



Experiência, Comprometimento, Capilaridade e Entendimento

DIREITO CORPORATIVO

THE BRAZILIAN ECONOMIC DEVELOPMENT BANK

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FOREWORD

We at **ALMEIDA ADVOGADOS** understand the difficulties that companies face when looking to finance their businesses, particularly in a complex market like Brazil. For this reason, we have prepared this study. For those who are contemplating Brazil for the first time, the information herein will help you form an initial idea about whether Brazil offers the kind of public financing opportunities required for your further interest in the market.

After reading the information, please contact us if you need any additional clarification to lead you or your company to a more comprehensive understanding about the Brazilian market and its opportunities.

1. INTRODUCTION

In its role as the government's primary investment vehicle for infrastructure and economic development, The Brazilian Economic Development Bank has played a central role in shaping the Brazilian economy for over half a century. While Brazil's political and economic systems have undergone extreme changes since the BNDES was founded, the Bank has weathered each crisis and transformed itself, trying to meet the needs of the Brazilian entrepreneurs. In the following manual, we will provide a brief description of the Bank's history as well as an overview of how the BNDES is currently constituted. We will also explain what types of enterprises qualify for BNDES funding and how to go about applying for financing.

2. HISTORY OF THE BNDES

The Brazilian Economic Development Bank (BNDE) was established on June 20, 1952, not long after Brazil adopted the developmentalist model for economic. Developmentalism envisions a central role for the government in regards to creating a strong internal market and fostering domestic industries. As a centralized government agency responsible for stimulating development, the BNDE was seen as crucial to achieving these goals.

The developmentalist model marked a sharp break from the traditional role of the Brazilian government in the economy. From 1889-1930, Brazil had operated under an oligarchic economic system that catered to the interests of Brazil's agricultural elite.

To transform Brazil from an export-dependent economy into an industrial powerhouse, Brazil needed to undergo a radical transformation. Brazil's infrastructure was woefully underdeveloped and ill-suited to the needs of a modern industrialized economy. The establishment of the BNDE contributed mightily to this goal.

In the decade following the BNDE's formation, Brazil's infrastructure dramatically improved. Brazil's electrical production capacity expanded by 9.8% from 1951-1963, while the number of paved roads increased by 23.9% from 1956-1963. The BNDE was important to these improvements, directing public and private investment towards numerous infrastructure projects including railways, ports, power plants and highways.

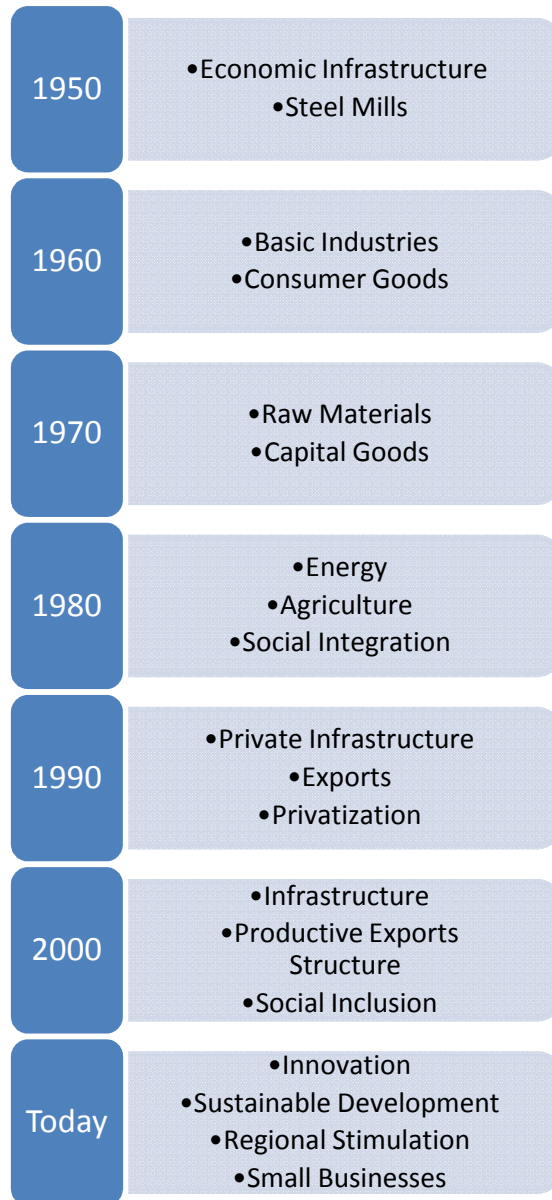
In the 1970s, the BNDE's mission changed. The Brazilian military government adopted an economic policy focused on import-substitution and the growth of underdeveloped domestic industries. The BNDE once again played a crucial role in directing funds to these projects, including information technology businesses and microelectronics.

The BNDE transformed again in 1982, expanding its mission to include both economic development and improvements to social welfare. Its name accordingly changed to the Brazilian Economic and Social Development Bank (BNDES) to reflect its new agenda.

Throughout the 1980's, the Brazilian government backed away from the import-substitution model after inflation wreaked havoc on the Brazilian economy and GDP growth slowed to a crawl. The BNDES helped facilitate the unwinding of these policies by encouraging Brazilian corporations to compete with imported products on the domestic market.

The unraveling of the import-substitution model continued into the 1990's as state-owned enterprises began to be sold off to private investors. Officially known as the Brazilian Privatization Program, the BNDES provided administrative, technical and financial assistance to the government throughout this privatization process.

The late 1990's and 2000's saw the BNDES shift its focus to regional and cultural development. The BNDES became heavily involved in funding projects in Brazil's underdeveloped states, while simultaneously funding numerous cultural projects including domestic films and Brazilian heritage sites. Today, the Bank continues to fund these types of projects while maintaining its previous mission of developing domestic industries and financing local projects.



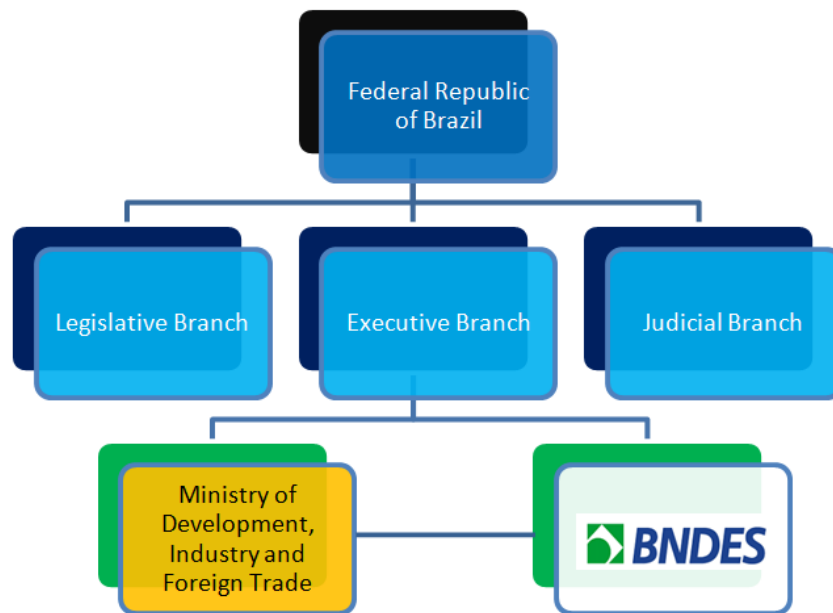
*Types of projects funded by BNDES over the years**

