ANNEX XVII – ENVIRONMENTAL AND SOCIAL MANAGEMENT REPORT (ESMR) AND THE SAFEGUARDS POLICY FILTER (SPF)

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

Brazil

Sucden: Sugar Financing Facility
(BR-X1038)

and

Sucden: Sugar Corporate Finance Loan
(BR-L1418)

ENVIRONMENTAL AND SOCIAL MANAGEMENT REPORT (ESMR)

September 2015

Project Team: Team Leader; Sergio Rivera-Zeballos (SCF/CFI); Rolando Perez (SCF/CFI); Ana Lozano (SCF/CFI); You-ra Kang (SCF/CFI); Tracy García (SCF/PMU); Tatiana Soares (SCF/PMU),Martin Stalman (LEG/NSG); Hilary Hoagland-Grey (VPS/ESG); Korin Hirato (SCF/SYN); Adriana Ferreira Barboza(SCF/CFI) Project Assistant;; under the supervision of: Alexandre F. de Oliveira, Division Chief (SCF/CFI).

TABLE OF CONTENTS

List of Key Acronyms and abbreviations

EHS	Environmental Health and Safety
EIA	Environmental Impact Assessment
ESAP	Environmental and Social Action Plan
ESCR	Environmental and Social Compliance Report
ESDD	Environmental and Social Due Diligence
ESHSL	environmental, social health and safety and labor
ESMR	Environmental and Social Management Report
ICIM	Independent Consultation and Investigation Mechanism
IFC	International Finance Corporation
IIC	Inter-American Investment Corporation
IUCN	International Union for Conservation of Nature
PM	Particulate Material
PMA	Plan de Medio Ambiente
USEPA	United States Environmental Protection Agency

SUCDEN - CORPORATE LOAN AND FINANCING FACILITY
ENVIRONMENTAL AND SOCIAL MANAGEMENT REPORT

I. BASIC FACTS

Date:	August 2015
Country:	Brazil
Sector:	Agro-Industry
Project name:	Sucden - Corporate Loan and Financing Facility
Source of the Project:	SCF/CFI
Project Team:	Team Leader; Sergio Rivera-Zeballos (SCF/CFI); Rolando Perez (SCF/CFI); Ana Lozano (SCF/CFI); You-ra Kang (SCF/CFI); Tracy García (SCF/PMU); Tatiana Soares (SCF/PMU),Martin Stalman (LEG/NSG); Hilary Hoagland-Grey (VPS/ESG); Korin Hirato (SCF/SYN); Adriana Ferreira Barboza(SCF/CFI) Project Assistant;
Supervisor:	Alexandre Fernandes de Oliveira (Chief, SCF/CFI)
Borrower:	Sucres et Denrées S.A. (Sucden)
Sub-Borrowers:	Sugar and ethanol mills
Proposed Corpoate A-Loan:	Up to US$50 million
Propose Facility	Up to US$100 millioin in aggregate financing commitments at any time
EIC:	B.13

II. PROJECT DESCRIPTION AND ENVIRONMENTAL AND SOCIAL CONTEXT

A. The Project

2.1 The objective of the project is to improve the competitiveness of the sugarcane processing industry in Brazil and to encourage sugarcane processors (mills) to focus more actively in social and environmental issues. It is proposed that the IDB will provide financing to the sugar trading company Sucres et Denress (Sucden or the Borrower) to support investments in sugar and ethanol mills in Brazil's the South-Central and Northeast sugarcane growing regions (the "Project"). The IDB envisions a total financing package of up to US$150 million, comprised of a full-recourse revolving Corporate Loan for up to US$50 million and a revolving Facility for up to US$100 million in aggregate financing commitments at any time. Sucden, on a limited recourse basis, will on-lend the IDB proceeds to eligible sugarcane processors in its supply chain in Brazil (the "Sub-Borrowers") to finance sugarcane fields and/or improvements in industrial facilities (the "Sub-Loans"). The funds under the Facility and Corporate Loan will be used to support investments in one or several of the following areas:(i) maintenance, renovation, or expansion of sugarcane fields; (ii) installation of water and ferti-irrigation systems in sugarcane plantations; (iii) mechanization of sugarcane harvesting; (iv) maintenance of existing equipment and technological improvements in industrial processes; (v) modernization of steam boilers and equipment for electricity production from residual sugarcane biomass; (vi) expansion of storage and warehousing infrastructure to attenuate sugar production seasonality; and (vii) refinancing of short-term debt. It is expected that the Sub-Loans will be between US$10 million and US$35 million with a maturity of up to seven years.

2.2 Sucden is a well-established commodity trader, handing approximately 14% of the world's sugar volumes traded internationally. Its activities include sourcing, transportation, storage, price hedging, and delivery of soft-commodities (mainly sugar, but also cacao, coffee and ethanol) directly to major industrial customers worldwide. Sucden operates globally through its network of offices and subsidiaries, with main offices located in the United States, Russia, Switzerland, and Brazil. Sucden do Brasil S.A., Sucden's subsidiary in Brazil, handles some 20% of the country's total sugar exports.

