

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BRAZIL

**PROGRAM BID-BNDES TO FINANCE THE SUSTAINABLE AND PRODUCTIVE
RECOVERY OF MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs)**

BR-L1576 / BR-G1011

LOAN AND NON-REIMBURSABLE FINANCING PROPOSAL

This document was prepared by the project team consisting of: 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/CMF); Guillermo Eschoyez (LEG/SGO); Vanessa Callau Ferreira, Barbara Brakarz, Mariel Juarez, Claudio Alatorre, and Giovanni Leo Frisari (CSD/CCS); Judith Morrison (SCL/GDI); and Jacqueline Bueso-Merriam (SPD/SDV).

In accordance with the Access to Information Policy, this document is being released to the public and distributed to the Bank's Board of Executive Directors simultaneously. This document has not been approved by the Board. Should the Board approve the document with amendments, a revised version will be made available to the public, thus superseding and replacing the original version.

CONTENTS

PROGRAM SUMMARY	1
I. PROJECT DESCRIPTION AND RESULTS MONITORING	2
A. Background, problem addressed, and justification	2
B. Objective, components, and cost	10
C. Key results indicators.....	14
II. FINANCING STRUCTURE AND MAIN RISKS.....	14
A. Financing instruments.....	14
B. Environmental and social safeguard risks	16
C. Fiduciary risk	16
D. Key issues	17
III. IMPLEMENTATION AND MANAGEMENT PLAN	17
A. Summary of implementation arrangements.....	17
B. Summary of arrangements for monitoring results.....	20

ANNEXES	
Annex I	Summary Development Effectiveness Matrix (DEM)
Annex II	Results Matrix
Annex III	Fiduciary Arrangements

REQUIRED ELECTRONIC LINKS (REL)	
REL#1	Monitoring and Evaluation Arrangements
REL#2	Environmental and Social Management Report (ESMR)
OPTIONAL ELECTRONIC LINKS (OEL)	
OEL#1	Economic Analysis of the Program
OEL#2	Operation Flow Chart
OEL#3	Apoio às MPMEs na Crise da COVID-19
OEL#4	Caracterização das MPMEs Brasileiras e os Entraves do Acesso ao Crédito sob a Perspectiva de Gênero
OEL#5	ConnectAmericas
OEL#6	Soluciones Digitales para Canalizar Recursos a MiPyME en Brasil
OEL#7	Apoio as MPMEs e Transformação Digital do BNDES
OEL#8	Avaliação das Operações Indiretas do BNDES com MPMEs
OEL#9	Policy Measures to Support MSMEs in Brazil during COVID-19 Crisis
OEL#10	Operational Regulations
OEL#11	Financing for Productive Investments by MSMEs
OEL#12	Fit for CTF
OEL#13	Assessment of the Battery Energy Storage System Market in Brazil
OEL#14	Climate Related Investments Annex
OEL#15	Impacto das Operações BNDES sob a Ótica Social
OEL#16	Sector Knowledge and Lessons Learned in Financing for MSMEs
OEL#17	MPMEs e o Entorno Institucional no Brasil
OEL#18	References
OEL#19	Safeguard Policy Filters

ABBREVIATIONS	
ABC	Low-Carbon Agriculture
AFI	Accredited Financial Institutions
BAU	Business-As-Usual
BCB	Brazil Central Bank
BESS	Battery Energy Storage Systems
BNDES	<i>Banco Nacional de Desenvolvimento Econômico e Social</i>
CTF	Clean Technology Fund
DPSP	Dedicated Private Sector Programs
GDP	Gross Domestic Product
GHG	Greenhouse Gas
EA	Executing Agency
EE	Energy Efficiency
FGEnergia	Guarantee Fund for Energy
FI	Financial Institutions
HDI	Human Development Index
IBGE	<i>Instituto Brasileiro de Geografia e Estatística</i>
IFC	International Finance Corporation
IMF	International Monetary Fund
IRR	Internal Rate of Return
LAC	Latin America and the Caribbean
MSME	Micro, Small and Medium Enterprise
NDB	National Development Bank
OECD	Organisation for Economic Co-operation and Development
OR	Operating Regulations
RAIS	<i>Relação Anual de Informações Sociais</i>
RE	Renewable Energy
SDG	Sustainable Development Goals
SEBRAE	<i>Serviço Brasileiro de Apoio às Micro e Pequenas Empresas</i>
SELIC	<i>Sistema Especial de Liquidação e Custódia</i>
SME	Small and Medium Enterprises

PROGRAM SUMMARY

BRAZIL

PROGRAM BID-BNDES TO FINANCE THE SUSTAINABLE AND PRODUCTIVE RECOVERY OF MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) (BR-L1576 / BR-G1011)

Financial Terms and Conditions					
Borrower and Executing Agency:			Flexible Financing Facility ^(a)	IDB CTF Loan	IDB CTF (Investment Grant)
Banco Nacional de Desenvolvimento Econômico e Social (BNDES)			Amortization period:	25 years	20 years
Guarantor:			Disbursement period:	5 years	5 years
Federative Republic of Brazil			Grace period:	5.5 years ^(b)	8 years
Source	Amount (US\$ millions)	%	Interest rate:	LIBOR-Based ^(c)	0.98%
IDB (Ordinary Capital):	240	94	Credit fee:	^(d)	N.A.
			Inspection and supervision fee:	^(d)	N.A.
IDB Clean Technology Fund (CTF) (Loan): ^(e)	10	4	Weighted Average Life (WAL):	15.25 years	N.A.
IDB CTF (Investment Grant): ^{(e), (f)}	5	2	Administrative Fee:	N.A.	0.45% ^(g)
Total:	255	100	Approval currency:	Dollars of the United States of America	
Program at a Glance					
Program objective/description: The general objective of the program is to promote sustainable economic recovery of Micro, Small and Medium Enterprises (MSMEs) in Brazil. The specific objective of the program is to enhance the availability of medium and long-term financing in the context of the COVID-19 pandemic for MSMEs and entrepreneurs' productive investments. This will be attained by ensuring provision of financing for climate related investments, vulnerable areas, and women businesses.					
Special Contractual condition precedent to the first disbursement: As a special contractual condition precedent to the first disbursement of the Bank's financing, BNDES will approve the program Operating Regulations , in accordance with the terms previously agreed upon with the Bank (¶3.9).					
Special Contractual condition precedent to the first disbursement for Component 2: As a special contractual condition precedent to the first disbursement for Component 2, BNDES will submit to the Bank evidence that the competent body of BNDES has approved the <i>Fundo Garantidor para Eficiência Energética</i> (FGEnergia) with the necessary provisions for the granting of the guarantees (¶3.10).					
Exceptions to Bank policies: As in prior loan operations with BNDES, the guarantee for this project of the Federative Republic of Brazil will be limited to BNDES's financial obligations (including the amortization of principal, interest, and other lending fees), and will not cover BNDES's contractual obligations regarding to the program execution and local counterpart. Consequently, it is necessary that a partial waiver to IDB's policy guarantees required from the borrower (GP-104-2) be approved by the Board of Executive Directors (¶3.11).					
Strategic Alignment					
Challenges ⁽ⁱ⁾ :	SI <input checked="" type="checkbox"/>		PI <input checked="" type="checkbox"/>		EI <input checked="" type="checkbox"/>
Cross-Cutting Issues ⁽ⁱ⁾ :	GE <input checked="" type="checkbox"/>	and DI <input type="checkbox"/>	CC <input checked="" type="checkbox"/>	and ES <input type="checkbox"/>	IC <input type="checkbox"/>

- (a) Under the Flexible Financing Facility (document FN-655-1), the borrower has the option to request modifications to the amortization schedule, as well as currency, interest rate, commodity, and catastrophe protection conversions. In considering such requests, the Bank will take into account operational and risk management considerations.
- (b) Under the flexible repayment options of the Flexible Financing Facility (FFF), changes in the grace period are possible as long as the Original Weighted Average Life (WAL) and the last payment date, as documented in the loan agreement, are not exceeded.
- (c) Consistent with document FN-729 "Strategy and operational Readiness for the Execution of the Libor Transition for the IDB Balance Sheet" and document CF-257-1 "(Base Rate Replacement for Sovereign Guaranteed Libor Based Loans)," this Loan will be subject to the SOFR based interest rate either based upon notice to the Borrower by the Bank, or upon the request by the Borrower, in accordance with the provisions of the Loan Contract.
- (d) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors during its review of the Bank's lending charges, in accordance with the relevant policies.
- (e) Document GN-2571. Proposal for the Establishment of the Clean Technology Fund in the IDB.
- (f) Corresponding to Investment Grant BR-G1011, these resources will be provided on a contingent recovery basis, to support the financing of guarantees under Component 2. If any guarantee is not called, pursuant to the mechanism described in ¶3.6, BNDES will return the corresponding amount to the IDB, which in turn will transfer them to CTF.
- (g) This will be a one-time fee due 60 days after loan effective date.
- (h) In addition to CTF's contribution to the program, the Bank will receive from CTF an administrative fee equivalent to 2.5% of the total amount of the investment grant (US\$5 million) and the complementary Technical Cooperation (TC) (US\$1 million).
- (i) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).
- (j) GE (Gender Equality) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. PROJECT DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and justification

- 1.1 **Macroeconomic context.** The COVID-19 pandemic strongly impacted Brazil's economy, which fell by 4.11% in 2020. The Central Bank focus survey (06/25/2021) forecasts a growth rate of 5.05% for 2021 and of 2.11% for 2022. Brazil was in a slow process of economic recovery and sought to move forward with fiscal reforms to safeguard the country's macroeconomic stability, including the protection of the most vulnerable population, informal workers, and small and medium-sized enterprises, and subnational finances. Slowing growth and government action increased public debt to 89.3% of Gross Domestic Product (GDP) and fiscal deficit to 13.7% of GDP.¹ For 2021, a primary deficit of 3.16% of GDP in 2021 is expected.
- 1.2 **Importance of Micro, Small and Medium Enterprises (MSMEs) for the Brazilian economy.** MSMEs are essential to the Brazilian economy accounting for over 99.5% of businesses, 58% of formal-sector jobs, and 44.3% of wages in the formal private sector.² Micro and Small Enterprises alone contribute with 30% of Brazil's GDP,³ and Small and Medium Enterprises (SME) account for 50% of national value added.⁴ These contributions would be even larger if individual entrepreneurs⁵ are considered.⁶ Given their importance to the economy, initial efforts focused on providing liquidity support to increase the chances of MSMEs survival amid the impacts of the COVID-19 crisis,⁷ including an initial 64% median drop in monthly sales for 89%⁸ of Brazilian small businesses along with a large social toll.⁹ Moreover, the pandemic has exhibited, the necessity of investing in a sustainable economic recovery, particularly for MSMEs¹⁰ enhancing resilience to future shocks, promoting economic diversification based on investments aligned with long-term goals, and seeking a people-centered recovery that embraces inclusiveness and equality.¹¹
- 1.3 **Potential for sustainable recovery of MSMEs in Brazil.** As the initial effects of the economic crisis gradually fade, economic policy measures are turning to addressing the economic recovery path, which presents the opportunity to rebuild in a more sustainable and inclusive way, avoiding long-term negative impacts on the environment, aiming to reduce the likelihood of future shocks, and improving the resilience to future crisis.¹² A key aspect of this process is to align recovery

¹ Ministry of Economy of Brazil.

² *Relação Anual de Informações Sociais (RAIS)*.

³ [Serviço Brasileiro de Apoio às Micro e Pequenas Empresas \(SEBRAE\)-FGV\(2020\)](#)-OEL#18.

⁴ [Organisation for Economic Co-operation and Development-OECD\(2020a\)](#)-OEL#18.

⁵ The term entrepreneur includes individual entrepreneurs that are microentrepreneurs, rural producers, or cargo carriers, based on BNDES clients-eligibility criteria.

⁶ From 2009 to 2018 the number of individual microentrepreneurs has gone from zero to 7,584,523.

⁷ [SEBRAE\(2020\)](#)-OEL#18.

⁸ [Ibid.](#)

⁹ The unemployment rate increased from 11.0% in the fourth quarter of 2019 to 13.9% in the same period in 2020, according to *Instituto Brasileiro de Geografia e Estatística (IBGE)* (2020).

