

Japanese ODA Loan

Ex-Ante Evaluation(for Japanese ODA Loan)

South America Division, Latin America and the Caribbean Department
Japan International Cooperation Agency

1. Name of the Project

- (1) Country: Federative Republic of Brazil
- (2) Project Site / Target Area: The entire area of Federative Republic of Brazil
- (3) Project: COVID-19 Crisis Response Emergency Support Loan
- (4) Loan Agreement: June 23, 2025

2. Background and Necessity of the Project

(1) Current Status and Issues of the Health Sector and Micro, Small and Medium Enterprise Finance Sector and the Positioning of the Project in Brazil

Since the confirmation of the first COVID-19 case in the Federative Republic of Brazil (hereinafter referred to as "Brazil") on February 26, 2020, the outbreak rapidly expanded through 2021. By 2023, more than 37 million people had been infected with COVID-19, leading to a high rate of infection across the country, both in urban and rural areas. In 24 out of the 27 federal states, the ICU occupancy rate exceeded 80%. The increase in the number of infections resulted in shortages of medical equipment related to infectious diseases, such as ICUs and ventilators.

In response to the situation, Brazilian Development Bank (hereinafter referred to as "BNDES") launched an emergency COVID-19 loan program, following the government's COVID-19 policies, with the aim of maintaining and enhancing services of health and medical sector and sustaining the medical industry. This program provided loans for the emergency procurement and supply costs of beds, medical supplies, and other equipment, which saw a surge in demand in medical institutions during the pandemic, as well as to companies in the health and medical sector that manufacture medical products. In 2020, the new approval amount for this sector expanded by 60% to USD 250 million from the previous year's USD 150 million, yet a significant funding gap remained (BNDES, 2022). The national budget for Brazilian health and medical sector had been approximately USD 30.9 to 32.8 billion over the past decade, but due to the impact of COVID-19, it increased to USD 43.6 billion in 2020 and USD 38.6 billion in 2021. On the other hand, investment in medical infrastructure and medical personnel within this budget has been on a declining trend since

peaking at USD 3.1 billion in 2013, and in recent years it has been hovering around USD 900 million to 1.1 billion dollars. As the impact of COVID-19 on citizens is expected to extend into the medium to long term, strengthening the health and medical system remains an ongoing challenge.

On the other hand, the private sector was also significantly impacted by restrictions on activities such as production and sales due to the pandemic. This was particularly severe for Micro, Small, and Medium Enterprises (hereinafter referred to as "MSME"), which account for about 30% of Brazil's GDP and support approximately 60% of employment.

In response to the economic and social impacts of COVID-19, the federal government implemented several measures starting in April 2020. These included: ①an emergency cash transfer program providing USD 109 per person per month for three months to non-regular workers and individual micro-entrepreneurs; ②procurement of materials and strengthening of facilities for infection control in the health and medical sector; and ③emergency loans for MSME through financial institutions such as BNDES, aimed at maintaining employment. Despite these efforts, the economic impact was significant, with the GDP growth rate for 2020 falling to -3.3%.

The federal government had been promoting economic growth policies since 2019 through the "Plano Mais Brasil" (Brazil's Further Leap Plan), which includes initiatives for employment promotion, MSME support, simplification of systems, and industrialization. Based on this plan, the federal government announced in May 2020 the MSME loan program "Programa Nacional de Apoio às Microempresas e Empresas de Pequeno Porte" (National Program for Supporting Micro and Small Enterprises, PRONAMPE) as an emergency policy against COVID-19 through BNDES and other institutions, aimed at maintaining employment. Approximately USD 2.9 billion was provided as working capital and investment funds for micro and small enterprises affected by the pandemic. The program was expanded twice in 2020, with a total of USD 6.8 billion loaned to approximately 517,000 companies. The continuation of the program was approved by the parliament in 2021, and in June, it transitioned from an emergency financial support program to a permanent regular policy. The federal government has been addressing the increased funding needs of MSME due to the ongoing spread of COVID-19.

The objective of the Project is to maintain the provision of services of the health and medical sector and to maintain the employment and corporate activities of

MSMEs by providing support to medical institutions, medical manufacturers and MSMEs through financing to BNDES, thereby contributing to stabilization of socio economy in Brazil.

