



MEMORANDUM

File Classification: PO-BR-L1576/BR-G1011-ANL
(EZSHARE-1147413321-8)

IFD/CMF-10/2021

Date: August 17, 2021

To: Moisés Schwartz Rosenthal
Sector Manager, IFD/IFD

Morgan Doyle
Representative, CSC/CBR

Juan Antonio Ketterer
Division Chief, IFD/CMF

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From: Florencia Attademo-Hirt
General Manager, CSC/CSC

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Maria Florencia Attademo-Hirt
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Subject: **BRAZIL.** Program to Finance the Sustainable and Productive Recovery of Micro, Small and Medium Enterprises (MSME) (BR-L1576/BR-G1011). Approval of Project Profile (PP).

The Eligibility Review Meeting (ERM) that revised the Project Profile was carried out in person on August 4, 2021.

The ERM recommendations have been incorporated into the attached Project Profile and actions to be taken are documented in the ERM minutes.

The documents properly reflect the critical issues of the operation and establish a feasible plan for future actions and outcomes in the project cycle. Consequently, the Project Profile and annexes have been granted eligibility and are attached for your information.

Documents included:

- Project Profile (PP)
- Annex I: Development Effectiveness Matrix (DEM) – Summary
- Annex II: Safeguard Policy Filter (SPF)
- Annex III: Environmental and Social Safeguard Strategy
- Annex IV: Index of Sector Studies
- Annex V: Resources and Timeline Preparation
- ERM Minutes

PROJECT PROFILE

BRAZIL

I. BASIC DATA

Project Name:	Program to Finance the Sustainable and Productive Recovery of Micro, Small and Medium Enterprises (MSME)		
Project Number:	BR-L1576 / BR-G1011		
Project Team:	Maria Netto (IFD/CMF), Team Leader; Daniel Fonseca (IFD/CMF), Alternate Team Leader; Rafael Cavazzoni, Luciano Schweizer, Isabelle Braly-Cartillier, Karina Azar, Alexander Vasa, Carolina Avello, Rodrigo Pereira, Rodrigo Chaparro, and Cecilia Bernedo (IFD/CMF); Guilherme Piereck (INT/TIN); Carlos Echeverria (INE/ENE), Karina Diaz and Leise Estevanato (VPC/FMP); Leonardo Da Rosa Fernandes (CSC/CDR); Guillermo Eschoyez (LEG/SGO); Vanessa Callau Ferreira, Barbara Brakarz, and Giovanni Leo Frisari (CSD/CCS); Judith Morrison (SCL/GDI); and Jacqueline Bueso-Merriam (SPD/SDV).		
Borrower:	Banco Nacional de Desenvolvimento Econômico e Social (BNDES)		
Executing Agency:	BNDES		
Guarantor:	Federative Republic of Brazil		
Financial Plan:	IDB (Ordinary Capital):		US\$240,000,000
	IDB CTF (Loan): ¹		US\$ 10,000,000
	IDB CTF (Contingent Investment Grant) ^{1, 2} :		<u>US\$ 5,000,000</u>
	Total:		US\$255,000,000
Safeguards:	Policies triggered: OP-102, OP-703 (B.1, B.2, B.7, B.13, B.17). Classification: B.13		

II. GENERAL JUSTIFICATION AND OBJECTIVES

A. Background and justification

- 2.1 **Macroeconomic context.** The COVID-19 pandemic has strongly impacted Brazil's economy which fell by 4.11% in 2020. It is expected to recover with a growth rate of 5.05% in 2021 and 2.11% in 2022.³ Government fiscal measures to reduce the impact of the pandemic amounted 8% of Gross Domestic Product (GDP) and include the protection of the most vulnerable population, informal workers, and small and medium-sized enterprises, as well as subnational finances. Slowing growth and government action increased public debt and fiscal deficit, which reached 13.7% of GDP in 2020. For 2021, a primary deficit of 3.16% of GDP is expected.
- 2.2 **Importance of Micro, Small and Medium Enterprises (MSME)⁴ for the Brazilian economy and for a sustainable recovery.** Significant regulatory

¹ [Clean Technology Fund \(CTF\)](#) funding for this program is expected to be submitted for approval by September 2021, and will be subject to the Financial Procedures Agreement between IDB and CTF.

² Corresponding to Investment Grant BR-G1011, which is being processed jointly with BR-L1576. If Guarantees benefiting from this grant resources were not called, funds will be returned to the CTF according to the Operating Regulations (OR) of the program.

