

Emerging Sustainability Frameworks

# The Brazilian National Development Bank

JANUARY 2016

A three part series examining the environmental and social policies at Brazilian and Chinese national development banks



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Friends of the Earth U.S. – Headquarters

1101 15th St NW, 11th floor

Washington, D.C., 20005

Friends of the Earth U.S. – California Office

2150 Allston Way Suite 360

Berkeley, CA 94704

Please visit us at [www.foe.org](http://www.foe.org)

For questions or comments, please contact [redward@foe.org](mailto:redward@foe.org).

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## ABOUT FRIENDS OF THE EARTH U.S.

Friends of the Earth U.S., founded by David Brower in 1969, is the U.S. voice of the world's largest federation of grassroots environmental groups, with a presence in 74 countries. Friends of the Earth works to defend the environment and champion a more healthy and just world. Through our 45- year history, we have provided crucial leadership in campaigns resulting in landmark environmental laws, precedent-setting legal victories and groundbreaking reforms of domestic and international regulatory, corporate and financial institution policies. Our current campaigns focus on promoting clean energy and solutions to climate change, ensuring the food we eat and products we use are safe and sustainable, and protecting marine ecosystems and the people who live and work near them.



# **EMERGING SUSTAINABILITY FRAMEWORKS**

is a three part series examining  
the environmental and social policies  
at Brazilian and Chinese national development banks.

**The Brazilian National  
Development Bank**

**China Development Bank  
and China Export-Import Bank**

**Comparing Environmental and Social Policies  
among Brazilian, Chinese,  
and International Development Institutions**

# TABLE OF CONTENTS

About the Series	7
Methodology	7
Series Introduction	8
I. Introduction	11
II. Major National Banking Policies and Relevant Environmental Laws	14
III. The BNDES System	17
IV. Ensuring Borrower Compliance	28
V. Accountability Mechanisms	28
VI. Conclusion	29
Endnotes	30
Appendix I	33

# About the Series

This series is an outgrowth of a discussion paper produced for the conference, “Advancing Sustainable and Accountable Finance: National Development Banks and Their Emerging Role in the Global Economy”. The conference took place at the Chinese University of Hong Kong on October 21 and 22, 2013. The purpose of the discussion paper was to provide a broader political and economic context for conference participants in understanding the evolving roles and definitions of national development banks. The discussion paper sought to review the existing environmental and social policies which Brazilian, Chinese, and Indian banks had established in promoting a new model of sustainable development.

This series has taken the original discussion paper and customized it for a public audience, significantly revising the content and taking into consideration new developments within the Brazilian and Chinese development banks. At this time, we have focused attention on the Brazilian and Chinese development banks due to their size and influence, but may also consider including a subsequent briefing paper on Indian development banks. We hope this series on the environmental and social policies of new, South based development banks can enrich the ongoing discussion on the nature and potential of advancing sustainability in the global economy.

## Methodology

Research for the Brazilian Development Bank (BNDES) paper drew upon a variety of academic papers, online resources, CSR reports, annual reports, CSO publications, media reports, and other sources. Content was also drawn from a 2013 discussion paper privately published for the conference, “Advancing Sustainable and Accountable Finance: National Development Banks and Their Emerging Role in the Global Economy”. Mais Democracia contributed the chapter on the Brazilian Development Bank in the original discussion paper, and some of the content has been adapted for this briefing paper.

To supplement this information, as well as to give an opportunity to the banks to provide feedback, Friends of the Earth US sent a questionnaire to China Development Bank (CDB) and China Export-Import Bank (China Exim) asking for clarification and information regarding their environmental and social policies. Surveys were also sent to the Brazilian Development Bank (BNDES) as part of our research in the *Emerging Sustainability Frameworks* series. All surveys to the banks were sent in July 2014. BNDES was the only institution to respond to our questionnaire in a timely manner. Despite several attempts, CDB and China Exim did not respond to the survey.

BNDES was the only institution to respond to our questionnaire in a timely manner. Their responses have informed this brief.

Despite several attempts, CDB and China Exim did not respond to the survey. As a result, there is less comprehensive information regarding CDB and China Exim’s environmental and social policies. Friends of the Earth US contacted CDB and China Exim through the official contact information posted on their website, yet we did not receive any acknowledgement that our messages were received. The lack of response from CDB and China Exim illustrates the need for Chinese banks to improve their accessibility and communication with the public.

# Series Introduction

While the practice of incorporating environmental and social financing policies may have begun with Western banks, today, financial institutions and regulators from the Global South are becoming active players in sustainable finance as well. From the New Development Bank to the Asian Infrastructure Investment Bank, a host of newly established international development banks international development banks are establishing their own green finance standards green finance standards. In particular, as national development banks become major international players, there has been increasing interest about their commitment to adopting sustainable finance standards.

Due to their size and influence, this series will focus specifically on sustainability standards at Brazilian and Chinese development banks. These papers focus on the context of sustainable finance in Brazil and China, and describe Chinese and Brazilian national development banks' environmental and social financing policies; they do not assess or analyze the level of implementation or efficacy of these policies.

As part of our *Emerging Sustainability Frameworks* series, the first paper examines the Brazilian Development Bank (BNDES); the second reviews China Development Bank and China Export-Import Bank (CDB and China Exim). The final paper compares environmental and social policies of BNDES, CDB, China Exim Bank, the World Bank, and the International Finance Corporation.





# **Brazilian Development Bank**

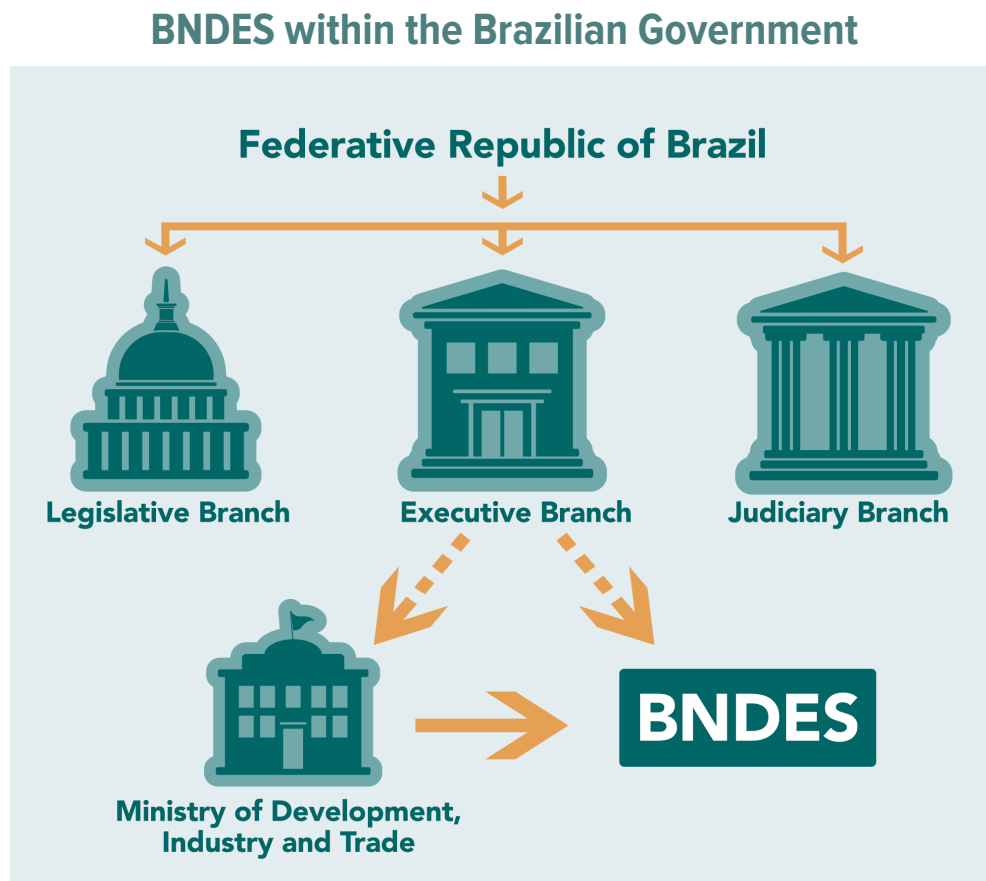
# I. Introduction

Brazilian Development Bank (BNDES) is the largest development bank in Latin America<sup>i</sup>. In terms of lending, it is the second largest public financial institution in the world after China Development Bank<sup>2</sup>. The bank executes national industrial priorities and export activities, financing ventures and services related to the country's social and economic development<sup>3</sup>. Of the four other state owned Brazilian banks<sup>i</sup>, BNDES is the only one with an official agenda towards internationalization, representing the country in international agreements<sup>ii</sup>. As the most influential

bank in Brazil, this paper focuses on BNDES and its environmental and social framework.

