Environmental and Social Review Summary

Appraisal Stage

(

World Bank Performance Standards (OP 4.03)

October 2, 2022

October 2, 2022: | Report No: ESRSXXXXXX

BASIC INFORMATION

A. Basic Project Data

Country	Region	Project ID	Parent Project ID (if any)
Brazil	Latin America & the Carribean	P178888	
Project Name	Brazil Climate Finance Project		
Practice Area (Lead)	Financing Instrument	Estimated Appraisal Date	Estimated Board Date
Finance, Competitiveness and Innovation	IPF	June 17, 2022	December 8, 2022
Borrower(s)	Implementing Agency(ies)		
Banco do Brasil S/A	Banco do Brasil S/A		

Proposed Development Objective(s)
To support Brazil's achievement of its mitigation outcomes through the expansion of sustainability-linked finance and strengthening capacity to access carbon credit markets.

Financing (in USD Million)	**Amount**
Borrowing Country's Fin. Intermediary/ies	0.00
Montreal Protocol Investment Fund	0.00
Total Project Cost	500.00

B. Is the project being prepared in a Situation of Urgent Need of Assistance or Capacity Constraints, as per Bank IPF Policy, para. 12?

No.

C. Project Abstract [including Project structure, components, activities, technical design, flow of funds, etc.]

The objective of the Project is to support the expansion of sustainability-linked finance for climate mitigation and strengthen the private sector's capacity to access high quality carbon credit markets in Brazil.

The proposed project seeks to support the expansion of sustainability-linked finance for climate mitigation and strengthen capacity to access high quality carbon credit markets in partnership with Banco do Brasil (BB), a large commercial bank with significant strength in financing key sectors linked to Brazil's carbon footprint. This is a financial intermediary (FI) project through which the World Bank would provide funds – with clearly defined purposes and types of financing – to BB that will on-lend to final borrowers. The Project involves applying specialized methodologies to assess mitigation outcomes and performance targets and monitoring, reporting, and verification of compliance with internationally agreed standards. The main attributes of a "credible mitigation plan" would include: definition of the current emissions profile - the business-as-usual scenario (setting a baseline); expected mitigation outcomes in terms of GHG emissions reduction establishing - SPTs; interim targets towards the intended mitigation outcome defining KPIs; and commitment to reduce company-level Scope 1 and Scope 2 emissions at entry and to progressively report upstream Scope 3 emissions as relevant for larger beneficiaries (increasing ambition)

The institutional process for quality assurance of the mitigation plans would include protocols for a) ex-ante validation of the mitigation plans, including baseline and targets by independent second-party opinion providers, b) reporting and monitoring of progress in the implementation of the plan and achievement of targets and c) independent verification of the progress towards the achievement of targets, at intervals not exceeding three years by second party opinion providers.

The Project seeks to offer an integrated package, combining financing and technical assistance, to support firms in reducing their carbon footprint through sustainability-linked financing and / or accessing high-quality carbon credit markets. During project implementation, the World Bank will request verification that the carbon credits supported by the project adhere to globally recognized quality standards (i.e., mitigation outcomes to be real, additional, permanent, independently verified by internationally accredited service providers, and transparently registered). IBRD loan proceeds will be disbursed to BB on a reimbursement basis, after verification that the expenditures are consistent with the eligibility requirements and the environmental and social safeguard standards of the project. The project will support BB in selecting and accrediting third party / independent validation and verification entities to assist with verifying corporates mitigation plans.

The Project comprises two components that will work together in a complementary manner:

Component 1 – Expanding access to sustainability-linked finance for mitigation (US$ 494 million). This component aims to support Brazil's climate mitigation outcomes through the expansion of sustainability-linked finance through a sustainability-linked credit line and a climate debt fund. To be eligible for financing under Component 1 of the project, beneficiary companies will need credible mitigation plans and GHG emissions reduction targets to form the basis for the sustainability performance targets (SPTs) and key performance indicators (KPIs). The project will require that beneficiary companies (i) adopt a credible mitigation plan with robust and measurable near-term sustainability performance targets and indicators, and (ii) be subject to independent verification of progress on their mitigation plan and targets at periodic intervals.

This component will consist of two subcomponents through two subcomponents:

- Subcomponent 1a: Sustainability-Linked Credit Line (IBRD: US$400 million). BB will on-lend the resources of this subcomponent to originate BRL-denominated sustainability-linked loans (SLLs), at market terms, to companies that have credible mitigation plans and targets. The subcomponent aims the provision of Sustainability-linked Sub-loans to Eligible Companies. For purposes of carrying out this subcomponent of the Project, BB shall provide General Purposes Sub-loans to finance Eligible Companies that can implement mitigation plans and generate GHG emission reductions, pursuant to the terms and conditions of Sub-loan Agreements approved by the Bank. BB will be responsible for: a) selecting Eligible Companies in accordance with the criteria and procedures set forth in the Operational Manual; b) appraising and approving each Mitigation Plan and Mitigation Targets, and thereafter supervising, monitoring and reporting to the Bank on the carrying out of said Mitigation Plan and Mitigation Targets by the corresponding Eligible Companies; c) maintaining and operating an ESMS in accordance with the Bank's Performance Standards throughout Project implementation; d) requiring Eligible Companies to identify, assess, manage and monitor the environmental and social risks and impacts of its Business Activities, as set forth in the ESMS and ensuring that the Eligible Companies do not carry out any Excluded Activity throughout Project implementation; f) complying with all other relevant material measures and actions set out in the ESMS, as applicable, in accordance with the Performance Standards, including monitoring of the Eligible Companies' compliance with the ESMS and Excluded Activities; and g) causing each Eligible Company to acknowledge the Bank's right to request audits of its records and accounts.

