

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**BRAZIL**

**FINANCING PROGRAM FOR THE PRODUCTIVE AND SUSTAINABLE RECOVERY  
OF MSME IN SANTA CATARINA**

**(BR-L1604)**

**PROJECT PROFILE**

This document was prepared by the project team consisting of: Rafael Cavazzoni (Team Leader), Eduardo Sierra (Alternate Team Leader); Orlando Lima, Isabelle Braly-Cartillier, Aurea Fuentes, Gabriela Andrade, Karina Azar, Daniel Ricas, Andreza Leodido De Siqueira, Claudia Marquez and Adriana Lozano (IFD/CMF); Leonardo Fernandes and Fernando Aguiar (CSC/CBR); Miguel Baruzzi and Carlos Ignacio Carpizo (VPC/FMP); Daniel Grimaldi (SPD/SDV); Carolina Verissimo (LEG/SGO); Laisa Ratcher (SCL/GDI); Ana Champloni (CSD/CCS); Carlos Echevarría (INE/ENE); Isabel Haro and Maria Cabrera (Consultants).

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## PROJECT PROFILE BRAZIL

### I. BASIC DATA

<b>Project Name:</b>	Financing Program for the Productive and Sustainable Recovery of MSME in Santa Catarina	
<b>Project Number:</b>	BR-L1604	
<b>Project Team:</b>	Rafael Cavazzoni (Team Leader), Eduardo Sierra (Alternate Team Leader); Orlando Lima, Isabelle Braly-Cartillier, Aurea Fuentes, Gabriela Andrade, Karina Azar, Daniel Ricas, Andreza Leodido De Siqueira, Claudia Marquez and Adriana Lozano (IFD/CMF); Leonardo Fernandes and Fernando Aguiar (CSC/CBR); Miguel Baruzzi and Carlos Ignacio Carpizo (VPC/FMP); Daniel Grimaldi (SPD/SDV); Carolina Verissimo (LEG/SGO); Laisa Ratcher (SCL/GDI); Ana Champloni (CSD/CCS); Carlos Echevarría (INE/ENE); Isabel Haro and Maria Cabrera (Consultants).	
<b>Borrower and Executing Agency:</b>	Agência de Fomento do Estado de Santa Catarina S.A. - BADESC	
<b>Guarantors:</b>	Federative Republic of Brazil and State of Santa Catarina	
<b>Financial Plan:</b>	IDB (Ordinary Capital):	US\$50 million
	Total:	US\$50 million
<b>Environmental and Social Policy Framework:</b>	Applicable Performance Standards:	ESPS 1, ESPS 2, ESPS 10.
	Impact Classification:	FI
	Risk Rating	Moderate

### II. GENERAL JUSTIFICATION AND OBJECTIVES

#### A. Problem description and background

- 2.1 In 2021 Brazil's Gross Domestic Product (GDP) grew 4.6%, following the -3.9% rate in 2020.<sup>1</sup> Economic activity improved in the first months of 2022 (1.0% Q/Q growth in the first quarter of the year), led by the post-pandemic re-opening of lagging sectors, a solid job recovery, augmented social transfers and higher commodity prices, steering an improvement in growth expectations for 2022 from 0.3% to 1.93%. However, a blend of volatile external environment, increasing fiscal and political risks, higher inflation leading to contractionary monetary policies and the high level of indebtedness of households are now driving growth expectations for 2023 downwards, to 0.3% compared to 1.5% at the beginning of the year.<sup>2</sup>

<sup>1</sup> Instituto Brasileiro de Geografia e Estatística (IBGE).

<sup>2</sup> Banco Central do Brasil (BCB). [Focus - Relatório de Mercado](#). 2022.

- 2.2 Traditionally, the Brazilian State of Santa Catarina (SC) has outperformed the national average regarding technological advancement, foreign trade, job generation and education. At 0.808, SC's Municipal Human Development Index (MHDI)<sup>3</sup> is the third highest among Brazilian states, behind Distrito Federal and São Paulo. Consolidated data for 2021 show robust and diffuse growth among sectors and segments of the local economy, although challenges remain as the state's growth is projected to slow down amidst economic difficulties at the national and international levels.<sup>4</sup>
- 2.3 **SC Productive Fabric.** All eight macro regions in SC present significant productive potential.<sup>5</sup> In 2021, SC's use of installed capacity (UCI) was 78,9%, its highest since 2012.<sup>6</sup> SC's industrial park –the fourth largest in Brazil–<sup>7</sup> has 11 consolidated clusters in which larger companies associate with Micro, Small and Medium Enterprises (MSME), demonstrating complementarity and opportunities for mutual gains.<sup>8</sup> Although the diversity and the local dispersion of the productive sector provides SC with some economic resilience,<sup>9</sup> it is highly dependent on the well-being of MSME, who play an important role even in sectors and industrial clusters with higher productivity.<sup>10</sup> MSME represent 99.5% of firms and 53.6% of jobs in SC.<sup>11</sup> Within the state's industrial sector, MSME represent 97.8% of firms and employ over 48% of workers.<sup>12</sup> Although key for income generation and employment, MSME experience challenges to fund their investment and operation, as they generally have less financial breath, poorer ties with the banking system and less adaptive capacity to switch to alternative fronts than those of larger firms.<sup>13</sup>
- 2.4 **SC Financial System and MSME Financing.** With a credit portfolio of R\$254 billion, SC financial system is the sixth largest among Brazilian states.<sup>14</sup> Investment credit portfolio was R\$18 billion by December 2021, although monthly credit concession for firms in the state is estimated to have dropped by 40% since. Credit for business is mainly concentrated on large firms (39.68%), with

<sup>3</sup> UNDP Brazil, IPEA and FJP. [Ranking](#). *Atlas do Desenvolvimento Humano no Brasil*. 2020. Brazilian MHDI comprises the same dimensions as the Global Human Development Index (HDI) adapting the methodology to the Brazilian context.

<sup>4</sup> Secretaria de Estado do Desenvolvimento Econômico Sustentável (SDE). [Indicadores Econômicos-Fiscais](#). Maio 2022.

<sup>5</sup> Governo de Santa Catarina. [Plano SC 2030](#). 2018.

<sup>6</sup> FIESC, "[Boletim de Sondagem Industrial](#)", 2022. By end-2021, the UCI was 68% and 78.74% in Brazil and the United States, respectively.

<sup>7</sup> FIESC (2017). 47 of SC's municipalities experience higher participation of the industry in their economy than the Brazilian average. [Santa Catarina em Dados](#).

<sup>8</sup> Begnini and Carvalho. [Identification of industrial clusters: a quantitative study in the state of Santa Catarina](#). 2021.

<sup>9</sup> Following the onset of the COVID-19, SC's economy has gone from -1.1% in 2020 to 8.3% in 2021. By January 2022, SC's industrial sector showed higher willingness to undertake investments than the national average (Observatório FIESC).

<sup>10</sup> Rockenbach. [A problemática do financiamento à MPME: Novos Formatos Institucionais Financeiros para a Promoção de Arranjos Produtivos Locais](#). 2010.

<sup>11</sup> RAIS/Ministério da Economia. Data produced by ABDE, based on classification from CEMPRE/IBGE.

<sup>12</sup> Observatório FIESC 2020. MSME in SC represent 99.47% of firms in commerce, 99.48% in agriculture, 99.7% in industry and 98.82% in services. Regarding number of employees, MSME accounted for 82.3% in commerce, 80% in agriculture, 72% in industry, and 43.84% in services.

<sup>13</sup> Tobler, R. FGV. [Empresas de pequeno porte sofrem muito mais durante a pandemia](#). 2020.