In recent years, the Brazilian government has taken steps towards defining a coherent national approach for building a green economy. Central to this approach is the role Brazil's financial sector can play in incentivizing environmental protection and fostering a green economy. In 2014, the Brazilian Federation of Banks partnered with United Nations Environment Program (UNEP) in the "Inquiry on the Design of a Sustainable Financial System", which aimed to foster

FIGURE 1



*The Ministry of Development, Industry, and Trade oversees BNDES policy and activities. However, because BNDES also plays an advisory role to the Brazilian presidency, BNDES is formally accountable to MDIC, and informally accountable to the Executive Branch. This figure reflects BNDES' responsibility in answering to both bodies of government.*

- i In addition to BNDES, there are four other state owned banks in Brazil: Caixa, Banco de Amazonia, Banco de Brasil, and Banco de Nordeste.
- ii Representing Brazil, BNDES signed a Memorandum of Understanding with other BRICS member banks, sealing their partnership and cooperation in the New Development Bank. [http://www.bndes.gov.br/SiteBNDES/bndes/bndes\\_en/Institucional/Press/Noticias/2015/20150709\\_ndb\\_en.html](http://www.bndes.gov.br/SiteBNDES/bndes/bndes_en/Institucional/Press/Noticias/2015/20150709_ndb_en.html)

public discussion and innovation on how to channel the power of the financial sector to promote sustainable development<sup>4</sup>. Currently, one of Brazil's main reasons for increasing environmental financial regulation is to manage environmental and social risks, which the Brazilian Central Bank considers to be systemic risks which can disrupt financial stability and the solvency of financial institutions<sup>5</sup>. A recent example of how the Brazilian government has approached bank management of environmental and social (E&S) risks is the 2014 law<sup>6</sup> which requires banks to develop environmental and social policies and establish an internal governance structure for ensuring E&S compliance with national legislation. Although these standards are to be self-developed by banks, regulators and banks expect that the law will create a minimum standard and "level the playing field"<sup>7</sup>.

However, the 2014 law was built on a foundation of sustainable finance policies that explicitly tied together environmental protection and the banking sector. The first was Resolution 3.545 in 2008, which required financial institutions to demand proof of environmental compliance from credit borrowers investing in the Amazon biome<sup>8</sup>. Since then, the Brazilian Central Bank has published other circulars or resolutions regarding sugar cane credit restrictions for crop expansion in the Amazon and Pantanal biomes, slave labor credit

restrictions, rules for financing climate mitigation and adaptation, and others<sup>9</sup>. Special green funds and voluntary bank commitments have also been used to highlight and address environmental and social issues.

In addition to its emerging policy framework, several legal precedents have informed the development of sustainable finance in Brazil. For instance, in one public civil action case centered on earth removal and potential construction of buildings on mangroves, a court found that there was strict liability for the bank to redress the damages<sup>10</sup>. This 2003 ruling established a chain of causation between the financial institution and environmental harm. Later in a 2006 mining case, a court found that if there was sufficient proof that financial institutions were aware of environmental harm caused by their lending, they would be held jointly liable, along with other defendants, for environmental damages<sup>11</sup>.

In sum, the greening of Brazil's financial sector has evolved in response to not only top-down government policy, but from other drivers such as court cases, voluntary industry commitments, and civil society concern<sup>12</sup>. Brazil's experience shows that the interplay of these drivers, especially when combined with input from civil society, can accelerate a more robust and successful shift towards a green economy.

## RELEVANT BRAZILIAN AUTHORITIES AND REGULATORS

**EXECUTIVE BRANCH:** The Executive Branch consists of the President of the Republic and the Ministers of State. It holds the power to enact provisional measures<sup>13</sup>. BNDES economic and technical research may inform national economic policies of presidential administrations.

**MINISTRY OF DEVELOPMENT, INDUSTRY AND COMMERCE (MDIC):** Under the Executive branch of the Brazilian Federation, the Ministry of Development, Industry, and Foreign Trade implements and manages Brazil's national industrial policy. Its main policy areas include: strengthening trade defense measures, enhance exports, and foster innovation, among others<sup>14</sup>. MDIC oversees BNDES policy and activity.

**NATIONAL MONETARY COUNCIL:** The National Monetary Council is responsible for establishing monetary and credit policies, ensuring of Brazilian monetary stability, and promoting economic and social development<sup>15</sup>.

**CENTRAL BANK OF BRAZIL:** This government body supervises the functioning of the country's entire financial system. It is Brazil's principle monetary authority.

**NATIONAL ENVIRONMENTAL SYSTEM (SISNAMA):** SISNAMA is the overarching system of regional, state, municipal, or local agencies responsible for ensuring environmental protection. These agencies issue environmental licenses, monitor operations, and can demand legal compliance. Agencies within SISNAMA hold the power to approve or reject an environmental impact assessment.

- The BRAZILIAN ENVIRONMENT NATURAL RESOURCES INSTITUTE (IBAMA) is the federal level agency tasked with the preservation, conservation, compliance, and use of natural resources in environmental protection.

- GENERAL CONTROLLER OFFICE (CGU) AND THE FEDERAL AUDITORS COURT (TCU): The CGU and the TCU are tasked with carrying out public audits, corruption prevention, and encouraging government transparency. As a public institution under the Executive Branch, BNDES is subject to overall monitoring by both the General Controller Office (CGU) and the Federal Auditors Court (TCU) and specific monitoring by institutions and offices related to each fund that it administers, such as the Ministry of the Environment in the case of the Amazon Fund<sup>16</sup>.

# II. Major National Banking Policies and Relevant Environmental Laws

Article 192 of the Constitution of Brazil clearly states that “the national financial system is grounded on the promotion of balanced development”<sup>17</sup>. This particular article and the definition of “balanced development”, and whether environmental and social impacts should be considered, have influenced Brazilian debate regarding the impact of development on the environment and the role banks play in financing the country’s development.

The following section describes major environmental national laws, policies, and voluntary measures which influence or regulate Brazil’s banking sector, including BNDES.

## **NATIONAL ENVIRONMENTAL POLICY** *Codified via Law No. 6938 in 1981*

The National Environmental Policy (NEP) establishes the country’s core principles and approach in environmental protection. It provides basic definitions, standards, and objectives, naming “sustainable development consistent with environmental consciousness” as the first objective of the law. The NEP is implemented by various federal, state, and local agencies, in addition to non-governmental organizations<sup>18</sup>. In implementing the law, SISNAMA (Brazil’s National Environmental System, see page 13) is granted authority to set emission standards, create a national environmental information system, and establish disciplinary consequences for failure to comply with the NEP.

Under the law, the notion of “strict liability” obligates those responsible to “indemnify or repair the harms caused to the environment and to third parties affected

by his activity”. For instance, if lending to a known polluter, BNDES, and not just the polluter itself, would be included under the concept of “strict liability” and be co-responsible for damages<sup>19</sup>.

## **ACCESS TO INFORMATION LAW** *Codified via Law No. 12527 in 2011*

In 2011, Brazil published the Access to Information Law which establishes procedures for the public request of information; the law requires public offices of all types and levels to respond requests<sup>20</sup>. BNDES is subject to this law<sup>21</sup>.

## **CIRCULAR 3.547 – INTERNAL PROCESS OF CAPITAL ADEQUACY ASSESSMENT – ICAAP** *Published by the Brazilian Central Bank in 2011*

Requires that financial institutions explain how they assess “risk of exposition to e&s damages in its evaluation process and calculation of capital needed for risks”<sup>22</sup>.

## **RESOLUTION 4.008 – CREDIT MITIGATION AND ADAPTATION TO CLIMATE CHANGE** *Published by the Brazilian Central Bank in 2011*

This policy sets rules on projects receiving climate mitigation and adaptation financing, through resources from the National Plan for Climate Change<sup>23</sup>.

