

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BRAZIL

**PRO-AMAZÔNIA – BID-BNDES ACCESS TO CREDIT PROGRAM FOR
MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) AND SMALL
ENTREPRENEURS**

(BR-L1625)

PROJECT PROFILE

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); Juliana Dubeux (CSC/CBR); Katia Fenyves (CSD/CCS); Luis Hernando Hintze (CSD/RND); Carlos Echeverria (INE/ENE); Reinaldo Daniel Fioravanti (INE/TSP); María Victoria del Campo (SPD/SDV); Juan Carlos Lazo (VPC/FMP); Guillermo Eschoyez (LEG/SGO); Bruno Costa (FIN/TRY); Daniel Hincapie (CSD/ACU); Laisa Rachter de Sousa Dias (SCL/GDI); Marcia Groszmann (BID-Invest – INO/FLI); Robert Langstroth and Luciana Vanzan (VPS/ESG); Isabel Haro, María Cabrera, Cinthia Bechelaine and Rafael Ribeiro (Consultants).

Under the Access to Information Policy, this document is subject to Public Disclosure.

PROJECT PROFILE

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I. BASIC DATA

Project Name:	PRO-AMAZÔNIA – BID-BNDES Access to Credit Program for Micro, Small and Medium Enterprises (MSME) and Small Entrepreneurs		
Project Number:	BR-L1625		
Project Team:	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); Juliana Dubeux (CSC/CBR); Katia Fenyves (CSD/CCS); Luis Hernando Hintze (CSD/RND); Carlos Echeverria (INE/ENE); Reinaldo Daniel Fioravanti (INE/TSP); María Victoria del Campo (SPD/SDV); Juan Carlos Lazo (VPC/FMP); Guillermo Eschoyez (LEG/SGO); Bruno Costa (FIN/TRY); Daniel Hincapie (CSD/ACU); Laisa Rachter de Sousa Dias (SCL/GDI); Marcia Groszmann (BID-Invest – INO/FLI); Robert Langstroth and Luciana Vanzan (VPS/ESG); Isabel Haro, María Cabrera, Cinthia Bechelaine and Rafael Ribeiro (Consultants).		
Borrower and Executing Agency:	<i>Banco Nacional de Desenvolvimento Econômico e Social (BNDES)</i>		
Guarantor:	Federative Republic of Brazil		
Financial Plan:	IDB (Ordinary Capital):	US\$750 million	
	Local Counterpart:	<u>US\$150 million</u>	
	Total:	US\$900 million	
Safeguards:	Applicable Performance Standards:	ESPS 1, ESPS 2, ESPS 10	
	Impact Classification:	FI	
	Risk Classification:	Moderate	

II. GENERAL JUSTIFICATION AND OBJECTIVES

A. Problem description and background

- 2.1 **The preservation of the Amazon biome is key for the future of the Latin American and Caribbean Region (LAC) and the World, and Brazil has a leading role on this mission.** The Amazon biome is a key climate and hydrological regulator, with 40% of world's tropical forests and 25% of its biodiversity, and 64% of the Amazon biome in Brazil. The Brazilian Amazon Region is a geographical delimitation that covers over 5 million Km² (about 61% of the country's territory) and comprises the states of *Acre, Amapá, Amazonas, Pará, Rondônia, Roraima, Tocantins*, and *Mato Grosso*, as well as part of *Maranhão*, which together host over 70% of natural areas in the country,¹ including 20% of the *cerrado* biome, and 67% of the world's tropical forests.

¹ [Amazonia Legal em Dados.](#)

- 2.2 **Promoting sustainable development of the Brazilian Amazon Region supports the forest and its people.** The Amazon Region has a total population of almost 30 million people, of which three fourths (75%) live in cities. The Amazon Region population has grown about 400% in the last 50 years, and contains over half of Brazil's indigenous population, of which about half live in indigenous communities and the other half reside outside of demarcated lands including cities. During the same period, deforestation has risen from mere 0,5% to 21%, without a significant increase in productivity. There are now 84 million hectares of converted deforested areas —74% of which are pastures with reforestation potential— while a 15 million hectares are now underutilized or degraded.
- 2.3 According to the Brazilian Institute of Geography and Statistics (IBGE),² the Region contributed 10% to Brazil's GDP in 2020, driven by agriculture, livestock, and industry. The four largest economies in the Region, namely the states of Pará, Mato Grosso, Amazonas, and Maranhão, contribute about 81% of its total GDP. In recent years, the region has seen significant growth in agribusiness. However, access to logistical infrastructure, sanitation, education, health, and safety remains a challenge. High unemployment rates accompany the Region, with over 8 million people either unemployed or informal, reaching a 40% unemployment rate for the 25-29 years old population.³ The Region's Human Development Index (HDI) is consistently below the national average⁴, 40% of its population are poor, and its per capita household income is far below other Regions.⁵
- 2.4 **Amidst the deforestation crisis lies the opportunity to increase productivity through sustainable development alternatives, including generating better jobs through productive investment of MSMEs and Entrepreneurs and promoting the adoption of sustainable practices particularly in agriculture and bioeconomy.**⁶ Strategic support to the sustainable development of the Brazilian Legal Amazon⁷ requires, on the one hand, the promotion of sustainable practices in the territory, specifically among rural small entrepreneurs, and the development of Micro, Small and Medium-sized Enterprises (MSME), mainly in capitals and large cities in the Region, to increase the availability and quality of employment in the Region.⁸
- 2.5 **Low access to long-term credit, restricts productive investment by MSMEs and Entrepreneurs, limiting potential development benefits for the Region.** MSMEs, which account for 99% of firms in Brazil, are the driving force behind the country's economy and employment, but they face significant credit constraints due to perception of high-risk of the sector. Despite contributing 27% of Brazil's Gross Domestic Product (GDP) and 46% of employment,⁹ MSMEs only received 37.4% of the total credit provided to firms in Brazil as of 2019, and outstanding loans represented just 23.5% of the total credit for investment supplied by the

² IBGE, *Sistema de Contas Regionais: Brasil 2020, Informativo Contas Nacionais*, n. 90.

³ Pesquisa Nacional por Amostra de Domicílios [Contínua](#), (IBGE).

⁴ [Atlas do Desenvolvimento Humano](#).

⁵ [Amazonia Legal em Dados](#).

⁶ *Uma Agenda pelo Desenvolvimento da Amazônia, Iniciativa Uma Concertação pela Amazônia*.

⁷ Throughout this proposal, the Amazon Region refers to the Brazilian Legal Amazon, which comprises the area under the responsibility of the Superintendence of Amazon Development (SUDAM), established by Complementary Law no. 124 of 03/01/2007.

⁸ *Relatório Final - Pesquisa De Mercado: A Bioeconomia Da Amazônia, Conexsus*.

⁹ SEBRAE, [MPes geram cerca de oito a cada dez novos empregos criados em 2021](#), 2022.

financial system. Restrictions to credit concession of longer-term loans for fixed capital formation become even more severe during economic crises, especially for the MSME sector as it poses higher risks and costs for financiers despite having bankable projects, while depending more on financing and having limited risk management tools. Consequently, MSMEs struggle to obtain the necessary funding, which hampers their growth and sustainability (Annex VI). Given the crucial importance of MSMEs in the productive landscape, facilitating access to credit for these entrepreneurs has the potential to significantly enhance sustainable development both regionally and nationally.¹⁰

- 2.6 The aforementioned challenges to credit access as well as the potential benefits are even greater in the Amazon Region.** In 2019, credit operations to firms in the Amazon Region made up only 3% of the total credit operations in Brazil.¹¹ Despite representing 13% of rural producers in Brazil, rural producers in the Region received only 6.3% of the financed contracts, which were mostly concentrated on individuals. In contrast, firms in the rest of Brazil accounted for 26% of rural credit. Additionally, firms in the Amazon Region had lower average credit tickets compared to the rest of the country.¹² These results are partly related to a scarce credit alternative in the Region which development banks act as main source of funding. Indirect credit schemes in the Region have the potential to strengthen regional FIs and credit cooperatives that, over time can increase their demand and start to access other resources. At the same time, low population density and remoteness can translate into higher costs and higher capital requirements for investment. Due to the risks perceived risks, low-cost private capital does not naturally flow to MSME and small entrepreneurs in the Amazon Region, who consequently face difficulties to carry out long-term investments, or are able to make them at a very slow pace, hindering productivity.¹³ By concentrating efforts in this Region, it is possible to encourage local entrepreneurship, strengthen sustainable production chains, promote social inclusion and reduce regional inequalities.
- 2.7 Support to the MSMEs through access to longer-term loans for fixed capital formation is a driving force for enhancing productivity and employment without increasing the farming area.** In Brazil, the adoption of the credit modality aimed at supporting small businesses began in 1965, with the creation of BNDES and FINAME, a credit line created to facilitate the acquisition of machinery and equipment by MSMEs while encouraging the development of the national production of capital goods. A recent impact study conducted by BNDES concluded that every R\$1 million disbursed by BNDES corresponded to ten jobs in the country. Historically, FINAME has had a central role in the industrialization and development process of Brazil, expanding the production capacity of MSMEs in different sectors and with nationwide coverage through BNDES's indirect loans.

