft previously agreed upon with the Bank (paragraph 3.6).				
<b>Exceptions to Bank policies:</b> None				
Strategic Alignment				
<b>Challenges:</b> <sup>(d)</sup>		SI <input checked="" type="checkbox"/>	PI <input checked="" type="checkbox"/>	EI <input type="checkbox"/>
<b>Crosscutting themes:</b> <sup>(e)</sup>		GD <input type="checkbox"/>	CC <input type="checkbox"/>	IC <input type="checkbox"/>

<sup>(a)</sup> 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, subject in all cases to the final amortization date and the original weighted average life. The Bank will take market conditions as well as operational and risk management considerations into account when reviewing such requests.

<sup>(b)</sup> 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.

<sup>(c)</sup> The credit fee and the 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 applicable policies.

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

<sup>(e)</sup> 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, problem to be addressed, and rationale

- 1.1 Background. Faced with the threat of COVID-19, the Brazilian government declared a state of emergency on 4 February 2020.<sup>1</sup> This declaration preceded the announcement by the World Health Organization (WHO) recognizing the disease as a pandemic caused by the novel coronavirus or SARS-CoV2 virus and affecting the respiratory system.<sup>2</sup> According to the WHO, more than 30 million cases have been confirmed worldwide in 216 countries, areas, and territories as of 18 September 2020, resulting in 943,433 deaths. In Brazil, 4,419,083 cases and 134,106 deaths have been recorded.<sup>3</sup> In addition, according to the WHO, the country is at level four of five in terms of its preparedness and capacity to manage public health events.<sup>4</sup> More than 8,643,991 confirmed cases of COVID-19 and 326,234 deaths have been reported in Latin America and the Caribbean, affecting all countries of the region. In South America, the situation is unfortunately growing more worrisome. The subregion has become the new epicenter of the disease, as the WHO recently indicated.<sup>5</sup> Brazil has the world's second largest number of cases and is the region's hardest hit country. The number of cases and deaths is expected to continue to rise.
- 1.2 **Macroeconomic and/or social context.** The global situation has undergone a radical change. As a result, the world economy is heading into a recession, with short-term prospects of a sharp decline in output and revenue and a rise in unemployment.<sup>6</sup> The economic impacts of COVID-19 will be felt through different channels and at different times. The first, associated with the priority of saving lives in the very short term, is the direct costs of the health sector response. The second is 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 (closing schools, canceling public events, etc.), decisions made by companies and other institutions (teleworking, cutting back production, etc.), 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 lingering effects, 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)

---

<sup>1</sup> The Minister of Health declared a "public health emergency of national significance" through [Ministerial Directive 188 of 3 February 2020](#), which entered into force a day after its publication. The state of public emergency was recognized by [Legislative Decree 6 of 20 March 2020](#), on the terms of the presidential request ([Message 93 of 18 March 2020](#)).

<sup>2</sup> See [opening address](#) by the Director-General of the WHO at the press conference on COVID-19 held on 11 March 2020.

<sup>3</sup> See [WHO COVID-19 Situation Dashboard](#) (18 September 2020) and [Painel Coronavírus, Ministério de Saúde](#). (18 September 2020).

<sup>4</sup> [WHO COVID-19 Country Preparedness and Response Status for COVID-19](#), March 2020.

<sup>5</sup> See [Media Briefing](#), 22 May 2020.

<sup>6</sup> International Monetary Fund (IMF), [The Great Lockdown: Worst Economic Downturn Since the Great Depression](#), April 2020.

sees at least five conduits through which the impacts of the crisis will be passed on to the region's economy:<sup>7</sup> (i) slowing economic activity for key trading partners, affecting their demand for Brazilian exports; (ii) lower 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 associated restrictions are expected to harm businesses of all sizes as their revenues are impacted. An estimated more than 50% of businesses worldwide are forecasting a negative impact on revenues and earnings for 2020, and close to 80% of Latin American consumers plan to spend less in 2020.<sup>8</sup>

- 1.4 Against this backdrop, the COVID-19 pandemic poses an unprecedented challenge for Brazil:<sup>9</sup> coming at a time when the Brazilian economy was experiencing a gradual resumption of growth,<sup>10</sup> its economic effects are expected to be severe.<sup>11</sup> The Focus report<sup>12</sup> projects a 5.66% drop in gross domestic product (GDP) in 2020. While the impact of the recession will be felt throughout the economy, micro, small, and medium-sized enterprises (MSMEs) are expected to be hardest hit. This is because they tend to engage in business activities that require personal interaction and have limited cash reserves, which puts them at greater risk of progressing from lack of liquidity to insolvency. Since MSMEs play an important role in job creation in the country, particularly by employing low-income individuals, their current situation has influenced Brazil's policy response to the COVID-19 crisis.<sup>13</sup> Economic policy has addressed the outlook for a rise in unemployment and a decline in income by adopting monetary and fiscal measures.<sup>14</sup> The former include reducing the interest rate and reserve requirements while expanding credit and increasing liquidity by temporarily relaxing prudential rules.<sup>15</sup> The latter include measures, already exceeding the

---

<sup>7</sup> ECLAC bulletin, March 2020.

<sup>8</sup> Muniz, J. et al., Boston Consulting Group, COVID-19 Threatens to Shutter Latin America's Small Businesses, April 2020.

<sup>9</sup> World Bank, [COVID-19 in Brazil: Impacts and policy responses](#), 2020.

<sup>10</sup> Starting in 2018, the economic activity data indicated that the recovery process of the Brazilian economy had gained some traction: the changes in fiscal policy had reduced the growth of public sector debt and improved the outlook for the future. By January 2020, it was projected that the debt would amount to 78.2% of GDP in 2020 and then decline, reaching 67.3% of GDP in 2028. Instituto de Pesquisa Econômica Aplicada [Institute for Applied Economic Research] (IPEA), [Carta de Conjuntura](#), 2019; and Brazilian National Treasury, [Relatório de Projeções da Dívida Pública](#), 2019.

<sup>11</sup> An interregional computable dynamic general equilibrium model can help to more accurately begin to estimate the economic impacts of COVID-19 in Brazil. A study led by Porse et al. (2020) considers two simulation scenarios. The first assumes that the economic system is affected through two conduits: a work supply shock stemming from the morbidity and mortality rates caused by the pandemic; and a temporary, two-month shutdown of economic activity due to social distancing. The second scenario adds the effects of the fiscal measures adopted by the federal government to counteract the impact of COVID-19 on the Brazilian economy. For 2020, the results indicate a 1.87% reduction in the GDP growth rate under scenario 1 and a GDP growth rate reduction of 1.21% under scenario 2. The federal government measures examined in this study help to mitigate the projected drop in GDP growth rate by about 35%. Universidade Federal de Paraná, [Impactos Econômicos da COVID-19 no Brasil](#), April 2020.

<sup>12</sup> [Focus report](#), August 2020.

<sup>13</sup> World Bank, [COVID-19 in Brazil: Impacts and Policy Responses](#), 2020.

<sup>14</sup> Banco Central do Brasil (BACEN), [Summary of measures taken](#), 2020.

<sup>15</sup> BACEN, [Banco Central injeta R\\$135 bilhões na economia](#), 2020.

equivalent of 10% of GDP,<sup>16</sup> to cushion the negative impact of the crisis on income (especially for the poor), on employment, and, to the extent possible, on MSME production and their general situation.<sup>17</sup> For an overview of the intervention, see [optional link 2](#).

- 1.5 **Current limitations on access to financing by small and medium-sized enterprises (SMEs) in Brazil.** Throughout Latin America and the Caribbean, support for the MSME sector is considered particularly critical in confronting the crisis. In Brazil, the response to the COVID-19 emergency has involved the creation of programs solely devoted to solving the problem of access to credit by MSMEs. The National Support Program for Microenterprises and Small Businesses (PRONAMPE),<sup>18</sup> which focuses on assisting this segment, is supported by the Operations Guarantee Fund (FGO), managed by Banco do Brasil. In turn, the Emergency Credit Access Program (PEAC),<sup>19</sup> which focuses on assisting SMEs, is supported by the Investment Guarantee Fund (FGI), managed by BNDES (paragraph 1.16). In this particular case, considering that Brazil's federal government has asked the IDB to support implementation of the FGI-PEAC, this operation will focus on supporting SMEs affected by COVID-19.
- 1.6 SMEs are important for the Brazilian economy: according to data of the *Relação Anual de Informações Sociais (RAIS)*,<sup>20</sup> they account for 40.3% of total jobs and 34% of total salaries. However, SMEs face significant obstacles to growth, particularly in terms of access to finance.<sup>21</sup> According to the World Economic Forum, Brazil ranks among the 55 best countries out of a total of 141 in the financial system development pillar,<sup>22</sup> but ranks 103rd in SME finance. In the financial market development index,<sup>23</sup> Brazil ranks 92nd out of 137 countries and is thus below the median. According to the World Bank's [Doing Business](#) report, Brazil is ranked in 105th place out of 190 countries in the "getting credit" category.
- 1.7 The problem of SME access to finance in Brazil stems from two factors: (i) the characteristics of the local financial system, which is highly concentrated<sup>24</sup> and is generally characterized by the limited affordability of financial services and relative

---

<sup>16</sup> IMF, [Economic Policy in Latin America and the Caribbean in the Time of COVID-19](#), 2020.

