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BRAZIL

CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP) FOR PRODUCTIVE AND SUSTAINABLE INVESTMENTS

(BR-O0001)

FIRST PROGRAM UNDER THE CCLIP: FINANCING PROGRAM FOR SUSTAINABLE ENERGY

(BR-L1442)

PROJECT PROFILE

This document was prepared by the project team consisting of: Maria Netto (IFD/CMF), Team Leader; Luciano Schweizer (CMF/CBR), Alternate Team Leader; Arturo Alarcón (ENE/CBR); Daniel Fonseca, Gloria Lugo, Isabel Haro, and Isabelle Braly-Cartillier (IFD/CMF); José Seligmann (CSC/CSC); Steven Collins (VPS/ESG); Santiago Schneider (FMP/CBR); Karina Diaz Briones (FMP/CBR); Guillermo Eschoyez (LEG/CBR); and Cecilia Bernedo (IFD/CMF).

PROJECT PROFILE

BRAZIL

I. BASIC DATA

Project Name:	Conditional Credit Line for Investment Projects (CCLIP) for Productive and Sustainable Investments and First Operation under the CCLIP
Project Number:	BR-O0001 and BR-L1442
Project Team:	Maria Netto (IFD/CMF), Team Leader; Luciano Schweizer (CMF/CBR), Alternate Team Leader; Arturo Alarcón (ENE/CBR); Daniel Fonseca, Gloria Lugo, Isabel Haro, and Isabelle Braly-Cartillier (IFD/CMF); José Seligmann (CSC/CSC); Steven Collins (VPS/ESG); Santiago Schneider (FMP/CBR); Karina Diaz Briones (FMP/CBR); Guillermo Eschoyez (LEG/CBR); and Cecilia Bernedo (IFD/CMF).
Borrower and Executing Agency:	*Banco Nacional de Desenvolvimento Econômico e Social* (BNDES)
Guarantor:	Federal Republic of Brazil

Financial Plan:	**CCLIP**	**1st Program**
	IDB (OC): US$2,400 million	US$750 million
	Local:	US$150 million
	Total:	US$900 million

Safeguards:	Policies triggered: B.13 Classification: Not required

II. GENERAL JUSTIFICATION AND OBJECTIVES

A. Background and justification

2.1 **Economic context.** The Brazilian economy remains in recession, but there are early signs of economic stabilization through external accounts. Although economic growth is expected to be below -3% in 2016, growth expectations for 2016 and 2017 have been recently revised positively given encouraging developments in exports and in business confidence. As medium-term fiscal pressures are generating uncertainty and holding back investment and recovery, the government decided to adopt a gradual rebalancing of the public finances. Over time, with the expected recovery of employment, consumption and investment, tax revenue would expand, which in conjunction with the rationalization of expenses, is expected to rebalance the government's fiscal position and stabilize the debt ratio.[1]

2.2 **Productivity and growth.** Since 2000, average productivity growth in Latin America and the Caribbean (LAC) region has declined yearly by 0.04%. In South America, where countries tended to have more positive trends, Brazil and

[1] Median growth expectation for 2016 and 2017 improved from -3.89% and +0.40% in the beginning of May to -3.30% and +1.00% in the beginning of July, respectively. Source: BCB – Focus market expectations.

Uruguay have been the exception, with productivity declines over 1% annually (IADB, 2016). In 1960, productivity in Brazil was close to 90% of that in Europe and Central Asia; in 2011, this ratio was only 43%. When compared to East-Asia, it falls from 70% in 1960 to 50% in 2011. Even in the years of the economic boom (2003-2008), productivity was estimated to grow no more than 2% per year (IPEA, 2014). Using different methods to measure productivity, several studies conclude that these trends are not enough to sustain long-term growth in Brazil. Therefore, closing the infrastructure gap and enhancing the SMEs' capacity to modernize and innovate are necessary to improve Brazilian productivity (IPEA, 2014).

2.3 **Private investment in infrastructure is necessary to close the infrastructure gap in Brazil.** However, over the past three decades, infrastructure investments in Brazil have ranged between 2% and 2.5% of GDP, dropping from an average of 5.2% in the early 1980s and lagging behind other BRICs where the average remains in at least twice as much. Private investment in infrastructure can help reduce pressure on public finances, providing additional resources to develop projects that can fill infrastructure gaps. Private participation also brings skills and efficiency gains, enabling a better allocation of project risks. From an economic growth perspective, infrastructure not only enables development and contributes to improve competitiveness across other sectors, but can also be an attractive investment opportunity in itself (OECD, 2105). Given the high initial capital investments in infrastructure, long-term financing is needed for projects to be viable. In Brazil, the banking sector is not able to deliver suitable financing for infrastructure projects, due to tighter capital regulations and declining asset quality. At the same time, the capital markets have not progressed to meet the funding needs of infrastructure, given the adverse investment climate.