¹⁰ Internal and external conditions affecting the risk perception of the sector are expanded in Annex VI.

¹¹ Pamplona, L. et al., [Potencial da bioeconomia para o desenvolvimento sustentável da Amazônia e possibilidades para a atuação do BNDES](#), BNDES, 2021.

¹² [“6 Peculiarities of Rural Credit in the Amazon”](#), CPI, 2021. Other authors suggest an even lower prevalence of financing for firms in the Region.

¹³ In-depth demand analysis for the project is being carried out in coordination with BNDES and will be expanded in the POD. Sufficient demand has been identified so far for eligible transactions at BNDES and projections are being carried out in preparation for the program.

At the same time, partnering with FIs increases capillarity, while crowding-in private capital in the Region.

- 2.8 **Climate-related investments by MSME face specific, additional challenges accessing credit.** Climate related investments often face higher capital costs given the common financial constraints for MSMEs and specific barriers such as lack of information to evaluate the risks. Among the expected eligible productive investments under the current program (¶2.17), the following will be considered climate related investments: (i) investments in energy efficiency; (ii) efficient equipment; (iii) renewable energy; (iv) electric transportation; and (v) sustainable agriculture. This intervention aims to reduce the emissions of Green House Gases (GHG), that stem mainly from agriculture, energy sector, land use change and deforestation, in line with Brazilian NDCs and several SDGs.
- 2.9 **Women's MSMEs financial inclusion is a challenge in Brazil, with considerable regional differences.** Women MSME (WMSME) encounter greater difficulty in accessing credit, due to demand and supply barriers¹⁴ such as lack of adequate products tailored to women, gender biases, limited access to traditional collateral and guarantees, among others. MSMEs with women ownership in Brazil are a minority compared to firms owned by men. Estimates¹⁵ suggest that more WMSMEs in Brazil identify access to finance as a major constraint: 54.7% for WMSMEs, compared to 42.9% of men MSMEs. According to Brazilian Micro and Small Businesses Support Service (SEBRAE),¹⁶ in 2021, Micro and Small Enterprises (MSE) with a minimum of 50% of ownership by women represented 27.8% of active MSEs (1.344.804 of 4.839.289 firms). The distribution is also uneven between Brazilian regions: while the South and Southeast regions had a 29.7% and 28.9% proportion of women owned MSEs, the North and Northeast regions represented 24.4% and 22.2%, respectively. Considering the states included in the Amazon Region, the proportion is even lower: 23.1% of MSEs with women owners. Amazonas and Maranhão had the lowest proportion: only 19% and 19.5%, respectively. Most Brazilian women firms are in the services (30%) and commerce sector (26.8%) in 2021. There is no available information available regarding leadership composition of MSMEs disaggregated by sex, only related to ownership. Furthermore, there is a lack of disaggregated data in the financial system at a MSME level, which makes it difficult to have a more accurate dimension of the gender gaps.
- 2.10 **Diverse Groups (DG) including Afro descendants and Indigenous Peoples also face constraints in accessing credit.** As for the case of WMSMEs, there is no disaggregated data to determine or approximate the situation of diverse groups, both at an individual and MSME level. According to the Brazil 2022 census,¹⁷ 45.3% of Brazilians considered themselves *pardos* and another 10.6% *pretos*. The Indigenous Peoples (IP) consist of 0.83% of the national population, of which half (51.2%) are concentrated in the Amazon Region. Regarding access to productive credit for DG, IDB research conducted in 2013¹⁸ found that only 2.1% of

¹⁴ IDB, [Género y acceso al financiamiento empresario en Argentina](#), 2020

¹⁵ The World Bank, "Enterprise Surveys," 2008

¹⁶ SEBRAE, [Mapeamento de empresas com quadro societário predominantemente feminino](#). November 2022.

¹⁷ IBGE, [Censo 2022](#).

¹⁸ IDB, [Acesso ao crédito produtivo pelos microempreendedores afrodescendentes: Desafios para a inclusão financeira no Brasil](#). May 2017.

microentrepreneurs who self-identified as *pretos* frequently seek productive credit (versus 4.3% of the total) and 37.7% declared that they needed resources but did not revert to credits (versus 27.7% *pardos* and 22.3% of white population); the average amount requested by white populations (BRL 10,700) was 94.5% higher than by mixed race people (BRL 5,500) and 78.3% higher than by *pretos* (BRL 6,000); and 37.5% of micro-entrepreneurs *pretos* who requested credit had their request denied in its entirety (28.6% for white and 23.1% for *pardos*).

- 2.11 **Problem identification.** The analysis for this proposal identifies a long-standing need for access to finance in a perpetually underserved region to continue driving growth, sustainability, and resilience of MSME and small entrepreneurs. Impact evaluations point to public bank credit in general as a valuable tool to support MSME financial deepening and economic development in Brazil, including higher amounts of overall credit, larger tenors, and lower interest rates. Concentrating efforts on the Amazon Region will help foster local entrepreneurship, strengthen sustainable production chains, promote social inclusion, and reduce regional inequalities. In addition, local MSME can contribute directly to a more balanced, inclusive, and sustainable future, as the Region plays a crucial role in the preservation of biodiversity and global climate regulation, creating businesses that reconcile economic development with sustainable business alternatives (see Annex VII).
- 2.12 **Institutional framework and government strategies.** At the federal level, related policy is aimed at strengthening business environment for MSME through the improvement and simplification of regulatory and tax mechanisms, access to credit and new markets, and improved competitiveness and capacity building.¹⁹ As the main public policies for MSME financing in Brazil are deployed through government subsidies, the *Banco Nacional de Desenvolvimento Econômico e Social* (BNDES) continues to be an important agent in this process, working closer to this segment than other public development banks in international standard-setting countries.²⁰ Through accessible lines of credit and financing, BNDES aims to ensure that MSME and small entrepreneurs have access to the capital needed to invest in modernization, expansion, and innovation, to fulfill its public mandate to promote job generation, the strengthening of the local economy and the 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 for their complementary and strategic role. It is important to highlight that BNDES is currently developing²¹ a sustainable finance taxonomy and investment framework. Once implemented, this work will enable the bank to map, identify and evaluate sustainable finance opportunities more effectively.
- 2.13 The subject of MSME and social and regional development are recurrent and essential within BNDES institutional strategy, incorporating the reduction of inequality. Impact evaluations have consistently shown BNDES' indirect credit to be effective in supporting economic development of MSME in Brazil, employment,

¹⁹ Ministry of Economy, *Subsecretaria de Desenvolvimento das Micro e Pequenas Empresas, Empreendedorismo e Artesanato* (SEMPE), 2020.

²⁰ OECD, *Relatório OCDE Brasil: Políticas Públicas de financiamento para fortalecer MPMEs e empreendedorismo, 2020*.

²¹ This initiative is being supported by the TC [ATN/PI-19367-BR](#).

gross income, and investment (Annex VI). Literature also suggests that it can be an important tool to mitigate negative climate risks and deforestation.²² BNDES plays a central role in financing fixed capital formation in the rural area through the acquisition of agricultural machinery and equipment with dedicated lines. Disbursements for agriculture account for more than 20% of the Bank's total disbursements since 2017 and its mostly concentrated by BNDES Finame—a financial product focused on financing investments in machine and equipment, representing almost 60% of the total BNDES disbursements to agriculture—. The recent evaluation on BNDES financing effectiveness showed that the mechanization induced by BNDES credit is associated with important productivity gains in the rural sector, as well as the intensification of land use.²³ The market share of BNDES disbursements in rural credit for investments in agriculture has been around 55%.