<sup>14</sup> BCB.

Micro and Small Enterprises (MSE) representing under 24%.<sup>15</sup> Second-tier state and federal institutions within SC financial system execute federal and state's development policies through financial products and services. The subnational development agency for the state of SC, BADESC, is devoted to the promotion of economic and social development and the promotion of productive activities through credit operations with own resources and institutional funds, channeling resources from national and international financial agencies.

- 2.5 MSME are generally too small for institutional financing in the capital markets, find it more difficult to access bank credit, and remain dependent on traditional sources for financing. In 2017, the MSME finance gap in Brazil was roughly US\$626 billion (35% GDP),<sup>16</sup> 66% of MSME used their own resources to finance fixed investment and 82% of firms that tried to access credit faced difficulties to obtain it.<sup>17</sup> By 2019, the share of MSME in total credit to firms was 37.4%, down from 46.6% in 2014, and outstanding loans (R\$177.9 billion) were just over half of what they were in 2015, representing 23.5% of total credit for investment supplied to firms by the financial system.<sup>18</sup>
- 2.6 Furthermore, credit restrictions to MSME intensify in times of economic crisis: between 2015 and 2018 –Brazil's worst recession before COVID-19–, MSME credit portfolio dropped by almost 50% compared to a 10.2% fall for large firms.<sup>19</sup> During the roughest economic contraction from COVID-19, 36% of permanently closed firms in SC reported they could have been saved with access to credit, and 45% of SC operating firms sought credit –over 23% intended for investment.<sup>20</sup> The dual effect of economic contraction and access to credit constraints increases risks for MSME,<sup>21</sup> compromising their ability to sustain production and employment. Not only are these firms more dependent on financing in the face of fluctuations of the economic cycle, they also normally lack risk management tools and have greater limitations on available collateral due to the lack of existing capital, which involves higher risks and costs for financiers than other business segments.<sup>22</sup> Latest data on MSME and individual entrepreneurs (MEI) credit in SC show these firms are struggling to maintain upward tendencies post COVID-19 (see Graph 1).

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<sup>15</sup> SEBRAE.

<sup>16</sup> International Finance Corporation (IFC). [MSME Finance Gap: Assessment of the Shortfalls and Opportunities in Financing Micro, Small and Medium Enterprises in Emerging Markets](#). 2017.

<sup>17</sup> SEBRAE. [O Financiamento das MPE no Brasil](#). 2017.

<sup>18</sup> OECD. Financing SMEs and Entrepreneurs. [2018](#) and [2020](#).

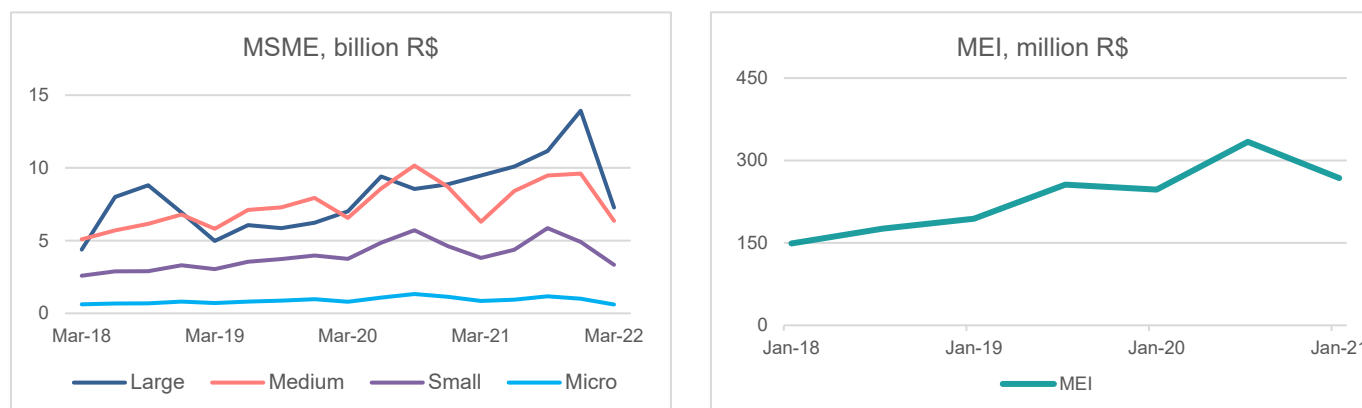
<sup>19</sup> Barboza, R., et al. BNDES. [O BNDES e as micro, pequenas e médias empresas](#). 2019.

<sup>20</sup> FIESC, Fecomércio/SC, SEBRAE/SC, ["Impacto do coronavírus nos negócios de Santa Catarina – 4ta edição"](#), 2020.

<sup>21</sup> Klein. WP/14/98, IMF. [SME, Credit Supply Shocks, and Economic Recovery in Europe](#). 2014; Fraser. Department of Business, Innovation and Skills. [The Impact of the Financial Crisis on Bank Lending to SMEs](#). 2012; Kennickell et al. FDIC CFR WP 2015-04, in National Bureau of Economic Research "Measuring Entrepreneurial Businesses: Current Knowledge and Challenges". University of Chicago Press. [Small Businesses and Small Business Finance during the Financial Crisis and the Great Recession: New Evidence from the Survey of Consumer Finances](#). 2017.

<sup>22</sup> IDB. [Documento de Marco Sectorial de Respaldo para PyME y Acceso y Supervisión Financieros](#). 2014.

**Graph 1. Credit concession in SC, by firm size**



Source: Painel SEBRAE, *Crédito para Empresas Pequeno, Micro, Médio e Grande* and *MEI*

- 2.7 Amidst the COVID-19 crisis, providing liquidity and improving access to loans have been recurrent policies undertaken by governments globally to sustain productive structures, avoid layoffs and company closures, and government response in Brazil helped sustain credit to MSME in 2020.<sup>23</sup> But in 2021 growth in credit to the private sector decelerated, partly reflecting the base effect of the policies deployed at the start of the pandemic.<sup>24</sup> The analysis for this proposal hence identifies an enduring need for financial support for local MSME and MEI in order to tackle renewed challenges in the post-COVID era, and two subsets where the financing gap is known to be more severe: Women MSME (WMSME) and Energy Efficiency (EE) and Distributed Generation (DG)<sup>25</sup> projects by MSME.
- 2.8 Overall, WMSME are predominant in the services sector, which was hardest hit by the pandemic and faces greater difficulty in accessing credit.<sup>26,27</sup> In SC, the impact on women was more pronounced than men in number of employers, registering a variation of -3.1% for women versus 0.4% for men (-0.3% and 5.8% in the case of the self-employed) in the first year of the pandemic.<sup>28</sup> These differences leave WMSME more vulnerable to financial shocks. Also, recent data for Brazil shows that women in average receive smaller loan tickets.<sup>29</sup> To reduce gender gaps in access to finance in MSME, the program is expected to allocate a share of resources to women businesses, thus specifically contributing to SDG#5.

<sup>23</sup> BNDES. *Crédito e garantia: uma análise de custo-efetividade da atuação anticíclica do BNDES na crise da Covid-19*. 2022.

<sup>24</sup> IMF. *Outlook for Latin America and the Caribbean: A Long and Winding Road to Recovery*. 2021.

<sup>25</sup> Distributed generation is the term used when electricity is generated from sources, often renewable energy sources, near the point of use instead of centralized generation sources from power plants. *Renewable Energy: Distributed Generation Policies and Programs*.

<sup>26</sup> United Nations. *Policy Brief: The Impact of COVID-19 on Women*. April 2019.