³ The Central Bank focus survey (06/25/2021).

⁴ MSME in Brazil are defined in BID, ABDE (2020). See Annex IV.

advances have been made to drive the development of MSME, including measures to support MSME productive and sustainable financing.⁵ MSMEs account for over 99.5% of all businesses, 58% of all formal-sector jobs, and 44.3% of wages in the formal private sector⁶. Micro and Small Enterprises (MSE) contribute with 30% of Brazil's GDP.⁷ Given their importance to the economy, it is crucial to assist MSMEs with their liquidity needs as they recover from the impacts of the COVID-19 crisis.⁸ Moreover, the pandemic has exhibited, the necessity of investing in a sustainable economic recovery, particularly for MSMEs,⁹ enhancing resilience to future shocks,¹⁰ promoting economic diversification based on investments aligned with long-term goals, such as the Sustainable Development Goals (SDG)¹¹ and National Determined Contributions (NDC),¹² and seeking a people-centered recovery that embraces inclusiveness and equality.¹³

- 2.3 Credit constraints faced by MSME and financing gap.** Brazilian MSMEs suffer from rationing in the credit market due to inadequate conditions, higher arrears rates than large enterprises¹⁴ and structural issues, which limits private investment¹⁵ and affects their survival, growth and ability to increase productivity.¹⁶ Even prior to the COVID-19 crisis, the volume of lending to MSMEs had been declining and the share of investment loans for MSMEs decreased from 33.7% in 2015 to 23.3% in 2019.¹⁷ Moreover, the IFC estimated the MSME finance gap in Brazil in approximately US\$626 billion for 2017, equivalent to 35% of its GDP. The COVID-19 crisis has increased the risk perception of SMEs, worsening their financial conditions. A survey showed only 11% of MSME secured credit during the COVID-19 crisis¹⁸ and studies indicate there is a demand for focalized actions.¹⁹ Moreover, amid the pandemic with reduced social interaction, digital financial services are essential to enhance loan provision.
- 2.4 Focalization.** The program will focus its support in promoting a sustainable economic recovery for MSME financing three main interventions: (i) climate related investments; (ii) reaching MSMEs in vulnerable regions; and (iii) providing credit to women MSMEs.
- 2.5 Climate related investments by MSME.** Climate related investments by MSMEs often face higher capital costs given the common financial constraints for MSMEs (§2.3) and specific barriers such as lack of information to evaluate the risks.²⁰ Thus, this program will finance the following climate related investments: (i) investments

⁵ Measures are referenced in Annex IV.

⁶ According to data of *Relação Anual de Informações Sociais*.

⁷ SEBRAE-FGV (2020). See [link](#).

⁸ SEBRAE (2020). See [link](#).

⁹ OECD (2017). See [link](#).

¹⁰ IMF (2020) See [link](#) & OECD (2020) See [link](#).

¹¹ [Brazil HLPF Report 2017](#).

¹² See [link](#).

¹³ OECD (2020). Op. Cit.

¹⁴ BID, ABDE (2020). Op.cit.

¹⁵ SEBRAE (2020). Op.cit. and World Bank (2020). See [link](#).

¹⁶ Ferreira, H. & Tasso, J (2014) and Luporini, V. & Alvez, J (2010) See Annex IV.

¹⁷ IBGE (2013). See [link](#).

¹⁸ IBID, ABDE (2020). Op.cit.

¹⁹ SEBRAE (2020). Op.cit.

²⁰ BID, ABDE (2020). Op.cit. and BID, ABDE (2021). See Annex IV

²⁰ UN Environment (2017). See [link](#).

in energy efficiency; (ii) efficient equipment; (iii) renewable energy; (iv) Battery Energy Storage Systems (BESS); (v) electric transportation; and (vi) sustainable agriculture. This intervention aims to reduce the emissions of Green House Gas (GHG), that stem mainly from agriculture, energy sector, and land use change and deforestation,²¹ in line with Brazilian NDCs and with several SDGs.²²

