

# Letter by the CEO of BNDES

## 2022 Strategic Plan

### A national future of sustainable development

In June 2019, as I was invited to join BNDES as its CEO, I had clarity on the opportunities and challenges the institution faced. The Bank had been going through delicate reputational, strategic and managerial issues. Issues that long-lasting institutions will typically face throughout their existence, and that, when effectively handled, will make the institutions stronger, more vibrant and perennial. To rebuild its future, BNDES had to reconnect to its original purpose – to improve the lives of generations, promoting sustainable development. With a special focus on those Brazilians who need it the most.

Following the direction given by Minister Paulo Guedes, and taking a technical, transparent and independent approach, which was endorsed by President Jair Bolsonaro, our agenda throughout the second half of 2019 was a preparatory step for the disruptive future that was to come: planning diversification of the Bank's products and services; advancing from a single-product bank to a multi-product one capable of providing services; moving from competitor to collaborator; adapting a vision of financial value-creation to one of positive socio-environmental impact; making the institution more open to external partnerships and increasing the range of active stakeholders in its ecosystem. This would lead to an "Open BNDES" (BNDES Aberto) strategy, based on full transparency, and open to its "customers", no longer to its former "beneficiaries".

Other development banks around the world have also been considering these changes and reinventing themselves. We drove an agenda of transformation as one of the leading cases globally within our peers. In essence, we have added more tools and channels, to better manifest the Bank's purpose.

### The pandemic

No one could imagine that such a disruption would happen so quickly and intensely as it did at the beginning of 2020. Due to the competence of this institution and some timely luck, we were prepared for it. As the pandemic began, the window of time available to digest, understand and react to the novel, the unknown, was substantially shorter than that to which we were accustomed. We lost the luxury of time but secured the benefit of purpose. As a result, real financial-technological developments would come to light.

The most important challenge faced during the pandemic was how to make credit reach the last mile. A structural issue that our country has always struggled with, would become clear in

the heat of that moment: there was no more time to tolerate that which our entrepreneurs face daily. The tool that bridged this gap was a credit enhancement fund directed at small and medium-sized companies, called FGI PEAC. It was the result of an open and collective innovation in collaboration with the Ministry of Economy, National Congress, business associations and the financial sector, among others. Formerly a product of little relevance, it became responsible for injecting R\$ 92 billion into thousands of small and medium-sized Brazilian companies. Instead of national champions, we focused on our national heroes, with a sense of urgency, collaboration, purpose and impact.

We also established one of the largest match-funding programmes in the country, “Saving Lives” (Salvando Vidas). An unprecedented achievement in the history of BNDES. The programme’s support ranges from the acquisition of personal protective equipment (PPE) to the installation of oxygen plants. Due to its success, the programme continues to this day, having taken on a life of its own and raised close to R\$ 150 million. The emergency also enabled several other initiatives and innovations, such as credit funds (FIDCs), the Emergency Employment Support Programme (PESE), merchant cash advance (PEAC Maquininhas), supply chain financing (Crédito Ancora), working capital financing (Giro Repasse), power distribution financing (Conta-Covid), payments standstill, repayment of PIS/Pasep-FGTS, among others. Considering these emergency initiatives on top of our recurring operations, BNDES quietly deployed over R\$ 200 billion in 2020.

## Recycling capital

We also moved forward in one of the priority agendas for the repositioning of BNDES: the adjustment in size and method of investing in stocks. The Bank’s outsized equities portfolio acts as a ballast that deviates it from its bearing, for the following reasons: (i) BNDES carried (and still carries) a disproportionate amount of market risk, and that makes the Bank pro-cyclical, because during market crises, stock value deterioration may limit the Bank’s capital availability; but also and primarily, (ii) market speculation with the sole and exclusive aim of generating financial gains does not bring about any socio-environmental development for the country. It is not the purpose of BNDES to be a mere financial speculator.

