

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BRAZIL

**PRO-AMAZÔNIA – BID-BNDES ACCESS TO CREDIT PROGRAM FOR
MSMEs AND SMALL ENTREPRENEURS**

(BR-L1625)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Rafael Cavazzoni, Team Leader (IFD/CMF), Eduardo Sierra, Alternate Team Leader (IFD/CMF); Aurea Fuentes, Gabriela Andrade, Karina Azar, Daniel Ricas, Claudia Marquez, Andreza Leódido, and Cecilia Bernedo (IFD/CMF); Pedro Bergamín; Katia Fenyves and Luciana Araujo Carrijo (CSD/CCS); Luis Hernando Hintze, Octavio Jorge Damiani (RND/CBR); Carlos Echeverria (INE/ENE); María Victoria del Campo (SPD/SDV); Juliana Dubeux and Jorge Luis González (VPC/FMP); Guillermo Eschoyez and Krysia Avila (LEG/SGO); Bruno da Costa (FIN/TRY); Daniel Hincapié (CSD/ACU); Robert Langstroth and Luciana Vanzan (VPS/ESG); Ercio Muñoz (SCL/GDI); Marcia Groszmann (INO/FLI); Isabel Haro, María Cabrera, Cinthia Bechelaine, and Rafael Ribeiro (Consultants).

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

PROJECT SUMMARY	1
I. PROJECT DESCRIPTION AND RESULTS MONITORING	2
A. Background, problem addressed, and justification	2
B. Objective, components, and cost	17
C. Key results indicators.....	19
II. FINANCING STRUCTURE AND MAIN RISKS.....	20
A. Financing instruments.....	20
B. Environmental and social risks.....	21
C. Fiduciary risk	22
D. Other risks and key issues	22
III. IMPLEMENTATION AND MANAGEMENT PLAN	23
A. Summary of implementation arrangements.....	23
B. Summary of arrangements for monitoring results.....	26

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

REQUIRED ELECTRONIC LINKS (REL)	
REL#1	Monitoring and Evaluation Arrangements
REL#2	Environmental and Social Review Summary (ESRS)

OPTIONAL ELECTRONIC LINKS (OEL)	
OEL#1	Economic Analysis
OEL#2	Operating Regulations (OR)
OEL#3	Technical Note 1: Demand Analysis
OEL#4	Vertical Logic Analysis
OEL#5	Technical Note 2: Impact on Productive Investment
OEL#6	Climate Change and Sustainability Annex
OEL#7	Gender and Diversity Annex
OEL#8	Technical Note 3: Capacity Building Synergies
OEL#9	BNDES Investor Presentation
OEL#10	References
OEL#11	Analysis of BID-BNDES Previous Loan Operations
OEL#12	Technical Note 4: Impact on Rural Development

ABBREVIATIONS	
BACEN	Brazilian Central Bank
BB	<i>Banco do Brasil</i>
BNDES	<i>Banco Nacional de Desenvolvimento Econômico e Social</i>
CAF	<i>Banco de Desarrollo de América Latina y el Caribe (previously - Corporación Andina de Fomento)</i>
CC	Climate Change
CNAE	National Classification of Economic Activities
CS	IDB Group Country Strategy
DG	Diverse Groups
EA	Executing Agency
ESMS	Environmental and Social Management System
ESRS	Environmental and Social Review Summary
FA	Financial Agents
FAO	Food and Agriculture Organization of the United Nations
FGI	<i>Fundo Garantidor para Investimentos</i>
FP	Financial Plans
GDO	General Development Objective
GDP	Gross Domestic Product
HDI	Human Development Index
IBGE	<i>Instituto Brasileiro de Geografia e Estatística</i>
IP	Indigenous People
IRR	Internal Rate of Return
MDB	Multilateral Development Bank
MMA	Ministry of Environment and Climate Change
MSME	Micro, Small and Medium Enterprises
NDC	Nationally-Determined Contributions
NPV	Net Present Value
OR	Operating Regulations
PCR	Project Completion Report
PDB	Public Development Bank
PEP	Pluri-annual Execution Plans
PME	Monitoring and Evaluation Arrangements
POA	Annual Operational Plans
PPCD	Action Plan for the Prevention and Control of Deforestation
ROB	Gross Operating Revenue
SDG	Sustainable Development Goals
SDO	Specific Development Objective
SEBRAE	<i>Serviço Brasileiro de Apoio às Micro e Pequenas Empresas</i>
SUDAM	Superintendence of Amazon Development
TC	Technical Cooperation
WAL	Weighted Average Life

PROJECT SUMMARY
BRAZIL
PRO-AMAZÔNIA – BID-BNDES ACCESS TO CREDIT PROGRAM FOR MSMES AND SMALL
ENTREPRENEURS
(BR-L1625)

Financial Terms and Conditions						
Borrower			Flexible Financing Facility			
<i>Banco Nacional de Desenvolvimento Econômico e Social</i> (BNDES)			Amortization Period: ^(a)		25 Years	
Guarantor			Disbursement Period:		4 Years	
Federative Republic of Brazil						
Executing Agency			Grace Period: ^(b)		5.5 Years	
BNDES						
Source	Amount (US\$)	%	Interest rate:		SOFR Based	
			Credit Fee:		^(c)	
IDB (Ordinary Capital):	750 million	83.3	Inspection and supervision fee:		^(c)	
Local (BNDES):	150 million	16.7	Weighted Average Life (WAL):		15.25 Years	
Total:	900 million	100	Currency of Approval:		Dollars of the United States of America	
Project at a Glance						
Project objective/description: The program's General Development Objective is to promote the sustainable development of the Amazon Region, strengthening productivity and job creation among Micro, Small and Medium Enterprises (MSME). The Specific Development Objective is to increase the availability of financing for productive investments of MSMEs in the Amazon Region.						
Special contractual clauses prior to the first disbursement of the financing: Prior to the first disbursement of the IDB loan, it will be a special contractual condition that BNDES presents evidence of its approval of the program's Operating Regulations (OR), in accordance with the terms previously agreed with IDB, and that such OR has entered into force (¶3.6). In addition, see the Special Environmental and Social conditions in Annex B of the ESRS (REL#2).						
Exceptions to IDB policies: As in prior loan operations with BNDES, the guarantee of the Federative Republic of Brazil for this project will be limited to BNDES's financial obligations (including the amortization of principal, interest, and other financial charges), and will not cover BNDES's contractual obligations regarding program execution and local counterpart. Consequently, it is necessary that a partial waiver to IDB's policy on guarantees required from the borrower (GP-104-2) be approved by the Board of Executive Directors (¶3.7).						
Strategic Alignment						
Objectives ^(d) :	O1 <input checked="" type="checkbox"/>		O2 <input checked="" type="checkbox"/>		O3 <input checked="" type="checkbox"/>	
Operational Focus Areas ^(e) :	OF1 <input checked="" type="checkbox"/>	OF2-G <input checked="" type="checkbox"/> OF2-D <input checked="" type="checkbox"/>	OF3 <input type="checkbox"/>	OF4 <input type="checkbox"/>	OF5 <input checked="" type="checkbox"/>	OF6 <input type="checkbox"/> OF7 <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 WAL and the last payment date, as documented in the loan agreement, are not exceeded.

^(c) 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.

^(d) O1 (Reduce poverty and inequality); O2 (Address climate change); and O3 (Bolster sustainable regional growth).

^(e) OF1 (Biodiversity, natural capital, and climate action); OF2-G (Gender equality); OF2-D (Inclusion of diverse population groups); OF3 (Institutional capacity, rule of law, and citizen security); OF4 (Social protection and human capital development); OF5 (Productive development and innovation through the private sector); OF6 (Sustainable, resilient, and inclusive infrastructure); and OF7 (Regional integration).

I. PROJECT DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and justification

- 1.1 **Macro context.** Brazil's economy has demonstrated resilience. Growth is projected to 3.05% in 2024 and moderate 1.93% in 2025, from 2.9% in 2023.¹ Inflation is expected to reach 4.22% by end-2024 amidst a high degree of uncertainty around growth prospects for the global economy. The persistence of inflation has led central banks to reaffirm their commitments to promote convergence of inflation rates to targets, raising interest rates or emphasizing the need to keep them at high levels in the long-term. This has influenced domestic decisions, impacting local financing to the real economy, which has continued to decelerate since 2021, even though banks are highly liquid and adequately capitalized, the financial system remains resilient, and systemic risks are contained. As Brazil pursues its ambitious, sustainable and inclusive growth agenda through its Ecological Transformation Plan, financing gaps remain, requiring instruments and solutions to attract longer-term green financing.² As highlighted in [IMF's Article IV](#), lending by public development banks is warranted in the presence of well-established market failures, subject to minimizing distortions to the private credit market.
- 1.2 **The Brazilian Amazon: Distinctive challenges and potential for a sustainable development transition.** The Brazilian Amazon³ covers over 5 million square kilometers (about 61% of the Brazilian territory) and comprises the states of *Acre, Amapá, Amazonas, Pará, Rondônia, Roraima, Tocantins, Mato Grosso, and Maranhão*. This region hosts over 80% of natural areas in the country,⁴ including 20% of the *cerrado* biome and 67% of the world's tropical forests. It also provides essential services for nearly 30 million inhabitants, including 350 indigenous communities and sub-regions of very different socioeconomic characteristics, which poses an immense challenge for planning integrated development. Access to logistical infrastructure, sanitation, education, health, and safety is lower in the Brazilian Amazon than in the rest of the country, as is the average Human Development Index (HDI),⁵ 40% of its population is poor, and its per-capita household income is far below other regions.⁶
- 1.3 By 2020, the Brazilian Amazon contributed about 10% of the national GDP.⁷ Various economic activities comprise the local productive fabric, including agriculture, livestock, and industry. However, the States of Pará, Mato Grosso, Amazonas and Maranhão concentrate approximately 81% of the region's output, which has seen high agribusiness growth in recent years.⁸ Historically, the

¹ Instituto *Brasileiro de Geografia e Estatística* (IBGE) and Brazilian Central Bank (BACEN), [OEL#10](#)[1], and [OEL#10](#)[2].

² IMF Brazil 2024 Article IV Consultation May 2024.

³ Throughout this proposal, Brazilian Amazon refers to the States of Acre, Amapá, Amazonas, Pará, Rondônia, Roraima, Tocantins, Mato Grosso, and Maranhão.

⁴ [OEL#10](#)[3].

⁵ [OEL#10](#)[4]. The region's average of 0.736, led by the high records of Amazon's large cities in contrast to poorer rural municipalities, is still below the nation's average of 0.76.

⁶ [OEL#10](#)[5].

⁷ [OEL#10](#)[6].

⁸ [OEL#10](#)[7].

expansion of low-productivity livestock in this region has been associated with deforestation. Indeed, around 80% of the 84 million hectares of deforested areas of the Amazon biome are still today occupied by low-productivity pastures.⁹ More sustainable opportunities exist, guided by economic clusters linked to activity in deforested areas, as well as conserved forest areas and cities.¹⁰ Extractive activity in forests and forest-based products have significant potential for cultivation in more biodiverse agroforestry systems, and agriculture and livestock value chains traditionally associated with deforestation can also transition from conventional production models to regenerative ones. In non-rural areas, economic activity is guided by services, industry, and entrepreneurship, mainly Micro, Small and Medium Enterprises (MSME), representing important development hubs for products and services that directly impact the production chains of rural extractive and regenerative activity.¹¹ [Studies](#) suggest that improving productivity in Amazonian cities can lead to reduced deforestation. As urban economies grow and diversify, they offer alternative employment opportunities, diminishing the need for rural populations to engage in activities that drive deforestation. In this sense, MSMEs in both rural and non-rural areas in the Brazilian Amazon play a fundamental role in boosting development and employment, preserving biodiversity and global climate.