¹⁰ [IMF\(2020a\)](#) and [OECD\(2020b\)](#)-OEL#18.

¹¹ OECD(2020b). Op. Cit.

¹² IMF(2020a). Op. Cit., [OECD\(2020c\)](#); OECD(2020b). Op cit.

objectives with long-term goals such as the Sustainable Development Goals (SDG)¹³ and National Determined Contributions.¹⁴ Brazil has long-standing environmental challenges in addition to key vulnerabilities associated with social inequalities in the country, recently highlighted by the pandemic.¹⁵ The potential economic and environmental benefits of a sustainable approach are significant. The adoption of a post-COVID-19 sustainable economic recovery path could lead to a net increase of 2 million jobs in the country by 2030 when compared to a Business-As-Usual (BAU) scenario; a total GDP gain of US\$535 billion (14.8% more than BAU); and a significant reduction in Greenhouse Gas (GHG) emissions (28% less compared with BAU).¹⁶ Given their importance to employment and GDP, MSME will play a crucial role in the achievement of sustainable and inclusive growth.¹⁷

- 1.4 MSMEs' constraints for sustainable and productive investments.** MSMEs have historically faced obstacles to viability, growth, and productivity,¹⁸ meaning lower economic returns, and thus, less capacity to make productive investments. Empirical evidence shows that financing has a positive impact on firm performance, including entry, growth, innovation, equilibrium size, and risk reduction.¹⁹ However, Brazilian MSMEs still suffer from rationing in the credit market, which affects their survival and growth.²⁰ These constraints are more severe when compared with large businesses,²¹ primarily due to financial institutions' perceptions of high risk in lending to this segment. According to [OEL#3](#), even prior to the COVID-19 crisis MSMEs' share of the total portfolio of loans to legally established corporations fell from 44.1% in 2015 to 37.4% in 2019. The volume of investment loans to MSMEs has also been declining, going from R\$302.2 billion (US\$57.92 billion) in 2015 to R\$170.2 billion (US\$32.62 billion) in 2019 (a reduction of 43.7%) and the share of investment loans for MSMEs decreased from 33.7% in 2015 to 23.3% in 2019.²² In contrast, investment loans for individual microentrepreneurs, have risen in this period from R\$0.3 billion (US\$57.5 million) in 2015 to R\$0.7 billion (US\$134.16 million) in 2019 (more than doubled), although at a slower pace than working capital loans.²³ Within MSMEs financing modalities, while investment loans have been decreasing its participation, there has been an increase in credits to support liquidity needs. Greater reliance on liquidity can imply increased constraints on longer-term lending for investments. The interest rates for MSMEs have increased disproportionately during 2015-2019, going from an average of 33.9% to 36.4%, while for large companies, the average rates went from 31.9% to 31.7%. This is despite a reduction of MSMEs average arrears rates between 2015 and 2019 from 10% to 8.1%. These changes have been coupled with an overall shortening of the average terms of loans (from 71.3 months to 56.9 months). The COVID-19 crisis has increased the risk perception of MSMEs and entrepreneurs, worsening the already

¹³ [Brazil HLPF Report 2017](#).

¹⁴ [Press Release N°157](#). *Ministério das Relações Exteriores*.

¹⁵ With significant impacts on the unemployment rate ([IBGE](#)).

¹⁶ [Barros et al.\(2020\)](#)-OEL#18.

¹⁷ [OECD\(2017a\)](#)-OEL#18.

¹⁸ [Economic Commission for Latin America and the Caribbean\(2013\)](#)-OEL#18.

¹⁹ [Beck et al.\(2009\)](#)-OEL#18.

²⁰ [IBGE\(2013\)](#)-OEL#18.

²¹ [Ambrozio et al.\(2017\)](#)-OEL#18.

²² [Ibid.](#)

²³ SEBRAE and *Associação Brasileira de Desenvolvimento*.

limiting financing conditions. SEBRAE (2020) shows that only 11% of MSMEs were successful in securing credit during the beginning of the crisis.²⁴

- 1.5 **MSMEs' finance gap.** The IFC estimated the MSME finance gap in Brazil is approximately US\$626 billion for 2017, equivalent to 35% of its GDP. There are many factors constraining lending to the MSME sector, among which are: (i) limited availability of information; (ii) high financing needs in relation to their income; (iii) lack of tangible assets for collateral; and (iv) higher transaction costs for lenders, associated to relatively smaller loans. These factors hamper Financial Institutions (FI) risk assessment of these firms, especially those starting-up or investing in innovation.²⁵ [SEBRAE \(2017\)](#) found that 66% of MSMEs use their own resources to finance fixed investment, and 82% of firms that tried to access credit faced difficulties to obtain it.²⁶
- 1.6 **Focalization.** In addition to the credit constraints faced by MSMEs, some key areas to promote a sustainable economic recovery face further challenge, including: (i) climate related investments; (ii) reaching MSMEs in vulnerable regions; and (iii) providing credit to women MSMEs.
- 1.7 **Climate-related investments by MSMEs.** The climate related investments by MSMEs often face higher capital costs and in addition to the common financial constraints for MSMEs, these have specific barriers include lack of information to evaluate the risks.²⁷ The scope of climate related investments for MSME is wide, including investments in Energy Efficient (EE) equipment, electric transportation, small-scale Renewable Energy (RE), and associated Battery Energy Storage Systems (BESS), as well as the adoption of sustainable practices in agriculture. The estimated aggregate benefits for the environment and the economy from these investments are significant given: (i) the role of MSMEs as heavy users of energy, water, and other natural resources; (ii) their vulnerability to the effects of climate events; and (iii) their potential impact on the income of vulnerable populations.²⁸ While these investments are key for a sustainable recovery, the pace of development of these projects depends largely on the availability of long-term financing to match their cash flow profiles, which is currently scarce.²⁹ Moreover, the promotion of climate related investments by MSMEs is key to attaining several of the SDGs: #7 "Affordable and clean energy;" #12 "Ensure sustainable consumption and production patterns;" and #13 "Take urgent action to combat climate change and its impacts."³⁰ Global corporations and investors are aligning their strategies to take immediate course of action towards climate mitigation; thus, MSMEs will need to adapt to comply with clients demands and future regulations ([OEL#14](#)).
- 1.8 Climate related investments can also benefit enterprises' economic performance. Sustainable practices in agriculture can increase crop yields and income, while allowing a reduction in costs of fertilizers, pesticides and fossil fuels used in

²⁴ SEBRAE(2020) Op. Cit.

²⁵ [OECD\(2017b\)](#); [IPEA\(2017\)](#)-OEL#18.

²⁶ Including lack of collateral, accounting and fiscal documentation, high interest rates.

²⁷ [UN Environment\(2017\)](#)-OEL#18.

²⁸ [UNDESA\(2020\)](#)-OEL#18.

²⁹ [OEL#12](#).

³⁰ UN-SDGs.

agricultural machinery.³¹ Investments in RE and EE can enhance productivity and income for businesses, in addition to generating employment by reducing production costs and creating markets.³² BESS investments can contribute to a more diversified and resilient power grid, with lower cost of energy supply for MSMEs, while ultimately allowing for a reduction in GHG emissions.³³

- 1.9 **Access to finance and constraints faced by women MSMEs.** MSMEs, through their contribution to employment and production in Brazil (¶1.2) play a key role in the challenge of SDG#5, “Achieve gender equality and empower all women and girls”. Although the country has made advances in this regard, there are still challenges.³⁴ At the individual level, there are important gaps on financial inclusion for women.³⁵ Furthermore, recent studies for Brazil show that women receive on average loans with lesser value than their male counterparts.³⁶ At the business level, these differences may leave women MSMEs³⁷ more vulnerable to financial shocks. In fact, 18% of women MSMEs were already credit-constrained before the crisis³⁸ and only 2.5% of women borrowed for their business activities in 2017-2018 compared to 4.6% of men.³⁹ Moreover, women MSMEs have been more impacted due to the current crisis than their male counterparts.⁴⁰ Most women’s companies are in the commerce and services sectors, and 86% are microenterprises, segments with grater effects from the pandemic and with difficulty in accessing credit.⁴¹ Notwithstanding the above-mentioned evidence, it is important to highlight the significant gaps in information on credit to women business in Brazil, which is key to address gender gaps in access to finance.⁴² Thus, beyond the positive impacts that medium-to-long term financing can bring for women MSMEs, this operation also comprises technical cooperation (¶1.26), under [ATN/OC-18036-RG](#), to contribute to the narrowing of information gap.
- 1.10 **Further development of MSMEs in vulnerable areas.** The COVID-19 pandemic disproportionately affected lower income workers, who experienced the largest decline in earnings during the initial outbreak in Brazil.⁴³ In response, the government implemented transfer programs to lessen the impacts on income for the most vulnerable population. These aids helped alleviate poverty temporarily. However, the fiscal space of Brazil is now limited, and such support cannot be sustained in the medium term. The impacts of the crisis, in addition to the preexisting inequalities among regions and municipalities in Brazil,⁴⁴ require targeted and longer-term actions to support the most vulnerable population. In this regard, financing MSMEs in less developed areas will be crucial for a sustainable economic recovery given that productive investments for MSMEs enhance job

³¹ [OEL#14](#).

³² [Ibid.](#)

³³ [OEL#12](#) and [OEL#13](#).

³⁴ [Brazil\(2017\)](#). [Voluntary National Review on the SDGs](#).

³⁵ [OEL#4](#).

³⁶ [Ibid.](#)

³⁷ Woman MSME refers to MSMEs where the decision-making process is led by women (¶1.32).

³⁸ [IFC-MSME Finance Gap](#).

³⁹ [OEL#4](#).

⁴⁰ [SEBRAE\(2020b\)](#)-OEL#18.

⁴¹ [OEL#4](#).

⁴² [Ibid.](#)

⁴³ [IMF\(2021\)](#)-OEL#18.

⁴⁴ [OEL#15](#).

creation.⁴⁵ The Human Development Index (HDI) is a worldwide reference to measure socioeconomic development and includes three dimensions: income, education, and health. Thus, to delimit the scope of this intervention, MSMEs in vulnerable areas will be those located in municipalities with lower levels of development, meaning to have an HDI level below the national value (¶1.33), at loan inception.⁴⁶ Furthermore, these municipalities report average rates of: 30.9% extreme poverty; 63.5% of poverty, and 81.6% of vulnerability to poverty.⁴⁷ The attention to these municipalities implies an important targeting of vulnerable populations and by doing so, a contribution to achieving Brazil's commitment to SDG#10 that seeks to "Reduce inequality within and among countries."

- 1.11 **Digital channels to increase access to credit and to international trade by MSMEs.** Digital technology lowers operating and transaction costs primarily by optimizing processes that are paper-based and require human intervention, such as loan applications and credit scores and other costs related to delivery, which allows for a reduction of barriers specially for smaller firms, while it reduces the time and effort dedicated by these firms for loan applications ([OEL#6](#)). New technologies also provide the potential for easing some of the constraints associated with information asymmetries and incomplete information through models based on digital data; for example, by using the digital footprint from companies.⁴⁸ As such, the use of digital solutions is increasingly considered critical to expand MSMEs' financing. The digital channels have proved to be of particular importance during the pandemic, allowing for fast and effective public intervention,⁴⁹ such as the provisioning of credit (¶1.16). Furthermore, online platforms such as ConnectAmericas.com, that enables companies across 200 countries to post or apply to international purchasing announcements, access learning materials, and apply to receive financing, can enhance international trade and economic integration of MSMEs ([OEL#5](#)) by addressing MSMEs exporters lack information on market demand and logistics, as well as by supporting international buyers to find information on exporter's reputation and products.
- 1.12 **Brazil's financial system.** Despite the COVID-19 crisis and previous recessions, the national financial system of Brazil has remained with good levels of capitalization, liquidity and provisions.⁵⁰ However, the risk appetite for most FIs has been low.⁵¹ In fact, [OECD \(2018\)](#)⁵² highlights that on top of the inherent risk characteristics of SMEs, banks appear more risk-averse after a crisis and are reluctant to offer these firms longer-term and less expensive credit. Furthermore, given the uncertainty surrounding the evolution of the pandemic, funds for instruments that can be withdrawn at any time increased, leading to a shortening of funding maturities.⁵³
- 1.13 **Institutional framework.** Brazil ranked above the median in several of the institutional indicators of the [Global Competitiveness Report](#) (such as Checks and Balances and

⁴⁵ [De Negri et al.\(2011\)](#), [Reiff et al.\(2007\)](#)-OEL#18.