**Information provided by BNDES*

3. CURRENT STATE OF THE BNDES

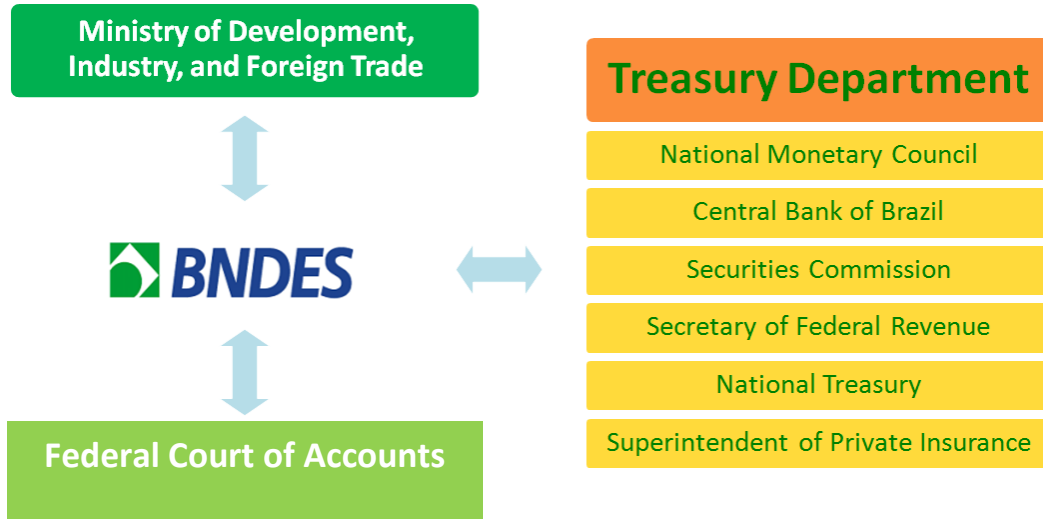
As previously noted, the BNDES' mission has changed frequently over the last sixty years. Today, it has more responsibilities than before, and has been a useful tool for the Brazilian government in weathering the global financial crisis. Furthermore, the BNDES has been investing in green technology and other domestic ventures which may make Brazil's economy globally competitive for years to come.

The BNDES is a government-owned public corporation which is part of the Executive Branch of the Brazilian government. It is directly overseen by the Ministry of Development, Industry, and Foreign Trade (MDIC), a cabinet level federal ministry which reports directly to the President. The BNDES is also held accountable to the Federal Court of Accounts, which is an arm of the Legislative Branch used to help Congress audit the Executive Branch. Finally, the BNDES works hand-in-hand with the Treasury Department and its various agencies in order to craft consistent policies.



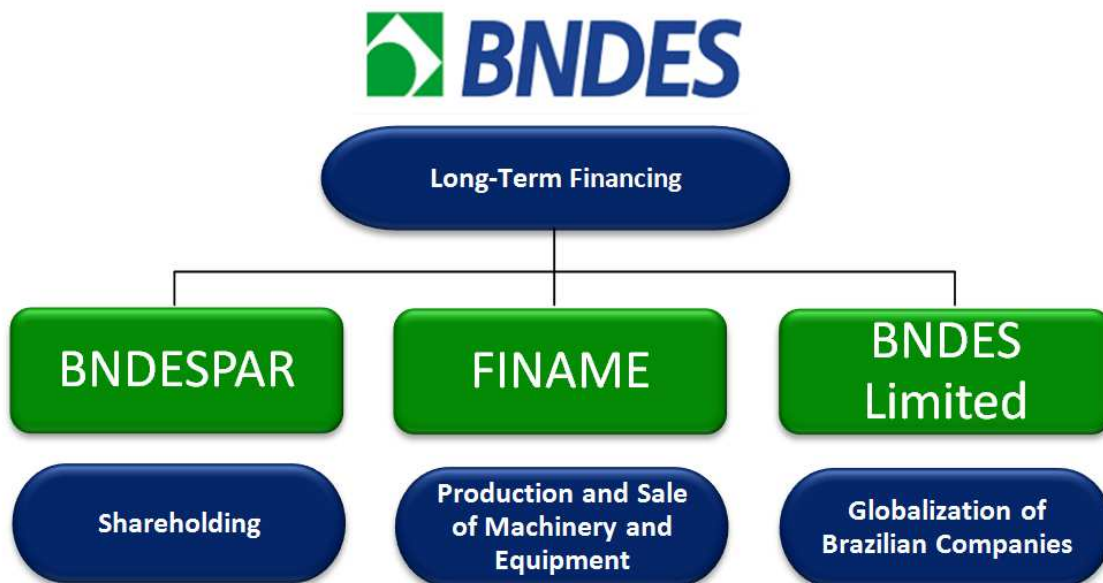
*Political Framework of the BNDES**

**Information provided by BNDES*



*Map of BNDES Accountability**
**Information provided by BNDES*

The Brazilian government has provided the BNDES with a substantial amount of resources to achieve its mission. In its last annual report, the BNDES claims to possess over R\$ 715b in assets with over 2,853 full time employees. BNDES is also currently divided up into four subdivisions which together compose the BNDES System. The companies are as follows: BNDES, BNDESPAR, FINAME, and BNDES Limited.