Since the beginning of our divestment process, we have sold, in a safe, well-organized manner and without distorting the market, a total of R\$ 80 billion in assets from mature companies (considering BNDES’ proprietary portfolio alongside that managed on behalf of the National Treasury). During this process, we have achieved several historical milestones in the Brazilian capital markets, including the largest secondary share offering (Petrobras), the first and third largest block trades (Vale and JBS) and the largest secondary debentures offering (Vale).

## Manufacturing projects

A fundamental pillar of the future agenda of BNDES is the recognition that development takes place through a multiplicity of channels, in addition to the disbursement of loans. Currently, the availability of resources is not the main bottleneck for our sustainable development. In a country with a fiscal anchor and “down to earth” interest rates, our greatest shortcomings are (i) good projects: good modelling, environmental analysis, engineering plans, concession contracts, compliance with oversight bodies and the smart configuration of financial parameters; and (ii) risk-taking: portfolios and managers who are able to price, manage and take on, risks related to construction, demand and regulation, among others.

For this purpose, we established the world's largest project-structuring development bank at BNDES. Our Projects Factory (Fábrica de Projetos), whose first tangible results were witnessed in public auctions of street lighting, power (CEB, CEA, CEEE-D, CEEE-T Sulgás) and especially sanitation (Rio, Amapá and Alagoas). In the latter alone, we are looking at a capital deployment of R\$ 70 billion, so that 18 million Brazilians can have the guarantee of dignity: access to basic sanitation.

We created a portfolio of 160 projects with an investment potential of over R\$ 300 billion (considering successfully completed transactions and those yet to be). Whether they are infrastructure, real estate or environmental concessions, this portfolio will be one of the great legacies for future generations (more details on the portfolio at <https://hubdeprojetos.bndes.gov.br/en>). For example, we manage today the largest environmental asset concession programme on earth.

## Taking risks

At the same time, we took the first concrete steps in implementing deals with project finance risk, that is, those with limited recourse to the project sponsor. We started to act in the debenture market both as investors and as firm commitment underwriters, as well as structurers. That's right: BNDES, until then reclusive in its bilateral lending, now structures debt transactions in the capital markets to share them with more creditors, be it directly or through funds. Risk sharing improves the governance of our projects, increases the diversity of funding and makes our infrastructure market more innovative.

Taking on effective risks and managing them with caution and methodology, as well as learning to navigate seas where ordinary investors have not yet reached, are roles of national interest where BNDES is almost irreplaceable. Solid financial health and technical knowledge are abundant for this activity at BNDES. The Bank has the means and the need to take more risks in a prudent, controlled and sustainable manner. An example of this is the enormous opportunity to act as a guarantor, be it in agriculture, micro, small and medium-sized enterprises (MSMEs), exports or infrastructure. The use of the Bank's balance sheet through guarantees has already taken its first steps. This is a segment that could be significant for BNDES over the next decade and generate much employment in Brazil.

## Standing on one's own feet

From 2019 to 2021, we transferred back R\$ 270 billion to the National Treasury in debt repayments, dividends, interest on equity and taxes. BNDES will perform its mission better the less it relies on the National Treasury. Tangible and intangible resources are available for these actions. A misleading policy of propping up companies and projects with oversized subsidized lending had side effects that go far beyond the deterioration of public accounts or reputational issues. This policy made our infrastructure market less-accessible, reducing the number of competitors, increasing the price that society pays for these assets and inhibiting the development of tools for risk-management and risk-taking. This caused the country to fall behind in the innovation race for infrastructure modelling. Praise to the management of the Bank that created TLP years ago and ended a policy that held BNDES back in financial engineering. It fell upon us to carry on with the evolutionary disruption.

BNDES' products portfolio now include operations through credit enhancement funds such as FGenergia, securitized loans (CRAs), venture accelerator (BNDES Garagem socioambiental), credit funds (FIDCs) for MSMEs or infrastructure, exports backed by private credit insurance, among others. The product and service diversification agenda becomes crucial for a development bank that desires to be agile and adaptable to the constant changes in wind direction.