## **GREEN PROTOCOL**

The Green Protocol (or the Socio-Environmental Responsibility Protocol of Intentions) is a voluntary banking commitment. It aims to encourage sustainable development and socio-environmental responsibility through various principles, including:

- considering socio-environmental impacts and costs in asset management and client and project risk analyses
- basing financing decisions upon the existence of relevant environmental licenses
- incorporating socio-environmental criteria in credit analyses
- conducting socio-environmental analyses of high risk clients and projects
- applying and developing socio-environmental performance standards<sup>24</sup>.

BNDES, the Central Bank of Brazil, Treasury, the Brazilian Federation of Banks Febraban, Caixa Economic Federal, Banco do Brasil, Banco do Amazonia, and the Ministry of the Environment established the Green Protocol in 1995 and renewed their commitment in 2008<sup>25</sup>.

***SOCIAL ENVIRONMENTAL RESPONSIBILITY POLICY  
Issued by the Brazilian Monetary Council  
(Conselho Monetário Nacional) CMN No. 4327  
in 2014***

The policy legally mandates that finance institutions must develop and implement a social and environmental policy by July 2015<sup>26</sup>. The policy applies to all financial institutions and other entities authorized to operate by Central Bank of Brazil, and requires a comprehensive review of social and environmental risks:

*The social and environmental risk management of the institution must consider: (i) systems, routines and procedures to identify, qualify, evaluate, monitor, mitigate and manage the social and environmental risk in the activities and transactions of the institution; (ii) data registry concerning effective losses due to social and environmental damage, for a minimum period of five years, including values, type, location and economic sector object of the transaction; (iii) prior assessment of*

*the potential social and environmental impacts from new forms of products and services, including in relation to the reputation's risk; and (iv) procedures for adequacy of social and environmental risk management to the legal, regulatory and market changes<sup>27</sup>.*

However, civil society groups have commented that the policy, while initially promising, was weakened in comparison to the originally proposed draft in 2012<sup>28</sup>. They pointed out that specific language regarding the establishment of a conflict resolution mechanism, the risks and opportunities related to climate change and biodiversity, the inclusion of measurable assessment criteria, among others, were removed from the text. Groups also voiced disappointment regarding the deletion of a clause which encouraged public stakeholders to participate in the implementation of the Social Environmental Responsibility policy.

***CLIMATE FUND PROGRAM  
Codified via Brazilian law N<sup>o</sup>. 12,114 in 2009***

The Climate Fund is intended to help reduce greenhouse gas emissions and mitigate climate change<sup>29</sup>. According to BNDES, “resources from the National Climate Change Fund – the Climate Fund – come from the 60% portion of the Special Participation of Oil, received by the Ministry of the Environment (MMA). Such resources are split into two modalities: reimbursable, which will be operated by the BNDES, and non-reimbursable, which is to be directly managed by the MMA”<sup>30</sup>. Subprograms of the fund include financing: efficient transport modals, efficient machinery and equipment, renewable energy, waste with energy potential, vegetal charcoal, and combating desertification<sup>31</sup>.

***LEGAL PRECEDENTS ESTABLISHING BANK LIABILITY TO ENVIRONMENTAL DAMAGES***

Brazil has been characterized as having “one of the most advanced legal systems of legal protection for the environment”<sup>32</sup>. The Federal Constitution allows third parties such as environmental groups to “pursue civil

claims on behalf of the environment on its own right”<sup>33</sup>. Between 2006–2008, public civil actions accounted for 65% of environmental enforcement conducted by the Federal Public Ministry, Brazil’s body of public federal and state level prosecutors<sup>34</sup>. Public civil actions<sup>35</sup> have helped establish lender environmental liability in Brazilian law, as courts have ruled that environmental injury would not have occurred without financing for the damaging activity.

Some notable lender environmental liability cases include:

**2003 Mangrove Case:** This case was raised in the Superior Tribunal de Justiça (STJ); the STJ is the highest appellate court for non-constitutional issues<sup>36</sup>. The Federal Public Prosecutor lodged a case against the filling and draining of a mangrove swamp. The defendants were ordered to remove the added dirt and buildings in the mangrove swamp, as well as reforest the area with vegetation appropriate to mangrove swamps. This case<sup>37</sup> established indirect liability by determining that “[f]or purposes of determining causation in the case of environmental damage, the following have been grouped together as equivalent: who acts, who does not act when she should, who allows the action, who does not care that others act, *who finances the action performed by others*, and who benefits when others act”<sup>38</sup> [italics added].

**2006 Mining Case:** The case was filed in response to environmental damage caused by the mining company Companhia Mineira de Metais. The Superior Court of Justice ruled that “if there is proof the financing institution was aware of the environmental harm or of the beginning of the existence environmental harm, and still granted intermediate or final parcels

lending resources for the mining project, the financing institution will be jointly liable along with the other defendants for the damages caused to the environment”<sup>39</sup>.

**2009 Infrastructure Case:** Federal and State Prosecutors filed a civil investigation on the grounds that the environmental impact assessment conducted for infrastructure projects in the state of Bahia was inadequate for the scope of the project. During the case, prosecutors “formally advised banks that Brazilian law covers financial partners as liable parties for their client’s environmental harms”, also advising that the banks freeze funding to the projects<sup>40</sup>.

**Bank Transparency Cases:** In addition, the courts have also ruled that banks must disclose information that the institutions otherwise considered confidential. In one case, BNDES was ordered to publicly publish all financing activities and support for programs, projects, construction works and services of public and private entities involving public funds. The ruling applied to subsidiary companies of BNDES as well, such as its investment arm BNDESPAR. The bank was required to publish information dating back over the past ten years. This precedent was notable as the bank had previously withheld information from the public on the grounds of protecting trade secrets. However, the court ruled that BNDES cannot claim secrecy and avoid complying with the Access to Information Law<sup>41</sup>. This ruling was consistent with the conclusion from another case involving a dispute between Bank of Brazil, a public bank, and the Federal Court of Auditors. In that case, the Judiciary ruled that public banks may not withhold information from audits by public offices on the basis of protecting trade secrets or the financial health of the bank<sup>42</sup>.



# III. The BNDES System

BNDES is Brazil's key provider of long term domestic financing in the services, agricultural, and industrial sectors<sup>43</sup>. Although it was originally capitalized by the National Treasury, for many decades the Fund Worker's Support (FAT) contributed majority of BNDES' funds. Today, the Treasury has again become the largest source of funds to the Bank as a purchaser of BNDES bonds<sup>44</sup>. It is 100% state-owned.

The bank provides financial support for private and foreign companies of all sizes headquartered in Brazil, in addition to individual businesspersons<sup>45</sup>. BNDES does not lend to certain economic sectors, including banking/financing, arms trading, establishments for adult entertainment, gambling and similar activities. Neither does BNDES finance the acquisition of land and real estate or swap assets<sup>46</sup>. It only finances the acquisition of new machinery and equipment if similar products are not manufactured in Brazil<sup>47</sup>.

As a financial institution, BNDES is actually the "BNDES System" consisting of four different entities – BNDES, FINAME, BNDESPAR, and BNDES Limited. Each group is responsible for a particular financial service. FINAME, BNDESPAR and BNDES PLC are subsidiaries of BNDES.

FINAME is responsible for financing the purchase and export of Brazilian machinery and equipment, in addition to the importation of foreign goods. BNDESPAR is a business corporation which carries out capitalization operations, and BNDES PLC provides funds for the international expansion of domestic firms. Headquartered in Brazil, BNDES has overseas offices in Uruguay, South Africa, and the United Kingdom<sup>48</sup>.

Internally, BNDES is structured around an Administrative Counsel, the Presidency of the Bank, who has his own office and executive secretariat, a Fiscal Committee (*Comitê de Auditoria*) and other

general offices, like the Ombudsman service and the legal department. There are 9 Directories and 23 Areas in the Bank today, with different thematic or procedural scopes. BNDES publicly posts a copy of the legislation regarding its governance online<sup>49</sup>.

Loans over R\$10 million are disbursed directly by the bank, and smaller loan amounts are disbursed indirectly via smaller, local commercial banks. According to the Brazilian Center for International Relations, "indirect lending is based on a wholesale lending model where the BNDES lends to retail banks that in turn lend directly to customers at subsidized rates. The model allows the development bank to disburse large amounts of credit to clients throughout the country while maintaining a relatively small staff of around 2500 employees"<sup>50</sup>.