- 2.14 **Project Additionality.** The program will provide long term stable funding matching FIs and MSMEs needs in the Brazilian Legal Amazon, supporting the development of local financial markets. Program resources will be funding BNDES' most ambitious program in the Region, leveraging BNDES' nationwide indirect loan coverage (covering 99% of municipalities). Through indirect long-term loans, the program fills the significant financing gap for fixed capital formation investments while partnering with FIs to increase capillarity and crowd-in private capital in the Region. Over time, it is expected that these institutions will increase their demand and start to access other sources to expand their operations beyond the limits defined by the BNDES lines. Thus, the program provides expanded access to productive investments for the acquisition of machinery, equipment, vehicles, and services that support sustainable production capacities and mitigate climate and deforestation risks, increase productivity, and intensify land use and increase job creation, while promoting the inclusion of women and diverse groups. The program also promotes the development of a sustainable taxonomy in alignment to climate change and Paris Agreement goals in the Amazon Region while safeguarding investments only to areas free from irregular deforestation thanks to BNDES tool MapBiomass.²⁴
- 2.15 With the prior context, IDB –as part of the Amazonia Forever regional program²⁵ –and the BNDES -in the context of its continuing support to the Amazon, climate, and alternative sustainable economic activities– signed a letter of intent to move forward with the proposed project. It is important to highlight that the Program is also aligned with the Green Coalition, an initiative proposed by BNDES and IDB to

²² Barboza, R. et al., [What Have We Learned about National Development Banks? Evidence from Brazil](#), Brazilian Journal of Political Economy 43 (3):646-69, 2023.

²³ Results of the evaluation show that a 1% increase in BNDES credit is associated with a 0.09% increase in municipal agricultural GDP, a 0.15% gross value increase, a 0.22% increase in agricultural productivity and 0.07% in livestock productivity without an increase in herd of cattle or the pasture area.

²⁴ The MapBiomass platform is capable of validating deforestation alerts through high-resolution images and producing reports verifying recent deforestation. The fully automated integration of MapBiomass data with the BNDES operational platform allows the Bank to even start monitoring operations already contracted, whose rural properties are registered in the National Rural Environmental Registry System (SICAR) of the Ministry of Agriculture and Livestock.

²⁵ The [Amazonia Forever](#) initiative, an umbrella program for the sustainable development of the Region, aims at coordinated work on forest and climate conservation and improving people's quality of lives, offering economic alternatives.

coordinate efforts among public development aiming at supporting the development of the Amazon Region.

B. Proposed Intervention

- 2.16 **Objectives.** The program's general development objective is to promote the sustainable development of the Amazon Region and the reduction of regional inequalities, through the strengthening of productivity and job creation of local MSMEs and small entrepreneurs. The specific development objective is to increase the availability of financing for productive investments of MSMEs and small entrepreneurs in the Amazon Region.
- 2.17 **Single Component – Funding for productive investment operations of MSME in the Amazon Region (US\$900 million).** This component will provide support for mid- and long-term productive credit operations by MSME and small entrepreneurs in the Amazon Region, via second-tier credit lines from BNDES. The resources will be utilized to finance productive investments (such as purchase of machinery, equipment, vehicles, goods and services for production).²⁶ The program will encourage investments that involve the adoption of sustainable practices by MSMEs and small entrepreneurs, mainly in the primary sector in rural areas. Individual sub-loans will be limited to US\$500 thousand for entrepreneurs, in alignment with the environmental and climate policies of BNDES and IDB, and US\$1 million for all other MSME).
- 2.18 **Non-financial additionality.** The project is committed to supporting the Amazon Region to address gender gaps, and exploring a more adequate intervention towards diverse groups, and supporting sustainable investment. Although resources will be allocated and disbursed upon demand, it is foreseen that a proportion of the resources will be committed to finance women MSMEs, to address the challenges described in ¶2.11. The operation will also analyze the context of DG and will articulate activities to tackle the gaps these populations face in accessing credits, in line with BNDES corporate strategy. In addition, investments that involve adopting sustainable practices and the conscious use of resources, expanding the possibility of using new technologies, boosting the emergence of innovative production chains will be encouraged. This will be reflected in a specific allocation of the program resources to investments with a climate change mitigation. Sector-wise, the pipeline distribution will resemble the current identified multisector portfolio of BNDES in the Amazon Region, contributing to greater regional economic dynamism and greater presence of financial agents in the referred region. Except for sector eligibility limitations that could have to be established in the Operating Regulations (OR) following IDB and BNDES policies, the program is designed to keep its multisector approach, and will not establish specific amounts ex ante to be allocated for each product line eligible under the program.
- 2.19 **Beneficiaries.** Program beneficiaries will be MSME and small entrepreneurs that fulfill the eligibility criteria. In line with common practice for national financial institutions in Brazil, including BNDES, the program will use a definition of MSME that classifies them as such based on their annual gross sales. The specific

²⁶ Eligible credit lines will be defined during project preparation. Preliminary assessment point to *Cartao BNDES*; *BNDES Automático*; and (iii) *BNDES Finame*.

eligibility criteria will be described in detail in the program's OR to be developed as an annex to the POD. Eligible intermediary first-tier institutions will include only financial agents accredited by BNDES, based on its existing procedures and criteria.

- 2.20 **Expected results.** Results will be measured through BNDES relevant portfolio indicators (including outstanding stock and tenor of financing for the relevant portfolio, as well as its share of women businesses and climate-positive investments financing) as well as evolution of income and employment of supported MSME and small entrepreneurs, and regional per capita economic growth relative to total country.
- 2.21 **Strategic alignment.** The program is consistent with the [Second Update of the Institutional Strategy \(UIS\)](#) (AB-3190-2) and aligns with the challenges of: (i) Social Inclusion and Equality, by targeting a vulnerable region; and (ii) Productivity and Innovation, by promoting productive investments by MSME. It also aligns with the crosscutting theme of (i) Gender Equality, by addressing incremental gaps faced by women MSMEs with a targeted allocation of the program's resources; (ii) Diversity, by exploring interventions to work with DG in accessing credits; and (iii) Climate Change, through financing of climate related investments. The program contributes to the [Corporate Results Framework \(CRF\) 2020-2023](#) (GN-2727-12) in its challenge indicator of number of MSME financed.
- 2.22 The program aligns with IDB's Sector Strategy Institutions for Growth and Social Welfare (GN-2587-2), by increasing access to credit through local financial institutions, and is consistent with the Support to Small and Medium Enterprises (SME) and Financial Access/Supervision Sector Framework Document (GN-2768-7), by supporting financing for SME, and with the Gender and Diversity Sector Framework Document (GN-2800-8) by targeting specific financing of women businesses. The program also aligns with the IDB Group Country Strategy (CS) with Brazil 2019-2022 (GN-2973)²⁷ under the following priority areas: (i) Improve the business climate and narrow gaps in sustainable infrastructure for enhanced competitiveness, in the strategic objective to increase the role of the private sector by improving the quality of the business environment, contributing to the expected result of increased private sector access to credit; and (ii) Promote national and international integration to boost productive capacity, with the strategic objective integrating the less developed regions, contributing to the reduction in income disparities between regions, and to an increased competitiveness of the less developed regions based on a sustainable development model.
- 2.23 **Execution instrument and mechanism.** 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 due to the program's nature

²⁷ The IDBG Country Strategy with Brazil 2019-2022 ([GN-2973-2](#)) is still current and under transition to a new Country Strategy as informed at [GN-2973-2](#).

of financial intermediation towards beneficiary MSME and small entrepreneurs.²⁸ A four-year disbursement period is expected.

- 2.24 **Borrower, executing agency and guarantors.** BNDES will be the borrower and executing agency of the program. Its strategy and experience are considered fully aligned with the program objectives (¶2.12 and ¶3.1). 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 support from its Operations and Digital Channels Area. Preliminary meetings are being held between BNDES and IDB to identify more specific data on target demand and other information necessary for program preparation.