<sup>17</sup> IPEA, [Carta de conjuntura](#), 2020.

<sup>18</sup> [PRONAMPE](#).

<sup>19</sup> [PEAC](#).

<sup>20</sup> The values are for private-sector businesses with up to 249 employees, reflecting the definition of SMEs according to the Instituto Brasileiro de Geografia e Estatísticas [Brazilian Geography and Statistics Institute] (IBGE).

<sup>21</sup> Ambrozio, A. et al., Credit Scarcity in Developing Countries: An empirical investigation using Brazilian firm-level data, *Economia*, Vol. 18, No. 1, 2017.

<sup>22</sup> World Economic Forum, Global Competitiveness Report 2019, 2020.

<sup>23</sup> World Economic Forum, Global Competitiveness Index 2017-2018, 2018.

<sup>24</sup> The system is highly concentrated, with the five largest banking institutions (RC5) accounting for 79.5% of total assets, 82.9% of total deposits, and 82.2% of total credit transactions in the country (BACEN, 2019). This high concentration in the financial system tends to lead to more expensive interest rates as a result of limited competition. It has also been argued that, given the positive relationship between concentration and bank fragility, increased competition reduces a country's likelihood of suffering a systemic banking crisis. Boyd and De Nicolo, *The Theory of Bank Risk Taking and Competition Revisited*, 2005, and [optional link 9](#).

inefficiency of financial institutions;<sup>25</sup> and (ii) the perceived risk attributed to SMEs by financial institutions, given: (a) the constraints on the availability and reliability of information on businesses for decision-making purposes; (b) the small scale of the transactions, which translates into higher costs when serving this market segment; and (c) businesses' lack of assets to use as collateral to secure loans.<sup>26</sup> As a result of the foregoing, rationing of credit can hinder investment processes aimed at expanding production capacity or introducing innovations. In more extreme cases, it may even trigger the closure of a business and a concomitant loss of jobs. Furthermore, the limited development of SMEs discourages the creation of new enterprises and the possibility of growing the number of dynamic enterprises operating in the economy.

- 1.8 This situation tends to become more drastic and negative in times of economic crisis, such as the current one stemming from the COVID-19 pandemic. Financial institutions, like other market participants, take their liquidity needs into account when making decisions. Specifically, they face the challenge of finding a balance between liquidity and yield when devising their portfolio strategies. Liquidity is more highly valued during periods of greater uncertainty (to the detriment of profitability), while yield (and greater propensity to risk) is appreciated when perceived uncertainty is lower. Financial institutions tend to display a procyclical behavior: in the economic growth phase, they tend to accommodate SME demand for credit (they take on more risk, basing their expectations of higher yield on a presumably continuous growth of earnings and revenues), while in the economic slowdown phase, their preference for liquidity leads to credit rationing just when SMEs are in need of funds to continue doing business and/or refinance their debt.<sup>27</sup>
- 1.9 The trajectory of the SME credit portfolio in Brazil during the recent economic recession between 2015 and 2018<sup>28</sup> illustrates the foregoing. The Brazilian financial system reduced its monthly credit exposure to SMEs from about R\$692 billion (US\$128 billion) in 2014 to approximately R\$526 billion (US\$97.4 billion) in 2018 (see Figure 1). Exposure to large companies initially increased, but then declined to a low of R\$914 billion (US\$169 billion) in 2018. With the outlook pointing to an economic recovery in 2019, SME credit balances resumed their growth until April 2020, although at a lower rate than credit balances for large companies.<sup>29</sup>

---

<sup>25</sup> The cost of finance for SMEs, as charged by financial institutions in Brazil, is considerably higher (34.7%) than the equivalent costs in Mexico (9.1%), Chile (4.3%), and Colombia (3.9%).

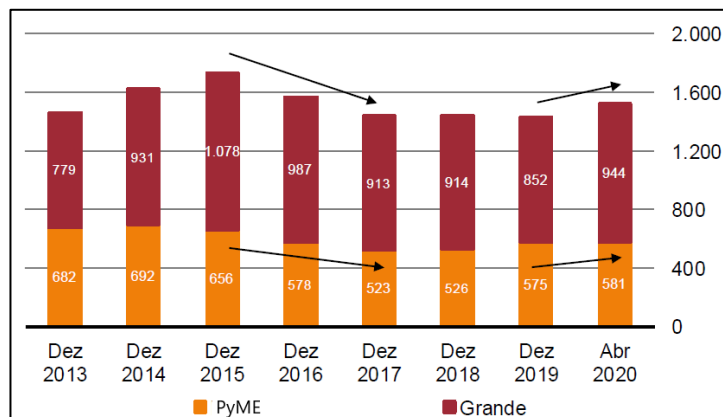
<sup>26</sup> Barboza, R., et al., *O BNDES e as micro, pequenas e médias empresas*, BNDES, Textos para discussão No. 146, 2019.

<sup>27</sup> Penido de Freitas, M.C., *Os efeitos da crise global no Brasil: aversão ao risco e preferência pela liquidez no mercado de crédito*, 2009.

<sup>28</sup> Brazil's GDP growth (annual %) was -3.5% in 2015, -3.3% in 2016, 1.06% in 2017, and 1.11% in 2018 (see World Bank).

<sup>29</sup> Campos Neto, R., *Novas Medidas de Combate aos Efeitos da COVID-19*, BACEN, June 2020.

**Figure 1. Trajectory of credit balances in Brazil  
by size of business, 2013-2020  
(R\$ billions)**



Source: BACEN

- 1.10 While the restrictions associated with the pandemic are expected to affect businesses of all sizes, the SME sector is particularly sensitive to the imposed limitations and the resulting recession (paragraphs 1.8 and 1.9) and will face significant consequences in both the near and the long term. For example, it is estimated that 20% to 25% of the traditional retail establishments are at risk of closing down permanently due to the expected demand shock.<sup>30</sup> According to a recent survey on the impact of COVID-19 on small businesses in Brazil,<sup>31</sup> 88.9% of business owners report a decline in weekly revenues on the order of 69% on average in comparison to a normal week. In addition, 58.9% of business owners report having temporarily suspended their business activities and close to 68.1% report needing financing to keep their business operating without cutting back on the number of employees. Even more importantly, at least 51.4% of SMEs that have applied for financing in the context of the pandemic have been rejected.<sup>32</sup>
- 1.11 The foregoing shows that times of crisis such as the present are characterized by a general dearth of liquidity and funding alternatives. The fast-occurring and sharp imbalance between financing needs and credit availability alters the relative prices of credit and, coupled with higher perceived risk, limits access to finance. When the market fails to respond, the government has to step in through measures that foster and remedy the lack of liquidity while assuaging the risk perceptions of financial institutions, particularly with regard to the SME segment.<sup>33</sup>
- 1.12 In this context, a guarantee mechanism, combined with Brazil's efforts to provide liquidity for the financial sector, would mitigate the risk associated with SMEs and thereby encourage financial institutions to participate more intensively in building

<sup>30</sup> Muniz, J. et al., COVID-19 Ameaça Fechar Pequenas Empresas na América Latina, Boston Consulting Group, April 2020.

<sup>31</sup> Brazilian Micro and Small Enterprise Support Service (SEBRAE), Fundação Getúlio Vargas Projetos, Crédito no Brasil para MPEs em tempo de COVID-19, May 2020, and [optional link 2](#).

<sup>32</sup> Ibid.