<sup>27</sup> Torres, J. et al., World Bank. *The Impact of the COVID-19 Pandemic on Women-Led Businesses*. Policy Research Working Paper; No. 9817. 2021.

<sup>28</sup> Pereira Porto, Rodrigo, et al. "Caracterização das MPMEs brasileiras e os entraves do acesso ao crédito sob a perspectiva de gênero". IDB Technical Note 2468.

<sup>29</sup> BCB. Data series 26968 and 26969.

- 2.9 Similarly, access to finance can also limit the implementation of EE and DG projects by MSME, which require higher initial investment (the most efficient technologies can cost between two and three times more than traditional ones) and have longer average payback periods. SC occupies the 12th place in the national electricity generation ranking, its main sources being hydroelectric and thermoelectric, responsible for 75% and 23% of the total energy generated, respectively.<sup>30</sup> The state's energy matrix has 79.8% of its generation from RE, with solar energy production accounting for 4.3% of total national energy generated. Private consumption totals 94.6% in SC, with the industrial sector leading consumption (40.4%), followed by the residential (24.6%), commercial (15.9%) and rural (13.8%) sectors. Average temperatures have increased in SC by 0.5% in the last two decades, increasing energy demand, which represents the third highest expenditure for MSME in Brazil (FIESC). To tackle global warming, provide reliable energy supply to meet the growing demand and overcome tariffs increments,<sup>31</sup> MSME are increasingly becoming aware of the need to invest on measures towards higher EE, in pursuit of sustainability and productivity for competitiveness.<sup>32</sup>
- 2.10 **Institutional framework and government strategies.** In its [\*Plano de Desenvolvimento de Santa Catarina 2030\*](#), SC's government established mid to long-term strategies for the economic development and highlighted the need "to incentivize entrepreneurship and expand government support programs for the creation and development of MSE with high growth potential or technological base", to accelerate the modernization of SC's productive structure. At the federal level also, related policy is aimed at ameliorating business environment for MSME through the improvement and simplification of regulatory and tax mechanisms, access to credit and new markets, and improved competitiveness and capacity building.<sup>33</sup>
- 2.11 As part of the financial system, National Development Banks (NDB) in Brazil play a relevant role channeling public support to MSME, contributing to investment and mobilizing broader financial resources while helping governments in the pursuit of economic recovery in the face of recent crises.<sup>34</sup> Potentialities deepen as we move to subnational developing agencies, owing in part to their comparative advantages of proximity to local markets and sectoral expertise on the ground. In SC, BADESC executes state's development policies aimed at the broad productive fabric and consolidated industrial clusters, enabling financing through first and second-tier operations,<sup>35</sup> and via *Organizações da Sociedade Civil de Interesse Público* (OSCIP).<sup>36</sup> With a portfolio of R\$190 million in 2020, 60% of BADESC's operations target MSME. It is relevant to note that BADESC's total portfolio has increased

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<sup>30</sup> 2020 National Energy Balance.

<sup>31</sup> About 21% from 2020 to 2021 in the south region of Brazil.

<sup>32</sup> SITAWI. Financing of alternative Renewable Energy in Brazil. Evolution, challenges, and prospects. 2016.

<sup>33</sup> Ministry of Economy. *Subsecretaria de Desenvolvimento das Micro e Pequenas Empresas, Empreendedorismo e Artesanato* (SEMPE). 2020.

<sup>34</sup> De Olloqui, F. et al. IDB. [\*Bancos Públicos de Desarrollo ¿Hacia un Nuevo Paradigma?\*](#). 2013; Chelsky, J. et al. World Bank. Investment Financing in the Wake of the Crisis: The Role of Multilateral Development Banks. 2013.

<sup>35</sup> Credit line offered to low-income borrowers with difficulties accessing the traditional financial system. From 2016 to 2020, BADESC granted over R\$1 billion credit to both private and public first-tier institutions.

<sup>36</sup> [\*OSCIP\*](#) is a legal qualification assigned to private entities operating in typical areas of the public sector with social interest, which can be financed by the State or by private non-profit initiatives.

substantially since 2017 (when it reached R\$ 69 million), mostly due to a strong corporate credit demand after the COVID-19 crisis. Now, in order to keep supporting this segment, BADESC needs to seek additional funding.

## **B. Intervention proposed**

- 2.12 **Objectives.** The program's general objective (GO) is to support the economic recovery of the State of SC in the face of the post COVID-19 crisis and the current national economic environment, by improving the performance of MSME and MEI. The specific objective (SE) is to provide inclusive mid and long-term financing for productive investment that promotes the sustainable recovery of local MSME and MEI.
- 2.13 **Component 1. Direct financing for MSME productive investment (US\$40 million).** This component will provide resources to finance MSME<sup>37</sup> via direct credit lines from BADESC, offering mid- and long-term loans for productive investment<sup>38</sup> and financing conditions compatible with EE and DG projects.<sup>39</sup> Although resources will be allocated and disbursed upon demand, it is foreseen that WMSME will be prioritized for about 20% of this component.<sup>40</sup> Sector-wise, the distribution of the pipeline is expected to resemble that of the current identified portfolio of BADESC, mainly addressed at industry, commerce and energy sectors.
- 2.14 **Component 2. Indirect financing for MEI<sup>41</sup> and microcredit (US\$10 million).** This component will focus distinctively on smaller borrowers under the MEI structure and individuals to further expand credit supply. Through its second-tier window, BADESC will channel program resources via OSCIP and local credit unions,<sup>42</sup> who will on-lend to eligible individuals and MEI with a multisector approach. This component is also foreseen to prioritize women individuals and MEI for about 50% of resources,<sup>43</sup> seeking an increased share of these businesses in BADESC's overall portfolio.<sup>44</sup>

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<sup>37</sup> Eligible businesses comprehend legal entities governed by private law constituted as micro, small, and medium enterprises. Identification of MSME within BADESC eligible products will follow BADESC definition based on legal figure, and annual income threshold. Program's Operating Regulations (ROP) will detail eligibility criteria and MSME definition for the purpose of the operation.

<sup>38</sup> The financing of working capital to accompany productive investment will observe IDB eligibility requirements (GN-2331-5) and follow the corresponding guidelines for the eligibility of expenditures in investment loans (CC-6004-2). This will be further developed during project preparation.

<sup>39</sup> The program aims at incorporating a strong focus on investments with climate change mitigation components, including a specific allocation for eligible EE and DG projects. Upon demand validation, a specific % of resources from Component 1 will be earmarked to support these projects.

<sup>40</sup> Preliminary estimations. Final share will be determined during project preparation in accordance with the portfolio analysis.

<sup>41</sup> According to SDE's [\*Indicadores Econômicos-Fiscais - Maio 2022\*](#) as of April 2022, 54,1% of 1.142.965 active firms in SC were MEI. To be considered a MEI, microentrepreneurs must have annual gross revenue of up to R\$81.000, only one establishment, and not be a partner, administrator or owner of other ventures.

<sup>42</sup> The program's ROP will gather IFIs eligibility criteria for the channeling of project resources to final beneficiaries (§2.21). The IDB is working with BADESC on the possibility to include *fintechs* as additional means to channel funds to MEI, which will be defined in the POD.

<sup>43</sup> Preliminary estimations. Final share will be determined during project preparation in accordance with the portfolio analysis.

<sup>44</sup> IDB's Gender and Diversity Sector Framework Document define women-led business as one in which the Chief Executive Officer or the Chief Operating Officer are women, and a women-owned business as that in which women own at least 51% of its capital. Women MSME or MEI are expected to include both definitions.



