

## Enhancing the Brazilian National System for Public Financial institutions

### I. Basic project data

▪ Country/Region:	Brazil
▪ TC Name:	Enhancing the Brazilian National System for Public Financial institutions
▪ TC Number:	BR-T1292
▪ Team Leader/Members:	Eduardo Sierra (Team Leader, CMF/CBR); Maria Netto (Alternative Team Leader, IFD/CMF); Luciano Schweizer (Team Leader, IFD/CMF); Jose Juan Gomes (team member, IFD/CMF), Fernando de Olloqui Erin Compton (IFD/CMF)
▪ Indicate if: Operational Support, Client Support, or Research & Dissemination.	Client Support
▪ If Operational Support TC, give number and name of Operation Supported by the TC:	Not Applicable
▪ Reference to Request <sup>1</sup> : (IDB docs #)	Request from the Association of National Public Development Agencies and Financial Institutions (ABDE)
▪ Date of TC Abstract:	18 September 2013
▪ Beneficiary (countries or entities which are the recipient of the technical assistance):	Brazilian local public development financial institutions (DFIs)
▪ Executing Agency and contact name (Organization or entity responsible for executing the TC Program)	IFD/CMF (request for execution from ABDE)
▪ IDB Funding Requested:	200,000
▪ Local counterpart funding, if any:	Counterpart resources would be equivalent to 20% (USD 40,000) and will be provided in kind in the form of logistical and staff support of beneficiary entities
▪ Disbursement period (which includes execution period):	36 months (30 months of execution)
▪ Required start date:	1 February 2014
▪ Types of consultants:	Firms and individual consultants
▪ Prepared by Unit:	IFD/CMF
▪ Unit of Disbursement Responsibility:	CMF/CBR
▪ Included in Country Strategy (y/n);	Y
▪ TC included in CPD (y/n):	Y
▪ GCI-9 Sector Priority:	Institutions for growth / social welfare

### II. Objective and Justification:

This technical cooperation aims to foster the capacity of Brazilian local public development financial institutions (DFIs) in order to improve productive credit and promoting regional development, through **three main objectives**: i) enhance institutional capacity and financial management of DFIs; ii) promote and disseminate information regarding innovative public financial instruments that can leverage private investments and credit access; and iii) support

<sup>1</sup> A copy of the Letter of Request, Programming/Portfolio Review Mission Aide Memoire or Report requesting the TC should be submitted with the Abstract.

the consolidation and modernization of policies and practices for the National Public Finance Development System (NFDS) where DFIs are organized.

Compared to other developing economies, Brazil has lower credit penetration indicators for productive and long-term investment. The gross capital formation in recent years was 18% of GDP<sup>2</sup> and corporate credit represented only 15% of the total borrowing, while only a small share was channeled to small and medium enterprises (SMEs). Access to credit is one of the biggest inhibitors for the country competitiveness and a bottleneck in particular for SMEs aiming to improve productivity and to compete in global markets. Expanding the supply of productive credit and promoting regional development are, therefore, immediate needs for improving inequality and inclusive growth in Brazil.

As part of national policy to address this challenge, Brazil counts with more than 28 local public development financial institutions (DFIs) with the mission of fostering regional development and expand regional financing capillarity improving access to credit for micro and SMEs, as well as long-term financing. The size, expertise and development instruments that feature of these institutions are however heterogeneous. The system of Brazilian DFIs, comprise at the same time the largest national development banks in the LAC region (such as the BNDES, Caixa Federal and Banco do Brasil) and very small size DFIs acting at the state level. Given the disparities in their size, mandates and institutional capacity the contribution of DFIs and their impact to regional development in their area of influence is very uneven.

In order to promote best practices, transparency, harmonization and enhanced performance of DFIs, Brazil has National Public Finance Development System (NFDS) regulated and supervised by the Central Bank of Brazil (BCB). DFIs are further organized under the Brazilian Association of Finance Development Institutions (ABDE<sup>3</sup>). Aware of the need to enhance the overall NFDS and the capacity of DFIs to promote long term productivity, the DFIs under ABDE, with support from IDB, issued a series of proposals to improve the NFDS and strengthen the DFIs under a "Letter ABDE<sup>4</sup>", including proposals to: i) strengthen the capacity of DFIs to capitalize new sources of funding; consider best alternatives to channel and use DFIs' taxes and incomes to investments in strategic and priority projects; ii) improve the national regulatory framework to support more transparency and the promotion of innovative/flexible financial instruments; and iii) foster institutional capacity of local/sub-national DFIs to enhance their capillarity and to be able to intensify the financing of innovative projects.

The activities proposed under the technical cooperation would build upon IDB's long track record in working with National Development Banks (NDBs) in Brazil and the LAC region. In particular, it would be aligned with the work of Capital Markets and Financial Institutions Division (IFD/CMF) with NDBs to promote access to microcredit, inclusive finance and

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<sup>2</sup> The average of China was 42%, Korea 27% and Russia 24%. Source: Moodys.

<sup>3</sup> The [Brazilian Association of Development Institutions \(ABDE\)](#) is the association responsible to spreading best practices and unify the efforts of the national and sub-national DFIs in order to enhance their technical capacity and to promote the establishment of a National Development system more consistent and effective.