⁴⁶ [OEL#15](#).

⁴⁷ [Ibid.](#)

⁴⁸ [IDB\(2017\)](#)-OEL#18.

⁴⁹ [IMF\(2020b\)](#)-OEL#18.

⁵⁰ [BCB\(2021\)](#)-OEL#18.

⁵¹ [Ibid.](#)

⁵² [OECD\(2018\)](#)-OEL#18.

⁵³ [BCB\(2021\)](#)-Op. cit.

Corporate Governance indicators) and has enhanced efforts to improve transparency.⁵⁴ Within the institutional framework for MSMEs, significant advances have been made to drive the development of MSMEs, including general laws for MSEs and for individual microentrepreneurs and programs to support financing for microenterprises such as *Programa Nacional do Microcrédito Produtivo Orientado (PNMPO)*.⁵⁵

- 1.14 **Public intervention in response to the COVID-19 crisis.** The Government of Brazil implemented fiscal measures that totaled 12% of GDP to mitigate the effects of the crisis, while the Central Bank of Brazil (BCB) reduced the *Sistema Especial de Liquidação e Custódia* (SELIC) annual rate to a historical low of 2% and implemented several liquidity measures to boost the provision of credit.⁵⁶ Furthermore, authorities focalized the provision of financing to support liquidity needs of MSMEs and preserve the level of employment and income.⁵⁷
- 1.15 **Public intervention via National Development Banks (NDB).** Across the region, NDBs have progressively increased their role in filling major financing gaps and developing long-term financing to cover MSMEs' capital investment needs.⁵⁸ Moreover, the countercyclical role they play in response to global financial crises becomes crucial, as they contribute to support investment and mobilize broader financial resources in times of recession. For this purpose, and since the outbreak of the crisis, development banks in Brazil have supported affected sectors and segments, with the purpose of specific financing for the health sector, renegotiation of active debts and expansion of credit and resources in guarantee instruments for MSMEs.⁵⁹
- 1.16 **Role of BNDES is supporting sustainable and productive recovery from the COVID-19 crisis.** In particular, [Banco Nacional de Desenvolvimento Econômico e Social \(BNDES\)](#), the largest national development bank in the country, has contributed to narrow the MSME finance gap and have played a significant countercyclical role by supporting investment and resource mobilization during economic crises.⁶⁰ In 2020, 52% of total BNDES disbursements were for MSMEs.⁶¹ BNDES has been playing an important role in enhancing the capillarity of lending for MSMEs through an extensive network of Accredited Financial Institutions (AFI), helping to make the system less concentrated, which lowers lending costs helping to lessen a typical credit constraint.
- 1.17 Moreover, some of BNDES programs to support a sustainable recovery include: (i) Guarantee fund (*Fundo Garantidor para Eficiência Energética*, or FGEnergia),⁶² which intends to support MSMEs with energy efficiency projects; (ii) Credit line for energy efficient and low-carbon investments (*Finame Baixo Carbono*), and Low-carbon Agriculture (ABC); and (iii) credit line for women in agriculture (*Pronaf Mulher*). Additionally, BNDES has recently approved a [Gender Equality and](#)

⁵⁴ [World Bank\(2020\)](#)-OEL#18.

⁵⁵ [OEL#17](#).

⁵⁶ [IMF Policy Tracker](#).

⁵⁷ [OEL#9](#).

⁵⁸ [IDB\(2013\)](#)-OEL#18.

⁵⁹ [OEL#9](#).

⁶⁰ [BNDES-Acompanhamento das medidas emergenciais contra o coronavírus](#).

⁶¹ [BNDES-Annual report 2020](#).

⁶² FGEnergia should start its operations in 2022.

[Diversity Valorization Policy](#) where it sets the grounds in terms of preserving gender equality both internally (at BNDES level: equal opportunities, leadership, trainings, among others) and externally (supporting projects and programs that contribute to women's economic empowerment and gender equality; as well as promoting women in the labor force in the projects they are engaged with). BNDES has also been playing a key role in increasing access to credit by MSMEs through the digitalization of financial intermediation. Along this line, BNDES has developed a one-stop digital platform, [Canal MPME](#) to facilitate access to information for borrowers and to automate procedures to complete loan applications and offer a range of [online services](#). Digital channels have allowed BNDES to approve and quickly deliver R\$105 billion (US\$20 billion)⁶³ in emergency financing during the pandemic, supporting around 140,000 MSMEs.

- 1.18 **Problem addressed.** The program will address the problem of insufficient medium and long-term access to finance for productive sustainable investments by MSMEs after the COVID-19 crisis, with focalized interventions related to climate change, vulnerable populations, and gender (§1.6-§1.10). Financing will be channeled 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.
- 1.19 **IDB's experience and lessons learned.** The Bank has extensive experience in designing programs aimed at improving access to finance for MSMEs, channeled through NDBs and vast evidence of the impact of such support.⁶⁴
- 1.20 The operation has been designed and will be implemented considering IDB's lessons learned from similar programs further detailed in [OEL#16](#), such as: (i) implementing proper supervision of financial conditions; (ii) guaranteeing institutional capacity of NDBs and FIs for adequately assessing sub-loans; and (iii) encouraging formal monitoring and evaluation systems through a systematic collection of data on the program. Moreover, the recommendations from programs: Promotion and Innovation of Access to Multisector Medium and Long-Term Credit for Productive Investments by MSMEs ([4672/OC-BR](#)), and from Financing Program for Sustainable Energy ([3866/OC-BR](#)), both for amounts of US\$750 million, are especially relevant for this operation, including the use of conservative targets for markets in development and the participation of relevant stakeholders within energy sector operations (§1.27(iii)).
- 1.21 **Coordination and complementarity with other Bank's projects.** The program will complement recently approved operations with BNDES in 2020 amid COVID-19 crisis, including [5115/OC-BR](#): IDB-BNDES MSME Financing Emergency Global Credit Program for Safeguarding the Productive Fabric and Employment, for US\$750 million; and [5130/OC-BR](#): Investment Guarantee Fund (FGI) Emergency Global Credit Program for Access to Credit (FGI-PEAC), for US\$200 million. These operations, which are expected to begin disbursement in the upcoming months, have been critical to support the survival of MSME during the pandemic, through which BNDES has been instrumental in providing loans and guarantees that may stabilize and sustain the financing that these firms receive

⁶³ Using the exchange rate of December 31, 2020.

⁶⁴ [OEL#16](#).

through the financial sector. The proposed operation is complementary to these previous interventions, in that it will focus, beyond the short-term financial sustainability of MSME, towards: (i) the medium- to long-term financing needs that MSME may have to support productive investments that can accelerate growth in Brazil; (ii) more focalized support to climate friendly investments which needs to be support by grant and TC resources for MSME to be able to absorb these projects; and (iii) a shift in the focalization towards vulnerable areas in Brazil to ensure that the recovery can be more inclusive.

- 1.22 **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, particularly through resources destined to municipalities with an HDI below the national value (¶1.10; ¶1.30); (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.com contributing to diversifying Brazilian's export offering, distributing access to trade within the country, and establishing production sharing schemes. It is also aligned with the crosscutting issues of: (i) Gender Equality, through the financing of women MSMEs and technical cooperation support (¶1.27) to BNDES to monitor and provide credit inclusively with a gender focus and narrowing information gaps on financing to women MSME; and (ii) Climate change, given that according to [Joint MDB Methodology for Climate Finance Tracking](#), 30% of the amount of this operation result in climate finance due to the finance of credit lines for renewables, energy efficiency, electromobility, low carbon agriculture (product indicators 1,2 and 5), contributing to IDB's climate finance goal of 30% of annual approvals. 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, and emissions avoided. It is aligned with the IDB Group Country Strategy with Brazil 2019-2022 (GN-2973), through: (a) the priority area of improving the business climate and narrow gaps in sustainable infrastructure for enhanced competitiveness; (b) the strategic objectives of: (i) promoting greater economic competitiveness; (ii) increasing the role of the private sector by improving the quality of the business environment; and (iii) narrowing infrastructure gaps by enhancing competitiveness, increasing private sector access to credit and investment in R&D, better quality infrastructure, enhanced energy efficiency; and (c) cross-cutting themes: gender equality and sustainable development. The program is consistent with the Sector Framework Documents of: (i) Support to SMEs and Financial Access/Supervision (GN-2768-7), mainly through support to the productive sector, particularly to SMEs; (ii) Climate Change (GN-2835-3), by improving access to finance for climate; and (iii) Gender and Diversity (GN-2800-8) through increasing financing for women-led SMEs. The operation is also aligned with the Update of the Gender Action Plan for Operations 2020-2021 (GN-2531-19), through the action line of promoting women's financial inclusion by strengthening the capacity of financial regulators/supervisors and national development banks. Furthermore, the operation's objectives and activities are aligned with the Bank's Strategy for Global and Regional Integration (GN-2565-4) as it will facilitate regional commerce and promote the internationalization of MSMEs, thereby increasing the demand for trade-related infrastructure. This operation is aligned to IDB's Vision 2025 (AB-3266), particularly given the internationalization of MSMEs, climate change, gender, and the digital

agenda. Finally, the operation is included in the Update of the Annex III of the 2021 Operational Program Report (GN-3034-2).

B. Objective, components, and cost

- 1.23 **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 and long-term financing in the context of the COVID-19 pandemic for MSME's and entrepreneurs' productive investments. This will be attained by ensuring provision of financing for climate related investments, vulnerable areas, and women businesses.
- 1.24 The program will comprise two components:
- 1.25 **Component 1: Medium and long-term financing to MSMEs sustainable investments (US\$250 million).** Resources from IDB Ordinary Capital (US\$240 million) will be channeled by BNDES through its AFIs (¶3.4) to MSMEs and individual entrepreneurs (¶3.5) on a first-come-first served basis, for the financing of climate related investments, MSMEs in vulnerable areas, and women MSMEs (¶3.6). Additionally, resources from the Clean Technology Fund (CTF) concessional loan (US\$10 million) will be blended in the operation for the financing of MSMEs investments in BESS. This blended financing structure 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 use of BNDES digital channels should improve accessibility by MSMEs to BNDES credit lines.
- 1.26 **Component 2: Guarantee Fund for MSMEs Energy and BESS investments (US\$5 million).** Resources from CTF Investment Grant (BR-G1011, integrated to this operation) will be channeled to the BNDES Guarantee Fund for Energy (FGEnergia), which will offer AFIs concessionally-priced guarantees to expand lending to SMEs investments in BESS, including those associated with investments in distributed solar energy. The resources of this component will contribute to: (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. The resources will be provided on a contingent recovery basis described in ¶3.7 and further detailed in the program's Operating Regulations ([OR](#)).
- 1.27 **Program additionality.** In addition to the financial additionality provided by the operation, as part of the program design, IDB will be supporting BNDES through:
- i. A Technical Cooperation (TC) under the operation to Support to Economic Productivity and Employment in Latin America and the Caribbean in Response to the Economic Shock Caused by the COVID-19 Pandemic ([ATN/OC-18036-RG](#); US\$2 million, whose activity workflow is currently awaiting non-objection from Agência Brasileira de Cooperação) from IDB will allocate approximately US\$100,000 to strengthen the capacity of BNDES to identify, monitor and report impact for financing operations towards climate related investments. Such activities will include: (i) the identification of a list of eligible investments classified as climate related; (ii) the determination of information requirements to prove and monitor the impact of such activities; and (iii) the development of

an information management system within BNDES IT infrastructure for the operationalization of such methodologies and the reporting of their climate impacts. Finally, the technical assistance will include training to BNDES personnel, including loan origination officers and portfolio and risk management personnel.