BNDES Subdivisions

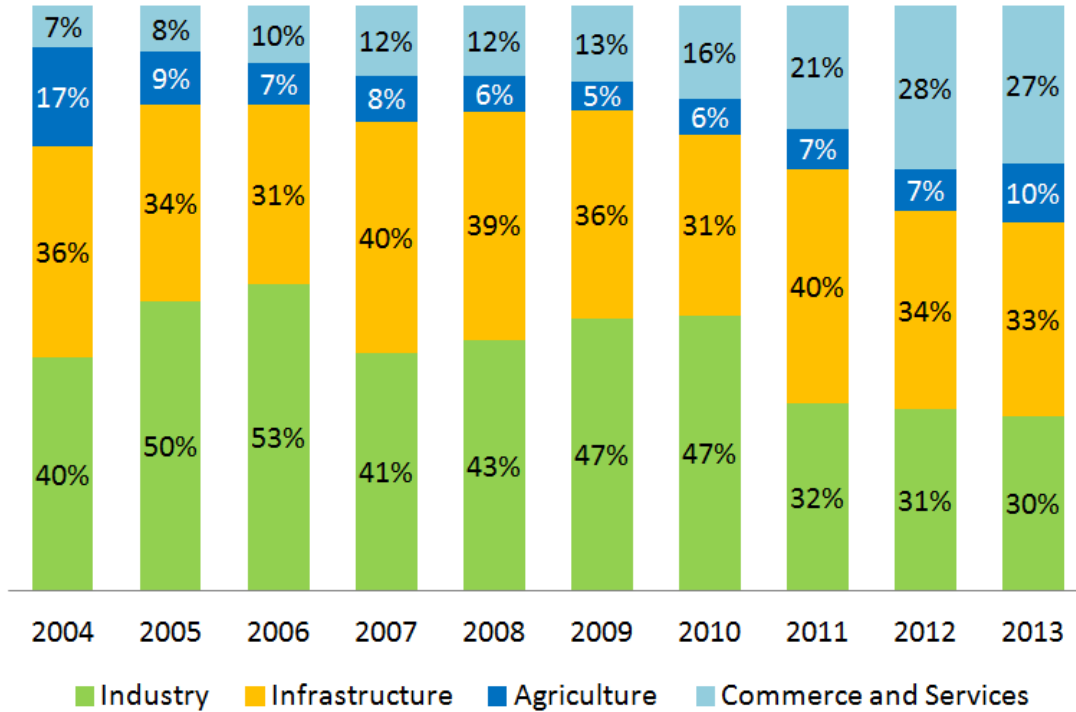
**Information provided by BNDES*

BNDESPAR is a business corporation that oversees capitalization projects at every stage of the business cycle that are carried out and controlled by private entities. FINAME's resources are devoted to financing the purchase and sale of Brazilian machinery and equipment, as well as importing similar goods from overseas. Finally, BNDES Limited operates out of London, UK and acts as a conduit for international investors and Brazilian corporations and enterprises. BNDES Limited also facilitates the expansion of Brazilian corporations into other markets.

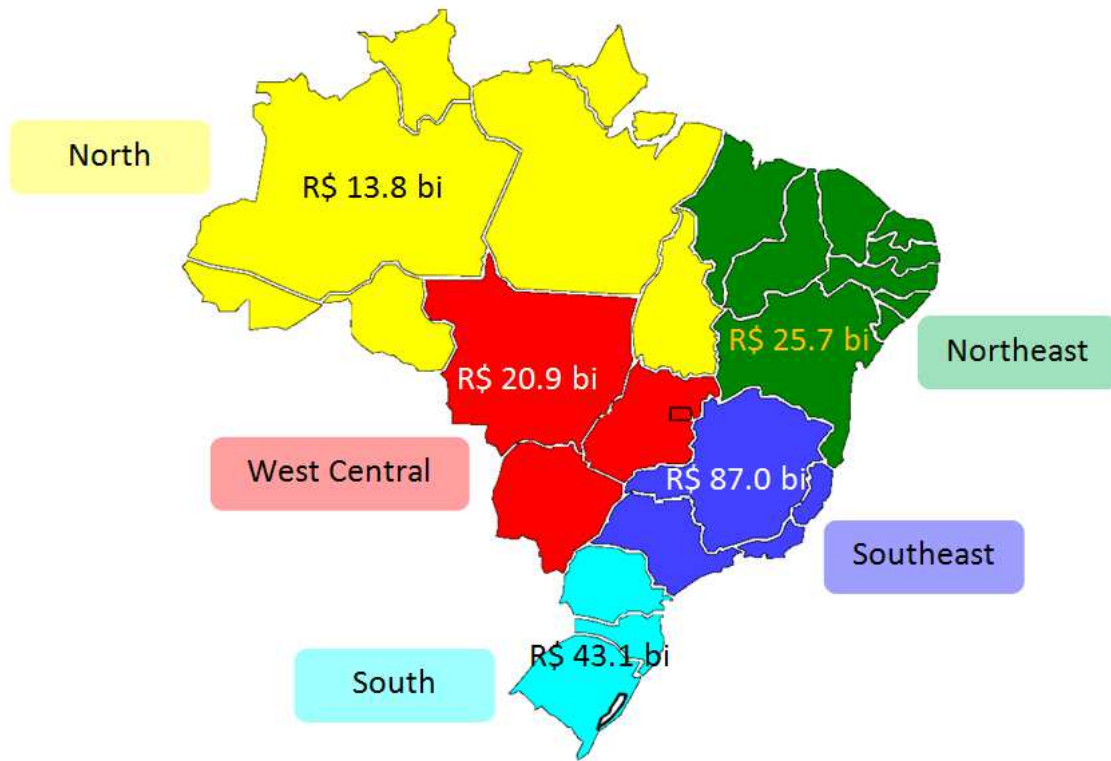
The BNDES also has international offices in Montevideo, Uruguay and Johannesburg, South Africa. BNDES Uruguay promotes international trade and economic interdependence between Brazil and the rest of Latin America. BNDES Africa focuses on strengthening trade and economic ties between Brazil and the African continent.

In 2012, the BNDES disbursed over R\$ 156b to companies both large and small across Brazil. Investments in infrastructure composed 34% of the total disbursement, while industry received 31%, trade and services received 28% and agriculture and cattle-raising received 7%. The BNDES has also increasingly attempted to target Brazil's underdeveloped regions with R\$ 21b going to projects in Brazil's Northeast Region and R\$ 13b flowing to Brazil's North.

BNDES Funding by Industry Sector



The BNDES has become increasingly focused on commerce and services at the expense of industry as Brazil moves towards more of a service economy.

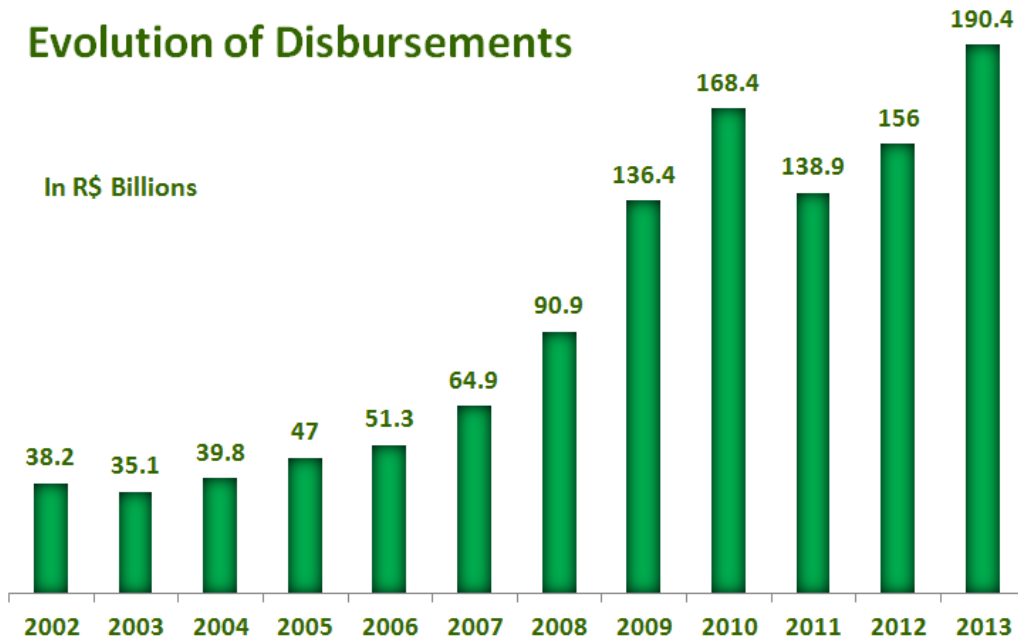


Breakdown of BNDDES disbursements by region

**Information provided by BNDDES*

The amount of money the BNDDES disburses each year is also on the rise. From 2005 to 2013 disbursements increased by over 400%, and in the first two months of 2014 disbursements were up 35% compared to the same period in the previous year. Much of this increase has been directed towards infrastructure projects including subways, highways, and airports. BNDDES has also substantially increased its investments in Micro, Small and Medium-sized Enterprises (MSMEs), allocating 41% of all its disbursements to these smaller businesses. Finally, disbursements to industrial projects have been increasing with petro-chemicals and transport equipment being specifically targeted.