<sup>33</sup> De Paula, L. et al., *Estrutura do setor bancário e o ciclo recente de expansão do crédito: o papel dos bancos públicos federais*, 2013.



a loan portfolio for this segment, thus ensuring that the private financial sector directly contributes to the stabilization and recovery of the productive sector. The availability of a guarantee provides three decisive benefits: (i) it enables SMEs to finance their cash flow and make their business viable in the medium term; (ii) it provides financial institutions with an instrument to mitigate the risk associated with the SME segment, enabling them to require less provisioning and facilitating the continuity and potential expansion of their SME portfolio; and (iii) it allows the economy as a whole to benefit from the ability of SMEs to continue operating in the medium term, using social security benefits to blunt the impact of business closures and job losses, and creating conditions to facilitate a faster economic recovery.

- 1.13 **Challenges and progress.** SMEs face the problem of safeguarding their short-term financial sustainability while undergoing a temporary suspension of business activity as a result of the pandemic. Although the lack of financing was a structural issue for SMEs even in normal times, the economic crisis triggered by the pandemic has created a yet more dire situation for these companies. This being the case, the challenge will be twofold: to protect Brazil's productive sector affected by the economic consequences of the COVID-19 crisis with a view to keeping afloat the largest possible number of SMEs that were commercially viable before the onset of the pandemic; and to support the recovery of SMEs that can continue to operate normally with financing assistance.
- 1.14 The Brazilian government has been implementing measures designed to cushion the economic impact of the crisis on the productive sector.<sup>34</sup> The government, especially Brazil's central bank (BACEN), has been quite resolute in its support for the economy and for the productive sector in particular. BACEN is coordinating the injection of close to US\$130 billion into the financial system to boost its lending capacity. In addition, public banks, mainly federal institutions such as BNDES, Caixa Econômica Federal (CEF), and Banco do Brasil, as well as other, subnational lending institutions, have approved emergency credit programs to confront the COVID-19 crisis. For example, BNDES announced two packages of [COVID-19 emergency measures](#). While these measures are primarily aimed at providing financial liquidity, there is also a need to steer the support efforts toward facilitating financial risk mitigation and renegotiation of loan transactions in order to promote a faster resumption of activity by financial institutions and help protect the soundness of the banking system.<sup>35</sup>
- 1.15 In this regard, Brazil's existing guarantee funds, which operate as mechanisms for issuing guarantees to complement loan transactions between businesses and financial institutions, become key elements of public policy to address the COVID-19 emergency. Over the years, the Brazilian government, aware of the need to confront the perceived risk of MSMEs in the eyes of financial institutions, has launched various credit guarantee initiatives at both the national and subnational levels (see [optional link 9](#)). These various initiatives notably include four guarantee funds: (i) FGI, managed by BNDES; (ii) FGO, managed by Banco do Brasil; (iii) the Microenterprise and Small Business Guarantee Fund

---

<sup>34</sup> [Optional link 8](#) and World Bank, [Map of SME-Support Measures in Response to COVID-19](#), 2020.

<sup>35</sup> This includes debt payment deferment, restructuring, and rescheduling measures as well as new lines of credit on concessional terms and support to financial institutions through guarantees and adjustment of capital requirement ratios.



(FAMPE), managed by the Brazilian Support Service for Microenterprises and Small Businesses (SEBRAE); and (iv) Sociedades Garantidoras de Crédito [credit guarantee societies], managed by private entities in specific regional contexts. These funds have been created with public and private resources and tend to foster financing for specific business segments that have difficulties in accessing credit because they lack sufficient collateral to secure loan transactions. The guarantee is issued by means of a formal endorsement by the fund, securing a portion of the financing. If the borrower defaults, the fund honors the guarantee for the secured portion and becomes the creditor.<sup>36</sup>

- 1.16 As indicated above (paragraph 1.5), in an effort to supplement the credit supply measures adopted in response to the COVID-19 crisis with financial risk mitigation mechanisms, the government has selected the FGO and FGI funds to structure two new initiatives to address the crisis. The first is PRONAMPE,<sup>37</sup> a new, FGO-based vehicle focused on microenterprises and small businesses, which is managed by Banco do Brasil. The second is PEAC,<sup>38</sup> a new guarantee facility created under the FGI, focused on SMEs and managed by BNDES. The FGI-PEAC, a guarantee mechanism to be supported through this new, IDB-financed operation (see [optional link 7](#)), is a private legal entity with separate assets and its own resources. Its objective is to expand access to credit to enable SMEs to obtain working capital through guarantees designed to mitigate the risk for financial institutions. Through the FGI-PEAC, based on Law 14,042/2020, Brazil's government intends to contribute up to R\$20 billion (US\$3.7 billion)<sup>39</sup> in guarantees to financial institutions accredited to participate in the PEAC that have liquidity but, in view of the economic crisis triggered by the pandemic, lack the appetite to build and maintain an SME loan portfolio.
- 1.17 The Brazilian government's contribution to the FGI to create the FGI-PEAC will be deposited into a separate account since, unlike the FGI, the FGI-PEAC is to be used for working capital loans to SMEs affected by the crisis. All financial institutions, whether public or private, will be eligible to obtain guarantees under the FGI-PEAC through 31 December 2020, provided they have a national scale rating of BBB- or higher and comply with a legal analysis by BNDES or have a credit limit to operate with BNDES. To obtain loans from financial institutions, SMEs will be required to have had annual gross revenues of R\$360,000 (US\$66,600) to R\$300 million (US\$55.5 million) in 2019. The maximum amount of each loan to be guaranteed by the FGI-PEAC is R\$10 million (US\$1.8 million). The FGI-PEAC will guarantee 80% of the loans and will cover losses of up to 30% of the loan portfolio of a financial institution (stop-loss mechanism). Loan transactions will have a grace period of 6 to 12 months, a term of 12 to 60 months, and an interest rate limit agreed upon by the financial institutions.
- 1.18 **Summary of the problem and proposed solution.** As shown above, the Brazilian financial sector suffers from a series of constraints on its ability to provide

---

<sup>36</sup> Santos, Carlos A. *Mecanismos de Mitigação de Risco para Promover o Acesso das PMEs ao Crédito Produtivo*, ABDE/BID, 2016.

<sup>37</sup> [PRONAMPE](#).

<sup>38</sup> [PEAC](#).

<sup>39</sup> This is a legal ceiling. The only commitment to date is the program's first contribution (US\$200 million).

all the financing that SMEs will need in the near term during this crisis to ensure their immediate survival.

- 1.19 The proposed intervention will seek to supplement existing financing initiatives in order to address the problem of credit risk perception among financial agents given the deteriorating quality of the SME loan portfolio in Brazil. Accordingly, the IDB will provide a loan of up to US\$200 million to the Federative Republic of Brazil for a global credit program aimed at issuing guarantees through the FGI-PEAC to financial institutions that extend credit to SMEs under the FGI-PEAC. The program will seek to alleviate the constraints on access to credit faced by SMEs affected by the COVID-19 crisis, thus supporting their survival and safeguarding employment in these enterprises. This, in turn, will minimize the burden on social protection systems and maximize the speed of economic recovery once the health emergency has passed.
- 1.20 The vulnerability assessment conducted by the Bank in consensus with the country<sup>40</sup> concludes that the productive sectors that may be considered most vulnerable in Brazil amid the COVID-19 crisis include agrifood, machinery and equipment, retail trade, passenger and freight transportation, tourism, and energy. This diagnostic assessment focuses on sectors in which where jobs are most likely to be lost if the following risks associated with the COVID-19 crisis materialize: (i) supply contraction factors (e.g. 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 (e.g. changes in consumer behavior and preferences, liquidity constraints on customers, and lower export demand); (iii) financial factors (e.g. delays and interruptions in payment cycles, reductions or interruptions in financing, and higher financing costs) and asset factors (e.g. 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.
- 1.21 The program will adopt a multisector approach to address the demand identified in the FGI-PEAC, aligning with the sectors identified as vulnerable. In a preliminary analysis of the FGI portfolio's sector composition, an artificial portfolio comprised of businesses supported in 2019 and 2020 by the FGI and potentially eligible for the FGI-PEAC was used as an approximate analysis unit. The composition was consistent with the sectors identified through the vulnerability analysis (see [optional link 1](#)). For example, vulnerable sectors account for a majority of total guarantees issued between January 2019 and March 2020 for businesses of all sizes. The transportation and warehousing, trade, industrial processing, construction, agriculture, and hotel and restaurant sectors represent 81% of the total. In general, all these sectors face risks associated with a decline in domestic demand, along with other financial and equity risks such as payment chain disruption, accumulation of liabilities (rent and salaries), and reduction in short-,