III. TECHNICAL ISSUES AND SECTOR KNOWLEDGE

- 3.1 **IDB experience.** In Brazil, IDB's experience in MSME access to finance operations via public development banks includes loans [4672/OC-BR](#), [5130/OC-BR](#) and [5115/OC-BR](#), executed by BNDES, including two emergency global credit programs in response to the pandemic and a focus on MSMEs credit in vulnerable municipalities. The Project Completion Report (PCR) of the first two ([PCR for 4672/OC-BR](#) and [PCR for 5130/OC-BR](#)) suggest they were successful in fulfilling the goal to support employment and sustainability of MSME by enabling financing through credit and guarantees, respectively. In 2020, loans [5138/OC-BR](#) and [5158/OC-BR](#) were approved to financially support SME short-term sustainability against COVID-19 crisis as well as employment level support in the State of Spirit Santo and the Brazil South Region, respectively. In 2021, loan [5452/OC-BR](#) (complemented by TC [5453/TC-BR](#)) was approved also with BNDES to provide financing for the recovery for MSME and entrepreneurs and is currently being implemented. In 2022, loan [5625/OC-BR](#) 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 municipalities and MSMEs in the State. BNDES has a series of initiatives underway with the IDB also in sectors other than MSME financial support, notably in public safety, health, sanitation, and social infrastructure. The IDB has historically been BNDES' main international creditor, with 24 contracts signed to date, totaling about US\$10.25 billion.
- 3.2 **Sector knowledge.** Impact evaluations point to development bank credit as a valuable tool to support employment, gross income, and investment. IDB's Office of Evaluation and Oversight (OVE)'s empirical analysis of the various IDB programs supporting SME in Brazil shows how credit support is the only intervention observed to significantly affect all outcome variables, with the most positive impact found on employment and wages. Literature also points to the crucial role of developing banks in effectively supporting investments, employment, and GDP, particularly when borrowers are MSMEs, as well the

²⁸ Through indirect financing, Global Credit Loans provide financial resources to national or subnational entities to finance projects in many sectors that promote economic and social development. IDB extends funding to a local intermediary financial institution, which in turn provides funding to beneficiaries either directly or through second-tier operations via third-party financial institutions. PR-203 regulations govern the use of this lending instrument.

positive effects in the fight against climate change by reducing deforestation.²⁹ Further details can be consulted in Annex IV.

- 3.3 **Lessons learned.** The listed experience leaves lessons such as: (i) the effectiveness of the vertical logic that MSME access to credit programs generally propose, with a clear alignment between the program's objectives and outcomes, has been observed in Brazil; (ii) how advancing in the fulfillment of requirements to mitigate environmental, social and financial risks can help manage them and ensure a prompt and viable execution; and (iii) the relevance of incorporating focus to MSME finance operations, for instance in terms of serving vulnerable areas with relative low levels of access, to boost impact.
- 3.4 **Complementarity with other IDB operations.** The program complements loans under implementation in Brazil (¶3.1), sharing the overall goal to promote growth and recovery of MSME, but focusing exclusively on the Amazon Region. While complementary support for MSME from this program is consistent with the identified size of the demand, synergies will be sought to improve efficiency, monitoring, and oversight. Together with the MSMEs support, the operation also articulates under the Amazonia Forever set priorities, to upscale financing, strengthen project planning and execution to generate impact, share knowledge and evidence-based innovations and leverage expertise to support policy development, and enhance regional collaboration and coordination. Approved Technical Cooperations supporting and complementing this operation are [ATN/PI-19367-BR](#) and [ATN/TC-19652-BR](#).³⁰
- 3.5 Also, the operation builds on the operational synergies between the IDB and IDB Invest, seeking strategies for “crowding-in” and attracting private investments. For the Amazon region the joint efforts of IDB and IDB Invest of [ATN/OC-19012-BR](#) stand out, supporting, among other clients, the three main cooperatives in the country, SICOOB, SICREDI and CRESOL to improve, in an integrated and institutional way, their search for positive socio-environmental impact and strengthening internal capacity to facilitate resource channeling when working with second tier banks such as BNDES.
- 3.6 In the same line, the indirect credit approach of BNDES is central to promoting credit in underserved regions such as the Brazilian Legal Amazon while strengthening regional FIs’ origination capacity and catering to the needs of these regions. However, BNDES has some limitations -such as total exposure to counterparties, pass-through efficiency, and portfolio formation- which restrict its ability to meet all the funding requirements of private financial institutions-. This creates opportunities for additional funding, offering financial and non-financial additionality, crowding-in more resources from sources other than BNDES to the said FIs to further boost the granting of credit to the Region. The recently approved IDB Invest, DEG and Proparco co-loan for up to US\$100 million to provide

²⁹ Barboza, Ricardo, et al. What have we learned about national development banks? Evidence from Brazil. *Brazilian Journal of Political Economy* 43 (2023): 646-669. The 2023 BNDES study on the impact of fix capital financing over employment show that every R\$1 million disbursed by BNDES, corresponded to ten jobs in Brazil. (BNDES, 2023, [Modelo de Estimación de Empleos do BNDES: uma ferramenta em constante evolução](#)).

³⁰ ATN/PI-19367-BR, approved in 2022 for client support; with 25.21% of the total US\$1.2 million approved executed to date. ATN/TC-19652-BR, approved in 2022 for US\$1 million for operational support.

BanSicredi -an important operator of BNDES in the Amazon- with long-term senior funds for the financing of the women-led SMEs portfolio is an example of the business opportunities generated.³¹

- 3.7 **Complementarity with other multilateral organizations.** IDB group takes a holistic view of the performance of financial agents through the Green Coalition and the Financial Network for the Amazon, which together have 43 financial institutions among the 8 Amazon countries, public and private, which act in a coordinated manner to improve the environment of access to finance in the Region. The Green Coalition for the Amazon launched by Development Banks from the Amazon basin countries in the context of the Amazon Presidential Summit in August 2023, a pioneering international alliance mobilized by IDB and BNDES to carry out collaborative, synergistic and complementary sustainable development initiatives with unprecedented scale and impact for the Amazon Region, while respecting local and regional characteristics.³² The Green Coalition aims to promote financial solutions and the enabling conditions to create and strengthen local productive activities and boost socially, environmentally and economically sustainable projects. The institutions committed to work in a coordinated and complementary way, leveraging each one's capacities and expertise to: (i) financially support public and private projects that create sustainable, inclusive, climate-positive economic alternatives for job creation, especially for low-income households; (ii) design innovative financial solutions that combine public and private resources to mitigate risks (including blended finance approaches, co-financing and guarantees), to significantly scale up private-sector investments in the Amazon Region; and (iii) boost technical cooperation to generate a robust project pipeline, enhance local capacities and consolidate a new sustainable development model for the Amazon Region. Under the Green Coalition, IDB coordinates its efforts in the Amazon Region with *Cooperación Andina de Fomento* (CAF), and The World Bank Group to avoid duplication, reinforcing BNDES' strategy and effectiveness (¶2.12).

IV. ENVIRONMENTAL AND SOCIAL RISKS AND FIDUCIARY SCREENING

- 4.1 The operation is classified as Financial Intermediation under the Environmental and Social Policy Framework (GN-2965-23). The Environmental and Social Risk Rating (ESRR) of the operation has been initially assessed as Moderate, related to short-term, localized impacts that can be mitigated with standard and known measures. During the due diligence process, an Environmental and Social Management System (ESMS) of the program based on BNDES's existing systems and processes to manage environmental and social risks and additional eligibility and exclusion criteria will be established to manage the classification, approval, implementation, and monitoring of credits financed by the IDB. The results of the due diligence will be synthesized in the Environmental and Social Review Summary that will define the environmental and social requirements of the program and will be integrated into the program's OR.³³

³¹ Project [14658-01](#), approved in November, 2023.

³² Launch of Green Coalition, [press release](#).

³³ Environment and Social Category A projects will be excluded. This constitutes an exclusion criterion that will be established in the final Environmental and Social Review Summary and that will be transferred to the ROP.

- 4.2 **Retroactive financing.** The IDB may finance retroactively up to US\$150.000.000 (20% of the IDB loan amount) in eligible expenditures incurred by the borrower prior to the date of approval of the loan, provided requirements substantially like those established in the loan contract are met. Such expenditures must have been incurred from the date of approval of this project profile, but under no circumstances will expenses incurred more than 18 months before the date of approval of the loan be included. Retroactive financing is requested on account of: (i) expected times required for the formalization of the contract between BNDES and IDB, which will take place after the conclusion of the negotiation process with competent government agencies; and (ii) the existence of ongoing operations under BNDES' credit lines that fit the eligibility criteria of the proposed program.