- 2.15 The specifics of sub-loans and channelling structures under each component will be described in the program's Operating Regulations (ROP), to be developed as an annex to the Proposal for Operations Development (POD) (see ¶2.22). Preliminarily, these will include: (i) a maximum amount for each individual loan of up to US\$1,000,000, following standard practice for IDB MSME financing operations, (ii) an exclusion list of sectors, (iii) prioritization of industry and commerce sectors, as per BADESC's current portfolio, and energy, consistent with RE and EE projects targeted; and (iv) a condition for first-tier institutions to comply with qualitative and quantitative requirements analogous to those established by BADESC for their current network.
- 2.16 **Beneficiaries.** Direct beneficiaries will be eligible MSME under component 1 and eligible MEI and individuals under component 2, according to BADESC definitions based on legal figure and annual income thresholds. Further details on eligibility will be described in the program's ROP and the POD.
- 2.17 **Expected results.** Following the vertical logic defined for the project, specific objective indicators will focus on capturing the impact of the IDB funding on BADESC's active portfolio with MSME (component I) and MEI and individuals (component II). Thus, the main SE indicators should include BADESC's total outstanding loans for MSME and MEI/Individuals, and the share of non-performing loans – both evaluated against reasonable counterfactual scenarios. In terms of the GO, the project will focus on the beneficiaries' economic performance, with indicators expected to include total productive investments, employment and sales of the MSME and MEI/Individuals supported by BADESC loans. As usual, the complete results framework will be further developed and consolidated as an annex to the POD.
- 2.18 **Strategic alignment.** The program is consistent with the Second Update of the Institutional Strategy (UIS) (AB-3190-2), aligning with the Productivity and Innovation challenge by promoting access to finance by MSME for productive investments that enhance their processes and technologies. It also aligns with the crosscutting themes of: (i) Gender Equality, by addressing credit access gaps faced by WMSME with a targeted allocation of 25% (US\$12.5 million) of program resources; and (ii) Climate Change, according to the [Joint MDB Methodology for Climate Finance Tracking](#), by supporting eligible projects with a resource allocation targeted to the *BADESC Energía* product line,<sup>45</sup> contributing to IDB's climate finance goal of 30% of annual approvals.<sup>46</sup> The program contributes to the Corporate Results Framework (CRF) 2020-2023 (GN-2727-12) in its challenge indicator 2.9 Micro / small / medium enterprises financed (#).
- 2.19 The program aligns with IDB's Sector Strategy Institutions for Growth and Social Welfare (GN-2587-2), by increasing access to credit through local financial institutions, and is consistent with the Support to SMEs and Financial Access/Supervision Sector Framework Document (GN-27687), by supporting financing for SME, and with the Gender and Diversity Sector Framework Document (GN-2800-8) by targeting specific financing of WMSME. The program also aligns

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<sup>45</sup> *BADESC Energía* is a credit line that supports commercial electricity substitution for photovoltaic self-supply generation in the industrial, commercial, and service sectors.

<sup>46</sup> Final resource allocation is being discerned with portfolio analysis and will be determined during project preparation.



with the [IDB Group Strategy with Brazil 2019-2022](#) (GN-2973), under its strategic objective to increase the role of the private sector by improving the quality of the business environment, contributing to the expected result of increased private sector access to credit. *It is also aligned with the crosscutting themes of reducing the inequalities of gender and race and contribute to a sustainable development model.*<sup>47</sup>

- 2.20 **Financing instrument and execution mechanism.** The program is proposed as a global credit operation, due to its nature of financial intermediation towards beneficiary individuals, MEI and MSMEs,<sup>48</sup> financed with an investment loan of US\$50 million from IDB's ordinary capital.<sup>49</sup> A 4-year disbursement period is foreseen.
- 2.21 The proposed execution mechanism is financial intermediation through BADESC, a state development agency, who will act as borrower and executing agency of the program. The Federal Republic of Brazil will be the guarantor of BADESC's financial obligations under the loan, while SC is expected to be the guarantor of all other aspects, including contractual obligations regarding program execution.<sup>50</sup> BADESC's mission is to promote the sustainable economic and social development of SC, through medium and long-term financing. Over the past decade, BADESC has used several credit lines (including the [Juro Zero](#) program) to help MSME, MEI and individuals to improve their performance by encouraging business formalization, productive investment, social inclusion, employment and income generation.
- 2.22 The OR will include details on responsibilities in administration, monitoring,<sup>51</sup> risk management and coordination, as well as eligibility criteria for the OSCIPs/local credit unions, beneficiaries, terms and conditions of sub-loans, requirements for information and reporting on financial conditions, and other parameters/restrictions that will govern the use of IDB resources (see ¶2.15).
- 2.23 **Technical Cooperation (TC).** The program will be supported by the complementary TC [ATN/OC-19012-BR](#), approved in December 2021 to support the development of a framework, as well as technical and operational capacity of

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<sup>47</sup> Should the IDB approve a new Country Strategy with Brazil during project preparation, the strategic alignment of the updated will be revised in later stages to reflected the new agreed strategic objectives and expected results.

<sup>48</sup> Through indirect financing, global credit loans provide financial resources to national or subnational entities to finance projects in many sectors that promote economic and social development. IDB extends funding to a first-tier intermediary financial institution, which in turn provides funding to MSMEs either directly or through second-tier public financial institutions that on-lend to MSMEs. PR-203 regulations govern the use of the lending instrument.

<sup>49</sup> While the program proposes to use 100% of resources to finance loans to beneficiaries, a fraction of resources may be requested for administration and monitoring purposes, subject to an agreement between the IDB and BADESC. This will be defined in the POD.

<sup>50</sup> BADESC has informed that it plans to submit a request for a waiver of the guarantee required of SC under the Bank's Policy on Guarantees Required from the Borrower (OP-303). After receiving and analyzing said waiver request, the project team will proceed with the consultation to Office of the Executive Vice President (EVP).

<sup>51</sup> Monitoring the performance of final borrowers after receiving the loans is a major challenge for NDB in LAC. This program intends to apply an innovative WebApp, developed by SDP/SDV in partnership with ITE/IPS, to allow BADESC to easily recover high-frequency data from beneficiaries. Feasibility of this approach will be evaluated during POD preparation.

BADESC, for the origination of loans in line with the Sustainability Development Goals (SDG) and the strengthening of the institution's environmental and social management system. The products of this TC are expected to support eligible credit lines and sub-loans under this program, as well as other product lines and programs focused on the sustainable development of SC's economy.

### III. TECHNICAL ISSUES AND SECTOR KNOWLEDGE

- 3.1 **IDB experience.** The program builds on IDB's experience with MSME access to finance, long-term relationships with governments and financial institutions, and knowledge of financial markets and financing solutions to leverage investment. Particularly in Brazil, in 2018 the IDB approved the "Promotion and Innovation of Access to Multisector Medium and Long-Term Credit for Productive Investments by MSMEs" program ([4672/OC-BR](#)) to promote productive investments by MSME in Brazil, supporting growth, job creation and productivity. The program was executed at the federal level by *Banco Nacional de Desenvolvimento Econômico e Social* (BNDES). In 2020, two emergency global credit programs for MSME were approved at the federal level with BNDES ([5115/OC-BR](#) and [5130/OC-BR](#)), plus two additional loans at the subnational level with *Banco Regional de Desenvolvimento do Extremo Sul* (BRDE) ([5158/OC-BR](#)) and *Banco de Desenvolvimento do Espírito Santo* (BANDES) ([5138/OC-BR](#)). All of these had the goal to sustain MSME operations in the short term by enabling credit to mitigate the impact of the pandemic on firm survival and employment. Finally, operations [5452/OC-BR](#), [5453/OC-BR](#) and [5625/OC-BR](#) were approved in 2021 and 2022 respectively to promote sustainable economic recovery of MSME, enhancing medium and long-term financing availability for productive investments.
- 3.2 Impact evaluations point to development bank credit as a valuable tool to support employment, growth and productivity of MSME in Brazil. De Negri et al. (2011)<sup>52</sup> found that SME access to Brazilian public credit lines has significant positive impact on employment. Machado et al. (2011)<sup>53</sup> found positive impacts on employment from the use of BNDES *Cartão*. Grimaldi et al. (2017)<sup>54</sup> analyzed ten BNDES' financing instruments showing robust positive impacts on employment, gross income, and investment. IDB's Office of Evaluation and Oversight (OVE)'s empirical analysis of the various IDB programs supporting SME in Brazil<sup>55</sup> shows how credit support is the only intervention observed to significantly affect all outcome variables, with the most positive impact found on employment and wages. Finally, a recent impact evaluation from BNDES of earmarked credit lines during the COVID-19 crisis shows stronger positive results among SME.<sup>56</sup>