Evolution of Disbursements



The BNDES budget has grown exponentially in the last few years.

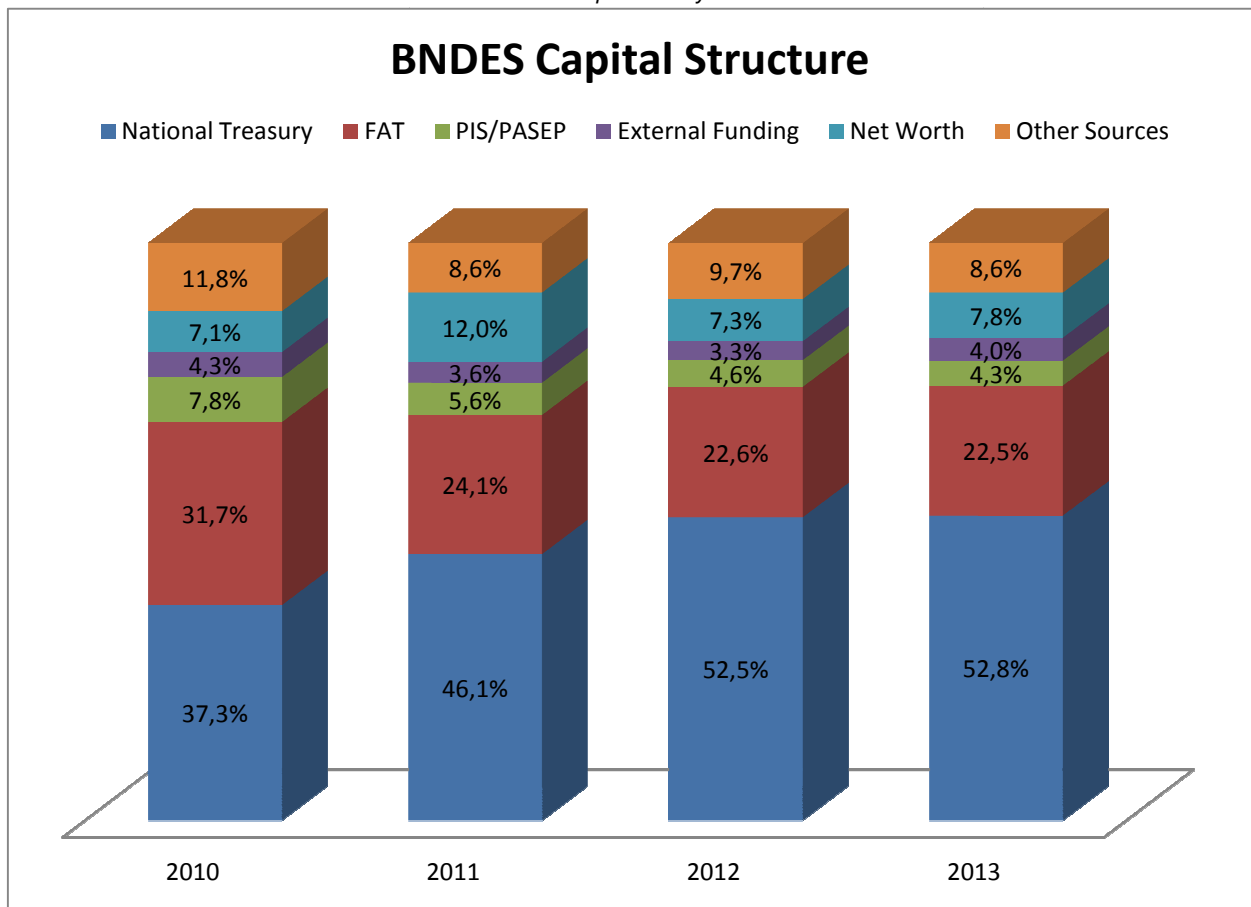
**Information provided by BNDES*

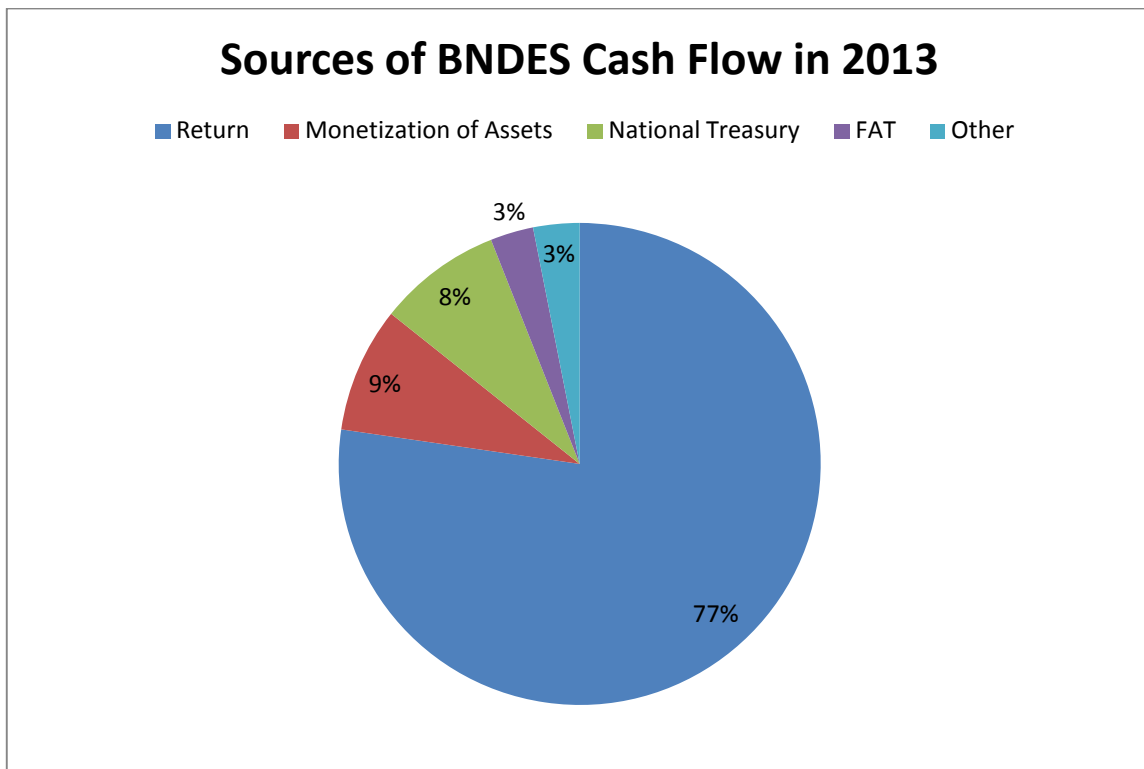
The BNDES has registered high net profits in each of the last nine years, posting a record R\$ 9.913 billion in profits in 2010. This trend looks to continue with the BNDES registering a solid R\$ 1.56 billion in profit in the first quarter of 2014. The vast majority of BNDES' profits are derived from the fixed-income segment of its operations, particularly their credit and lending schemes.

