

BNDES
Brazilian Development Bank



Institution

What is BNDES?

Banco Nacional de Desenvolvimento Econômico e Social (BNDES) - National Bank for Economic and Social Development is a Brazilian state-owned financial institution that provides long-term financing of investments in the domestic economy.

What are BNDES's main functions?

BNDES's main functions are to provide long-term financing for investment projects, to manage the government's foreign exchange reserves, to provide technical assistance to companies, and to provide financing for the government's social programs.

What are BNDES's main objectives?

BNDES's main objectives are to promote economic growth, to support the expansion, modernization, and restructuring of the Brazilian economy, to provide financing for the government's social programs, and to provide financing for the government's infrastructure projects.

What are BNDES's main activities?

BNDES's main activities are to provide long-term financing for investment projects, to manage the government's foreign exchange reserves, to provide technical assistance to companies, and to provide financing for the government's social programs.

What are BNDES's main products?

BNDES's main products are long-term financing for investment projects, technical assistance to companies, financing for the government's social programs, and financing for the government's infrastructure projects.

BNDES Brazilian Development Bank



Institution

What is BNDES?

Banco Nacional de Desenvolvimento Econômico e Social [BNDES] – The National Bank for Social and Economic Development is a Brazilian state-owned institution and main provider of funds for long-term financing of investments in the domestic economy.

Which are BNDES's main functions?

Created in 1952, since then BNDES has been participating actively in all investments that changed Brazil's economic face. Such performance has allowed the Bank to accumulate a considerable knowledge about the domestic economy. Nowadays, BNDES is mostly a financial institution to finance medium and long-term investments in the productive sector.

To carry out its operations, BNDES holds two wholly-owned subsidiaries:

- Agência Especial de Financiamento Industrial [FINAME] – The Special Agency for Industrial Financing is accountable for financing machinery and equipment trading; and
- BNDES Participações S.A. [BNDESPAR] – The BNDES Participations invests in domestic companies through subscription of shares and debentures aiming at strengthening private enterprises' equity and financial structure and at developing the capital market.

Which is BNDES's mission?

BNDES's main mission consists of supporting the expansion, updating and continuous renewal of Brazil's economic structure, increasing the Brazilian economy competitiveness, giving priority to both the reduction in social and regional unbalances, and the employment maintenance and generation.

Which are the objectives of BNDES operations?

- to support investments aiming technological innovation;
- to increase the offer of infrastructure services ahead of demand;
- to increase the industry productive capacity and competitiveness;
- to promote pioneer initiatives, with a prospective future;
- to promote exports of Brazilian services and goods;
- to expand and modernize micro, small and medium-sized enterprises;
- to develop the Brazilian capital market;
- to decrease social exclusion;
- to reduce regional disparities; and
- to foster South America integration.

Does BNDES' finance activities compete with the private financial sector?

The economic stabilization plan (Real Plan) launched in 1994 allowed the offer of medium and long-term credit in Brazil by means of other financial agents. However, the presence of private financial institutions in this credit segment is very incipient, which implies to say that the presence of BNDES is also of significant importance to carry out investments, mainly with respect to the new cycle of investments in infrastructure.

However, BNDES more and more moves towards establishing partnerships with financial institutions, both domestic and foreign, to aggregate efforts for a more efficient funding of resources to carry out such significant investments.

Which human resources does BNDES count on?

BNDES counts on a staff of about 2,000 employees, of which 1,600 have a university degree for the most different graduations, with emphasis in the careers of economy, engineering, law, accounting, computer systems and business management. There is a permanent presence of BNDES's professionals in qualification programs, business trips, seminars, etc.

The hiring of professionals to BNDES's staffs is made by means of public examination, upon a wide disclosure in the media.

How BNDES actions are evaluated?

As a government instrument for a competitive qualification of the economical activity, BNDES is continuously evaluated by the Brazilian society.