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<sup>52</sup> De Negri, J., et al. IDB Working Paper Series No. 293". [The impact of public credit programs on Brazilian firms](#). 2011.

<sup>53</sup> Machado, L., et al. BNDES. [Avaliação de impacto do uso do Cartão BNDES sobre o emprego formal nas firmas de menor porte](#). 2011.

<sup>54</sup> Grimaldi, D. et al. BNDES [Uma solução automatizada para avaliações quantitativas de impacto: primeiros resultados do MARVIm](#). 2018.

<sup>55</sup> IDB. [Uma Análise Comparativa das abordagens do BID no Apoio às PMEs: Analisando Resultados no Setor Industrial Brasileiro](#). 2014. The analysis comprises programs implemented in Brazil between 2003 and 2012.

<sup>56</sup> BNDES. [Crédito e garantia: uma análise de custo-efetividade da atuação anticíclica do BNDES na crise da Covid-19](#). 2022.

- 3.3 **Lessons learned.** The program's design incorporates the following lessons: (i) proper supervision of financial conditions at which resources are provided to final beneficiaries to avoid market distortions and ensure additionality is not exhausted throughout intermediation (see ¶2.22); (ii) guaranteeing capacity of BADESC and first-tier intermediary institutions to assess and monitor sub-loans, including risk management practices (see ¶2.22); and (iii) developing a data collection system in coordination with BADESC, so that results can be properly analyzed and evaluated following IDB standards.
- 3.4 **Complementarity with other IDB operations.** The program complements loans under implementation in Brazil (see ¶3.1) in at least three ways, by: (i) focusing exclusively on the State of SC, whereas existing programs have a much broader scope; (ii) explicitly including MEI and individuals as direct beneficiaries of the program, which is not the case in other programs acting in SC; and (iii) timing the intervention later in the evolution of the crisis, directing resources to productive investment linked to the recovery, as opposed to survival. Synergies will be sought in terms of standardizing oversight and monitoring information that applies to all programs that support MSMEs in Brazil.
- 3.5 **Complementarity with other organizations.** BADESC will coordinate with first-tier institutions to ensure awareness and suitability of the financial instruments offered. Coordination shall also ensure first-tier institutions fulfil all administrative, operational and oversight responsibilities in the context of the program as per the ROP (see ¶2.22).
- 3.6 **Additionality.** In addition to the financial additionality provided by the operation, as part of the program design, IDB will support BADESC in the development of new sales channels with fintechs and strategic partners, such as OSCIPs and banking correspondents to increase its operational capacity to grant credit to MSMEs. IDB is also assessing together with BADESC the suitability to implement an evaluability pilot seeking the optimization of impact monitoring using a platform (WebApp) developed by SPD to digitally collect and register beneficiary information.

#### **IV. ENVIRONMENTAL SAFEGUARDS AND FIDUCIARY SCREENING**

- 4.1 The operation is classified as Financial Intermediation under the Environmental and Social Policy Framework (GN-2965-23). The Environmental and Social Risk Rating (ESRR) of the operation has been initially assessed as Moderate, related to short-term, localized impacts that can be mitigated with standard and known measures. The operation will not finance activities on the IDB Environmental and Social Exclusion List, activities that directly contribute to them, or subprojects of substantial or high risk. All potential indirect and contextual impacts and risks will be analyzed in detail during the environmental and social due diligence to confirm the ESRR. During the due diligence process, an Environmental and Social Management System (ESMS) of the program will be established to manage the classification, approval, implementation, and monitoring of credits financed by the IDB, including measures to avoid and mitigate the risk of forced labor, pursuant to IDB Group Measures to Address the Risk of Forced Labor in the Supply Chain of Silicon-Based Solar Modules (GN-3062-1), for the RE and EE subprojects that may

imply the financing of solar panels are established measures. The results of the due diligence will be synthesized in the Environmental and Social Review Summary that will define the environmental and social requirements of the program and will be integrated into the program's ROP.

- 4.2 **Fiduciary screening.** Even though BADESC has not executed an IDB operation, they have an adequate institutional capacity to comply with IDB requirements as reflected in the findings of the Institutional Capacity Analysis (ICAP). The institution has proven to have experience in the execution of resources from other development banks, such as BNDES, and it demonstrated that it has policies and procedures for the preparation, approval and supervision of loans, as well as for project management, including procurement, human resources, financial, socio-environmental and occupational management (see ¶2.21).<sup>57</sup> As a result, no risks related to execution have been identified in the ICAP. Other findings and opportunities for institutional strengthening will be detailed in the POD.
- 4.3 Regarding coordination between BADESC and the Federal Government, on October 25<sup>th</sup>, 2022, the *Comissão de Financiamentos Externos* (COFIEX) granted authorization for the preparation of the project via Resolution n° 0040/2022.<sup>58</sup> BADESC is also coordinating with the state government with regards to the preparation and approval of the state law that authorizes SC to provide the IDB with the required guarantee for the operation (see ¶4.2) and the counter guarantee required from the Federal Government (see ¶2.21).
- 4.4 **Retroactive financing.** The IDB may finance retroactively eligible expenditures made by BADESC before the date of approval of the loan for up to 20% of the approved amount (US\$10 million), provided requirements substantially similar to those established in the loan contract are met. Such expenditures must have been incurred from the date of approval of this project profile, but under no circumstances will expenses incurred more than 18 months before the date of approval of the loan be included. Retroactive financing is especially important to ensure the timely disbursement of resources, given the lengthy approval processes in the Brazilian Federal Government.

## V. OTHER ISSUES

- 5.1 **Risks.** A medium-high economic and financial environment risk has been identified in exchange rate fluctuations, as the IDB loan will be denominated in dollars and sub-loans to final borrowers are expected to be largely disbursed in local currency. A significant devaluation of the BRL can make it more challenging to execute a much larger program, in terms of effective amount of resources in BRL, once converted to local currency. As a mitigation measure, the IDB will support BADESC in their efforts to disseminate and expand the reach of resources available to end beneficiaries, by developing new sales channels with fintechs and strategic partners, such as OSCIPs and banking correspondents, strengthening the demand of eligible borrowers as well as increasing BADESC operational capacity to grant credit, and the achievement of pre-established goals. BADESC

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<sup>57</sup> BADESC rating of BB-/A+(bra) and stable outlook was confirmed by [Fitch Ratings](#) in July.

<sup>58</sup> [COFIEX meeting N° 161, October 25<sup>th</sup>, 2022.](#)

also intends to use IDB currency conversions to mitigate foreign exchange (FX) risk associated to the repayment of the IDB loan (see Appendix II).