The low default rate for BNDES financed enterprises contributes mightily to its success. In the first quarter of 2014, the default rate was an incredibly small 0.01%. This is far lower than the average default rate as published by the National Financial System, which came in at 3% in March of 2014. The BNDES scrutinizes all of its potential projects to ensure that it maintains its long track record of profitability.

The BNDES obtains most of its domestic funding from the Worker Assistance Fund (FAT), the PIS/PASEP, the National Treasury, the FMM, completed operations, and BNDESPAR debentures. The BNDES obtains most of its funding from abroad through issuing bonds, loans, and structured notes and through government agencies and multilateral institutions, such as the World Bank, BID, JBIC, China DB, etc.

*Information provided by BNDES





**Information provided by BNDES*

The FAT gives the BNDES 40% of the annual revenue of the PIS-PASEP, which is a 1.65% tax on business income (non-cumulative), a 1% payroll tax on nonprofits, and a 1% net revenue tax on public entities. There is no set schedule for repayment, and instead this money is given on a quasi-equity basis. This steady income stream provides BNDES with a high degree of security because it is guaranteed by the Federal

Constitution. In addition, any unused FAT resources, as contracted with the Ministry of Labor and CODEFAT, are also deposited into the BNDES for use on specific programs and sectors of the economy. BNDES is required to pay 1 to 2% of the balance of this additional funding, depending on the agreed upon monthly payment. The National Treasury also makes periodic contributions to the BNDES, though each of these transactions comes with its own terms and conditions.

4. HOW THE BNDES PROVIDES SUPPORT

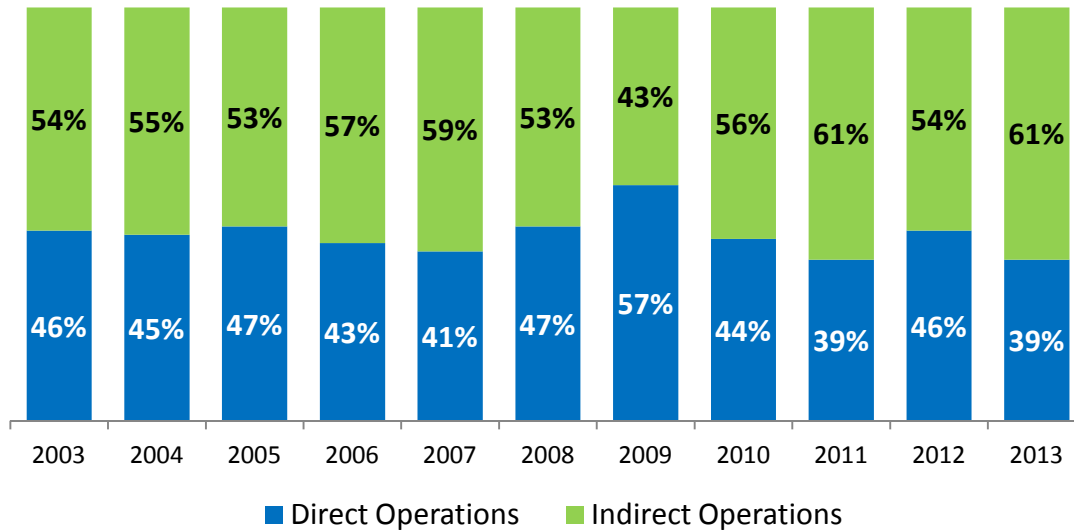
The BNDES finances potential projects through loans, grants, or equity. Companies seeking financing can work directly with BNDES or indirectly, through an accredited financial institution. Finally, in addition to providing financing, the BNDES is authorized to accredit certain suppliers in order to facilitate their marketing efforts in Brazil.

BNDES adjusts its mode of financing depending on the type of project it is financing. For example, BNDES provides a wide range of loan packages for investment projects; isolated acquisitions of new machinery and equipment; exports of machinery, Brazilian equipment, and services; and the acquisition of goods and production inputs. However, for social, cultural (education and research), environmental, or scientific or technological projects, BNDES provides grant packages which do not need to be paid back. The BNDES may also purchase equity or securities from companies who do not wish to take on more debt, whether the company is public or private. It's also important to note that the BNDES can provide a mixed package of financial support through some combination of debt and equity.

While there are broad rules governing virtually all types of BNDES financing, the BNDES has developed different financing lines to accommodate the needs of particular activities. One way the BNDES tailors its financing to the specific needs of different kinds of company is through direct and indirect financing. Direct financing is typically reserved for bigger operations which need closer oversight, such as projects to create hydroelectric plants, oil drilling platforms, sports stadiums, or large industrial factories. Indirect financing is used in a wide variety of smaller investments, such as in construction, vehicles, machines and equipment, exports, or agriculture.

A big reason for this divide is that direct financing is primarily offered through BNDES Finem for financing schemes valued at over R\$ 20 million. However, for specific types of investments in certain economic sectors, direct support can be offered below this threshold. In an indirect operation, an accredited financial institution assumes all the risk of default and negotiates terms with the client, provided his credit is accepted. Indirect operations valued at under R\$ 20 million are automatic; thus, they do not undergo prior BNDES review, and are instead approved by the financial institution and sent to the BNDES for disbursement. Any indirect operation worth more than R\$ 20 million, except for operations to finance the acquisition of machinery and equipment, are subject to BNDES review after analysis by the financial institution.

Disbursements by Type of Operation



Indirect financing has become increasingly popular as more and more small companies receive funding

**Information provided by BNDES*

Joint operations which combine direct and indirect financing are also feasible. In these cases, the BNDES and the accredited financial institution share the risk amongst themselves. However, joint operations typically are formed at the suggestion of the BNDES or the financial institution, and cannot be formally requested by the client.

