

TC ABSTRACT

I. Basic Project Data

▪ Country/Region:	REGIONAL/IDB
▪ TC Name:	Assessing SMEs decarbonization transition readiness in LAC
▪ TC Number:	RG-T4099
▪ Team Leader/Members:	GRAZZI, MATTEO (IFD/CTI) Team Leader; HENRIQUEZ LEBLANC, PAULINE (IFD/CTI) Alternate Team Leader; MARIA ALEJANDRA GALEANO (IFD/CTI); SANDRA LOPEZ (IFD/CTI); VARGAS CUEVAS, FERNANDO ESTEBAN (IFD/CTI); MENDOZA BENAVENTE, HORACIO (LEG/SGO); MEIROVICH, HILEN GABRIELA; DELGADO, C. RAUL (CSD/CCS); RADAELLI, VANDERLEIA (IFD/CTI)
▪ Taxonomy:	Research and Dissemination
▪ Number and name of operation supported by the TC:	N/A
▪ Date of TC Abstract:	15 Jun 2022
▪ Beneficiary:	CID, CAN, CSC, CCB.
▪ Executing Agency:	INTER-AMERICAN DEVELOPMENT BANK
▪ IDB funding requested:	US\$400,000.00
▪ Local counterpart funding:	US\$0.00
▪ Disbursement period:	30 months
▪ Types of consultants:	Individuals; Firms
▪ Prepared by Unit:	IFD/CTI - Competitiveness, Technology and Innovation Division
▪ Unit of Disbursement Responsibility:	IFD/CTI - Competitiveness, Technology and Innovation Division
▪ TC included in Country Strategy (y/n):	No
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Productivity and innovation ; Institutional capacity and rule of law; Environmental sustainability

II. Objective and Justification

- 2.1 Given the context and considering the contribution of SMEs to LAC's economy and the lack of information on this matter in the region, the general objective of this TC is to improve the knowledge of LAC policymakers to design, implement and monitor strategies aimed at reducing greenhouse gas emissions produced by and strengthening climate resilience of SMEs in the region. This will be pursued through the design, application, analysis, and dissemination of the results of a survey on SMEs decarbonization transition readiness.
- 2.2 LAC MSMEs represent 99.5% of the region's enterprises, generating 61.1% of jobs, but only 24.6% of total productivity. Although MSMEs individually generate a marginal amount of greenhouse gas (GHG) emissions, taken together they are responsible for a very significant amount. The OECD estimates that SMEs account for 60% to 70% of the GHG emissions of the industrial sector. Also, recent studies in the UK find that SMEs contribute between 43% to 53% to GHG emissions of the country's industrial sector. While 60% of SMEs report some awareness of key net-zero concepts, 53% are not ready to prioritize decarbonization in their activities and processes yet, and 56% report no actions.

- 2.3 The transition of SMEs to a net-zero emissions and climate resilient economy is not only necessary to reduce emissions, but also to improve their resource efficiency and adaptive capacity with a view to both reducing production costs and increasing productivity gains, as well as gaining the possibility to access sophisticated markets and engaging in greener, higher value chains.
- 2.4 **Strategic Alignment.** The TC is aligned with the development challenge of productivity and innovation; and the cross-cutting issue of climate change and environmental sustainability of the Second Update to the IDB Group Institutional Strategy (AB-3190-2). Moreover, the TC is aligned with the Vision 2025 through the medium-term strategic goal “reactivate the productive sector” and the support for SMEs and climate change action investments priorities. TC activities will contribute to a green recovery of the SMEs productive sector through providing non-existing information to LAC policymakers to promote strategies and incentives for SMEs to advance in the transition to decarbonization and climate resilient pathways. In turn, these strategies and incentives will support SMEs recovering from the COVID-19 economic crisis and increasing their competitiveness and efficiency by enabling the environment for enhancing innovative process, products and services aligned with the Paris Agreement’s objectives.

III. Description of Activities and Outputs

- 3.1 **Component I: SME decarbonization survey (US\$300,000).** This component will finance the design and implementation of a survey on SMEs decarbonization transition and climate resilience readiness in LAC. Including: (i) development and testing of the survey; (ii) definition of an appropriate sample frame, statistically representative of the major economic sectors in each country; (iii) collection of data on SMEs. The dataset will create awareness and knowledge for policymakers on challenges and opportunities towards a net-zero emissions economy.
- 3.2 **Component II: Analytical research and capacity building (US\$40,000).** This will promote the production of analytical research. Specifically: (i) studies performing different econometric exercises, to explore the relation between the demographic and socioeconomic characteristics of the firms and their decarbonization and climate resilience strategy, and the digital technology adoption, innovation performance, and decarbonization and climate resilience strategies; and (ii) a regional academic workshop on SMEs decarbonization and climate resilience strategies.
- 3.3 **Component III: Communication and Dissemination. (US\$60,000).** This component will support the dissemination strategy of the project. Including: (i) presenting the main results of the survey and the analytical studies in a regional virtual conference on SMEs and decarbonization; (ii) two policy dialogues to discuss the results with policymakers; (iii) the collected data will be included in an interactive web platform which will help to disseminate the results and allow the public to have an easy access to the data and perform customized queries.

IV. Budget

Indicative Budget

Activity/Component	IDB/Fund Funding	Counterpart Funding	Total Funding
SME decarbonization survey (US\$300,000)	US\$300,000.00	US\$0.00	US\$300,000.00
Analytical research and capacity building (US\$40,000)	US\$40,000.00	US\$0.00	US\$40,000.00
Communication and Dissemination. (US\$60,000)	US\$60,000.00	US\$0.00	US\$60,000.00

Total	US\$400,000.00	US\$0.00	US\$400,000.00
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V. Executing Agency and Execution Structure

- 5.1 The Bank will execute the TC as this is a Research and Dissemination TC originated by the Bank's initiative.
- 5.2 The IDB through IFD/CTI, in coordination with CSD/CCS will be responsible for the direction, supervision, and coordination of this TC. Given the experience of CTI in the topics included in this TC, this unit will be responsible for the procurement and supervision of the products.

VI. Project Risks and Issues

- 6.1 There are no major risks associated with the implementation of this TC. However, the success of the survey application will depend on the SMEs response rates, as firms are increasingly becoming more reluctant to allocate time to data collectors and share information. To mitigate this risk and increase the buy-in of respondents, the hired consulting firm will be required to design and implement an awareness strategy to communicate to respondents the goals and key benefits to participate, such as the ability for firms to benchmark decarbonization strategies. Finally, to mitigate the risks linked to the on-going coronavirus global health crisis (or another large-scale crisis which will preclude large face-to-face activities), all the planned in-person activities included in Component II and Component III could be delivered on-line depending on the current public health conditions.

VII. Environmental and Social Classification

- 7.1 The ESG classification for this operation is "undefined".