- 1.4 **Investment to boost the productive capacity of MSMEs is vital for development.** Given the above-described context, boosting the Brazilian Amazon's development requires strategic support across an array of diverse economic activities, to equitably help them create new productive means, promote sustainable practices, and increase resilience and quality of employment. It is estimated that Brazil can more than double its current rural production without additional deforestation,¹² but to do so rural producers and MSMEs must invest in the modernization and intensification of their operations and increase diversification through the adoption of sustainable production alternatives. Non-rural MSMEs must also invest to improve their performance and productivity, but they are generally trapped in a vicious cycle where low productivity produces less profitability, making them less able to invest, and unable to expand or compete in wider markets.¹³ In general, MSMEs struggle with no funding sources and are often left dependent on their own capital to fund investments. Given the cyclical nature of excess cash and the different timings of investment needs, using their own capital to invest in fixed assets compromises resources that can be critical to sustain operations in the short term. This is particularly critical in the Amazon, where economic activity is strongly linked to cycles of nature and its regional distinctive factors, such as inadequate infrastructure or capacity, which increase financial risk and jeopardize socio-environmental returns.¹⁴
- 1.5 **The credit market failure: Limited access to suitable private financing for MSMEs.** MSMEs suffer from uncertainties associated with fluctuations in the economic cycle, which are linked to the incremental credit constraints they typically face, especially when it comes to long-term finance. Between

⁹ [OEL#10](#)[8].

¹⁰ [OEL#10](#)[9].

¹¹ [OEL#10](#)[10].

¹² [OEL#10](#)[11].

¹³ [OEL#10](#)[12].

¹⁴ [OEL#10](#)[13].

2015 and 2018 --Brazil's worst recession before COVID-19--, MSME credit portfolio dropped by almost 50%, compared to 10.2% by large firms.¹⁵ The outstanding stock of MSME loans as a share of total business loans has decreased since 2010, going from 48.15% to 34.69% in 2018. While the trend reversed in 2019, peaking at 41.66% in 2020,¹⁶ the increase is attributed to government measures in response to the pandemic, which largely provided liquidity credit for MSMEs to sustain productive structures and avoid layoffs and company closures.¹⁷ In 2021, growth in overall credit to the private sector decelerated, partly reflecting the base effect of the policies deployed at the start of the pandemic.¹⁸ The rationing problem is potentially greater in the long-term credit market, as the Brazilian private financial system does not yet offer sufficient long-term financing instruments for segments of the economy that, to a large extent, correspond to those that generate positive externalities and relevant social returns.

- 1.6 Several studies support the credit restriction thesis for MSMEs in Brazil -Terra (2003), Aldrighi and Bisinha (2010) and Ambrozio et al. (2017)- and rationalize the problem based on the following factors:
- a. **Information asymmetries.** According to Beck and Demirgüç-Kunt (2006), smaller companies face restrictions in access to credit and are unable to obtain sufficient resources to finance good projects in the market, partly due to informational asymmetries. The MSME Finance Gap (World Bank) shows that only 45% of formal MSMEs in Brazil have access to a credit line, compared to 78% of large firms. In addition, credit information coverage for MSMEs in Brazil is lower than in comparable countries, with only 48% of formal MSMEs having a credit history with a credit bureau. Limited or unreliable information about the firms and the specific projects to be financed makes the risk assessment of this group of companies fragile. As a result, financial institutions may not provide suitable financing to MSMEs, for example, by offering financing at high interest rates, resource rationing, or even not providing the financing at all. This harms their project's rate of return, leaving firms with only their own resources to invest, which may not be sufficient to make their projects viable.
 - b. **Lower availability of collateralizable assets.** Most MSMEs in Brazil lack access to traditional collateral and often rely on personal guarantees or informal lending sources with higher interest rates. Even among formal MSMEs, using collateral for loans is less common than in developed countries, with only 30% of MSME loans backed by collateral compared to over 50% in the average of the Organisation for Economic Co-operation and Development (OECD). The systemic lack of collateral access prevents the requirement for guarantees from being an effective instrument for filtering MSME projects or for inducing entrepreneurs to make less risky choices.
 - c. **High transaction costs, adverse selection, and moral hazard.** Information asymmetries along with lower availability of collateral lead to high interest rates. Interest rates for loans to MSMEs in Brazil are significantly higher than

¹⁵ [OEL#10](#)[14].

¹⁶ [OEL#10](#)[16].

¹⁷ [OEL#10](#)[17]. Other authors suggest a lower prevalence of financing for firms in the region.

¹⁸ [OEL#10](#)[18].

for large firms, with an average of 27.4% in 2020 compared to 7.4% for large firms. This difference reflects the higher transaction costs of smaller loans and riskier borrowers. Also, the current context of high interest rates (¶1.1) is negatively impacting financing costs, hindering access to credit even further, particularly outside larger and higher-income municipalities. According to the World Bank, the cost of providing a US\$10,000 loan to an MSME in Brazil is approximately double that of developed countries. A survey conducted by the Brazilian Central Bank found that 38% of MSMEs identified high interest rates as the main obstacle to accessing credit, which reflects risk premiums and is associated with adverse selection and moral hazard. Additionally, the Non-Performing Loan (NPL) ratio for MSME loans in Brazil has consistently been higher than for larger firms, reaching 10.5% in 2020 compared to 2.5% for large firms, suggesting challenges in borrower selection and monitoring.

- d. **Market concentration.** The five largest banks in Brazil control over 70% of the total assets in the banking sector –a high degree of concentration, much higher than that observed in many countries, especially among emerging countries comparable to Brazil (BCB, 2018). This high concentration can limit competition and reduce incentives for banks to cater to the specific needs of MSMEs. The share of MSME loans in total bank lending to the private sector in Brazil has declined in recent years, reaching 18.3% in September 2024 compared to 28.8% in 2012.¹⁹ This may indicate a reduced focus on MSME lending by larger banks. Finally, there is also a geographic concentration in the credit market, where 52% of the country’s municipalities show zero private credit stocks throughout the period 2007-2016.²⁰

1.7 **Credit market at the Brazilian Amazon.** The share of credit operations to firms in 2019 in the Brazilian Amazon, relative to total country, was 6.5%. Amazon states have an index between credit to companies and GDP that is much lower than the national average. The region’s share of credit for MSMEs increases to 8.9%, but the states of Pará and Mato Grosso represent more than half of this volume.²¹ Rural producers in the region represent 13% of rural producers in Brazil, but only 6.3% of rural credit volume, suggesting an important underrepresentation of the region in national credit. Average loan size of rural credit is also considerably lower than in the rest of the country, which can be tied to lower investments and less intensification.²² These restrictions are partly related to a general absence of financial institutions in the region. At the same time, low densities and remoteness mean higher costs and higher capital requirements for investment.

1.8 **Consequences of credit constraints to MSMEs and the role of public financing.** Credit constraints increase risks for rural and non-rural MSMEs who, paradoxically, are more dependent on financing given the size of their operation and existing capital. In parallel, the lack of risk management tools by these firms poses higher risks and costs for financiers, who become less willing to attend to

¹⁹ Banco Central do Brasil, series 22052 and 27701.

²⁰ OEL#10[15]. Figures based on the average maturity of MSME credit operations by BNDES versus the market between 2012 and 2018.

²¹ OEL#10[20].

²² OEL#10[21].

this segment.²³ As a result of this failure, firms remain unable to carry out long-term investments, in turn limiting income and productivity, and affecting the livelihoods of local population, especially the most vulnerable. Investment for primary sector activities can be unlocked via low-carbon rural credit, including for climate-smart machines, equipment, and vehicles.²⁴ MSMEs in the secondary and tertiary sectors can also benefit from the expansion of financial products to fund their development in a sustainable way, boosting jobs in cities. As these businesses usually operate on a reduced capital scale, and soon have higher marginal returns on capital, credit becomes potentially more impactful. Moreover, the role of public intervention in addressing the credit market failure by strengthening access to finance is considered more urgent in vulnerable regions, because they are generally the most underserved by the private sector. In the case of MSME, public financing has been critical to filling this gap, enabling financing with sustained, much longer terms than the private credit market (nearly 40 months larger, on average).²⁵

1.9 **Climate-positive investments.** Investments with positive climate externalities often face higher capital costs,²⁶ longer average payback periods, and sector-specific barriers, such as a lack of information to evaluate risks, which adds to the ordinary financial constraints for MSMEs. In the rural sector, credit access can contribute to increased productivity and energy efficiency of agriculture by adopting sustainable practices, without increasing the farming area and deforestation. Climate-positive investments to modernize non-rural services and industry can also contribute directly to mitigate the impact of Climate Change (CC), while improving sustainability and productivity of firms for competitiveness. A survey by *Serviço Brasileiro de Apoio às Micro e Pequenas Empresas* (SEBRAE) indicates that 91% of micro and small companies in Brazil consider that sustainability generates opportunities for new business models, 93% feel committed to the Sustainable Development Goals (SDG) and 67% are already adopting sustainable practices. Out of 87% of firms that report having deployed concrete measures to reduce energy costs, substituting equipment and machinery for more efficient ones was reported by 68%. The use of renewable energy remains less reported, at 7%.²⁷

1.10 **Women businesses.** According to SEBRAE, micro and small companies in Brazil with a minimum of 50% ownership by women represented only 27.8% of active firms in 2021, including variance among regions: 29.7% and 28.9% in the South and Southeast, and 24.4% and 22.2% in the North and Northeast, respectively.²⁸ In the Brazilian Amazon, the proportion is the lowest (23.1%) only after the Northeast,²⁹ with most of them operating in the service (30%) and commerce (26.8%) sectors. Even though efforts have been made to collect data in the financial system,³⁰ there is neither information regarding leadership of MSMEs

²³ [OEL#10\[22\]](#).

²⁴ [OEL#10\[23\]](#).

²⁵ [OEL#10\[19\]](#).

²⁶ The most efficient technologies can cost between two and three times more than traditional ones.

²⁷ [OEL#10\[24\]](#).

²⁸ [OEL#10\[25\]](#).

²⁹ Amazonas and Maranhão have the lowest proportion, with 19% and 19.5%, respectively.

³⁰ [OEL#10\[26\]](#).

disaggregated by sex, nor disaggregated data in the financial system for MSMEs, which impedes assessing gender gaps accurately ([OEL#7](#)). Literature suggests women MSMEs and entrepreneurs encounter greater difficulties in accessing credit due to demand and supply barriers, including lack of adequate products tailored to women, gender bias, and limited access to traditional collateral and guarantees.³¹ Approximations indicate that more women MSMEs in Brazil identify access to finance as a major constraint (54.7%), compared to men (42.9%),³² and data shows a smaller average loan size for women.³³ This greater barrier to accessing credit leaves women businesses more vulnerable to financial shocks.

1.11 **Diverse Groups (DG).** Similarly, there is no disaggregated data to determine or approximate the situation of DG MSMEs and entrepreneurs ([OEL#7](#)). According to the most recent census,³⁴ 45.3% of Brazilians considered themselves *pardo* (mixed race) and 10.6% *preto* (*Afro-descendant*). Indigenous peoples (IP) and *quilombolas* (settlements first established by escaped slaves), respectively, comprise 0.83% and 0.65% of the national population, 51.2% and 32.1% of which are concentrated in the Amazon. Regarding access to credit, the IDB found that only 2.1% of microentrepreneurs who self-identify as *preto* frequently seek productive credit, versus 4.3% for the total sample, and 37.7% of *pretos* declare they needed resources but do not request credits, compared to 27.7% of *pardos* and 22.3% of *whites*. The average amount requested by *whites* (R\$10,700) is 94.5% higher than mixed-race people (R\$5,500) and 78.3% higher than *pretos* (R\$6,000); 37.5% of *preto* microentrepreneurs who request credit have their request denied entirely, versus 28.6% for *whites* and 23.1% for *pardos*.³⁵ Also, a study led by the *Banco de Desarrollo de América Latina y el Caribe* (CAF) showed that in Brazil, 51% of afro-entrepreneurs have experienced some form of racial discrimination in their businesses, limiting their growth potential and deepening financial exclusion.³⁶ In order to better map and understand these gaps, financial institutions must approach DG from a programmatic viewpoint, including assessments and action plans with key activities.

