

**SUCDEN - SUGAR & BIO-ENERGY LENDING PROGRAM
ENVIRONMENTAL AND SOCIAL STRATEGY**

I. BASIC FACTS

Date:	March 2015
Country:	Brazil
Sector:	Agro-Industry
Project name:	Sucden - Sugar & Bio-Energy Corporate Finance Loan (BR-L1418) Sucden – Sugar & Bio-Energy Lending Credit Facility (BR-X1038)
Source of the Project:	SCF/CFI
Project Team:	Team Leader; Sergio Rivera-Zeballos (SCF/CFI); Rolando Perez (SCF/CFI); Paola Bazan (SCF/CFI); Ana Lozano (SCF/CFI); You ra Kang (SCF/CFI); Tracy García (SCF/PMU); Martin Stalman (LEG/NSG); Hilary Hoagland-Grey (VPS/ESG); Maria da Cunha (VPS/ESG); Korin Hirato (SCF/SYN); Adriana Ferreira Barboza (SCF/CFI) Project Assistant;
Supervisor:	Alexandre Fernandes de Oliveira (Chief, SCF/CFI)
Borrower:	Sucres et Denrees S.A. (Sucden)
Sub-Borrowers:	Sugar and ethanol mills
Total Project Cost:	US\$150.0 million
IDB loan:	US\$150.0 million
EIC:	B.13

II. PROJECT DESCRIPTION AND ENVIRONMENTAL AND SOCIAL CONTEXT

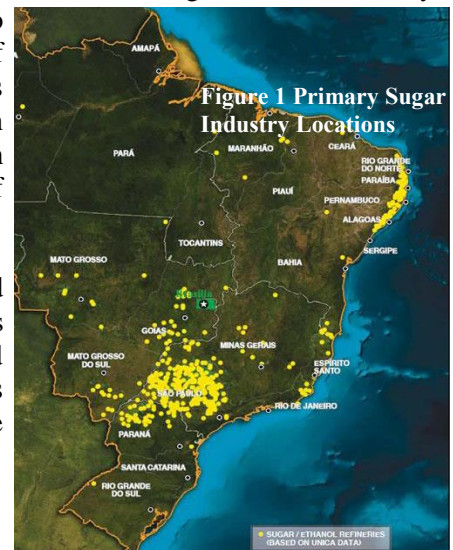
A. The Project

2.1 The objective of the Project is to provide financing to sugar and ethanol mills in Brazil’s south-central and northeast sugarcane growing regions through a Loan Program to Sucres et Denress (Sucden). The Project will be funded through financing facility for up to US\$100 million and through up to US\$50.0 million corporate loan to Sucden (the Borrower), a French-based market leader in the global business of sugar trade, to make sub-loans. Subject to pre-agreed eligibility criteria, the Borrower, acting as an/ intermediary will on-lend the IDB funds through sub-loans to mills in Brazil to support: (i) the renovation, maintenance, irrigation, and planting of sugarcane fields, and (ii) investments to improve industrial facilities and storage warehousing logistics. The Project will leverage on Sucden’s established relationships with local mills and in-depth understanding of the sugarcane sector to increase the efficiency of expanding IDB financing access to the sugar and ethanol industry.

2.2 The Project is intended to provide short-term working capital and medium and long term capital expenditure funding to help companies continue improving their agricultural and industrial operations and address years of agricultural underinvestment in sugarcane plantations and reduced investments in production capacity and logistics at the sugar and ethanol mills.

B. Project Components and Facilities

2.3 The specific mills to be included in the financing have not yet been identified, but Sub-Borrowers will be mills with which Sucden already has a business relationship. The focus will be on mills in Sucden’s sugar supply network within Brazil’s southeast and northeast sugar producing regions (Figure 1), which are the



two major areas for sugar production in Brazil.¹ Further details on these areas will be obtained during the Environmental and Social Due Diligence (ESDD).

- 2.4 The Project will consist of a Loan that will be structured as a revolving credit line. It will have a 7-year tenor, including four years of availability and three years of repayment. The proceeds of the Loan Facility will be used to finance: (i) Working Capital for agricultural crop financing as required by the planting, maintenance, growth and harvest annual cycles of the sugarcane; (ii) Capital Expenditure for (a) agricultural irrigation and/or field renovation and/or expansion; (b) industrial capacity expansion and/or technological upgrades; (c) co-generation; and (d) warehouse facilities in each case, exclusively related to sugar, ethanol and bioenergy production.
- 2.5 The specific investments will be dependent on the needs of the particular company taking the sub-loan and the needs of their agricultural activities and mill(s). At this time the actual mills to be included in the Project have not been selected, but prior to the ESDD, two mills will be selected as representative samples and will be evaluated during the ESDD (see Section V).