Usually, BNDES's actions are submitted to the judgment of:

- Federal Audit Court [TCU], Department of Coordination and Control of State Companies [Dest], and BNDES Board of Directors, which are entities linked to the Public Administration;
- independent auditors of international scope, contracted by means of a public bidding process;
- Executive Board of the Workers' Assistance Fund [Codefat], which joins representatives of workers and government, accountable for managing the Workers' Assistance Fund [FAT], which is the main source of funds for BNDES's active operations; and
- Central Bank of Brazil, in view of its status of financial institution.

Due to its presence in the capital market, BNDES is also exposed to evaluation by the Brazilian Securities and Exchange Commission [CVM].

Does BNDES look for profit from its operations?

The Bank, a financial institution specialized in medium and long-term credit, operates under a perspective of obtaining positive results, to increase its net worth, in order to multiply its operating capacity. A judicious selection of projects/clients and a fair policy of assets turnover, liquidity and profitability have allowed increasing annual profits.

Following professional standards for risk evaluation of projects and business, the Bank looks for dimensioning the effective capacity of financed investments to generate positive flows that make them self-sustainable and to obtain return from the funds allocated.

How does BNDES operate all over the country?

In order to operate all over the country, BNDES uses two modalities of operation: direct and indirect. Under the first modality, the clients are directly assisted by the Bank, mainly in case of large enterprises and some specific programs. To assist small and medium enterprises, spread all over Brazil's continental territory, BNDES has accredited financial institutions having a physical presence (agencies, bank offices, correspondents) within all Brazilian municipalities. The indirect modality uses a structured network stringing out BNDES's national operations.

Funding

Which are BNDES's main sources of funds?

The main source of funds for annual disbursements is the return on operations already performed, reflecting the good quality of BNDES assets. In addition, BNDES uses third party funds, funded from the Workers' Assistance Fund [FAT], a stable source of funds established by the Federal Constitution. It also carries out operations with multilateral agencies and monetization of securities with the domestic and international capital market.

Consequently, BNDES does not depend upon the National Treasury's budgetary funds and operates independently in the allocation of such funds, by using the good banking standards to grant financings.

Which is BNDES's strategy for funding resources abroad?

BNDES, as a borrower abroad to complement its investment budget, operates aiming at:

- diversifying its sources;
- minimizing the costs of loans for the execution of investments/projects in the country, also contributing to stimulate foreign enterprises to invest in Brazil; and
- expanding the terms for foreign operations.

Financial Action

Which is the emphasis of BNDES's action as a financing provider?

In order to reach its objectives, BNDES has defined areas for its operation, established based on the sector or on the investment's objective: innovation, infrastructure, productive capacity, capital goods, micro, small and medium enterprises, international insertion, urban development, social development and environment.

Innovation – BNDES has established as its priority to support investments promoting technological innovation, not being restricted to the industry's technologically sophisticated segments. With respect to supporting the exploration of new opportunities, the acceleration of technological changes, as well as the speeding in competitions, all impose fast advances to the Brazilian economy as to innovation generation and disclosure. The Bank's objective is to support investments in projects aiming at transforming the research into economic value, that is, into a better productive process or into a product with better quality.

Infrastructure – BNDES believes that the development of infrastructure represents:

- a necessary condition for economic citizenship, allowing everybody to have access to basic services as electricity, communications, urban transportation and sanitation;
- a reduction in costs, increase in productivity, improvement in quality of goods and services for the productive structure and a consolidation of regional integration; and
- an offer of services ahead of demand, in order not to become an interruption to a new cycle of growth.

Productive Capacity and Capital Goods – The Bank's performance is mainly guided by actions modernizing the productive chains and their sectorial links, stimulating an increase in the productive structure, aiming at increasing the production capacity of the industry and trading, service and farming sectors, making them more efficient, innovative and more capable to export. The Capital Goods sector is comprised of hundreds of enterprises of all sizes, and is the main responsible for disclosing and incorporating the technical progress and for the innovation in all segments of the economy, with a great potential of transformation in several productive chains.