- Subcomponent 1b: Pilot Climate Debt Fund (IBRD US$94 million) This subcomponent seeks to pilot a Climate Debt Fund (CDF) to mobilize additional private capital towards sustainability-linked financing for mitigation. The objective of the pilot debt fund is to develop a market for debt instruments of companies with credible mitigation plans. To this end, the fund would provide finance, via Brazil's debt capital market, to larger companies linked to their mitigation plans and targets. The CDF will invest in BRL-denominated debt instruments of Brazilian companies with credible mitigation plans and targets and pilot mechanisms that provide incentives to firms for reducing their carbon footprint. BB will invest directly in the debt fund under subcomponent 1b using the BRL equivalent of IBRD loan proceeds. It will act as the anchor investor to seed the fund and attract other investors. the Fund will be created under Law 6385 of 1976 and regulated by the Brazilian Capital Market regulator (CVM) under its Instruction 555. The Fund administrator is the legal entity authorized by CVM that manages the organized market where the shares are traded. The Fund Manager will be required establish a Fund-Specific ESMS in accordance with the Bank's Performance Standards and BB Environmental and Social Responsibility Policy and Guidelines for Sustainable Business before the selection of any Eligible Company and maintain and operate said Fund ESMS throughout Project implementation, with qualified and experienced staff in adequate numbers to implement the Fund ESMS. The Fund ESMS shall be able to allow: a) the identification, assessment, management and monitoring of the environmental and social risks and impacts of the Eligible Companies and b) to ensure that Eligible Companies do not carry out any Excluded Activities and are in compliance with the Fund ESMS throughout Project implementation.

Component 2 – Institutional Strengthening through Technical Assistance to Build the One-Stop-Shop (US$ 6 million). This component would provide technical assistance to BB to develop solutions that support beneficiaries in adopting credible mitigation plans and targets, reducing the high transaction costs of creating high-quality carbon credits, and increasing access to carbon credit markets. It aims to facilitate the generation and monetization of carbon credits and access to robust carbon markets. BB will identify the subset of companies with potential for generating and monetizing carbon credits and reach them with technical assistance and services. Technical assistance will be provided to: a) facilitate implementation of Component 1 of the Project for, *inter alia*: (i) the development of the Mitigation Framework; (ii) carrying out capacity building activities for the Project Coordination Team; and (iii) the selection of Eligible Companies; b) to define the applicable standards and processes to assess the quality and integrity of the Carbon Credit, Mitigation Plans and Mitigation Targets; and c) promote monetization of Carbon Credits by Eligible Companies. BB will also be responsible for implementing the TA activities under Component 2.

D. Scope of application of Performance Standards (PSs) [and Environmental and Social Standards (ESSs), if relevant]

The ESF does not apply to any part of the Project. Rather, the World Bank Performance Standards (PSs) apply to entire project since the proposed project is: (i) a private-sector project; and (ii) Banco do Brazil (BB) is deemed to be a private sector entity (BB is a bank that operates commercially), for purposes of the application and the criteria set out in paragraphs 3 and 4 of OP 4.03, which applies to Bank supported projects that are designed and operated by a private entity, productive and necessary to meet the development objectives of the member country in which they are implemented.

BB has a generally well recognized capacity to identify, assess and manage the environmental and social risks associated with the loans it finances and will be fully responsible for identifying, assessing and managing the environmental and social risks associated with the Project. Furthermore, its environmental and social management system (ESMS) includes environmental and social standards that are fully aligned with World Bank PSs. BB has been a signatory to the Equator Principles (https://equator-principles.com) since 2005. BB also adheres in its lending to the IFC's Performance Standards on Environmental and Social Sustainability and the World Bank Group's General Environmental, Health and Safety (EHS) Guidelines, and is a signatory of the Green Protocol Program and the Principles for Responsible Investment (PRI).

E. Environmental and Social Overview

E.1. Project location(s) and salient characteristics relevant to the ES assessment [geographic, environmental, social]

The project will have a national scope. The line of credit will be agnostic in respect of sectors (except for those sectors that will be excluded from financing under the Project- specific Exclusion List set forth in the Loan Agreement, such as, for example, oil, gas, and coal) and the size of borrowers to the extent that credible mitigation outcomes can emerge across sectors and size of borrowers. With support of the Project, BB will directly provide sub-loans to Eligible Companies that can implement Mitigation Plan and Mitigation Targets, generating GHG emission reductions (a "common good"). These sub-loans will be general purpose loans and the Project is expected to focus on financing Eligible Companies operating in the sectors that are the largest GHG emitters in the country (Agriculture, Forestry, Energy and Transports).