- 5.2 **Sustainability.** The program's intermediation structure is expected to help sustain increased financial access over time by promoting access to finance by MSME while supporting the development of local markets, helping to catalyze an independent local lending industry with standards and controls for MSME lending in line with commercial banking practice. Enabling credit to small borrowers across productive sectors drives their inclusion in participating first-tier institutions' portfolios, helping consolidate the relationship between these firms and the financial market. This is directly linked to the sustainability of their access to credit, its conditions (including tenor) and the use of innovative digital channels to share and manage related information.

## **VI. RESOURCES AND TIMETABLE**

- 6.1 Based on an indicative schedule for processing, the Quality and Risk Review (QRR) of the Proposal for Operations Development (POD) is expected on April 14<sup>th</sup>, 2023; the presentation of the Loan Proposal to the Operations Policy Committee is expected by May 5<sup>th</sup>, 2023, and to the Executive Board of Directors by August 23<sup>rd</sup>, 2023. The estimated budget for preparation of the proposal is US\$104,000 and an FTE equivalent to 1.28 full-time workers (see Annex V).

CONFIDENTIAL

<sup>1</sup> The information contained in this Annex is confidential and will not be disclosed. This is in accordance with the "Deliberative Information" exception referred to in paragraph 4.1 (g) of the Access to Information Policy (GN-1831-28) at the Inter-American Development Bank.



## Operation Information

Operation Name	
Financing Program for the Productive and Sustainable Recovery of MSME in Santa Catarina	
Operation Number	BR-L1604

## Operation Details

Organizational Unit	IDB Sector/Subsector
IFD/CMF	CAPITAL MARKET DEVELOPMENT
Type of Operation & Modality	Original IDB Amount
LON / GCR	\$50,000,000.00
Executing Agency	Borrower
BR-BR, BR-BADESC	BANCO DE DESENVOLVIMENTO DO ESTADO DE SANTA
ESG Primary Team Member	Team Leader
	Rafael Cavazzoni Lima
Toolkit Completion Date	Author
15/12/2022	Mauricio Tapia (Esg Guidance Service)
Applicable ESPs with requirements	
ESPS 1; ESPS 2; ESPS 10	

## Operation E&S Classification Summary

Environmental and Social Impact Categorization (ESIC)	FI
Disaster and Climate Change Risk Classification (DCCRC)	Low
Environmental and Social Risk Rating (ESRR)	Moderate

## Summary of Impacts / Risks and Potential Solutions

The FI will support sectors with moderate level of direct impacts expected (e.g. housing sector).

The FI will support sectors with moderate level of indirect/cumulative impacts expected (e.g. housing sector).

The FI activities eligible for financing will be associated with moderate level of direct impacts (e.g. moderate health and safety risks).

The FI activities eligible for financing will be associated with low level of indirect/cumulative impacts.

The Borrower/Executing Agency has moderate organizational capacity and competency for E&S management and potential existing E&S management systems.

The FI will have exclusion criteria for the sub-projects and the sub-projects will have moderate direct impacts.

The FI will have exclusion criteria for the sub-projects and the sub-projects will have moderate indirect/cumulative impacts.

The average amount for sub-project/sub-loans will be more than \$500,000.

There are no contextual risks associated with the sub-projects under the FI (e.g. political instability, oppression of communities, armed forces in the project area).

No natural hazards, such as earthquakes, droughts, landslides, floods, wildfires, or others, including those caused or exacerbated by climate change, are likely to occur in the sub-projects area, and/or these may impact the sub-project, and/or the sub-project may exacerbate the risk from natural hazards to human life, property, and/or the environment.

The FI portfolio or sub-projects will not have impacts or risks on human health and the environment, have GHG emissions, generate waste and/or use pesticides.

The FI portfolio or sub-projects has the potential to have minor impacts or risks on health and safety of the project-affected people. Impacts on the sub-projects themselves from natural hazards and climate change and/or risks associated with human rights.

The FI portfolio or sub-projects will not negatively impact people due to land acquisition.

The FI portfolio or sub-projects will not have significant impacts or risks on biodiversity and ecosystem services and/or introduce (intentionally or accidentally) alien, or non-native, species of flora and fauna.

The FI portfolio or sub-projects will not impact Indigenous Peoples.

The FI portfolio or sub-projects will not impact cultural heritage.

The FI portfolio or sub-projects has the potential to minorly negatively affect people due to their gender, sexual orientation or gender identity.

#### ESPS 1 - Assessment and Management of Environmental and Social Risks and Impacts

The Executing Agency will prepare and maintain an Environmental and Social Management System (ESMS) for the operation as defined under ESPS 1.

#### ESPS 2 - Labor and Working Conditions

The FI portfolio or sub-projects has the potential to have moderate impacts or risks associated with child labor or forced labor in the workforce.

#### ESPS 10 - Stakeholder Engagement and Information Disclosure

The Borrower will prepare a stakeholder engagement framework/plan for the lifetime of the program.

DOCUMENTO DEL BANCO INTERAMERICANO DE DESARROLLO



**BRAZIL**

**FINANCING PROGRAM FOR THE PRODUCTIVE AND SUSTAINABLE RECOVERY OF MSMEs IN SANTA CATARINA  
BR-L1604**

**INITIAL ENVIRONMENTAL AND SOCIAL REVIEW SUMMARY**

**DECEMBER 2022**

This document was prepared by:  
Aurea Fuentes (IFD/CMF)  
with the support of the Project team:  
Isabelle Braly-Cartillier (IFD/CMF) & Rafael Cavazzoni Lima (IFD/CMF)

Initial environmental and social review summary	
Operation Data	
Operation Number	BR-L1604
IDB Sector/Subsector	IFD/CMF
Type of Operation & Modality	Global Credit Operation (LON-GCR)
E&S Impact Classification	FI
Environmental and Social Risk Rating	Moderate
Disaster and Climate Change Risk Rating	Low
Borrower	Agência de Fomento de Santa Catarina S.A. (BADESC)
Executing Agency	Agência de Fomento de Santa Catarina S.A. (BADESC)
IDB Loan Amount (and total project cost)	US\$50 million
Applicable ESPS with requirements	ESPS 1; ESPS 2; ESPS 10.
Executive Summary	
<p>According to the Environmental and Social Policy Framework, the operation is classified as Financial Intermediation (FI). The Environmental and Social Risk Rating (ESRR) has been assessed as Moderate, primarily related to short-term, localized impacts that can be mitigated with standard and known measures. This rating shall be confirmed during the environmental and social due diligence (ESDD).</p> <p>The program's general objective is to support the economic recovery of the State of Santa Catarina in the face of the post-COVID-19 crisis and the current national economic environment, by improving the performance of Micro, Small and Medium Enterprises (MSME) and individual entrepreneurs (MEI). The specific objective is to provide inclusive mid and long-term financing for productive investment that promotes the sustainable recovery of local MSME and MEI. The program resources will be executed through BADESC, the subnational development agency for the State of Santa Catarina.</p> <p>The focus of the operation is multisectoral. The portfolio is expected to resemble that of the current identified portfolio of BADESC. Some sectors that could be financed are commerce, vehicle and motorcycle repair, manufacturing industry, food service and hospitality, financial services, renewable energy and energy efficiency. In the case of subprojects that imply the financing of solar panel purchasing or installation, forced labor risk mitigation measures will be established and integrated into the program's Environmental and Social Risk Management System in line with the Bank's action plan on solar panels.</p> <p>The average amount per subproject of micro, small and medium-sized companies is expected to be US\$15,000, US\$50.000, and US\$500.000, respectively, with a maximum amount of US\$1 million.</p>	

Based on the average amounts, the multisectoral focus, and the medium to long-term approach for recovery support, most subprojects are expected to have a low socio-environmental risk profile, while some might be of moderate risk.