Micro, Small and Medium Enterprises – One of BNDES's main actions is to support the micro, small and medium enterprises [MSMEs] all over the country, in view of its role in the creation of employment and generation of income. This segment of enterprises count on the availability of financial supporting lines and specific programs offering the best conditions of costs, terms and share levels, to support investments in industrial, infrastructure, trading, services and farming sectors.

International Insertion – BNDES's operation instructions aim at aggregating value to the Brazilian sales to the foreign market, by means of investments in technology; financial and technical support to exports, in addition to stimulating the international action of Brazilian enterprises, mainly in South America, with the implementation of bases for distribution of national products in strategic markets. The development of an exporting sector more dynamic and integrated to the global market also meets the objective of strengthening the domestic market, because it functions as a powerful instrument to increase productivity and efficiency in Brazilian enterprises.

Urban Development – BNDES performance in urban development aims at:

- strengthening the managerial, normative and technological capacity of the municipal public administration;
- identifying the demands of Brazilian cities and metropolis, by means of investments directed to urban planning, structuring, multi-sectorial requalification and rearrangement; and

- universalizing access to basic sanitation services and recovery of areas environmentally degraded.

Social Development – BNDES supports projects with a direct impact on improving the quality of Brazilian population, aiming at:

- expanding the offer of productive credit to low-income entrepreneurs by means of Microcredit Programs;
- promoting the performance of Social Investments by Enterprises;
- expanding the health, education and social assistance services to the population;
- implementing collective solutions for the maintenance of jobs, along with business development and growth;
- reducing regional unbalances, through structuring projects, local productive arrangements and integrated projects in regions of extreme poverty; and
- stimulating projects or activities of social nature, equipped with efficiency and innovation, making them paradigmatic to other institutions, and with the probability of becoming public policies.

Environment – BNDES believes that the environment preservation, conservation and recuperation are essential conditions to mankind. It assumes of fundamental importance the observance of ethical and environmental principles for credit granting, in view of the commitment with the present and future generations. BNDES understands that investments in the improvement of environmental performance of productive infrastructure activities are inducers to economic and social development, and it assumes the commitment to make available the proper funds for the promotion of environmental quality and environmentally sustainable activities.

How does BNDES contribute for mitigating social and regional unbalances?

With respect to fighting social and regional unbalances, BNDES has been adopting an approach giving priority to the search of integrated solutions to social problems. With respect to regional unbalances, it is recognized that there are problematic areas presently distributed all over the country. Consequently, in addition to a privileged treatment to the Northeast and North, the country as a whole has been mapped in accordance with its microregions, originating the Regional Dynamism Program [PDR], which aims at increasing the level of investment in less developed areas of Brazil, by offering best financial conditions to projects to be implemented and supported in such areas.

How does BNDES operate with the traditional sectors?

Here the Bank's role has been of giving competitiveness to the Brazilian products, either by industry restructuring, or by modernizing and mechanizing the agricultural business, focusing the agribusiness.

Clients

➤ Who may obtain resources from BNDES?

Individuals (in specific cases, as the independent trucker, the rural producer and the micro businessman), private enterprises, direct and indirect public administration and other entities contributing to BNDES's objectives.

➤ Can a foreign investor have access to BNDES credit lines?

Constitutionally, a Brazilian enterprise is the one conducting operating activities with management established in the country. Therefore, any enterprise legally organized and operating in the Brazilian territory may apply to BNDES credits.

➤ Which are the necessary requirements to qualify for BNDES credit lines?

- the applying enterprise should be legally organized in Brazil;
- to be updated with its legal, fiscal, tax and social obligations;
- to present an acceptable registry;
- to present a viable project, following the Bank's analysis standards; and
- to present proper and sufficient guarantees to cover the risk of the operation.

Financial Supporting Lines

➤ What types of operations are carried out with BNDES funds?