(2) Japan' s and JICA' s Cooperation Policy and Operations in the Health and MSME Finance Sector

The Japanese government development cooperation policy for Brazil (April 2018) emphasizes " Investments on environmental improvements" as a key area, stating that support will be provided in fields that promote economic growth, including the enhancement of human resources through environmental improvements and technical assistance for strengthening industrial competitiveness. Additionally, JICA's Country Analysis Paper (2016) also states that there is a need for the active deployment of financial and technical support for economic infrastructure development in both hard and soft aspects to achieve sustainable and inclusive economic growth. This project aligns with these policies and analysis. Furthermore, the support for the health and medical sector in this project aligns with "JICA Global Health Initiative," which addresses the health and medical sector in response to the spread of COVID-19, specifically focusing on "strengthening the system for infectious disease diagnosis and treatment."

(3) Other Donors' Activities

The World Bank conducted a study in June 2017 with the aim of supporting organizational improvements of BNDES and published "Towards a More Effective BNDES" proposing the medium- to long-term role of BNDES as a development bank in Brazil and contributing to its organizational reform. In September 2020, as a measure to support COVID-19, it approved a loan (1,000 million USD) aimed at expanding the conditional cash transfer "Bolsa Familia" targeting the impoverished population.

The IDB approved a credit line "Conditional Credit Line to Support MSME" and its first loan (1,000 million USD) to BNDES in December 2004, aimed at supporting MSME, and subsequently approved loans of 1,000 million USD each in April 2007 and 2008 (totaling 3,000 million USD). In September 2020, the board approved a loan of 750 million USD (development finance loan) with BNDES as the borrower, aimed at ensuring the financial sustainability and employment of MSME during the COVID-19 pandemic ("MSME Financing Emergency Global Credit Program for Safeguarding the Productive Fabric and Employment (BR-L1557)"). The IDB loan was signed between IDB and BNDES

in June 2023.

3 . Project Description

(1) Project Description

① Project Objective

The objective of the Project is to maintain the provision of services of the health and medical sector and to maintain the employment and corporate activities of MSMEs by providing support to medical institutions, medical manufacturers and MSMEs through financing to BNDES, thereby contributing to stabilization of socio economy in Brazil.

② Project Components

Currently, there are over 60 intermediary financial institutions certified by BNDES in Brazil, including not only major financial institutions but also regional financial institutions and credit unions, playing a crucial role in the rapid execution of loans to MSME across the country. The lending conditions to end-users will follow the programs provided by BNDES. To meet medium- to long-term funding needs, the repayment period for loans to end-users will be secured for at least 18 months.

- A) Loans through BNDES to medical institutions and medical manufacturers (for working capital, procurement of hospital beds, equipment, etc.)
- B) Loans through intermediary financial institutions certified by BNDES for MSME (for capital investment, maintenance and creation of employment, and working capital to ensure the continuation of business activities)

③ Project Beneficiaries (Target Group) : The people of the Federative Republic of Brazil

(2) Estimated Project Cost

JPY 36,067 million (Japanese ODA loan: JPY 30.000 million)

(3) Schedule

June/2025-April/2026 (10 months)

The completion of disbursement is considered as the completion of the Project (April/2026).

(4) Project Implementation Structure

- 1) Borrower: The Brazilian Development Bank (Banco Nacional do Desenvolvimento, BNDES)
- 2) Guarantor: The Government of the Federative Republic of Brazil
- 3) Executing Agency: The Brazilian Development Bank (Banco Nacional do Desenvolvimento, BNDES)

4) Operation and Maintenance System: The Brazilian Development Bank
(Banco Nacional do Desenvolvimento, BNDES)

(5) Collaboration and Sharing of Roles with Other Donors

1) Japan's Activity

JICA implemented "Project for the Institutional Capacity Improvement against COVID-19" through technical cooperation from September 2021 to March 2022. The Project anticipates sub-loans to medical facilities operated by one of its counterparts, the Oswaldo Cruz Foundation (FIOCRUZ), with expectations to strengthen the COVID-19 testing systems and enhance the medical service functions at each facility.

Additionally, "Healthcare Sector Enhancement Project" (2021) under private sector investment finance scheme is providing assistance to the loan program offered by Itaú Bank, a private financial institution, for the health and medical sector. In private sector investment finance, efforts are made to expand access to medium- and short-term funds through private financial institutions. On the other hand, the Project includes support for health and medical institutions and companies that are struggling to access long-term funds due to the impact of COVID-19, enabling broad support for the health and medical sector affected by COVID-19. In the MSME sector, support is also provided to the BTG bank (a major private bank in Brazil with asset size ranking just below the four largest commercial banks) through private sector investment finance scheme "MSME Financial Access Improvement Project in Brazil".