2.4 **Closing investments gaps in energy infrastructure plays a substantial role in increasing growth and productivity.** As an input necessary for economic production, the way in which energy is produced, managed and consumed, has significant effects on productivity. As such, innovations in the use of fuels and efficient use of energy (particularly electricity) can contribute to productivity gains (Stern, 2010).

2.5 Following draughts that underscored the vulnerabilities of the national electric system in the beginning of the 2000s, the Brazilian government started aggressively supporting the use of non-conventional Renewable Energy (RE) in power generation, including wind, solar, biomass and small hydroelectric power plants, in an effort to reduce high dependence on hydropower (still accounting for over 65% of Brazil's electricity) and to hedge against volatility in natural gas prices.[2] A federal incentive program was put in place, including an auction process for RE that provides additional security to offtakers and power producers. Vulnerabilities in the electric system and volatility of electricity prices have also stimulated increased interest in Energy Efficiency (EE) and resulted in a series of EE policies, programs and funding to promote EE[3].

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2 Quality of Electricity Infrastructure 2015, Brazil ranks 122 out of 144 (WEF)

3 BNDES has a number of other EE financing programs, such as PROESCO and MPME Inovadora (IEA, 2015).

2.6 Private sector participation has been and will continue to be crucial to guarantee RE and EE investments, and to support the sustainable growth of the electricity sector. RE and EE projects are capital intensive, with high initial investments and low operation and maintenance costs. Consequently, the pace of development of these projects depends largely on the availability of long-term financing to match their cash flow profiles, which, as mentioned, is currently scarce.

2.7 **Supporting Small and Medium Enterprises (SME) investment financing is also key to long-term growth and productivity.** SMEs are significant in Brazil's productive structure, contributing up to 20% of the country's GDP (IDB, 2014). In Brazil's industry sector, SMEs represent 90% of businesses, 30% of employment and 11% of added value of the entire sector. However, a variety of market and institutional failures restrict the expansion of SMEs and their opportunities to enhance their productivity; in the core of this is access to finance. While existing literature on the impact of credit access on SME productivity is limited, studies have broadly demonstrated the relationship between a higher level of credit to the private sector and an increase in productivity (IDB, Eslava, M. et al, 2009,). In the specific case of Brazil, an analysis of various IDB interventions on SMEs shows that credit support has the highest impact overall, with the most positive impact on employment and wages, also improving their performance on other outcomes, such as exports and innovation (IDB, 2014).

2.8 **Lack of long-term financing is one of the main aspects slowing down productive investments in Brazil.**[4] Brazilian productivity relies on the need to increased private investments in infrastructure and renewable energy and SME projects, which, in turn, require medium and long-term finance. Structural aspects such as "the legacy of past high inflation and volatility, the low level of domestic savings, and high intermediation spreads" result in a market characterized by high interest rates (well above those in comparable countries)[5] and short durations. Domestic credit to the private sector reached 67.9% of GDP in 2015, increasing steadily since 2003 when the indicator was 27.7%.[6] Yet, credit to private sector in Brazil is heavily influenced by government-owned banks, which represent 40% of total banking assets. Access to external credit by corporates has suffered since early 2015 and credit supply has tightened domestically. Moreover, even though the banking system is well-capitalized, with strong liquidity and profitability positions, the IMF estimates that deteriorating macroeconomic conditions since 2014 might impose the need for banks in Brazil to raise provisions and capital by up to a combined 2.25% of GDP.

2.9 Private sector financing through capital markets is limited and the market in general lacks liquidity. New instruments promoted by the government have still not sufficiently attracted investors.[7] Infrastructure bonds represent 5.2% of total

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4 See FSAP (IMF, 2012), the World Bank Indicators and the Regional Economic Outlook, Western Hemisphere (IMF, 2016).

5 As of 2015, short term policy rate in Brazil was 14.25% (up from 11.75% in 2014 and 10% in 2013). In Mexico, this rate is 3.25% (BIS, 2016).

6 As a reference, 2015 values for other large economies in the region are: Chile 111.2%, Colombia 47.1%, Mexico 34%, and Peru 37% (data from the World Bank).