BNDES operates in the provision of medium and long-term credit, but it may also use instruments typical of capital markets, like the subscription of securities (shares, debentures), and also the structuring of operations such as project finance, always as a support in the performance of investments.

➤ Which are BNDES's main financing lines?

To finance investment projects, a support may be granted:

- under direct modality, for financings over R\$ 10 million, the Bank operates using the Financing to Endeavors [FINEM] line, in which the entrepreneur may be directly assisted by BNDES; and
- under indirect modality, for amounts lower than R\$ 10 million, the assistance is made through a system of accredited financial institutions, which operate in the whole country and may meet local demands using BNDES Automatic line.

The financing for acquisition of machinery and equipment of any value is carried out under the indirect modality through accredited financial institutions using the FINAME line.

The BNDES Card gives support to micro, small and medium enterprises, which may acquire production goods.

Enterprises established in Brazil may use the Export Supporting Lines to produce and trade their products abroad under competitive conditions.

There are cases of operations, mainly in the infrastructure area, in which the Bank may share the risks of structured operations with financial institutions and suppliers of goods and services in Specific Purpose Enterprises [SPE].

What type of endeavors does BNDES finance?

The financing is directed to investments in the implementation, expansion and modernization of endeavors in any economic sector.

Within a specific project, which are the investment items that may be financed by BNDES?

Among others, the following items: acquisition and leasing of new machinery and equipment manufactured in Brazil and accredited with BNDES; expenditures with civil works and installations; expenditures with technological capacitating, quality and productivity projects, including training and computerizing; expenditures with environmental control, energy rationalization and consumption.

Does BNDES require that goods and services integrating a project financed by it are exclusively supplied by enterprises established in Brazil?

The entrepreneur is free to select the suppliers of its project. Expenditures with domestic supply may be financed by the Bank, provided that they are supportable and, in case of machinery and equipment, accredited with BNDES. Financing may be granted for imports of new machinery and equipment, without domestic similar, exclusively to enterprises of the industrial sector (sections C and D of CNAE code) and movie projection, except video (item 92.13-4). For payment of other items acquired abroad, the enterprise should use its own funds and/or other sources of funds.

How does BNDES finance small operations? How about micro, small and medium enterprises?

Taking into consideration the national territory extension and the consequent dispersion of economic activities, BNDES opted for assisting micro, small and medium enterprises exclusively through over a hundred accredited financial institutions. The stringing of such network of agencies, next to local enterprises and their business environment, multiplies the financing activity of BNDES, acting as an institution provider of funds.

Under such modality, the support is indirect. BNDES defines its maximum share level of financing in the investments, in some cases also the maximum terms and the financing cost. The accredited financial institutions assume the risk of operations they perform, to which coverage they establish the fees they deem fair for each operation/enterprise.

Credit Policy /Operating Conditions

➤ Does BNDES require the participation of investor's own funds in the project financed?

For some financial supporting lines it is required a participation from the entrepreneurs as a partial funding of the resources needed to carry out the investments.

➤ How much can BNDES finance in the total investment to be carried out?

The maximum levels of BNDES share vary in accordance with the line and financing program. For some operations, such as the supporting lines to exports, financing to acquisition of machinery and equipment, or also in cases of micro, small and medium enterprises, it may finance up to 100%.

Projects qualified under the Regional Dynamism Program [PDR] are subject to an increase in BNDES maximum share, in accordance with the specific program's rules.

➤ Which is the interest rate for a financing operation?

The final interest rate for the beneficiary varies in accordance with the way of support, under the following composition:

Direct Operation

Interest rate = Financial Cost¹ + BNDES Basic Fee² + Credit Risk Rate³

Indirect Operation

Interest rate = Financial Cost + BNDES Basic Fee + Financial Intermediation Rate⁴ + Accredited Financial Institution Fee⁵

1. The Financial Cost reflects the cost of BNDES funding and will be established in accordance with the operation and/or the beneficiary as: Long-Term Interest Rate [TJLP], -Basket of Currencies, US Dollar, or Extensive Price Consumption Index [IPCA].
2. BNDES Basic Fee is the margin that covers operating expenses and guarantees a return on BNDES's consolidated net worth, varying in function of BNDES operating priorities.