- 2.6 **MSME in vulnerable regions.** Economic shocks derived from the pandemic affected disproportionately to vulnerable regions of Brazil given the existing social inequalities in the country.²³ Vulnerable regions will be defined as municipalities with lower Human Development Index (HDI) than the national average, which also tend to exhibit lower GDP per capita than the national levels. These municipalities report an average rate of extreme poverty of 30.9%; 63.5% of poverty and 81.6% of vulnerability to poverty;²⁴ hence, the attention to these municipalities implies an important targeting of vulnerable populations. This intervention contributes to achieving SDG#8 and #10.²⁵
- 2.7 **Women MSMEs²⁶.** Most women-owned companies are in the services sector, which has been hit hardest by the pandemic and potentially face a greater difficulty in accessing credit. Recent studies for Brazil show that women receive on average loans with lesser value than their male counterparts.²⁷ At the business level, these differences may leave women business more vulnerable to financial shocks. In fact, 18% of women-owned MSME were already credit-constrained before the crisis²⁸, and only 2,4% were successful at obtaining credit in comparison to 4,5% of their male counterparts²⁹. To reduce gender gaps in access to finance in MSME, the program will allocate a share of resources to women businesses, thus specifically contributing to SDG#5.³⁰
- 2.8 **Problem addressed.** The program will address the problem of insufficient medium and long-term financing for productive sustainable investments by MSMEs after the COVID-19 crisis, with focalized interventions (§2.4). Financing will be through BNDES, building upon current BNDES financial products for second-tier MSME's investment capital financing, further strengthening BNDES key role in the sector's development and promoting a sustainable recovery of MSMEs.
- 2.9 **Institutional Framework.** Brazil ranked above the median in several of the institutional indicators of the [Global Competitiveness Report](#) (such as Checks and Balances and Corporate Governance indicators) and has enhanced efforts to improve transparency.³¹ Moreover, the Bank recently updated its institutional capacity assessment of the [Brazilian Development Bank \(BNDES\)](#) and found that it maintained

²¹ [Climate Watch \(CAIT\)](#).

²² including SDGs #7, #12 and #13 detailed in this [link](#).

²³ BID, ABDE (2020). Op. Cit.

²⁴ Data from BNDES and Atlas do Desenvolvimento Humano no Brasil.

²⁵ See [link](#).

²⁶ Women MSMEs refer to MSMEs where the decision-making-process is led by women.

²⁷ BID, ABDE (2021). Op. Cit.

²⁸ [IFC MSME Finance Gap](#).

²⁹ [World Bank \(2018\)](#).

³⁰ See [link](#).

³¹ [World Bank \(2020\)](#).

a high level of technical capacity, with suitable information systems and internal and external controls.

- 2.10 **Public intervention in response to COVID-19.** Public banks in Brazil have expanded credit for businesses and households amounting 4.5% of GDP to support working capital and have allocated 1% of GDP to back credit lines to MSMEs for payrolls, working capital and investments.³² BNDES allocated around 54% of total disbursements to MSME in 2020.³³ Furthermore, several of BNDES programs support a sustainable recovery.³⁴
- 2.11 **Complementarity with other IDB operations.** This operation will consider lessons learned from recently approved programs with BNDES also oriented to support access to finance for MSMEs affected by COVID-19 crisis ([5115/OC-BR](#) and [5130/OC-BR³⁵](#)) and complement such efforts. While previous operations mostly addressed the survival of firms and safeguarding employment and production, this operation aims to support the next stage of their economic recovery by providing medium to long-term financing for investments with focus on climate impacts, gender inclusion and lower HDI regions.

B. Intervention proposed and program objectives

- 2.12 **Program objectives.** The general objective of the program is to promote sustainable economic recovery of MSMEs in Brazil. The specific objective of the program is to enhance the availability of medium-to-long-term financing in the aftermath of the pandemic for MSME's and individuals' productive and sustainable³⁶ investments by ensuring provision of financing climate related investments, for vulnerable areas, and women MSMEs.
- 2.13 The program will comprise two components:
- 2.14 **Component 1: Medium and Long-term financing to MSME sustainable investments (US\$250 millions).** Resources from IDB Ordinary Capital (US\$240 million) will be channeled by BNDES through its Accredited Financial Institutions (AFI) to MSMEs and individuals on a market-based basis, for the financing of investments in the categories defined in ¶2.4, and would be blended with Clean Technology Fund³⁷ concessional loan (US\$10 million) for financing through AFIs, specifically MSMEs investments in BESS. The proposed scheme will allow to cover a larger number of MSMEs more efficiently and is intended to crowd in FIs in the provision of dedicated medium and long-term financing. The usage of BNDES digital channels, including: (i) BNDES Online; (ii) Canal MPME and (iii) Cartão BNDES should improve accessibility by MSMEs to BNDES credit lines. IDB will collaborate with BNDES to broaden their digital tools and promote access to international trade, including linking them with IDB's business platform ConnectAmericas.com (CA).