1.12 **Public intervention rationale and the indirect credit model associated benefits.** The indirect credit model aims to allocate resources for financing operations to end beneficiaries by working through first-tier financial intermediaries and has associated benefits that go beyond the targeted population. Public Development Banks (PDB) play a crucial role in providing better terms and conditions for the distribution channel, reducing perceived risk, and making MSMEs more attractive and profitable for financial institutions, and therefore correcting market failures. Additionally, PDBs can set specific conditions based on national or subnational policies or other sustainability-related goals, directly contributing to more balanced growth by promoting sustainable business alternatives, gender and diversity inclusion, and resilience. In Brazil, indirect credit operations also contribute to deconcentrating the credit market (¶1.19) and serve as a public resource allocator, directing public policies and ensuring compliance through digital platforms. Examples include the *Fundo de Amparo ao Trabalhador*

³¹ [OEL#10\[27\]](#).

³² [OEL#10\[28\]](#).

³³ [OEL#10\[29\]](#).

³⁴ [OEL#10\[30\]](#).

³⁵ [OEL#10\[31\]](#).

³⁶ CAF News, [May 2024](#).

(FAT) and federal resources from the government's agricultural programs, mainly [Plano Safra](#). Also, with complementary instruments and services, PDBs can provide risk-mitigating instruments for credit concession –such as access to the *Fundo Garantidor para Investimentos* (FGI)– and digital credit access platforms that combine financial and non-financial services tailored to MSMEs' needs, such as BNDES' Canal MPME³⁷ and [assisted credit in cooperation with SEBRAE](#), – tackling credit demand barriers (§1.16).

- 1.13 **Summary of problem and justification for proposed intervention.** The analysis for this proposal identifies a problem of lack of capacity of MSMEs to invest in the creation and/or expansion of new productive means and sustainable practices across the various economic activities that are prevalent in the Brazilian Amazon and play a crucial role in the preservation of biodiversity and global climate. The main determinant of this problem is associated with credit constraints, which translate in a standing need for financial support. Building on the indirect credit model (§1.12), the program aims: (i) to address the presented constraints by providing long-term funding to help BNDES expand its capacity to provide credit to MSMEs and small entrepreneurs in the Brazilian Amazon following a multisector approach; and (ii) to alleviate the negative effects of credit constraints while promoting sustainability and inclusiveness, particularly in segments where incremental gaps were identified. Other IDB interventions and other institutions' efforts in the field tackle MSME capacity, strengthening the demand side of this operation (§1.24-§1.27). The viability of MSME credit operations generated by the operation will also pose a demonstrative effect on future private sector financing of the segment in the context of a strengthened financial market.
- 1.14 **Demand analysis.** The above-described credit constraints for MSMEs and the incremental gaps in specific groups and sub-sectors are linked to unprecedented potential credit demand. Looking at the portfolio of BNDES a twofold increase in 2023 of credit disbursements in the region was identified, compared with the 2020-2022 period (US\$403.4 million, in average), going from US\$381.8 million in 2022 to US\$842.4 million in 2023.³⁸ If this trend is expected to be sustained, it is projected that BNDES will require additional funding of at least US\$1.6 billion to cover this demand in the next four-year period. Moreover, using data from BACEN, the current value of outstanding credit volume for MSMEs in the Brazilian Amazon (investment, rural and agro-industrial) is calculated at 5.5 times the size of the program, suggesting the market size is large enough to support public intervention without crowding out other potential sources of financing. Further details on demand analysis can be found at [OEL#3](#). A recent study made by Agroicone estimated an additional US\$2 billion in credit demand for capital investments by small and medium rural producers distributed throughout the Amazon states, which presents an opportunity for the program to decrease inequality in credit distribution in the region and address this demand. Further details can be found at [OEL#12](#).
- 1.15 **Current institutional framework and government strategies are providing the strategic space for the program.** At the federal level, related policy is aimed at ameliorating the business environment for MSMEs and small entrepreneurs, including

³⁷ <https://ws.bndes.gov.br/canal-mpme>.

³⁸ The analyzed portfolio to determine this evolution mimics the program's relevant portfolio.

via access to credit and new markets, and improved competitiveness.³⁹ The [Política Nacional de Desenvolvimento Regional \(PNDR\)](#) promotes development opportunities in regions with lower socioeconomic indicators –as is the case for the Amazon (¶1.2)– with focus on stimulating productivity gains and promoting added value and economic diversification in strategic production chains. The [Política Nacional de Apoio e Desenvolvimento de Micro e Pequenas Empresas](#) also confirms Brazil's commitment to support productivity increase of micro and small enterprises. The federal [Plano de Transformação Ecológica](#), promoted by the Ministry of Finance, encourages a sustainable transition of Brazilian development. The plan is articulated around the goal of fostering job creation and productivity, aligning the use of natural resources and technology with national climate goals. Finally, the [Plano Regional de Desenvolvimento da Amazonia 2024-2027](#) by the SUDAM establishes an agenda for development in the Brazilian Amazon, aiming at achieving growth and job generation with the economic and rational use of its biodiversity, integrating and diversifying its productive base with added value.

- 1.16 **BNDES at the center of government strategies.** BNDES is an important agent in deploying public policy related to MSMEs financing, working closer to this segment than other international standard-setting PDBs.⁴⁰ Through accessible financing lines, BNDES aims to ensure that MSMEs and small entrepreneurs have access to the capital needed to invest in modernization, expansion, and innovation, fulfilling its public mandate to promote job generation and socioeconomic development of the country. BNDES' fundraising policy for credit operations is established to maintain a balanced external indebtedness and diversify its sources. In this process, international organizations, such as the IDB, gain importance through their complementary and strategic role not only through long-term funding but also by promoting better alignment with their sustainable strategy.
- 1.17 The subjects of MSMEs and regional development are recurrent and essential within BNDES' institutional strategy. For the period 2023-2026, strategic guidelines include "Supporting the growth of MSME" and "Fostering projects and partnerships that stimulate the reduction of inequality and social and regional development." BNDES indirect operations already cover almost the entire country, with less than 1% (only forty municipalities) without any type of support. A recent study on the role of BNDES with credit unions in Brazil pointed to the strength of its indirect operation to promote local development while serving segments with greater credit restrictions, showing increased participation of local credit unions as key partners for expanding credit, especially among smaller and higher-risk firms.^{41, 42} The participation of credit cooperatives in total on-lending operations approved by BNDES grew from 1.6% in

³⁹ [OEL#10\[32\]](#).

⁴⁰ [OEL#10\[33\]](#).

⁴¹ [OEL#10\[34\]](#).

⁴² Micro and small firms represent over 50% of credit unions portfolio and only about 25% of the total private financial sector portfolio. Several studies indicate that globally credit cooperatives are particularly advantageous for stimulating the development of local economies and smoothing economic cycles, mitigating the effect of contraction and accelerating the recovery phase (McKillop et al., 2020, [Cooperative financial institutions: A review of the literature](#)). There is evidence that these effects are also valid when considering the Brazilian case: *Sistema de Crédito Cooperativo, 2019, Cooperativas de crédito resultados econômicos*. Nova Petrópolis; Aghabarari et al., 2020. [Is there help indeed if there is help in need?](#) The case of credit unions during the global financial crisis. *Economic Inquiry*, v. 59, n. 3, p. 1215-1233, 2020. DOI: <https://doi.org/10.1111/ecin.12982>; Banco Central do Brasil. [Panorama do sistema nacional de crédito cooperativo](#), 2023.

2014 to 13.6% in 2023. BNDES is also the manager for the FGI, aimed at complementing the guarantees offered by credit applicant MSMEs, to mitigate FIs risk perception for the segment. Adding to credit and risk mitigation tools, through [Canal MPME](#) BNDES presents MSMEs with more than 50 partners offering solutions ranging from credit support to capacity strengthening, all digitally provided.

1.18 Looking at Amazonia, BNDES is the manager of [Fundo Amazônia](#), created in 2008 to raise donations earmarked for non-refundable investments in preventing, monitoring and combating deforestation, and the conservation and sustainable use of the Amazon biome forests. In the context of IDB's [Amazonia Forever](#) program⁴³ and BNDES' continued support to the region's sustainable economic activities, both institutions agreed to move forward with the proposed program. The program is also being developed under the framework of the [Green Coalition of Public Development Banks](#) (¶1.27).

1.19 **Sector knowledge: Public bank credit interventions support MSME financial deepening and sustainable economic development in Brazil.** Literature points to public bank credit as a valuable tool to support MSME financial deepening and sustainable economic development in Brazil. Impact evaluations have consistently shown that BNDES' indirect credit is effective in supporting MSME's employment, gross income, and investment.⁴⁴ A significantly positive relation between the local GDP and BNDES indirect credit has also been found, given that it is provided non-cyclically and especially targets firms in small, credit-constrained regions.⁴⁵ Likewise, recent studies indicate that credit unions, partners of BNDES' indirect credit (¶1.17), are key for increasing efficiency and competition in the credit market, developing local economies and mitigating the effects of economic crises.⁴⁶ BNDES' indirect operating model has mitigating impacts on the concentration of the Brazilian banking sector. While by December 2019 the five largest banks concentrated 71.3% of the National Financial System's credit portfolio, with the next 15 institutions holding only 10.2%, BNDES's portfolio showed a much more deconcentrated portfolio in regions where the five largest held less than 60% of the BNDES' total lending portfolio, and the next 15 largest financial agents owned more than 35% of the total outstanding balance of the BNDES indirect portfolio, with a predominance of credit cooperatives. In the same line, while 52% of municipalities showed zero private credit stock, the number drops to just 40 municipalities without any credit from BNDES. There is also evidence that the countercyclical intervention of BNDES through earmarked credit lines during the COVID-19 crisis had a significant aggregated impact on survival, jobs, and wage bills, with a stronger positive impact on MSMEs.⁴⁷ During COVID-19, women MSMEs were more negatively impacted than male MSMEs: between May and November 2020, 6.2% of women MSMEs closed operations, compared to 3.3% of their male counterparts.⁴⁸ In 2023, an analysis of 48 academic papers that estimate the impact of BNDES loans in several policy dimensions showed evidence of positive effects on employment, particularly when borrowers are MSMEs, suggesting as well that public bank credit can be an important tool to fight against CC

⁴³ Amazonia Forever is a regional initiative for the sustainable development of the Amazon that coordinates work on forest and climate conservation and on improving people's quality of life, offering economic alternatives.

⁴⁴ [OEL#10\[36\]](#).

⁴⁵ [OEL#10\[37\]](#).

⁴⁶ [OEL#10\[38\]](#).

⁴⁷ [OEL#10\[39\]](#).