---

<sup>40</sup> [Optional link 5](#). Two factors should be taken into account in interpreting the results of this vulnerability analysis: (i) it is estimated that the sample (collected up to 23 April) is already affected by the impact of COVID-19 on economic activity, which means that a low vulnerability score does not reflect a normal situation; and (ii) the overall index should not be taken as a measure of prioritization of the financing needs of the analyzed sectors, as it also considers other factors and financing needs inherent in the sectors, as shown in [optional link 2](#) (Table 4).

medium-, and long-term financing, as well as supply-side risks such as limitations on the use of the workforce and shortcomings in the quantity and quality of inputs.<sup>41</sup>

- 1.22 **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 using lines of credit and guarantee funds, both 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 were approved in 2008 and 2009 to sustain economic growth.<sup>42</sup> These programs were aimed at restoring access to working capital and foreign trade finance for productive sectors and thus partially and temporarily offsetting the shortcomings in financing flows to MSMEs brought about by the global financial crisis. In the period following the crisis (2009-2013), with a similar aim of stimulating the supply of credit to finance productive sectors, the Bank approved contingent credit lines<sup>43</sup> to provide liquidity to the financial system as well as multisector global credit programs and, primarily, specific productive financing programs for MSMEs.
- 1.23 The Bank has experience in various countries of the region in supporting public credit guarantee funds that, not unlike the FGI-PEAC, seek to improve SME access to finance by securing loans offered by financial institutions. The MSME credit access programs approved by the Bank that have components designed to create or support MSME credit guarantee funds include: Argentina ([1914/OC-AR](#)), Barbados ([3390/CH-BA](#)), Chile ([4272/OC-CH](#)), Haiti ([2416/GR-HA](#)), Jamaica ([4115/OC-JA](#)), Nicaragua ([3042/BL-NI](#)), and Paraguay ([3354/OC-PR](#)).<sup>44</sup>
- 1.24 In Brazil, the Bank has supported multisector interventions with BNDES aimed at MSME capital investments and productivity gains, including program [2236/OC-BR](#) and, more recently, project [4672/OC-BR](#) under CCLIP [BR-O0001](#), which is soon to start execution. In 2014, the Bank's Office of Evaluation and Oversight published the results of an empirical analysis of the various programs launched by the Bank to support MSMEs in Brazil.<sup>45</sup> The various interventions analyzed show that credit support is the only type of support that significantly affects all outcome variables and that its most positive impact is on employment and compensation. In addition,

---

<sup>41</sup> [Optional link 5](#).

<sup>42</sup> In 2008, the IDB created the Liquidity Program for Growth Sustainability (document GN-2492-3) under the category of emergency lending.

<sup>43</sup> Development Sustainability Contingent Credit Line under the Proposal to Establish Contingent Lending Instruments of the IDB (document GN-2667-2).

<sup>44</sup> The mechanisms for efficient allocation of the guarantees stand out as one of the main tools for streamlining credit.

<sup>45</sup> *Uma Análise Comparativa das abordagens do BID no Apoio às PMEs: Analisando Resultados no Setor Industrial Brasileiro*, IDB, 2014. This analysis defines MSMEs as businesses with 1 to 250 employees. It covers programs implemented in Brazil between 2003 and 2012.

several studies<sup>46</sup> have confirmed that MSME access to public lines of credit in Brazil has a significant positive effect on the employment levels and gross revenues of these businesses.

- 1.25 **Lessons learned.** The Bank has amassed extensive experience and generated substantial knowledge regarding the design and implementation of policies to support MSME finance with a special focus on certain sectors or value chains. For public policy solutions aimed at mitigating MSME credit risk to be effective, it is critical that credit guarantee programs: (i) identify the market failure to be remedied; (ii) be designed to mobilize the largest possible volume of credit in the economy; (iii) strengthen collaboration between the public and private sectors to prevent market distortions; (iv) include communication and outreach strategies aimed at explaining the advantages of the product to end users; (v) have sufficient institutional capacity for quick and efficient execution of the guarantees; and (vi) have data collection systems in place to assess the effectiveness of the guarantee programs from a public policy standpoint.
- 1.26 The Bank's lessons learned have been applied to the design of this operation, to ensure that: (i) the expansion of guarantees fosters a countercyclical role at times of shrinking credit supply; (ii) the increased leverage of the emergency guarantee program translates into a greater impact in terms of mobilizing credit in the economy; (iii) the executing agency supervises the financial conditions under which the funds are made available to the end users to prevent market distortions and ensure that additionality is not diluted; (iv) the design considers the importance of encouraging greater SME access through the effective use of digital channels, which should also serve as a way of preventing bottlenecks and delays in executing guarantees that can affect the credibility and benefits of using the instrument; and (v) the executing agency systematically compiles, manages, and maintains program data so that the results can be analyzed and continue to be used in future interventions.<sup>47</sup>
- 1.27 The formation of the FGI-PEAC is based on the FGI's cumulative experience in adapting to emergency needs to support SMEs. The FGI's effectiveness in terms of MSME financing has been demonstrated through a series of rigorous impact assessments that can be used as an approach for the program to be implemented in the FGI-PEAC.<sup>48, 49</sup>

---

<sup>46</sup> De Negri, J., et al., The impact of public credit programs on Brazilian firms. IDB Working Paper Series No. 293, 2011; Machado, L., et al., *Avaliação de Impacto do Uso do Cartão BNDES sobre o Emprego Formal nas Firms de Menor Porte*, BNDES, 2011; Albuquerque, B. et al., *Uma Solução Automatizada para Avaliações Quantitativas de Impacto: Primeiros Resultados do Modelo Automatizado em R de Verificação de Impacto (MARVIm)*, BNDES, Brazil, 2017.

<sup>47</sup> 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 to support SMEs.

<sup>48</sup> These assessments are characterized by the use of microdata, applying econometric techniques aimed at isolating the causal effect of the BNDES financing, i.e. separating it from other factors that can also affect the performance of the businesses. The most commonly used method is to compare businesses with similar histories before the support is delivered and the changes over time in supported versus nonsupported businesses, controlling for observable characteristics.

<sup>49</sup> Barboza, R., et al., *O BNDES e as Micro, Pequenas e Médias Empresas*, BNDES, Textos para discussão No. 146, 2019. The credit figures presented are based on information from BACEN.

- 1.28 **Complementarity with other IDB Group projects.** By offering guarantees, the program complements other options in preparation that target the supply of credit through second-tier operations in response to the COVID-19 emergency. These include an IDB-BNDES US\$750 million emergency global credit program for MSME financing (currently in preparation) aimed at safeguarding the productive fabric and employment (paragraph 1.14), and a US\$750 million project with BNDES that will very soon enter the execution phase in Brazil ([4672/OC-BR](#)), which will focus on providing MSMEs with medium- and long-term financing for capital investments, fostering an analysis of the impact of these investments on MSME productivity, and diversifying BNDES's financing channels through the [Canal MPME](#) digitization system as well as technological innovations developed in collaboration with financial technology (fintech) companies. The program also complements initiatives led by IDB Invest in Brazil to address MSME financing requirements together with private financial institutions, specifically operations [12948-02](#), [12979-01](#), [11843-02](#), and [12433-01](#). The complementarity with these programs seeks to leverage synergies to increase the impact of Bank actions, consistent with fiscal sustainability, through: (i) temporary application of the measures so 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. The program will also coordinate its activities with other initiatives in preparation that are aimed at addressing the needs arising from the pandemic.
- 1.29 **Coordination with other multilaterals and/or donor agencies.** In addition to the proceeds of this program, the Brazilian government and the New Development Bank (NDB) are holding talks regarding a potential US\$500 million loan through the FGI-PEAC<sup>50</sup> that would include objectives and components similar to those proposed under the program. The Bank has worked in coordination with the NDB during the IDB loan preparation activities to ensure a rapid and complementary response on the part of the Brazilian government in structuring and financing this program, to be supported by the two aforementioned institutions.
- 1.30 **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 combines support for SMEs and for the most vulnerable sectors; and (ii) productivity and innovation, through its support for productive financing for SMEs. The program will contribute to the Corporate Results Framework 2020-2023 (document GN-2727-12) through the indicator of the number of micro, small, and medium-sized enterprises financed. The program is also consistent with the Proposal for the IDB Group's Governance Response to the COVID-19 Pandemic Outbreak (document GN-2996), as part of the support for safeguarding the productive fabric and employment. It is also 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 to Annex III of the 2020 Operational Program Report (document GN-2991-3).