³² See Annex IV for details on Brazil's support to MSMEs.

³³ Data from BNDES. See [link](#) for details on BNDES response to COVID-19.

³⁴ See Annex IV.

³⁵ See Annex IV.

³⁶ Sustainable refers to the three interventions of the program that are related to SDGs (see ¶2.5–¶2.7).

- 2.15 **Component 2: Guarantee Fund for MSMEs Energy and BESS investments (US\$5 millions).** Resources from CTF Contingent Investment Grant will be channeled to the BNDES Guarantee Fund for Energy (FGEnergia), which will offer AFIs concessionally-priced guarantees as alternative collateral to expand lending to SMEs investments in BESS. The contingent investment grant would: (i) increase the risk-taking capacity of the fund and its reach; and (ii) allow to subsidize the guaranteed fee to be charged, to minimize its impact on project costs and attenuate the cost barrier associated to the high prices of BESS.
- 2.16 **Technical Cooperation.** The program execution will be supported by Technical Cooperation (TC) under [ATN/OC-18036-RG \(approved on June 09, 2020, for US\\$2,000,000\)](#)³⁸ from IDB to strengthen the capacity of BNDES to monitor and provide credit for climate related investments and in a gender-inclusive manner. In addition, a TC financed by CTF Grants (BR-T1497)³⁹ of US\$1 million, will support with technical, legal, policy and regulatory issues with BESS projects.
- 2.17 **Beneficiaries.** Eligible beneficiaries will be MSMEs, individual entrepreneurs with demonstrated administrative, technical, financial, legal, and environmental capacity to implement eligible investments (¶2.4), according to [BNDES' definitions](#). Further details on eligibility will be described in the program's Operational Regulations (OR) and the Proposal for Development Operations (POD).
- 2.18 **Expected results.** Results will be measured through BNDES relevant portfolio indicators related to outstanding stock, tenure, and non-performing loans ratios, as well as others associated to the participation of climate related investments, women MSME financing, vulnerable region MSME financing, and the use of digital channels.
- 2.19 **Strategic alignment.** The program is consistent with the Second Update to the Institutional Strategy (AB-3190-2) and aligned with the development challenges of: (i) Social Inclusion and Equality, through the financial support for MSMEs and vulnerable groups (¶2.6); of (ii) Productivity and Innovation, through support for MSME productive financing and the use of digital channels; and (iii) Economic Integration, through the use of ConnectAmericas, which will help overcome information barriers that affect trade. It is also aligned with the crosscutting themes of: (i) Climate Change, through financing of climate related investments; and (ii) Gender Equality, through the financing of MSMEs led by women.⁴⁰ It is estimated that the program contributes for 30% of its financial volume to climate change mitigation and adaptation, as measured by the [Joint MDB Methodology for Climate Finance Tracking](#). The program will contribute to the Corporate Results Framework 2020-2023 (GN-2727-12) through the indicators of number of MSMEs financed, women beneficiaries of economic empowerment initiatives, emissions avoided and regional integration initiatives supported. It is also aligned with the Country Strategy for Brazil 2019-2022 (GN-2973), through the priority area of improving the business climate and narrowing gaps in sustainable infrastructure for enhanced competitiveness and the strategic objectives of promoting greater economic competitiveness, increasing the role of the private sector by improving

³⁸ See Annex IV.

³⁹ This TC is being processed in parallel with BR-L1576.

⁴⁰ BID, ABDE (2021). Op Cit.

the quality of the business environment, and narrowing infrastructure gaps⁴¹; and with its cross-cutting themes of gender equality and sustainable development. The program is also consistent with the Sector Framework Documents of Support to SMEs and Financial Access/Supervision (GN-2768-7), Climate Change (GN-2835-3) and Gender and Diversity (GN-2800-8).

III. TECHNICAL ISSUES AND SECTOR KNOWLEDGE

- 3.1 This Global Credit operation will use US\$255 million (US\$240 million from Bank's Ordinary Capital resources and US\$16 million from CTF, of which US\$10 million is a Loan (¶2.14) and US\$5 million a Contingent Investment Grant (¶2.15) with a disbursement period of five years. In addition, the program is supported by a US\$1 million CTF TC (¶2.16)).
- 3.2 This operation includes non-financial additionality through support to BNDES with technical cooperation (¶2.16) as well as linking of the BNDES digital channels with IDB ConnectAmericas enhancing access to trade opportunities. The program will comprise a multisectoral IDB team led by CMF with the collaboration of CCS, GDI, and INT. The operation will build on IDB existing experience and lessons learned from similar programs⁴² including the importance of ensuring effective supervision of financial terms for final beneficiaries and promoting adequate monitoring activities. Specific projects to be funded will be deemed eligible over the basis of conditions established in the OR.