7 Fiscal benefits and the creation of liquidity funds have been put in place so as to promote the development of both the primary and secondary markets (see IPEA, 2013).

private bonds issued since 2012. Moreover, when compared with standard government bonds, they are less liquid and pay lower premiums. In the case of SMEs, regulatory requirements, associated costs and lack of mechanisms to address scale problems, make it inviable for firms to use capital markets as a financing source. As for bank lending, credit to SMEs represents only 12.2% of total credit in Brazil, similar to the average in LAC (12.39%) but less than half of that in OECD countries (25.54%) (IDB, 2014).[8]

2.10 Across the LAC region, and particularly in Brazil, National Development Banks (NDB) have progressively increased their role in filling major financing gaps and developing long-term financing. Furthermore, when economies weaken, NDBs provide counter-cyclical finance, by supporting investment and mobilizing broader financial resources. As NDB lending in capital intensive industries is usually co-financed by private lending and investing, and is also susceptible to securitization, it can also contribute to the development of financial markets (IDB, 2013).

2.11 **The problem that the CCLIP aims to address** is the lack of adequate financing for those private investments more likely to stimulate productivity and sustainability in Brazil. By increasing access to medium and long-term financing, the CCLIP would enable firms to increase their investment,[9] with focus on the three areas described above (infrastructure investments, clean energy investments and productive investment of SMEs), where a potential for contributions to long-term growth has been identified and a counter-cyclical intervention is considered more valuable. Developing options to increase access to capital for investment projects is crucial to sustaining growth.[10] But given the current economic environment and changes in banking and financial markets, NDBs in Brazil are bound to continue playing an important role in countering financial instability in the coming years.

B. Intervention proposed and program objectives

2.12 The objective of the CCLIP is to promote Brazilian productivity by providing firms access to medium and long-term finance, in particular to promote higher participation of private investments in infrastructure financing, investments in clean energy projects and investments by SME productive projects. The first program under the CCLIP will focus in clean energy projects, which will contribute to meet Brazil's goal of diversifying its energy matrix and efficient use of energy, supporting the achievement of the country's climate change goals.

2.13 The *Banco Nacional de Desenvolvimento Econômico e Social* (BNDES) –the largest state-owned development bank and the main source of long-term

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[8] Evidence shows that Brazilian firms are credit constrained and that compared to larger firms, "smaller and younger firms are disadvantaged when it comes to securing bank credit" (Terra, 2003; Aldrighi and Bisinha, 2010; Ambrozio et al 2013,Makler et al. (2013) show.

[9] "*Documento de Marco Sectorial de Respaldo para PyME, Acceso y Supervisión Financieros*" (BID, GN-2768).

[10] In the case of green energy investments, Brazil is complementing the long-term financing available from BNDES with infrastructure bonds, which are also expected to contribute to further deepening the private fixed-income market.

financing in the country– will be the borrower and executer of the CCLIP using its own operational structure and in compliance with the agreed conditions to be included in the program's Operations Regulations (OR). The first operation will consist of a single component under which BNDES will use IDB funding along with its own resources to provide financial support to private developers of clean energy projects (construction of RE projects or EE investment projects) through direct/indirect loans, contingent loans, and/or guarantees. The proposed CCLIP complies with eligibility criteria established in GN-2246-4 as BNDES has already satisfactorily executed previous lending operations with IDB, including operation 2236/OC-BR (which was signed in December 2010 and executed in four years). It complements the previous approved CCLIPs by increasing the scope of eligible activities from credit access to SMEs to financing of a broader set of initiatives to promote sustainable productivity.

2.14 **Program alignment.** Both the CCLIP and the first operation are aligned with the first pillar (increase of productivity and competiveness) of the Country Strategy for Brazil 2016-2018 (GN-2850) (see: detailed analysis). Additionally, it is aligned with the development challenge of the Update to the IDB Institutional Strategy 2010-2020 (AB-3008) of productivity and innovation, the crosscutting issue of climate change and with the IDB Climate Change and Sustainable Energy Strategy (GN-2609-1).

III. TECHNICAL ISSUES AND SECTOR KNOWLEDGE

3.1 The proposed CCLIP will use US$2.4 billion from IDB's ordinary capital. The first operation under the CCLIP consists of a global credit loan operation for US$750 million and co-financed with an additional US$150 million from BNDES. Disbursement of funds will be made based on rediscounting of eligible expenses fromthe executing agency. The program will recognize rediscounting of eligible expenses retroactively (to up to 20%), in accordance with IDB policies.