The potential environmental and social and health and safety impacts associated with the program will be managed with the application of an Environmental and Social Risk Management System ('Program ESMS') that will be based on compliance with applicable national or local law, exclusion criteria, eligibility criteria, among others. (See more detail in the NDAS-1 section).

The conclusions of the ESDD and the program's environmental and social requirements will be described in the final Environmental and Social Review Summary and integrated into the program's operating regulations (ORP).

### Operation Description

The specific objective of the program is to provide mid and long-term financing for productive and inclusive investment of local MSMEs. The program is comprised of two components, described as follows:

1. Component 1. Direct financing for MSME productive investment (US\$40 million). This component will provide resources to finance MSME via direct credit lines from BADESC (through its network of agencies in SC), offering mid- and long-term loans for productive investment<sup>36</sup> and financing conditions compatible with sustainable energy projects. Although resources will be allocated and disbursed upon demand, it is foreseen that women MSME will be prioritized for about 20% of this component. Sector-wise, the distribution of the pipeline is expected to resemble that of the current identified portfolio of BADESC.
2. Component 2. Indirect financing for MEI (US\$10 million). This component will focus distinctively on smaller borrowers under the MEI structure to further expand credit supply. Through its second-tier window, BADESC will channel program resources via Organizações da Sociedade Civil de Interesse Público (OSCIP) and local credit unions, who will on-lend to eligible MEI with a multisector approach. This component is also foreseen to prioritize women MEI for about 50% of resources, seeking an increased share of these businesses in BADESC's overall portfolio.

Direct beneficiaries will be eligible MSME under component 1 and eligible MEI and individuals under component 2. The potential socio-environmental impact of most subprojects is expected to be low. The subprojects are expected to be small in scale, and high-risk sectors will not be eligible.

Environmental and social risks usually associated with trade and service activities are considered low.

Environmental and social risks generally associated with MSMEs activity in the industrial sector are the following:

- Health and safety issues
- Stress on or contamination of water resources
- Inadequate waste management (wastewater and solid waste)
- Air emissions
- Energy consumption

The percentage of financed subprojects belonging to the agriculture sector is expected to be minimal; if this is the case, they will be small-scale. The financing of civil works is expected to be limited to modifications of existing facilities or equipment installation.



Rationale for Classifications/Rating		
E&S Impact Classification	FI – BADESC will channel the program’s resources through direct credit lines, public interest organizations, and local credit unions to reach the MSMEs –the final beneficiaries. BADESC will verify accordingly that financial intermediaries oversee that requirements established for subprojects are aligned with the IDB program's requirements.	
E&S Risk Rating	Moderate – It is expected that most of the subprojects to be financed with resources from this program will be of low risk. Some of the subprojects to be financed could be of moderate risk. This precategorization will be confirmed during the preparation stage of the operation. High-risk subprojects will be excluded from financing. Likewise, the eligibility and exclusion criteria to be defined will comprise the ESMS of the program in compliance with the ESPF.	
DCC Risk Classification	Low – No natural hazards, such as earthquakes, droughts, landslides, floods, wildfires, or others, including those caused or exacerbated by climate change, are likely to occur in the sub-projects area, and/or these may impact the sub-project, and/or the sub-project may aggravate the risk from natural hazards to human life, property, and/or the environment.	
Use of Borrower E&S Framework		No
N/A (FI)		
Environmental and Social Performance Standards (ESPS) that apply to the proposed project		
ESPS-1. Assessment and Management of E&S Risks and Impacts		Yes
The elements of the ESMS of the program that BADESC shall comply with will be confirmed during the ESDD. These elements are based on:		
<div><div><div><div><div></div><div>Compliance with applicable national or local laws or regulations.</div></div><div><div></div><div>Compliance with the IDB exclusion list.</div></div><div><div></div><div>Compliance with additional exclusion criteria to avoid direct or indirect impacts of the beneficiary MSMEs’ economic activities, for example:</div></div></div><div><div><div>Subprojects categorized as A.</div><div>Activities/sectors with higher socio-environmental risk (large-scale agriculture, large-scale construction, extractive industries, etc.).</div><div>Subprojects that entail involuntary physical or economic resettlement of people.</div><div>Subprojects that may damage cultural sites or critical cultural sites.</div><div>Subprojects that entail a negative impact on protected areas or RAMSAR sites.</div><div>Subprojects with impacts on indigenous peoples.</div><div>Activities involving the introduction or use of alien or non-native species<sup>1</sup>.</div></div></div></div></div>		

<sup>1</sup> Pursuant to ESPF, paragraph 20: Intentional or accidental introduction of alien, or non-native, species of flora and fauna into areas where they are not normally found can be a significant threat to biodiversity, since some alien species can become invasive, spreading rapidly and out-competing native species.

<ul style="list-style-type: none"> <li>- Compliance with environmental, social and health and safety local laws associated with the program.</li> <li>- Compliance with applying a maximum financing amount per subproject of US\$1 million.</li> <li>- Compliance with submitting a biannual report on the environmental and social performance of the project, which includes, among others, the amounts disbursed for subprojects and distribution by sector, including average amounts of total financing and by sector, brief description of the use of resources of the subprojects, and any other relevant environmental and social information on the beneficiary MSMEs, BADESC and national or subnational regulations.</li> </ul> <p>These requirements will be included in the program's Operating Regulations and shall be approved as a condition for the first disbursement.</p>	
<b>ESPS-2. Labor and Working Conditions</b>	<i>Yes</i>
<p>BADESC is compliant with the national labor legislation of the Federative Republic of Brazil. The country has ratified most of the conventions of the International Labor Organization, including the Forced Labour Convention, Minimum Age Convention, and Worst Forms of Child Labour Convention.</p> <p>The purchase of solar panels for small-scale renewable energy and energy efficiency subprojects will be defined during the ESDD; if applicable, forced labor risk mitigation measures will be established and integrated into the program's ESMS under the Bank's action plan on solar panels. BADESC's compliance with ESPS-2 will be verified during the ESDD.</p>	
<b>ESPS-3. Resource Efficiency and Pollution Prevention</b>	<i>No</i>
<p>The program will not finance MSME and MEI's economic activities with significant impacts on air, water, and land pollution and hazardous and non-hazardous waste. The construction of large-scale buildings or facilities will not be financed. The financing of civil works will be limited to modifications of existing facilities or equipment installation. Most subprojects are expected to have a low E&amp;S risk, which must comply with national legislation.</p>	
<b>ESPS-4. Community Health, Safety, and Security</b>	<i>No</i>
<p>The program will not finance MSME and MEI's economic activities with significant impacts on people or communities. There will be no funding for large infrastructure or the use of hazardous materials. Most subprojects are expected to have a low E&amp;S risk, which must comply with national legislation.</p>	
<b>ESPS-5. Land Acquisition and Involuntary Resettlement</b>	<i>No</i>
<p>Subprojects that entail involuntary physical or economic resettlement of people, even temporary, will not be eligible under this program.</p>	
<b>ESPS-6. Biodiversity Conservation and Sustainable Management of Living Natural Resources</b>	<i>No</i>
<p>Subprojects that negatively impact protected areas or RAMSAR sites will not be eligible under this program.</p>	
<b>ESPS-7. Indigenous Peoples</b>	<i>No</i>
<p>Subprojects with a negative impact on indigenous peoples will not be eligible under this program.</p>	
<b>ESPS-8. Cultural Heritage</b>	<i>No</i>
<p>Subprojects with a negative impact on cultural heritage will not be eligible under this program.</p>	