C. Environmental and Social Setting

- 2.6 Since the sites for the specific investments have not yet been selected, there is not detailed information on their environmental and social setting. It is anticipated that the investments will be to sub-projects in the southeast and northeast sugar producing regions, which have large farms devoted to sugar and to biofuel (ethanol) production. Sugarcane farms in these areas have contributed to the Brazilian economic history and were a key factor in the social and in the economic development of both regions, and remain the core of the production areas. Although there is limited sugarcane growing in the Amazon region, Sucden does not plan to source product from this region and the exclusion of these sources will be addressed during the ESDD to confirm that they will not be included in the financing.
- 2.7 Starting in the XV and until the late XVII century, Brazil's northeast developed an economic system largely based on sugar cane production under the so-called plantation system, which was largely based on an agricultural exportation system that relied heavily on slave labor, and which provided a strong cultural legacy for the economic development of the region. Currently, Brazil's northeast presents specific areas devoted to agricultural production, particularly in the São Francisco river area as well as local industries focused on producing manufactured goods, such as shoes and leather products. Given the legacy of almost three centuries of monoculture agricultural production, labor and social inequality, the area still relies heavily on Federal financial assistance as well as cash-conditioned programs.
- 2.8 The southeastern area started its economic and social development process around the XVI century as a supplier of goods and services to the wealthy sugar cane farms located in the Northeast. In the XVII century, the southeastern area developed an economic system based on coffee farms that, as of 1850, relied heavily on immigrant labor force. The region also developed a farming system ("colonato") that shared the profits of agricultural production, shaping the economic and social development of the area. The immigrants also brought an innovative manufacturing industry, which improved manufactured products and forced the Federal Government to improve the communication, the transport and the energy supply system. Currently, the southeastern area contributes with approximately 40 percent of the Brazilian gross domestic product and produces large quantities of biofuel for domestic and for international consumption. Producers in this region are more likely to align with best practices and seek certification for their facilities under various industry standards.
- 2.9 The economic, social and environmental challenges of the southeast and northeast areas are quite different, given the impacts of the historical legacy of sugar cane production in both regions. For instance, health and safety conditions differ in both regions even though Federal law seeks to ensure that rural workers nationally are protected by specific safety regulations, tailored to address the challenges of adverse work

¹Almost 90 percent of Brazilian sugarcane production takes place in South-Central Brazil, with the remainder grown in Northeastern Brazil (www.sugarcane.org).

conditions in sugar cane farms. The present Project's specific social and environmental analysis will need to take these regional differences into account and may provide an opportunity to contribute to more aligned practices across the Board.

III. ENVIRONMENTAL AND SOCIAL COMPLIANCE STATUS

A. Compliance with Environmental and Social Assessment and Permitting Requirements

- 3.1 Each of the individual projects, including the agricultural activities and the mills will be subject to their own Environmental and Social Assessment and permitting requirements. As Sub-borrowers, they will be required to comply with these requirements. The process for how Sucden, as the Borrower, ensures compliance, will be evaluated during the ESDD (see section V).

B. Compliance with IDB Environmental Safeguard Requirements

- 3.2 The key IDB Safeguard Policies and Directives that apply to this project are Directives B.4 (Other Risks); B.5 (Environmental Assessment); B.6 (Consultations); B.9 (Natural Habitats and Cultural Sites); B.10 Hazardous Materials; and B.11 Pollution Prevention and Abatement of the Environment and Compliance Safeguards Policy; OP-703; The Information Disclosure Policy (OP-102); the Disaster Risk Management Policy (OP-704); and the Policy on Gender Equality in Development (OP-761). The indigenous people's policy (OP-765) may be applicable. The Involuntary Resettlement Policy (OP-710) may also apply especially in terms of land acquisition. This project is a loan program where the Borrower will be acting as a financial intermediary, and as such this is not classified under OP-703 Directive B.13.

- 3.3 The specific standards applicable to the Project, and which will be required to be extended to the Sub-Projects, especially numerical standards for effluents, emissions and other parameters as well as labor and social requirements, will be determined during the ESDD. The standards reviewed will include the various new sustainability standards such as Bonsucro (see below) as well as International Finance Corporation (IFC) standards and guidelines.