V. OTHER ISSUES

- 5.1 **Risks.** There is a medium-high economic and financial risk associated with the Amazon MSME market niche, which is more complex and dispersed to serve than initially anticipated. This complexity arises due to geographical and cultural distance among entrepreneurs in the Region. These factors could potentially reduce intermediaries' incentives to provide them with credit, thereby impacting the program's disbursement goals. This risk will be mitigated through adequate demand monitoring, including prospecting and promotion practices for identification and evaluation of beneficiaries by accredited financial institutions. In addition, a medium-high institutional risk was identified regarding the lack of coordination among program stakeholders (e.g., IDB, BNDES), resulting in delays in the program execution. This risk will be mitigated through ensuring agreed upon calendars, milestones and working group; as well as recurrent follow-up meetings with the counterpart to avoid any coordination pitfall.
- 5.2 **Exceptions to Bank policies.** As in prior loan operations with BNDES, for this project the guarantee of the Federative Republic of Brazil will be limited to BNDES' financial obligations and will not cover BNDES's contractual obligations regarding to the program execution and the local counterpart contribution. Consequently, it is necessary that a partial waiver to IDB's policy guarantees required from the borrower be approved by the Board of Executive Directors. The project already holds the authorization for preparation granted by the *Comissão de Financiamentos Externos* (COFIEX) on September 6, 2023.³⁴
- 5.3 Financial sustainability is ensured by careful screening by BNDES and financial agents, built upon extensive knowledge of the local market. Program activities are designed to enable on-lending of resources to many small borrowers across various productive sectors. While eligibility conditions for accessing funds will be in place, when accessing credit, MSMEs are more likely to use other services from the financial agent, helping consolidate their relationship with the financial market in the longer term. In addition, the positive effects produced by credit support have proven to be long-lasting (Annex VI). The contribution of the operation to the expansion of the Legal Amazon second-tier credit pipeline of BNDES will pose a demonstrative effect for furthering credit supply in the Brazilian Amazon Region.

³⁴ [COFIEX Resolution No 37 of September 6, 2023.](#)

VI. RESOURCES AND TIMETABLE

- 6.1 Distribution of the Proposal for Operations Development (POD) for Quality and Risk Review (QRR) is expected by January 29, 2024. Presentation of the Loan Proposal to the Operations Policy Committee is expected by April 15, 2024, and to the Executive Board of Directors by May 29, 2024. The estimated budget for preparation of the proposal is US\$103,000 and 1.195 FTE are required to complete the preparation of the proposal (Annex V).

CONFIDENTIAL

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



E&S Screening Filter

Operation Information

Operation Name	
PRO-AMAZÔNIA - BID-BNDES Credit Access Program for MSMEs and Small Entrepreneurs	
Operation Number	BR-L1625

Operation Details

Organizational Unit	IDB Sector/Subsector
IFD/CMF	CAPITAL MARKET DEVELOPMENT
Type of Operation & Modality	Original IDB Amount
LON / GCR	\$750,000,000.00
Executing Agency	Borrower
BR-BNDES	BANCO NACIONAL DO DESENVOLVIMENTO ECONOMICO
ESG Primary Team Member	Team Leader
	Rafael Cavazzoni Lima
Toolkit Completion Date	Author
03/10/2023	Mauricio Tapia (Esg Guidance Service)
Applicable ESPSs with requirements	
ESPS 1; ESPS 2; ESPS 10	

Operation E&S Classification Summary

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

Summary of Impacts / Risks and Potential Solutions

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

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

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



E&S Screening Filter

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

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

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

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

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

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

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

The FI portfolio or sub-projects has the potential to have minor impacts or risks on human health and the environment, have GHG emissions, generate waste and/or use pesticides.

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

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

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

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

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

The FI portfolio or sub-projects will not negatively affect people due to their gender, sexual orientation or gender identity.

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

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

ESPS 2 - Labor and Working Conditions

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



E&S Screening Filter

ESPS 10 - Stakeholder Engagement and Information Disclosure

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

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BRAZIL

**PRO-AMAZÔNIA – BID-BNDES ACCESS TO CREDIT PROGRAM FOR MICRO, SMALL AND MEDIUM ENTERPRISES
(MSME) AND SMALL ENTREPRENEURS**

BR-L1625

INITIAL ENVIRONMENTAL AND SOCIAL REVIEW SUMMARY

DECEMBER, 2023

This document was prepared by:
Aurea Fuentes (IFD/CMF)
with the support of the project team leader
Rafael Cavazzoni Lima (IFD/CMF)

Initial environmental and social review summary	
Operation Data	
Operation Number	BR-L1625
IDB Sector/Subsector	IFD/CMF
Type of Operation & Modality	Global Credit Operation (LON-GCR)
Environmental and Social Impact Classification	FI
Environmental and Social Risk Rating	Moderate
Disaster and Climate Change Risk Rating	Low
Borrower	Banco Nacional de Desenvolvimento Econômico e Social
Executing Agency	Banco Nacional de Desenvolvimento Econômico e Social (BNDES)
IDB Loan Amount (and total project cost)	IDB (Ordinary Capital): US\$750 million BNDES (Local Counterpart): US\$150 million Total: US\$900 million
Applicable ESPS with requirements	ESPS 1; ESPS 2; ESPS 10.
Executive Summary	
<p>Pursuant to the Environmental and Social Policy Framework (ESPF), the operation is classified as Financial Intermediation (FI). The Environmental and Social Risk Rating (ESRR) has been assessed as Moderate, primarily related to short-term, localized impacts that can be mitigated with standard and known measures. This rating shall be confirmed during the Environmental and Social due Diligence (ESDD).</p> <p>The program’s general objective is to promote the sustainable development of the Amazon Region and the reduction of regional inequalities, through the strengthening of productivity and job creation of local Micro, Small and Medium Enterprises (MSME) and small entrepreneurs. The specific objectives are: (i) to increase the availability of financing for productive investments of MSMEs and small entrepreneurs, and (ii) to foster productivity gains and job creation in the Amazon Region. The focus of the program will be to encourage the adoption of sustainable practices by MSMEs and Individual Entrepreneurs in the primary sector in rural areas in alignment with the environmental, social, and climate policies of BNDES and IDB, and increase productivity of MSMEs and the creation of job opportunities in cities through productive investment.</p> <p>In the case of subprojects that imply the financing of solar panel purchasing or installation, forced labor risk mitigation measures will be established and integrated into the program's Environmental and Social Risk Management System in line with the IDB’s action plan on solar panels.</p> <p>Most subprojects are expected to have a low socio-environmental risk profile, while some might be of moderate risk.</p>	

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

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

Operation Description

The program is comprised of a single component, described as follows:

Single Component – Funding for Productive Investment Operations of MSME in the Amazon Region (US\$900 million). This component will provide support for mid- and long-term productive credit operations by MSME and small entrepreneurs in the Amazon Region, via second-tier credit lines from BNDES. The resources will be utilized to finance productive investments (such as purchase of machinery, equipment, vehicles, goods, and services for production). The program will encourage investments that involve the adoption of sustainable practices by MSMEs and small entrepreneurs, mainly in the primary sector in rural areas. Individual sub-loans will be limited to US\$500 thousand for entrepreneurs, in alignment with the environmental and climate policies of BNDES and IDB, and US\$1 million for all other MSME).

The potential BNDES eligible lines for the program will be based on the application of the necessary filters to classify activities aligned with climate ambition goals, based on the classification of the eligible investments uses in terms of products and equipment, and according to financing limits for rural and urban productive activities. Potential credit lines to be explored for eligibility are BNDES *Automático*, *Cartao* BNDES e *Finame*:

- i. BNDES *Automático – Projetos de Investimento*: for investment projects of MSMEs in all sectors, mainly related to construction, expansion, or reform of facilities (store, warehouse, storage, factory, office, etc.), including acquisition of machinery, equipment, software, and related services accredited by BNDES.
- ii. *Cartão* BNDES: a pre-approved credit line for acquisition of specific products accredited by BNDES (machinery, equipment, other production goods and services) at reduced rates and extended terms for repayment.
- iii. BNDES *Finame – BK Aquisição e Comercialização*: for the acquisition and commercialization of machinery, equipment, parts, industrial systems, and Information Technology (IT) and automation goods, including new vehicles (buses, trucks) that have been accredited by BNDES.
- iv. BNDES *Finame – Baixo Carbono*: for the acquisition and commercialization of solar and wind energy management systems, solar heaters, buses and electric roads, hybrids and powered exclusively by biofuels and other machines and equipment with higher energy efficiency indices or that contribute to the reduction of GHG emissions.