The BNDES also accredits manufacturers of machinery, equipment, systems, and components who operate in Brazil in a manner consistent with the competition in the industry. Accreditation by the BNDES is a powerful marketing tool because the BNDES, in conjunction with many of the major Brazilian banks, offers a special credit card for businesses which can only be used to purchase BNDES accredited products. This card offers a maximum limit of R\$ 1 million, an interest rate of 1.01% per month, fixed installments for 48 months, and pre-approved rotating credit. As of March 2014, the BNDES has issued 625,000 cards with an average credit limit of R\$ 60,000. There are roughly 239,000 accredited products from 24,000 manufacturers and 34,000 distributors on the market. To learn how to become an accredited supplier, please see section 8 of this paper.

5. WHO THE BNDES PROVIDES SUPPORT TO

Individual entrepreneurs as well as private companies headquartered and administered in Brazil are eligible to request funding from the BNDES. Public Administration and individuals are also eligible to obtain financing for particular projects such as micro businesses, cargo carriers, and agro-producers.

To qualify for financing, the potential applicant must meet the following requirements:

- All fiscal, tax, and social obligations must be current and up-to-date;
- Applicant must have obtained appropriate registration for their business
- Applicant must demonstrate they are capable of making re-payments
- Applicant must provide sufficient guarantees to cover the potential risks of the operation
- Applicant must not be undergoing credit recovery
- Applicant must be in full compliance with legislation governing importation of products, particularly for machinery and equipment imports
- Applicant must be in full compliance with all environmental regulations

The BNDES also classifies companies according to size, tailoring their individual investments accordingly. There are five classifications for companies based on their Annual Gross Operating Income. They are as follows:

- **Micro Company:** Less than or equal to R\$ 2.4 million
- **Small Company:** More than R\$ 2.4 million and less than or equal to R\$ 16 million
- **Medium Company:** More than R\$ 16 million and less than or equal to R\$90 million
- **Medium-to-Large Company:** More than R\$ 90 million and less than or equal to R\$ 300 million
- **Large Company:** More than R\$ 300 million

The Annual Gross operating income is calculated by considering the following three items: (1) the sales of goods and services in own account operations; (2) the price of services provided; and (3) the result of operations in third-party accounts, excluding sales cancelled and unconditioned discounts granted.

If an applicant's business activities begin in the same year they are filing for financial support, the Annual Gross Operating Income will be calculated by projecting the business' pre-existing income for the rest of the year. Furthermore, if an applicant company is controlled by another company or belongs to an economic group, its economic classification will be based on the annual consolidated gross operating income of the entirety of the enterprise.

6. TYPES OF BUSINESSES WHICH RECEIVE BNDES FUNDING

The BNDES finances projects in virtually every sector of the Brazilian economy; however, it gives priority to projects that promote social inclusion, job creation and middle-class wages. The following sectors have all received BNDES funding in the past:

I) CATTLE-RAISING AND AGRICULTURE

BNDES' heavily weights its funding for cattle-raising and agricultural projects towards those that comply with BNDES' environmental policy guidelines and have plans in place to limit any potentially detrimental effects on the environment. In the past, the BNDES has specifically funded the following projects: beef cattle production, establishing or recovering pastures, costs and cultivation treatment until the first harvest/crop, etc.

II) TRADE, SERVICES, AND TOURISM

BNDES prioritizes projects within this sector that focus on modernizing Brazil's infrastructure or attempting to improve Brazil's education, health, and/or social welfare systems. Improvements to Brazil's tourism sector also take precedence. All of the aforementioned projects receive special financing conditions as a result of their importance to the BNDES. Furthermore, BNDES targets businesses of all sizes in these areas with a mind toward improving the business' efficiency and productivity.

III) CULTURE

The BNDES finances cultural projects as well as economic projects. The BNDES has created numerous financial instruments in order to tailor their investment to the needs of particular creative projects. As such, numerous artistic projects and historical heritage sites have been financed with the help of the BNDES. Furthermore, the BNDES frequently sponsors exhibits and presentations that are free to the public across the country.

IV) SOCIAL AND URBAN DEVELOPMENT

The BNDES has also made substantial investments in historically underdeveloped regions, such as North and Northeast Brazil, in the last few decades. The BNDES is constantly on the lookout for urban development projects that integrate Brazilians living on the periphery of Brazil's big cities into the broader economy.

V) INDUSTRY

The BNDES has three primary goals in mind when it looks to finance industrial projects. They are as follows: expand the production capacity of Brazilian industry; increase exports; and advance Brazil's innovation capacity. The federal government directly regulates this sector via the Production Development Policy.

VI) INFRASTRUCTURE

Projects that improve basic services for Brazilians are also a priority of the BNDES. Thus, the BNDES frequently finances investments in electricity, communications, urban public transport, and sanitation.

VII) INNOVATION

Investing in innovation is another strategic priority for the BNDES. The BNDES is always looking to finance projects with new and innovative ideas that it believes could potentially boost Brazil's long-term competitiveness.

VIII) THE ENVIRONMENT

The BNDES is highly-conscious of the environmental impact of the projects it finances, particularly when it comes to infrastructural and industrial projects. As such, it has developed a set of criteria for applicants that looks at the potential damage the proposed project would cause to the environment. Projects that fail to meet these criteria are unlikely to receive funding, while projects that come up with new and innovative ways to reduce pollution, carbon emissions and other forms of environmental damage will be prioritized.

The BNDES also finances green technology projects through its Climate Fund Program. The Climate Fund Program not only targets projects that attempt to limit Brazil's carbon footprint, but also those projects that try to prepare Brazil for the looming effects of climate change.

IX) CAPITAL MARKETS

The BNDES underwrites bonds and securities, including shares and debentures of publicly-listed companies. The BNDES will also underwrite bonds and securities of companies looking to enter the capital market in the medium term, and will assist with globalization and restructuring of operations, as well as mergers and incorporations.

The BNDES prioritizes small and medium-sized companies that have demonstrated an ability to think innovatively. These companies may receive direct participation from the BNDES or participation through closed-end investment funds.

X) EXPORTS AND INTERNATIONAL POSITIONING

The BNDES is deeply involved in all things related to international trade. The BNDES seeks to expand Brazilian companies' presence abroad by offering two distinct credit lines for exports of goods and services. The first is pre-shipment support, which provides credit to companies of any size so long as they are incorporated under Brazil law. A full list of goods eligible for credit is available on the BNDES website, but some of the products include oil and gas pipelines, tires, textiles, and heavy machinery. The interest rate is calculated by adding the financial cost to the BNDES spread as well as an accredited financial institution's spread. The maximum maturity is typically 24 months, except for cases where the production cycle is longer than 12 months.

The second line of credit is the post-shipment credit. This line of credit finances the trade of goods and services abroad, typically by refinancing the exporter. The post-shipment credit similarly extends to companies of any size, so long as they are incorporated under Brazilian law. The full list of goods eligible for BNDES is also available on the BNDES website. The level of participation is up to 100% of the export value of the goods, while the interest rate is calculated by adding the financial cost to BNDES' spread and the cost of the guarantee. Maturity on the post-shipment credit is up to 12 years.

It's important to note that while projects of any size can receive financing, higher value enterprises with a minimum nationalization index of 60% are prioritized.