⁴⁸ [OEL#10\[40\]](#).

and deforestation.⁴⁹ Another study published in 2023 analyzed the relationship between financed fixed investments and jobs in the country, showing that BNDES disbursements were associated with about 1.1 million jobs in 2022 alone, and that between 2014 and 2022, for every R\$1 million disbursed by BNDES, 10.2 jobs were created or maintained.⁵⁰ Finally, recent studies conclude that BNDES credit for agricultural equipment increases land productivity without expanding the farming area, intensifying land use without increasing deforestation. Pasture areas are reduced with increasing production and replaced by crop areas, which are generally more productive.⁵¹

1.20 In similar contexts, existing evaluations also provide evidence of the positive impact of public bank financing on expanding access to credit. In Colombia, evidence shows that companies receiving BANCOLDEX loans: (i) increased their total credit levels by almost 50%, increased the number of private financiers from which they can obtain credit, and increased the average tenor of financing they obtain (20% longer);⁵² and (ii) can access higher amounts of credit (29.8% on average), which translates into 40.5% growth in total credit to the firm, as well as lower average interest rates (221 basis points).⁵³

1.21 **IDB's experience supporting MSMEs and the Amazon Region.** IDB's experience with MSME access to finance in partnership with Brazilian development banks includes loans [4672/OC-BR](#), (approved 2018|US\$750million|100% disbursed), [5130/OC-BR](#) (approved 2020|US\$200million|100% disbursed) and [5115/OC-BR](#) (approved 2020|US\$750million|100% disbursed) executed by BNDES, two of which were emergency programs in response to the pandemic and all three with a published Project Completion Report (PCR) ([4672/OC-BR PCR](#), [5130/OC-BR PCR](#) and [5115/OC-BR PCR](#)), indicating they fulfilled their goal to support employment and sustainability of MSMEs by enabling financing through credit and guarantees, rated satisfactory or excellent. In 2020, loans [5138/OC-BR](#) (approved 2020|US\$30million|85% disbursed) and [5158/OC-BR](#) (approved 2020|US\$50million|79.60% disbursed) were approved at the subnational level (the State of Espírito Santo and the Brazilian South Region) to support SME financing for short-term sustainability and employment amidst the COVID-19 crisis. In 2021, loan [5452/OC-BR](#) (approved 2021|US\$250million|pending prior legislative approval), complemented by Technical Cooperation (TC) [5453/TC-BR](#) (approved 2021|US\$1million|operational support), was approved with BNDES to provide financing for the recovery of MSMEs and entrepreneurs with a focus on vulnerable municipalities. In 2022, loan [5625/OC-BR](#) (US\$110million|pending prior legislative approval) was approved to promote the sustainable development of the State of São Paulo, by providing medium and long-term financing to support the development of infrastructure and sustainable investments by local municipalities and MSMEs. Finally, 2024 began with the approval of loan [5849/OC-BR](#) (US\$50million| pending prior legislative approval), which supports the productive and sustainable recovery of MSMEs and entrepreneurs in Santa Catarina. In addition, IDB's experience in the Amazon Region includes loan [5836/OC-BR](#) (approved 2023|US\$300million|pending prior legislative approval), supporting the State of Pará in its goal towards zero net emissions of GHG by 2050;

⁴⁹ [OEL#10\[41\]](#).

⁵⁰ [OEL#10\[42\]](#).

⁵¹ [OEL#10\[43\]](#).

⁵² [OEL#10\[44\]](#).

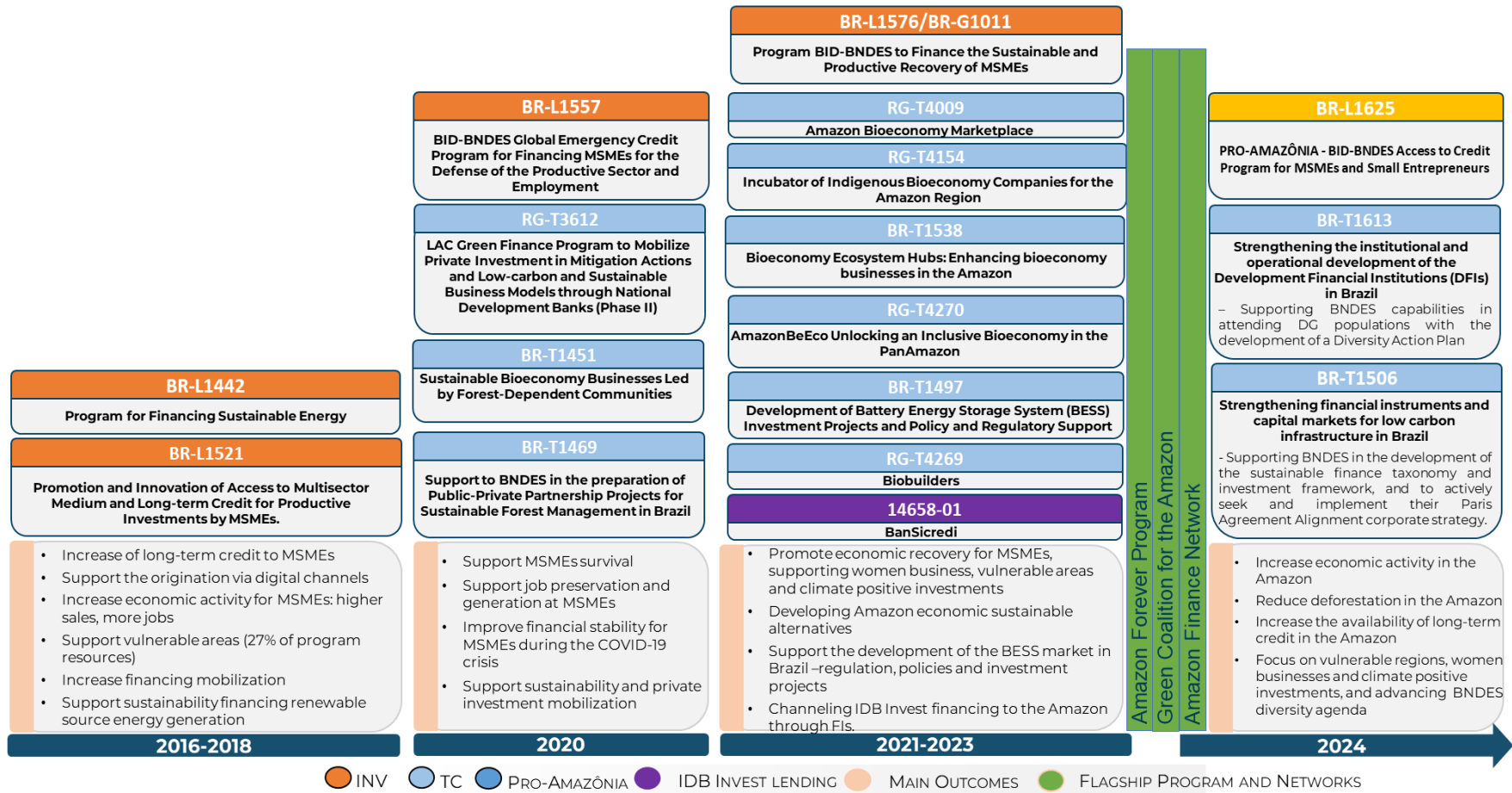
⁵³ [OEL#10\[45\]](#).

and [ATN/OC-18489-BR](#) (approved 2020|US\$300,000|client support), supporting BNDES in the preparation of Public-Private Partnership projects for Sustainable Forest Management in Brazil.

- 1.22 **Lessons learned.** IDB experience and long-term IDB-BNDES partnership generated many lessons, including: (i) how expanding MSME access to credit can effectively fulfill IDB's developmental objectives, through the correspondence between the programs' ambition and their outcomes (§1.19-§1.20); (ii) how sound management of environmental, social and financial risks can significantly mitigate those risks and ensure an efficient and viable project execution (§2.3-§2.4); (iii) the relevance of incorporating emphasis, for instance, in terms of serving vulnerable areas with relatively low levels of access (§1.1), to boost impact, with results indicators and targets to achieve a minimum level of reach; and (iv) the need to consider potential timeframes for local formal procedures, such as legislative ratification, when setting disbursement and other time-sensitive projections.
- 1.23 **IDB-BNDES partnership has evolved and adapted over time to better support MSMEs and sustainable development in Brazil.** The partnership between IDB and BNDES goes back over 15 years and has proven effective in supporting MSME long-term investments, survival, and job creation (§1.21). Interventions' focus has evolved over time, building on each experience, and adapting to current and specific challenges encountered by MSMEs, from COVID-19 to targeting niches dealing with more restricted access to credit, such as women, climate-positive investments, or more vulnerable regions. The proposed program targets the Brazilian Amazon for the first time, which poses new and very particular environmental, social, economic and market issues, bringing new financial and non-financial additionality (§1.32).⁵⁴

⁵⁴ [OEL#11](#) presents a detailed description of IDB-BNDES partnerships on Global Credit Operations supporting MSMEs.

Diagram 1. IDB-BNDES Global Credit operations for MSMEs support



Source: IDB (2024).

- 1.24 **Coordination and synergies in the IDB Group at the center of project design.** The program complements loans under implementation in Brazil (¶1.21), sharing the overall goal of promoting the growth of MSMEs and entrepreneurs. It also shares its regional focus with operation BR-L1633 (BB Amazonia), currently under preparation to be executed by *Banco do Brasil* (BB), which aims to support bio-businesses across bioeconomy value chains, thus excluding most of sustainable rural sector investments eligible under this program. While support from both programs, together, is consistent with the identified size of the demand, synergies will be sought to improve efficiency, monitoring, and oversight.
- 1.25 The program is framed within IDB's [Amazonia Forever](#) program (¶1.18), complementing its goal to increase financing in a regional collaborative environment. Particularly under the Amazonia Forever program, the IDB Invest - IFC Amazon Finance Network (AFN) complements the proposed program with a strengthened network of private financial actors serving the region with a focus on creating employment opportunities through financing for MSMEs.⁵⁵
- 1.26 Regarding private sector interventions, the program complements IDB Invest ongoing lending of US\$30 million to Sicredi, with US\$5 million earmarked to the Amazon, as it promotes the entry and expansion of first-tier financial institutions in the region, including Sicredi, Sicoob, or Cresol. Other relevant ongoing IDB Group interventions in the Amazon include TCs that contribute to strengthening MSME capacities and business environment for productive alternatives consistent with those eligible under the proposed program, complementing the latter by addressing other barriers faced by MSMEs in the region, especially from the demand side. These include: IDB Lab's [ATN/GN-20214-RG](#) (approved in 2023 for US\$5 million) and [ATN/ME-20241-RG](#) (approved in 2023 for US\$1.2 million) supporting bioeconomy as a sustainable livelihood alternative protecting the Amazon biome, [ATN/ME-18275-BR](#) (approved in 2020 for US\$1.7 million) supporting Amazon 4.0 and the use of new technologies to take advantage of the biological assets and biomimetics of the biodiversity of the Amazon, and [ATN/AZ-20334-BR](#) and [GRC/ME-19848-BR](#), supporting the creation of Bioeconomy Ecosystem Hubs. Also, TC [ATN/GN-20238-BR](#) (approved in 2023 for US\$950,000) implemented by INT/INT for the development of an online Amazon Bioeconomy Marketplace; TCs [ATN/OC-18818-BR](#) and [ATN/OC-18819-BR](#), (approved in 2021 for US\$300,000) by CCS, which provides institutional strengthening to *Banco da Amazônia* and state governments to foster an enabling environment to scale up investments in sustainable bio-businesses in the Amazon; and TC BR-T1567 (under preparation) to assist the Ministry of Environment and Climate Change (MMA) to strengthen Brazil's bioeconomy sector, supporting the Action Plan for the Prevention and Control of Deforestation (PPCD) on Brazilian Biomes, especially in the Amazon. Finally, activities under two TC complement this program directly: (i) [ATN/PI-19367-BR](#) (approved in 2022 for client support for US\$1.2 million) will support BNDES in developing a sustainable finance taxonomy and investment framework to map, identify, and evaluate sustainable finance

