



BNDES - The Development Bank



Institutional



What is BNDES?

Banco Nacional de Desenvolvimento Econômico e Social – BNDES is a state-owned institution and main provider of funds to long-term financing of national economy investments.

Which are the main BNDES's functions?

Created in 1952, BNDES, all along its route, has participated actively in all investments that changed the economic feature of Brazil. Such performance allowed the Bank to accumulate considerable tradition of knowledge about the national economy. Today, BNDES is par excellence the financial institution to finance medium and long-term productive investments.

To undertake its operations, BNDES counts on two wholly owned subsidiaries:

- the Special Agency for Industrial Financing (FINAME), responsible for financing the trading of machinery and equipment; and
- BNDES Participações S.A. (BNDESPAR), which aims at strengthening the equity and financial structure of private enterprises and developing the capital market.

Which is BNDES's mission?

Foster Brazil's development, allowing investments that result in job creation, reduction of social and regional inequalities and incorporation of technological development, through a strategy focusing the sustained economic growth to reduce the country's external vulnerability and with social inclusion as its central axis.

Which are the objectives of BNDES's activities?

BNDES's activities are focused on:

- investments in infrastructure and productive structure;
- strengthening of Brazilian enterprises;
- promoting exports;
- developing the capital market;
- social inclusion;
- reducing regional disparities; and
- integrating South America.

Do BNDES's financing activities compete with the private financial sector?

The advent, in 1994, of the economic stabilization plan, the BRL Plan, made feasible the offer of medium and long-term credit in Brazil by means of other financial intermediaries. However, the presence of private financial institutions in this credit segment is very incipient, which means that BNDES's presence is relevant to the performance of investments, especially with respect to the new cycle of investments in infrastructure.

However, BNDES moves more and more to establish partnership with financial institutions, either domestic or foreign, to add efforts in raising funds more efficiently to execute these important investments.

Which human resources BNDES counts on?

In September 2005, BNDES has a staff of 1,950 employees, of which 1,595 have university degree at most different lines of education, with emphasis on economy, engineering, law, accounting, system analysis and business administration. The Bank always has professionals in upgrading programs, business trips, seminars, etc.

BNDES's new employees are hired through public admission tests, upon full disclosure in the media.

How BNDES's actions are evaluated?

As an instrument of the government for the Brazilian economic competitiveness, the Bank is frequently submitted to evaluation of Brazilian society.

BNDES's actions are regularly submitted to the appreciation of:

- Federal Union Audit Court (TCU), of Department of Coordination and Control of State Enterprises (DEST) and BNDES's Board of Directors, which are entities linked to the Public Administration;
- international audit firms, contracted through a public bid process; and
- Deliberative Council of the Fund for Workers' Assistance (CODEFAT), which assembles representatives of workers and the government, responsible to manage Fund for Worker's Assistance (FAT), the main source of funds for BNDES's active operations.

In function of its presence in the external capital market, BNDES is also exposed to the evaluation of the international financial community.

Does BNDES look for profits from its operations?

BNDES, which is 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 careful selection of projects/clients and an adequate policy of assets circulation, liquidity and profitability, have allowed increasing annual profits.

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

How does BNDES operate all over the country?

In order to operate all over Brazil, BNDES uses two types of operation: direct and indirect. Through the first type, clients are assisted directly by the Bank, which happens mainly for

big corporations and some specific programs. To support micro, small and medium-sized enterprises, spread all over country, BNDES has accredited financial institutions, which have physical presence (agencies, bank stations, correspondent offices) in the 5,560 Brazilian municipalities. The indirect modality uses a structured network providing canalization for BNDES's national operation.

Funding

Which are BNDES's sources of funds?

In addition to Shareholders' Equity, monetization of Stock Market securities and return of existing operations, BNDES counts on third-party funds provided from FAT, a stable source of funds, established by the Federal Constitution. The Bank also performs operations with multilateral organisms and with the international capital market.

Consequently, BNDES does not depend upon budget funds from National Treasury and operates under own independence in the allocation of such resources, following the good banking standards to grant financings.

Which is the strategy of BNDES funding abroad?

BNDES, as a raiser of funds abroad to complement its investment budget, operates aiming at:

- diversifying its sources;
- minimizing borrowing costs for the performance of investments/projects in the country, also contributing to stimulate foreign enterprises to invest in Brazil; and
- extending the time periods for external operations.





Financing Activity

Which is the emphasis in BNDES's financing action?

In order to meet its objectives, BNDES exercises four big interlinked lines of operation: social inclusion; restoration

and development of the national infrastructure; modernization and expansion of the productive structure; fostering of exports. **Social Inclusion** permeates all the others.