3.2 Specific projects to be funded will be deemed eligible over the basis of conditions established in the OR, to be agreed between IDB and BNDES, which will include a maximum amount of resources from the program to be used per project, a minimum amount of capital required from the developer, and the preexistence of all necessary permits and compliance with environmental and social safeguards (in the case of infrastructure projects). The program will apply the procedures established by the IDB for monitoring and evaluation of investment operations.

IV. ENVIRONMENTAL SAFEGUARDS AND FIDUCIARY SCREENING

4.1 According to Directive B.13 of the Environment and Safeguards Compliance Policy (OP-703), this program does not require classification. RE projects deliver long-term greenhouse gases emission reductions and are considered environmentally friendly projects as they entail cleaner energy production. However, some of the projects financed by the program may entail adverse environmental or social impacts that could be potentially significant and which need to be assessed and managed on a project by project basis. The IDB will develop an Environmental and Social Management System (ESMS) that will

enable the identification of potential impacts and risks and ensure that the beneficiaries of the financing will implement environmental and social assessment, prevention, mitigation and management measures consistent with IDB safeguard policies. IDB Safeguard policies will apply to each individual project; however, the ESMS shall integrate all applicable local systems and norms and will be ready to be incorporated in the program's OR (see Annex III).

V. RESOURCES AND TIMETABLE

5.1 Distribution of the Proposal for Operation Development for the Quality and Risk Review is expected on September 19, 2016, approval of the Draft Loan Proposal by OPC is expected by October 14st, 2016, and consideration of the Loan Proposal by the Executive Board of Directors is expected by December 7th, 2016. An estimated US$100,000 administrative budget is required to complete preparation of the program, and the FTEs at 0.995, according to Annex V.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	**Aligned**		
Development Challenges & Cross-cutting Themes	**-Productivity and Innovation -Climate Change and Environmental Sustainability**		
Regional Context Indicators	**-Greenhouse gas emissions (kg of CO2 e per $1 GDP (PPP))**		
Country Development Results Indicators	**-Reduction of emissions with support of IDBG financing (annual million tons CO2 e) -Micro / small / medium enterprises financed (#)**		
2. Country Strategy Development Objectives	**Aligned**		
Country Strategy Results Matrix	**GN-2850**	**Promote productive development and technological innovation to boost the productivity and competitiveness of the economy**	
Country Program Results Matrix	**Country Program Document (GN-2849)**	**The intervention is included in the 2016 Operational Program.**	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	**Highly Unevaluable**	**Weight**	**Maximum Score**
	0.0		**10**
3. Evidence-based Assessment & Solution	**0.0**	**33.33%**	**10**
3.1 Program Diagnosis	**0.0**		
3.2 Proposed Interventions or Solutions	**0.0**		
3.3 Results Matrix Quality	**0.0**		
4. Ex ante Economic Analysis	**0.0**	**33.33%**	**10**
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis	**0.0**		
4.2 Identified and Quantified Benefits	**0.0**		
4.3 Identified and Quantified Costs	**0.0**		
4.4 Reasonable Assumptions	**0.0**		
4.5 Sensitivity Analysis	**0.0**		
5. Monitoring and Evaluation	**0.0**	**33.33%**	**10**
5.1 Monitoring Mechanisms	**0.0**		
5.2 Evaluation Plan	**0.0**		
III. Risks & Mitigation Monitoring Matrix			
Overall risks rate = magnitude of risks*likelihood	**Low**		
Identified risks have been rated for magnitude and likelihood	**Yes**		
Mitigation measures have been identified for major risks			
Mitigation measures have indicators for tracking their implementation			
Environmental & social risk classification	**B.13**		
IV. IDB´s Role - Additionality			
The project relies on the use of country systems			
Fiduciary (VPC/FMP Criteria)			
Non-Fiduciary			
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
Labor			
Environment			
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			
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan			

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

Evaluability Assessment Note: The purpose of this note is to provide an overall assessment of the project's evaluability based on the standards described in the Evaluability Guidelines, as well as to ensure that the Board understands why scores were or were not given to the project. The following information should be developed in order to achieve this purpose. *Assess and summarize the diagnosis and the level of empirical evidence to support it. Assess and summarize the level of empirical evidence (or cost-effectiveness) of the solution proposed. Assess and comment on the Results Matrix Quality. Asses and describe the evaluation methodology ex ante and ex post to be used by the project to demonstrate its results. Describe the main type of risk the operation is subject to and its intensity. Describe whether mitigation measures are in place and whether they can be monitored during the life of the project.*