2.3 The IDB's partnership with Sucden, which will act as borrower, will facilitate the roll-out of the Project as the company brings industry expertise IDB can leverage as well as a long-standing presence in the market.

B. Project Components and Facilities

2.4 The specific mills to be included in the financing have not yet been identified, but Sub-Borrowers will be mills with which Sucden has a business relationship. These include existing mills that are currently involved in sugar and ethanol production, including the growing of sugarcane, the processing of sugarcane into final products and in some cases, also that co-generate electricity (by burning bagasse, a fibrous sugarcane waste) for their own use and/or sale to the national electricity grid.

2.5 The focus will be on mills in Sucden's sugar supply network within Brazil's South-Central and Northeast sugar producing regions which are the two major areas for sugar production in Brazil. Further details on the typical characteristics of these areas are discussed in Section IV. As no specific mills have yet been identified for the Project investments, the Project Environmental and Social Due Diligence (ESDD) included a review of two mills selected to act as "sample projects." These were two mills in the State of São Paulo that are business partners of Sucden: São Martinho and Diana. In addition, the ESDD included the input from an environmental and social consultant with extensive experience and expertise across the entire Brazilian sugar industry to compliment the information of the two sample mills, especially on issues specific to the northeast region.

2.6 This review was designed to provide the overall context for the Project and highlight the key environmental and social aspects that might be raised during the life of the Project. This information was then used to develop an approach for Sucden to apply during the selection of the Sub-Borrowers and during the life of the Sub-Loans to ensure consistency with IDB environmental and social requirements (see Section V). This approach is consistent with IDB's approach to projects involving financial intermediaries and builds on it to include the specific aspects of the sector and of the areas of Brazil involved in sugar and ethanol production.

C. Environmental and Social Setting

2.7 It is anticipated that the investments will be to Sub-Borrowers in Brazil's South-Central and Northeast sugar producing regions (see Figure 1). The mills that will be included in the financing will be existing mills located on lands that have already been converted, and have been converted for many years if not in some cases decades. Although it is not possible to know the specific environmental and social characteristics of each mill, there are some common characteristics that can provide context. The Project will be required to consider the specific situation of each mill as it is reviewed for financing as part of the ESMS.

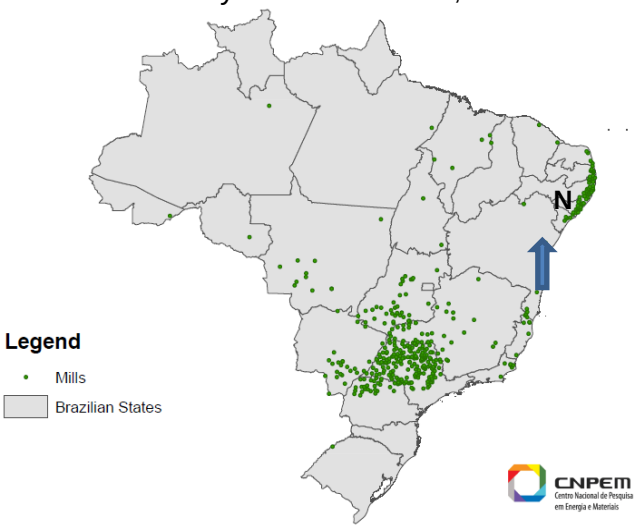


Figure 1

2.8 For overall context, it is important to note that the sugar industry contributes some 2% of the entire Brazilian economy. The sugarcane farms in the South-Central Region make up almost 90% of the production with most of the remainder in the Northeast Region.[1] The industry has been a key factor in the Brazilian economic history and in the social and economic development of both regions. Although there is some sugarcane growing in the

[1] (www.sugarcane.org).

Amazon region, Sucden does not plan to source product from this region and the exclusion of these sources will be incorporated into the ESMS procedures used by Sucden to select sub-projects (See V).

2.9 Sugarcane is produced in all Brazilian regions, but 90% is produced in South-Central Region The South-Central Region includes three sub-regions – West Central, South, and Southeast Regions, and includes ten different states as well as the Distrito Federal (Federal District). Production is especially high in the state of São Paulo (50% of total production), followed by Goiás (9%), Mato Grosso do Sul (9%), Paraná (5%), and Mato Grosso (4%).

2.10 The South-Central Region covers a large diverse area, but the areas where the mills are located are dominated by specific conditions that are optimal for growing sugarcane – semi-temperate climate, higher rainfall, fertile soil, more advanced technology and input use, adequate infrastructure and more experienced farmers. In terms of native habitats, São Paulo state contains the largest remnant of Atlantic Forest (Mata Atlântica) although much as been cleared for sugarcane and other crops, as well as for development of cities and infrastructure. What remains is strictly protected under Brazilian environmental law and related regulations.