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

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

<ul style="list-style-type: none"> - Health and safety issues - Stress on or contamination of water resources - Inadequate waste management (wastewater and solid waste) - Air emissions - Energy consumption <p>Environmental and social risks generally related to the agricultural sector are the following:</p> <ul style="list-style-type: none"> - Habitat conversion and degradation - Stress on or contamination of water resources - Incorrect waste management (wastewater and solid waste) - Use of migrant labor or child labor - Air emissions - Energy consumption - Use of polluting pesticides and fertilizers 	
Rationale for Classifications/Rating	
<i>E&S Impact Classification</i>	FI – BNDES will channel the program’s resources through second-tier credit lines. BNDES will verify accordingly that financial intermediaries oversee that requirements established for subprojects are aligned with the IDB program's requirements.
<i>E&S Risk Rating</i>	Moderate – It is expected that most of the subprojects to be financed with resources from this program will be of low risk. Some of the subprojects to be financed could be of moderate risk. This precategorization will be confirmed during the preparation stage of the operation. High-risk subprojects will be excluded from financing. Likewise, the eligibility and exclusion criteria to be defined will comprise the ESMS of the program in compliance with the ESPF.
<i>Disaster and Climate Change Risk Classification</i>	Low – No natural hazards, such as earthquakes, droughts, landslides, floods, wildfires, or others, including those caused or exacerbated by climate change, are likely to occur in the subproject areas, and/or these may impact the sub-project, and/or the sub-project may aggravate the risk from natural hazards to human life, property, and/or the environment.
Use of Borrower E&S Framework	
<i>No</i>	
<i>N/A (FI)</i>	
Environmental and Social Performance Standards (ESPS) that apply to the proposed project	
ESPS-1. Assessment and Management of E&S Risks and Impacts	
<i>Yes</i>	
<p>The ESDD will include the identification of potential environmental and social risks and impacts of the activities to be financed and any gaps between BNDES existing policies, procedures, and organization and the requirements of ESPS 1.</p> <p>BNDES has successfully executed various operations of diverse levels of socioenvironmental risk with the IDB. Previous operations include loans 4672/OC-BR approved in 2018, 5130/OC-BR and 5115/OC-BR approved in 2020, and 5452/OC-BR approved in 2021. Although the ESDD will confirm BNDES’s capacity to properly manage environmental and social risks that may arise under this program, BNDES has a</p>	

strong record of risk management on the environmental and social front. In BNDES’s ESG evaluation, carried out by Moody’s ESG Solutions, BNDES stands out in the 2% of the best qualified in the ranking of the world’s most sustainable institutions.

The elements of the ESMS of the program that BNDES shall comply with will be confirmed during the ESDD. These elements are based on:

- Compliance with environmental, social and health and safety national and local laws associated with the program.
- Compliance with the IDB Exclusion List.
- Compliance with BNDES environmental and social management system.
- Compliance with additional exclusion criteria to avoid direct or indirect impacts of the beneficiary MSMEs and Individual Entrepreneurs’ economic activities, for example:

Subprojects categorized as A, according to the ESPF.
Activities/sectors with substantial or high socio-environmental risk (large-scale agriculture, large-scale construction, extractive industries, etc.).
Subprojects that involve negative impacts on natural or critical habitats.
Subprojects that involve involuntary resettlement due to physical or economic displacement.
Subprojects that may damage cultural sites or critical cultural sites.
Subprojects that entail a negative impact on protected areas or RAMSAR sites.
Subprojects with negative impacts on indigenous peoples.
Subprojects that involve risks or negative impacts based on gender.
Activities involving the introduction, expansion, or use of alien or non-native species ¹ .

- Compliance with applying a maximum financing amount per subproject of US\$500.000 for MSMEs and Individual Entrepreneurs in the primary sector in rural areas and US\$1 million for productive investments by MSMEs and Individual Entrepreneurs in cities.
- Compliance with submitting a biannual report on the environmental and social performance of the project, which includes, among others, the amounts disbursed for subprojects and distribution by sector, including average amounts of total financing by sector, brief description of the use of resources of the subprojects, and any other relevant environmental and social information on the beneficiary MSMEs and Individual Entrepreneurs, BNDES environmental and social management system and national or subnational regulations.

These requirements will be included in the program’s Operating Regulations and shall be approved as a condition for the first disbursement.

ESPS-2. Labor and Working Conditions	Yes
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¹ Pursuant to ESPF, paragraph 20: Intentional or accidental introduction of alien, or non-native, species of flora and fauna into areas where they are not normally found can be a significant threat to biodiversity, since some alien species can become invasive, spreading rapidly and out-competing native species.

<p>BNDES is compliant with the federal labor legislation of the Federative Republic of Brazil. The country has ratified most of the conventions of the International Labor Organization, including the Forced Labour Convention, Minimum Age Convention, and Worst Forms of Child Labour Convention.</p> <p>The purchase of solar panels for small-scale renewable energy and energy efficiency subprojects will be defined during the ESDD; if applicable, forced labor risk mitigation measures will be established and integrated into the program's ESMS pursuant to the IDB's action plan on solar panels. BNDES's compliance with ESPS-2 will be verified during the ESDD.</p>	
ESPS-3. Resource Efficiency and Pollution Prevention	<i>No</i>
<p>The program will not finance MSMEs and Individual Entrepreneurs' economic activities with significant impacts on air, water, and land pollution and hazardous and non-hazardous waste. The construction of large-scale buildings or facilities will not be financed. The financing of civil works will be limited to modifications of existing facilities or equipment installation. Most subprojects are expected to have a low E&S risk, which must comply with national legislation.</p>	
ESPS-4. Community Health, Safety, and Security	<i>No</i>
<p>The program will not finance MSMEs and Individual Entrepreneurs' economic activities with significant impacts on people or communities. There will be no funding for large infrastructure or the use of hazardous materials. Most subprojects are expected to have a low E&S risk, which must comply with national legislation.</p>	
ESPS-5. Land Acquisition and Involuntary Resettlement	<i>No</i>
<p>Subprojects that entail involuntary physical or economic resettlement of people, even temporary, will not be eligible under this program.</p>	
ESPS-6. Biodiversity Conservation and Sustainable Management of Living Natural Resources	<i>No</i>
<p>Subprojects that negatively impact protected areas or RAMSAR sites will not be eligible under this program.</p>	
ESPS-7. Indigenous Peoples	<i>No</i>
<p>Subprojects with a negative impact on indigenous peoples will not be eligible under this program.</p>	
ESPS-8. Cultural Heritage	<i>No</i>
<p>Subprojects with a negative impact on cultural heritage will not be eligible under this program.</p>	
ESPS-9. Gender Equality	<i>No</i>
<p>The program is not expected to cause risks and negative impacts based on gender, or sexual orientation, among others; on the contrary, the program seeks to finance women MSMEs with a proportion of the program's resources.</p>	
ESPS-10. Stakeholder Engagement and Information Disclosure	<i>Yes</i>
<p>Most subprojects are expected to have a low E&S risk, which must comply with national legislation. During the ESDD, the contact for queries mechanism that BNDES currently has in place will be analyzed.</p>	
Information Disclosure requirements (for the IDB)	

The E&S documentation of the subprojects will be disclosed as established in national requirements and laws. The IDB will disclose E&S information on the program through its existing processes, including its Project Monitoring Reports (PMR).

Annexes

Annex A

Environmental and Social Action Plan (ESAP)

Annex B

E&S Requirements

Annex C

E&S Maps

Annex A. Environmental and Social Action Plan (ESAP)
No Environmental and Social Action Plan is required for this program.
Annex B. E&S Requirements
To be confirmed in the final Environmental and Social Review Summary.
Annex C. E&S Maps
The program's scope to finance MSME and Individual Entrepreneurs covers the Brazilian Amazon Region.