In this sense, the Bank's credit granting to enterprises establishes incentives to the intended support, aiming at expanding the social effects of the undertakings.

Infrastructure – when defining its business line to infrastructure, BNDES considers that:

- it is a condition necessary to the economic citizenship, allowing everybody to have access to utilities such as electricity, communications, urban transportation and sanitation;
- it should promote a reduction of costs, by increasing productivity, quality improvement of the productive structure's goods and services and consolidation of the regional integration; and the offer of services to this sector should go ahead of demand, in order to not becoming an interrupting factor for a new cycle of growth.

Productive Structure – BNDES's activities are mainly oriented by actions modernizing the productive chains and their sectorial links, stimulating the productive structure growth, aiming at increasing the industry and service sector's production capacity, making them more efficient and innovators, as well as more able to export. Emphasis is added to the support to micro, small and medium-sized enterprises that contribute to reduce regional inequalities, where BNDES counts on the participation of the financial institutions' network.

Exports – the directions for BNDES's activities aim at aggregating value to Brazilian sales to the external market, by means of investments in technology; financial and technical support for exports, in addition to stimulating the international action of Brazilian enterprises, especially in the ambit of South America, with the implementation of distribution bases for domestic products in strategic markets. BNDES monitors the Brazilian negotiations in international forums, aiming at adjusting its policy to the standards agreed by Brazil, and contributes with the governmental sectors in charge of negotiations.

How does BNDES act in the environment preservation?

BNDES was a precursor, still in the 1980s, in the implementation of its financing policy, establishing specific conditions to the environment protection and/or restoration in the projects it finances. The specific investments for the environment restoration, preservation and conservation in projects financed by the Bank count on financings under attractive conditions of cost, term and participation levels.

How does BNDES contribute to Brazil's social situation improvement?

BNDES's performance comprises a group of actions with high social impact, considering the improvement in quality of life for the communities reached by the projects supported and a significant quantity of jobs generated under its execution and subsequent operation.

Therefore, in addition to the health, education, regional development and income sectors, in which BNDES acts in benefit of the urban population, an important role is played by the investments in mass collective transportation, environmental sanitation, familiar farming and agriculture, the latter in the ambit of the National Program for the Strengthening of Family Agriculture (Pronaf).

The tertiary sector, which is labor-intensive, has also been receiving BNDES support for the performance of new investments, being significant the credits granted to the tourism sector and the trading activity, with highlight for shopping centers and distribution networks.

How does BNDES contribute to mitigate the regional income inequalities?

Considering its continental dimension, it is natural that there is a disparity in the development levels of the various Brazilian regions. It has been BNDES's permanent policy to provide for differentiated conditions in its credit lines, with the purpose of making equally attractive the business environment in regions where factors such as the climate, population density, culture, education level of population make the economic activity more difficult. For the North, Northeast, Midwest and Extreme South regions of Brazil, specific programs are developed, granting higher terms, lower actual interest rates and higher participation levels, trying to make more competitive the financings to investors wishing to make investments there.

On the other hand, BNDES has supported, in such regions, projects of higher dimension, of unquestionable economic and financial viability, especially in infrastructure sector – energy, railways, waterways, ports – in order to create externalities to free enterprise projects.

How does BNDES act in traditional sectors?

Here the Bank's role has been of giving competitiveness to Brazilian products, either through restructuring industry, or modernizing and mechanizing the business agriculture, with focus on agribusiness.

Clients

Who may obtain funds from BNDES?

Individuals (in specific cases, such as independent truckers, rural producers and microentrepreneurs), private enterprises, direct and indirect public administration and other entities contributing to BNDES's objectives.

May a foreign investor have access to BNDES's credit lines?

The Brazilian Constitution considers as a Brazilian enterprise any one with operating activity and administration established in the country. Thus, any enterprise legally constituted and operating in the Brazilian territory may apply to BNDES's credits.

Which are the requirements necessary to apply for BNDES's credit lines?

- The applying enterprise should be legally constituted in Brazil;
- be updated with its legal, fiscal, tax and social obligations;
- present satisfactory business information;
- present a viable project, following the Bank's analysis standards; and
- present proper and sufficient guarantees to cover the operation's risk.