2.11 The Northeast Region contains nine states. In the Northeast, since colonial times mills have been concentrated in the Zona da Mata Region, which is a narrow forested coastal plain located between the Atlantic coast and the Brazilian Highlands. This area is generally flat, with a tropical climate, and good soils for growing sugarcane. This area has been subjected recently to severe drought, which has effected sugar production in the Northeast Region, some severely. The Atlantic Forest vegetation of the area has also been severely cleared for the production of sugarcane and other crops. Although less productive for growing cane, some mills may be located where there is Caatinga, a type of desert vegetation found in the areas west and north of the Zona de Mata.

2.12 There are also a few sugarcane mills operating in the Amazon Region but these will be excluded from the Project as discussed in Section V.

2.13 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.

2.14 The South-Central area started its economic and social development process around the XVI century as a supplier of goods and services to the wealthy sugar farms in the Northeast. In the XVII century, this 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 agricultural production profits of, shaping the area's economic and social development. The immigrants also brought an innovative manufacturing industry, which improved manufactured products and forced the Federal Government to improve the communication, transport and energy supply systems. Currently, the southeastern area contributes 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.

2.15 The economic, social and environmental challenges of all of the different states are different and even between the South-Central and Northeast areas, given the impacts of the historical legacy of sugar production in both regions. For instance, health and safety conditions differ across states 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 conditions in sugar cane farms. The present Project's environmental and social approach takes into these regional differences and may provide an opportunity to contribute to more aligned practices.

III. ENVIRONMENTAL AND SOCIAL COMPLIANCE STATUS

A. Environmental and Social Assessment and Permitting Process

3.1 Each of the individual Sub-Borrowers, including their industrial and agricultural activities and the mills will be subject to its own environmental and social assessment and permitting requirements under Brazilian law. As Sub-borrowers, they will be required to comply with these requirements. The process for how Sucden, as the Borrower, ensures compliance will be incorporated into the ESMS required for the Project (see Sections V and VI). There is some variation between states, especially in the level of enforcement, with the South-Central region being more closely regulated and monitored than the Northeast Region. As discussed in Section IV, lack of compliance can be found with certain requirements, including permitting, is not consistent across the industry and particular requirements like land protection and labor.

3.2 The ESDD found that it is not uncommon for mills to have issues with permitting or other local requirements for which corrective actions are required by the local authorities. These are not usually for significant issues, but can represent risks from fines or legal action if the mills do not make efforts to comply with requested corrective actions. The ESMS will include provisions to review local compliance to ensure selected projects comply with local corrective requirements.

B. Consistency with IDB Environmental Safeguard Requirements

3.3 Each Sub-Loan will have its own specific characteristics and may or may not trigger specific policies or directives, but based on the review of the sample projects and the industry as a whole the key IDB Safeguard Policies and Directives that are likely to apply to the sub-projects and therefore the overall 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, but the Project Exclusion List will exclude projects involved with indigenous lands. 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 act as an intermediary, and as such is not classified under OP-703 Directive B.13. The Project is considered to be high-risk given a combination of factors including the size of the loans (US$10 million and up to US$55 million), the nature of the potential impacts, especially for the larger mills that have intensive agro-business operations, and the lack of leverage over the impacts by Sucden, especially for third-parties (as discussed in Section IV).

3.4 The specific standards applicable to the Project, and which will be required to be extended to the Sub-Loans/Sub-Borrowers, especially numerical standards for effluents, emissions and other parameters as well as labor and social requirements, will be specified in the ESMS. These standards will include at a minimum those contained within Brazilian Federal laws, which for the sugar industry are generally consistent with international standards. Specific reference in the system will be made to the Environmental, Social, Health and Safety and Labor (ESHSL) requirements of the International Finance Corporation (IFC).

C. Other Requirements

3.5 The ESDD reviewed the applicability of the standards established under the Bonsucro certification scheme.[2] Bonsucro is a global non-profit, multi-stakeholder organization with the objective of fostering the sustainability of the sugarcane sector through a metric-based certification scheme. Its stated aim is to reduce, "the environmental and social impacts of sugarcane production while recognizing the need for economic viability." It does this through setting sustainability standards and certifying sugar cane products including ethanol, sugar and molasses. As of November 2014, 3.7% of global land under sugar cane was Bonsucro certified,[3] with member organizations spread over 20 countries. Bonsucro has 207 members from various countries and sectors across the world. These are predominantly companies and grower associations involved in the sugar cane sector. Bonsucro certification is needed to meet European Union(EU) requirements for ethanol export to the EU. It has two components, one for sugar producers, and one for the sugar supply chain.

3.6 Sucden has committed to initiating the process of certification of its operation under the supply chain component. While this standard is a good system for Sucden use for its own operations, certification under the production side will not be a requirement of the sub-loans. The ESDD review concluded that the costs for certification and its annual renewal were not worth the benefits, but what was more appropriate was for the mills to incorporate the principles of the Bonsucro system into their internal procedures. Many mills have already done this and others are working towards this goal, so incorporating a requirement towards consistency with the system is seen as good management by Sucden and progress towards more sustainable practices by the mills. This should be reviewed periodically in the Sucden ESMS as these systems evolve and new systems develop.