Safeguard Policy Filter Report

Operation Information

Operation		
BR-L1442 Financing program for productive and sustainable investments		
Environmental and Social Impact Category	High Risk Rating	
B13	{Not Set}	
Country	Executing Agency	
BRAZIL	{Not Set}	
Organizational Unit	IDB Sector/Subsector	
Energy	BANKING MARKET DEVELOPMENT	
Team Leader	ESG Lead Specialist	
MARIA E. NETTO DE A. C. SCHNEIDER	{Not Set}	
Type of Operation	Original IDB Amount	% Disbursed
Loan Operation	$0	0.000 %
Assessment Date	Author	
5 Aug 2016	ceciliabe Project Assistant	
Operation Cycle Stage	Completion Date	
ERM (Estimated)	24 Aug 2016	
QRR (Estimated)	1 Sep 2016	
Board Approval (Estimated)	{Not Set}	
Safeguard Performance Rating		
{Not Set}		
Rationale		
{Not Set}		

Safeguard Policy Items Identified

B.1 Bank Policies (Access to Information Policy– OP-102)

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

B.1 Bank Policies (Indigenous People Policy– OP-765)

The operation has the potential to negatively affect indigenous people (also see Indigenous Peoples Policy.).

Safeguard Policy Filter Report

B.1 Bank Policies (Resettlement Policy– OP-710)

The operation has the potential to disrupt the livelihoods of people living in the project area of influence (not limited to involuntary displacement, see also Resettlement Policy)

B.13. Noninvestment Lending and Flexible Lending Instruments

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

B.16. In-country Systems

In-country systems will be used based on results from equivalency and acceptability analyses.

B.17. Procurement

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

B.2 Country Laws and Regulations

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

B.3 Screening and Classification

The operation (including associated facilities) is screened and classified according to its potential environmental impacts.

B.4 Other Risk Factors

There are other environmental and social sustainability issues that the project team considers to represent a risk for this operation. (e.g. wood sourced from Amazon rainforest).

B.5 Environmental Assessment Requirements

An environmental assessment is required.

B.6 Consultations

Consultations with affected parties will be performed equitably and inclusively with the views of all stakeholders taken into account, including in particular: (a) equal participation by women and men, (b) socio-culturally appropriate participation of indigenous peoples and (c) mechanisms for equitable participation by vulnerable groups.

B.7 Supervision and Compliance

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

Potential Safeguard Policy Items

B.12. Project Under Construction

The operation is already under construction by the executing agency or borrower.

Safeguard Policy Filter Report

B.9 Natural Habitats and Cultural Sites

The operation will result in the degradation or conversion of Natural Habitat or Critical Natural Habitat in the project area of influence.

Recommended Actions

Operation has triggered 1 or more Policy Directives; please refer to appropriate Directive(s). Complete Project Classification Tool. Submit Safeguard Policy Filter Report, PP (or equivalent) and Safeguard Screening Form to ESR. The project triggered the Disaster Risk Management policy (OP-704) and this should be reflected in the Project Environmental and Social Strategy. A Disaster Risk Assessment (DRA) may be required (see Directive A-2 of the DRM Policy OP-704). Next, please complete a Disaster Risk Classification along with Impact Classification. Also: if the project needs to be modified to increase resilience to climate change, consider the (i) possibility of classification as adaptation project and (ii) additional financing options. Please consult with INE/CCS adaptation group for guidance.

Additional Comments

This is a program to finance a Renewable Energy Projects (RE), these type of projects deliver long term GHG emission reductions and are considered environmentally friendly projects as they entail cleaner energy production. However, some of the projects financed by the program may entail adverse environmental or social impacts that could be potentially significant and which need to be assessed and managed on a project by project basis. The IDB will define an Environmental and Social Management System (ESMS) that will enable the identification of potential impacts and risks and ensure that the beneficiaries of the financing will implement environmental and social assessment, prevention, mitigation and management measures consistent with IDB safeguard policies. The ESMS shall integrate all applicable local systems and norms and will be ready to be incorporated in the program’s Operating Regulations, its approval being a condition prior for the first disbursement.

ENVIRONMENTAL AND SOCIAL STRATEGY (ESS)

I. Overview

1.1 The *Banco Nacional de Desenvolvimento Econômico e Social* (BNDES) is the largest state-owned development bank in Brazil and serves as the main source of long-term financing in the country. Under the CCLIP, BNDES will provide financial support to private developers of clean energy projects such as non-conventional Renewable Energy (RE) projects and possible Energy Efficiency (EE) investment projects through various lending mechanisms including direct loans, contingent loans and guarantees.