C. Other Requirements

- 3.4 The ESDD will need to review the application of specific standards such as those of the IFC by the Borrower to its Sub-Projects. Of particular note are standards related to labor and health and safety, pollution control and abatement, water use, and pesticide and other chemical use. Other important standards will be those for health and safety and labor practices and working conditions, especially agricultural activities. The ESDD will also look at options for using various international sustainability and other globally recognized standards as a way to standardize the use of good practices across the activities of the Sub-Loans. Possible standards include Bonsucro,² the Roundtable for Sustainable Biomaterials (RSB),³ and the Global G.A.P Standard.⁴

IV. ENVIRONMENTAL AND SOCIAL IMPACTS

A. Impacts and Risks

- 4.1 The key environmental and social impacts and risks related to the Project are related to the activities of the Sub-Borrowers. The Project sub-loans will be used for a variety of sugar industry activities including the sugarcane fields (renovation, maintenance, irrigation, and planting of sugarcane fields), and the industrial mills (investments to improve industrial facilities and storage warehousing logistics). The specific mills to be financed have not been selected, but will include existing operations with which Sucden already has a relationship. Given the nature of the industry, and preliminary information provided on the general characteristics of mills, there are some general assumptions that can be made on the likely impacts and

² www. <http://bonsucro.com/>

³ www. <http://rsb.org/>

⁴ GAP: Good Agricultural Practice – GLOBALG.A.P. http://www.globalgap.org/uk_en/who-we-are/

risks, which are discussed below. The focus for the ESDD will be to assess these in more detail, through a more comprehensive review of two mills selected to be a representative sample of the likely sub-projects.

4.2 The key environmental impacts and risks likely to be associated with the mills and the agricultural activities include:

- Project related land acquisition and land contracting practices, and community impacts, especially in areas where there are indigenous or vulnerable populations or where there are not well defined and implemented land acquisition regulatory frameworks and land tenure-related social movements.
- Labor, health and safety, human rights and working conditions, both in the industrial and agricultural processes. These include traditional agricultural and industrial occupational health and safety and labor issues, but also workers' rights (including rural workers), accident prevention, and issues like the use of security forces.
- Habitat conversion and land use changes, especially where funds will be used for expansion of the mills' activities where new land clearly will be involved.
- Water demand, especially for irrigation in the agricultural activities where water demands can put stress on local supplies.
- Wastewater from processing or from run-off of agricultural chemicals and its impacts on surface water and groundwater quality.
- Food security if crops for biofuels are displacing food crops.
- Air quality from industrial process emissions; dust from traffic and from increasing burning of sugar cane crops; but most importantly, increasing smoke when cane field burning practices are used.
- Cumulative impacts across any of the above impacts and risks.
- Disaster and climate change risks.

B. Mitigation and Management Measures and Systems

4.3 The identification and management of these impacts and risks will be the responsibility of Sucden and will need to be evaluated prior to each investment. A key element of the ESDD will be establishing the kind of necessary environmental and social procedures and systems that Sucden will need to develop and implement for the Project, and establishing timelines.

C. Positive Impacts

4.4 The production of biofuels as an alternative to greenhouse gas emitting fossil fuels will be one direct positive impact of the Project when sub-loans are to biofuels producers. The extent of this benefit may be difficult to quantify, but an evaluation of the potential positive impacts will be evaluated during the ESDD. Other direct and indirect potential impacts are discussed below.

4.5 The Project will also bring the use of better practices to the agricultural and industrial facilities involved in the Project. The ESDD will include an evaluation of the possible options for certifying the various companies in the Project under one or more of the various certifications schemes. It is likely that a phased approach will be necessary, but the IDB is in a strong position to assist these companies make significant improvement to their practices, resulting in positive sustainability outcomes. Training is likely to be a strong component, but also other areas like increasing water efficiency and improved working conditions.

V. STRATEGY FOR DUE DILIGENCE

5.1 The focus of the environmental and social due diligence (ESDD) will be to ensure that the overall environmental and social impacts and risks of the Project have been identified, and that there will be an appropriate management system in place to address these to a level consistent with IDB policies. Since the primary Project impacts and risks are related to the sub-projects, the approach will be to use a selection of

representative sample sub-projects to provide a general context of the issues, in particular potentially significant impacts or risks, information gaps including compliance status, and the existing environmental and social management systems and procedures used by Sucden, and what, if any, modifications will need to be made in order for the Project to meet IDB requirements.

5.2 The ESDD will be performed by the IDB, with the assistance of an environmental and social consultant with the primary objective to confirm that the Project direct and indirect impacts and risks have been properly identified and that they will be adequately mitigated and managed. In particular, the ESDD will include the following:

1. In relation to the sample sub-projects:

- a. An evaluation of the sample sub-projects to determine if their direct, indirect and cumulative negative environmental and social impacts and risks have been properly identified and evaluated, in particular potential impacts and risks related to: 1) land acquisition and land contracting practices, land tenure and land use conflicts and community impacts; 2) labor, health and safety, human rights and working conditions; 3) habitat conversion and land use changes; 4) water demand, especially for irrigation in the agricultural activities, and water use rights and conflicts; 5) wastewater; 6) food security; 7) air quality; 8) cumulative impacts across any of the above impacts and risks; 9) disaster and climate change risks.
- b. Assessment of compliance with applicable IDB environmental and social policies, including specifically the Environmental and Safeguard Compliance Policy, Disclosure of Information Policy, Disaster Risk Management Policy; Gender Policy; Indigenous Peoples' Policy and Involuntary Resettlement Policy, International and Regional Agreements and any applicable International Conventions. Gap analysis on the proposed project standards against good and best international practices.
- c. Assessment of compliance status with the applicable environmental, social, health and safety, and labor legal requirements in Brazil (e.g., laws, regulations, standards, permits, authorizations, applicable international treaties/conventions, etc.).
- d. Assessment of compliance status with applicable international best practice standards (including the environmental, social, health and safety, and labor requirements of internationally recognized standards such as Bonsucro or the Roundtable for Sustainable Biomaterials, as well as the IFC Performance Standards and ESHS Guidelines. Particular focus will be put on labor practices and working conditions.
- e. Evaluate the proposed environmental and social plans, procedures, and documentation for sub-project construction and operation, including confirming that the plans define the proposed environmental and social control, management, and mitigation measures, monitoring programs, costs, schedule of implementation, designated responsibilities, that the ESMP has been developed based upon the assessment of the anticipated environmental and social impacts, that it is current.
- f. Confirmation that adequate health and safety plans and procedures will be established and implemented both for construction and operation (including sub-contractors) to address potential worker health and safety risks associated with the sub-projects.
- g. Confirmation that adequate contingency plans and procedures will be implemented during construction and operation (including sub-contractors) to address potential sub-project-related accidental events.

2. In relation to the Borrower (Sucden)

- a. An evaluation of the environmental and social management systems (ESMS) and procedures currently being used to evaluate the environmental and social impacts and risks from mills that Sucden is currently working with and for the supply chain in its entirety;
- b. Identification of the specific components to be included in an ESMS to be used by Sucden on sub-projects under the IDB loan. These will include processes and procedures to: (1) assess the

performance of each mill or supplier in its system including the criteria and procedures necessary to ensure that the process of supplier selection and credit approval evaluates E&S impacts and risks, and (2) ensure that credit and supply agreements and oversight systems include measures to require suppliers and Sub-Borrowers to comply with acceptable E&S performance standards, and that Sucden follows up on E&S performance. Sucden systems are likely to need to be upgraded by the inclusion of an ESMS that may include requirements for external review or IDB approval for certain types of Sub-projects on account of magnitude of capital investments, Sub-Borrower location or past performance issues, or other environmental and social risk factors identified during the ESDD.

- c. Determination of the standards that need to be applied to the Project and to each Sub-Loan and/or Sub-Borrower, including IFC standards and guidelines as well as internationally recognized sustainability round tables and certification systems. Training, monitoring and reporting requirements will also be developed.
- d. Assessment of Sucden's capacity to properly identify, mitigate and monitor environmental, social, health and safety and labor aspects of its direct operations and of its Sub-Borrowers network/supply chain, and where pertinent of actors in the chain to carry out their respective responsibilities. Based on this assessment any needed additional capacity will be identified.

3. In relation to the Project overall:

- a. Estimate the overall greenhouse gas emissions for the Project, in particular direct emissions from the power generation, industrial processes or from land-use changes. Included in the calculation should also be any important net benefits such as reductions from changing agricultural practices (such as field burning) and replacing fossil fuel generated power in the grid.
- b. Evaluate positive impacts of the Project and any additionality from the involvement of the IDB, with a particular focus on improving practices in supply chain management.
- c. Evaluate, where possible, the potential cumulative impacts and risks associated with the financing such as future expansion of agricultural activities in the area, water use demands, as well as subsequent phases, including long-term socio-economic impacts and land-use issues.
- d. Evaluate Project-related information disclosure and public consultation activities that have been performed and/or are routinely performed, including confirmation that the participation processes of stakeholders is adequately conducted and that the proposed future actions to provide adequate ongoing information disclosure and public consultation with the local population is in compliance with IDB policies. This will include confirmation of adequate stakeholder engagement, and that the communities participate meaningfully in pertinent decisions that affect them throughout the Project lifecycle and with respect to each Sub-project as applicable and necessary. This is particularly important where national legislation differs from IDB policies.

5.3 As part of the Bank's ESDD, the Bank will prepare an Environmental and Social Management Report (ESMR) for consideration by the Bank's Environmental and Social Review (ESR) group and the QRR. The ESMR will provide a synthesis of the relevant environmental and social aspects related to the Project (Sucden's overall program and the sample and overall activities being financed by Sucden) and the proposed Bank recommendations in terms of Project-specific environmental and social requirements.