IV. Environmental and Social Impacts and Risks and Management Measures

A. Impacts and Risks

4.1 The key ESHSL impacts and risks related to the Project are related to the activities of the Sub-Borrowers, the mills. The Sub-Loans will be used for a variety of sugar industry activities including agricultural (renovation, maintenance, irrigation, and planting), and the industrial mills (improvements to industrial processes, facilities, and logistics). The specific mills to be financed have not been selected, but will include existing operations with which Sucden already has a relationship. The ESDD evaluated two mills as examples to understand what are the key ESHSL issues being faced by the industry mills and how they are addressing them. This information was combined with generally understood information on the industry and the structure of the IDB financing to identify the key Project ESHSL issues and how Sucden should manage them within a Project Environmental and Social Management System (discussed in Section B.) The key ESHSL impacts and risks identified during the ESDD are discussed below.

4.2 **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. There have been recent complaints of unauthorized sugarcane being grown on indigenous lands in Mato Grosso do Sul and Goiás. The expansion of agribusiness in Goiás and especially Mato Grosso do Sul has placed pressure on indigenous lands, which has generated conflicts and potentially risks land tenure in the region. The ESMS will include a review of land acquisition issues, including land tenure and land rights, but because indigenous issues are difficult to manage, and because there are sufficient alternative viable sub-projects, Sucden has agreed to exclude from the financing those mills where there are issues or conflicts related to indigenous lands and undefined land ownership. This

[2] http://bonsucro.com/

[3] http://bonsucro.com/site/in-numbers/

restriction will be included in the Exclusion List within the ESMS. The ESMS will include a provision to identify compliance of third-parties with this exclusion, but a risk will still exist that third parties may be involved in unidentified practices.

4.3 In addition, it will be important that the exclusion of the certain mills does not then exclude indigenous or afro-Caribbean groups from benefitting from the Project. Therefore the ESMS will also include provisions to identify positive opportunities, and these will include those that will encourage participation of the indigenous communities in the corporate and social responsibility programs of the mills.

4.4 **Third party practices: the activities of suppliers and contractors**. This was seen as one of the key ESHSL issues related to the Project and this was confirmed during the ESDD. The risks involve a range of issues related to the agricultural activities such as worker health and safety, working conditions, and exposure to chemicals; poor control of pesticide use and control of run-off, road safety, and other issues. While Sucden is able to exercise considerable leverage over the activities of the mills themselves, this leverage is not as strong when the mills buy sugar from suppliers with their own farms and workers. Some mills, including both of the sample mills, having been working with their suppliers to improve their practices and align them with those of the mills, but it will take time and resources. This is seen as a risk, but also as an opportunity for Sucden to work with their mills through the ESMS process to improve the performance of the third parties and to reduce the risks.

4.5 **Labor, health and safety, human rights, working conditions and general permitting**, 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), transport of rural workers, accident prevention, and issues like the use of security forces. Fire risk prevention is also an issue that is common, especially in that many mills do not have all the required permits or adequate fire emergency plans. These risks are managed by the mills through their internal management systems and procedures. The level of management varies among mills and the ESMS will include specific questions and guidance on how to identify mills with issues in this area and what, if any, approaches can be taken for improved performance and compliance.

4.6 **Water demand**, especially for irrigation in agricultural activities where water demands can put stress on local supplies. Due to rainfall rates in Brazil, irrigation has traditionally not been used in sugarcanes fields. It has not generally been used in the South Central region of Brazil, being adopted only in the most critical periods in the West Central region and, more frequently, in the Northeast region. Due to the growing demand to improve or maintain productivity during the dry season in the Southeast region, however, irrigation practices in sugarcane fields have being increasing in Brazil. "Salvation irrigation" is utilized to ensure sprouting under dry conditions, and "supplementary irrigation" under other rainfall conditions in the most critical growth periods. There are no regulations in Brazil to define maximum or standard rates of water intake for agriculture. Water use practices, especially those that encourage water conservation will be included in the ESMS. Water issues, as discussed below, may be exacerbated by climate change (See below).

4.7 **Wastewater from processing or from run-off of agricultural chemicals** and its impacts on surface water and groundwater quality. This is known to be a problem within the industry. One of the key contributors is the use of vinasse, a high organic content byproduct from the cane processing, as a fertilizer on the fields. It contains high levels of potassium (close to 2 kg per m^3) and organic matter, but is relatively poor in other nutrients. Since the 1980s, vinasse has been utilized as a fertilizer, since it increases yields and reduces the use of chemical fertilizers. The intensive and frequent use of vinasse could cause long-term surface and groundwater pollution Also contributing are run-off from other fertilizers and pesticides and process water when it is not treated before entering surface water. These issues are generally well regulated, but the ESMS will provide provisions to review these practices at the mills.

4.8 **Air quality** can be an impact, primarily from industrial process emissions; dust from traffic; combustion impacts if there is cogeneration; and smoke from burning of sugarcane crops where mechanized harvesting is not or cannot be used. Compliance with national standards for the industrial processes is generally good, and dust is not usually significant. The key issue is when cane is burned when manual harvests are used. This can cause significant air quality impacts. For this reason the practice is regulated and controlled and in São Paulo State there is a regulated phase-out underway that requires a phase-out plan with the practice banned from 2017. The ESMS will include provisions to ensure compliance is achieved, and encourage voluntary change-over to mechanized harvesting in those areas where there is no phase-out.