---

<sup>50</sup> This amount is subject to negotiation, whereas the IDB loan is not subject to the NDB program, and will be processed independently since they will be parallel and complementary programs.



## **B. Objectives, components, and cost**

- 1.31 **Objectives.** The general objective of the program is to support the survival of SMEs as employment providers in Brazil amid the COVID-19 crisis. The specific objective is to support the short-term financial sustainability of SMEs.
- 1.32 **Sole component. Support for SME financing.** The program's proceeds will be used to support FGI-PEAC guarantees to be issued by financial institutions<sup>51</sup> for SMEs in the context of the COVID-19 crisis. The program will therefore facilitate SME access to credit, enabling them to overcome temporary liquidity problems and continue operating (see [optional link 4](#)).
- 1.33 The program will target SMEs under a multisector approach and disbursements will be made in accordance with demand. However, it has been confirmed that, for the most part, the beneficiaries of all eligible lines under the program already represent sectors identified as vulnerable (paragraph 1.34); thus, the FGI-PEAC is considered an appropriate channel for serving them. It is expected that the resources channeled through the FGI-PEAC will encourage the financial institutions to make loans they would not have otherwise in the absence of such funding. Furthermore, the FGI-PEAC resources will be used by financial institutions more inclined to lend to SMEs and not necessarily by commercial banks with a larger share of the market. As a result, these resources will be distributed among a number of financial institutions.<sup>52</sup>
- 1.34 **Beneficiaries.** The direct beneficiaries of the operation will be the financial institutions that receive the guarantees as well as SMEs affected by the COVID-19 crisis whose loans are guaranteed with program resources, estimated at about 1,250.<sup>53</sup> While the program calls for multisector support and the loans will be subject to demand, the lines of credit supported by the program will provide broad coverage to the most vulnerable sectors, according to program preparation (see [optional link 2](#)) and based on the past experience of the FGI. In addition, the strategic chains of which the beneficiary businesses form a part will indirectly benefit. Lastly, the community as a whole will benefit indirectly from the decreased impact on income and employment as well as from the sustainability of services and the supply of products associated with the operations of the surviving beneficiary SMEs.
- 1.35 In line with common practice for national financial institutions in Brazil, including BNDES, and in view of Law 14,042/2020, which created the FGI-PEAC, the program uses a definition of SMEs<sup>54</sup> that classifies them as such based on their annual gross sales. According to this classification, small enterprises are those having gross sales ranging from R\$360,000 (US\$66,600) to R\$4.8 million

---

<sup>51</sup> Financial institutions regulated by Brazil's central bank and qualified under the FGI-PEAC operating regulations (see [optional link 7](#)).

<sup>52</sup> Barboza, R., et al., *O BNDES e as Micro, Pequenas e Médias Empresas*, BNDES, Textos para discussão No. 146, 2019. The report presents evidence that some indirect BNDES products have a lower concentration than the credit market and encourage greater competition.

<sup>53</sup> Since disbursements are driven by demand, this figure is merely indicative and has been calculated on the basis of expected short-term demand. The financing is expected to fund subloans of between US\$120,000 and US\$200,000 (see [optional link 2](#)).

<sup>54</sup> Including enterprises, associations, foundations subject to private law, and cooperative entities, except credit companies, with earnings in the 2019 calendar year.

(US\$888,000), and medium-sized enterprises are those having gross sales ranging from R\$4.8 million to R\$300 million (US\$55.5 million).

### C. Key results indicators

- 1.36 **Expected outcomes.** The program's expected impact is to support the sustainability of SMEs amid the COVID-19 crisis, as measured by the difference between the change in average employment at the supported businesses and in the control group. The outcome indicators for the program will be as follows: (i) ratio between the consolidated delinquency rate of the FGI-PEAC 18 months after the start of the program and the consolidated delinquency rate of the traditional FGI; (ii) difference in survival between the businesses supported by the program and the control group; (iii) leverage factor of Bank resources in the FGI-PEAC portfolio; and (iv) FGI-PEAC portfolio amount.
- 1.37 **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\$38.74 million and an internal rate of return of 18%. In addition, the sensitivity analysis shows that the program's net present value remains positive when a series of modifications are made to the values of the main examined parameters (see [optional link 1](#)).

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Financing instruments

- 2.1 The total amount of the proposed program is US\$200 million, to be financed entirely from the Bank's Ordinary Capital resources. The program has been designed as a global credit operation, and it will finance the issuance of guarantees to secure loans to SMEs affected by the COVID-19 crisis. The disbursement period will be 12 months.

Table 1. Estimated program costs (US\$)

Component	Bank	%
Sole component. Support for SME financing	200,000,000	100
Total	200,000,000	100

Note: As is customary, the program's administration, evaluation, and audit costs will be covered using BNDES administrative resources as part of the institution's normal operations.

### B. Environmental and social 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 through a guarantee fund. The environmental and social due diligence was performed in compliance with Directive B.13, analyzing the program's potential socioenvironmental risks, the applicable regulatory framework, and the executing agency's ability to manage

them. According to the results of this due diligence review, the operation is considered to entail a medium-level financial intermediation risk due to its size and the large number of subprojects to be financed. In view of the nature and very limited scope of the potential socioenvironmental impacts identified for the subprojects to be financed (small-scale MSME working capital or investment projects), only category C subprojects will be eligible. Categories A and B projects and activities will not be eligible.

- 2.3 Program resources will not be used to finance loans for activities set out in the program's list of exclusions (described in detail in annexes C and D of the [environmental and social management report](#) and in annexes 1 and 2 of the [program Operating Regulations](#)). Under the program, eligibility for guarantees will be limited to loans for the most at-risk sectors (e.g. agriculture, forestry, and the chemicals industry) of up to US\$500,000, and up to US\$1 million for any sector.
- 2.4 In addition, the program's identified potential socioenvironmental risks are limited in scope and will be managed through an environmental and social risk management system that will be included in the [program Operating Regulations](#) and the [environmental and social management report](#).

#### **C. Fiduciary risks**

- 2.5 The Bank has extensive experience with BNDES. In 2020, during the preparation of a global credit program for MSME financing aimed at safeguarding the productive fabric and employment (paragraph 1.28), the Bank updated the institutional capacity assessment of BNDES, which found it continues to have high technical capacity, with proper information systems and internal and external controls. In addition, the implementation process of operation [3866/OC-BR](#), which was satisfactorily executed, confirmed the institution's high implementation capacity. Accordingly, the fiduciary risk of this operation is low (see Annex III).

#### **D. Other key risks and issues**

- 2.6 **Fiscal sustainability risk.** There is a medium risk that the combination of the health and economic crisis and external factors will affect the country's fiscal and debt position, jeopardizing fiscal sustainability. To mitigate this risk, the Bank, together with other international agencies, is monitoring Brazil's postpandemic economic and fiscal recovery plans, which should enable the country's public finances to return to a sustainable path.
- 2.7 **Sustainability.** The program is expected to help alleviate the temporary difficulties faced by SMEs as a result of COVID-19. Furthermore, it provides an opportunity for the country to assess the effectiveness of the underlying mechanism for use in future emergencies and leverage the demonstration effect of the interventions to consolidate preventive programs aimed at cushioning the vulnerability of SMEs.

### **III. IMPLEMENTATION AND MANAGEMENT PLAN**

#### **A. Summary of implementation arrangements**

- 3.1 **Borrower and executing agency.** The borrower will be the Federative Republic of Brazil, and the executing agency will be BNDES in its capacity as manager of the FGI-PEAC.