BNDES reports to the Ministry of Development, Industry, and Foreign Trade. At the same time, BNDES is also accountable to the Executive branch, and its "interactions with the legislative branch mainly involve briefings and consultations, giving Congress little direct power over the Bank"<sup>51</sup>. The Executive branch sets the political and economic mandates for BNDES, and the bank holds autonomy in how those mandates are executed<sup>52</sup>. Economic and technical research produced by BNDES can directly inform national economic policy and presidential administrations.

Under former Brazilian president Luiz Inacio Lula da Silva, BNDES was tasked to create "national champions" by channeling billions of subsidized loans into strategic sectors and ailing companies in the wake of the 2008 financial crisis<sup>53</sup>. However, in 2013, BNDES president Luciano Coutinho declared that the policy of building "national champions" had "run its course" and instructed the bank to focus on innovation sectors, such as health and pharmaceuticals<sup>54</sup>.

## The Environmental and Social Framework of BNDES

BNDES has developed various environmental and social policies to promote sustainability. In 1989, it created an Environmental Unit within BNDES, tasked with developing environmental knowledge and providing technical support to operational areas. It publishes an annual report which includes information on its corporate social responsibility activities.

Notably, BNDES incorporated the word “social” into its name in the 1980s. This occurred in response to the growing public concern that social assessments should be included in the lending process<sup>55</sup>. Since then,

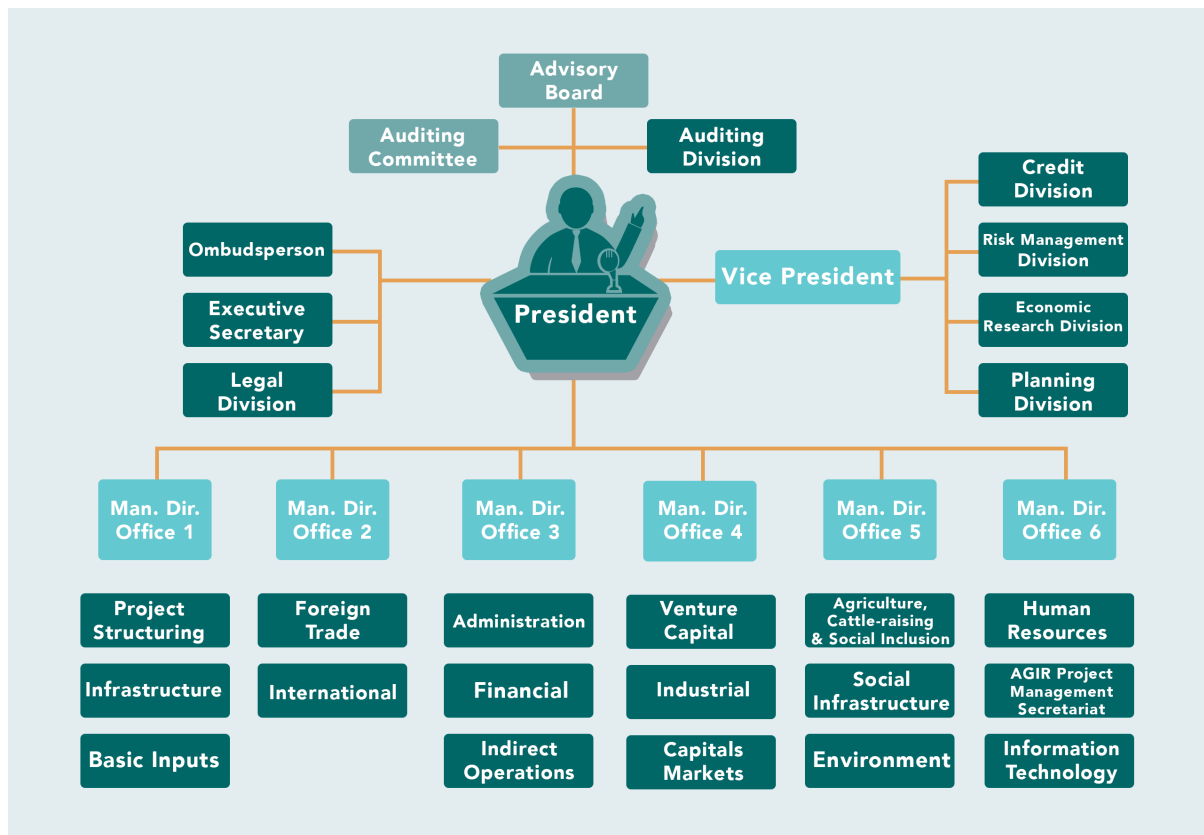
BNDES has established guidelines to monitor and evaluate the impacts of its financing on society and the environment. The following section highlights BNDES’ major E&S institutional policies.

### ARTICLE 10 OF BNDES BYLAWS, 2002

BNDES is required to review and use environmental and social assessments as criteria in evaluating financial undertakings. Article 10 of the BNDES bylaws state that “To grant financial collaboration, the BNDES shall carry out: I – the technical and economic-financial examination of the undertaking, project or business plan, including the assessment of its social and environmental implications; (worded as per Decree N° 6,322 of December 21, 2007)”<sup>56</sup>.

FIGURE 2

## Governance Structure of BNDES



### **POLICY FOR THE SURROUNDING AREAS OF PROJECTS**

This 2009 policy (*Política do Entorno*) is intended to guide “the analysis of financial operations and negotiation with investors, seeking the most adequate insertion of undertakings for sustainable development of the areas”<sup>57</sup>. It has been implemented in five “pilot” cases, including Suape Industrial Port Complex, in the state of Pernambuco; hydroelectric development of Belo Monte, in the state of Pará; the Açu Industrial Super Port Complex, in the state of Rio de Janeiro; the Rio Grande Historic Heritage, in the state of Rio Grande do Sul; and the Alto Paraopebas Consortium (Codap), in the mining-metallurgy region in the state of Minas Gerais<sup>58</sup>. This policy commits BNDES to take an active role in the participatory planning process involving the developer, government, civil society and other stakeholders)<sup>59</sup>.

### **THE SOCIAL CLAUSE**

Beginning in 2008, BNDES finance contracts include the Social Clause, which prohibits clients from engaging in racial or gender discrimination, as well as child and slave labor. Abiding by the Social Clause is considered a pre-requisite to receive bank financing. Non-compliance with the Social Clause can result in loan suspension or early termination<sup>60</sup>.

### **CORPORATE SOCIAL AND ENVIRONMENTAL RESPONSIBILITY POLICY (CSR POLICY)**

Published in 2010 as a result of BNDES’ 2009-2014 Strategic Plan, this policy established four principles for developing and applying sustainable policies and practices<sup>61</sup>. The four principles are quoted below:

- Promoting development through interdisciplinary modes of analysis, such as economic, social, and environmental lenses.
- Recognizing the need for human rights and opposing rights violations.
- Positioning ethics and transparency as fundamental components to relationships with all stakeholders.
- Proactively promoting compliance with Brazilian laws and standards and international norms<sup>62</sup>.

Based on these tenets, BNDES formulated ten guidelines, which refer “to the strategic and operational activities of the Bank, [and] its relationship with stakeholders[,] and its role in encouraging and fostering sustainability”<sup>63</sup>.

- to strengthen public policies related to sustainability as well as social and environmental responsibility;
- to continuously develop and improve financial products, methodologies and other tools that incorporate social and environmental criteria while contributing, in particular, to local and regional sustainable development;
- to strengthen the approach to social and environmental responsibility in planning, management and operational processes;
- to induce and recognize the best practices in social and environmental responsibility of its suppliers, customers, accredited financial institutions and other partners, contributing to the advancement of sustainability in Brazilian society;
- to continuously develop and refine methodologies as well as other tools for monitoring and evaluating social and environmental impacts in addition to results generated by the Bank itself and by the financially supported efforts;
- to guarantee that the standard of corporate communication reflects the importance of social and environmental efforts and the BNDES’ commitment to sharing responsibilities with transparency and dialogue;
- to continuously enhance knowledge and disseminate the culture of sustainability as well as social and environmental responsibility;
- to develop partnerships and share experiences with other organizations in order to foster social and environmental responsibility and to strengthen transparency and dialogue among stakeholders while reinforcing citizen participation in public management;
- to adopt policies that set great store by employees and promote their personal and

professional development, with emphasis on social and environmental commitment and human rights;

- to implement the most recent sustainability requirements in their facilities and administrative efforts, contributing to the preservation of the environment<sup>64</sup>.