During COP26, in Scotland, we launched Living Forest (Floresta Viva), a crowdfunding initiative to restore forests and river basins in the country, with projected investments of up to R\$ 500 million over the next seven years. A real lab for developing the standards of the Brazilian reforestation carbon market. We also created Rescuing History (Resgatando a História), which supports projects for the recovery of historical heritage with potential investments of around R\$ 200 million.

## The winds of ESG

History will define 2020 and 2021 as years of response to the pandemic, of convergence on the urgency of socio-environmental issues and of a burst in the adoption of new technologies. A moment when social support networks solidified, whether in health, economy or the environment. We witnessed the exponential acceleration of the socio-environmental revolution: dozens of countries signed an agreement on carbon emissions at COP26! A true boom of the ESG philosophy, the essence of BNDES' foundation seventy years ago: to improve the lives of generations, promoting sustainable development.

Now we ask ourselves: what role will Brazil play in this new world? What are the opportunities? What responsibility should our country assume at a time of transition in the global economy?

Within the ESG agenda, governance is the cornerstone of our reconstruction. Without a capital "G", any economic, social or environmental development agenda will be compromised. It is essential to continue to improve the governance environment that we have been successfully fulfilling in Brazil over the last few years, whether from a public or a private perspective. Naturally, there is still much to be done, and to evolve, but for Brazil to be able to occupy its rightful place in our future, the continued improvement of our institutional environment is a condition precedent. There has been much suffering, especially to the most disadvantaged Brazilians, as a result of the poor governance in the past. Our future depends on the continuity of this evolution, currently underway.

The letter "S" for social is what we must defend tooth and nail. The pandemic has exacerbated the time bomb planted daily in the urban fringes, in the forests and in the semi-arid region of Brazil. Poverty and misery are the main obstacles to sustainable growth in Brazil. Tackling these issues head-on will lead the country into long and lasting periods of growth. The good news is that the world has woken up to this. We have learned that there is no dichotomy between social development and market economy. Finally, a consensus has been reached in that the best way for markets to develop in a sustainable manner is through human and social development. Empirically, history has shown that the best social protection network comes from a corporate sector that is thriving, vibrant and mindful to its impacts on society. The time to do that is now, we don't have time to waste.

The great opportunity for Brazil is in the letter "E". This environmental powerhouse has a unique opportunity to lead the technological race of the green economy, whether by replacing fossil fuels, by consolidating the carbon market, or through its capacity for innovation in biodiversity and sustainable development.

## BNDES ahead

So, after all, how will development banks around the world take up the role of leading and fostering this transition in a structured and balanced way, leaving no one behind?

Having reached its seventy years anniversary, BNDES has renewed its purpose in these questions: the challenge of leading and driving the transition at a time of global reconstruction in which Brazil is, by vocation, the protagonist. In the eyes of the world, we must be a reference. In the eyes of Brazilians, a source of business and social opportunities.

We want to, we can, and we will, work in a more open and innovative way, to transform this institution into the country's great development ecosystem, and project it into the future as a great driving force for new markets and opportunities.

To do so, we once again created a strategic plan that was pure innovation in 2022. Just as in 2019, when we built our first strategic plan for BNDES free from financial targets. That's right. A Bank whose strategy is based only on real-life goals: kilometres of highways, number of broadband accesses, schools built, number of basic sanitation connections, etc. This means that disbursements in Reais or revenue in Dollars will no longer be the sole or most important metrics to be attained at BNDES.

Once we free ourselves from the shackles of "the greater the profit, the better", in 2022 we seek to open up the organizational silos of divisions and departments. Instead of each division bringing its plans and goals to be compiled, we proposed that the missions should be thematic and transversal, creating ample room for exchange and cooperation between the teams. Yet another disruptive step for this institution. In the end, if we are talking about innovation and impact, the collective knowledge and dynamic allocation of resources will make the Bank's actions more powerful and perennial, reacting more quickly to changes in the winds that will certainly come from new directions yet unknown to us today. And they'll come quickly.