- 3.2 **Execution and administration.** BNDES has a long track record in the area of MSME finance and collaboration with the Bank. Since 2015, BNDES has been expanding this business segment's share of its disbursement portfolio. In 2019, MSME finance accounted for 48% of total disbursements (98% of all operations), distributed among 97% of all Brazilian municípios. BNDES has been participating in guarantee fund arrangements since 1997, and the FGI was established in 2009 with a view to expanding credit access to MSMEs. Since that time, BNDES has supported more than 38,000 operations for a total of US\$1.5 billion in guaranteed financing for more than 30,000 different beneficiaries.<sup>55</sup> As described in paragraph 1.16, under the proposed program, BNDES, as administrator of the FGI-PEAC (a legal entity with assets separate from the FGI), will issue guarantees to financial institutions to secure loans exclusively for eligible SMEs in the framework of the FGI-PEAC (paragraphs 1.34 and 1.35), since they will be covered by PRONAME—another program of emergency guarantees.
- 3.3 **Implementation considerations.** The borrower, though the Ministry of the Economy, will transfer the program resources to the FGI-PEAC. The Ministry will be responsible for coordinating with BNDES on matters related to the preparation and submission of disbursement requests to the Bank (including the supporting documentation required for each disbursement request) and program auditing (paragraph 3.10). BNDES, as the administrator of the FGI-PEAC, will be responsible for program administration, coordination, control, and monitoring through its department of guarantee products (AST/DEPOG) in the institution's sanitation and transportation division, which will act as the program execution unit. The responsibilities of BNDES will include: (i) supervise proper use of the program's financial resources and provide in timely fashion the human and technical resources required to execute the program; (ii) grant guarantees to eligible financial institutions, linked to loans to SMEs provided by these financial institutions; (iii) prepare and submit execution reports to the Bank; (iv) monitor compliance with environmental and social safeguards; (v) conduct program monitoring and evaluation; and (vi) prepare the required documentation to be delivered to Ministry of the Economy for purposes of Bank disbursement requests. For purposes of program management, the Ministry of the Economy will sign a subsidiary agreement with BNDES governing the resources provided to the FGI-PEAC and the execution of program activities (paragraph 3.6).
- 3.4 The program's resources will be used to back guarantees issued by the FGI-PEAC for lending operations to SMEs by the participating financial institutions, in accordance with the rules and guidelines applicable to the FGI-PEAC. To be eligible under the program, financial institutions will comply with rules set out in the FGI-PEAC regulations.<sup>56</sup> The financial institutions will formalize their respective loans to the SMEs, setting out the financial terms and conditions of the loans (maturity, rates, and costs), as established by the FGI-PEAC, and will formally submit the guarantee requests to the FGI-PEAC by means of the FGI management system. The same system will be used for administration, monitoring, and the tracking of claims and payment of guarantees.

---

<sup>55</sup> BNDES FGI, [Relatório da Administração do Exercício de 2019](#), 2020.

<sup>56</sup> *Regulamento de Operações para Outorga de Garantia no Âmbito do Programa Emergencial de Acesso a Crédito (PEAC)*, BNDES 2020. For more information, also see the el [program Operating Regulations](#).

- 3.5 **Program Operating Regulations.** The [program Operating Regulations](#)<sup>57</sup> will set out the provisions governing program execution, including those pertaining to coordination between the Ministry of the Economy and BNDES, the participation of financial institutions, and eligibility of the guarantees on loans to SMEs. The [program Operating Regulations](#) will set out the specific procedures, conditions, and requirements regarding the use of program resources, including: (i) technical, regulatory, and financial criteria for obtaining guarantees; (ii) disbursement methods; (iii) eligibility criteria for financial institutions; and (iv) monitoring and evaluation requirements.
- 3.6 **Special contractual conditions precedent to the first disbursement of the loan proceeds.** The first disbursement of the loan proceeds will be contingent upon: (i) evidence that the [program Operating Regulations](#) have been approved by the borrower and the executing agency, and have entered into force in accordance with a draft that was previously agreed upon with the Bank; and (ii) evidence that the borrower has signed a subsidiary agreement with BNDES governing the resources provided to the FGI-PEAC and execution of program activities, in accordance with a draft previously agreed upon with the Bank. These requirements will specifically guide the program's operational considerations with a view to achieving efficient execution and establishing the relevant coordination agreement to ensure that the proposed objectives are fulfilled.
- 3.7 **Retroactive financing.** The Bank may retroactively finance expenses incurred by the executing agency prior to the loan approval date to cover eligible program expenses (paragraph 1.32) for up to US\$80 million (40% of the loan amount), provided that requirements substantially similar to those established in the loan contract and the [program Operating Regulations](#) have been fulfilled. Such expenses will have been incurred on or after 30 June 2020, the start date of the FGI-PEAC program. The expense amount to be recognized is justified by the nature of the FGI-PEAC, which will be supported with program resources. The FGI-PEAC is a short-term emergency intervention that seeks to expand the supply of credit for SMEs adversely impacted by the economic consequences of the COVID-19 pandemic. Considering the brief window during which the FGI-PEAC will be issuing guarantees (from 30 June through 31 December 2020, paragraph 1.16), a projection of financial institution demand was prepared to ensure that support would be provided to as many SMEs as possible, since most of the demand is expected to materialize before the program is approved.<sup>58</sup> Although that date precedes the date the program was officially included in programming for the country (document GN-2991-3), retroactive financing on an exceptional basis is justified as of that date, due to: (i) the exceptional circumstances of the global health emergency caused by pandemic; (ii) the brief duration of this emergency program (paragraphs 1.33 and 1.34); and (iii) the significant number of loans expected to be identified that would meet the program's eligibility criteria.

---

<sup>57</sup> To ensure the success of this emergency program, its Operating Regulations are in an advanced stage of development.

<sup>58</sup> As of 3 September 2020, the government had contributed R\$10 billion (US\$1.85 billion), 66% of which had been committed in the form of guarantees.

- 3.8 **Procurement and contracting.** As a demand-driven financial intermediation program, no procurement of goods, works, nonconsulting services, or consulting services is likely to be required as part of execution.
- 3.9 **Disbursements.** The program proceeds will be disbursed by the Bank to Ministry of the Economy through the disbursement modalities established in the Financial Management Guidelines for IDB-financed Projects (document OP-273-12). Disbursements will be made to provide the FGI with funds for the guarantees issued to financial institutions to secure loans provided to SMEs. For purposes of accountability to the Bank, the object of the expenditure will be the guarantees issued by the FGI-PEAC to eligible financial institutions for loans which they have extended to SMEs. Disbursement requests will be accompanied by the information listed in the [program Operating Regulations](#). As indicated in paragraph 3.7, the FGI-PEAC, which will be supported through the program proceeds, allows the issuance of guarantees over a short period of time, until 31 December 2020. Accordingly, the guarantees to financial institutions will have to be issued no later than that date. Eligible expenditures will be verified ex post, and any guarantees issued under the program may be subject to review.<sup>59</sup>
- 3.10 **Financial statements and audit.** Since the operation provides for a 12-month execution period, financial statements audited by the Controladoria Geral da União (Office of the Comptroller General of Brazil) will be delivered within 120 days following the date of the last disbursement.

**B. Summary of arrangements for results monitoring**

- 3.11 **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 [monitoring and evaluation plan](#)). These reports will be reflected in the progress monitoring reports.
- 3.12 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 SME beneficiaries of the program, and a control group consisting of SMEs in other sectors affected by the COVID-19 crisis but not receiving program benefits. These studies will assess the impacts on the benefits of the jobs preserved thanks to the program. The evaluation strategy is described in the [monitoring and evaluation plan](#). The costs of monitoring and evaluation will be covered by the executing agency and the borrower.
- 3.13 **Information for program monitoring and evaluation.** The executing agency will be responsible for maintaining the data collection and monitoring systems, including a monitoring and evaluation system for all subcomponents, on the basis of which it will prepare the reports and data it delivers to the Bank, as well as all information, indicators, and parameters, including the annual plans and the final evaluation, required for preparing the project completion report. The monitoring

---

<sup>59</sup> The time limit for commitment of resources will be 12 months, running from the entry into force of the loan contract.

and evaluation costs will be covered by the executing agency and the borrower (see [monitoring and evaluation plan](#)).

Development Effectiveness Matrix		
Summary		BR-L1559
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)		The program is consistent with the IDB Group's Proposal for Response against the COVID-19 Pandemic Outbreak (GN-2996) as part of support for the defense of the productive fabric and employment. See paragraphs 1.13 to 1.21 of the loan document.
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		9.6
3.1 Program Diagnosis		3.0
3.2 Proposed Interventions or Solutions		3.6
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: Internal Audit.
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.

The program, BR-L1559, in the amount of US\$200 million, is framed within the Bank's operational response to the COVID-19 Pandemic; a Global Credit Guarantee Fund Program in support of Emergency Investment for Access to Finance (FGI-PEAC). The general objective of the program is to support the survival of small and medium enterprises (SMEs) as a pillar of employment in Brazil in view of the crisis brought about by COVID-19. The specific objective is to support the short-term financial sustainability of SMEs.