XI) ENTERPRISES THAT CANNOT RECEIVE BNDES FUNDING

As one can see, the BNDES provides funding and resources to nearly every type of economic activity in Brazil. However, there are a few industries where funding is not available. They are as follows: 1) Banking/financial activities 2) Weapons trade 3) Motels, saunas and establishments for adult entertainment 4) Gambling-related activities 5) Real estate for resale 6) Commercial ventures aimed at office rents 7) Time-sharing 8) Developments in the mining sector involving rudimentary processes of mining or prospecting 9) Costs spent on routine maintenance 10) Acquisition of software produced abroad, except for projects focusing on technological development and innovation 11) Activities that have already been awarded tax incentives.

7. APPLYING FOR BNDES FUNDING

The BNDES is committed to selecting projects in a transparent and impartial manner, based on the quality of applications rather than personal connections or other external criterion. For this reason, they have formalized their selection process by not only making the final decision a collaborative process, but also by creating a set of objective criteria through which to measure and analyze each potential project.

The structure of the BNDES' process fosters not only accountability to its investors, partners, institutions, the federal government and the Brazilian taxpayer, but it also limits the potential for corruption and ensures only the highest quality projects receive financing.

The BNDES selection process proceeds with the following five steps:

I) PRIOR CONSULTATION

A potential applicant must seek prior consultation in order to initiate the BNDES financing process. This is a document filled in with specific facts and figures concerning the potential project and applicant, which helps the BNDES ensure the applicant is eligible for funding. This document must be sent to the BNDES by the applicant or through an accredited financial institution.

The document will be reviewed by the Department of Priorities (DEPRI) within the Planning Division, which receives the application for financial support and verifies that the applicant's operations comply with the BNDES' Operation Policies.

II) CLASSIFICATION

Once the Department of Priorities has verified that the applicant is eligible for financing, the BNDES then turns to a pre-assessment of the company's financial capacity and ability to carry out the project. Competent management is a major priority in this pre-assessment, as well as prior experience in the market, compliance with environmental regulations, and the creditworthiness of the company or economic group. The Planning, Operational, and Credit Divisions oversee this pre-assessment process.

The Operational Division specifically analyzes and structures the BNDES' financial support and is responsible for monitoring approved projects. The Operational Division is sub-divided into three groups to promote efficiency and expertise: the Foreign Trade Division (AEX), the Infrastructure Division (AIE), and the Industrial Division (AI).

The Credit Division analyses the accounting statements and financial information sent by the company and then classifies the company or economic group based on the potential risk of the project. Following the classification, the DEPRI consults the

Operational Division and makes a determination on whether or not to recommend support for the project. This recommendation or disapproval is then sent to the Classification and Credit Committee.

The Committee then must decide whether to certify both the DEPRI's recommendation and the Credit Division's risk classification. The Committee then forwards their proposed credit limits to the Board of Directors for approval.

Once this process is finished, a letter with the Board of Director's decision is sent to the client and/or financial institution that sent the prior consultation. If the potential project is approved, the Classification Letter will inform the applicant which department of the BNDES will oversee the analysis and structuring of their project. The client should then contact that department.

III) PROJECT PRESENTATION

In operations conducted directly between the client and the BNDES, the operational department will personally engage the company or economic group and direct them to send any additional documentation or information required for the commencement of financing. The company should also be prepared to elaborate their business plan or project to the operational department and provide the operational department a scripted presentation in order to cultivate a deeper understanding between the company and the department overseeing their financing.

IV) PROJECT ANALYSIS

Once the project has been presented to the appropriate operational division, the respective division creates and submits a Project Analysis Report for appraisal by the Managing Director of the Operational Division. The Managing Director then submits the report to the BNDES' Board of Directors for assessment.

The same process is carried out if the operation is carried out by an accredited financial institution rather than through direct contacts between the company and the operational department in charge of overseeing the project.

Once BNDES' Board of Directors has approved the operation, the company or accredited financial institution advising the company is informed of the decision and provided a list of requirements to finish creating the contract. After receiving the required documentation from the company as well as verifying that the company is in full compliance with BNDES conditions, the Bank then begins the process of finalizing the operation's contract.

V) DISBURSEMENTS

Following finalization of the contract, the disbursement of resources will begin according to the terms of the contract. Each new disbursement will be contingent on the recipient meeting the conditions outlined in the contract. Following the completion of the disbursements, a Project Conclusion Report is generated and the repayment process begins. The recipient will be monitored by the BNDES throughout the repayment process to ensure they are meeting benchmarks and complying with the terms of the contract. Overall, the entire process typically takes about 180 days, from the initial consultation letter to the actual disbursement of funds.

8. APPLYING FOR BNDES ACCREDITATION

When deciding whether to accredit a product, the BNDES only looks at the manufacturer's production process. The BNDES assumes no responsibility for the quality or performance of the product. The first requirement for accreditation is that the machinery or equipment must have a nationalization index of at least 60% by weight and price. This means that at least 60% of the components used to create the final product, as measured in both price paid and weight, must be obtained from Brazil.

Once the manufacturer is sure he meets this requirement, he must download the application program from the BNDES website. He must then submit the following documents through the application program in electronic form: 1) Status form 2) Consolidated Application for Entrepreneurs or Social Contracts, duly registered with the correct governmental body and together with any subsequent amendments 3) last income tax return (DIPJ) with receipts, or if the company is operating under the Brazilian Federal Reserve's SIMPLES system, the last Socioeconomic and Fiscal Information Statement (DEFIS) with receipts 4) last Annual Report of Social Information (RAIS) sent to the Ministry of Labor, including receipts 5) Valid operation permits and licenses issued by the city that cite the company's current industrial activity 6) current photos of industrial plants, showing the façade, administrative facilities, and production plant while employees are operating the machinery and equipment 7) three months of the industrial plant's electricity bills leading up to the date of the application for accreditation 8) a technical description of the product to be accredited, including the name, type, and main technical characteristics (such as applications, major components, materials used, capacity, installed capacity, operating voltage, weight, dimensions, etc.) 9) a catalog, technical drawing, and/or a photo of the product to be accredited 10) statement of the nationalization index by listing the price and weight of each component and full product and calculating the nationalization index 11) proof of the nationalization index by submitting invoices and import declarations of all components 12) a summary sheet, known as Form 6, signed by the company's legal representative. The BNDES reserves the right to ask for additional documents that it deems necessary.

After the BNDES receives all the necessary information and confirms that the nationalization index meets the required 60% minimum, the product becomes accredited and included in the CFI list on the BNDES website. After this, the manufacturer is responsible for keeping all the technical information, nationalization index levels, manufacturing process details, and registration and financial data current, or the BNDES is authorized to suspend or expel all products accredited by the manufacturer and impose additional fines. If a product loses its accreditation, it must wait two years before reapplying.