Brazil is a critical player for mitigating global climate change in view of its size and potential for carbon sink and removal. Brazil carbon footprint has been growing over the past ten years, with GHG emissions rising by 2.3 percent annually on average, making it one of the top ten global emitters by virtue of its size. In 2018, it contributed 2.9 percent of global net Greenhouse Gas (GHG) emissions. By 2020, Brazil accounted for 2.16 billion tCO2e gross emissions. Its emissions growth has been concentrated in the land use change and forestry sector, which is the largest emitter and accounted for 998 million tCO2e (or 46 percent of the total country emissions). In the same year, agriculture and cattle raising accounted for 577 million tCO2e (27 percent of the total). The energy sector came in third place (nearly 394 tCO2e or 18 percent of the total). Industrial processes and wastes were relatively smaller gross emitters (100 and 92 million tCO2e, respectively).

Considering the relative concentration and density of the micro, small, and medium-sized enterprises (MSMEs) from the agribusiness supply chains in the composition of BB's client-base (BB holds 800,000 clients in the MSMEs segment and 269,000 clients in the agribusiness segment spread all over the country), it is expected that – by supporting the implementation of mitigation plans and mitigation targets through small-ticket sub-loans to the eligible MSMEs from this sector – the Project can contribute to unleash the large potential to generate carbon credits and to reduce GHG emissions of the largest emitters sectors. It will also help the county to reach its Nationally Determined Contributions

(NDC) – which has the target of a 50 percent reduction in GHG emission reductions from 2005 levels by 2030 (equivalent to 1.28 GtCO2e) – and to become net-carbon neutral by 2050.

To meet Brazil's NDC and to realize its potential for carbon removal, the country needs an acceleration in the voluntary carbon credit markets, which potential is also associated with the country`s rich biodiversity, conserved areas, and potential for renewable energy. By the end of 2021, Brazil accounted for only 3.6 percent of the global voluntary marketing (equivalent to $ 1.2 billion) and – according to the International Chamber of Commerce (ICC) – has the potential to increase this share to 10 percent by 2030, driven by the forest sector. According to ICC (Opportunities for Brazil in Carbon Markets), the estimated credit generation potential of the Agriculture sector is between 10 and 19 Mt CO_2e (i.e., millions of metric tons of CO2 equivalent), with a high abatement potential of 2,419 Mt CO_2e. In the Forestry sector, this potential reaches between 71 and 660 Mt CO_2e. And in the Energy sector, it reaches between 27 and 250 Mt $CO2_e$. As in the agriculture, land change use and forestry sectors, the abatement potential is high and the abatement cost is low, t ese levels of generation of carbon credits could generate revenues close to at least US$ 100 billion or higher using the World Bank's shadow price of capital of $40-$80 per ton CO2.

In a recent analysis, it was identified that the investments that enter the Voluntary Carbon Market in the country are those of renewable energy generation, fossil fuel replacement, and maintenance of forest areas in contexts of deforestation.[1] Energy projects dominate 63 percent of this market and are followed by projects in Agriculture, Forestry and Other Land Uses (AFOLU) that count for just 25 percent of the market. Nevertheless, the volume of credits generated in the AFOLU sector is significantly higher, having reached shares of 81 percent in 2020 and 73 percent in 2021, whereas the energy sector counted for 18 percent and 24 percent, in the same years. Together, the estimated annual emission reductions from these sectors are 13.8 million tCO2e, with the AFOLU sector having the greatest potential for emission reductions.[2] Among the offsets generated in the AFOLU sector being mostly related to the forestry sector - 55 percent through the avoidance of unplanned deforestation and 37 through the prevention of planned and unplanned deforestation and forest degradation – with a not very representative participation of the agriculture sector in the volume of credits generated.[3]

The potential revenue generation of voluntary carbon markets in these sectors could generate socio-environmental co-benefits such as: a) the reduction of pressure on deforestation due to diversification of economic activities, b) the improvement of the quality of working conditions in the countryside, c) the contribution to the food security of families, d) the generation of jobs and income, e) the maintenance in local biodiversity and f) the improvement of quality and availability of water. Although, the Brazil Central Bank (BCB) has put a strong focus on reducing Brazil's carbon footprint and adopted strong regulations for making the financial sector more environmentally and socially sustainable through, for e.g., tighter reporting and more systemic climate risk assessment., Brazil's regulatory framework for carbon markets is still under development, posing risks around the integrity of its carbon credits in the absence of well-defined domestic standards and regulatory uncertainty that could affect demand in the market. Nevertheless, a proposed Bill for establishing the Brazilian Emissions Reduction Market and regulating carbon credits transactions (PL 528/2021) is

[1] Daniel Barcelos Vargas, Linda Márcia Mendes Delazeri, and Vinícius Hector Pires Ferreira. Mercado de Carbono Voluntário no Brasil na Realidade e na Prática. FGV – Observatório da Bioeconomia. https://eesp.fgv.br/sites/eesp.fgv.br/files/ocbio_mercado_de_carbono_1.pdf.

[2] Approximately 26 percent of the registered projects are located in the North region, 29 percent in the Southeast region and 44 percent in other regions of the country. The North region generated 61 percent of the total credit history.

[3] In energy projects, 61 percent of the credits generated came from electricity generation projects connected to the grid from renewable sources (rehabilitation or renovation, replacement or addition of capacity of an existing plant, or construction and operation of a new plant, which uses renewable energy sources and supplies electricity to the grid) and 19 percent are projects aimed at exchanging non-renewable biomass for renewable biomass for the generation of thermal energy.

currently under discussion by the Chamber of Deputies. It would regulate critical aspects of the voluntary market, including its standards, and propose the introduction of a compliance market.