Some of these factors are worthy of mention:

- > **INFRASTRUCTURE:** our infrastructure mission aims to reduce the investment gap in urban mobility and urban solid waste. We need to take off the floor sectors that are so relevant in the cities' agenda. We intend to replicate in them the successful sanitation programme already underway, also increasing the diversification of risk allocation instruments: syndications, capital markets, guarantees and credit funds.
- > **MSME:** for micro, small and medium-sized companies, our goals are (i) to expand our distribution network, which currently has more than sixty partners through commercial agreements with cooperatives, regional banks, fintechs and niche banks in addition to commercial banks, who are already our traditional partners; and (ii) the development of alternative instruments, such as funds for innovation, venture capital and credit enhancement funds, to increase the allocation of the Bank's balance sheet, currently under-allocated in the last mile of MSME risk.
- > **SOCIAL:** in our social mission, the main incremental pillar is education. We will act in basic education and in projects of professional qualification, promoting training and contributing to the reduction of structural unemployment. In contrast with sectors where BNDES historically operates, the Bank will still need to accumulate much knowledge on this topic, as it is relatively new to us. The direction given by the Board of Directors is of high beam and long term, with a sense of urgency. And that's where we'll go.

- > **CLIMATE:** within the environmental theme, we highlight the climate agenda as our focus. Therefore, across all sectors of infrastructure and production structure, we have climate resilience and adaptation as additional factors to be incorporated, with emphasis on the energy transition to a carbon neutral economy.
- > **CARBON:** we want carbon itself, a physical-financial commodity, to be the impetus for induction and innovation by BNDES. As the Bank did in the Brazilian capital markets at the beginning of this century, we can play a key role in the development of these new carbon credit markets that are emerging, with special emphasis on our forests and the voluntary market. There is no longer any doubt: ecosystems are part of economic systems.
- > **RESKILLING:** the main challenge we see for the Bank to fulfil its mission in the climate agenda refers to training: we have a team of the highest level and highly experienced in the most diverse sectors, but we need to acknowledge the challenge we face regarding climate change learning. When we look at the combination of (i) the range of knowledge to be incorporated; (ii) the speed and transversality with which the agenda has evolved; and (iii) the time we have to make this transition, the challenge of retraining our teams and partners is significant. We do not have time: the opportunity for Brazil to lead this new green economy is now.

All these new frontiers of the Bank's strategy have as their main philosophy the appreciation of the intangible assets of our development bank. Pivoting the bank from a cultural dimension that measured success based on the ego-centrism of the Bank's own financial assets, to a vision of a multiplatform of development to be exploited by the whole of society, in which disruption, technological revolution, purpose and impact come together. BNDES is especially well positioned to make such a transition: it has a robust and sustainable financial strength, unique multi-sector knowledge, long and deep connections in both the public and private sectors, and a culture based on public spirit and committed to development.

Appreciating, cultivating and improving the enormity of intangible assets that have been built within the walls of BNDES for the last seventy years is a fundamental perspective for us to (re)build a sustainable development bank for this new world dominated by antifragility. Commitment, agility, cooperation, innovation, transparency and effectiveness: true assets that perpetuate long-lasting institutions. A necessary cultural evolution for any organization, whether private or public.

In a world where tail events have become routine, knowing how to navigate with the humility of ignorance is an attribute of great value to companies, governments and society. We should accept that experiences and realities that until yesterday were not even imaginable are now knocking on the door of everyday life with a date set for their obsolescence. All of this at a quantum speed that our Newtonian brains are still adapting to absorb in the time-space complexity. We are anchored in the certainty that old-fashioned values such as truth, loyalty and love thy neighbour (especially those most in need) are in vogue more than ever. We must change in order to remain. Brazil can always count on BNDES.

**Gustavo Montezano, CEO of BNDES**

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