IV. ENVIRONMENTAL SAFEGUARDS AND FIDUCIARY SCREENING

- 4.1 **Environmental safeguards.** As per IDB Directive B.13 of the Environment and Safeguards Compliance Policy (OP-703), the program does not require classification ex ante. Regarding the focus of the program, no significant risks and impacts are anticipated, thus the operation is pre-classified as Financial Intermediation-moderate Risk. An Environmental and Social due diligence will be performed during the project preparation phase. The results of the analysis will be summarized in the Environmental and Social Management Report (ESMR) that will define the environmental and social requirements of the program and will be integrated into the program's OR.
- 4.2 **Fiduciary screening.** The fiduciary management of this operation is subject to requirements in accordance with the Bank's Policies (GN-2349-15 and GN-2350-15). BNDES has recently worked satisfactorily with similar IDB operations ([5115/OC-BR](#); [5130/OC-BR](#); [4672/OC-BR](#)).

V. OTHER ISSUES

- 5.1 **Sustainability.** The government's emergency priorities, including the COVID-19 crisis, could delay the implementation of the program's activities, hence not

⁴¹ See [link](#).

⁴² See Annex IV.

reaching beneficiaries in a timely manner. Nevertheless, the program relies on BNDES high expertise, execution capacity and its commitment to ensuring the continuity of the program, in addition to technical cooperation to support climate related investments and lending with focus on gender.

- 5.2 **Exceptions to Bank policies.** As in prior loan operations with BNDES, for this project the guarantee of the Federative Republic of Brazil will be limited to BNDES' financial obligations and will not cover BNDES's contractual obligations regarding to the program execution and the local counterpart contribution. Consequently, it is necessary that a partial waiver to IDB's policy guarantees required from the borrower be approved by the Board of Executive Directors.
- 5.3 **Retroactive financing.** The Bank may retroactively finance up to US\$50 million (20% of the loan amount) for eligible expenditures incurred by the borrower for Component 1 (¶2.14).

VI. RESOURCES AND TIMETABLE

- 6.1 Distribution of the POD for Quality and Risk Review (QRR) is expected on August 30, 2021; the approval of the Draft Loan Proposal by the Operations Policy Committee (OPC) on October 18, 2021, and the consideration of the Loan Proposal by the Executive Board of Directors is expected by December 15, 2021. An estimated budget of US\$100,000 and 1.244 FTEs is required to complete preparation of the proposal (see Annex V).

CONFIDENTIAL

¹ 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.



Safeguard Policy Filter Report

Operation Information

Operation		
BR-L1576 Program to Finance the Sustainable and Productive Recovery of Micro, Small and Medium Enterprises (MSME)		
Environmental and Social Impact Category	High Risk Rating	
B13		
Country	Executing Agency	
BRAZIL	BR-BNDES - BANCO NACIONAL DO DESENVOLVIMENTO ECONOMICO E SOCIAL	
Organizational Unit	IDB Sector/Subsector	
Connectivity Markets and Finance Division	ENVIRONMENT AND NATURAL DISASTERS	
Team Leader	ESG Primary Team Member	
MARIA E. NETTO DE A. C. SCHNEIDER		
Type of Operation	Original IDB Amount	% Disbursed
Loan Operation	\$240,000,000	0.000 %
Assessment Date	Author	
3 Aug 2021	GIOVANNIGA	
Operation Cycle Stage	Completion Date	
ERM (Estimated)	3 Aug 2021	
QRR (Estimated)	30 Aug 2021	
Board Approval (Estimated)	15 Dec 2021	
Safeguard Performance Rating		
Rationale		



Safeguard Policy Filter Report

Potential Safeguard Policy Items

[No potential issues identified]

Safeguard Policy Items Identified

[B.1 Bank Policies \(Access to Information Policy– OP-102\)](#)

The Bank will make the relevant project documents available to the public.