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 SMEs in the country face incremental challenges to their survival which the program seeks to mitigate through the creation of a new guarantee fund (FGI-PEAC), which in turn will catalyze the provision of financing. The program's focus is multisectoral and uptake is subject to demand but utilizing a proxy universe of the Traditional-FGI it was verified that the supported credit lines will amply support 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 leverage factor of the guarantee fund on the backed portfolio will be measured. The impact indicator –employment of supported companies – reflects the project's contribution to the general objective.

The economic analysis shows that the operation is efficient with an IRR of 18% and an NPV of US\$38.7MM. 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 BNDS, as executing agency, in coordination with the Bank.

## RESULTS MATRIX

<b>Program objective:</b>	The general objective of the program is to support the survival of small and medium-sized enterprises (SMEs) as employment providers in Brazil amid the COVID-19 crisis. The specific objective is to support the short-term financial sustainability of SMEs.
---------------------------	--

## EXPECTED IMPACT

Indicator	Unit of measure	Baseline 2020	Final target	Means of verification	Comments
<b>General Objective: Support the survival of small and medium-sized enterprises (SMEs) as employment providers in Brazil amid the COVID-19 crisis</b>					
<b>Indicator 1:</b> Change in average employment at the supported businesses compared to the control group	%	0	4	Relação Anual de Informações Sociais (RAIS) database, Ministry of Economy	<p>The RAIS database, provided by the Ministry of Economy, contains information such as number of employees, salaries, and sector. Consequently, the RAIS makes it possible to calculate the number of employees at each company. An impact assessment on employment will be conducted using the Modelo Automatizado em R de Verificação de Impacto [Automated R-Model for Impact Verification] (<a href="#">MARVIm</a>). This model uses techniques such as propensity score matching and reweighting to estimate the impact.</p> <p>The indicator will measure the difference with respect to what would have occurred in the absence of support. The assessment will consider businesses supported by the program in 2020, but can only be conducted when the RAIS data for 2020 are available and allowing for a reasonable time for the impact to be assessed. Consequently, the result of the assessment and the values of this indicator will be reported at a date subsequent to the official close of the program and its completion reports.</p> <p>The baseline value is zero, since the supported and control group businesses are similar.</p> <p>A target is proposed in line with estimates obtained through the <a href="#">MARVIm</a> model for previous Bank support initiatives and programs.</p>

## EXPECTED OUTCOMES

Indicator	Unit of measure	Baseline 2020	Final target	Means of verification	Comments
<b>Specific objective: Support the short-term financial sustainability of MSMEs</b>					
<b>Indicator 1:</b> Ratio between the consolidated delinquency rate of the FGI-PEAC 18 months after the start of the program and the consolidated delinquency rate of the traditional FGI	%	100	300	Information reported by the FGI-PEAC	<p>Delinquency in the FGI-PEAC and in the traditional FGI will be estimated on the basis of the total amount of actual losses recorded in honoring guarantees under these portfolios. The delinquent portfolio will be the percentage of the portfolio with at least one payment more than 90 days past due.</p> <p>This indicator is equivalent to the relative delinquency rate indicator approved for transactions in response to COVID-19, as long as the stop-loss limit is not reached. For the most part, amounts are not expected to exceed this limit. However, to allow for this eventuality, should the amount exceeding the stop-loss exceed 20% of the total amount guaranteed by the FGI-PEAC, the financial institutions asking to exceed the stop-loss will be asked for an itemized description of the delinquencies, which will be provided as a supplement to this indicator.</p> <p><b>Baseline:</b> Since this is a new portfolio, the baseline is a delinquency rate of 100%, since the pre-crisis FGI-PEAC delinquency, when the fund did not exist, is assumed to be equal to the delinquency rate in the traditional FGI.</p> <p><b>Target:</b> The proposed target is 300%. This target recognizes the intrinsically riskier nature of the FGI-PEAC portfolio in relation to the traditional FGI portfolio, and its different profile both in terms of the type of guaranteed credit and the type of borrowing business. Coupled with this are the risks associated with the COVID-19 crisis. This target should be understood as a delinquency rate ceiling, and any equal or lower value will be considered an achievement or overachievement.</p>
<b>Indicator 2:</b> Difference in survival rate between the businesses supported by the program and the control group	%	0	0.6	RAIS and Cadastro Geral de Empregados e Desempregados [General Registry of Employed and Unemployed Persons] (CAGED), Ministry of Economy	<p>This indicator will be calculated on the assumption that a business that survives retains its employees, while a business that does not survive will not. RAIS and CAGED data will be used to identify businesses that retain employees. CAGED is updated on a monthly basis and its data are reported some months after the reference month.</p> <p>An assessment on survival will be conducted through the <a href="#">MARVIm</a> model. This model uses techniques such as propensity-score matching, reweighting, and differences-in-differences to estimate impact. The indicator will measure the differential with respect to what would have occurred in the absence of support. This assessment will compare data of supported businesses at year-end 2020, in view of the emergency, short-term nature of the financing targeted by this subcomponent. The assessment may be conducted within a period of six months following the close of the program thanks to the monthly availability of CAGED information on the flow of employed persons.</p> <p>The baseline value is zero, since the supported and control group businesses are similar.</p>



Indicator	Unit of measure	Baseline 2020	Final target	Means of verification	Comments
					Based on the data recorded by the Instituto Brasileiro de Geografia e Estatísticas [Brazilian Geography and Statistics Institute], a target is proposed in line with the increased year-on-year change in the survival rate at the national level (2016-2017 period), applying an adjustment factor aimed at reflecting the expected greater depth of the current crisis and the particular vulnerability of the SMEs that comprise the program's target population (see <a href="#">economic analysis</a> ). The data to be used are FGI/BNDES data regarding requests and transactions made with the relevant product, as well as RAIS and CAGED data on businesses and formal employees.
<b>Indicator 3:</b> Leverage factor of Bank resources in the FGI-PEAC portfolio	%	0	125	Internal FGI information	<p>This indicator reflects the leverage factor of the Bank's resources for the PEAC enabling financial institutions to extend credit in amounts exceeding those contributed to the fund.</p> <p>The indicator seeks to show the actual leverage of the fund's resources toward achieving the objective of allowing SMEs to obtain access to credit.</p> <p>In the case of FGI-PEAC, the leverage factor is 1.25, since only 80% of the loan principal is guaranteed. The leverage factor is obtained by the ratio between the loan principal and the maximum amount to be guaranteed, which as indicated is 80% of the loan principal.</p> <p>The baseline value is zero.</p> <p>The proposed target is equivalent to a total loan amount of US\$250 million to finance SMEs, which is the result of multiplying the US\$200 million in Bank resources by the leverage factor of 1.25.</p>
<b>Indicator 4:</b> FGI-PEAC portfolio amount	US\$ millions	0	200	Internal FGI information	<p>The indicator reflects the total amount of the PEAC program within the FGI portfolio. The FGI-PEAC portfolio is a newly created portfolio separate from the overall FGI portfolio.<sup>1</sup></p> <p>While the PEAC target amount for the issuance of guarantees is expected to be higher, there has been no confirmation to date of the amount or of any further commitment of resources. Accordingly, only the Bank's support is taken as a target, being the only firmly committed amount. Should additional contributions to the FCI-PEAC by the government or other entities be confirmed, the target will be adjusted to reflect total contributions, and the baseline will be kept at zero since this is a newly created portfolio.</p>

<sup>1</sup> Through the FGI, the government has proposed implementing the Programa Emergencial de Acesso ao Crédito [Emergency Credit Access Program] (PEAC) based on Provisional Decree 975/2020, which provides for granting guarantees to financial institutions that have liquidity but whose appetite to build and maintain an SME loan portfolio has been affected by the economic crisis triggered by the pandemic.