⁵⁵ During the 2023 United Nations Climate Change Conference (COP28), IDB Invest and IFC launched the [Amazon Finance Network](#), an alliance that brings together financial institutions with the aim of increasing investment flows, mobilizing capital, sharing knowledge on innovative financial solutions, and generating synergies with the public sector across the Amazon. The network is composed of 24 founding signatories from Bolivia, Brazil, Colombia, Ecuador, Guyana, Peru, Suriname, Spain, Switzerland, and the USA.

opportunities more effectively, and to actively seek and implement their Paris Agreement Alignment corporate strategy; and (ii) [ATN/OC-18918-RG](#) (approved in 2021 for US\$350,000 for client support) will be used to enhance BNDES capabilities in attending DG populations (¶1.31).⁵⁶

1.27 **Coordination with other public and/or private institutions.** BNDES pipeline of institutional funding involves various international organizations that will leverage the expansion of its disbursements in the coming years ([OEL#8](#)). The IDB will ensure the use of funds intended to support investments by MSMEs are coordinated and focused to avoid duplication and ensure effectiveness, particularly via reinforcing communication channels, exchange of experiences, and promotion of partnerships. The [Green Coalition of Public Development Banks](#), launched in 2023, is a pioneering international alliance mobilized by the IDB and BNDES to carry out collaborative initiatives in the region among public development banks, aiming to support the sustainable development respecting local characteristics and leveraging capacities and expertise to: (i) financially support sustainable public and private projects that create economic alternatives for job creation, especially for low-income households; (ii) design innovative financial solutions that combine public and private resources to mitigate risks and scale up private sector investments; and (iii) boost Technical Cooperation to generate a robust project pipeline, enhance local capacities and consolidate a new sustainable development model. Capacity building programs are key for increasing credit access of MSMEs in the Amazon Region, improving determinants of their growth and investment readiness. For instance, through SEBRAE⁵⁷ and MAPA⁵⁸, the Federal Government provides critical capacity building services for developing rural and non-rural MSMEs in the Amazon Region. In addition, Fundo Amazônia has been offering support for sustainable productive activities and contributing to structuring hundreds of cooperatives and associations without traditional credit capacity (¶1.18). According to its Activity Report, in 2020 more than 200,000 people were supported in 500 community organizations, through approximately 2,700 small projects (up to R\$150,000) and 72 medium or large projects, which generated incremental revenues of around R\$230 million. The report identifies issues related to the development of financial products and services appropriate to the specific needs of the region,⁵⁹ which constitutes valuable information to complement the design of activities under this program. Launched on December 2023, *Restaura Amazônia* will initially allocate R\$450 million from the Amazon Fund to ecological restoration projects for large deforested or degraded areas. Resources from the Climate Fund will be added to other sources of support for investments of up to R\$51 billion. More recently, in May 2024, BNDES partnered with *Serviço Florestal Brasileiro* (SFB) and IDB in an effort to implement concessions for sustainable use conservation units in different states of Brazil, which include restoration and environmental management as an economic activity.⁶⁰ Also, the Ministry of Finance and BNDES partnered with Bloomberg Philanthropies, Glasgow Financial Alliance for Net Zero (GFANZ) to launch a cross-sector capital mobilization platform ([Brazil Climate and Ecological](#)

⁵⁶ [OEL#8](#) presents a comprehensive review of interventions from BNDES, IDB and other actors in the region.

⁵⁷ Brazilian Micro and Small Businesses Support Service.

⁵⁸ Ministry of Agriculture and Livestock.

⁵⁹ [OEL#10](#)[46].

⁶⁰ The agreement between BNDES and IDB aims to support the structuring of collaboration projects in reforestation services and sustainable management of public forests in the Brazilian Amazon. The IDB will allocate US\$800,000 in non-reimbursable resources from the Green Climate Fund, an international fund administered by the institution.

[Transformation Platform](#)) to advance Brazil's green growth agenda, set out in the national Ecological Transformation Plan (ETP).⁶¹ Finally, the partnership between BNDES and the Food and Agriculture Organization of the United Nations (FAO) is focused on promoting investment in the Amazon to implement sustainable, resilient, and inclusive agri-food systems.^{62, 63}

- 1.28 **Strategic alignment.** The program is consistent with the IDB Group Institutional Strategy: Transforming for Scale and Impact (CA-631) and is aligned with the objectives of: (i) reduce poverty and inequality, by targeting a vulnerable region; (ii) address climate change, considering the commitment to channel 20% of mitigation climate finance through RENOVAGRO -which finances exclusively low carbon agriculture, according to the [Joint Climate Finance Methodology for Multilateral Development Banks \(MDB\)](#); and additionally, according to the Green Finance Tracking Methodology at the IDB Group (GN-3101), the same portion of the operation also contributes to the protection, sustainable use, and restoration of biodiversity and ecosystems, and hence, the sum of climate and green finance is equally 20% of the operation⁶⁴; and (iii) bolster sustainable regional growth, by promoting productive investments by MSMEs in the Brazilian Amazon. The program is also aligned with the operational focus areas of: (i) biodiversity, natural capital, and climate action; (ii) gender equality and inclusion of diverse population groups; and (iii) productive development and innovation through the private sector.
- 1.29 The program also aligns with IDB's Sector Strategy on Institutions for Growth and Social Welfare (GN-2587-2), by increasing access to credit through local financial institutions, and is consistent with the Long Term Financing Sector Framework Document (GN-2768-7), by supporting financing for MSME; with the Gender and Diversity Sector Framework Document (GN-2800-8), by including specific financing of women businesses; and with the Climate Change Sector Framework Document (GN-2835-10) by including financing to climate-positive investments. The program also aligns with the IDB Group Country Strategy (CS) with Brazil 2024-2027 (GN-3243-3),⁶⁵ under the following strategic objectives: (i) strengthen environmental conservation and recover degraded areas, contributing to the expected result of curbing deforestation in the Amazon and Cerrado biomes; (ii) promote the sustainable use of natural resources, contributing to the expected result of developing low-carbon agriculture and livestock activities; and (iii) empowering sustainable investments and fostering regional integration, contributing to the expected results of facilitating the access to credit for MSMEs, and expanding sustainable finance. The program also aligns with the crosscutting themes of enhancing gender equity and diversity of the CS with Brazil 2024-2027. The project is included in the Update of the Annex III of the 2024 Operational Program Report (GN-3207-3).
- 1.30 **Paris Alignment.** This operation has been analyzed using the [Joint MDB Assessment Framework for Paris Alignment](#) and the [IDB Group PAIA \(GN-3142-1\)](#); it has been determined it is: (i) aligned with the adaptation goal and (ii) aligned to the mitigation

⁶¹ [OEL#10](#)[35].

⁶² [New partnership between BNDES and FAO in the Amazon Region](#).

⁶³ A comprehensive review of interventions from BNDES, IDB and other actors in the region is presented in [OEL#8](#).

⁶⁴ To avoid double counting of concurrent contributions to different objectives of climate and environmental sustainability, these are counted only once in the total sum of green and climate finance.

⁶⁵ The CS with Brazil 2024-2027 was approved on November 25, 2024.

goal of the Paris Agreement based on a specific assessment. IDB applied both the transaction- and counterparty-based approaches to analyze the program, which helped define its related list of eligible activities and ensure procedures to manage and monitor material climate risks and opportunities – mainly the potential for land use change in beneficiaries' land area ([Climate and Sustainability Annex](#)).

- 1.31 **Gender Equality and DGs.** Via specific allocations of program resources under the single component, the program foments gender equality and access to loans for women businesses. Additionally, given the information gaps of IP and *quilombolas*, the program will support BNDES to better understand the context of these populations with regards to access to credit, scaling up institutional capabilities by designing a Diverse Groups Action Plan⁶⁶ ([OEL#7](#)).
- 1.32 **IDB's value added.** The program is conceived as part of IDB's long-term vision of increased access to MSME finance (programmatic approach) ([¶1.21](#), [¶1.23](#) and [¶1.24](#)), which highlights using resources more efficiently to provide additional lending capacity, promoting new instruments that help countries meet their climate commitments, and increasing blended financing, co-financing, technical assistance, and grant resources that allow for crowding in IDB Invest ([¶1.24](#) and [¶1.26](#)). The program will provide long-term, stable funding to match Financial Agents (FA) and MSME financial needs in the Brazilian Amazon, supporting the development of local financial markets. Program resources will be funding BNDES' most ambitious program in the region, leveraging its nationwide indirect credit coverage (99% of municipalities). Furthermore, working through BNDES indirect credit operation through FA, the program will support credit capillarity across the region's municipalities while crowding in private capital, currently scarce and concentrated in larger-income cities. Over time, it is expected that financial institutions will increase their demand and access other sources to expand their operations beyond the limits defined by BNDES' products. By establishing adequate maximum sub-loan amounts the program turns its focus to smaller firms and reduces deforestation risks, also promoting the inclusion of women and DG. In terms of non-financial additionality, IDB's value includes supporting institutional capacity for climate finance monitoring, such as the development of a taxonomy that is aligned with BNDES' internal strategy and the Paris Alignment goals, indicators and methodologies to monitor (*MapBiomas*) and analyze land-use linked to sub-loans, and operational capacity to increase climate-positive credit to MSMEs. The IDB will also work together with BNDES on the development of mechanisms for disaggregating data by sex and an action plan for DG, in line with the identified need to increase their capacity to attend to these groups and reduce related incremental gaps.

B. Objective, components, and cost

- 1.33 **Objective.** The program's General Development Objective (GDO) is to promote the sustainable development of the Amazon Region, strengthening productivity and job creation among MSMEs. The Specific Development Objective (SDO) is to increase the availability of financing for productive investments of MSMEs in the Amazon Region.

⁶⁶ The Diversity Action Plan will be financed via ATN/OC-18918-RG, following the Bank's [procedures](#) of diversity parallel logic. The Diversity Action Plan considers, among others: identification and characterization of the context of IP and afro descendants, with a focus on *quilombola* communities, barriers to access to the financial system, relevant actors in Brazil (Amazon), and diagnosis of the current situation of IPs in BNDES ([OEL#7](#)).

- 1.34 **Single Component – Funding for productive investment operations of MSMEs in the Amazon Region (US\$900 million).** This component will provide mid- and long-term productive credit for MSME, including entrepreneurs, across all states of the Brazilian Amazon, via second-tier credit lines from BNDES, i.e., indirect operations carried out through Financial Agents (FA) accredited by BNDES (¶1.38). Program funds will be channeled using eligible existing BNDES products, namely, [BNDES Finame](#), [BNDES Automatico](#) (excluding exclusive working capital financing), [Cartão BNDES](#) and [BNDES Crédito Rural](#), to finance investments in fixed assets and acquisition of machinery, equipment, vehicles, goods, and services, following a multisector approach with emphasis on serving climate-positive investments and women-led or women-owned MSMEs, as well as women entrepreneurs (¶1.35). Consistent with the identified context and needs of the target region, sub-borrowers of the selected BNDES financing products comprise MSMEs operating in rural and non-rural areas,⁶⁷ mainly linked to primary activities or the service and industry sectors, respectively. An activity exclusion list is established in the program’s Operating Regulations ([OR](#)) (¶3.5).
- 1.35 Targeted resource allocations linked to program objectives include the following: (i) climate-positive investments, i.e., those that involve the adoption of sustainable practices and technologies (20% of program resources), including land use in rural areas, consistent with the diagnosis presented in ¶1.9 and aligned with the environmental and social policies of BNDES and IDB, contributing to SDG#13 and Brazil’s Nationally-Determined Contributions (NDC); and (ii) women businesses (30% of program resources), to address the challenges described in ¶1.10, contributing to SDG#5. Overall, 70% of the program’s resources are allocated to municipalities with an HDI lower than the average for Brazil (¶1.39). The program will also analyze the context of DG and will articulate activities to tackle the incremental gaps described in ¶1.11, in line with BNDES corporate strategy and with support from TC⁶⁸ [ATN/TC-18918-RG](#) (¶1.26).
- 1.36 **Beneficiaries.** Program beneficiaries will be MSMEs, including entrepreneurs, that fulfill program’s eligibility criteria. Based on the assumptions in the economic analysis, the indicative number of beneficiaries is projected at 16,600 MSMEs (4,300 rural and 12,300 non-rural). Emphasis is made on segments where incremental gaps were identified, via specific allocations for climate-positive investments and women businesses (¶1.35 and Table 1), and the development of a diversity action plan for DG and *quilombolas* (¶1.31).
- 1.37 **Beneficiaries’ eligibility criteria.** The program’s eligibility criteria applicable to beneficiaries consists of: (i) definition:⁶⁹ microenterprises comprise legal entities or individuals with annual Gross Operating Revenue (ROB) up to R\$360,000; small companies comprise legal entities or individuals with annual ROB between R\$360,000 and R\$4,800,000; and medium companies comprise legal entities or

⁶⁷ The distinction between rural and non-rural is based on beneficiaries’ economic activity registered at the National Classification of Economic Activities (CNAE). All beneficiaries registered under code *A – agriculture, livestock breeding, forestry production, fishing, and aquaculture*- at CNAE will be considered rural beneficiaries under this operation.