4.9 **Non-compliance with Brazilian Forest Code.** Environmental law and regulations including the Forest Code requirements for protected areas and biodiversity is a risk. Land-owners are responsible for meeting the requirements set out in the Brazilian law which include setting aside land that cannot be cultivated and establishing protected areas on the farms. These requirements are new and there has been variability in the level of compliance by the mills. Compliance with this requirement is an important element in reducing the industry's impact on biodiversity. The ESMS will include this issue, which may be one where compliance over agreed timeframes is included in an environmental and social action plan (EASP) and in the sub-loan agreements (see Section V).

4.10 **Habitat Loss**. The mills being considered for financing are existing mills, and the type of financing being considered is for activities that would be contained within the existing footprint of the land. The land for these mills, as discussed previously, has already been converted. However if there were expansion, it is possible that this would result in loss of natural or critical natural habitats including Atlantic Forest. Conversion of this critical natural habitat is forbidden under Brazilian law and would also be prohibited under Directive B.9 of IDB's OP-703. The ESMS will require compliance with these requirements.

4.11 **Child and forced labor**, while greatly reduced in the modern industry, is still a risk within the industry; this risk is higher for sugarcane suppliers independent of the region where they are located. This risk cannot therefore be ruled out for any mill in Brazil. The issue is monitored, and every six months, the Ministry of Labor publishes a list of employers (companies and individuals) that have been identified as employing forced labor under the Brazilian Federal Standards. A mill that is on any list issued by a competent governmental authority that identifies employers as employing forced labor, will be excluded from the IDB financing as part of the ESMS. While this cannot completely remove the risk, if combined with awareness of the issue in the ESMS, it should be minimized.

4.12 **Retrenchment**. The seasonal nature of the sugar industry means that workers may be hired for only certain periods of time and then made redundant during the off-season. Although "collective dismissal" is regulated including provisions for benefits and should be formalized with unions, not all mills are in complete compliance. This aspect should be reviewed as part of the ESMS. Some mills have utilized creative practices to transfer employees from one activity to another during the off-season, such as moving from production to maintenance thereby allowing full-year employment. These kinds of practices should be encouraged as they are not only beneficial for the worker, but reduce training and other costs to the mills. In addition, jobs may be lost as mechanical harvesting replaces manual harvesting, which requires more people and therefore employs more workers. Many companies have incorporated retraining programs in preparation of this and the ESMS should include an evaluation of these activities.

4.13 **Climate Change and Natural Disasters**. Projections disclosed by the Brazilian Panel on Climate Change (BPCC)[4] indicate an increase in mean surface air temperature and a significant decrease in rainfall across much of Central, North, and Northeast Brazil. Future climate scenarios suggest an increase in extreme and prolonged droughts, particularly in the

4 GVces, Diagnóstico preliminar das principais informações sobre projeções climáticas e socioeconômicas, impactos e vulnerabilidades disponíveis em trabalhos e projetos dos atores mapeados. Centro de Estudos em Sustentabilidade (GVces) - Escola de Administração de Empresas da Fundação Getulio Vargas (FGV-EAESP), without date

Amazon, Cerrado, and Caatinga biomes. Droughts, especially in the Northeast Region have already affected the sugar industry, so any increases caused by climate change could be significant. While the increased temperatures are not likely to have a negative effect the production of sugar and may even be a benefit, water scarcity may become an issue. Due to the short duration of the sub-loans this is not likely to present a significant risk to the Project, but it does present an opportunity for encouraging the mills to make strategic plans for long-term resilience to these potential changes.

4.14 Other natural disasters could present risks to the sub-projects depending on their specific conditions. Flooding, for example, can be very dependent on the local conditions. The ESMS will include an assessment of natural disasters and climate change risk in the review process.

4.15 **Cumulative impacts** across any of the above impacts and risks were reviewed in the ESDD, but since the Project mills are existing mills this risk is seen as minor. If, however, one of the investments were to include expansion activities, this might become an issue that would need to be evaluated. This is particularly important in terms of conversion of Atlantic Forest, as discussed above.

4.16 **Community health and safety issues** are mostly related to 1) sugarcane burning (smoke causes breathing issues in addition to being a public nuisance); 2) pesticide use (which can impact water quality); and road safety, especially if cane is being supplied from beyond the land owned by the mills. In addition, whenever there are air craft applications, pesticides can impact the growth of surrounding agricultural fields.

4.17 The ESDD process reviewed other issues that were raised prior to the ESDD that are now not considered significant issues. These include food security which has been demonstrated not to be an issue with the ethanol aspects of Brazil's sugar industry. Habitat and land conversion from new mills or expansions were not seen as significant as anticipated because the mills to be involved in the financing are likely to be well established mills that already have acquired their land. However, the ESMS will have to include provisions for monitoring expansions and will have to evaluate the land acquisition practices of third parties, as discussed above. Waste generation is not seen as a major issue as most solid waste is reused in some form either as fuel in co-generation or fertilizer or other products. The relatively small amounts of hazardous materials, other than pesticides already discussed are typical industrial byproducts and managed as such.