- ii. A TC under [ATN/OC-18036-RG](#) from IDB allocating approximately US\$100,000 to support BNDES's ability to monitor and provide credit inclusively with a gender focus. For this, a specialized consultant will be hired to develop a work plan for gender equity policy. Key activities will include: (i) analysis of BNDES's current MSME portfolio data and construction of indicators with a gender perspective in indirect credit operations; (ii) proposal for improvements in the instruments and processes of data collection with a gender perspective in indirect credit operations of BNDES; (iii) development of impact indicators and best practice guides for gender-based financing for BNDES indirect credit; and (iv) qualitative analysis and improvement recommendations for BNDES indirect credit operations with a gender perspective. The results of these activities will be used to update, when applicable, targets and other relevant information for the program's execution.
- iii. A TC of Development of BESS Investment Projects and Policy and Regulatory Support (under preparation) financed with resources from CTF⁶⁵ (US\$1 million) will support with technical, policy, and regulatory issues with BESS projects.⁶⁶ The main objective of this TC is to support the early development of the BESS market in Brazil by the following four components: (i) supporting the creation of an adequate financial environment that facilitates investments in BESS projects; (ii) promote knowledge sharing and establishment of alliances among key stakeholders; (iii) supporting the enhancement of regulatory aspects that facilitate the scale up of investments in BESS; and (iv) strengthening BNDES capabilities for the evaluation and monitoring of BESS projects.⁶⁷ To support demand for BESS investments, the TC comprises studies and activities that facilitate the identification and evaluation of projects with high potential to be financed by BNDES.
- iv. IDB will collaborate with BNDES to further integrate their digital tools. This collaboration will generate awareness about financial products and services currently offered by BNDES through its digital channels: (i) BNDES Online (ii) Canal MPME; and (iii) *Cartão* BNDES. IDB's business platform [ConnectAmericas.com](#) will serve as an important promoter of BNDES' financial products and services through its vast database of Brazilian MSMEs ([OEL#5](#)). Moreover, BNDES' clients will also have access to international opportunities which can enhance international trade; thereby, addressing another relevant trade barrier for MSMEs. The activities will focus on making this platform available to a diverse set of firms that sell valued added goods and services.

1.28 **Eligible BNDES product lines.** Financing under the Component 1 of the program will be limited to:

⁶⁵ This TC is being processed separate, but in parallel with BR-L1576/BR-G1011.

⁶⁶ [OEL#12](#).

⁶⁷ [Ibid.](#)

- i. [Cartão BNDES](#): which functions in the form of a pre-approved credit line for acquisition of specific products accredited by BNDES (machinery, equipment, other production goods and services) at reduced rates and extended terms for repayment. It is currently implemented to operate exclusively via internet, through the “Operações do Cartão BNDES” portal.
- ii. [BNDES Automático – Projetos de Investimento](#): for investment projects of MSMEs in all sectors, mainly related to construction, expansion, or reform of facilities (store, warehouse, storage, factory, office, etc.), including acquisition of machinery, equipment, software, and related services accredited by BNDES.
- iii. [Programa ABC](#): Federal government program that is operated by BNDES (offered within *BNDES Automático*) and other banks that aims to support investments that contribute to the reduction of GHG emissions caused by agricultural activities, such as recovery of degraded pastures, implementation of organic agricultural production systems, waste management and treatment, among others.
- iv. [BNDES Finame – BK Aquisição e Comercialização](#): for acquisition and commercialization of machinery, equipment, parts, industrial systems, and Information Technology (IT) and automation goods, including new vehicles (buses, trucks) that have been accredited by BNDES.
- v. [BNDES Finame – Baixo Carbono](#): financing for the acquisition and commercialization of solar and wind energy management systems, solar heaters, buses and electric roads, hybrids and powered exclusively by biofuels and other machines and equipment with higher energy efficiency indices or that contribute to the reduction of GHG emissions.

1.29 For Component 2, the guarantee funds will be executed through:

- i. *FGEnergia*: Guarantee fund under development by BNDES to offer financial institutions concessionally-priced guarantees to enhance lending to SMEs for EE projects.

1.30 **Beneficiaries.** As defined in the [OR](#), eligible beneficiaries will be MSMEs and entrepreneurs with demonstrated administrative, technical, financial, legal, and environmental capacity to implement eligible investments. The program will follow BNDES’ definition of MSME, which classifies companies based on annual gross income (operational revenue) as follows: (i) micro –below R\$360,000 (US\$69,000 approximately); (ii) small –below R\$4.8 million (US\$920,000); and (iii) medium –below R\$300 million (US\$58 million). All program resources will be allocated to either climate related investments, vulnerable areas, or women businesses. An average loan amount of US\$50,042 is expected for productive investments and of US\$250,000 for BESS investments, which implies an estimated number of beneficiaries of approximately 4,856 with program

resources.^{68, 69} However, the final number of beneficiaries will be subject to demand.

- 1.31 The program will allocate at least 30% of resources (US\$76.5 million) exclusively for climate related investments. The [OR](#) will determine the list of eligible activities to be financed that can be classified as aligned to climate change mitigation efforts; and that will provide the basis for measuring and monitoring achievement against the climate related result indicator (§1.36). This list will be based on information from existing portfolios already supported by BNDES and may be updated during the project implementation, depending on a case-by-case assessment. TC resources (§1.27(i)) will be provided for strengthening BNDES' ability to identify and classify its indirect (second-tier) climate related operations in the eligible categories in a systemic way that minimizes transaction costs for the monitoring and reporting throughout the life of the operation. The classification system will be built on the basis of available best practices, market standards and taxonomies at national and international level, and will be aligned with the [Joint MDB's Climate Finance Methodology](#).
- 1.32 To reduce gender gaps in access to finance in MSME, the program will allocate at least 30% of resources (US\$76.5 million) exclusively to women MSMEs. An MSME will be considered woman MSME when evidence supports that the decision-making process is led by women.⁷⁰ Furthermore, to deal with the information gaps on financing to women MSMEs, IDB will support BNDES's ability to monitor and provide credit inclusively with a gender focus through a TC (§1.27(ii)).
- 1.33 The program will allocate a share of 40% of resources for MSMEs in vulnerable areas. An MSME will be considered to be operating in a vulnerable municipality if this one has an HDI score below the national value equal to 0.727.⁷¹ This benchmark has been shown to adequately target vulnerable population (§1.10).
- 1.34 MSMEs shall not only prove their investments are financially sustainable, but they must be technically, institutionally, environmentally, and legally viable as well, as per standard practice and operational policies of IDB and BNDES. Specific eligibility criteria will be described in detail in the [OR](#), including legal, financial, Environmental and Social (E&S), and technical requirements for individual sub-loans to be eligible.
- 1.35 With the exception of sector eligibility limitations established in the [OR](#), the program does not impose restrictions related to MSME sector of activity, neither does it establish specific amounts to be allocated for each product line eligible under the program.

⁶⁸ [OEL#1](#).

⁶⁹ Approximately 1.500 of the beneficiaries are estimated to be women MSMEs.

⁷⁰ For this, IDB agreed with BNDES on a clear taxonomy for the identification of women MSME that will be used for tagging its portfolio and monitoring future operations. For the relevant portfolio, majority (97.6%) of identified women MSMEs have either majority of woman managing partners, or women as individual holder of the firm ([OEL#4](#)).

⁷¹ [PNUD\(2013\)](#)-OEL#18.

C. Key results indicators

- 1.36 In terms of impact, the program is expected to support the sustainability of MSMEs amid the COVID-19 crisis, as measured by the following: (i) average change in annual sales revenue at companies supported by the program compared to the control group; (ii) average change in annual employment at companies supported by the program compared to the control group; (iii) GHG emissions reduction from BESS investments; and (iv) reduction of energy demand on peak from BESS investments. The following specific indicators will be included: (i) outstanding stock in relevant portfolio; (ii) percentage of relevant portfolio with loan term equal to or greater than 60 months at inception; (iii) climate-related project financing percentage over relevant portfolio; (iv) vulnerable region MSME financing percentage over relevant portfolio; (v) women MSME financing percentage over relevant portfolio; (vi) eligible credit MSMEs financed originated through digital channels percentage over total eligible credit MSMEs financed; (vii) total energy rating for BESS projects; (viii) total power rating for BESS projects; and (ix) total investments for BESS and RE channeled through BNDES.
- 1.37 **Economic analysis.** The economic evaluation identifies the flows of benefits and costs generated by the program. The benefits consist of the economic value of: (i) the increase in the annual sales of beneficiaries that access to productive investment financing; (ii) the income derived from the jobs created by beneficiaries that access to productive investment financing; and (iii) annual savings in energy costs derived from BESS investments. Calculations of the flows (discounted at a rate of 12%) yield benefits of US\$537 million and an Internal Rate of Return (IRR) of 30.3%. The sensitivity analysis also shows that the program's net present value remains positive amid a series of changes in the values of the main parameters examined ([OEL#1](#)).

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 The program has been structured comprising two components (§1.25-§1.26). The first component consists of a global credit operation due to the program's nature of financial intermediation towards beneficiary MSMEs. BNDES will use IDB Ordinary Capital (US\$240 million) to provide medium and long-term financing for investments in climate related investments and productive investments by vulnerable and/ or women MSMEs and CTF (US\$10 million) loan resources⁷² for investments by MSMEs in BESS.
- 2.2 The second component will be an Investment Grant (US\$5 million), under which BNDES will channel the resources to FGEnergia, to offer AFIs guarantees to expand lending to SMEs investments in BESS. CTF's investment grant resources will be provided on a contingent recovery basis (§3.6).

⁷² The overall leverage ratio of the component requires that the CTF resources be matched with at least equal amounts of co-financing from other sources for similar investments and beneficiaries. Thus, at least US\$10 million from the IDB OC US\$240 million allocated to MSMEs climate related investments should be dedicated to investments by MSMEs in BESS and/or RE or EE investments.

- 2.3 Given that the first and second component will be financed through different financial instruments (loans and grant, respectively), the disbursements of resources for each will follow different disbursement criteria and methods (¶3.15 and [OR](#)).⁷³ The disbursement period for the loans and the investment grant will be five years, considering the estimated demand for the program. For both components, funds will be channeled via AFIs on a first-come-first-served basis. Both components will be supported by complementary TC activities to enhance demand creation, risk mitigation and the efficient provision of sub-loans (¶1.27).

Table 1. Summary of program costs (in US\$ millions)

Components	IDB	CTF	CTF (grant)	Total	%
Component 1: Medium and long-term financing to MSMEs sustainable investments	240	10	0	250	98
Component 2: Guarantee Fund for MSMEs Energy and BESS investments	0	0	5	5	2
Total (BR-L1576/BR-G1011)	240	10	5	255	100

Note: Per standard practice, BNDES will cover the administration, evaluation, and audit costs of the program with its administrative resources as part of its normal operations.

Table 2. Disbursement schedule Component 1 (in US\$ millions)

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total
IDB	48	48	48	48	48	240
CTF Loan	2	2	2	2	2	10
Total (BR-L1576)	50	50	50	50	50	250
%	20	20	20	20	20	100

Table 3. Disbursement schedule Component 2 (in US\$ millions)

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total
CTF Investment Grant (Contingent)	1	1	1	1	1	5
Total (BR-G1011)	1	1	1	1	1	5
%	20	20	20	20	20	100

- 2.4 The proposed intermediation scheme via BNDES is intended to enable local capacity in the provision of dedicated medium and long-term financing for productive and sustainable investments by MSMEs.
- 2.5 The CTF provides scaled-up financing for public and private sector projects that contribute to the demonstration, deployment, and transfer of low-carbon technologies with significant potential for GHG emission reductions. Investments for the promotion of BESS are eligible under the CTF.⁷⁴ CTF resources are transferred to the IDB, acting as implementing agency, and are administered by the IDB in the IDB-CTF Trust Fund. The concessionality of CTF resources is needed to enable access to funding by projects under the conditions (interest rates

⁷³ While the signature of loan contracts (OC and CTF) requires prior legislative approval under Brazilian legislation, CTF's investment grant resources do not require such approval and may be signed before the signature of the loan contracts. This will enable BNDES to start with the implementation of Component 2, financed entirely with resources from CTF's investment grant, before the start of the execution of Component 1.