## OUTPUTS

Output	Unit of measure	Baseline 2020	Year 1	Year 2	Final target	Means of verification	Comments
<b>Sole component: Support for SME financing (total cost=US\$200 million)</b>							
<b>Output 1:</b> Guarantee amount to finance short-term needs of small and medium-sized enterprises.	US\$ millions	0	200	0	200	Monitoring and supervision information processed by the executing agency	The program's resources will be used to issue guarantees to financial institutions that will in turn provide loans to SMEs for: (i) working capital; and (ii) restructuring or refinancing support facilities aimed at enabling viable SMEs to avoid bankruptcy and providing liquidity to SMEs affected by the COVID-19 crisis.
Annual cost:	US\$ millions	0	200	0	200		

**Country:** Brazil    **Sector:** CMF    **Project number:** BR-L1559    **Year:** 2020  
**Cofinancing:** Not applicable    **Coexecution:** Not applicable

## FIDUCIARY AGREEMENTS AND REQUIREMENTS

**Executing agency:** Banco Nacional de Desenvolvimento Econômico e Social (BNDES)  
**Project name:** Investment Guarantee Fund (FGI) Global Emergency Credit Program for Access to Credit (FGI-PEAC)

### I. EXECUTING AGENCY'S FIDUCIARY CONTEXT

#### 1. Use of country systems in the project<sup>1</sup>

Budget <input checked="" type="checkbox"/>	Reporting <input checked="" type="checkbox"/>	Information system <input type="checkbox"/>	National competitive bidding <input type="checkbox"/>
Treasury <input checked="" type="checkbox"/>	Internal auditing <input checked="" type="checkbox"/>	Shopping <input type="checkbox"/>	Advanced NCB <input type="checkbox"/>
Accounting <input checked="" type="checkbox"/>	External control <input type="checkbox"/>	Individual consultants <input type="checkbox"/>	Consulting firm <input type="checkbox"/>

**Applicable laws/regulations:** Provisional Decree 975 of 1 June 2020.

#### 2. Fiduciary capacity of the executing agency

The institutional capacity assessment was updated during the preparation of loan operation [3866/OC-BR](#). It concluded that program coordination and financial management are sufficient for the administration of the operation.

#### 3. Fiduciary risks and mitigation actions

**Fiduciary risk:** High ☐; Medium ☐; Low ☒

Risk	Risk level	Mitigation plan
No fiduciary risks were identified.		

<sup>1</sup> Any system or subsystem that is subsequently approved may be applicable to the operation, in accordance with the terms of the Bank's validation.

## II. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE CONTRACT

<b>Conditions precedent to the first disbursement:</b> None
<b>Exchange rate:</b> For account rendering purposes, the exchange rate will be the buying rate published by Banco Central do Brasil on the date the protocol is submitted by the relevant accredited financial institution requesting a guarantee to finance the eligible transaction.
<b>Audited financial reports:</b> Since the operation provides for a 12-month execution period, audited financial statements reviewed by the Controladoria Geral da União (Office of the Comptroller General of Brazil) [CGU] will be delivered within 120 days following the date of the last disbursement.

## III. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

### Exceptions to policies and guidelines

No exceptions to the Bank's policies are anticipated.	
<b>Retroactive financing and/or advanced procurement<sup>2</sup></b>	<ul style="list-style-type: none"> <li>The Bank may retroactively finance expenses incurred by the executing agency prior to the loan approval date to cover eligible program expenses (paragraph 1.32) for up to US\$80 million (40% of the loan amount), provided that requirements substantially similar to those established in the loan contract and the <a href="#">program Operating Regulations</a> have been fulfilled. Such expenses will have been incurred on or after 30 June 2020, the start date of the FGI-PEAC program. The expense amount to be recognized is justified by the nature of the FGI-PEAC, which will be supported with program resources. The FGI-PEAC is a short-term emergency intervention that seeks to expand the supply of credit for SMEs adversely impacted by the economic consequences of the COVID-19 pandemic. Considering the brief window during which the FGI-PEAC will be issuing guarantees (from 30 June through 31 December 2020, paragraph 1.16), a projection of financial institution demand was prepared to ensure that support would be provided to as many SMEs as possible, since most of the demand is expected to materialize before the program is approved.<sup>3</sup> Although that date precedes the date the program was officially included in programming for the country (document GN-2991-3), retroactive financing on an exceptional basis is</li> </ul>

<sup>2</sup> 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.

<sup>3</sup> As of 3 September 2020, the government had contributed R\$10 billion (US\$1.85 billion), 66% of which had has been committed in the form of guarantees.

	justified as of that date, due to: (i) the exceptional circumstances of the global health emergency caused by pandemic; (ii) the brief duration of this emergency program (paragraphs 1.33 and 1.34); and (iii) the significant number of loans expected to be identified that would meet the program's eligibility criteria.
<b>Supplementary procurement support</b>	<ul style="list-style-type: none"> <li>• Not applicable</li> </ul>
<b>Alternative procurement arrangements</b>	<ul style="list-style-type: none"> <li>• Not applicable</li> </ul>
<b>Projects with financial intermediaries</b>	<ul style="list-style-type: none"> <li>• 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 team may examine other mechanisms to adopt acceptable controls and duly bind the relevant third parties to the Sanctions Procedures. These mechanisms, the design of which will be coordinated with the Office of Institutional Integrity, with support from the Legal Department, will be spelled out in the <a href="#">Credit Regulations</a>.</li> </ul>
<b>Procurement agents</b>	<ul style="list-style-type: none"> <li>• Not applicable</li> </ul>
<b>Direct contracting</b>	<ul style="list-style-type: none"> <li>• Not applicable</li> </ul>

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

<b>General supervision methods for project procurement:</b> Not applicable	
<b>Supervision method:</b> Not applicable	<b>For:</b> Not applicable

#### IV. AGREEMENTS AND REQUIREMENTS FOR FINANCIAL MANAGEMENT

<b>Programming and budget</b>	<ul style="list-style-type: none"> <li>• BNDES is a State-owned enterprise and has its own assets. Its planning and programming duties and responsibilities are documented in the Financial Planning and Programming Manual as well as in the institution's planning policies, which are authorized by its board of directors. The activities funded through this operation will fall within this planning and programming process. However, given the nature of this operation, BNDES will only act as manager of the FGI, as described in the <a href="#">program Operating Regulations</a>.</li> </ul>
<b>Cash and disbursement management</b>	<ul style="list-style-type: none"> <li>• Disbursements will be made in U.S. dollars in the form of reimbursement of expenses and/or, alternatively, advances of funds. Disbursement requests will be submitted to the Bank in accordance with the requirements set out in the loan contract and the <a href="#">program Operating Regulations</a> as well as in the Bank's financial management guidelines.</li> <li>• For advances of funds, the National Treasury of Brazil will submit a financial plan with estimates on placement of funds for up to six months. A new funds advance may be requested once supporting documentation has been provided that accounts for 80% of the previous advance. The Bank will conduct its verifications via sampling on an ex post basis.</li> <li>• The Bank will deposit the funds in the bank account indicated by the National Treasury.</li> </ul>
<b>Accounting, information systems, and reporting</b>	<ul style="list-style-type: none"> <li>• BNDES is in compliance with the rules issued by the Central Bank of Brazil for banks in Brazil, and it applies Brazilian reporting standards. Moreover, it publishes its reports for information purposes in accordance with the International Public Sector Accounting Standards (IPSAS). BNDES has a robust financial information system that supports the accounting and financial records of its transactions and will be used to record eligible expenditures. Eligible expenditure means the issuance of a guarantee, which is understood as a commitment by the FGI-PEAC to cover a portion of the losses incurred by the financial institution if the beneficiary of the credit transaction secured by the FGI-PEAC defaults. BNDES will disburse the funds to the financial institution as the guarantee is enforced.</li> </ul>
<b>External control</b>	<ul style="list-style-type: none"> <li>• BNDES will deliver the program's audited financial statements to the Bank within 120 days following the date of the last disbursement. These statements will be audited by the CGU in accordance with the terms of reference agreed upon with the Bank.</li> </ul>
<b>Financial supervision of the project</b>	<ul style="list-style-type: none"> <li>• The Bank will conduct its verifications of the program via sampling on an ex post basis.</li> </ul>

## V. RELEVANT INFORMATION FOR THE OPERATION

### Policies and guidelines applicable to the operation

Financial Management	Procurement
<ul style="list-style-type: none"><li>• Document GN-2811 [OP-273-12]</li></ul>	<ul style="list-style-type: none"><li>• Not applicable</li></ul>

### Records and files

As indicated in the preceding section, BNDES has a robust, fully digitized information system, with digital SME service platforms (Front Office Digital and BNDES Online), ensuring high-quality accountability.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/20

Brazil. Loan \_\_\_/OC-BR to the Federative Republic of Brazil. Investment Guarantee Fund (FGI) Emergency Global Credit Program for Access to Credit (FGI-PEAC)

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 the Federative Republic of Brazil, as borrower, for the purpose of granting it a financing aimed at cooperating in the execution of the Investment Guarantee Fund (FGI) Emergency Global Credit Program for Access to Credit (FGI-PEAC). Such financing will be in the amount of up to US\$200,000,000 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)