⁶⁸ In compliance with the Bank’s [Technical Note](#) of the Corporate Results Framework, TC resources can be integrated to support gender and diversity, via a parallel logic.

⁶⁹ MSMEs are defined by size using the annual gross revenue criteria established by *Lei Complementar* N° 123/2006. Individuals are classified using the same criteria on gross revenue.

individuals with annual ROB between R\$4,800,000 and R\$300,000,000; (ii) geographic location: the Brazilian Amazon as defined in ¶1.2; (iii) use of funds by the beneficiaries: productive investment, including purchase of goods, machinery and equipment, as well as investment in fixed capital; (iv) socio-environmental risk of the activities proposed by the beneficiaries: low (i.e., no or minimal environmental or social impacts); (v) maximum amount of individual sub-loan: equivalent to US\$1 million for all sub-loans directed to non-rural beneficiaries; equivalent to US\$1 million for all sub-loans classified as low carbon agriculture; and equivalent to US\$500,000 for all loans directed to rural beneficiaries;⁷⁰ and (vi) sector restrictions: multisector approach for financing activities in compliance with the exclusion list applicable to program financing. Further detail is included in the [OR](#) (¶3.5).

- 1.38 **Intermediary institutions' eligibility criteria.** Eligible first-tier institutions will be FA accredited by BNDES with the following pre-established criteria: (i) technical capacity for evaluating and monitoring credit operations; (ii) credit risk rating higher than the minimum required by BNDES' policy; (iii) minimum annual balance of credit operations in its assets or those of the conglomerate; and (iv) other information required for accreditation per BNDES policies (e.g., corporate documents, ESG management capacity, business plan regarding focus of action, politically-exposed persons declaration, etc.). More detail is included in the [OR](#) (¶3.5). FA include public and private banks, development agencies, and credit unions.

C. Key results indicators

- 1.39 **Expected impact and results.** Following the logic proposed for the program, SDO indicators are focused on capturing the effect of the program in expanding access to longer-term financing for fixed capital formation of MSME, and how this will boost productive capacity and jobs while preserving the Amazon biome, ultimately contributing to the region's development (GDO). In line with this premise, the program's results framework will monitor: (i) at the SDO level, outstanding balance and tenor of financing for the relevant portfolio, and the share of financing to women businesses, to beneficiaries that adopt sustainable practices or technologies, and to low HDI municipalities; and (ii) at the GDO level, wage bill and employment of supported MSME, and change in beneficiaries' land area affected by deforestation. Find below a summary of key actions to be undertaken to address strategic focus areas, before and after sub-loan deployment.

⁷⁰ Equivalent in R\$ using the converted amount of each transaction. Definition of the maximum amount per sub-loan based on a threshold for low socioenvironmental risk of subprojects.

Table 1. Project’s intervention for strategic focus areas

working		Before sub-loan deployment	After sub-loan deployment
Biodiversity, natural capital, and climate action	Deforestation risk	Screen all properties and beneficiaries for deforestation alerts (Mapbiomas: satellite imaging)	Monitor changes in land area affected by deforestation for program subloans (satellite imaging)
	Climate-positive investments	Ringfencing 20% of program resources to support the adoption of climate-smart agricultural practices (from 10% Base Line)	Monitor positive changes in land use associated with program subloans (eg. restoration of degraded areas)
Gender equality and inclusion of diverse population groups	Gender equality	Ringfencing 30% of program resources to finance credit for women’s businesses (BNDES’s portfolio is 22%)	Monitoring of program disbursements to women’s business
	Diversity group inclusion	Development of an Action Plan for indigenous and quilombola populations through a TC	
70% of program resources allocated to vulnerable municipalities (HDI lower than the average for Brazil)			

Source: IDB (2024).

1.40 **Economic evaluation.** The program’s [Economic Analysis](#) calculates program net benefits associated with the incremental wage bill and agricultural value-added in the region resulting from credit granted to non-rural and rural MSMEs under the program. Net benefits are projected for a five-year period,⁷¹ using a 12% discount rate, yielding a Net Present Value (NPV) of US\$1,070 million and an Internal Rate of Return (IRR) of 27%. The results of the base analysis are complemented by a sensitivity analysis, which tests how variations in key assumptions affect the results, including change in wage bill, evolution of agricultural value-added, and the composition of the portfolio regarding rural versus non-rural credit.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

2.1 The program is proposed as a global credit operation, financed with an investment loan of US\$750 million from IDB’s ordinary capital, plus a local counterpart of US\$150 million from BNDES’ own resources. This instrument is considered appropriate on account of the program design, which utilizes an indirect financing structure to serve MSMEs with a multisector approach. Through global credit operations the IDB can provide resources to national or subnational entities to indirectly finance subprojects in many sectors that promote economic and social development.⁷²

⁷¹ While the program’s disbursement period is four years, a five-year time horizon for the economic analysis is used to account for the benefits for the entire portfolio financed, which in some cases can only be observed two years after receiving financing. While some investments may have a useful life longer than this timeframe, this time horizon is considered adequate to be consistent with existing evidence on the sustainability of the effects of BNDES’ financing programs.

⁷² IDB offers funding to a local financial institution –in this case, BNDES–, which in turn provides funding to eligible beneficiaries, either directly or through second-tier operations via third-party local intermediary financial institutions. PR-203 regulations govern the use of this lending instrument.

Table 2.1. Total cost (US\$)

Component	IDB	Local counterpart	Total
Single Component: Funding for Productive Investment Operations of MSMEs in the Amazon Region (US\$900 million)	750,000,000	150,000,000	900,000,000
Product 1: Amount of program resources provided to finance credits for MSMEs in the Amazon Region.	750,000,000	150,000,000	900,000,000
Percentage	83.3%	16.7%	100%

Notes: Administration and monitoring expenses will not be financed by the program. Said costs will be covered by BNDES with its own resources.

- 2.2 The disbursement period for the program will be four years from the date of signature of the loan contract between IDB and BNDES. This disbursement period was defined on account of the identified demand for eligible transactions at BNDES (¶1.14) and projections carried out in preparation for the program, which provide an indicative timeframe for the materialization of financing under the program.

Table 2.2. Disbursement plan (Millions of US\$)

Source	Year I	Year II	Year III	Year IV	Total
IDB	188	188	188	186	750
Local counterpart	38	38	38	36	150
Total	226	226	226	222	900
%/year	25.1	25.2	25.1	24.7	100

B. Environmental and social risks

- 2.3 The program is classified as Financial Intermediation under the Environmental and Social Policy Framework (GN-2965-23). The operation has an environmental and social risk rating of Substantial due to the contribution and context risk factors associated with financing a large number of small to mid-sized loans in support of the primary sector in the Amazon basin. The disaster and CC risk rating is low due to the low level of criticality of the financed activities to the prevailing natural hazards of the region. Potential environmental and social impacts associated with the program will be managed by applying an Environmental and Social Management System (ESMS), based on compliance with IDB's Exclusion List, BNDES' existing systems and processes to manage environmental and social risks, local law, and additional criteria of exclusion and eligibility, including measures to avoid and mitigate the risk of forced labor, pursuant to IDB Group Measures to Address the Risk of Forced Labor in the Supply Chain of Silicon-Based Solar Modules (GN-3062-1), for climate-positive subprojects that could include the financing of solar panels. BNDES is independently recognized by international rating agencies as having a sector-leading ESG risk

rating and a robust ESMS that will effectively manage the risks and impacts across the portfolio and Tier 2 lenders.⁷³

- 2.4 The [OR](#) includes program-specific exclusion and eligibility criteria, screening and classification of subprojects, due diligence requirements for subprojects, disclosure of information, and stakeholder engagement (including the grievance redress mechanism). The exclusion and eligibility criteria will ensure that only activities of low E&S risk are financed. For example, the program will not finance any subprojects that will result in expansion of the agricultural frontier, involve involuntary displacement (physical or economic), negative impacts on livelihoods, negative impacts on critical habitats, or negative impacts on IP, *quilombolas*, and other traditional Amazonian communities; or any other activity considered high risk.

C. Fiduciary risk

- 2.5 BNDES' fiduciary capacity is considered excellent to comply with IDB requirements, as reflected in the findings of the ICAP). The institution has extensive prior experience executing IDB programs (¶1.21) with adequate policies and procedures for the preparation and supervision of loans, as well as for project management and institutional risk management of social, environmental and climate issues. Thus, the fiduciary risk for this program is considered low.

D. Other risks and key issues

- 2.6 **Other risks.** There is a medium-high economic-financial risk that if demand from end borrowers or FA that fulfill all criteria established by the program is not sufficient, it could result in a slower pace in the program's pipeline origination, which may impact disbursement goals. This risk will be mitigated through continuous demand monitoring, including prospecting and promotion practices for potential beneficiaries and accredited FA, as well as through the establishment of a disbursement period (¶2.2) and provisions for retroactive financing (¶3.8) that are consistent with existing and projected demand, in addition to IDB support to coordinate with ongoing initiatives that complement pipeline construction.
- 2.7 **Sustainability.** Financial sustainability is ensured by careful screening by BNDES and FA, built upon extensive knowledge of the local market. Program activities are designed to enable on-lending of resources to many small sub-borrowers across various productive sectors, contributing to regional economic dynamism and diversification, and greater presence of FA. While eligibility conditions for accessing funds will be in place, when accessing credit, MSMEs are more likely to use other services from the FA, helping consolidate their relationship with the financial market in the longer term. This is directly linked to the sustainability of their access to credit and its conditions, and the use of FA's channels to share and manage related information. The positive effects produced by credit support have proven to be long-lasting. For instance, the impact evaluation carried out in the

⁷³ Other risks discussed during project preparation, such as the undesired impact of the program over deforestation or the impact of policy and/or legal shifts pertaining to the banking and business environment in the Amazon, were deemed medium-low. High origination standards led by BNDES' Mapbiomas tool guarantee a deforestation-free portfolio of sub-loans (as pointed out by [Climate Policy Initiative](#)), and any event that may turn the scale of the program insufficient to meet growing demand could be mitigated by building partnerships with other actors present in the region, such as BB.

context of program [4672/OC-BR](#) provides robust evidence on how the effects of credit on income and employment are sustained one and two years after receiving support. IDB's Office of Evaluation and Oversight (OVE)'s empirical analysis on IDB programs for SMEs in Brazil estimates durations of the effect of credit on jobs and wages of 15 and 9 years, respectively. Also, the alignment of the operation with national and federal government policy on the sustainable productive development of the Brazilian Amazon (¶1.15), as well as the central role of BNDES implementing said policies (¶1.16), support the sustainability of the operation. Finally, the complementarity of other IDB Group interventions in the region (¶1.21 and ¶1.24-¶1.26) as well as the continued partnership with BNDES (¶1.23) also constitute strong pillars for this project's sustainability.