⁷⁴ CTF funding for this program has been included in the third phase of the Dedicated Private Sector Programs (DPSP). BESS is among the thematic areas from the DPSP III. Consistent with CTF practice, DPSP is intended to make use of a range of financing instruments taking risks that commercial lenders are not able to bear.

and term) required to make their projects viable, providing a critical incentive to facilitate the adoption of these technologies ([OEL#12](#)).

B. Environmental and social safeguard risks

- 2.6 In accordance with directive B.13 of the Environment and Safeguards Compliance Policy (Operational Policy OP-703), this operation is of Financial Intermediation and as such cannot be classified ex ante. The Environmental and Social Due Diligence was performed in compliance with Directive B.13, analyzing the program's potential socioenvironmental risks and the Executing Agency's (EA) ability to manage them. Potential socio-environmental impacts identified for subprojects expected to be financed under this program (small-scale investment projects for the recovery of MSMEs post COVID-19 crisis, specifically climate related investments, investments for vulnerable areas, and investments for women MSME) are expected to be low. Nevertheless, considering the size of the program and the number of subprojects to be financed, this operation is classified as a medium risk of Financial Intermediation.
- 2.7 Only Category "C" subprojects will be eligible. Projects or activities in Categories "A" and "B" will be ineligible for financing. BNDES capacity to manage E&S risks is high and has been demonstrated in previous operations with the Bank. Given the due diligence findings presented above, considering the size of the operation and the considerable number of subprojects to be financed, this operation is categorized as Financial Intermediation – medium risk. A small proportion of subprojects will finance solar panels (small scale – maximum 1MW of installed capacity per subproject). The risks of forced labor in the supply chain of polysilicon solar panels have been assessed and are mitigated properly by BNDES policies and processes along with the Brazilian regulation. The E&S strategy and the measures contemplated to address the risk of forced labor in the supply chain of polysilicon solar panels in this operation, are fully aligned with: (i) the document "IDB Group Measures to Address Risk of Forced Labor in the Supply Chain of Silicon-based Solar Modules. Revised Version" (GN-3062-1); (ii) the currently applicable Environmental and Safeguards Compliance Policy (document GN-2208-20), and the new requirements of the IDB's E&S Policy Framework (GN-2965-23); and (iii) IDB Procurement Policies (GN-2340-15 and GN-2350-15). Please see Annex E of the [Environmental and Social Management Report \(ESMR\)](#) for more information.
- 2.8 The potential social and environmental risks and impacts identified for eligible subprojects will be managed through E&S requirements that are included in the program's [OR](#), to be approved by the Bank prior to the first disbursement ([ESMR](#)).

C. Fiduciary risk

- 2.9 The Bank has extensive experience with BNDES. The Bank updated its institutional capacity assessment of BNDES for the Federative Program for Smart Public Security (PROSEG-Federativo – under preparation), and BNDES was found to have maintained a high level of technical capacity, with suitable information systems and internal and external controls. Furthermore, its high capacity for implementation was confirmed in the satisfactory execution of loans [3866/OC-BR](#) and [4672/OC-BR](#). Additionally, the regulation of the FGEnergia Fund contains provisions such that goods and equipment to be guaranteed are acquired

following the Core Procurement Principles. Accordingly, no specific fiduciary risk was identified; therefore, the fiduciary risk for this operation is low (Annex III).

D. Key issues

- 2.10 **Sustainability.** The proposed program is expected to play a critical role to fill the long-term financing gap and mobilize FI intervention, providing necessary support to MSMEs productive investments unable to obtain suitable financing in the current market and macroeconomic situation. Over time, through its second-tier structure and increased access to credit through digitalization, the program is expected to have a positive demonstrative effect on private sector financing sources, local FIs and MSMEs. Furthermore, activities promoted by the program are expected to be sustainable in the long-term as BNDES has vast experience with financing MSMEs, and there will be technical cooperation resources to support climate related investments and lending with focus on gender.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 **Borrower and Executing Agency.** The Borrower and EA for this operation will be BNDES, and the Federative Republic of Brazil will be the Guarantor of the financial obligations associated with the loan. BNDES has an extensive track record financing MSMEs and cooperating with the Bank.⁷⁵ MSMEs accounted for 52% of BNDES' total amount disbursed in 2020 (98% of all operations). Indirect operations through AFIs represent 99% of BNDES's transactions with MSMEs, of which 98% are digital. Further, BNDES has deployed several measures to support MSMEs amid the COVID-19 crisis.
- 3.2 The Bank has determined that BNDES is financially and institutionally sound. Previous experiences of BNDES working with the IDB⁷⁶ along with their leading position in MSME financing, makes them a suitable partner with strong will to continue developing the sector.
- 3.3 **Implementation arrangements.** The Borrower will carry out the administration, execution, control and monitoring of the program using its current organizational structure.⁷⁷ It will be responsible for, among other obligations described in the Loan and Investment Grant Agreements and in the [OR](#): (i) supervision and proper use of program resources, as well as the timely provision of human and technical resources necessary to implement the program; (ii) disbursements to [AFIs](#) eligible for Sub-loans to MSMEs; (iii) preparation and submission to the Bank of Program progress execution reports; (iv) monitoring of compliance with environmental and social safeguards, as provided for in the Loan and Investment Grant Agreements and in the [OR](#); and (v) follow-up, monitoring and evaluation of the program. For the granting of sub-loans and guarantees (Components 1 and 2 of the program), the Borrower will enter into contracts or use the legal instruments already in force with its [AFIs](#). The terms and conditions (i.e., maturity, rates, costs and use of risk mitigation

⁷⁵ [OEL#8](#).

⁷⁶ [1608/OC-BR](#), [1860/OC-BR](#), [2023/OC-BR](#), [2236/OC-BR](#), [3866/OC-BR](#), [4672/OC-BR](#), and [5115/OC-BR](#).

⁷⁷ [BNDES-Investors Presentation](#).

mechanisms) of each eligible sub-loan and guarantees will depend on the characteristics of the investment, its IRR and risk profile. The [AFIs](#), in turn, will formalize the corresponding legal instruments with the Eligible Sub-borrowers, establishing the terms and conditions for the respective support, which will also depend on the characteristics of the investment, its IRR and the risk profile. Furthermore, through TCs (§1.27), support will be provided to the program's execution and coordination, specifically to monitor and provide information for climate related investments and in a gender-inclusive manner and supporting the development of enabling conditions for MSMEs investments in BESS.

- 3.4 **Eligibility of Financial Institutions.** Eligible FIs will be those regulated by the Central Bank and accredited and supervised according to BNDES accreditation and risk management policies and procedures,⁷⁸ and must be committed to comply with the specific guidelines of the program stated in the [OR](#).
- 3.5 **Eligibility of beneficiaries.** Eligible beneficiaries will be private companies with headquarters and administration in Brazil classified as MSME, according to BNDES definitions (§1.34), and individual entrepreneurs that meet requirements in the [OR](#) and BNDES clients' criteria:⁷⁹ (i) fiscal, tax and social obligations must be up-to-date; (ii) satisfactory registration must be presented; (iii) capacity to make payment; (iv) enough guarantees to cover the risk of the operation; (v) client cannot be undergoing credit recovery; (vi) comply with legislation related to imports, in case of financing for imports of machinery and equipment; and (vii) comply with environmental legislation.
- 3.6 **Amount and limit of financing.** No sub-loan to MSME or individual entrepreneurs may exceed US\$500,000 or its equivalent in local currency.⁸⁰ Based on the characteristics of the current BNDES portfolio detailed in [OEL#11](#), the average sub-loan is US\$50,042 for productive investments and US\$250,000 for BESS investments. The program is expected to maintain a similar trend.
- 3.7 **Contingent recovery mechanism for CTF grant resources.** The investment grant resources from CTF used for guarantees that are not called (totally or partially) during the period of effectiveness of the guarantees will be returned by BNDES to the Bank fifteen years from the date of the signature of the investment grant agreement. The operational aspects of the reimbursement will be provided in the grant agreement and in the [OR](#). The Bank will transfer to CTF the resources received from BNDES, in accordance with the Financial Procedures Agreement applicable to CTF resources.
- 3.8 **Operating Regulations.** The [OR](#) will establish the terms and conditions applicable to project implementation and will describe, *inter alia*, the following: (i) eligibility criteria for AFIs; (ii) characteristics of eligible investments; (iii) MSMEs and individual entrepreneurs; (iv) pass-through mechanisms and conditions; (v) conditions for recovering loans; and (vi) conditions to secure delivery to women and vulnerable territories.

⁷⁸ [Requirements for AFIs.](#)

⁷⁹ [BNDES-clients' criteria.](#)

⁸⁰ [OEL#11.](#)

- 3.9 **Special contractual condition precedent to the first disbursement. As a special contractual condition precedent to the first disbursement of the Bank's financing, BNDES will approve the program Operating Regulations, in accordance with the terms previously agreed upon with the Bank.** This condition is needed to establish operational guidelines, and procedures to be followed by the EA for a successful program execution.
- 3.10 **Special contractual condition precedent to the first disbursement for Component 2. As a special contractual condition precedent to the first disbursement for Component 2, BNDES will submit to the Bank evidence that the competent body of BNDES has approved the FGEnergia with the necessary provisions for the granting of the guarantees.** This condition is needed considering that FGEnergia is in an advanced stage of creation process, and it is expected to be functioning after the approval of the program.
- 3.11 **Exceptions to Bank policies.** As in previous loan operations with BNDES,⁸¹ the guarantee for this project of the Federative Republic of Brazil will be limited to BNDES's financial obligations (including the amortization of principal, interest, and other lending fees), and will not cover BNDES's contractual obligations regarding to the program execution and local counterpart. Consequently, it is necessary that a partial waiver to the IDB's policy guarantees required from the borrower (GP-104-2) be approved by the Board of Executive Directors. This is deemed necessary because Brazilian law does not authorize Brazil's federal government to guarantee the borrower's contractual obligations regarding project execution. BNDES is a solvent, financially autonomous entity with ample operational and financial capacity to honor its obligations to the Bank. This waiver will not affect the Bank's risk profile.
- 3.12 **Retroactive financing.** The Bank may finance retroactively under the OC loan, eligible expenses incurred by the borrower for Component 1 of the program (§1.31-§1.35, [OR](#)) prior to the loan approval date up to US\$48 million (20% of the OC loan amount), provided that requirements substantially similar to those established in the loan contract were met. Retroactive financing is especially important to ensure timely disbursement of resources given the immediate needs relating to COVID-19 recovery (§1.16-§1.18). These expenses shall be incurred on or after August 17, 2021 (approval date of the Project Profile), and under no circumstances shall expenditures incurred more than 18 months prior to the loan approval date be included.
- 3.13 The resources recovered by BNDES from amortization payments and prepayments of sub-loans in excess of what is needed to service the loan with the Bank, will be used to finance new sub-loans for up to five years from the date of the last disbursement of the OC loan.
- 3.14 **Procurement.** As a demand-driven financial intermediation program, no procurement of goods, works, or consulting services will be required as part of execution. For additional details, see the Fiduciary Agreements and Requirements (Annex III).

⁸¹ [1608/OC-BR](#), [1860/OC-BR](#), [2023/OC-BR](#), [2236/OC-BR](#), [3866/OC-BR](#), [4672/OC-BR](#), and [5115/OC-BR](#).

- 3.15 **Disbursements.** For Component 1, resources for the program will be disbursed by the IDB to BNDES via the modality of advance of funds and/or reimbursement as established in the Financial Management Guidelines for IDB-financed Projects (OP-273-12). Disbursements will be made as reimbursements to BNDES for transfers made to AFIs that have both available credit and have submitted contracts for sub-loans in compliance with the eligibility criteria established in the [OR](#); or for advances of funds in accordance with the Bank's policies. Disbursement verification will be on an ex post basis, subject to onsite review of the sub-loans. For Component 2, resources for the program will be disbursed by the IDB to BNDES via the modality of advance of funds to capitalize the FGEnergia, as established in the Financial Management Guidelines for IDB-financed Projects (OP-273-12) At the end of the disbursement period, the resources disbursed for which no guarantees have been granted must be returned to the IDB.
- 3.16 **Financial statements and audits.** The EA will deliver annual audited financial statements for the program under the terms of reference agreed upon with the Bank. The financial statements and the annual audited financial statements for the program will be delivered within 120 days after the close of each fiscal year. The final audited financial statements for the program will be delivered within 120 days after the expiration of the disbursement period or any extensions thereof. The program audit will be performed by the supreme audit authority or a Bank-eligible external audit firm under the procedures established in the current audit guidelines. The financial statements should include the report of eligible expenses referred in ¶3.15.