3. *Credit Risk Rate is the margin to cover defaults to BNDES and varies in function of the borrower credit risk.*
4. *The Financial Intermediation Rate is directed to cover the systemic risk from BNDES's Financial Institutions, limited to 0.8% p.a. and exempt in operations with MSMEs.*
5. *The Financial Institution Fee is negotiated between the parties and reflects the credit risk plus its administration cost.*

Are there other charges?

The collection of other charges will depend upon the characteristics of the operation, and will be informed at the time of negotiating the financial conditions.

Does BNDES require the presentation of guarantees in operations financed with its funds?

Yes, real and/or personal guarantees are required.

Among the real guarantees are: real estate mortgage, which may be of the enterprise itself, group enterprises or even from third parties; fiduciary property of machinery and equipment; pledge of securities and receivables. Personal guarantees comprise sureties, co-obligations from individuals or legal entities, including first-line financial institutions.

The accomplishment of this requirement, in case of indirect operations, will be at discretion of the financial institutions accredited by BNDES.

Which are the financing terms used by BNDES to support investment projects?

The financing term will be determined in function of the endeavor, enterprise or economic group's payment capacity. Total term includes the grace and repayment period.

Grace period is the period comprised between the financing agreement signature date and the payment of the first installment of the principal. It usually includes the first six months after the beginning of commercial operations of the financed endeavor.

Repayment period is the period beginning right after the end of the grace period. During this period it is paid, usually monthly, an installment of the principal plus the interests included in the outstanding balance.

In the financing lines to support infrastructure projects, the maximum repayment deadline, for electric energy hydric generation, varies from 14 years, for small hydroelectric plants, to 20 years, for plants with installed capacity equal or over 1,000 MW. Repayment term for electric energy transmission projects is up to 14 years and for electric energy distribution projects, up to 6 years.

Which is the deadline for the release of funds?

Both the decisions of investing and granting credit demand time for maturing, which will fit into the nature of the risk involved, and BNDES does not escape from this model. Accordingly, the time elapsed between the formal delivery of an application for eligibility and the effective release of the first credit installment will vary in function of the size of the endeavor, the partners involved, the soundness of the endeavors, the volume of funds involved, the markets intended, the guarantees offered, the quality and quickness of information presented by the applicants, etc.

After the signature of the financing agreement, the financial resources are released in accordance with the project's physical and financial evolution.

How does BNDES monitor the application of funds during execution of a project financed?

Upon its own control instruments, BNDES monitors the physical and financial execution of the project supported, so that possible deviations may be timely corrected, therefore avoiding negative effects to the endeavor. The application of own funds and funds from other sources is judiciously followed, as well as the performance indicators of the enterprise executing the project and the business group it belongs to.

BNDES – Brazilian Development Bank

Av. República do Chile, 100
20031-917 – Rio de Janeiro – RJ

Corporate Customer Service

Tel.: +55 (21) 2172-8888 Fax: +55 (21) 2220-2615

Offices

Brasília

Setor Bancário Sul – Quadra 1 – Bloco J/13º andar
70076-900 – Brasília – DF
Tel.: +55 (61) 3204-5600 – Fax: + 55 (61) 3225-5510

São Paulo

Av. Presidente Juscelino Kubitschek, 510/5º andar – Vila Nova Conceição
04543-906 – São Paulo – SP
Tel.: +55 (11) 3512-5100 – Fax: + 55 (11) 3512-5199

Recife

Rua Antonio Lumack do Monte, 96/6º andar – Boa Viagem
51020-350 – Recife – PE
Tel: +55 (81) 3464-5800 – Fax: +55 (81) 3465-7861

www.bndes.gov.br



**Ministry of
Development, Industry
and Foreign Trade**



Published by
Department of Communication
August - 2007