III. IMPLEMENTATION AND MANAGEMENT PLAN

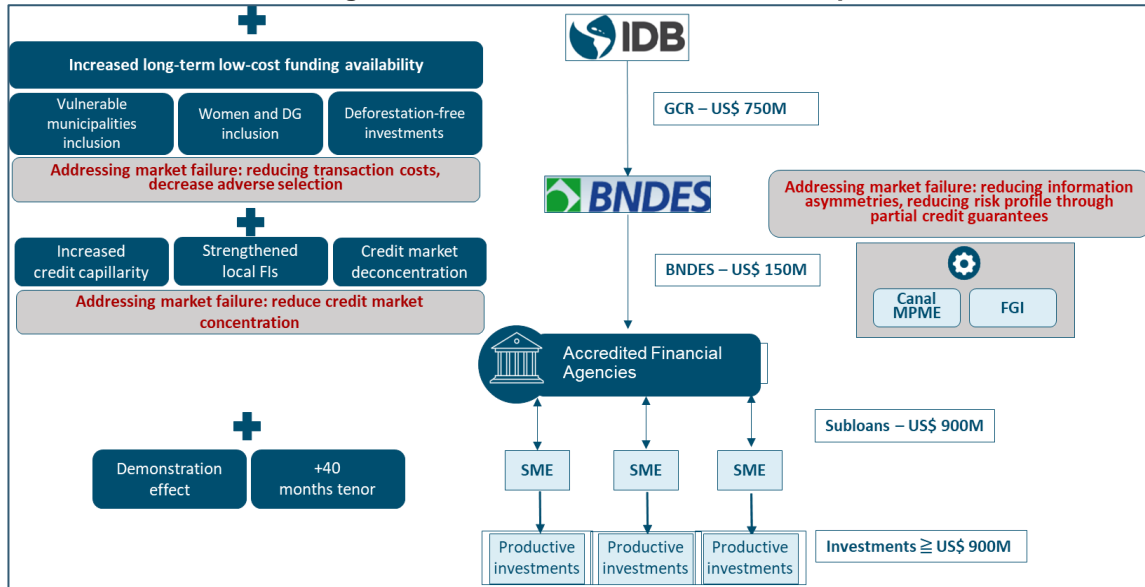
A. Summary of implementation arrangements

- 3.1 **Borrower, Executing Agency (EA) and guarantor.** BNDES will be the borrower and EA of the program. Its strategy and experience are considered fully aligned with the program objectives (¶1.16-¶1.18, ¶1.21, ¶1.22 and ¶1.33). The Federative Republic of Brazil will be the guarantor of financial obligations under the loan.
- 3.2 **Execution and administration.** The BNDES Fundraising Department will be responsible for coordinating with the IDB and for the execution and monitoring of the program, with support from other relevant areas of BNDES, including its Departments of Operations and Digital Channels. BNDES will have fiduciary responsibility for program resources and will perform program activities in accordance with the provisions of the loan contract and the OR, including supervising the adequate use of the resources, preparing physical and financial progress reports, overseeing compliance with applicable environmental and social safeguards and the provisions on prohibited practices, and evaluating the fulfillment of development objectives.
- 3.3 Program funds will be disbursed upon requests submitted by BNDES for either the reimbursement of the resources applied in a portfolio of eligible sub-loans financed, or a financial plan of transactions covering the following 180 days (¶3.11). These requests will follow BNDES' existing organizational and procedural structure and will be evaluated by IDB based on pre-established eligibility criteria (¶1.37) defined jointly with BNDES and included in the OR (¶3.5). All operations will be subject to BNDES' analyses pertinent to indirect operations and subject to compliance with the conditions stipulated in its internal rules.⁷⁴ Channeling resources through a network of accredited FA guarantees capillarity to bring financing to numerous MSMEs across regions, including the Amazon Region. The relationship between BNDES and the FA will be governed by contracts and BNDES's regulations, which are already established and in force, and applicable to program resources. The FA, in turn, will formalize the corresponding legal

⁷⁴ In indirect operations, the accredited FA analyzes the financing and assumes the credit risk. The FA also negotiates financing conditions with the final borrower, such as payment terms and required guarantees, respecting rules and limits defined by BNDES. Each accredited FA may adhere only to some BNDES products or financing lines.

instruments with the eligible sub-borrowers, establishing the terms and conditions for the respective support.

Diagram 2. Indirect Credit Model for this Operation



Source: IDB (2024).

- 3.4 **Institutional capacity.** BNDES’ mission and experience are fully aligned with program objectives. The institutional capacity analysis indicates that BNDES has the necessary capacity to adequately manage activities required to execute the program, including strong experience and operational capacity, with autonomy to manage projects, stability of their staff involved, existing governance and execution structures, adequate technical qualifications, and expertise of staff in management and monitoring of transactions. Its own internal systems allow for an adequate control of eligibility criteria established for the program and technically sound monitoring and evaluation processes regarding the development results of its overall operation. These systems will be used to oversee all transactions related to the program, as has been the case with prior operations financed by the IDB and successfully executed by BNDES.
- 3.5 **Operating Regulations (OR).** Program execution will be governed by the loan contract and the [OR](#). The [OR](#) will include, at least: (i) roles and responsibilities for administration, monitoring, risk management and coordination of the program; (ii) eligibility criteria applicable to sub-borrowers and sub-loans (§1.37), and FA acting as first-tier institutions (§1.38); (iii) mechanisms and conditions for transfers of sub-loans, and reporting requirements regarding sub-loan financial terms; (iv) prioritization of sectors for resource allocation (§1.35); (v) an exclusion list of sectors in accordance with IDB’s environmental and social policies, and other environmental and social requirements, as per the Environmental and Social Review Summary ([ESRS](#)) (§2.3); (vi) considerations related to IDB’s prohibited practices; (vii) programming, monitoring, and evaluation requirements (§3.13-§3.15); and other parameters/restrictions that will govern the use of IDB resources.

- 3.6 **Special contractual clauses prior to the first disbursement of the financing.** Prior to the first disbursement of the IDB loan, it will be a special contractual condition that BNDES presents evidence of its approval of the program's [OR](#), in accordance with the terms previously agreed with IDB, and that such [OR](#) has entered into force. This condition is justified on account of the critical role of the [OR](#) in establishing criteria and requirements that are essential for program execution.
- 3.7 **Exceptions to IDB policies.** As in previous loan operations with BNDES, the guarantee of the Federative Republic of Brazil for this project will be limited to BNDES's financial obligations (including the amortization of principal, interest, and other financial charges), and will not cover BNDES's contractual obligations regarding program execution and local counterpart.⁷⁵ 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 IDB. This waiver will not affect BNDES' risk profile. It has also successfully executed several IDB programs.
- 3.8 **Retroactive financing.** The Bank may finance retroactively under the loan, eligible expenses incurred by Borrower prior to the date of loan approval, up to the amount of US\$150,000,000 (20% of the proposed loan amount), provided that all requirements substantially similar to those set out in the loan contract are met. Such expenses must have been incurred from December 15, 2023 (date of approval of the Project Profile), and under no circumstances will expenses incurred more than 18 months prior to the loan approval date be included. Retroactive financing is requested on account of the existence of ongoing operations under BNDES' product lines that fit the eligibility criteria of the proposed program (¶1.34).
- 3.9 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.
- 3.10 **Procurement of goods and services.** No procurement of works, goods and services, or consultancy services are envisioned. The program is proposed as a global credit operation, and 100% of the resources will be used to finance subprojects through BNDES indirect credit operations.
- 3.11 **Disbursements and advances.** Loan resources may be disbursed through the modalities of advance of funds and reimbursement of expenses. In the case of advance of funds, disbursement requests by BNDES to IDB shall be made based on a financial plan covering actual liquidity needs of the program for up to 180 days. Disbursements shall be justified for at least 80% of the total accumulated balances pending justification, according to the Financial Management Guidelines for IDB-Financed Projects (OP-273-12), using IDB templates.

⁷⁵ Previous operations granted partial waiver include [5452/OC-BR](#), [5453/TC-BR](#); [5130/OC-BR](#); and [5115/OC-BR](#).

3.12 **Audits.** Financial statements and expenses of the program will be audited annually by either the General Controller of the Union (CGU) or an independent auditing firm acceptable to IDB, which will be contracted by BNDES following the terms or reference agreed with IDB. Annual audited reports will be presented by BNDES to IDB within 120 days following the closing of the BNDES' fiscal year, and a final audit will be presented to IDB 120 days following the expiration of the original disbursement period or any extensions thereof.

B. Summary of arrangements for monitoring results

3.13 **Monitoring.** BNDES will be responsible for compiling, producing, and maintaining all financial and operational information related to program execution, and submit to IDB the required Pluri-annual Execution Plans (PEP), Annual Operational Plans (POA) and Financial Plans (FP), as well as disbursement requests and justification of the use of resources, per the loan contract and the OR. These shall include IDB loan resources, as well as BNDES funding committed as local counterpart ([Monitoring and Evaluation Arrangements \(PME\)](#)).

3.14 BNDES will also be responsible for collecting and verifying information at the sub-loan level to report on the evolution of development indicators included in Annex II. In this regard, BNDES may opt to request adjustments to indicators, baselines, targets, and sources of information⁷⁶ before the validation of the Start-up Plan, following the eligibility date of the program (post signature of the loan contract) and prior to the closing date of IDB's Project Monitoring Report (PMR) cycle (either end of March or September). As established in the [PME](#) and the [OR](#), the evolution of development indicators in Annex II and any additional monitoring requirements will be reported semi-annually to IDB, up to 60 days following the end of each semester throughout program execution. BNDES will also prepare and submit a final report up to six months after the last disbursement, which constitutes a necessary input for the PCR to be prepared by the IDB following the closing of the program.

3.15 **Evaluation.** With expertise from its Department of Evaluation and Promotion of Effectiveness, BNDES will be able to perform an ex-post evaluation using propensity score matching with differences-in-differences methodology (to control for heterogeneity between treated and control firms) to assess the impact of the program on wage bill and employment, associated with the GDO of the program. The evolution of changes in beneficiaries' land area affected by deforestation will also be monitored. At the SDO level, relevant portfolio data will be collected using BNDES operational systems, and elements regarding tenor, use of funds and gender at the sub-loan level. BNDES' specific related results from an IDB complementary macro-level study on crowd-out effects of public bank credit interventions over private credit will be incorporated in the operation's PCR. All provisions on monitoring and evaluation activities, including timeframes and budget, are detailed in the program's [PME](#).

⁷⁶ Proper justification should accompany this request, such as changes in country or sector context that may have occurred since the time of program approval or new data becoming available that contributes to defining these elements more adequately.