B. Summary of arrangements for monitoring results

- 3.17 **Monitoring.** Program execution will be monitored via semiannual and annual progress reports prepared by the EA and delivered within 60 days after the close of each six-month period. These will include the reporting commitments established in the results matrix and will comply with the eligibility criteria of the OR. For outcome indicators and some impact indicators, BNDES will report the final values according to the portfolio report to be submitted as part of the final program report. For impact indicators related to sales and employment, the data from the RAIS database of the Ministry of the Economy will be used.
- 3.18 **Evaluation.** To evaluate the program results various approaches will be used, serving as inputs for the Project Completion Report (PCR): (i) a reflexive evaluation, before and after the program; (ii) an impact evaluation with a treatment group, and a control group not receiving program benefits; and (iii) an ex post cost-benefit analysis. These studies will assess impacts on sales revenue and jobs, as well as the reduction of energy costs due to the program. The evaluation strategy is described in the [Monitoring and Evaluation Arrangements \(REL#1\)](#).
- 3.19 **Information for program monitoring and evaluation.** The EA will be responsible for maintaining data gathering and monitoring systems for all components to be used to prepare the reports and deliver data to the Bank, safeguarding all information, indicators, and parameters necessary to prepare the PCR. The EA will bear the costs of evaluation and monitoring in all cases. Additional information required for the evaluation process can be drawn from national and international secondary sources ([REL#1](#)).

Development Effectiveness Matrix		
Summary BR-L1576/BR-G1011		
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Issues	<ul style="list-style-type: none">-Social Inclusion and Equality-Productivity and Innovation-Economic Integration-Gender Equality and Diversity-Climate Change	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	<ul style="list-style-type: none">-Micro / small / medium enterprises financed (#)-Women beneficiaries of economic empowerment initiatives (#)-Emissions avoided (annual tons CO2 equivalent)	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-2973	(i) Promoting greater economic competitiveness, (ii) Increasing the role of the private sector by improving the quality of the business environment, and (iii) Narrowing infrastructure gaps.
Country Program Results Matrix	GN-3034-2	The intervention is included in the 2021 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		10.0
3.1 Program Diagnosis		2.5
3.2 Proposed Interventions or Solutions		3.5
3.3 Results Matrix Quality		4.0
4. Ex ante Economic Analysis		10.0
4.1 Program has an ERR/NPV, or key outcomes identified for CEA		1.5
4.2 Identified and Quantified Benefits and Costs		3.0
4.3 Reasonable Assumptions		2.5
4.4 Sensitivity Analysis		2.0
4.5 Consistency with results matrix		1.0
5. Monitoring and Evaluation		9.5
5.1 Monitoring Mechanisms		4.0
5.2 Evaluation Plan		5.5
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Low
Environmental & social risk classification		B.13
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, External Control. Procurement: Information System.
Non-Fiduciary	Yes	Statistics National System, Environmental Assessment National System.
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	The program execution will be supported by Technical Cooperation (TC) under ATN/OC-18036-RG) from IDB to strengthen the capacity of BNDES to monitor and provide credit for green investments and in a gender-inclusive manner. There is also a TC financed by CTF Grants (US\$1 million), will support with technical, policy and regulatory issues with BESS projects. In addition, resources from CTF Investment Grant, under BR-G1011, 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.

Brazil was undergoing a period of slow economic recovery prior to the pandemic. Particularly for MSMEs, access to finance was already difficult then – and their share of longer-term investment loans in the economy had already decreased sharply from 2015 to 2019. MSMEs are typically more credit constrained than their larger counterparts due to market failures such as information asymmetries, disproportionately high-risk perception by creditors, a lack of economies of scale when serving this segment given inherently smaller loans, and a lack of collateral and credit histories. In Brazil, MSMEs account for 44% of wages in the formal private sector and 58% of all formal sector jobs. The crisis that ensued with the pandemic initially entailed a drop in monthly sales of around 64% for most small businesses. Throughout the crisis, the government has sought to support MSMEs with credit lines for working capital to help ensure their survival. Funds are now needed for recovery, investment, and growth. Estimates show that 66% of MSMEs resort to their own resources for productive investment, which requires longer terms than readily available as credit. For instance, for green investments pay-back periods are naturally long in nature. Pursuing an inclusive and sustainable recovery from the pandemic is a government priority. A recent study suggests that embracing a recovery that promotes sustainability could result in greater job creation and a significant reduction in GHG emissions. In this context, the program's general objective is to promote the 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 context of the COVID-19 pandemic for MSMEs' and entrepreneurs' productive investments. This will be attained by ensuring provision of financing for climate related investments, vulnerable areas, and women businesses. Program resources channeled for financing are destined in their entirety either for climate related investments, or the financing of MSMEs in vulnerable areas (as measured by their human development index at loan inception), or the financing of women MSMEs. In partnership with a grant from the Clean Technology Fund, a guarantee fund for SME's investments in battery energy storage systems (BESS) will also be established for the first time by BNDES. In the long-term, some of the program's main results include an increase in sales and employment of beneficiary firms vis-à-vis a control group. Reductions in greenhouse gas emissions related to BESS investments is another long-term program impact. Medium-term results which should be observable by project closure include the evolution of the relevant BNDES credit portfolio with a mitigating counter-cyclical impact of the financing injected; the evolution of the share of the relevant portfolio destined to each of the targeted populations noted above; and the percent of the relevant portfolio placed at a minimum term of 60 months at its origination. Another medium-term result is related to the leverage in BESS investments mobilized by the program. The cost-benefit analysis shows the project is of net benefit to society. At closure, medium-term results indicators will be measured by a before-and-after comparison. For two longer-term impact indicators a quasi-experimental impact evaluation using differences-in-differences with propensity score matching is planned, most probably necessitating use of earlier cohorts of beneficiaries of the same credit lines given the longer temporality of these impacts. The team is also planning on conducting an ex-post cost benefit analysis which would rely on results from the impact evaluation.

RESULTS MATRIX

Project Objective	The specific objective for this operation is to enhance the availability of medium and long-term financing in the context of the COVID-19 pandemic for Micro, Small and Medium Enterprises (MSME) and entrepreneurs' productive investments. This will be attained by ensuring provision of financing for climate related investments, vulnerable areas, and women businesses. The achievement of this objective will contribute to the general objective of promoting sustainable economic recovery of MSMEs in Brazil.
--------------------------	--

General Development Objective

Indicators	Unit of measurement	Baseline value	Baseline year	Expected year for achievement	Target	Means of verification	Comments
General development objective: To promote sustainable economic recovery of MSMEs in Brazil.							
Indicator 1: Average change in annual sales revenue at companies supported by the program compared to the control group.	%	0	2020	2026	2	Data of the <i>Relação Anual de Informações Sociais</i> (RAIS), from the Ministry of the Economy of Brazil.	This indicator will measure the difference in sales revenue with and without program support (Component 1). An impact evaluation of sales revenue will be conducted for this operation using the R-Automated Model for Impact Verification (MARVIm). Findings of the evaluation and the values of this indicator will be reported after the program has been officially closed and its completion report issued. Given the lag on data availability, calculations for the indicator may be based on the initial or prior cohort of the same lines and characteristics. Because the companies that are to receive program support and those of the control group are similar, the baseline is zero. The proposed target is in line with the estimates obtained using the MARVIm model for other previous IDB support initiatives and programs.
Indicator 2: Average change in annual employment at companies supported by the program compared	%	0	2020	2026	4	RAIS data, from the Ministry of the Economy of Brazil.	The indicator will measure the difference in employment with and without program support (Component 1). An impact evaluation on employment will be conducted using MARVIm. Findings of the evaluation and the values of this indicator will be

Indicators	Unit of measurement	Baseline value	Baseline year	Expected year for achievement	Target	Means of verification	Comments
to the control group.							<p>reported after the program has been officially closed and its completion report issued. Given the lag on data availability, calculations for the indicator may be based on the initial or prior cohort of the same lines and characteristics.</p> <p>Since companies supported by the program and those of the control group are similar, baseline is zero. The proposed target is in line with the estimates obtained using the MARVIm model for other previous IDB support initiatives and programs.</p>
Indicator 3: GHG emissions reduction from Battery Energy Storage Systems (BESS) investments. ¹	tCO ₂ e	0	2021	2040	214,085	Reports provided by the projects supported and information gathered under TC-BR-T1497.	<p>This indicator shows the sum of annual reductions in GHG emissions due to BESS investments relative to a mix of nonrenewable power plants of the Brazilian Grid that meet the additional demand during peak hours.</p> <p>The baseline is zero because it is assumed that without the finance provided by the program, companies would not have implemented BESS, and therefore would have zero emission reductions. Due to the high cost of electricity during peak hours at some distributors, companies disconnect from the grid and would use BESS.</p> <p>(*) According to OEL#13 of the loan document, the main assumptions are:</p> <ul style="list-style-type: none"> • Cost of a standard 3-hour 240 kWh project (turnkey solution): US\$250,000, equivalent to US\$1,042/kWh; • Lifespan of a battery system: 14 years;

¹ This indicator is in accordance with the CTF criteria. See [OEL#12](#) and [OEL#13](#).

Indicators	Unit of measurement	Baseline value	Baseline year	Expected year for achievement	Target	Means of verification	Comments
							<ul style="list-style-type: none"> Batteries function providing energy during 3 hours/day; BESS function only during business days (252 days/year); Battery degradation: 2% per year during the first 10 years; Average emission factor for the Brazilian grid: 0,000398743 tCO₂/kWh; Nonrenewable sources average emission factor: 0.002998067 (kg Co₂/kWh); Resources exclusively allocated to BESS projects will be (US\$27.5 million).²
Indicator 4: Reduction of energy demand on peak from BESS investments.	kW	0	2021	2027	8,800	Reports provided by the projects supported and information gathered under TC-BR-T1497.	<p>This indicator shows how the use of BESS investments allow for a reduction on energy demand at peak, relative to a mix of nonrenewable power plants of the Brazilian Grid that meet the additional demand during peak hours.</p> <p>The baseline is zero assuming that without the finance provided by the program, companies would not have implemented BESS.</p> <p>All BESS investments indicators are based on the assumptions summarized above (*) in Impact Indicator #3, described in OEL#13).</p> <p>Thus, this indicator is calculated as follows: $US\\$27.5million / (US\\$1,042/ kWh) = 26,400kWh.$ $26,400 kWh / 3 hours = 8,800 kW.$</p>

² If an additional contribution of US\$10 million from IDB is considered, in a proportion of 80%/20% in the loan, an additional investment of US\$12.5 million can be observed. This additional investment could improve the emissions reduction in:

- 7,860 tons of CO₂e per year, on the maximum year over the course of the program.
- 71,529 tons of CO₂e accumulated over the 10 years of execution of the program.
- 97,311 tons of CO₂e over the lifetime of the assets financed [14] years).

Specific Development Objectives

Indicators	Unit of measurement	Baseline value	Baseline year	Expected year for achievement	Target	Means of verification	Comments
Specific development objective: Enhance the availability of medium and long-term financing in the context of the COVID-19 pandemic for MSMEs' and entrepreneurs' productive investments. This will be attained by ensuring provision of financing for climate related investments, vulnerable areas, and women businesses.							
Indicator 1: Outstanding stock in relevant portfolio.	Million R\$	9,872.19	2020	2026	6,859.08	BNDES internal information.	<p>Relevant portfolio is comprised by total eligible credit for productive investments by MSMEs and entrepreneurs operating in vulnerable areas, women businesses, and climate related investments within BNDES <i>Finame</i>³, BNDES <i>Automático</i>⁴, <i>Cartão</i> BNDES. It should be noted that 100% of funds raised by the program are for one of these three populations. The baseline for this indicator is based on relevant portfolio outstanding stock by December 31, 2020.</p> <p>Given the declining trend observed for financing for MSMEs' investments prior to COVID-19 (-43.7% from 2015 to 2019) and the context of the pandemic, the target for the end of the project will be conservative and assume that the program has helped to at least mitigate a decline in the baseline value.⁵</p> <p>Thus, the target is calculated as:</p>

³ BNDES *Finame* includes the line *Finame Baixo Carbono*.