E. 2. Client's Organizational Capacity/Borrower's Institutional Capacity

The BB was founded in 1808 and is the first financial institution listed in the Brazilian Stock Exchange. The Federal Government controls just above half of the total shares but BB operates commercially. There is no other investor with more than 5 percent of the shares. BB has 3,977 branches and is present in 96.6 percent of the Brazilian municipalities. It has 75.3 million customers (including 21.9 million digital customers). The expanded loan portfolio (including private securities and guarantees) reached 814.2 billion Brazilian reais (circa of USD 162 billion), split between individuals (31 percent), agribusiness (28 percent), small and medium size companies (11 percent), corporations (18 percent) and Government (7 percent). BB's sustainable loan portfolio reached 282.1 billion Brazilian Reais (35 percent) distributed between social loans (48 percent), socioenvironmental best practices (26 percent), low carbon agriculture (15 percent) and companies (11 percent). Loans to renewable energy reached 7.4 billion Brazilian Reais; investments in environmental, social and governance funds equaled 4.4 billion Brazilian Reais; and Green Commercial Papers captured 158 million reais in three months.

BB's policies and processes incorporate the increasingly demanding regulations of the Brazil Central Bank (BCB), the National Monetary Council (CMN) and Banking Self-Regulation System of the Brazilian Federation of Banks – (SARB/FEBRABAN) that apply to financial institutions operating in Brazil on responsible social, environmental and climate policies (Resolution 4,327/14, Ordinance 3,846/2017 and Resolution BCB 139/2021).

BB's operations also incorporate a range of voluntary practices. BB has been a signatory to the Equator Principles since 2005. Illustratively, BB also adheres to the IFC's Performance Standards on Environmental and Social Sustainability and the World Bank Group's General Environmental, Health and Safety (EHS) Guidelines, and is a signatory of the Green Protocol Program and the Principles for Responsible Investment (PRI).

Since 2005, BB has enacted policies and plans to reduce negative environmental and social impact of its lending portfolio. Now in its eighth version, BB's Sustainability Plan (Agenda 30 BB 2021-2023), that was approved by the Executive Sustainability Committee, contains 10 Long-Term Commitments to 2030 under three blocks: Sustainable Businesses, Responsible Investment and ESG and comprises 40 actions for the period 2021-23. BB's Board of Directors approved a Socio-Environmental Responsibility Policy (the "Policy") in December 19th, 2019 and BB has developed Sustainability Credit Guidelines for Loans (the "Guidelines") that comprises a set of 52 guidelines and applies to the concession of loans to ten sectors – Agrobusiness, Irrigated Agriculture, Civil Construction, Cement, Energy, Mining, Oil & Gas, Transportation, Pulp & Paper, and Steel. These Guidelines focus on four key thematic areas and call attention to 14 relevant socio-environmental issues. They list Excluded Activities, Restricted Activities, and Alert Activities.

BB's organizational structure encompasses:

- The Risk and Capital Committee approved in 2017 by the Board of Directors and responsible for advising the Board of Directors on the approach to risk management (including environmental and social risks).
- Two units directly related with sustainability issues: one directly linked to the CFO for dealing with corporate sustainability issues and another for environmental and social risk management in its credit operations under the Risk Management Board. The latter is responsible for the implementation of BB Socioenvironmental Responsibility Policy.
- A Strategic Sustainability Forum composed of BB executives and responsible for (a) supporting the process of

incorporation, alignment and dissemination of BB's sustainability principles and practices and (b) monitor the environmental and social initiatives and the implementation of the actions provided for in Agenda 30 BB. The Forum reports to the Business Executive Committee.

BB's Risk Management Department (DIRIS) is responsible for the global management of risks, including environmental and social risk management, for classifying the risk by sectors and for assigning the socio-environmental rating to clients. The customized assessment is the responsibility of the Credit Department. The screening and assessment of Environmental, Social and Governance (ESG) risks are made internally by a specialized team which is independent and segregated from the commercial area. This procedure aims to assure an unbiased analysis. Thus, the socio-environmental risk assessments of customers and loans are exclusively carried out in BB by 3,493 analysts working at the Headquarter Operation Center, so separate from the teams that carry out the prospecting and negotiation of credit in order to avoid any conflicts of interest when reviewing different risk aspects and, thereafter, making decisions that are duly informed by environmental and social considerations prior to approving prospective investments.

With a long and solid track record in the field on ES risk management in its credit corporations, as well as a corporate commitment to sustainability practices, BB has been continuously recognized by rankings and indices that select financial institutions and companies with the best sustainable practices.

II. SUMMARY OF POTENTIAL ENVIRONMENTAL AND SOCIAL (E&S) RISKS AND IMPACTS

A. For PSs: Environmental and Social Categorization - CATEGORY FI-2

Environmental and Social Categorization FI-2

As mentioned above this project is a financial intermediary (FI) project – i.e., the proceeds of the IBRD Loan will support a financial institution. OP/BP 4.03 ("Performance Standards for Private Sector Activities") will be applicable to the project in lieu of the World Bank's Environmental and Social Standards given the project's stated goal of exclusively financing of private sector Companies through a commercial sector financial institution (BB).