1.2 The participation of the IDB will be approximately US$2,400 million, and entails long-term financing to promote investments in non-conventional renewable energy projects including wind, solar, and biomass and potentially smaller scale EE projects. The proceeds of the loans will target, in particular, renewable energy projects, primarily wind energy, and EE investment projects to small and medium enterprises ("SMEs") in Brazil. The IDB's core investment will be complemented by counterpart funded on behalf of BNDES, in an amount of approximately US$2,400 million.

1.3 The CCLIP's main objective is to provide a solution to the lack of adequate financing available for private investments and to SME's which will likely stimulate productivity and sustainability in Brazil. The loan aligns with the *Programa de Investimento em Energia Elétrica* (PIEE), released by the federal government in August 2015, estimated that additional investments to develop some 6 GW to 9 GW of new wind and solar power would be needed between 2015 and 2018. Additionally, the Government of Brazil presented its Intended Nationally Determined Contribution (INDC) at COP21 including the goal of increasing the country's share of RE (excluding hydropower) to at least 23% by 2030 by raising the share of wind, solar and biomass (waste-fueled).

II. Environmental and Social Impacts and Risks

2.1 Environmental and Social Risk: BNDES will invest in renewable energy and potentially energy efficiency projects specifically sustainable energy projects for SMEs focusing on small to medium sized wind farms that are likely to have medium environmental, social, health and safety and labor impacts and risks (direct, indirect or cumulative). Given that these projects have not yet been identified, the potential impacts and risks cannot be assessed ex ante; their significance will depend on the project characteristics, such as size, sector, and location. Some of the individual transactions may have moderate to high environmental and social risk.

2.2 Typical Environmental and Social Impacts: Wind farms, in general, have fairly predictable potential environmental and social impacts including: disturbance to natural habitat, impacts to birds and bats, generation of dust and noise, economic displacement and land appropriation. The significance of those impacts varies according to the location and size of the wind farms. Other risks include lack of institutional capacity, at the state or national level, to accurately identify and mitigate potential risks and impacts. Solar PVs project generally

present moderate environmental and social impacts if sited on already converted lands and when they don't result in physical displacement or loss of livelihood of affected parties. Potential adverse environmental and social impacts of biomass projects can range from moderate to high depending on the source of fuel, size and location of the facilities, and pollution prevention and control systems. Potential impacts of associated facilities, in particular transmission lines, should also be considered in the environmental and social analysis of individual transactions.

2.3 Environmental and Social Management: BNDES, and their consultant, will be ultimately responsible for screening, assessing, and managing the environmental and social aspects of each project in a manner that is satisfactory to the IDB and consistent with Brazilian regulations and international good practices. BNDES institutional capacity and existing Environmental and Social Management System (ESMS), or progress in development of an ESMS, will be an integral part of their ability to successfully safeguard the use of proceeds of the IDB loan. This will be instrumental in tracking BNDES's environmental performance throughout the life of the CCLIP. A program specific ESMS will be developed in conjunction with BNDES to assist with the identification of potential investment projects, establish criteria for the environmental classification of each project, and develop appropriate measures to ensure proper identification and management of potential environmental and social risks and impacts aligned with international good practices.[1]

III. Strategy for Environmental and Social Due Diligence

3.1 Based on the Directive B.13 of the Environment and Safeguards Compliance Policy (OP-703), the proposed CCLIP is classified as a Financial Intermediary (FI) and thus not categorized according to its potential environmental and social impacts and risks. Considering that the individual transactions contemplated in the proposed CCLIP present moderate to high potential adverse environmental and social impacts, this operation is considered as a high-risk FI (FI-1).

3.2 The IDB will analyze the environmental and social aspects of the CCLIP during the due diligence phase and will establish the Environmental, Social, Health and Safety (ESHS) and labor requirements to be included in the operation. The due diligence will cover the following key issues.

a) Analysis of the likely portfolio of the bank to better understand overall composition, potential risks and impacts. Based on the findings, risk reduction and management options will be discussed.
b) Assessment of BNDES internal capacity, policies and procedures to identify, evaluate and mitigate ESHS liabilities, risks and impacts.
c) IDB will conduct a review of their ESMS as well as their capacity to implement it, or the progress of the development of an appropriate ESMS.
d) Ensure a Facility-specific ESMS has been developed, in conjunction with BNDES, and will be implemented to adequately address the

[1] As reflected, among other references, in the Environmental Health and Safety (EHS) Guidelines of the World Bank Group (www.ifc.org/ehsguidelines) applicable to the specific sector of each project.

environmental and social impacts of the projects developed under the CCLIP to ensure compliance with IDB requirements.

e) Define the process for managing the ESHS aspects of the Facility and the requirements to be met prior to the disbursement for each eligible project, which should include a non-objection clause for high risk and the first several medium risk projects, and their environmental and social supervision during implementation.