2) Other Donors' Activity: N/A

(6) Environmental and Social Consideration

① Category: C

② Reason for Categorization: the present program is considered to have the minimal adverse environmental effect according to the JICA Guidelines for Environmental and Social Considerations (promulgated in April 2010).

(7) Cross-Sectoral Issues: N/A

(8) Gender Category: ■ Gender Informed (Significant) (Gender Activity Integration Project)

<Details of Activities/Reason for Categorization>

Although gender mainstreaming needs were considered, specific initiatives contributing to gender equality and women's empowerment were not planned. However, BNDES recognizes the need to expand loans to female entrepreneurs

and is continuing to consider specific promotion measures, with plans to monitor loan performance to female entrepreneurs.

(9) Other Important Issues: Brazil ratified the Convention on the Rights of Persons with Disabilities in 2008. In accordance with the Brazilian legal system, it has been confirmed that BNDES does not refuse loans based on disability and that a system is in place to prevent discrimination based on disability in the companies eligible for loans.

4 . Targeted Outcomes

(1) Quantitative Effects

1) Outcomes (Operation and Effect Indicators)

Indicator	Baseline (Actual value in 2020)	Target (2028) [2 years after project completion]
Health Sector		
Quantity of new or renovated hospital beds	-	2,868
Quantity of new or renovated health and medical facilities	-	4
Number of companies in health and medical sector which maintained and expanded its service with a finance through the Project	-	16
MSME Sector		
Number of sub-loans to MSMEs in the Project	5,580	Increase from baseline value
Evolution of the average revenue of supported companies, in relation to the control group	-	2 (%)
Evolution of average employment in supported companies, in relation to the control group	-	4 (%)

Difference between the rate of survival among companies supported with the Project at year-end 2020 compared with the corresponding rate of the control group	-	0.5 (%) (Note1)
Percentage of long-term credit (more than 60 months) in the Project	64 (%)	50 (%) (Note 2)
Total amount of the production-oriented finance portfolio under the Project.	-	1.0 (BRL Million)

(Note 1) The target value is set to achieve half the number of bankruptcies among supported companies compared to those without support.

(Note 2) Due to the COVID-19 pandemic, the supply of long-term credit to MSME is expected to decrease, and the target value is set at 50%.

2) Impact : N/A

(2) Qualitative Effects: Stabilization of the Brazil's socio-economic conditions. Expansion of support for female entrepreneurs.

(3) Internal Rate of Return: Not calculated as sub-projects are not specified.

5 . External Factors and Risk Control

(1) Preconditions: N/A

(2) External Factors: N/A

6 . Lessons Learned from Past Projects

(1) Lessons from Similar Projects

In the ex-post evaluation of the Vietnam "Small and Medium-sized Enterprises Finance Project (III)" (Evaluation Year 2016), it was highlighted that continuous review and necessary changes to loan conditions through consultations with the implementing agency are essential to accurately respond to MSME needs. Additionally, the ex-post evaluation pointed out the necessity of setting appropriate evaluation indicators, as the initially set operational and effect indicators included loan balances to corporate law-targeted companies beyond the equipment and machinery targeted by the project.

(2) Application of Lessons to This Project

This project, similar to the aforementioned Vietnam project, involves lending through two-step loans and re-lending through a revolving fund. Since

continuous review of sub-loan conditions is necessary considering economic conditions, changes to these conditions will be subject to JICA's confirmation, and monitoring will ensure that loan conditions are appropriately set. Furthermore, through consultations with BNDES, evaluation indicators will be set to appropriately measure the achievement and effects of lending to the health and MSME sectors during the COVID-19 pandemic.

7 . Evaluation Results

This project aligns with the Brazil's development challenges and policies, as well as the cooperation policies and analysis of Japan and JICA. By providing support to the health and medical sector and MSME through loans to BNDES, a public financial institution implementing policies to respond to and recover from the health and economic crisis caused by COVID-19, the project aims to ensure the continuation of services and activities in the health and medical sector and secure employment and continuation/expansion of activities in MSME within Brazil. It is considered to contribute to SDG Goal 3 "Ensure healthy lives for all" and Goal 8 "Inclusive and sustainable economic growth," thus indicating a high necessity to support the implementation of the project.

8 . Plan for Future Evaluation

(1) Indicators to be Used

As indicated in Sections 4.

(2) Future Evaluation Schedule

Ex-post evaluation: 2 years after the project completion

END

Annex: Emergency Support Loan for Crisis Response to COVID-19 – Map

Annex

Emergency Support Loan for Crisis Response to COVID-19 – Map



Source: Ministry of Foreign Affairs Website