

Environmental and Social Strategy (ESS)¹

Banco ABC Brasil Green Financing Partnership

I. Overview

- 1.1 The objective of the proposed loan is to support financing for environmentally-friendly investments in Brazil through a partnership (the “Partnership”) with Banco ABC Brasil (“ABC”). The proposed Green Financing Partnership will provide adequate funding for ABC to increase its portfolio as well as expand access to adequate financing for projects that promote sustainable initiatives and reduce the impact of climate change. ABC has recently received finance from the IFC and is in the process of developing an ESMS consistent with the IFC Performance Standards.
- 1.2 The proposed financing would include a senior A/B Loan and Co-Loan of approximately US\$125 million. The A Loan amount, provided by IDB, will be of up to US\$75 million with an up to 6-year tenor and an up to 3-year grace period. The B loan will be syndicated among eligible investors and is expected to reach an amount of approximately US\$25 million. It is expected that there will be a Co-Loan of up to US\$25 million.

II. Environmental and Social Impacts and Risks

- 2.1 Based upon the nature of this operation (i.e. a financing Partnership to support the development of an environmentally green loan portfolio), there may be minimal to significant direct, indirect and cumulative environmental, social or health and safety (ESHS) and labor risks and impacts. To that end a specific environmental due diligence is required. The potential key ESHS and labor risks and impacts associated with this operation are those related to the specific projects financed by ABC with the proposed financing and could include (i) credit risks to ABC resulting from client’s environmental liabilities; (ii) specific ESHS and labor risks and impacts to third parties related to investments in certain sectors with consequent legal, financial or reputation risks; and (iii) IDB reputation risks associated with the impact of other ABC operations.
- 2.2 *Credit risks related to environmental and social risks:* Credit risks refer to potential negative effects on ABC’s ability to collect on sub-loans because of: (i) risk of an eventual non-repayment of loan due to E&S issues (e.g. law suits, fines, etc.) associated with its loans; and (ii) risks associated with ABC’s facilities and operations, such as environmental liabilities in their offices due to asbestos, lead paint, etc. or employees having occupational health and safety problems due to working conditions (e.g. inadequate emergency preparedness, lack of fire exits, etc.). These risks also have compliance implications for IDB policies.

¹ This ESS will be made available to the public in accordance with IDB’s policy on information disclosure. The ESS does not represent either IDB’s approval of this project or verification of the ESS completeness or accuracy. IDB, as part of its due-diligence on the feasibility of this project, will assess its E&S aspects. This assessment will be presented in this project’s Environmental and Social Management Report that will be prepared by IDB, and will be made available to public prior to consideration of this project by IDB’s Board of Executive Directors.

- 2.3 *Direct impacts associated with projects financed by the Partnership:* The projects financed by the Partnership may generate minimal to significant negative social and environmental impacts to third parties and/or the environment associated with the activities required to implement those projects. The type and extent of impacts will vary depending on the type and scale of activities to be financed. As the focus of ABC's sub-loans will likely be in biofuel and biomass projects, there will be specific environmental, social, health and safety (ESHS) and labor impacts and risks. These could include habitat conversion, land degradation, contamination of water resources, waste management and disposal, use of migratory or informal labor, and pesticide use and agrochemical management, among others. The assessment of social and environmental impacts for each loan will be the responsibility of ABC through its Environmental and Social Management System (ESMS), which is currently being developed and aims to be compliant with the IFC Performance Standard 1. The due diligence will assess ABC's existing E&S policies and procedures in terms of their adequacy and/or sufficiency to ensure the management of the environmental risks and impacts of the proposed Partnership², so that sub-loans achieve compliance with local laws and where applicable with IFC Performance Standards 2-8. If needed, the project team will work with ABC to enhance its ESMS through an Action Plan in order to appropriately deal with the related E&S issues under this Partnership.
- 2.4 *Reputational risks associated with the impact of other operations:* Reputational risks are associated with ABC's involvement in projects, companies or activities considered unacceptable to the IDB and/or that will face significant public opposition or concerns, such as (i) inappropriate location; (ii) ABC's finance application and analysis process that is not equitable, fair, and unbiased in terms of social factors (e.g. gender, age, ethnicity, or cultural heritage, etc.); and (iii) significantly deficient labor practices.

III. Status and Compliance

- 3.1. Given that this is a financial intermediary and based on Directive B.13 of the Environment and Safeguards Compliance Policy (OP-703), this transaction is not categorized.

² ABC is an existing IDB client through the Trade Finance and Facilitation Program, for which they are in compliance with the corresponding E&S requirements.

IV. Strategy for Environmental and Social Due Diligence

- 4.1 IDB will undertake E&S due diligence to evaluate ABC's policies and procedures and identify any necessary improvements to their ESMS to appropriately address the E&S risks associated with this Partnership and the sub-loans it finances. Given the focus of the Partnership on projects with potentially significant E&S impacts, the ESMS will need to set forth (i) policies and standards of performance that comply with Performance Standard 1, (ii) roles and responsibilities related to E&S Management and related training; (iii) review procedures to ensure compliance with ABC's policies and IDB policies (exclusion list, eligibility, screening, categorization, environmental assessment requirements, due diligence, public disclosure, and investment agreements); (iv) development of project-specific Environmental and Social Management Plans (ESMP) and systems for projects supported by ABC; (v) supervision and monitoring of the investment portfolio; (vi) reporting requirements on compliance with the ESMS requirements, including compliance of investments funded by the loan with local laws and IFC Performance Standards 2-8; (vii) and incorporation of grievance mechanisms and stakeholder engagement.
- 4.2 The E&S due diligence required for this Partnership will comprise the following steps:
- a. A review of environmental and occupational safety conditions in ABC's facilities and operations; and if any liabilities or potential liabilities are identified, development of an adequate action plan to properly resolve them.
 - b. An assessment of ABC's compliance status with the applicable country environmental, social, health and safety, and labor regulatory requirements as well as with any relevant conventions and treaties which have been ratified by Brazil;
 - c. An assessment of ABC's existing and projected portfolio, to establish potential reputational risks associated with ABC's involvement in projects, companies or activities considered unacceptable to the IDB; and specific ESHS and labor impacts and risks related to investment in certain sectors, likely to be financed under the Partnership. Moreover, the assessment will determine the extent to which the operations in the portfolio comply with applicable requirements and identify any potential issues related to compliance with local laws and the IFC Performance Standards that would apply to operations under the Partnership.
 - d. An assessment of ABC's policies and procedures to ensure that loan, finance application and analysis process are equitable, fair, and unbiased in terms of social factors (e.g. age, gender, ethnicity, cultural heritage, etc).
 - e. An evaluation of the current credit appraisal, approval and monitoring procedures in place to manage E&S impacts and risks and potential liabilities, associated with ABC's portfolio and pipeline, as well as an assessment of ABC's capacity in terms of E&S risk management.
 - f. A review of an indicative sample of potential sub-borrower projects in high risk sectors, such as biofuels or renewable energy, with respect to: (i) identifying potential direct and indirect ESHS and labor impacts; (ii) evaluating sample ESMPs and ESMS systems, and their adherence to national laws and regulations and internationally recognized good practice standards.
 - g. In case issues are identified based on the analysis of ABC's portfolio and/or if ABC does not have adequate/sufficient E&S measures in place, IDB will define its

conditions for the scope, depth and content of an adequate ESMS to be developed and implemented by ABC and, if necessary, for a specific E&S action plan.

- 4.3 The results of the due diligence will be presented in an Environmental and Social Management Report and summarized in the Loan Proposal to establish the environmental, social, health and safety, and labor requirements for the Partnership.