The Project targets BB's clients operating mainly in sectors that contribute the most to Brazil's carbon footprint (namely: agriculture and livestock, land use/forestry, energy, transport, nature-based solutions). Through Project Component 1, BB will provide general purposes sub-loans directly and/or through a Debt Fund to Eligible Companies that can implement a Mitigation Plan or Mitigation targets. Among other results, the project may create economic incentives to reduce/avoid deforestation, support reforestation/afforestation and recover degraded areas on private lands. The project is expected to create economic incentives to maintain the standing forest or support reforestation/afforestation and recovering degraded areas on private lands. By creating an ecosystem of climate financing and services that facilitate the generation and monetization of carbon credits linked to mitigation outcomes, the project will contribute to make low-carbon goals more rewarding than environmentally adverse practices.

Through Project Component 2, BB will be supported by technical assistance activities to identify and reach the beneficiaries of Component 1 and its broader client base with solutions to reduce the high transaction costs of creating high-quality carbon credits and to increase their access to carbon credit markets and in establishing a "carbon credit marketplace", pooling high-quality carbon credit projects to monetize the credits produced by project beneficiaries and crowd-in other market players. These technical assistance activities are not expected not have large-scale, significant, and irreversible adverse direct impacts and/or downstream implications on society and the environment in the country. Hence, they are classified under the category of business activities with minimal or negligible environmental or social risks and/or impacts.

The project is categorized as FI-2 in accordance with OP/BP4.03. According to the World Bank's BP 4.03 a FI-2 category is adequate whenever adverse environmental and social risks and impacts arising from most of the activities are expected to be few in number, generally site specific, largely reversible and can be readily addressed through mitigation measures or include a very limited number of activities with potential significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented.

Potential Environmental and Social Risks

As the Eligible Companies and the sectors they operate will remain unknown until Project implementation, the FI-2 categorization of the environmental and social risks of the project is based on an assessment that took in consideration the relevant international literature of investments on common goods (in general) and aiming at the reduction of GHG emissions and climate change mitigation (in particular).

The sub-loans aim to support the implementation of credible carbon footprint and GHG emissions Mitigation Plans by Eligible Companies, contributing to the expansion of the Voluntary Carbon Market in the country and the achievement of Brazil's NDC. Overall, the potential direct environmental and social risks and impacts of these Mitigation Plans will not be unprecedent. They are expected to be few in number, generally site-specific and largely reversible and readily addressed through mitigation measures. They are not expected to lead to adverse impacts related with labor and working conditions, resource efficiency and pollution, community health, safety and security, land acquisition and involuntary resettlement, biodiversity, natural habitats and living natural resources, Indigenous Peoples or disadvantaged and vulnerable social groups, and cultural heritage.

In the international literature, investments dealing with common goods (in general) and aiming at the reduction of GHG emissions and climate change mitigation (in particular) have been associated with a variety of environmental and social co-benefits and a few potential adverse side-effects on ecosystems, economic activity, society, health, air pollution, and resource efficiency. According to the international literature, investments made with these goals generally lead to environmental and social co-benefits, such as: reductions in biodiversity losses and soil erosion through an increase in forest-based carbon sequestration, increases in resource efficiency through water and other natural resources conservation, improved energy efficiency and increased resources reutilization, reduction of air pollution (which is often associated to improvements in public health outcomes: reduced mortality, morbidity, prevalence of diseases, and/or health expenditures), increased food and energy security among low-income people who depend on agriculture and weather patterns to earn a living and are the most vulnerable to climate change impacts (in consequence of a more effective land use in impoverished areas and the expansion of the energy portfolio through low-carbon technologies and energy-efficiency improvements).

Furthermore, when these investments are made in the AFOLU sector and properly managed on its environmental and social risks, they may: a) contribute to conservation of biological diversity and save endangered animals both by reducing deforestation, or by using reforestation/afforestation to restore biodiverse communities on previously developed farmland, as the implementation of low carbon production systems;[4] b) have positive impacts on water resources (water yields and water quality) as various measures contribute to prevent the contamination of local

[4] Such as such as cattle raising-forestry, cultivation-cattle raising-forestry integration systems, the implementation, maintenance and management of planted forests, and the appropriate disposal of waste

drinking water sources and to reduce flood peaks, erosion and efflux of silt; c) bring co-benefits on land tenure arrangements; d) increase food production and availability (e. g., agroforestry, intensification of agricultural production, or integrated systems); and e) improve the livelihoods and food security of several disadvantaged and vulnerable social groups (including Indigenous Peoples, Forest-dependent communities, and other social groups).