INDEX OF SECTOR STUDIES

Studies	Date	References and Links
<i>Uma Agenda pelo Desenvolvimento da Amazônia, Iniciativa Uma Concertação pela Amazônia.</i>	2022	https://concertacaoamazonia.com.br/estudos/uma-agenda-pelo-desenvolvimento-da-amazonia/?gclid=Cj0KCQjw4vKpBhCZARIsAOKHoWtXR8tB3V3KwWd1vvFp5hWkfsX3oJIYfVhwUQDERhIOTDwifXvZ4KwaAovQEALw_wcB
<i>Relatório Final - Pesquisa de mercado: A bioeconomia da Amazônia (CONEXSUS).</i>	2022	Relatório Final - Pesquisa de mercado: A bioeconomia da Amazônia (CONEXSUS)
SEBRAE, <i>MPEs geram cerca de oito a cada dez novos empregos criados em 2021.</i>	2022	https://sebrae.com.br/sites/PortalSebrae/ufs/ma/noticias/mpes-geram-cerca-de-oito-a-cada-dez-novos-empregos-criados-em-2021,1e1fc0f4415ce710VgnVCM100000d701210aRCRD
<i>Amazonia Legal em Dados, Iniciativa Uma Concertação pela Amazônia.</i>	2022	https://amazonialegalemdados.info/home/home.php?regiao=Amaz%C3%B4nia%20Legal
Pamplona, L. et al., <i>Potencial da bioeconomia para o desenvolvimento sustentável da Amazônia e possibilidades para a atuação do BNDES</i> , BNDES.	2021	https://web.bndes.gov.br/bib/jspui/bitstream/1408/22024/1/02-BNDES-Revista56-PotencialBioeconomia.pdf
Barboza, R. et al., "What Have We Learned about National Development Banks? Evidence from Brazil", <i>Brazilian Journal of Political Economy</i> 43 (3):646-69, 2023	2023	https://centrodeeeconomiapolitica.org.br/repojs/index.php/journal/article/view/2422
IDB, <i>Acesso ao crédito produtivo pelos microempreendedores afrodescendentes: Desafios para a inclusão financeira no Brasil.</i>	2017	https://publications.iadb.org/pt/acesso-ao-credito-produtivo-pelos-microempreendedores-afrodescendentes-desafios-para-inclusao
<i>Bioeconomia da sociobiodiversidade no estado do Pará (BID).</i>	2021	Bioeconomia da sociobiodiversidade no estado do Pará (BID)
Pereira, G., CNI. 2020. <i>Bioeconomia e a indústria Brasileira.</i>	2020	https://static.portaldaindustria.com.br/media/filer_public/cd/ed/cded4159-a4c5-474d-9182-dd901b317e1c/bioeconomia_e_a_industria_brasileira.pdf
OECD. <i>Relatório OCDE Brasil: Políticas Públicas de financiamento para fortalecer MPMEs e empreendedorismo.</i>	2020	https://ceapg.fgv.br/sites/ceapg.fgv.br/files/u26/politicas_publicas_de_fomento_ao_empendedorismo_e_as_micro_e_pequenas_empresas_alta.pdf
Unlocking private capital by valuing bioeconomy products and services with climate mitigation and adaptation results in the Amazon: A feasibility study covering Bolivia, Brazil, Colombia, Ecuador, Guyana, Peru and Suriname.	2021	Unlocking private capital by valuing bioeconomy products and services with climate mitigation and adaptation results in the Amazon
6 Peculiarities of Rural Credit in the Amazon.	2021	https://www.climatepolicyinitiative.org/wp-content/uploads/2021/05/Insight-6-Peculiarities-of-Rural-Credit-in-the-Amazon.pdf

Studies	Date	References and Links
World Bank. 2020. Mobilizing Private Finance for Nature. World Bank, Washington, DC.	2020	https://pubdocs.worldbank.org/en/916781601304630850/Finance-for-Nature-28-Sep-web-version.pdf
World Economic Forum (WEF). The future of nature and business, New Nature Economy II, 2020.	2020	http://www3.weforum.org/docs/WEF_The_Future_Of_Nature_And_Business_2020.pdf
Rodríguez A. et al., Towards a sustainable bioeconomy in Latin America and the Caribbean: elements for a regional vision, 2019.	2019	https://repositorio.cepal.org/bitstream/handle/11362/44994/1/S1901014_en.pdf
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Cruz, C.M. 2020. Bioeconomia permite ao brasil se tornar referência econômica mundial. Energia que fala com você.	2020	https://www.energiaquefalacomvoce.com.br/2020/09/01/bioeconomia-permite-ao-brasil-se-tornar-referencia-economica-mundial/
IDB, “Impact Investment for Biodiversity Conservation: Cases from Latin America and the Caribbean”, 2021.	2021	https://publications.iadb.org/publications/english/document/Impact-Investment-for-Biodiversity-Conservation-Cases-from-Latin-America-and-the-Caribbean.pdf
The Paulson Institute, “Financing Nature: Closing the Global Biodiversity Financing Gap - Paulson Institute”, 2020.	2020	https://www.paulsoninstitute.org/wp-content/uploads/2020/09/FINANCING-NATURE_Full-Report_Final-Version_091520.pdf
IPCC (2019), Special Report on Climate Change, Desertification, Land Degradation, Sustainable Land Management, Food Security, and Greenhouse Gas Fluxes in Terrestrial Ecosystems: Summary for Policy Makers.	2019	https://www.ipcc.ch/srccl/
Marengo, J., Souza, C. 2018. Climate Change: impacts and scenarios for the Amazon. Sao Paulo: CEMADEN and Imazon.	2018	www.oamanhae hoje.com.br/eng/
Strassburg, BBN, Latawiec, AE, Barioni, LG, Nobre, CA, Vanderley P, et al. 2014. “When Enough Should be Enough: Improving the Use of Current Agricultural Lands Could Meet Production Demands and Spare Natural Habitats in Brazil.” Global Environmental Change 28: 84–97.	2014	https://landportal.org/node/76521
ABIEC. 2017. Perfil da Pecuária no Brasil – Relatório Anual - Associação Brasileira das Indústrias Exportadoras de Carne.	2017	http://abiec.siteoficial.ws/images/upload/sumario-pt-010217.pdf

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DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BRAZIL

**PRO-AMAZÔNIA - BID-BNDES
CREDIT ACCESS PROGRAM FOR MSMEs AND SMALL ENTREPRENEURS
(BR-L1625)**

**MICRO, SMALL, AND MEDIUM-SIZED ENTERPRISES
CREDIT CONTEXT**

This document was developed by the project team.

I. INTRODUCTION

- 1.1 **Micro, Small and Medium Enterprises (MSME) account for 99% of the number of firms in Brazil, 27% of its GDP and 46% of employment**, most of which is concentrated in the service sector. According to SEBRAE, based on data from the *Cadastro Geral de Empregados e Desempregados (CAGED)* by the Ministry of Labor, of the 2.7 million new jobs created in 2021, about 78% were generated by micro and small companies.¹ Being the main driving force of Brazilian economy and employment, MSME are also the first to suffer from challenges and uncertainties associated to fluctuations in the economic cycle. Thus, many development strategies and public policies are aimed at this segment.
- 1.2 **MSMEs, and small business owners in general, face more credit constraints.** In 2019, the share of MSME in total credit to firms in Brazil was 37.4% –down from 46.6% in 2014– and outstanding loans were just over half of what they were in 2015, representing 23.5% of total credit for investment supplied to firms by the financial system.² Typically, credit restrictions for MSMEs and small entrepreneurs can be explained by factors such as limited and unreliable information, as well as lower availability of collateralizable assets. In addition, these restrictions intensify in times of economic crisis: between 2015 and 2018 –Brazil’s worst recession before COVID-19–, MSME credit portfolio dropped by almost 50% compared to a 10.2% fall for large firms.³ Amidst the COVID-19 crisis, providing liquidity and improving access to loans were recurrent policies undertaken by governments globally to sustain productive structures, avoid layoffs and company closures and government response helped sustain credit to MSMEs in 2020. However, in 2021 growth in credit to the private sector decelerated in Brazil, partly reflecting the base effect of the policies deployed at the start of the pandemic.⁵ All in all, credit constraints increase risks for MSME,⁶ as the size of their operation and existing capital makes them more dependent on financing, and they normally have greater limitations on risk management tools, all of which translates into higher risks and costs for financiers willing to attend to this segment.⁷ The current context of high interest rates can hinder access to credit even further and increase financing costs for these firms, limiting their investments, expansion, and hiring capacity. Moreover, as these businesses usually operate on a reduced capital scale, and soon have higher marginal returns on capital, credit to this type of firm becomes potentially more impactful on development. As MSMEs are important generators of employment, the greater availability of credit for these companies contributes also to making the economic environment more competitive, which contributes to reduce prices, improve the quality of goods and services offered and increase innovation.

¹ SEBRAE, *MPEs geram cerca de oito a cada dez novos empregos criados em 2021*, 2022.

² OECD. Financing SMEs and Entrepreneurs. 2018 and 2020.

³ Barboza, R., et al. BNDES. *O BNDES e as micro, pequenas e médias empresas*. 2019..

⁴ BNDES. *Crédito e garantia: uma análise de custo-efetividade da atuação anticíclica do BNDES na crise da Covid-19*. 2022.

⁵ IMF. *Outlook for Latin America and the Caribbean: A Long and Winding Road to Recovery*. October 2021.

⁶ Klein. WP/14/98, IMF. *SME, Credit Supply Shocks, and Economic Recovery in Europe*. 2014; Fraser. Department of Business, Innovation and Skills. *The Impact of the Financial Crisis on Bank Lending to SMEs*. 2012; Kennickell et al. FDIC CFR WP 2015-04, in National Bureau of Economic Research “Measuring Entrepreneurial Businesses: Current Knowledge and Challenges”. University of Chicago Press. *Small Businesses and Small Business Finance during the Financial Crisis and the Great Recession: New Evidence from the Survey of Consumer Finances*. 2017.