⁴ BNDES *Automático* includes the loans under the ABC Program.

⁵ If disbursements are faster than expected see [PME](#) for details on adjustments to target.

Indicators	Unit of measurement	Baseline value	Baseline year	Expected year for achievement	Target	Means of verification	Comments
							<p><i>Baseline*(1-%of reduction in MSMEs investments) + Component 1 expressed in R\$. $9,872.19 * (1-43.7\%) + (250,000,000 * 5.196) = 6,859.08$</i></p> <p>The exchange rate corresponds to December 31, 2020 (see link).</p>
Indicator 2: Percentage of relevant portfolio with loan term equal to or greater than 60 months at inception.	%	83	2020	2026	83	BNDES internal information.	<p>As of December 31, 2020, data from BNDES for the relevant portfolio⁶ exhibit a baseline value of 83%.</p> <p>Given the context of the pandemic of COVID-19, the target will be conservative and assume that the program has helped to mitigate the decline observed in average terms of loans from 71.3 months to 56.9 months (OEL#3 of project document), thus helping to maintain the figure of the baseline.</p>
Indicator 3: Climate related project financing percentage over relevant portfolio. ⁶	%	26.9	2020	2026	26.9	BNDES internal information.	<p>The eligible climate related investments⁷ include: (i) investments in energy efficiency; (ii) efficient equipment; (iii) renewable energy; (iv) BESS; (v) sustainable agriculture, and (vi) electric transportation.</p> <p>Total financing for climate related amounted R\$2,656,356,877 of <i>outstanding stock</i> (including those</p>

⁶ Eligible credit or relevant portfolio refer to financing for productive investments by MSMEs and entrepreneurs operating in vulnerable areas, women business, and climate related investments, within BNDES *Finame*, BNDES *Automático*, *Cartão* BNDES.

⁷ For more details on climate related eligible investments see [OEL#14](#) of the project document.

Indicators	Unit of measurement	Baseline value	Baseline year	Expected year for achievement	Target	Means of verification	Comments
							<p>under ABC Program⁸ and <i>Finame Baixo Carbono</i>) on December 31, 2020.</p> <p><i>Formula = Outstanding stock for Climate related investments/ relevant portfolio.</i>⁶</p> <p>Given that the program resources represent a small portion of BNDES relevant portfolio and the context of the pandemic of COVID-19, the target will be conservative and assume that the program has helped to at least maintain the figure of the baseline.</p>
Indicator 4: Vulnerable areas MSMEs financing percentage over relevant portfolio. ⁶	%	78.4	2020	2026	78.4	BNDES internal information.	<p>MSMEs will be considered as located in vulnerable areas when MSMEs operate in a municipality with a lower Human Development Index (HDI) than the national value (0.727⁹) at the moment of credit origination and according to available data.</p> <p>Total financing for vulnerable areas MSMEs amounted R\$7,735,079,558 of <i>outstanding stock</i> within BNDES <i>Finame</i>, BNDES <i>Automático</i>, and <i>Cartão BNDES</i> on December 31, 2020.</p>

⁸ Target can change subject to ABC Program budget.

⁹ For details on vulnerable areas see [OEL#15](#) of the project document.

Indicators	Unit of measurement	Baseline value	Baseline year	Expected year for achievement	Target	Means of verification	Comments
							<p><i>Formula = Outstanding stock for MSMEs in Vulnerable Regions / relevant portfolio.⁶</i></p> <p>Given that the program resources represent a small portion of BNDES relevant portfolio and the context of the pandemic of COVID-19, the target will be conservative and assume that the program has helped to at least maintain the figure of the baseline.</p>
Indicator 5: Women MSME financing percentage over relevant portfolio. ⁶	%	21.9	2020	2026	21.9	BNDES and <i>Quadro de Sócios e Administradores</i> (QSA) by <i>Receita Federal</i> .	<p>A firm will be considered Woman MSME¹⁰ when evidence support decision-making process is led by women. For the relevant portfolio, majority (97.6%) of identified women MSMEs have either majority of woman managing partners, or women as individual holder of the firm.</p> <p>Total financing for women MSMEs amounted R\$2,162,780,806 of <i>outstanding stock</i> within BNDES <i>Finame</i>, BNDES <i>Automático</i> and <i>Cartão</i> BNDES on December 31, 2020.</p> <p><i>Formula = Outstanding stock for Women MSMEs / relevant portfolio.⁶</i></p> <p>Given that: (i) amid COVID-19 pandemic there was a reduction in this indicator; (ii) there could be a</p>

¹⁰ For details on women MSMEs see [OEL#4](#) of the project document.

Indicators	Unit of measurement	Baseline value	Baseline year	Expected year for achievement	Target	Means of verification	Comments
							low demand from women MSMEs; and (iii) BNDES does not yet have specific products for this segment, this intervention together with BNDES efforts will work towards maintaining, as a minimum, this share allocated to women, that otherwise may fall significantly. To ensure support to women, 30% of program resources are directed to women MSMEs.
Indicator 6: Eligible credit ⁶ for MSMEs financed originated through digital channels percentage over total eligible credit MSMEs financed.	%	99	2021	2026	99	Counting of <i>Cadastro Nacional da Pessoa Juridica</i> (CNPJ) ¹¹ matching disbursements made through BNDES Online platform, divided by total count of CNPJ. BNDES has access to the CNPJ and will use its internal operational systems for disbursement information.	This indicator considers MSMEs using at least one of the platforms included in BNDES digital channels. ¹² This indicator includes only eligible credit within BNDES <i>Finame</i> and BNDES <i>Automático</i> ; <i>Cartão</i> BNDES is excluded. Digital origination is expected to maintain 2021 performance through the life of the operation.
Indicator 7: Total Energy rating for	kWh	0	2021	2026	26,400	Reports provided by the projects	The energy rating indicator shows the maximum amount of energy that can be stored in the battery or

¹¹ The CNPJ is the national registry of legal entities, which provides a unique identification number for Brazilian companies.

¹² For details on digital channels see [OEL#7](#) of the project document.

Indicators	Unit of measurement	Baseline value	Baseline year	Expected year for achievement	Target	Means of verification	Comments
BESS projects. ¹						supported and information gathered under TC-BR-T1497.	<p>storage system for all projects (see GESP Monitoring and Reporting Toolkit for more details). The baseline is zero assuming that without the finance provided by the program, companies would not have implemented BESS.</p> <p>All BESS investments indicators are based on the assumptions summarized above (*) in Impact Indicator #3).</p> <p><i>Calculation:</i> $\text{US\\$27.5million} / (\text{US\\$1,042} / \text{kWh}) = 26,400 \text{ kWh}$</p>
Indicator 8: Total Power rating for BESS projects. ¹	kW	0	2021	2026	8,800	Reports provided by the projects supported information gathered under TC-BR-T1497.	<p>The power rating indicates how much power can flow into or out of the energy storage systems continuously for all projects (see link).</p> <p>The baseline is zero assuming that without the finance provided by the program, companies would not have implemented BESS.</p> <p>All BESS investments indicators are based on the assumptions summarized above (*) in Impact Indicator #3).</p> <p><i>Calculation:</i> $(\text{US\\$27.5 million} / (\text{US\\$1,042} / \text{kWh})) = 26,400 \text{ kWh.}$ $26,400 \text{ kWh} / 3 \text{ hours} = 8,800 \text{ kW.}$</p>

Indicators	Unit of measurement	Baseline value	Baseline year	Expected year for achievement	Target	Means of verification	Comments
							Considering that the total storage capacity of a standard BESS project will be consumed in three hours of use, the total power rate is 8,800 kW.
Indicator 9: Total investments for BESS and RE channeled through BNDES. ¹	Million US\$	0	2021	2026	40.0	BNDES internal information.	<p>This indicator includes the resources from the program and co-financing from local and private sector funds, to be invested in BESS and Renewable Energy (RE) investments, in line with Clean Technology Fund (CTF) requirements.</p> <p>The baseline is zero because there have not been prior disbursements for BESS investments through the relevant credit line. The target is the sum of program resources allocated for BESS and RE of US\$25 million (including CTF funds and Bank's Ordinary Capital) plus US\$15 million expected from private financing (LFI financing and borrower's equity). From these resources, US\$27.5 million are exclusively for BESS investments.</p>

Outputs

Indicators	Unit of measurement	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	End of Project	Means of verification	Comments
Component 1: Medium and long-term financing to MSME's sustainable investments (US\$250 millions).											
Milestone 1: Number of MSMEs financed	Number	0	2021	TBD						Information provided by BNDES.	
Product 1: Program resources channeled for financing BESS investments.	Million US\$	0	2021	2	2	2	2	2	10	Tracking and monitoring data processed by BNDES and IDB.	The value includes US\$10 million from CTF exclusively allocated for BESS investments. ¹
Cost of product 1 ¹³	Million US\$	0	2021	2	2	2	2	2	10		
Product 2: Program resources channeled for financing other climate related investments. ¹⁴	Million US\$	0	2021	12.3	12.3	12.3	12.3	12.3	61.5	Tracking and monitoring data processed by BNDES and IDB.	The value for the end of the project shows US\$61.5 million, which added to product 1 and product 5, sum up to 30% of total resources of the program allocated to climate related investments (US\$76.5 million).
Cost of product 2 ¹³	Million US\$	0	2021	12.3	12.3	12.3	12.3	12.3	61.5		
Milestone 2: Number of women MSMEs beneficiaries	Number	0	2021	TBD						Information provided by BNDES.	
Product 3: Program resources channeled for financing women MSMEs. ¹⁴	Million US\$	0	2021	15.3	15.3	15.3	15.3	15.3	76.5	Tracking and monitoring data processed by BNDES and IDB.	The value for the end of the project shows 30% of the resources of the program allocated to women MSMEs.
Cost of product 3 ¹³	Million US\$	0	2021	15.3	15.3	15.3	15.3	15.3	76.5		

¹³ The total cost corresponds to the sum of the annual disbursements during the execution of the program.

¹⁴ Under the *Cartão BNDES*, *BNDES Automático*, and *BNDES Finame* credit lines.

Indicators	Unit of measurement	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	End of Project	Means of verification	Comments
Product 4: Program resources channeled for financing MSMEs in vulnerable areas. ¹⁴	Million US\$	0	2021	20.4	20.4	20.4	20.4	20.4	102	Tracking and monitoring data processed by BNDES and IDB.	The value for the end of the project shows 40% of the total resources of the program allocated to MSMEs in vulnerable areas.
Cost of product 4 ¹³	Million US\$	0	2021	20.4	20.4	20.4	20.4	20.4	102		
Component 2: Guarantee Fund for MSMEs Energy and BESS investments (US\$5 millions).											
Product 5: Program resources provided for the Guarantee Fund for Energy (FGEnergia).	Million US\$	0	2021	1	1	1	1	1	5	Tracking and monitoring data processed by BNDES and IDB.	The value for the end of the project corresponds to US\$5 million.
Cost of product 5 ¹³	Million US\$	0	2021	1	1	1	1	1	5		

Country: Brazil

Division: IFD/CMF

Operation No.: BR-L1576

Year: 2021

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Executing Agency (EA): *Banco Nacional de Desenvolvimento Econômico e Social (BNDES)*

Operation Name: Program BID-BNDES to Finance the Sustainable and Productive Recovery of Micro, Small and Medium Enterprises (MSMEs)

I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

1. Use of country system in the operation: (Any system or subsystem that is subsequently approved may be applicable to the operation, in accordance with the terms of the Bank's validation).