<b>ESPS-9. Gender Equality</b>		<i>No</i>
The program is not expected to cause risks and negative impacts based on gender, sexual orientation, among others; on the contrary, the program seeks to increase the share of businesses led or owned by women in BADESC's overall MSME and MEI portfolio, as described in components 1 and 2.		
<b>ESPS-10. Stakeholder Engagement and Information Disclosure</b>		<i>Yes</i>
Most subprojects are expected to have a low E&S risk, which must comply with national legislation. During the ESDD, the contact for queries mechanism that BADESC currently has in place will be analyzed.		
<b>Information Disclosure requirements (for the IDB)</b>		
The E&S documentation of the subprojects will be disclosed as established in national requirements and laws. The IDB will disclose E&S information on the program through its existing processes, including its Project Monitoring Reports (PMR).		
<b>Annexes</b>		
<b>Annex A</b>	Environmental and Social Action Plan (ESAP)	
<b>Annex B</b>	E&S Requirements	
<b>Annex C</b>	E&S Maps	

<b>Annex A.</b> Environmental and Social Action Plan (ESAP)
No Environmental and Social Action Plan is required for this program.
<b>Annex B.</b> E&S Requirements
To be confirmed in the final Environmental and Social Review Summary.
<b>Annex C.</b> E&S Maps
The program's scope to finance MSME and MEI covers the State of Santa Catarina.

## INDEX OF SECTOR STUDIES

Studies	Date	References and Links
Rockenbach. <i>A problemática do financiamento à MPME: Novos Formatos Institucionais Financeiros para a Promoção de Arranjos Produtivos Locais.</i>	2010	<a href="#"><i>A problemática do financiamento à MPME: Novos Formatos Institucionais Financeiros para a Promoção de Arranjos Produtivos Locais.</i></a>
Machado, L., et al. BNDES. <i>Avaliação de impacto do uso do Cartão BNDES sobre o emprego formal nas firmas de menor porte.</i>	2011	<a href="#"><i>Avaliação de impacto do uso do Cartão BNDES sobre o emprego formal nas firmas de menor porte.</i></a>
De Negri, J., et al. IDB Working Paper Series No. 293". The impact of public credit programs on Brazilian firms.	2011	<a href="#"><i>The impact of public credit programs on Brazilian firms.</i></a>
Fraser. Department of Business, Innovation and Skills. The Impact of the Financial Crisis on Bank Lending to SMEs: econometric analysis from the UK Survey of SME Finances.	2012	<a href="#"><i>The Impact of the Financial Crisis on Bank Lending to SMEs: econometric analysis from the UK Survey of SME Finances.</i></a>
De Olloqui, F. et al. IDB. <i>Bancos Públicos de Desarrollo ¿Hacia un Nuevo Paradigma?</i>	2013	<a href="#"><i>Bancos Públicos de Desarrollo ¿Hacia un Nuevo Paradigma?</i></a>
Chelsky, J. et al. World Bank. Investment Financing in the Wake of the Crisis: The Role of Multilateral Development Banks.	2013	
IDB. <i>Documento de Marco Sectorial de Respaldo para PyME y Acceso y Supervisión Financieros.</i>	2014	<a href="#"><i>Documento de Marco Sectorial de Respaldo para PyME y Acceso y Supervisión Financieros.</i></a>
Klein. WP/14/98, IMF. SME, Credit Supply Shocks, and Economic Recovery in Europe.	2014	<a href="#"><i>SME, Credit Supply Shocks, and Economic Recovery in Europe.</i></a>
IDB. <i>Uma Análise Comparativa das abordagens do BID no Apoio às PMEs: Analisando Resultados no Setor Industrial Brasileiro.</i>	2014	<a href="#"><i>Uma Análise Comparativa das abordagens do BID no Apoio às PMEs: Analisando Resultados no Setor Industrial Brasileiro.</i></a>
De Matos, M. Universidade Federal de Santa Catarina. <i>Microcrédito em Santa Catarina: Redes, escalas e agentes – o caso do Planorte.</i>	2016	<a href="#"><i>Microcrédito em Santa Catarina: Redes, escalas e agentes – o caso do Planorte.</i></a>

Studies	Date	References and Links
SITAWI. Financing of alternative Renewable Energy in Brazil. Evolution, challenges, and prospects.	2016	
Mendes de Paula, G. CEPAL. <i>Inclusão financeira de pequenas e médias empresas no Brasil.</i>	2017	<a href="#"><i>Inclusão financeira de pequenas e médias empresas no Brasil.</i></a>
Kennickell et al. FDIC CFR WP 2015-04. Chapter in National Bureau of Economic Research Book “Measuring Entrepreneurial Businesses: Current Knowledge and Challenges”. University of Chicago Press. Small Businesses and Small Business Finance during the Financial Crisis and the Great Recession: New Evidence from the Survey of Consumer Finances.	2017	<a href="#"><u>Small Businesses and Small Business Finance during the Financial Crisis and the Great Recession: New Evidence from the Survey of Consumer Finances.</u></a>
International Finance Corporation (IFC). MSME Finance Gap: Assessment of the Shortfalls and Opportunities in Financing Micro, Small and Medium Enterprises in Emerging Markets.	2017	<a href="#"><u>MSME Finance Gap: Assessment of the Shortfalls and Opportunities in Financing Micro, Small and Medium Enterprises in Emerging Markets.</u></a>
FIESC. <i>Santa Catarina em Dados.</i>	2017	<a href="#"><u>Santa Catarina em Dados.</u></a>
SEBRAE. <i>O Financiamento das MPE no Brasil.</i>	2017	<a href="#"><u>O Financiamento das MPE no Brasil.</u></a>
Mattei, L. Universidade Federal de Santa Catarina. <i>O Papel do microcrédito no ambiente local: evidências a partir do programa Banco da Família em Santa Catarina.</i>	2018	<a href="#"><u>O Papel do microcrédito no ambiente local: evidências a partir do programa Banco da Família em Santa Catarina.</u></a>
Grimaldi, D. et al. BNDES. <i>Uma solução automatizada para avaliações quantitativas de impacto: primeiros resultados do MARVIm.</i>	2018	<a href="#"><u>Uma solução automatizada para avaliações quantitativas de impacto: primeiros resultados do MARVIm.</u></a>
Organization for Economic Co-operation and Development (OECD). Financing SMEs and Entrepreneurs.	2018	<a href="#"><u>Financing SMEs and Entrepreneurs.</u></a>
<i>Plano de Desenvolvimento de Santa Catarina 2030.</i>	2018	<a href="#"><u>Plano de Desenvolvimento de Santa Catarina 2030.</u></a>



Studies	Date	References and Links
United Nations. Policy Brief: The Impact of COVID-19 on Women.	2019	<a href="#">Policy Brief: The Impact of COVID-19 on Women.</a>
Barboza, R., et al. BNDES. <i>O BNDES e as micro, pequenas e médias empresas.</i>	2019	<a href="#">O BNDES e as micro, pequenas e médias empresas.</a>
Sebrae. <i>Pesquisa “O Financiamento dos Pequenos Negócios”.</i>	2019	<a href="#">Pesquisa “O Financiamento dos Pequenos Negócios”.</a>
CMAP. <i>Relatório de Avaliação – Programa Nacional de Microcrédito Produtivo Orientado – PNMPO.</i>	2019	<a href="#">Relatório de Avaliação – Programa Nacional de Microcrédito Produtivo Orientado – PNMPO.</a>
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