### **SOCIO-ENVIRONMENTAL POLICY**

Approved in 2010, the same year which BNDES approved its Corporate Social and Environmental Responsibility Policy, the Social-Environmental Policy, on the other hand, is categorized under Operational Policies and provides further guidance on bank operations. This policy “describes the procedures related to identifying and addressing the social and environmental impacts of financed projects at the different stages of the financial support process. This document, on an operational level, lays forth the guidelines and principles of the CSR Policy”<sup>65</sup>. Its guidelines are quoted in full below:

- To act in accordance with the current public policies and legislations, in particular with provisions in the National Environmental Policy;
- To continuously develop and improve financial products with social and environmental objectives and to incorporate social and environmental criteria in other products, when appropriate;
- To offer different conditions for financial support to projects with social and environmental additionalities and projects that address environmental damage;
- To deem the approach to social and environmental dimensions a strategic issue in the analysis of financial assistance, in the management of assets and in the analysis of risk to beneficiaries and undertakings;
- To continuously develop and improve methodologies and analytical, monitoring and assessment tools, incorporating social and environmental criteria;
- To respect the recommendations and restrictions of ecological-economic zoning and

agro-ecological zoning, if applicable;

- To support agricultural and forestry projects related to opening new areas only when consistent with ecological-economic zoning;
- To monitor the employment impacts of undertakings and consider the policies of the BNDES System related to human rights and to the protection of people with disabilities;
- To foster eco-efficiency in undertakings supported, adopting socially and environmentally sustainable processes and products, using management systems throughout the supply chain and reducing greenhouse gas emissions (GHGs);
- To foster and guide the adoption of efforts to prevent and mitigate social impact and unsuitable environments;
- To continuously expand and update information on the patterns of impact and socioenvironmental, energy and GHG emissions performance in key economic sectors, as well as on the evolution of different technological paths and innovations;
- To continuously expand and update knowledge concerning sustainable development as well as social and environmental responsibility while sharing information and experiences with beneficiaries, financial institutions and other organizations, seeking dialogue and fostering the integration of efforts to strengthen the approach to social and environmental dimensions as a strategic issue<sup>66</sup>.

BNDES has articulated the following instruments and tools for staff implementing the guidelines, as excerpted here:

- Products, lines, programs and reimbursable and non-reimbursable funds for financial support for initiatives and investments in the Environment and Social and Regional Development;
- Sector resolutions, specific policies and other regulations;
- Internal social and environmental guides, assessment methodologies of beneficiaries,

assessment of credit risk and monitoring and impact assessment of projects supported;

- Internal procedures for risk assessment and for social and environmental analysis of beneficiaries and undertakings seeking financial support.
- Agreements and protocols to which the BNDES is a signatory member, sharing information and experiences through the dialogue channels and the dissemination of social-environmental efforts of the Bank also contribute to implementing the Social-environmental Policy<sup>67</sup>.

### SUSTAINABLE PURCHASING POLICY, 2011

This policy aims to strengthen sustainable practices in the supply chain. It is meant to operationalize and the Socio-Environmental Responsibility Protocol of Intentions (Green Protocol) and in its Corporate Social and Environmental Responsibility Policy (CSR) guidelines. This policy commits BNDES to consider and include social and environmental sustainability criteria in contracts carried out by the public sector<sup>68</sup>.

### SECTORAL POLICIES

BNDES has established mandatory rules in certain sectors. Under the Socio-environmental Policy, BNDES created the Sectoral Resolutions, which outline lending procedures for the beef cattle industry, sugar and ethanol sector, and power generation from coal, diesel, oil, and natural gas thermoelectric generation. Risk and impact identification and mapping methods are used to manage environmental and social hazards.

It has created Socio-environmental Manuals for cattle raising, soybean, water and sanitation, and sugar-ethanol industries to provide technical support to operational staff on sector-specific social and environmental analysis<sup>69</sup>.

For power generation, projects must meet certain efficiency and performance standards. BNDES has published a table of the maximum limits for atmospheric pollutants, which is adapted here<sup>70</sup>:

FIGURE 3

### Maximum emission standards for the thermal power plants run on coal, diesel or fuel oil

Maximum limits of emission for atmospheric pollutants  
(values in mg/Nm<sup>3</sup>)

Thermoelectric generation process	Power	MP*	NO <sub>x</sub> (as NO <sub>2</sub> )	SO <sub>x</sub> (as SO <sub>2</sub> )
Thermoelectric generation internal combustion process fuel oil	Less than 100 MW	50	2,000	1,170
	More than or equal to 100 MW	50	740	585
Internal combustion diesel oil	Less than 100 MW	50	1,850	1,170
	More than or equal to 100 MW	50	740	585
Combustion of mineral coal	All	50	400	400
Combustion of natural gas (simple cycle or combined)	More than 100 MW	NA	50	NA

\*Particulate material.

For the process of thermo-electrical generation from coal combustion the results should be expressed in the unit of concentration mg/nm<sup>3</sup> on a dry basis and 6% excess oxygen. For the processes of thermo-electrical generation from the internal combustion diesel or fuel oil and natural gas combustion, the results should be expressed in the unit of concentration mg/nm<sup>3</sup>, on a dry basis and 15% excess oxygen.

Other factors BNDES will consider in power generation loans include:

- appropriate and definitive solutions to dispose of ash resulting from burning coal and desulphuriser waste;
- specific studies on how thermoelectric plants use water so as to assess possible restrictions on the appropriate supply to the population;
- a plan to offset greenhouse gas emissions (GEE) based on relevant legislation<sup>71</sup>

**OTHER PROGRAMS, FUNDS AND SPECIAL CREDIT LINES**

BNDES has established several different programs, funds, or special credit lines designed to support environmental

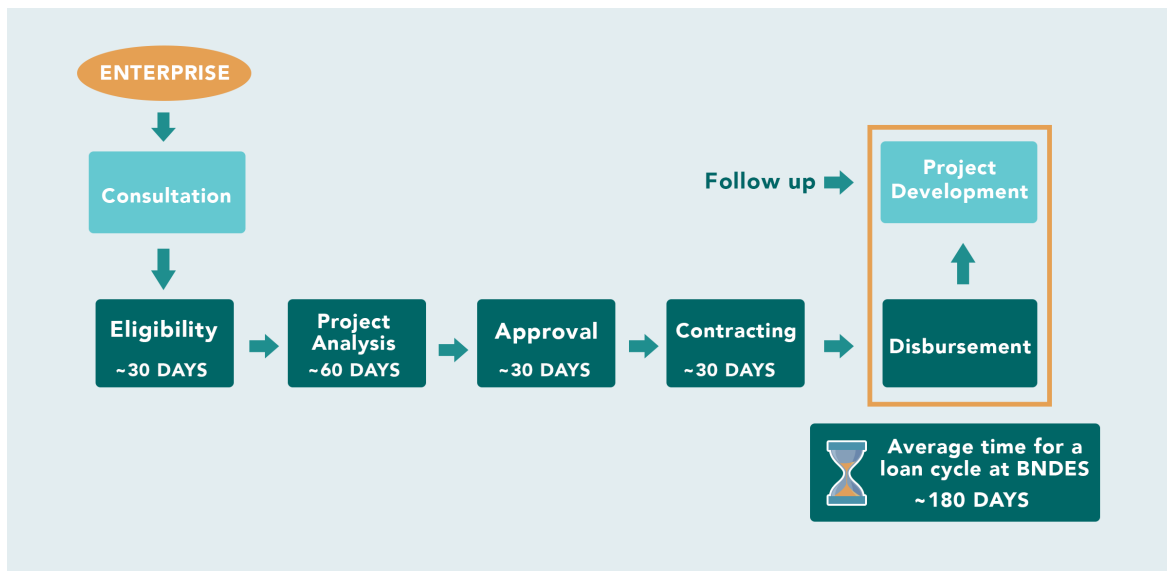
and social projects, such as reforestation and clean development. However, insufficient information is available to comment on how credit or funds are awarded or whether there are specific environmental and social financing standards which apply<sup>72</sup>.