Financial Supporting Lines

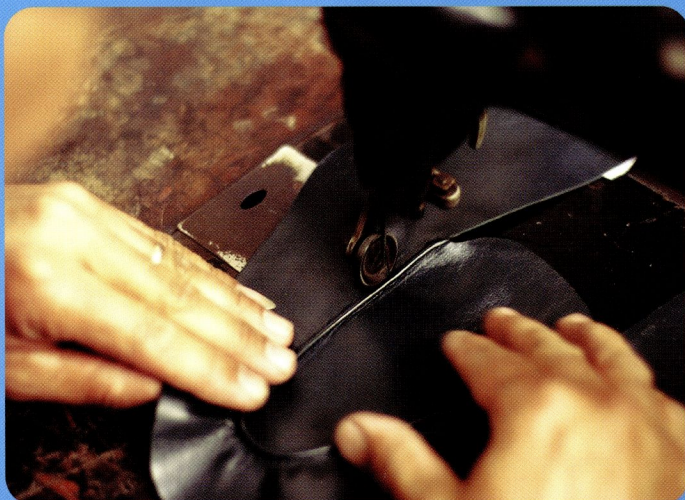
What types of operations are made using BNDES's funds?

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

Which are BNDES's main financing lines?

For project financings, the support may be granted:

- at the direct modality, for financings exceeding R\$ 10 million, the Bank operates under the FINEM line, in which the entrepreneur may be directly assisted by BNDES; and





- at the indirect modality, for amounts lower than R\$ 10 million, the assistance is made through a network of accredited financial institutions, which operate all over the country and may meet local demands, under the BNDES Automatic line.

Financing for the acquisition of machinery

and equipment of any value is made under the indirect modality, through accredited financial institutions, under the FINAME line.

The BNDES Card supports micro, small and medium-sized enterprises, which acquire production goods.

The enterprises established in Brazil count on the Export Supporting Lines to produce and trade its product in competitive conditions abroad.

There are operations, especially in the infrastructure area, in which BNDES may share risks of structured operations with financial institutions and suppliers of goods and services in Specific Purpose Companies (SPE).

What type of undertakings does BNDES finance?

Those investments destined to the implementation, expansion and modernization of undertakings of any economic sector.

In a specific project, which investment items may be financed by BNDES?

Among others, the following items: acquisition and leasing of new machinery and equipment locally manufactured and accredited with BNDES; expenditures with construction works and

installations; expenditures with projects for technological capacitation and quality and productivity, including training and computerization; expenditures with environmental control, rationalization and consumption of energy. The financing lines to Brazilian exporters are competitive and grant conditions of terms and costs similar to those offered at the international market.

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

The entrepreneur is free to choose the suppliers to its project. Only expenditures with domestic supply items may be financed by BNDES. For payment of items acquired abroad, the enterprise should use own resources and/or financings from suppliers/banks.

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

Considering the extension of the Brazilian territory, and the consequent dispersion of the economic activity, BNDES opted for assisting micro, small and medium-sized enterprises exclusively through over a hundred accredited financial institutions. The canalization of this network of agents, close to local enterprises and its business environment, multiplies the financing activity of BNDES, which works as an institution provider of funds.

Under this modality, the support is indirect. BNDES defines the maximum level of participation in financing of investments, sometimes the maximum terms and the financing cost. The accredited financial institutions assume the risk of operations performed, for which coverage they establish the remuneration deemed adequate to each operation/enterprise.

Policy of Credit/Operating Conditions

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

For some financial supporting lines, the participation of entrepreneurs is requested as a partially funding of resources necessary for the performance of investments.

How much BNDES may finance from total investment to be made?

For operations supporting investment projects, such as the BNDES Automatic and FINEM lines, the supporting basis is 50% of financeable investments, a level that may reach 90%, in accordance with the project's size, location and priority.

For some operations, such as the export supporting lines and financing for the acquisition of specific machinery and equipment, destined to the farming sector, or also in cases of micro, small and medium-sized enterprises, BNDES may finance up to 100%.

Which is the interest rate for a financing operation?

The total interest rate is comprised of the cost of funding (Financial Cost) plus BNDES's fees for coverage of its expenses and the risk of operations (BNDES's fees). In case of indirect operations, the accredited financial institutions add their risk fees (Accredited Financial Institution's Fees).

The Financial Cost may be Long-Term Interest Rate (TJLP) (resources funded at the domestic market), or the "currency basket", or also the US dollar (external funds).

BNDES's fees vary in accordance with the enterprise's size, the sector of activity and location of the undertaking.

Direct Operation

Total interest rate = Financial Cost (TJLP, Currency Basket, US dollar) + BNDES's fees

Indirect Operation

Total interest rate = Financial Cost (TJLP, Currency Basket, US dollar) + BNDES's fees
+ Accredited financial institution's fees

Are there other charges?

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

Does BNDES require the constitution of guarantees for operations financed with its funds?

Yes, real and/or personal guarantees are required.

The main real guarantees are: real estate mortgage, which may be owned by the enterprise, by group's enterprises or even by third parties; fiduciary property of machinery and equipment; pledge of credit securities and receivables. Personal guarantees include sureties, cosigners' agreements from individuals or legal entities, including first line financial institutions.