[B.2 Country Laws and Regulations](#)

The operation is expected to be in compliance with laws and regulations of the country regarding specific women's rights, the environment, gender and indigenous peoples (including national obligations established under ratified multilateral environmental agreements).

[B.7 Supervision and Compliance](#)

The Bank is expected to monitor the executing agency/borrower's compliance with all safeguard requirements stipulated in the loan agreement and project operating or credit regulations.

[B.13. Noninvestment Lending and Flexible Lending Instruments](#)

Ex-ante impact classification may not be feasible for this type of operation. This includes: policy-based loans, Financial Intermediaries (FIs) or loans that are based on performance criteria, sector-based approaches, and conditional credit lines for investment operations.

[B.17. Procurement](#)

Suitable safeguard provisions for the procurement of goods and services in Bank financed operations may be incorporated into project-specific loan agreements, operating regulations and bidding documents, as appropriate, to ensure environmentally responsible procurement.

Recommended Actions

Operation has triggered 1 or more Policy Directives; please refer to appropriate Directive(s). Complete Project Classification Tool. Submit Safeguard Policy Filter Report, PP (or equivalent) and Safeguard Screening Form to ESR.

Additional Comments

Due to its financial intermediation nature and following Directive B.13 of the Environment and Safeguards Compliance Policy (OP-703), the program does not require classification ex ante. Given the nature of the subprojects to be financed with program resources, it is pre-classified as low risk financial intermediation.

Environmental and Social Strategy (ESS)	
Operation Name	Program to Finance the Sustainable and Productive Recovery of Micro, Small and Medium Enterprises (MSME)
Operation Number	BR-L1576 / BR-G1011
Prepared by	Isabelle Braly-Cartillier and Javier Gavilanez (IFD/CMF)
Operation Details	
IDB Sector	IFD/CMF
Type of Operation	Global Credit Loan
Environmental and Social Classification	B.13 (Low or Moderate to be confirmed during due diligence)
Disaster Risk Rating	N.A.
Borrower	Banco Nacional de Desenvolvimento Econômico e Social (BNDES)
Executing Agency	BNDES
IDB Loan US\$ (and total project cost)	US\$255,000,000
Applicable Policies/Directives	OP-102, OP-703 (B.1, B.2, B.7, B.13, B17)
Operation Description	
<p>The general objective of the program is to promote sustainable economic recovery of MSMEs in Brazil. The specific objective of the program will be to enhance the availability of medium-to-long-term financing in the aftermath of the pandemic for MSME's and individual's productive and sustainable investments by ensuring provision of financing climate related investments, for vulnerable areas, and women's MSMEs.</p> <p>The program will consist of a Global Credit Line operation, and BNDES will channel the program resources through financial intermediary institutions to implement the following two Components:</p> <p>Component 1: Medium and Long-term financing to MSME sustainable investments (US\$250 millions). Resources from IDB Ordinary Capital (US\$240 million) will be channeled by BNDES through its Accredited Financial Institutions (AFI) to MSMEs and individuals on a market-based basis, for the financing of investments in the categories defined in paragraph 2.4 of the Project Profile document and would be blended with Clean Technology Fund¹ concessional loan (US\$10 million) for financing through AFIs, specifically MSMEs investments in Battery Energy Storage Systems (BESS). The proposed scheme will allow to cover a larger number of MSMEs more efficiently and is intended to crowd in FIs in the provision of dedicated medium and long-term</p>	

financing. The usage of BNDES digital channels (i) BNDES Online; (ii) Canal MPME, and (iii) Cartão BNDES should improve accessibility by MSMEs to BNDES credit lines. IDB will collaborate with BNDES to broaden their digital tools and promote access to international trade, including linking them with IDB's business platform ConnectAmericas.com (CA).

Component 2: Guarantee Fund for MSMEs Energy and BESS investments (US\$5 millions). Resources from CTF Investment Grant will be channeled to the BNDES Guarantee Fund for Energy (FGEnergia), which will offer AFIs concessionally-priced guarantees as alternative collateral to expand lending to SMEs investments in BESS. The contingent investment grant would: (i) increase the risk-taking capacity of the fund and its reach; and (ii) allow to subsidize the guaranteed fee to be charged, to minimize its impact on project costs and attenuate- the cost barrier associated to the high prices of BESS.

Technical Cooperation. The program execution will be supported by Technical Cooperation (TC) under [ATN/OC-18036-RG](#)² from IDB to strengthen the capacity of BNDES to monitor and provide credit for climate related investments and in a gender-inclusive manner. In addition, a TC financed by CTF Grants³ (US\$1 million), will support with technical, legal, policy and regulatory issues with BESS projects.