**BNDES Environmental Guidelines in a Loan Cycle**

BNDES’s describes a five stage process for direct loan applications: consultation, eligibility, analysis and approval, awarding, and disbursement, and follow up. Environmental and social factors are considered during the second stage of eligibility<sup>73</sup>. Information for this section is drawn from a variety of sources, including BNDES 2014 Annual Report and research publications.

**FIGURE 4**

**The Loan Cycle at BNDES**



*BNDES has created a five stage loan process. Environmental and social issues are initially reviewed during the Project Analysis phase.*

TABLE 1

Loan Stage	Guidelines
<p><b>Consultation and Preliminary Assessment</b> ~30 days</p>	<p>A company submits a preliminary proposal to BNDES, which should meet the following minimum requirements:</p> <ol style="list-style-type: none"> <li>1. fiscal, tax and social obligations must be up-to-date;</li> <li>2. satisfactory registration must be presented;</li> <li>3. capacity to make payment;</li> <li>4. enough guarantees to cover the risk of the operation;</li> <li>5. client cannot be undergoing credit recovery;</li> <li>6. comply with legislation related to imports, in case of financing for imports of machinery and equipment; and</li> <li>7. comply with environmental legislation<sup>i</sup></li> </ol> <p>If these requirements are met, the Department of Priorities (DEPRI) of the Planning Division, receives the request for support and verifies its compatibility with the priorities established in the BNDES' Operating Policies<sup>ii</sup>.</p> <p>According to BNDES, following a consultation, a project will then undergo a process of classification: "In this phase, a pre-assessment of the company's capacity is carried out for the execution of the project and the quantity of the applicant's own resources is taken into consideration. This includes the competence of its management, its insertion in the market, compliance with environmental standards, the credit risk classification of the company or the economic group, among other aspects. At this stage, the Planning, Credit and Operational Divisions take an active role"<sup>iii</sup>. The Credit Committee at this point will determine credit risk and establish credit limits<sup>iv</sup>, and establish the risk category of the project as high risk (Category A), medium risk (category B) and low or no risk (category C)<sup>v</sup>.</p> <p>The Preliminary Assessment will consider the following:</p> <ol style="list-style-type: none"> <li>1. Evaluation of main <i>social and environmental aspects</i> of both the venture or project and the applicant through background research and information provided by the project's owners</li> <li>2. Clearance from any labor and/or environment-related crimes or judicial records</li> </ol>

i "Who We Support", BNDES. [http://www.bndes.gov.br/SiteBNDES/bndes/bndes\\_en/Institucional/Financiam\\_Support/clients.html](http://www.bndes.gov.br/SiteBNDES/bndes/bndes_en/Institucional/Financiam_Support/clients.html)

ii Project analysis and selection process", BNDES. [http://www.bndes.gov.br/SiteBNDES/bndes/bndes\\_en/Institucional/Corporate\\_Governance/Project\\_Selection\\_Process/index.html](http://www.bndes.gov.br/SiteBNDES/bndes/bndes_en/Institucional/Corporate_Governance/Project_Selection_Process/index.html)

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iv Seth Colby, "Explaining the BNDES: what it is, what it does and how it works", CEBRI, Vol. 3 - Ano VII: 2012. <http://www.cebri.org/midia/documentos/bndes.pdf>

v "Emerging Actors in Development Finance: A Closer Look at Brazil's Growth, Influence and the Role of BNDES", World Resources Institute, December 2012. <http://www.wri.org/resources/presentations/emerging-actors-development-finance-closer-look-brazils-growth-influence-and>

**TABLE 1**

Loan Stage	Guidelines (con't)
<b>Consultation and Preliminary Assessment</b> ~30 days	<ol style="list-style-type: none"> <li>3. Classification of the operation, which will define the specific procedures for the next phases, according to categories based on multiple factors such as sector and type of activity, location, magnitude and characteristics of the social-environmental impact inherent to the venture</li> <li>4. Recommendations needed for the project, that are not conditional nor binding<sup>vi</sup></li> </ol> <p>At the end of this stage, a loan application may be declined or approved. If approved, it will proceed to the Project Analysis State<sup>vii</sup>.</p>
<b>Project Analysis</b> ~60 days	<p>In this stage, the company will be required to submit more detailed information. The Operations Area will work with the client to structure a project, as well as prepare the project report<sup>viii</sup>.</p> <p>The following factors would be considered:</p> <ol style="list-style-type: none"> <li>1. Evaluation of the policies, practices and management of social and environmental aspects of this and other operations;</li> <li>2. Cross-examining the social and environmental impacts and costs against legal permissions and licenses</li> <li>3. Compliance to BNDES standards related to the Social Clause (labor qualification or relocation in case of necessary cutbacks in employment, to inclusion of disabled people, against race or gender discrimination, child labor, slave labor or any acts that might characterize abuse or harassment of any kind)</li> <li>4. Definition of social and environmental indicators and benchmarks as bases for the monitoring and evaluation of the operation and applicant during the process; inclusion of conditions, if needed.</li> <li>5. BNDES does not require the borrower to establish a grievance mechanism, nor does it require clients to publicly disclose the existence or efficacy of a grievance mechanism (if established)</li> </ol>

vi. "A Review of the Environmental and Social Policies of National Development Banks in Brazil, China, and India", Mais Democracia, Greenovation Hub, CUTS International – Edited by Friends of the Earth US, October 2013. [http://www.ghub.org/wp-content/uploads/2014/02/1.1Appendix\\_A-Review-of-the-Environmental-and-Social-Policies-of-National-Development-Banks.pdf](http://www.ghub.org/wp-content/uploads/2014/02/1.1Appendix_A-Review-of-the-Environmental-and-Social-Policies-of-National-Development-Banks.pdf)

vii. Seth Colby, "Explaining the BNDES: what it is, what it does and how it works", CEBRI, Vol. 3 - Ano VII: 2012. <http://www.cebri.org/midia/documentos/bndes.pdf>

viii. Ibid.



TABLE 1

Loan Stage	Guidelines (con't)
<b>Project Analysis</b> ~60 days	<ol style="list-style-type: none"> <li>6. Project Analysis Report is written for appraisal to the Managing Director of the Operational Division, who then submits it to the BNDES' Board of Directors for assessment, carried out in weekly meetings. In addition to the BNDES' Socioenvironmental Guidelines, loans applications are assessed with the Company Assessment Methodology, which assesses a company's "level of commitment to social and environmental responsibility and associated practices"<sup>ix</sup></li> <li>7. A contract is written after all documents are received and relevant compliance is verified<sup>x</sup></li> </ol>
<b>Loan Approval and Authorization</b> ~30 days	<ol style="list-style-type: none"> <li>1. During this stage, technical analysis is submitted to the BNDES Board of Directors to approve financing. Without final bank approval, BNDES credit is not released</li> <li>2. Approved requests must also be in line with the "Social Clause" of the loan contract, which requires loan recipients do not engage in child or slave labor, as well as discrimination based on race or gender. Proof of these illegal activities may result in a loan activity to be suspended or terminated<sup>xi</sup>. The client must also meet compliance with all environmental, social, tax and labor laws, as well as meet relevant Installation License Requirement<sup>xii</sup>.</li> <li>3. The Team Manager, Department Chief, Director Responsible for the Area, and Board of Directors must approve and authorize the loan application</li> <li>4. An assessment will be conducted on the project's main environmental and social impacts, the applicability of BNDES' sectoral guideline</li> <li>5. Loan conditions and project structure will be formulated.</li> </ol>

ix. "Annual Report 2014", BNDES. [http://www.bndes.gov.br/SiteBNDES/export/sites/default/bndes\\_pt/Galerias/Arquivos/empresa/RelAnual/ra2014/RA\\_2014\\_ing.pdf](http://www.bndes.gov.br/SiteBNDES/export/sites/default/bndes_pt/Galerias/Arquivos/empresa/RelAnual/ra2014/RA_2014_ing.pdf)