9. THE COST OF FINANCING

BNDES financing costs vary depending on whether the financing operation is direct or indirect. If the operation is direct, then the recipient must pay 1) the financing cost as determined by the indices discussed below 2) BNDES's fee for operating activity, which varies depending on the BNDES's priorities 3) the rate of credit risk for the BNDES, which varies based on the recipient's credit. For indirect operations, the recipient must pay 1) the same financing cost as above 2) the same BNDES operating cost as above 3) a financial intermediation rate which reflects the systemic risk of accredited financial institutions, limited to 0.5% per year, which micro, small, and medium enterprises or operations in export support are exempt from but all companies which lease capital goods must pay 4) a rate determined by the accredited financial institution reflecting the credit risk they assume. Below is an overview of each of the indices that can be combined to make up the overall composition of the financial cost:

I) TJLP

The TJLP is the basic long term interest rate introduced by the BNDES. The rate stays the same for a calendar quarter, and is calculated based on the risk premium and the inflation target calculated pro rata for the first month in each quarter following the effective rate that is based on annual targets set by the National Monetary Council. In the current period (April to June 2014) the rate is set at 5%. The rate has been decreasing since 2006, though it has been set at 5% since January 2013.

II) BASKET

The Basket represents the cost to the BNDES of raising money for loans in foreign currencies. It is defined as the average cost of the Bank's borrowings in the international market, made up of a weighted average of the exchange rate changes in the existing BNDES currency basket (UMBNDDES) and financial conditions for granting funding in US dollars by using funds raised in foreign currency (ECM). The ECM rate is determined by adding the weighed average of all fees and expenses incurred in fund raising, including income taxes levied on interest remitted to foreign creditors. The current ECM basket rate is 4.023%.

III) IPCA

Certain businesses and industries, as established by the BNDES board, are subject to special financing conditions which are linked to the National Consumer Price Index (IPCA). These companies must pay an annual fixed interest rate which adds the rate of return on Series B Treasury Notes, the Surcharge Reference which equalizes the financial costs of the products offered by BNDES to referenced market indicators, the basic BNDES operating rate, and a rate based on the recipient's credit risk.

IV) TS

Certain businesses, as determined by the BNDES board, are authorized to use the Selic rate. The Selic rate is a daily interest rate which is published by the Central Bank of Brazil. If a financing recipient elects to use this method, he must pay a fixed surcharge as well as the daily Selic rate, with a 2 day lag from the date of calculation.

V) TJ3/TJ6

TJ3 and TJ6 are reference interest rates published by BM and FBovespa. TJ3 is reset every 3 months, while TJ6 is reset every 6 months. Certain businesses, as established by the BNDES board, are allowed to use this rate instead of some of the traditional methods of calculation.

VI) FIXED RATES

Fixed rates are also available for loans raised in foreign currency and given out in US dollars. These rates require the business to pay the agreed upon rate in Reais plus an additional rate to compensate for changes in the US dollar.

10. SPECIALIZED PROJECTS

The BNDES has also created specialized credit lines for projects that directly attempt to preserve the environment or make Brazil more energy efficient. The credit lines are as follows:

I) AMAZON FUND

The Amazon Fund was created in 2008 in order to raise funds for environmental projects aimed at combating deforestation and preserving Brazil's forests. The BNDES not only manages this fund, it also solicits donations, selects projects, and monitors the progress of those projects. To learn more about the Amazon Fund visit: <http://www.amazonfund.gov.br>.

II) CLIMATE FUND PROGRAM

The Climate Fund Program directs resources to projects seeking to reduce greenhouse gas emissions and combat the negative impacts of climate change. It is part of Brazil's broader agenda, the National Policy on Climate Change. The BNDES supports this fund by directing investments into these projects, facilitating the importation or exportation of clean energy machinery or equipment, and promoting green technology research. The program is divided into the following six categories:

a) Clean Transportation Technology

This program seeks to reduce greenhouse gas emissions and pollutants in public transportation. It also looks to fund projects that improve urban mobility in metropolitan areas through innovative technologies.

b) Energy Efficient Machinery

The BNDES provides financing to upgrade Brazil's infrastructure and help qualifying businesses acquire more energy efficient machinery and equipment.

c) Renewable Energy

The BNDES has doubled down on its investments in renewable energy in recent years, providing support for the research and development of the following activities: biomass energy conversion, solar radiation capture, and wave and wind energy conversion.

d) Waste-to-Energy Conversion

The Ministry of the Environment has identified waste-to-energy conversion as a priority for future funding.

e) **Wood Coal**

The BNDES has targeted projects intending to improve the efficiency and sustainability of wood coal production.

f) **Combating Desertification**

Projects that attempt to combat desertification are a priority for BNDES funding.

11. CRITICISM OF BNDES

It is important to note some of the criticism that has been directed towards the BNDES in recent years. First, some have argued that the BNDES has grown reckless in the amount of loans it provides. While the BNDES claims to rigorously scrutinize every project it finances, there has been speculation that as many as 30%-50% of the projects the BNDES finances will never be able to repay back their debts. Furthermore, the BNDES' status as a development bank has been called into question, as a disproportionate amount of their loans go to large firms with political clout, with Petrobras being the most notorious example. This not only raises the specter of corruption, but it also creates the appearance that the Brazilian government is using the BNDES to subsidize large firms and make them more competitive globally.

Though the BNDES's financial prospects look good today, its long term financial viability is also in doubt. Several ratings agencies have downgraded the BNDES to below investment grade status. These agencies believe the BNDES has overextended itself by continuing to provide loans at an unprecedented rate, even as the Brazilian economy cools down. In sum, the BNDES' increasingly important role in the Brazilian economy has not come without issues, and potential investors should beware of the risks involved with conducting business with the BNDES.

US\$ millions				
As of	BNDES 12/31/2013	BID 12/31/2013	World Bank 6/30/2013	China DB 12/31/2012
Total Assets	333,835	97,007	324,367	1,206,859
Net Worth	25,880	23,550	39,523	80,015
Net Profits	3,479	1,307	218	10,126
Disbursements	81,285	10,558	16,030	n/a
Capitalization (%)	7.8	24.3	12.2	6.6
Return on Investment (%)	1.1	1.4	0.1	0.9
Return on Equity (%)	16.5	5.9	0.6	13.4

*BNDES's financials compare favorably with its competitors' today**

Information provided by BNDES

CONCLUSION

The Brazilian Economic Development Bank has long played a central role in stimulating economic growth and promoting domestic industries in Brazil. Furthermore, its influence shows no signs of abating in the coming years. Opportunities abound for Brazilian companies, large and small, to take advantage of the BNDES' myriad forms of financial support.

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ABOUT US

Born of a union of skilled professionals committed to legal practice, whose activities are focused on providing legal services for Brazilian and foreign companies in the areas of corporate legal counsel, risk management, consulting and litigation in general, **ALMEIDA ADVOGADOS** is a law office focused on the corporate business environment, and has as its major premise the full comprehension of each of its customers market area, the nuances of each industry, corporate culture and goals of each company. This approach allows us to provide to our customers safe and reliable legal services, in a very economical way.

ALMEIDA ADVOGADOS is placed at your disposal to provide any further clarifications related to the matters addressed in this study.

All data provided in this document was obtained from researches performed by BNDES. The content herein was extracted from BNDES' website.