The international literature also highlights that when these investments are inadequately managed on its environmental and social risks, they can be associated with: i) reduction of biodiversity due to increased risks of attacks of forest plantations based on the establishment of monocultures over large areas of the landscapes by pests, which could compromise the entire plantation and would be exacerbated where the plantations advance into sensitive sites (e.g., wetlands or high-slope sites); ii) degradation of water sources (through the losses of pesticides and nutrients to water) as well as water shortages (where, for instance, irrigation water is used to produce bioenergy crops or in some forest plantations); iii) temporary and excessive use of pesticides and herbicides for pest control with inappropriate levels of toxicity and following non-recommended procedures at the initial stage of implementation of low carbon production systems (such as cattle raising-forestry, cultivation-cattle raising-forestry integration systems, the implementation, maintenance and management of planted forests, and the appropriate disposal of waste); iv) intentional or accidental introduction of alien, or non-native, species of flora and fauna into areas where they are not normally found that can be a significant threat to biodiversity, since some alien species can become invasive, spreading rapidly and destroying or out-competing native species; v) the remote possibility that the capitalization of the rural MSMEs producers – due to the increased productivity and profitability of its production – leads to the opening of new areas or to indirect impacts on adjacent permanent protection areas with potentially negative impacts on habitats natural and forests; vi) the weakening of the already fragile land tenure and possession rights, food security and involuntary displacement of Indigenous Peoples, forest-dependent and other disadvantaged and vulnerable social groups.

The literature argues that the prevalence of co-benefits or adverse side-effects is usually dependent on a) the mitigation measures used, site conditions (e.g., soil thickness and slope, hydrological setting, climate) and how the mitigation measures are managed, b) the institutions regulating land tenure and land-use rights and c) the level of enforcement by such institutions and related with stakeholder engagement (as there is a risk of disenfranchising local livelihoods and creating perverse economic incentives when stakeholders are neglect).

In the Brazilian context, there are a few studies showing that the use of Voluntary Carbon Market Certification Standards has great potential to generate social and environmental co-benefits on a local scale.[5] An analysis of information on 170 Brazilian projects registered in the Voluntary Market up to December 2013 confirmed the greater potential of the country's voluntary market to contribute to the development standards, given its greater flexibility, diversity of actors and the requirement by some Certification Standards in meeting co-benefits specific, particularly when there is a greater participation of different social actors and when they adopt strategies such as the acquisition of raw materials and hiring of local labor and other instruments to reduce poverty and improve the quality of life. Among the positive environmental impacts, these studies pointed out: a) the reduction in the use of fossil fuels, replacing them with an alternative renewable source, and the improvement in energy efficiency; b) the maintenance and restoration of diverse ecosystem services, reduction of soil erosion; improvement in the natural supply of water

[5] Danielle Soares Paiva et al., ***Voluntary Carbon Markets: Analysis of Co-benefits of Brazilian Projects***, https://www.scielo.br/j/rac/a/BkdTQrMPMv5tykhwfrS9N3F/?lang=pt; Ventura et al (2012) ***The human side of social technology for climate change mitigation and human development: the case of "fogões ecológicos"*** *in Brazil*, The International Journal of Environment and Sustainable Development, 11(4). Paiva et al (2014), ***Voluntary carbon market and its contributions to sustainable development: analysis of the Monte Pascoal-Pau Brazil ecological corridor***, International Journal of Innovation and Sustainable Development, 8(1).

resources and lower incidence of pests in crops; c) the reduction in the use of artificial means to control pests (pesticides and other pesticides) and the more common reappearance of species of small birds and animals. Among the positive social impacts, they highlight: d) the fostering of inclusive and participatory governance, local empowerment and human capital formation (such as in the technical training of residents for the sustainable management of forest resources); e) the strengthening of local associations; the generation of direct jobs and income; and f) the improvement in working conditions – through greater use of personal protective equipment – with positive outcomes for the general health of workers.

Furthermore, lessons from previous World Bank projects financed in Brazil to foster low-carbon and climate smart technologies in the AFOLU sector aiming to reduce GHG emissions, the potentially adverse impacts on natural habitats and forests of the Mitigation Plans and Targets would be small, temporary, predictable and/or reversible. The nature of these Mitigation Plans and Targets does not preclude the possibility of avoiding or reversing these adverse environmental impacts and, consequently, the supported sub-loans have a low probability of serious adverse effects to human health and/or the environment. Indeed, relying on low-carbon and climate smart technologies and efficient use of energy, water and other natural resources, these Mitigation Plans and Targets are expected to make the operation of the Eligible Companies more environmentally sustainable than their current conventional practices as well as to contribute to conservation and recovery of natural habitats under private properties and may counteract some of the widely documented and well known direct drivers of GHG emissions (particularly, when considering the AFOLU sector).[6]

Hence, it could be argued that – overall – the Project is expected to a) ease pressures for deforestation on the remaining Brazilian forests and have a positive impact on natural habitats and b) bring net positive impacts by restoring forest ecosystem functions with the associated carbon sequestration, biodiversity and environmental enhancements, including natural habitats, which would constitute permanent, cumulative and positive environmental and social impacts and far exceed the low to moderate risks of the Project Development Objective. Based on this international literature on the relevant topics, the proposed Project is expected to have overall positive social and environmental impacts across the country as it offers an integrated package of financial incentives and TA to attract investors and firms committed to accelerate mitigation outcomes and interested in accessing sustainability-linked finance and carbon markets. It is also expected to contribute for the achievement of the Brazil's Nationally Determined Contributions (NDCs). Its environmental and social co-benefits are expected to far exceed its potential environmental and social risks and adverse impacts as far as the environmental and social management measures are properly implemented, including the adequate functioning of BB's environmental and social management system, in particular. Its environmental and social risks and direct adverse impacts would be low or, at most, moderate.