Key Potential ESHS⁴ Risks and Impacts

The program will focus its support to the development of MSMEs to promote sustainable economic recovery. In particular, the program will focus its resources on providing investments, mainly in fixed assets such as energy-efficient equipment that contribute both to the productivity of the company and to the reduction of greenhouse gas emissions. The program will also focus on reaching the most vulnerable areas of Brazil and providing credit to MSMEs led by women to improve women's economic inclusion and reduce the gaps in access to financing that prevails in the region. For all those characteristics, we expect the eligible subprojects to have low potential E&S risks and impacts.

The sectors eligible for financing will be analyzed during due diligence. In general, E&S risks usually associated with MSMEs in the industrial sector are as follows:

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

The E&S risks usually associated with trade and services activities are considered to be low.

In relation to small scale energy efficiency projects, it is expected these technologies promote the sustainable use of natural resources through their adoption, resulting in savings in energy and/or water consumption, for example, and therefore generate

² See Annex IV.

³ This TC is being processed in parallel with BR-L1576.

⁴ Environment, Social, Health and Safety.

positive environmental and social impacts. Nevertheless, negative impacts can occur when the equipment replaced is not appropriately disposed. Those projects require therefore the design of a disposal protocol. The type of EE projects that will be eligible to financing will be defined during due diligence in order to clarify potential risks and impacts.

High-risk projects (Category A) will not be financed with resources from this program.

Information Gaps and Strategy for Analysis and Management

Due to its financial intermediation nature and following Directive B.13 of the Environment and Safeguards Compliance Policy (OP-703), the program does not require classification ex ante. Given the nature of the subprojects to be financed with program resources, it is pre-classified as low to moderate risk financial intermediation. This classification will be confirmed during the Environmental and Social Due Diligence (ESDD).

In accordance with the approach to financial intermediation operations described in Directive B.13 of the Environment and Safeguards Compliance Policy (OP-703), the Bank will conduct the Environmental and Social analysis of the proposed program at two levels; one at the subproject level, analyzing the potential E&S risks and impacts of projects eligible for financing with resources from the program and the other at the corporate level, specifically looking at BNDES ability to manage those potential risks and impacts and to comply with the Bank's environmental and social safeguards.

In any case, during ESDD the following topics will be analyzed:

- a) Analysis of the applicable normativity and the existing gaps with the IDB safeguards.
- b) Assessment of BNDES institutional capacity in the management of environmental and social risks.
- c) Identification of potential E&S risks and impacts of eligible subprojects.
- d) Confirmation of the program categorization (currently pre-categorized as moderate).

The conclusions of the E&S analysis will be summarized in the Environmental and Social Management Report (ESMR). The ESMR will include the environmental and social requirements of the program. This set of requirements (ESMS of the program) will be integrated into the Program Operating Regulations.

Opportunities for IDB Additionality on Environment and Social matters (if any)

No opportunities for additionality were identified at this stage.

Annex Table: Operation Compliance with IDB Safeguard Policies

To be prepared during due diligence.

Additional Appendices (if any)

N.A.