Development Effectiveness Matrix		
Summary		BR-L1625
I. Corporate and Country Priorities		
Section 1. IDB Group Institutional Strategy Alignment		
Operational Focus Areas		-Biodiversity, natural capital, and climate action -Gender equality and inclusion of diverse population groups -Productive development and innovation through the private sector
[Space-Holder: Impact framework indicators]		
2. Country Development Objectives		
Country Strategy Results Matrix	GN-3243-3	(i) strengthen environmental conservation and recover degraded areas; (ii) promote the sustainable use of natural resources; and (iii) empowering sustainable investments and fostering regional integration.
Country Program Results Matrix	GN-3207-3	The intervention is included in the 2024 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		7.8
5.1 Monitoring Mechanisms		2.8
5.2 Evaluation Plan		4.9
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium Low
Environmental & social risk classification		FI
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)		Budget, Treasury, Accounting and Reporting, External Control.
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	ATN/PI-19367-BR

Evaluability Assessment Note: In Brazil, financing to the real economy continues its deceleration trend given uncertainty and rising interest rates to abate inflation. Financing gaps remain and are always most severely felt by MSMEs compared to their larger counterparts. The Brazilian Amazon which covers 5 million square miles hosts 80% of the natural areas of the country and 350 indigenous communities. This subregion has lower per capita income vis-à-vis the rest of the country with 40% of its population in poverty. While the region contributes 10% of national GDP, low-productivity live-stock based growth has led to deforestation. MSMEs are critical development hubs of economic activity within the Brazilian Amazon. Boosting their productivity is essential to supporting growth in the region and can be done while prioritizing sustainable climate positive investments. It is estimated that Brazil can more than double its current rural production without increasing deforestation. To do so MSMEs in the subregion must invest in modernization and intensification of operations with credit of longer tenor. Rural MSMEs in the Amazon represent 13% of rural producers in Brazil but only receive 6.3% of the credit destined to all rural producers in the country.

In this context, the general objective of the program is to promote the sustainable development of the Amazon region, strengthening productivity and job creation among MSME. The Specific Development Objective (SDO) is to increase the availability of financing for productive investments of MSMEs in the Amazon region. The program will channel US\$900MM for mid-and-long term productive credit for MSMEs, including entrepreneurs in the Brazilian Amazon via second floor lending through BNDES. The program's vertical logic is well defined. Indicators are appropriate to provide evidence of completion of the specific objective. Some of the main results indicators include: the size of BNDES' portfolio to MSMEs in the subregion; the share of program resources that will finance climate positive investments; and the share of the portfolio granted to beneficiaries that adopt sustainable practices or technologies; amongst others.

The economic analysis shows the project is of net benefit to society. The results indicators associated to the specific objective will be compared reflexively at closure to evaluate project success. In complement, an impact evaluation based on propensity score matching and differences-in-differences will be used to measure achievement of some indicators at the general objective level showcasing attributable change thanks to the project.

RESULTS MATRIX

Project Objective	The Specific Development Objective (SDO) is to increase the availability of financing for productive investments of Micro, Small and Medium Enterprises (MSME) in the Amazon Region. The program's General Development Objective (GDO) is to promote the sustainable development of the Amazon Region, strengthening productivity and job creation among MSMEs.
--------------------------	---

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 the sustainable development of the Amazon Region, strengthening productivity and job creation among MSME							
Indicator 1: Change in wage bill of MSMEs supported by the program compared to the control group.	%	0	2023	2028	8	BNDES' R-Automated Model for Impact Verification (MARVIm) with data from the <i>Relação Anual de Informações Sociais</i> (RAIS)	See MEP (Annex I) for full details.
Indicator 2: Change in annual employment of MSMEs supported by the program compared to the control group.	%	0	2023	2028	4	BNDES' MARVIm with data from RAIS	See MEP (Annex I) for full details.
Indicator 3: Change in program beneficiaries' land area	%	-1.5	2023	2029	-22	Expected product from IDB's Technical Cooperation (TC) support	See MEP (Annex I) for full details.

Indicators	Unit of measurement	Baseline value	Baseline year	Expected year for achievement	Target	Means of verification	Comments
affected by deforestation.						complementary to program funding	

SPECIFIC DEVELOPMENT OBJECTIVES¹

Indicators	Unit of measurement	Baseline value	Baseline year	End of project	Means of verification	Comments
Specific development objective 1: to increase the availability of financing for productive investments of MSME in the Amazon Region.						
Result 1: Value of the productive finance portfolio for MSME in the Amazon Region under eligible credit lines (relevant portfolio).	R\$ billion	18	2023	22.3	BNDES' monitoring reports based on their operational information systems	See MEP (Annex I) for full details.
Result 2: Percentage of long-term credit (more than 60 months) in the relevant portfolio.	%	80	2023	80	BNDES' monitoring reports based on their operational information systems	See MEP (Annex I) for full details.
Result 3: Share of program resources provided to finance credits	%	21.9	2023	30	BNDES' monitoring reports based on program portfolio information at the sub-loan level	Pro-gender indicator. See MEP (Annex I) for full details.

¹ Specific development objective Results 1, 2, 5 and 6 are portfolio-based (i.e., they are monitored on overall relevant portfolio). Results 3 and 4 only cover sub-loans financed and justified with program resources.

Indicators	Unit of measurement	Baseline value	Baseline year	End of project	Means of verification	Comments
for women businesses.						
Result 4: Share of program resources provided to finance climate-positive credits.	%	10*	2023	20	BNDES' monitoring reports based on relevant portfolio information at the sub-loan level	See MEP (Annex I) for full details.
Result 5: Share of relevant portfolio granted to beneficiaries that adopt sustainable practices or technologies.	%	5	2023	10	BNDES' monitoring reports based on relevant portfolio information at the sub-loan level	See MEP (Annex I) for full details.
Result 6: Share of relevant portfolio granted to beneficiaries in vulnerable municipalities.	%	60	2023	70	BNDES' monitoring reports based on program portfolio information at the sub-loan level	See MEP (Annex I) for full details.

PRODUCTS²

Indicators	Unit of measurement	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	End of project	Means of verification	Comments
Single Component: Funding for Productive Investment Operations of MSME in the Amazon Region (US\$900 million)										
Product 1: Amount of program resources provided to finance credits for MSMEs in the Amazon Region.	US\$ million	0	2023	226	226	226	222	900	BNDES' operational information systems	See MEP (Annex I) for full details.
Product 2: Diversity Policy Action Plan for Indigenous and quilombola populations.	Number	0	2023	0	1	0	0	1	Expected product from IDB's RG-T3855 support complementary to program funding	Pro-diversity indicator. See MEP (Annex I) for full details.

² Costs of Product 2, Diversity Policy Action Plan for indigenous and quilombola populations, are considered zero as these will be covered with funds from [ATN/OC-18918-RG](#) (2021 | US\$350,000 | Client Support).

Country: Brazil

Division: IFD/CMF

Operation No.: BR-L1625

Year: 2024

FIDUCIARY AGREEMENTS AND REQUIREMENTS

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

Operation Name: PRO-AMAZÔNIA - BID-BNDES Access to Credit Program for MSMEs and Small Entrepreneurs

I. Fiduciary Context of Executing Agency

1. Use of country system in the operation:

<input checked="" type="checkbox"/> Budget	<input checked="" type="checkbox"/> Reports	<input 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 the fiduciary execution	<p>The BNDES is a federal public financial institution with legal personality under private law and its own assets. It is an entity linked to the Ministry of Finance whose main objective is to promote the economic and social development of the country as the main instrument to implement federal policy and encourage private investment.</p> <p>BNDES will execute the program based on its current organic structure and will be tasked with supervising the appropriate use of the program's financial resources and providing the necessary human and technical resources in a timely manner to execute it. The BNDES Funding Department will be responsible for coordinating the approval process with the IDB, as well as for the execution and monitoring of the program with the support from other relevant areas of BNDES, including its Departments of Operations and Digital Channels.</p>
-------------------------------------	--	---

3. Fiduciary capacity:

Fiduciary capacity of the EA	The results of the institutional capacity analysis indicate that the BNDES has the necessary capacity to manage the actions that will be carried out in the scope of the operation, including organizational structures, formal procedures, human resources, and adequate systems.
------------------------------	--

4. Policies and guides applicable to operation: GN-2729-4 and OP-273-12.

5. Exceptions to policies and rules: None.

II. Aspects to Be Considered in the Special Conditions of the Loan Agreement

<p>Exchange rate: For purposes of Article 4.10 of the General Conditions, the Parties agree that the applicable exchange rate shall be. That indicated in paragraph (b)(i) of said Article. For purposes of determining the equivalency of expenditures incurred in Local Currency chargeable to the Additional Resources or of the reimbursement of expenditures chargeable to the Loan, the agreed exchange rate shall be the exchange rate on the effective date on/in which the Borrower, the Executing Agency, or any other person or legal entity in whom the power to incur expenditures has been vested makes the related payments to the contractor, supplier, or beneficiary.</p>
<p>Type of audit: During the execution of the program, audited financial statements will be presented annually no later than 120 days after the close of each BNDES' fiscal period. The external audit will be carried out by the CGU or by an independent audit firm eligible for the Bank. Final EFAs for the program will be submitted no later than 120 days after the expiration of the original disbursement period or any extensions thereof.</p>

III. Agreements and Requirements for Procurement Execution

<input checked="" type="checkbox"/>	Projects with financial intermediaries	Within the agreements between the BNDES and the final beneficiaries (MSMEs, including entrepreneurs, in the Amazon Region), the Bank's prohibited practice clauses shall be included.
<input checked="" type="checkbox"/>	Retroactive financing	The Bank may finance retroactively under the loan, eligible expenses incurred by the Borrower prior to the date of loan approval, up to the amount US\$150,000,000 (20% of the proposed loan amount), provided that all requirements substantially similar to those set out in the loan contract are met. Such expenses must have been incurred from December 15, 2023 (date of approval of the Project Profile), and under no circumstances will expenses incurred more than 18 months prior to the loan approval date be included. Retroactive financing is requested on account of the existence of ongoing operations under BNDES' product lines that fit the eligibility criteria of the proposed program.

IV. Agreements and Requirements for Financial Management

<input checked="" type="checkbox"/>	Programming and budget	BNDES is a public company with a 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	Disbursements of the loan will be made in US 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 ORP and Financial Management Guide. 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% in order 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.
<input checked="" type="checkbox"/>	Accounting, information systems and reporting	<p>The BNDES has a robust financial information system that supports the accounting and financial records of its operations.</p> <p>It also complies with the rules established for banks in Brazil issued by the Central Bank and applies Brazilian standards for the presentation of its financial states. Additionally, BNDES publishes financial statements using IPSAS for informative purposes.</p> <p>The BNDES registration and data control operations and billing systems are indexed to several currencies, which allow registrations in local currency and US dollars. In this context, the BNDES will record all BID financing transactions in its own systems using the type of exchange on the day of transfer to municipal and state government sub-recipients of the program.</p>
<input checked="" type="checkbox"/>	External control: external financial audit and project reports	<p>The BNDES will annually present to the Bank an EFA of the program, within a period of 120 days after the end of each BNDES' fiscal year. This report will be dictated by the CGU, or by an independent audit firm eligible for the Bank.</p> <p>The final EFAs of the program will be presented no later than 120 days after the expiration of the original disbursement period or any extensions thereof.</p>
<input checked="" type="checkbox"/>	Project financial supervision	The financial supervision of the program by the IDB will be carried out ex post through: (i) analysis of the EFA; (ii) periodic review of program disbursement requests; and (iii) annual financial supervision meetings.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/24

Brazil. Loan ___/OC-BR to Banco Nacional de Desenvolvimento Econômico e Social - BNDES. PRO-AMAZÔNIA - BID-BNDES Access to Credit Program for MSMEs and Small Entrepreneurs

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 Federative Republic of Brazil, as guarantor, for the purpose of granting the former a financing aimed at cooperating in the execution of PRO-AMAZÔNIA - BID-BNDES Access to Credit Program for MSMEs and Small Entrepreneurs. Such financing will be in the amount of up to US\$750,000,000 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 Proposal.

(Adopted on _____ 2024)