<input checked="" type="checkbox"/> Budget	<input checked="" type="checkbox"/> Reports	<input checked="" type="checkbox"/> Information System	<input type="checkbox"/> National Competitive Bidding (NCB)
<input checked="" type="checkbox"/> Treasury	<input type="checkbox"/> Internal Audit	<input type="checkbox"/> Shopping	<input checked="" type="checkbox"/> Others
<input checked="" type="checkbox"/> Accounting	<input checked="" type="checkbox"/> External Control	<input type="checkbox"/> Individual Consultants	

2. Fiduciary execution mechanism:

<input checked="" type="checkbox"/>	Particularities of fiduciary execution	Through Component 1, BNDES will intermediate through its Accredited Financial Institutions (AFI) sub-loans to private investors, who will make the purchases. The eligible BNDES financial products (FINAME, <i>Cartão BNDES</i> , <i>Programa ABC</i>), demonstrate that the sub-borrowers will carry out the acquisitions in accordance with the current commercial practices of the private sector. Component 2 will be channeled to the BNDES Guarantee Fund for Energy (FGEnergia), which will offer AFIs concessionally-priced guarantees and shall follow Policy GN-2729-4 (specifically paragraph 3.37), in accordance with Policy GN-2349-15 (paragraph 3.19). The review of FGEnergia documentation shows that these are in compliance with the Basic Procurement Principles. The program's Operating Regulations (OR) will reinforce the integrity and social obligations established by the Bank, including for the AFIs, sub-borrowers and final beneficiaries aligned with Social Responsibility Policies of the BNDES and AFIs.
-------------------------------------	--	---

3. Fiduciary capacity:

Fiduciary Capacity of EA	The institutional capacity assessment was updated in 2021 for the "Federative Program for Intelligent Public Safety PROSEG-Federativo" under preparation, showing that high level of technical capacity is maintained and that information systems and external controls are suitable for project management. The implementation capacity was demonstrated with the execution operations 3866/OC-BR and 4672/OC-BR . For the administration of the Guarantee fund, it is noted that the internal regulations of the FGEnergia contain goods and equipment provisions complying with the Basic Procurement Principles.
--------------------------	---

4. Fiduciary risks and risk response: None identified.

5. Policies and guides applicable to operation: GN-2349-15, GN 2350-15, GN-2729-4 and OP-273-12.

6. Exceptions to policies and rules: None.

II. ASPECTS TO BE CONSIDERED IN THE SPECIAL CONDITIONS OF THE LOAN AGREEMENT

Exchange rate for the guarantee on credit for FGEnergia: For accountability, the applicable rate will be the Central Bank's purchase rate of the conversion of the advanced amount in US\$ into Brazilian Reais.

Exchange rate for on-lending: In the case of reimbursements, the exchange rate used will be the effective date on which BNDES funds are transferred to sub-borrowers for sub-loans to private investors. In the case of advances of funds, the applicable rate will be the same of the conversion into Brazilian Reais of each individual advanced amount. In all cases the rate will be the Central Bank's purchase rate.

Audited Financial Reports (AFR): Considering that the operation will be carried out over five years, the Financial Reports will be audited by the General Comptroller of the Union (CGU) and will be presented within 120 days after the end of each fiscal year of BNDES, in accordance with the terms of reference agreed with the Bank, and the last AFR will be presented within 120 days after the current date of last disbursement.

III. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

<input checked="" type="checkbox"/>	Projects with Financial Intermediaries	The analysis of indirect financial operations carried out by BNDES (<i>Finame, CartãoBNDES, BNDES Automático</i> and <i>Linha ABC</i>), shows that the sub-borrowers will carry out the acquisitions in accordance with the current business practices of the private sector, which is acceptable to the Bank. Global credit programs and other operations in which resources are channeled through AFIs for granting sub-loans agreements between the Executing Agency (EA), its AFIs, and its final beneficiaries shall include the Bank's prohibited practices clauses. Alternatively, if the effective inclusion of such clauses in the contracts is not possible or practicable in the circumstances of the project, the project team may analyze other mechanisms to adopt acceptable controls and ensure traceability and follow up with third parties of the IDB Sanctions Procedures. The design of these mechanisms has been coordinated with OII and LEG and is contemplated in the program's OR .
<input checked="" type="checkbox"/>	Advance Contracting Retroactive Financing	<p>The Bank may finance retroactively under the OC loan, eligible expenses incurred by the borrower for Component 1 of the program (paragraphs 1.31-1.35 of project document, OR) prior to the loan approval date up to US\$48 million (20% of the OC loan amount), provided that requirements substantially similar to those established in the loan contract were met. Retroactive financing is especially important to ensure timely disbursement of resources given the immediate needs relating to COVID-19 recovery (paragraphs 1.6-1.18 of project document). These expenses shall be incurred on or after August 17, 2021 (approval date of the Project Profile), and under no circumstances shall expenditures incurred more than 18 months prior to the loan approval date be included.</p> <p>The resources recovered by BNDES from amortization payments and prepayments of sub-loans in excess of what is needed to service the loan with the Bank, will be used to finance new sub-loans for up to five years from the date of the last disbursement of the OC loan.</p>

Main acquisitions: The program does not contemplate procurements.

IV. AGREEMENTS AND REQUIREMENTS FOR FINANCIAL MANAGEMENT

<input checked="" type="checkbox"/>	Programming and Budget	BNDES is a public company with legal entity and owns its own assets, so it does not receive budgetary funds from the Federal Government. BNDES follows the national regulations established in the annual budget law, maintaining an advanced level in its financial management systems. Planning and scheduling roles and responsibilities are documented in the Financial Planning and Programming Manual, as well as in its planning policies that are authorized by the Board of Directors.
<input checked="" type="checkbox"/>	Treasury and Disbursement Management	<p>Disbursements of the loan will be made in U.S. dollars, mainly under the modality of reimbursement of expenses. It will also be possible to use the modality of advance of funds, at the request of BNDES. Disbursement requests will be submitted to the Bank in accordance with the requirements set forth in the loan agreement, as well as in the IDB's OR and Financial Management Guide.</p> <p>For advance of funds, the BNDES must present a financial plan with estimates of resource allocation for up to six months and must present justifications of expenditures for at least 80% to request a new advance. Verifications by the IDB will be made on a sample basis and ex post. The IDB will process the disbursements and deposit the resources into the bank account designated by the BNDES.</p>
<input checked="" type="checkbox"/>	Accounting, Information Systems and Reporting	BNDES has a robust financial reporting system that supports the accounting and financial records of its operations. With respect to second-level operations, the AFI sends information about the online operation to BNDES. On the BNDES Online platform, the credit granting process is digital and approval is automatic, resulting in reduced transaction costs, increased compliance, and transaction security. BNDES disburses the funds to the AFI, which in turn disburses them to the final beneficiary. These operations are recorded in the BNDES Operations System. BNDES complies with the rules established for banks in Brazil issued by the Central Bank and applies Brazilian standards for reporting. It also publishes its reports using IPSAS International Standards for informational purposes. The BNDES's debt registration and control operations and collection systems are indexed to various currencies, allowing for local currency and US\$ registrations. In this regard, BNDES will record all IDB financing transactions in its own systems.
<input checked="" type="checkbox"/>	External Control: External Financial Audit and Project Reports	The external audit of the program will be carried out by the CGU based on terms of reference previously agreed with the IDB. BNDES will submit the AFR to the Bank within 120 days of the close of each fiscal year and the last one within 120 days of the current date of last disbursement.
<input checked="" type="checkbox"/>	Project Financial Supervision	The IDB's verifications of the program will be carried out by sampling and on an ex post basis.

**PROGRAM BID-BNDES TO FINANCE THE SUSTAINABLE AND PRODUCTIVE RECOVERY OF MICRO,
SMALL AND MEDIUM ENTERPRISES (MSMEs)**

BR-L1576

CERTIFICATION

The Grants and Co-Financing Management Unit (ORP/GCM) certifies that the referenced operation will be financed through:

Funding Source	Fund Code	Currency	Amount Up to
Clean Technology Fund	CTF	USD	10,000,000

For operations financed by funds where the Inter-American Development Bank (IDB) does not control liquidity, the availability of resources is contingent upon the request and the receipt of the resources from the donors. Additionally, in case of operations financed by funds that require a post-approval agreement with the donor, the availability of resources is contingent upon the signature of the agreement between the Donor and the IDB. (i.e.: Project Specific Grants (PSG), Financial Intermediary Funds (FIF), and single donor trust funds).

Certified by:

Original Signed

October 29, 2021

Maria Fernanda García

Date

Chief

Grants and Co-Financing Management Unit
ORP/GCM

**PROGRAM BID-BNDES TO FINANCE THE SUSTAINABLE AND PRODUCTIVE RECOVERY OF MICRO,
SMALL AND MEDIUM ENTERPRISES (MSMEs)**

BR-G1011

CERTIFICATION

The Grants and Co-Financing Management Unit (ORP/GCM) certifies that the referenced operation will be financed through:

Funding Source	Fund Code	Currency	Amount Up to
Clean Technology Fund	CTF	USD	5,000,000

For operations financed by funds where the Inter-American Development Bank (IDB) does not control liquidity, the availability of resources is contingent upon the request and the receipt of the resources from the donors. Additionally, in case of operations financed by funds that require a post-approval agreement with the donor, the availability of resources is contingent upon the signature of the agreement between the Donor and the IDB. (i.e.: Project Specific Grants (PSG), Financial Intermediary Funds (FIF), and single donor trust funds).

Certified by:

Original Signed

Oct 29, 2021

Maria Fernanda García

Date

Chief

Grants and Co-Financing Management Unit
ORP/GCM

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/21

Brazil. Loan ___/OC-BR to *Banco Nacional de Desenvolvimento Econômico e Social* - BNDES. Program BID-BNDES to Finance the Sustainable and Productive Recovery of Micro, Small and Medium Enterprises (MSMEs)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with *Banco Nacional de Desenvolvimento Econômico e Social* - BNDES, as Borrower, and with the Federal Republic of Brazil, as Guarantor, for the purpose of granting the former a financing aimed at cooperating in the execution of the Program BID-BNDES to Finance the Sustainable and Productive Recovery of Micro, Small and Medium Enterprises (MSMEs). Such financing will be in the amount of up to US\$240,000,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan and Non-reimbursable Financing Proposal.

(Adopted on _____ 2021)

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/21

Brazil. Loan ___/TC-BR to *Banco Nacional de Desenvolvimento Econômico e Social* – BNDES. Program BID-BNDES to Finance the Sustainable and Productive Recovery of Micro, Small and Medium Enterprises (MSMEs)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, in its capacity as Implementing Entity for the Clean Technology Fund, to enter into such contract or contracts as may be necessary with the *Banco Nacional de Desenvolvimento Econômico e Social* – BNDES, as Borrower, and with the Federal Republic of Brazil, as Guarantor, for the purpose of granting the former a financing to cooperate in the execution of the Program BID-BNDES to Finance the Sustainable and Productive Recovery of Micro, Small and Medium Enterprises (MSMEs). Such financing will be for the amount of up to US\$10,000,000 from the resources of the Clean Technology Fund, administered by the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan and Non-reimbursable Financing Proposal.

(Adopted on ___ 2021)

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/21

Brazil. Non-reimbursable Investment Financing ___/GR-BR to *Banco Nacional de Desenvolvimento Econômico e Social – BNDES*. Program BID-BNDES to Finance the Sustainable and Productive Recovery of Micro, Small and Medium Enterprises (MSMEs)

The Board of Executive Directors

RESOLVES:

That the President of the Inter-American Development Bank (“Bank”), or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, in its capacity as Implementing Entity for the Clean Technology Fund, to enter into such contract or contracts as may be necessary with the *Banco Nacional de Desenvolvimento Econômico e Social – BNDES*, as beneficiary, for the purpose of granting it a non-reimbursable investment financing to cooperate in the execution of the Program BID-BNDES to Finance the Sustainable and Productive Recovery of Micro, Small and Medium Enterprises (MSMEs). Such non-reimbursable financing will be for an amount of up to US\$5,000,000 from the resources of the Clean Technology Fund, administered by the Bank, and will be subject to the Terms and the Special Contractual Conditions in the Project Summary of the Loan and Non-reimbursable Financing Proposal.

(Adopted on ____ 2021)