However, the Project will support the concession by BB and the Debt Fund Manager of "General Purpose Loans" to Eligible Companies that can be operating in in sensitive biodiversity areas (rain and dry forests) as well as nearby geographically distinct habitats, ancestral territories or areas of seasonal use or occupation by Indigenous Peoples and traditional communities. Therefore, their operations could be expected to have both positive or negative impacts and the risk of their overall portfolio must be factored in the assessment of potential environmental and social risks and impacts, which elevated the Project's risk classification to FI-2.

[6] In this sector, the scenario without the Project-supported Mitigation Plans and Targets can be described in terms of the expansion of agricultural and livestock activities in forest lands, the unsustainable use of natural resources and forest resources for timber and firewood production, and the encroachment of monoculture tree plantations.

III. APPLICABLE STANDARDS

A. Performance Standards [and the Environmental and Social Standards]

PS1 Assessment and Management of Environmental and Social Risks and Impacts

The Project will support Eligible Companies that can implement Mitigation Plans – contributing to reduce their GHG emissions and the carbon footprint of their operation – focused on sectors that are the main GHG emitters in Brazil (including the agriculture, forest and land use change sector that is responsible for nearly 73 percent of the country's GHG emissions and 23 percent worldwide. During project implementation, the World Bank will request ex-ante validation of the mitigation plans, reporting and monitoring of progress in the implementation of the plan and achievement of targets, and periodical independent verification of the progress towards the achievement of targets by internationally accredited second party opinion providers. IBRD loan proceeds will be disbursed to BB on a reimbursement basis, after verification that the expenditures are consistent with the eligibility requirements and the environmental and social safeguard standards of the project. From this perspective, the adverse social and environmental risks of the project are low or, at most, moderate.

However, the sub-loans provided – directly by BB or through CDF – to Eligible Companies will be general purposes loans and, consequently, BB's existing Environmental and Social Management System has been assessed in its capacity to (a) evaluate the environmental and social commitment and track-record of the Eligible Companies before conceding the sub-loans as well as (b) monitor their environmental and social performance throughout the period of implementation of the sub-loans, considering the special need of adopting measures for adequate environmental and social risks management that consider the Eligible Companies as a whole rather than exclusively those activities directly related with the project development objectives (the implementation of the Mitigation Plans and Targets). The overall conclusion of this assessment is that BB's ESMS is robust and sophisticated and will be able to manage environmental and social risks in a manner that is consistent with the World Bank's Performance Standards with the addition of a small number of provisions.

Regulatory Framework

The Project will operate on an institutional scenario where there are robust provisions regulating environmental licensing processes for the operation of companies that may have activities that generate significant environmental and social impacts and ruling on labor terms and conditions, on land rights of Indigenous Peoples and other traditional communities as well as on information disclosure and citizen engagement.

BB's "System" and BB's "Policy" are ruled by three main regulatory instruments: a) the National Monetary Council (CNM) Resolution 4,327/14, b) the SARB/FEBRABAN Normative 14/2014 and c) the Brazil Central Bank (BCB) Resolution 139/2021.

Resolution 4,327/14 provides for the guidelines that must be observed in the establishment and implementation of the Policy of Socio-environmental Responsibility by financial institutions and other institutions authorized to operate by the Central Bank of Brazil, which must follow the principles of relevance (the degree of exposure to socio-environmental risk of the institution's activities and operations) and proportionality (the compatibility of the policy with the nature of the institution and the complexity of its activities and its financial services and products) and guide the socio-environmental actions in their business and in their relationships with stakeholders. This resolution requires the maintenance of a compatible governance structure and determines that the management of socio-environmental risks must consider: (a) systems, routines and procedures that enable the identification, classification, evaluation, monitoring, mitigation and control of the socio-environmental risk present in the institution's activities and operations; (b) registration of data regarding the effective losses due to socio-environmental damage, for the minimum period of five years; (c) prior assessment of the potential negative socio-environmental impacts of new modalities of products and services, including in relation to the reputational risk; and (d) procedures for adapting the management of socio-environmental risk to legal, regulatory and market changes (https://www.bcb.gov.br/pre/normativos/res/2014/pdf/res_4327_v1_O.pdf).

SARB Normative 14/2014 (revised by SARB Normative 31/2020) establishes the Normative for Creating and Implementing a Socio-environmental Responsibility Policy, which formalizes fundamental guidelines and procedures for the social and environmental practices of its Signatories in their business and in their relationship with stakeholders. This normative institutes the self-regulation program for the development and implementation of a socio-environmental responsibility policy of its signatories, with the purpose of formalizing guidelines and fundamental procedures for the incorporation of socio-environmental risk assessment and management practices in business and in relations with stakeholders.

With respect to financial transactions, in order to identify those subject to the analysis of social and environmental aspects, this Normative requires that its signatories must adopt a method that considers its capacity to previously identify the purpose of the use of the funds by the borrower and observe those that, by legal requirement, require the analysis of social and environmental aspects (Art. 7). It also states that new investments to be made by the signatories in companies in which it holds partner rights, or preponderance in corporate decisions, or power to elect or dismiss the majority of the managers, or effective operational control or corporate control, must be preceded by an evaluation to verify the degree of adherence to its socio-environmental policies. This socio-environmental audit must focus on the company, its subsidiaries or other companies that are relevant to the Operation and has the objectives of: a) to evaluate eventual socio-environmental liabilities of the company; b) verify the company's compliance with the social and environmental legislation in effect; c) evaluate, when applicable, direct and relevant suppliers of the company with regard to items a and b; and d) to evaluate, when applicable, the execution of agreements and commitments undertaken with the competent social and environmental agencies.