3.3 Based on the results of the ESDD, the Bank will define the process by which each eligible project applying for IDB's financing under the BNDES CCLIP will be assessed and supervised, including the specific environmental and social due diligence activities. It is contemplated that a consultant will be retained in order to assist due diligence activities and, where required, to expedite the non-objection process from the IDB. For some high risk projects, if necessary, IDB may perform additional environmental and social due diligence activities. Consequently, the due diligence will propose language for the specific loan agreements for each transaction, and, where needed to address specific gaps identified during the due diligence, an environmental and social action plan. .

3.4 During due diligence for the creation of the CCLIP, the project team will evaluate and determine the turnaround time needed for the Bank to complete its due diligence per sub-project yet respond in a timely manner to the loan applications. The specific number of sub-projects to be assessed in this manner will also be discussed with BNDES.

3.5 The results of the due diligence will be presented in an Environmental and Social Management Report (ESMR). The ESMR will also define appropriate requirements for environmental and social risk management based on the level of identified ESHS and labor risks and impacts, in order to ensure that the CCLIP and its first operation comply with IDB safeguard policies. This information will be summarized in the Loan Proposal and defined in the loan contract between the IDB and BNDES.

INDEX OF SECTOR STUDIES

SUBJECT	DESCRIPTION	DATE	REFERENCE TO ELECTRONIC LINKS
Report / Technical support	*Produtividade no Brasil: desempenho e determinantes*	2016	*Instituto de Pesquisa Econômica Aplicada* (IPEA) http://ipea.gov.br/portal/images/stories/PDFs/livros/livros/livro_produtividade_no_brasil.pdf
Report / Technical support	Inequalities in Firms' Access to Credit in Latin America. *Global Economic Journal* 13 (3–4)	2013	Makler, H., W.L. Ness, and A.E. Tschoegl https://ideas.repec.org/a/bpj/glecon/v13y2013i3-4p283-318n2.html
Report / Technical support	Firm Innovation and Productivity in Latin America and the Caribbean, The Engine of Economic Development. IDB	2016	Grazzi, M., Pietrobelli C., et al. https://publications.iadb.org/handle/11319/7690?locale-attribute=en
Report / Technical support	*Financiamento de Longo Prazo no Brasil: Um Mercado em Transformação*	2013	Texeira, E., and Nogueira, F. http://repositorio.ipea.gov.br/bitstream/11058/2925/1/TD_1843.pdf
Report / Technical support	Regional Economic Outlook. Western Hemisphere, Managing Transitions and Risks	April, 2016	World Economic and Financial Surveys http://www.imf.org/external/pubs/ft/reo/2016/whd/eng/pdf/wreo0416.pdf
Report / Technical support	Filling the Gap: Infrastructure Investment in Brazil. IMF Working Paper	2015	Garcia-Escribano, M., Goes, C., and Karpowicz, I. https://www.imf.org/external/pubs/ft/wp/2015/wp15180.pdf
Report / Technical support	*Bancos públicos de desarrollo: ¿Hacia un nuevo paradigma?* IDB	2013	De Olloqui, F. https://publications.iadb.org/handle/11319/457
Report / Technical support	Getting the most from your green: An approach to using public money effectively through green banks and other low-carbon financing. CPI	2015	Deason, J., Varadarajan, U., Levi, P. http://climatepolicyinitiative.org/wp-content/uploads/2015/12/Getting-the-Most-from-Your-Green-An-Approach-to-Using-Public-Money-Effectively-Through-Green-Banks-and-Other-Low-Carbon-Financing.pdf
Report / Technical support	The Role of Energy in Economic Growth. Centre for Climate Economics & Policy. working paper 3.10	October, 2010	Stern, D. http://ccep.anu.edu.au/data/2010/pdf/wpaper/CCEP-3-10.pdf