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

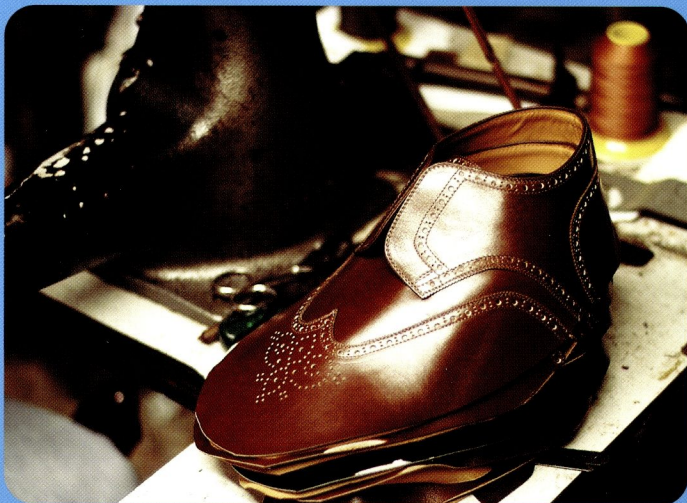
Which are the time periods used by BNDES in the support to investment projects?

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

Grace period is the time between the financing agreement signature date and the payment of the first installment of principal repayment.

Usually, it comprises up to six months after the financed undertaking's commercial beginning of operations.

Repayment term is the period initiated immediately after the end of the grace period. During this time, usually in monthly periods, is paid an installment of the principal plus interests on the debit balance.





Which is the time period for release of funds?

Both the decision to invest and the decision to grant a credit demand a time for maturing, which will be adjusted to the nature of the risk involved, and BNDES does not escape from this model.

Therefore, the time elapsed from the receiving of a formal eligibility request and the effective release of the first credit portion will fluctuate in function of the size of the undertaking, the partners involved, stability of entrepreneurs, volume of funds involved,

intended markets, guarantees offered, quality and readiness of information presented by the interested parties etc.

After the financing agreement is signed, financial resources will be released in accordance with the physical and financial development of the project.

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

Upon its own control instruments, BNDES monitors the physical and financial execution of the project supported, in a way that possible deviations of route may be timely corrected, avoiding negative consequences to the undertaking. The funding of own resources and from other sources is carefully observed, as well as the performance indicators of the enterprise executing the project and the business group to which it belongs.

BNDES – Banco Nacional de Desenvolvimento Econômico e Social

Av. República do Chile, 100

20031-917 – Rio de Janeiro – RJ

Corporate Customer Service

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

Offices

Brasília

Setor Bancário Sul – Quadra 1 – Bloco J/13º andar

70076-900 – Brasília – DF

Phone: (+55-61) 3214-5600 Fax: (+55-61) 3225-5510

São Paulo

Av. Presidente Juscelino Kubitschek, 510/5º andar – Vila Nova Conceição

04543-906 – São Paulo – SP

Phone: (+55-11) 3471-5100 Fax: (+55-11) 3044-9800

Recife

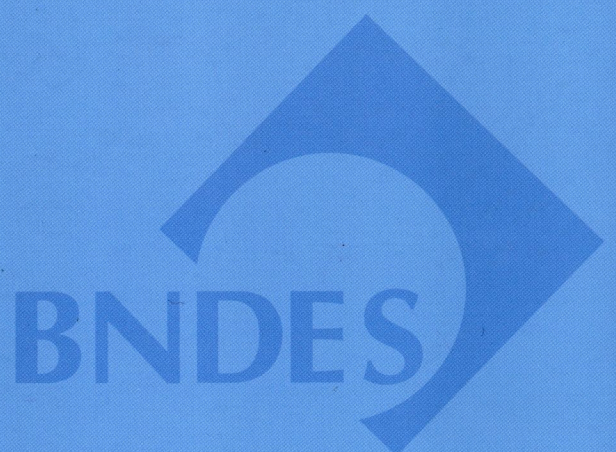
Rua Antonio Lumack do Monte, 96/6º andar – Boa Viagem

51020-350 – Recife – PE

Phone: (+55-81) 3464-5800 Fax: (+55-81) 3465-7861

www.bndes.gov.br





**BRAZILIAN
DEVELOPMENT BANK**

**BANCO NACIONAL DE
DESENVOLVIMENTO ECONÔMICO E SOCIAL**

Avenida República do Chile, nº 100 - Centro
20031-917 - Rio de Janeiro - RJ

Phone: (+55-21) 2172-8888 e-mail: faleconosco@bndes.gov.br

www.bndes.gov.br

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**MINISTRY OF DEVELOPMENT,
INDUSTRY AND FOREIGN TRADE**