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xi. "Annual Report 2014", BNDES. [http://www.bndes.gov.br/SiteBNDES/export/sites/default/bndes\\_pt/Galerias/Arquivos/empresa/RelAnual/ra2014/RA\\_2014\\_ing.pdf](http://www.bndes.gov.br/SiteBNDES/export/sites/default/bndes_pt/Galerias/Arquivos/empresa/RelAnual/ra2014/RA_2014_ing.pdf)

xii. "Emerging Actors in Development Finance: A Closer Look at Brazil's Growth, Influence and the Role of BNDES", World Resources Institute, December 2012. <http://www.wri.org/resources/presentations/emerging-actors-development-finance-closer-look-brazils-growth-influence-and>

**TABLE 1**

Loan Stage	Guidelines (con't)
	<p>6. Final Loan Decision:                      If the loan application is not approved during this stage by the relevant teams, the project will be declined and possibly the client will be requested to alter or resubmit the project.                      If the loan application is approved, a letter of Approval with Terms and Conditions will be sent to the client<sup>xiii</sup></p>
<p><b>Execution and Post-loan Monitoring</b></p>	<ol style="list-style-type: none"> <li>1. The Operational Area will prepare the contract, disburse credit, and manage the project until it is repaid<sup>xiv</sup>.</li> <li>2. The client must be in compliance with fiscal, social security and environmental and any other legal conditions or rules.</li> <li>3. The client must present the Operation License of the venture (issued by the environmental agency) six months after the last loan disbursement.</li> <li>4. Loan compliance is monitored by BNDES staff based on project site visits and relevant documents. Monitoring Reports are also produced by BNDES<sup>xv</sup>. BNDES disburses funds in light of client's adherence to relevant loan conditions and legal or environmental regulations.</li> </ol>

xiii. Seth Colby, "Explaining the BNDES: what it is, what it does and how it works", CEBRI, Vol. 3 - Ano VII: 2012. <http://www.cebri.org/midia/documentos/bndes.pdf>

xiv. Ibid.

xv. "A Review of the Environmental and Social Policies of National Development Banks in Brazil, China, and India", Mais Democracia, Greenovation Hub, CUTS International – Edited by Friends of the Earth US, October 2013. [http://www.ghub.org/wp-content/uploads/2014/02/1.1Appendix\\_A-Review-of-the-Environmental-and-Social-Policies-of-National-Development-Banks.pdf](http://www.ghub.org/wp-content/uploads/2014/02/1.1Appendix_A-Review-of-the-Environmental-and-Social-Policies-of-National-Development-Banks.pdf)

## Risk Management

BNDES assesses environmental risk into three categories. Category A is designated for projects with significant impacts. Category A projects require impact studies, preventive measures and mitigating efforts. Category B projects are those with less environmental impacts; these projects require specific assessment and measures to manage environmental risks. Lastly, Category C projects are those which do not ostensibly pose environmental risks<sup>74</sup>. For example, Category A includes high risk sectors like the hydropower and thermoelectric industries. Category B includes infrastructure improvements, and Category C are sectors with no risks.

Departments involved in BNDES' risk management structure, including operational, financial, and market risks, are the Advisory Board, Board of Directors, Risk Management Committee, Market Risk Management, Subcommittees, Credit Risk, Operational Risk, and Internal Controls, and other units dedicated to risk management<sup>75</sup>.

## Departments Involved in Environmental and Social Risk Evaluations

The operational departments are responsible for environmental and social analysis. These departments work in coordination with other bank departments in assessing, approval, and submitting environmental recommendations<sup>76</sup>.

*Environmental Area:* This internal unit provides technical expertise on environmental aspects to operational departments, when necessary.

*Internal Committees:* These committees are responsible for approving reports prepared by the operational department.

*Priorities Department (DEPRI) in the Planning Division:* This unit undertakes “pre-analysis of social and environmental aspects, environmental risk rating, and submitting socio-environmental recommendations for the operational staff when appropriate”. DEPRI is the department which receives the first request for financing.

*Eligibility and Credit Committee (CEC):* After DEPRI reviews the request, the results are sent to the eligibility and credit committee, which comprises of BNDES deputy

managing directors. This committee meets weekly to “consider the applications received and to decide whether the financial support must be rejected by the BNDES or must be forwarded to the next phase in the operational flow (analysis stage)”. If a positive decision is reached, the “application is forwarded to the department which is responsible for the analysis of the particular economic sector”, which is then evaluated by a multidisciplinary team; the team performs a comprehensive analysis of the economic, social, and environmental dimensions of the projects. Once this is completed, the report is passed on to the BNDES Board of Directors, which meets weekly.

*Social and Environmental Sustainability Committee:* This committee is responsible for monitoring the implementation of BNDES' CSR Policy.

*Risk Management Committee:* Lastly, this unit is tasked with promoting internal control at BNDES, and for ensuring compliance with formally established policies and procedures.

## IV. Ensuring Borrower Compliance

In cases of non-compliance, BNDES reports that they may take the following measures:

- On-site visits
- Suspension of funds
- Advanced termination of funds
- Disbursement based on correct use of previous tranche of financing: BNDES has described their disbursement process as: "...the way the BNDES' disbursements are released is another

effort to encourage responsibility: a tranche of financing is only released when the project's executor proves the correct use of the tranche released immediately before. This is how the Bank, throughout the project, can suspend the release of resources until any possible irregularities are completely remedied"<sup>77</sup>.

## V. Accountability Mechanisms

BNDES has developed some formal mechanisms to foster compliance with BNDES social and environmental policies and procedures.

### BNDES Resolutions, 1987

Published in 1987, Resolutions 665 and 660 allow BNDES to levy fines of varying percentages, depending on the extent of loss and/or damage, on clients that fail to comply with their non-financial obligations, including environmental commitments<sup>78</sup>. These resolutions cover contractual rules, loan monitoring and follow-up, but do not lay out specific procedures for addressing non-compliance with social and environmental conditions. A borrower's level of accountability to complying with environmental and social obligations is not disclosed to the public.

### Ombudsman

The Ombudsman was created in 2003 and is tasked to manage "opinions, complaints and reports of misconduct, aimed at guaranteeing the principles of ethics, efficiency and transparency in the relationships between the Government and citizens"<sup>79</sup>. Ombudsman staff coordinates with BNDES senior management to suggest improvements and identify concerns based on complaints received. It bears the mandate to act independently, impartially, and confidentially. According to a BNDES survey, the Ombudsman office

addressed 2,308 queries in 2013, which represented an increase of 17% from the previous year<sup>80</sup>. In contrast, however, civil society groups have reported that attempts to communicate with the Ombudsman have been unsuccessful, and have long advocated for a functional accountability mechanism. Currently, NGOs such as Conectas Direitos Humanos have reported that non-commercial complaints to the Ombudsman service are typically unacknowledged and unresolved<sup>81</sup>. As a result, it is unclear if the figure of 2,308 queries refers to those originating from clients, or those from the general public.<sup>82</sup>

## VI. Conclusion

BNDES benefits from a strong civil society sector and legal framework which has enhanced its ability to promote sustainable development. As BNDES adapts to the increasingly urgent demand for sustainable development, its efforts to manage social impacts and experimentation in accountability mechanisms will provide valuable lessons for its banking peers both in and outside of Brazil. However, BNDES still faces challenges in ensuring that these policies translate into positive impacts on the ground. In order to do so, BNDES should improve accountability mechanisms to encourage and ensure proper borrower compliance with environmental and social policies.

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# Appendix I

## Environmental and Social Policy Bank Survey

**NAME:**

**TITLE:**

**FINANCIAL INSTITUTION:** BNDES

We selected the following indicators to reflect how and to what extent a banking institution has established and operationalized environmental and social principles into their lending process. These include:

- \* Overarching Environmental and Social Policy
- \* Required Reporting and Disclosure of Environmental and Social Risks
- \* Community Consultation Process
- \* Transparency Initiatives
- \* Compliance and Accountability Mechanisms

### Overarching Environmental and Social Policy

1. Has the bank developed an overarching environmental and social risk management policy?

Yes, the bank has established a single overarching E&S policy.

- If yes, please attach the text of the policy to this survey, or include it in the box below.

No, the bank does not have a single overarching E&S policy.

The bank has some other E&S policies. If so, please explain below:

<sup>1</sup> Name and title information will not be published in the report

2. Has the bank developed sectoral policies?

Yes.

▪ If so, the bank has created sector policies on:

No, the bank does not have any sector policies.

3. Does the bank have a specific unit for overseeing and ensuring environmental and social risks?

Yes, the bank has a specific E&S unit to manage those risks.