Report / Technical support	Global Trends in Renewable Energy Investment	2016	Frankfurt School-UNEP Centre/BNEF http://fs-unep-centre.org/sites/default/files/publications/globaltrendsinrenewableenergyinvestment2016lowres_0.pdf
Report / Technical support	*Perspectivas Económicas de América Latina. Políticas de las PyME para el Cambio Estructural*	2012	Organisation for Economic Cooperation and Development (OECD)/ The United Nations Economic Commission for Latin America and the Caribbean (CEPAL) http://repositorio.cepal.org/bitstream/handle/11362/1463/1/S2012083_es.pdf
Report / Technical support	Energy Efficiency Market Report. Market Trends and Medium-Term Prospects	2015	OECD/International Energy Agency (IEA) http://www.iea.org/publications/freepublications/publication/MediumTermEnergyefficiencyMarketReport2015.pdf
Report / Technical support	Brazil: Financial System Stability Assessment	2012	International Monetary Fund (IMF) https://www.imf.org/external/pubs/ft/scr/2012/cr12206.pdf
Report / Technical support	*Financiamento das corporações: perspectivas do desenvolvimento brasileiro*	2013	IPEA http://www.ipea.gov.br/portal/images/stories/PDFs/livros/livros/livro_finaciamento_corporacoes03.pdf
Report / Technical support	Global PPI Update	2015	Public-Private Partnership Group of the World Bank http://ppi.worldbank.org/~/media/GIAWB/PPI/Documents/Global-Notes/Global2015-PPI-Update.pdf
Report / Technical support	Fostering Investment in Infrastructure	January, 2015	OECD https://www.oecd.org/daf/inv/investment-policy/Fostering-Investment-in-Infrastructure.pdf

RESOURCES AND TIMETABLE

I. STUDIES AND CONSULTANCIES

STUDY/CONSULTANCY	COST		ESTIMATED COMPLETION DATE
	US$	SOURCE	
Actual Costs	**0.00**		
Planned Costs	**27,190.00**		
Specialized consultancies	27,190.00	ADM	August 2016
Total	**27,190.00**		

II. MISSIONS

MISSIONS	COST		ESTIMATED COMPLETION DATE
	US$	SOURCE	
Planned Costs	**16,560.00**		
Special mission (3 persons x 5 days; US$518 per diem and US$5500 airfare)	24,270.00	ADM	July 2016
Analysis mission (3 persons x 5 days; US$518 per diem and US$5500 airfare)	24,270.00	ADM	August 2016
Negotiation mission (3 persons x 5 days; US$518 per diem and US$5050 airfare)	24,270.00	ADM	November 2015
Total	**72,810.00**	ADM	

MISIONES Y ESTUDIOS/CONSULTORÍAS	COSTO	
	US$	FONDO
Total - Consultancies	**27,190.00**	ADM
Total - Missions (Actual and Planed)	**72,810.00**	ADM
Gran Total	**100,000.00**	**ADM**

III. TEAM MEMBERS

TEAM MEMBERS	DIVISION	DAYS	FTES
María Netto, Team Leader	IFD/CMF	30	**0.146**
Luaciano Schweizer , Alternate Team Member	CMF/CBR	30	**0.146**
José Seligmann, Team Member	CSC/CSC	10	**0.049**
Guillermo Eschoyez, Attorney	LEG/SGO	15	**0.072**
Santiago Schneider, Fiduciary Specialist	FMP/CBR	5	**0.024**
Karina Díaz Briones, Procurement Specialist	FMP/CBR	5	**0.024**
Steven Collin, Safeguards and Social Specialist	VPS/ESG	15	**0.072**
Arturo Alarcón, Team Member	ENE/CBR	20	**0.097**
Daniel Fonseca, Team Member	IFD/CMF	15	**0.072**
Gloria Lugo, Team Member	IFD/CMF	10	**0.049**
Isabel Haro, Team Member	IFD/CMF	20	**0.097**
Isabelle Braly-Cartillier, Team Member	IFD/CMF	10	**0.049**
Cecilia Bernedo, Project Assistant	IFD/CMF	20	**0.097**
TOTAL		**205**	**0.995**

IV. PERCENTAGE OF PARTICIPATION PER UNIT

DIVISION	DAYS	%
CMF	135	66%
ENE	20	10%
CSC	10	5%
FMP	10	5%
ESG	15	7%
LEG	15	7%
TOTAL	**205**	**100.00%**

ESTIMATED TIMETABLE FOR PROJECT PREPARATION

Category	Jul/16		Aug/16		Sep/16		Oct/16		Nov/16		Dec/16	
Preparation of PP		■										
PP distribution to ERM			■									
ERM Meeting				■								
PP approval						■						
Progress Review and Elaboration of POD				■	■	■						
Analysis Mission					■							
POD distribution to QRR						■						
POD approval and distribution of Draft Loan Proposal to OPC							■					
Draft Loan Proposal approved by OPC							■					
Negotiation								■				
Loan Proposal approval by Board											■	