⁷ IDB. *Documento de Marco Sectorial de Respaldo para PyME y Acceso y Supervisión Financieros*. 2014.

In sum, supporting access to credit by MSMEs and small entrepreneurs to promote growth of MSME and small entrepreneurs has the potential to significantly boost sustainable development regionally and nationally.

- 1.3 **MSMEs context.** MSMEs are at the center of the economic fabric. In Latin America and the Caribbean (LAC), they represent 99 percent of firms, generate 25% of GDP, and employ 61% of the economically active population.⁸ The recent economic recession propagated very rapidly among MSMEs, as: (i) they were integrated into many value chains that are fundamental for the production of essential goods and services for the region's economies and citizens,⁹ and (ii) they were affected by the five impact transmission channels in the region identified by ECLAC,¹⁰ with the most critical for MSMEs being the fall in economic activity and deteriorated financial conditions.
- 1.4 First, falling economic activity creates two stress factors for MSMEs: (i) a fall in operating revenue; and (ii) longer delays in payments for goods and services provided. These stress factors create abrupt disturbances in cash flows, generating the need for short-term liquidity to cover fixed operating costs and to maintain employment during periods of lower economic activity, such as the one currently faced in the COVID-19 aftermath. Second, deteriorating financial conditions restrict the capacity of MSMEs to access financing to cover their liquidity needs caused by the downturn in economic activity.¹¹
- 1.5 This worsening of financial conditions for MSMEs is mainly due to the fact that, in the context of a macroeconomic contraction, the financial sector:¹² (i) restricts the supply of credit;¹³ (ii) does so to a higher degree regarding the MSME segment in comparison to larger firms;¹⁴ and (iii) takes time to recover to pre-crisis levels.¹⁵ Worse conditions for accessing financing in the context of an economic downturn exacerbate the barriers to financing that MSMEs already face compared to larger firms, such as: (i) shorter trade cycles, with greater short-term liquidity needs; (ii) lack of risk management instruments associated with the project cycle; (iii) greater limitations on available collateral and its execution, due to the lack of

⁸ Dini, M., and G. Stumpo (coordinators). 2019. *MiPyME en América Latina: un frágil desempeño y nuevos desafíos para las políticas de fomento: síntesis*. LC/TS.2019/20. Santiago, Chile: Economic Commission for Latin America and the Caribbean (ECLAC).

⁹ Lima, J., and D. Zaiceve. 2013. *América Latina y el Caribe en las cadenas internacionales de valor*. LC/L.3767. Santiago, Chile: ECLAC; and Calatayud, A., and J. A. Ketterer. 2016. *Integrated Value Chain Risk Management*. Technical Note No. IDB-TN-922. Washington DC: Inter-American Development Bank.

¹⁰ See: [ECLAC press release](#) (March 19, 2020)

¹¹ Organisation for Economic Co-operation and Development (OECD). 2009. *The Impact of the Global Crisis on SME and Entrepreneurship Financing and Policy Responses*. Paris, France: OECD Publishing.

¹² The main factor behind the fall in the supply of credit from the financial sector to MSMEs is the increased perception of credit risk, added to more pessimistic expectations regarding the segment's credit portfolio.

¹³ Klein, N. 2014. *Small and Medium Size Enterprises, Credit Supply Shocks, and Economic Recovery in Europe*. IMF WP/14/98. Washington, DC: International Monetary Fund; and Fraser, S. 2012. *The Impact of the Financial Crisis on Bank Lending to SMEs: Econometric Analysis from the UK Survey of SME Finances*. London, United Kingdom: Department for Business Innovation & Skills.

¹⁴ Öztürk, B., and M. Mrkaic. 2014. *Access to Finance by SMEs in the Euro Area—What Helps or Hampers?* IMF WP/14/78. Washington, DC: International Monetary Fund.

¹⁵ Kennickle, A., M. L. Kwast, and J. Pogach. 2017. *Small Businesses and Small Business Finance during the Financial Crisis and the Great Recession: New Evidence from the Survey of Consumer Finances*. In Haltiwanger et al. (eds), *Measuring Entrepreneurial Businesses: Current Knowledge and Challenges*. Chicago, IL: National Bureau of Economic Research and University of Chicago Press.

existing capital; (iv) high operating costs for small-scale lending, and (v) lower profitability than other business sectors.¹⁶

- 1.6 The dual effect of reduced economic activity and restricted access to credit for the productive sector did actually threaten the survival of many of the region's MSMEs affected by the COVID-19 crisis, where even MSMEs that were commercially viable before the crisis faced a temporary lack of liquidity that could develop into a situation of permanent insolvency. Through access to credit, MSMEs can be highly flexible in adapting to an economic recession, as they are less affected by inertia, rigidity, and sunk costs and better able to exploit market niches.¹⁷
- 1.7 The importance of MSMEs for the world economy, added to their financial fragility when confronting an economic crisis such as the recent one observed in the COVID-19 aftermath,¹⁸ has meant that a substantial part of the public policy agenda for tackling the COVID-19 crisis centers on supporting MSMEs' financial sustainability in the short- and medium-term. Most of the countries affected earlier and more severely by COVID-19 have implemented interventions aimed at providing support for MSMEs, with the ultimate aim of: (i) maintaining domestic production; (ii) protecting employment; and (iii) preserving macroeconomic stability. The measures adopted by these countries are mainly traditional interventions used to support MSMEs in an economic recession.¹⁹ These measures seek to improve the short- and medium-term financial sustainability of MSMEs. They can be classified into three groups: (i) measures to prevent the depletion of working capital, such as facilitating access to loans and insurance for exports or factoring for payments on demand; (ii) measures aimed at improving access to credit to boost liquidity, mainly by expanding lines of credit and guarantee schemes; and (iii) measures to maintain investment and, more generally, the capacity to respond in the near future to a possible uptick in demand, through productive finance programs.²⁰

¹⁶ IDB (Inter-American Development Bank). 2014. Support to SMEs and Financial Access/Supervision Sector Framework Document. Washington, DC: IDB.

¹⁷ Bourletidis, K. and Y. Triantafyllopoulos. 2014. SMEs Survival in Time of Crisis: Strategies, Tactics and Commercial Success Stories. *Procedia - Social and Behavioral Sciences*, 148(25): 639–44.

¹⁸ Şahin, A., K. Sagiri, A. Cororaton, and S. Laiu. 2011. Why Small Businesses Were Hit Harder by the Recent Recession. *Federal Reserve Bank of New York*, 17(4).

¹⁹ OECD and ECLAC. 2013. *Perspectivas económicas de América Latina 2013: políticas de PYMES para el cambio estructural*. Santiago, Chile: OECD and ECLAC.

²⁰ Wehinger, G. 2013. SMEs and the Credit Crunch: Current Financing Difficulties, Policy Measures, and a Review of Literature. *OECD Journal: Financial Market Trends*, 2013(2).

BR-L1625

Theory of Change: Single Component and Objectives

Impacts

General Obj.

Promote the sustainable development of the Amazon Region and the reduction of regional inequalities, through the strengthening of the MSMEs and small entrepreneurs.

Outcomes

Specific Obj. 1

Increase the availability of financing for productive investments of MSMEs and small entrepreneurs

Specific Obj.2

Foster productivity gains and job creation in the Amazon Region

Outputs

Single Component

Funding for productive investment operations of MSME in the Amazon Region (US\$900 million).

- Finance productive investments (such as purchase of machinery, equipment, vehicles, goods and services for production).
- Encourage the adoption of sustainable practices by MSMEs and Individual Entrepreneurs as well as increasing productivity of MSMEs and the creation of job opportunities through productive investment.
- % of resources committed to finance women MSMEs.

Problems

Low access to long-term credit, restricts productive investment by MSMEs', limiting potential development benefits for the region

- Low access to adequate financing conditions (costs and tenors) limits MSMEs capacity to invest to scale up, access new markets, generate new jobs, increase productivity, innovate and adopt sustainable practices, as well as increases their vulnerability to the effects of economic fluctuations.
- Low access and higher financing costs are caused by both internal and external conditions. Internal conditions are low business maturity and investment readiness, limited and unreliable information, lower availability of collateralizable assets and high historical default rates. External conditions are mostly linked to high global and domestic interest rate scenario, lack of enabling infrastructure and social services, as well as commercial credit supply (market failure).