<sup>4</sup> [Carta ABDE, 2013.](#)

productive credit for SMEs, private investment strategies and to prepare strategic action plans and long term projects for a region facilitating public – private dialogue.

The proposed TC is consistent with the GCI-9 and the Bank's Country Strategy for Brazil (GN-2662) which focuses on development through the private sector in three areas: i) support the growth and formalization of micro, small and medium-sized enterprises (MSMEs); ii) stimulate long-term credit and galvanize capital markets to encourage private investment; and iii) promote regional innovation for productive enterprise.

### **III. Description of activities and outputs:**

This TC would be implemented through the following activities:

**Component 1: DFI case studies and proposals of action plans that can be applied by individual agencies:** Under this component analysis of representative examples of DFIs in Brazil will be undertaken with regard to i) the development of institutional capacity, through endowing its financial management systems, its financial risk procedures; ii) the capabilities to structure investment projects and evaluating specific credit demand segments; and iii) the implementation of financial and non-financial products that ensure fiscal sustainability conditions to the subnational governments (such as new credit mechanisms, insurances, guarantee funds, and the structure of co-financing schemes and syndication with private banking intended to leverage additional resources). These case studies will serve as basis to support the development of recommendations and guidance regarding the formulation and execution of action plans to individual DFIs.

**Component 2: Analysis of best practices and policies regarding modernization of the national public financial institutions system and allocation of public financial resources and transparency:** Under this component four studies will be undertaken about : i) current situation of the policy / regulation framework that supervises DFIs; ii) existing institutional capacities (such as financial management systems, financial risk procedures, liabilities management, among others) and gaps; iii) financial instruments being used by DFIs and capitalization of complementary resources that DFIs could use to fund their demands; and iv) best practices regarding design of policy and operational alternatives to promote long term finance for sustainable productivity. The studies will result in sets of recommendations and priority areas of intervention for the ABDE and relevant government institutions responsible for regulating and strengthening the NFDS.

**Component 3: Development of guidelines for monitoring and impact evaluation processes, appraisal of results of DFIs activities:** Under this component an assessment of current situation and prospects of DFI's profitability and sustainability indicators and their practices in the management and portfolio performance and operational efficiency will be undertaken. Based on this assessment and in the analysis of best practices by DFIs in Brazil and NDBs in the region and worldwide guidelines and recommendations regarding monitoring and evaluation of DFIs interventions will be prepared.

**Component 4: Dissemination and exchange of information and outreach:** Under this component dissemination and exchange of information developed under components 1-3 above

will be promoted through 4 national workshops and a dedicated web based community of practice for Brazilian DFIs. The dissemination activities will be undertaken in close collaboration and making use of ABDE network and system. In addition, CMF will also promote exchange through regional networks such as within the Latin American Development Financial Institutions Association (ALIDE) and the Association of Supervisors of Banks of the Americas (ASBA) and with NDBs from other regions, such as the National Development Bank of Korea, which has also a comprehensive experience in developing public finance mechanisms for enforcing productive growth and private investment. This component promotes exchange of best practices and to the identification of partnerships opportunities with other Korea's public and private sector players.

#### **IV. Budget:**

The total cost of this TC will be US\$240,000. The IADB contribution will be US\$200,000 and the rest will be financed (in kind) by ABDE and DFIs:

<b>Activity/ Component</b>	<b>Description</b>	<b>IDB/Fund Funding</b>	<b>Counterpart Funding</b>	<b>Total Funding</b>
Component 1.	DFI case studies and action plans	75,000	10,000	85,000
Component 2.	Best practices and policies for NFS modernization	75,000		75,000
Component 3.	Best practices on impact and evaluation	30,000	10,000	40,000
Component 4:	Dissemination and exchange of information and outreach	20,000	20,000	40,000
<b>Total</b>		200,000	40,000	240,000

#### **V. Executing agency and execution structure:**

The administrative and technical supervision of the proposed technical assistance program will be under the responsibility of IFD/CMF. Given the diversity of actors that this TC aims at supporting different beneficiaries and cover all DFIs in Brazil, it is appropriate for the IDB to directly execute it in order to provide a centralized coordination of the various studies and ensure their dissemination. Moreover, the fact that the IDB will be the executing agency of this TC ensures independence and transparency regarding the elaboration of studies and assessments to be carried out within the activities of this CT. The ABDE, who requested in behalf of DFIs this technical cooperation, has also requested IDB execution.

#### **VI. Project Risks and issues:**

This technical cooperation requires a strong counterpart and ownership of the beneficiary DFIs. It is expected that the DFIs benefitting as well as ABDE will make staff and resources available for its implementation. CMF will ensure that beneficiaries agree to provide counter-part resources in kind as a condition to receive support from this initiative, being the most important one the allocation of dedicated staff to implement and follow up the TC results.

#### **VII. Environmental and Social Classification:**

The TC is not expected to generate negative environmental and social impacts. Consequently, it is expected that this project is classified in category C, which means that environmental and social assessments are not necessary.