B. Positive Impacts and IDB Additionality

4.18 The Project seeks to improve the competitiveness of the sugarcane processing industry in Brazil by supporting sustainable agricultural and industrial practices in the sector while encouraging producers to focus more actively in social and environmental issues. The types on investments are primarily intended to improve practices and include several with positive environmental and social aspects such as improved irrigation systems; replacing non-mechanical harvesting (with the associated burning) with mechanized harvesting; technological improvements including in the production processes of the mills and modernization of steam boilers and equipment for electricity production from residual sugarcane biomass.

4.19 The ESMS that will be required by the Project will allow Sucden to manage the ESHSL risks of the Sub-Loans under IDB's financing. It will also facilitate better management procedures overall, and Sucden has expressed interest in expanding the system over time to its other corporate activities. At the level of the mills, the requirements of the ESMS will allow Sucden to invest in mills employing good practices, but also to work with mills that may need to improve their performance or compliance, and therefore the Project can work to facilitate improvements. This could have the biggest benefit in the area of third-party suppliers where there has been less of an incentive to push for better performance. The ESMS will also include provisions to

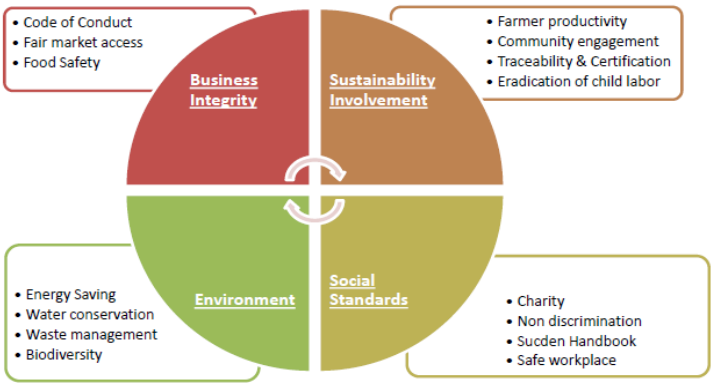
help Sucden identify and develop positive opportunities in the mills and the communities in which they work.

V. MANAGEMENT AND MONITORING OF ENVIRONMENTAL, SOCIAL, HEALTH AND SAFETY AND LABOR IMPACTS AND RISKS

A. Management Systems and Plans

5.1 Sucden in Brazil does not currently have a formal Environmental, Social, Health and Safety and Labor (ESHSL) system or particular procedures that they use in their current sugar industry transactions. There are some ESHSL elements that are incorporated within the overall procedures used in the current transactions with mills, but these are mostly related to financial, compliance and quality reviews. The process can involve various activities including questionnaires, site visits and document reviews. Sucden has, however, agreed as part of the IDB's involvement, to begin the process of Bonsucro certification which will help provide them with many of the tools to manage the ESHSL risks of its sub-loans.

5.2 At the Sucden corporate level there is a Corporate Social Responsibility (CSR) Policy. This CSR Policy is more than just a policy statement but also includes several principles and processes. Although the CSR Policy was developed first for their cocoa business, the intent was to make it applicable to all corporate entities including their sugar operations in Brazil. It has not yet been fully implemented for the Brazil sugar operations, but the need for the ESMS provides an opportunity to use this system as a foundation for the system so that it is aligned not only with the IDB requirements, but also the corporate policies. The CSR Policy includes a set of principles such as business integrity; sustainability (especially with the interactions with local communities), social standards on how to interact with people and in creating a safe workplace; and reduction of environmental impact. These principles are shown below:



5.3 These principles are supported by several processes that should be followed in the application of the policy. These are:

- Compliance – Meeting legal and regulatory requirements.
- Act responsibly – Defining and doing what is right and appropriate.
- Apply best practices – Spreading proven best practices throughout the organization.
- Provide leadership – Finding creative solutions.

5.4 These existing policies and processes, both the corporate CSR Policy and the existing procedures will be used as a basis for the ESMS. The ESMS will be developed as a "Protocol" for Sucden to follow for all sub-loans under the facility. It will cover both the initial due diligence for potential new sub-loans as well as monitoring and supervision during the life of the loan, and mechanisms for reporting to the IDB. As such, Sucden is currently working with IDB's external consultants to develop the ESMS and a framework has been developed. As discussed in Section VI, a draft ESMS will be required before the loan is signed, and the loan documents

will require that it is applied to each operation under IDB financing. The IDB will review the findings and recommendations of the applied ESMS prior to authorizing any sub-loans.