INDEX OF SECTOR STUDIES

Studies	Date	References and Links
Bárcena, A. The Impacts of COVID-19 in Brazil in a Complex Regional Context. Why a Sustainable Economic Recovery is Urgent. CEPAL.	2020	The impacts of COVID-19 in Brazil in a complex regional context. Why a sustainable economic recovery is urgent. CEPAL.
Sebrae. Pesquisa com empresários: IMPACTOS DA COVID-19 NOS PEQUENOS NEGÓCIOS.	2020	Pesquisa com empresários: IMPACTOS DA COVID-19 NOS PEQUENOS NEGÓCIOS.
Sebrae-FGV (2020). Atualização de estudo sobre participação de Micro e pequenas empresas na economia nacional.	2020	Atualização de estudo sobre participação de Micro e pequenas empresas na economia nacional.
World Bank Group (2020). COVID-19 in Brazil: Impact and Policy Responses.	2020	COVID-19 in Brazil: Impact and Policy Responses.
World Bank (2020). Global Report. Enhancing Government Effectiveness and Transparency. The Fight Against Corruption	2020	Enhancing Government Effectiveness and Transparency. The Fight Against Corruption.
IMF, Greening the Recovery. Fiscal Affairs.	2020	Greening the Recovery - Fiscal Affairs.
OECD (2017). Unlocking the potential of SMES for the SDGs.	2017	Unlocking the potential of SMES for the SDGs.
OECD. An inclusive, green recovery is possible: The time to act is now.	2020	An inclusive, green recovery is possible: The time to act is now.
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<i>BNDES institutional presentation</i>	2021	BNDES Investor presentation.
<i>Policy Response in Brazil to support MSMEs after COVID-19 pandemic.</i>	2021	Policy Response in Brazil to support MSMEs after COVID-19 pandemic.
BID, ABDE (2021) Caracterização das MPMEs brasileiras e os entraves do acesso ao crédito sob a perspectiva de gênero.	2021	Caracterização das MPMEs brasileiras e os entraves do acesso ao crédito sob a perspectiva de gênero. Draft Version.
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BID (2018) EC-U0001: Financing low-income housing in Ecuador. Approval year: 2018 Number of Operation: 4699/OC-EC Amount (USD): 300,000,000	2018	4699/OC-EC
BID (2009) BR-L1180: Program to Support Micro, Small and Medium-Sized Enterprises. Approval year: 2009 Number of Operation: 2236/OC-BR Amount (USD): 1,000,000,000	2009	2236/OC-BR
BID (2016) BR-L1442: Financing Program for Sustainable Energy. Approval year: 2016 Number of Operation: 3866/OC-BR Amount (USD): 750,000,000	2016	3866/OC-BR
BID (2018) BR-L1521: Promoción e Innovación del Acceso a Créditos Multisectoriales a Mediano y Largo Plazo para Inversiones Productivas de Micro, Pequeñas y Medianas Empresas (Mipymes). Approval year: 2018 Number of Operation: 4672/OC-BR Amount (USD): 750,000,000	2018	4672/OC-BR
BID (2020) BR-L1557: IDB-BNDES Msme financing emergency global credit program for safeguarding the productive fabric and employment. Approval year: 2020 Number of Operation: 5115/OC-BR Amount (USD): 750,000,000	2020	5115/OC-BR

Studies	Date	References and Links
<p>BR-L1559 (2020): Investment Guarantee Fund (FGI) Emergency Global Credit Program for Access to Credit (FGI-PEAC).</p> <p>Approval year: 2020</p> <p>Number of Operation: 5130/OC-BR</p> <p>Amount (USD): 200,000,000</p>	2020	<p>5130/OC-BR</p>
<p>RG-T3530: Strengthening the Institutional Capacity of Public National Development Banks (NDB) to Serve Women Entrepreneurs.</p> <p>Approval year: 2019</p> <p>Number of Operation: ATN/OC-17811-RG</p> <p>Amount (USD): 200,000</p>	2019	<p>ATN/OC-17811-RG</p>
<p>RG-T3612: LAC Green Finance Program to Mobilize Private Investment in Mitigation Actions and Low-carbon and Sustainable Business Models through National Development Banks (Phase II).</p> <p>Approval year: 2020</p> <p>Number of Operation: ATN/CF-17992-RG</p> <p>Amount (USD): 3,309,300</p>	2020	<p>ATN/CF-17992-RG</p>
<p>RG-T3554: Financial and Legal Structuring of New Thematic Financial Solutions in Latin America and the Caribbean.</p> <p>Approval year: 2019</p> <p>Number of Operation: ATN/OC-17752-RG</p> <p>Amount (USD): 200,000</p>	2019	<p>ATN/OC-17752-RG</p>

Studies	Date	References and Links
RG-T3690: Support to Economic Productivity and Employment in Latin America and the Caribbean in Response to the Economic Shock Caused by the COVID-19 Pandemic	2020	ATN/OC-18036-RG
<p>BNDEs Programs that promote a sustainable recovery include:</p> <p>(i) Fundo Garantidor para Eficiência Energética, or FGEnergia: a guarantee fund that will offer concessionally-priced guarantees to enhance lending to SMEs for energy efficiency projects.</p> <p>(ii) Programa ABC: credit line for low-carbon agriculture.</p> <p>(iii) Pronaf Mulher: credit line for women in agriculture.</p> <p>(iv) Finame Baixo Carbono: credit line for energy efficient and low carbon investments.</p>		<p>(i) FGEnergia</p> <p>(ii) Programa ABC</p> <p>(iii) Pronaf Mulher</p> <p>(iv) Finame Baixo Carbono</p>

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¹ 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.