▪ The name of this unit is: \_\_\_\_\_

No, the bank does not have a specific unit to manage those risks.

4. Does the bank have dedicated staff to review and assess environmental and social risks?

Yes.

▪ If so, how many staff? \_\_\_\_\_

No.

▪ If so, is the bank planning on hiring E&S staff? \_\_\_\_\_

## Required Reporting and Disclosure of Environmental and Social Risks

5. Does the bank require the borrower to include all relevant impacts, including land use, social, cultural, economic, health, and safety effects, either in the EIA or other feasibility study?

Yes, the bank requires the borrower to include all relevant impacts in the EIA or other mandatory feasibility study.

No, the bank does not require the EIA or other feasibility study to include all relevant impacts.

▪ If not, which impacts are required to be assessed?

6. Are cumulative effects and changes on the nearby area, local ecosystem, and global level taken into account?

Yes, the bank takes all cumulative impacts into account in either the EIA or other feasibility study.

▪ If so, these impacts are included in which reports?

No, the bank does not take cumulative impacts into account in either the EIA or other feasibility study.

▪ If no, which impacts are taken into consideration?

7. Are alternatives to the project, including the design, location, demand, and proposal of activity, included in either the EIA or other feasibility studies?

Yes, alternatives are included in the EIA/feasibility study.

No, alternatives are not included in the EIA/feasibility study.

8. Are mitigation measures for each main impact identified?

Yes, borrowers are required to include proposals for mitigation measures.

No, borrowers are not required to include proposals for mitigation measures.

9. Are sustainability measures considered, such as the effect of depleted non-renewable resources, exceeding the regenerative and assimilative capacity of renewable resources and reduction of biological diversity, and the consideration of relevant international agreements?

Yes, the bank requires that sustainability measures are required.

▪ If yes, which ones are considered?

No, the bank does not require that sustainability measures are considered.

10. Does the bank require the borrower to disclose the EIA within 30 days of its submission to the lender and government agencies?
- Yes, the bank requires EIA disclosure within 30 days of submission.
  - No, the bank does not require EIA disclosure within 30 days of submission.
11. Does the bank require additional environmental assessment work, such as public consultations, if inadequacies are found in the EIA?
- Yes, the bank does require the borrower to conduct additional environmental and social assessment work if inadequacies are found in the EIA.
  - No, the bank does not require the borrower to conduct additional environmental and social assessment work if inadequacies are found in the EIA.
12. Is the bank subject to national regulations or laws which require the disclosure of the EIA to the public?
- Yes, the bank is subject to national regulations and laws requiring the disclosure of the EIA to the public.
    - These laws and regulations include:
  - No, the bank is not subject to national regulations and laws requiring the disclosure of the EIA to the public.

## Community Consultation Process

The government, borrower, or third party expert should hold public consultations and incorporate the concerns of affected communities into the environmental impact assessment (EIA). A key principle of consultations should be free, prior, informed consent (FPIC), a framework “meant to allow for indigenous peoples to reach consensus and make decisions according to their customary systems of decision-making”.

13. Does the bank require the borrower to incorporate FPIC into all key decision making points of a project, from the project concept, feasibility, construction, operations, and decommissioning stages?
- Yes, the bank requires the borrower to incorporate FPIC into all key decision making points of a project.
  - No, the bank does not require the borrower to incorporate FPIC into all key decision making points of a project.

14. Does the bank require the borrower to ensure that communities are provided with adequate information of the scope, benefits and impacts of the project?
- Yes, the bank requires borrowers to ensure communities are provided with all adequate information.
  - No, the bank does not require borrowers to ensure communities are provided with all adequate information.
15. Does the bank require the borrower to include the design of a grievance mechanism in feasibility studies, in consultation of the affected communities?
- Yes, the bank requires the borrower to include the design of a grievance mechanism.
  - No, the bank does not require the borrower to include the design of a grievance mechanism.
16. Does the bank require borrowers to notify communities of any construction activities or changes in advance?
- Yes, the bank requires borrowers to notify communities in advance.
    - If yes, how long in advance?
  - No, the bank does not require borrowers to notify communities in advance.
17. Does the bank publicly disclose lending decisions at least 120 days in advance?
- Yes, the bank publicly disclose lending decisions at least 120 days in advance.
  - No, the bank does not publicly disclose lending decisions at least 120 days in advance.
    - If no, does the bank publicly disclose lending decisions within another timeframe?

## Environmental and Social Compliance Incorporated into Loan Covenants

18. Can the bank block a loan application based on environmental reasons alone?
- Yes, the bank can block a loan application based on environmental reasons alone.
  - No, the bank cannot block a loan application based on environmental reasons alone.

19. Does the bank link environmental and social compliance into loan covenants?

- Yes, the bank link environmental and social compliance into loan covenants.
- No, the bank does not link environmental and social compliance into loan covenants.

20. Are there financial penalties or consequences for borrowers who fail to comply with environmental and social requirements, as stipulated in loan covenants?

- Yes.
  - What measures can a bank take for clients who do not comply with E&S obligations?

- No, there are no financial penalties or consequences for borrowers.

21. Does the bank require clients to obtain third party assurance on E&S performance?

- Yes, the bank requires third party verification.
- No, the bank does not require third party verification.

## Transparency Initiatives

22. Does the bank have an institutional transparency policy?

- Yes, the bank has an institutional transparency policy.
  - What is the bank's transparency policy? Please include below or attach to this survey.

- No, the bank does not have an institutional transparency policy.

23. Does the bank provide public information on all financial transactions, including projects which were approved, declined, and approved with exceptions?

- Yes, the bank provides publicly accessible information on all financial transactions.
  - If so, please specify where this information can be found.

- No, the bank does not provide publicly accessible information on all financial transactions.

24. Does the bank disclose information on a client's E&S compliance and what actions the client must do to fulfill or complete it?

- Yes, the bank discloses a client's compliance and necessary actions.
  - If so, where can this information be found?

- No, the bank does not disclose a client's compliance and necessary actions.

25. Does the bank require the disclosure of environmental and social loan clauses in loan covenants publicly available?

- Yes, the bank requires the public disclosure of E&S loan clauses.
- No, the bank does not require the public disclosure of E&S loan clauses.

## Compliance and Accountability Mechanisms

We define accountability mechanisms as an office or team within an institution that is responsible for resolving disputes or ensuring compliance; these mechanisms “may resolve the dispute formally or informally, and ... use a variety of tools to resolve the dispute, including investigations or formal legal proceedings”<sup>2</sup>.

<sup>2</sup> <http://www.accountabilitycounsel.org/wp-content/uploads/2012/04/ARG-7.1.pdf>

26. Has the bank established any accountability mechanisms?

Yes, the bank has established its own accountability mechanism.

▪ What are the accountability mechanisms?

No, the bank has not established any accountability mechanisms.

27. Does the bank have a process for receiving complaints about their clients?

Yes, the bank has a process for receiving complaints about their clients.

▪ What is this process?

No, the bank does not have a process for receiving complaints about their clients.

28. Does the bank require its client to establish a grievance mechanism on the project level if necessary?

Yes, the bank requires its client to establish a grievance mechanism on the project level if necessary.

No, the bank does not require the establishment of a grievance mechanism.

29. Does the bank require clients to publicly disclose the existence and efficacy of such grievance mechanisms?

Yes, the bank requires clients to publicly disclose the existence and efficacy of grievances mechanism.

No, the bank does not require clients to publicly disclose the existence or efficacy of grievance mechanism.

30. Does the bank require a final review from the borrower to assess the overall impact on society and the environment?

Yes, the bank requires a final review from the borrower to assess the overall impact on society and environment.

No, the bank does not require a final review from the borrower to assess the overall impact on society and environment.



31. Does the bank require the submission of yearly monitoring reports, including examining compliance with loan covenants, to be done by a third party?

Yes, the bank requires the submission of post loan monitoring reports.

▪ Are these required to be conducted by a third party?

No, the bank does not require the submission of post loan monitoring reports.

32. Are there any other comments or feedback you would like to provide regarding your institution's environmental and social policy framework? Please provide it below.

***THANK YOU!***







**Friends of  
the Earth  
United States**

**Friends of the Earth US**

1101 15th Street NW

11th Floor

Washington DC 20005

Phone: 202-783-7400

Fax: 202-783-0444