5.5 The elements of the ESMS will include, as a minimum: (a) a policy statement that sets forth Sucden's policy and standards of performance, (b) roles and responsibilities for E&S management, coordination, and training, (c) a process for screening out Sub-Loans/Sub-Borrowers that pose potentially significant and unresolvable impacts or risks and against a Project-specific Exclusion List (see below); (d) review procedures to ensure compliance with Sucden's policies and the IDB requirements (e) provisions for the development of operation specific Environmental and Social Action Plans or other requirements as applicable, for loans supported by the IDB's facility, (f) supervision and monitoring of the loan portfolio, (g) reporting requirements of the Sub-loans and of Sucden to IDB on compliance with the ESMS or Procedure requirements, including compliance of loans funded with IDB's proceeds, (h) a procedure for external communications and a grievance mechanism to receive external complaints from the public regarding any aspects of operations. and (i) disclosure requirements consistent with IDB guidelines.

5.6 The exclusion list for the Project has been developed to address specific issues related to the Brazilian sugar industry that were identified during the ESDD. The activities excluded are mills directly involved in, or that have suppliers that: a) buy or produce sugarcane from the Amazon region; b) are on the Ministry of Labor's Blacklist; c) that utilize, or buy from farms that utilize child or forced labor; (d) use pesticides or other chemicals currently on international phase-outs or bans. The exclusion list does not currently include the entire IDB exclusion list given that most aspects of that list are not applicable. However, if in the future the Protocol is expanded by Sucden into a full corporate ESMS covering their operations beyond the IDB financing, the Protocol might need to include a reference to that full list and incorporate it as necessary.

5.7 Mills that are not excluded from the above list will then be subject to an environmental and social due diligence (ESDD) through the use of questionnaire and site visit conducted during the overall review of the sub-project. The intent is to integrate the environmental and social aspects into the overall due diligence of the Sub-Borrower and aligning with the existing processes wherever possible.

5.8 If there are areas where the sub-project generally meets the ESMS requirements but has some areas that need to corrected over time, an Environmental and Social Action Plan can be used which sets out specific targets and milestones that become part of the sub-loan requirements. This allows sub-projects to be including in the financing that show the willingness to improve their practices and will have the benefit of improving overall performance with time. At the completion of the ESDD of the sub-project, Sucden will submit a report to the IDB on their findings and recommendations for a non-objection by the IDB. For the first two loans as a minimum, the application of the ESMS and the ESDD reports will be reviewed by an external consultant to verify the correct application of the ESMS and that the findings are accurate.

5.9 The ESMS must assign roles, responsibilities and resources for the Procedure to qualified Environmental and Social Managers and ensure that at least two staff member with responsibility for the Procedure implementation and maintenance take part in the IIC/IDB Environmental Risk Management training course, or a similar workshop by other organizations such as UNEP-FI, to be agreed upon by the IDB, annually, to ensure that Sucden continue to remain up to date with its environmental and social risk management expertise. The two staff members from Sucden do not need to be assigned full-time to the implementation of the ESMS, and can be supported by the use of external consultants. Ultimately, however, enforcing compliance of the Sub-Borrowers will be the obligation of Sucden in accordance with the transaction documents. As such Sucden has already begun the process of reviewing staffing needs to implement the ESMS.

5.10 The ESMS will contain provision for monitoring the Sub-Loans and for regular reporting to the IDB (see below). Training of Sucden staff on the implementation of the system will also be a

key element. The ESMS will also contain questions related to potential opportunities and shared value opportunities. The key areas identified were in irrigation improvements, mechanized harvesting, natural pest control techniques, co-generation, employment for seasonal workers, innovations in fertilizers, and others.

B. Monitoring and Supervision

5.11 The ESMS will include provisions for Sucden to monitor and supervise each of the Sub-Loans against the ESMS requirements. This includes templates for tracking overall performance and against requirements when an ESAP has been used. Templates will also be included for Sucden to report back to the IDB on the performance of the loans and Sucden will be required to present an Annual Environmental and Social Compliance Report (ESCR) with information on the portfolio, including a list of individual investments and a summary of their performance for the year, including progress on any agreed ESAPs and any particular risk issues identified during screening and mitigation measures agreed with clients. In addition, there will be a provision for the IDB to conduct a review of the implementation of the ESMS every two years of the loan to evaluate the progress and make any necessary adjustments to the ESMS.

C. Environmental and Social Safeguard Performance Indicators

5.12 Specific indicators will be established in the ESMS to measure the performance of the portfolio. These will be related to the key impact areas of the mills identified in the ESDD and will include those related to health and safety performance; local compliance status, and possibly others like resource efficiency and use of chemicals. The indicator selection will need to consider the reliability of the information, ease of collection, and the ability to track the information over time.

VI. ENVIRONMENTAL AND SOCIAL REQUIREMENTS

6.1 The section below presents the environmental and social requirements for the Project. These requirements are focused on the establishment of an Environmental and Social Management System (ESMS) to be used by Sucden to assess the environmental and social impacts and risks related to the potential Sub-Loans under the Project. This ESMS is being referred to as a “Protocol” to distinguish it from the Environmental Management Systems used by the mills such as ISO 14001 and avoid confusion.

6.2 The Bank will require Sucden to:

a) Develop and implement an ESMS specific to IDB’s use of funds to be agreed with IDB before closing. This ESMS will include the policies and procedures (including monitoring and reporting) to ensure compliance with the ESHSL Requirements detailed in Section V. Sucden must demonstrate that they have adequate staff and resources dedicated to the implementation of the ESMS. A final ESMS version will be required to be approved by the IDB and formally adopted and put into effect by Sucden prior to IDB disbursement of the first Sub-Loan, and kept operational through the life of the IDB Loan. The ESMS, once approved by IDB, will not be modified until the final maturity of the Corporate Loan and IDB Loans under the Facility, unless both parties agree in writing.

b) All Sub-Loans will undergo a review following the Protocol developed in the ESMS and the results will be submitted to the IDB in a report. Disbursement for the Sub-Loan will be dependent on the review of this report and the non-objection of the sub-loan by the IDB.

c) Comply with all applicable Brazilian ESHSL regulatory requirements, directly related to the Loan Agreement and in relation to the financing of Sub-Loans with IDB’s proceeds ensure that each Sub-Loan complies with: (a) Sucden´s ESHSL related policies as specified in the ESMS; (b) in-country regulations; (c) Project Excluded Activities List for the; and (d) the Fundamental Principles of the Rights at Work;

d) Present an Annual Environmental and Social Compliance Report (ESCR) as described in Section V.

6.3 The IDB will supervise the environmental and social aspects related to the use of the proceeds of the Corporate Loan and IDB Loans under the Facility either by an in-house specialist or with external consultants, and if necessary, will require actions to address impacts and risks and /or enhance their management. A portfolio review will be completed by the IDB every two years.

THE SAFEGUARDS POLICY FILTER REPORT(SPF)

PROJECT DETAILS	
IDB Sector	AGRICULTURE AND RURAL DEVELOPMENT-AGRIBUSINESS
Type of Operation	Financial Intermediation/Global Credit
Additional Operation Details	
Investment Checklist	Agribusiness Crops
Team Leader	Rivera-Zeballos, Sergio A. (SRIVERA@iadb.org)
Project Title	Sucden: Corporate Finance Loan and Financing Facility
Project Number	BR-L1418
Safeguard Screening Assessor(s)	Hoagland-Grey Wardle, Hilary (HILARYHG@iadb.org)
Assessment Date	2015-08-06

SAFEGUARD POLICY FILTER RESULTS		
Type of Operation	Loan Operation	
Safeguard Policy Items Identified	Potential to negatively affect Indigenous People (also see Indigenous Peoples Policy.).	(B.01) Indigenous People Policy– OP-765
	Activities to be financed by the project are in a geographical area and sector exposed to natural hazards* (Type 1 Disaster Risk Scenario).	(B.01) Disaster Risk Management Policy– OP-704
	Type of operation for which disaster risk is most likely to be low .	(B.01) Disaster Risk Management Policy– OP-704
	The operation itself has a potential to exacerbate hazard risk* to human life, property, the environment or the operation itself (Type 2 Disaster Risk Scenario).	(B.01) Disaster Risk Management Policy– OP-704
	The Bank will make available to the public the relevant Project documents.	(B.01) Access to Information Policy– OP-102
	The operation is in compliance with environmental, specific women's rights, gender, and indigenous laws and regulations of the country where the operation is being implemented (including national obligations established under ratified Multilateral Environmental Agreements).	(B.02)
	The operation may be of higher risk due to controversial environmental and associated social issues or liabilities.	(B.04)

	Consultations with affected parties will be performed equitably and inclusively with the views of all stakeholders taken into account, including in particular: (a) equal participation of women and men, (b) socio-culturally appropriate participation of indigenous peoples and (c) mechanisms for equitable participation by vulnerable groups.	(B.06)
	The Bank will monitor the executing agency/borrower's compliance with all safeguard requirements stipulated in the loan agreement and project operating or credit regulations.	(B.07)
	Conversion of Natural Habitats in project area of influence.	(B.09)
	The operation has the potential to impact the environment and human health and safety from the production, procurement, use, and disposal of hazardous material, including organic and inorganic toxic substances, pesticides and Persistent Organic Pollutants (POPs).	(B.10)
	The operation has the potential to pollute the environment (e.g. air, soil, water, greenhouse gases...).	(B.11)
	Operation for which ex-ante impact classification may not be feasible. These loans are: Policy-based loans, Financial Intermediaries (FIs) or loans that are based on performance criteria, sector-based approaches, or conditional credit lines for investment projects.	(B.13)
	Suitable safeguard provisions for procurement of goods and services in Bank financed projects may be incorporated into project-specific loan agreements, operating regulations and bidding documents, as appropriate, to ensure environmentally responsible procurement.	(B.17)
Potential Safeguard Policy Items	No potential issues identified	
Recommended Action:	Operation has triggered 1 or more Policy Directives; please refer to appropriate Directive(s), including B13, for guidance. No project classification required. Submit Report and PP (or equivalent) to ESR.	

Additional Comments:	

ASSESSOR DETAILS	
Name of person who completed screening:	Hoagland-Grey Wardle, Hilary (HILARYHG@iadb.org)
Title:	
Date:	2015-08-06

COMMENTS
No Comments