Furthermore, the Normative states that its signatories shall manage the social and environmental impacts of its activities, observing the criteria of relevance and feasibility and considering: (a) the efficiency in the consumption of energy and natural resources; (b) the use of renewable energy sources; (c) adequate waste management; (d) the combat against labor analogous to slavery, child labor and sexual exploitation; (e) the promotion of diversity and inclusion practices; (f) the compliance with labor obligations and Regulatory Standards for Occupational Health and Safety; g) the social and environmental aspects in the contracting processes of suppliers and service providers; h) the use of sustainable construction techniques or renovations of the real estate owned by the Signatories, considering the particularities and peculiarities of the buildings where their administrative centers and branches are located; and i) the emission of greenhouse gases.

Finally, this Normative rules that the loan agreements between its signatories and their clients shall incorporate clauses foreseen: a) the obligation of the borrower to observe the applicable environmental legislation; b) the borrower's obligation to comply with the labor legislation, especially the rules related to occupational health and safety, and the non-existence of slave or child labor; c) the option for the Signatory to anticipate the maturity of the operation in case of environmental license revocation, when applicable, and final and unappealable sentence, due to the borrower's practice of acts involving child labor, labor analogous to slavery, criminal profit from prostitution or damages to the environment; d) the borrower's obligation to monitor its activities in order to identify and mitigate environmental impacts that were not foreseen at the time the credit was contracted; and e) the borrower's obligation to inform the signatory in case of non-compliance with an environmental obligation or the existence of labor analogous to slavery or child labor by a direct and relevant supplier, indicating the measures adopted to address the issue, even if there is no specific clause of active monitoring of the supplier's activities by the borrower.[7]

Resolution BCB 139/2021 is based on the recommendations by the World Economic Forum (WEF), the Task Force on Climate-related Financial Disclosure (TCFD), and the Network for Greening the Financial System (NGFS). It sets the New Rules on Disclosure and Management of Social, Environmental and Climate-related Risks, which are based on the recommendations by the World Economic Forum (WEF), the Task Force on Climate-related Financial Disclosure (TCFD), and the Network for Greening the Financial System (NGFS) It provides for the disclosure of information in the Report on Social, Environmental and Climate-related Risks and Opportunities (GRSAC Report). The New Rules have been publicly consulted (public consultations No. 82/2021, No. 85/2021 and No. 86/2021). They a) set new and more encompassing definitions for social, environmental and climate-related risks, b) extends to social risk, environmental risk, and climate-related risk the same general requirements already established for traditional risks and c) presents specific requirements for their management (including: i) mechanisms for the timely identification of a negative perception of institution's reputation as well as of concentrations to economic sector or geographical regions more susceptible to suffering or causing damages; ii) the register of relevant data, including data on losses incurred; and iii) the performance of scenario analyses considering hypotheses of changes in climate patterns and adjustment towards a low-carbon economy).

It is highly relevant to highlight that its definitions of social, environmental and climate-related risks are encompassing and well aligned with the subjects considered under the Bank's Performance Standards. Thus:

- Social risks are broadly defined as the possibility of losses resulting from events related to violation of human rights and guarantees or to acts harmful to common interests (i.e., an interest associated with a group of persons legally or factually connected for the same cause or circumstance) and instances of social risk encompass, *inter alia*: acts of harassment, discrimination or prejudice based on personal traits; noncompliance with labor or pension legislation; practice related to slave-like labor conditions or irregular, illegal or criminal exploitation of child labor; practice related to human trafficking, sexual exploitation or criminal exploitation of prostitution; irregular, illegal or criminal act that impacts traditional people or communities, such as indigenous groups; acts harmful to public, historic, or cultural heritage; and irregular, illegal, or criminal practices associated with foodstuff or products potentially harmful to society; environmental disaster, in terms of its social impacts; among others.

- Environmental risks are defined as the possibility of losses resulting from events related to environment degradation, including the excessive consumption of natural resource, encompassing a non-exhaustive list of instances of environmental risk events, such as: irregular, illegal, or criminal acts against fauna or flora; including degradation of biomes or biodiversity; air, water, or soil pollution; irregular, illegal or criminal exploitation of natural resources; non-compliance with environmental licensing conditions. The list of risk events also encompasses environmental disaster, in terms of its environment degradation, including those resulting from dam failure, nuclear accident, or spillage of chemicals into water; among others.

- Climate-related risk comprises two dimensions: a) climate-related transition risks characterized as the possibility of losses resulting from events related to the process of adjustment towards a lower-carbon economy, in which the emission of greenhouse gases is reduced or compensated, and natural carbon sinks are

[7] https://cmsarquivos.autorregulacaobancaria.com.br/Arquivos/documentos/PDF/Normativo%20SARB%20014%20-%20alterada%20pela%20Deliberacao%20031%20-%20texto%20vigente%20consolidado.pdf

preserved, encompassing a non-exhaustive list of instances such as changes in legislation, regulation, or government action; technological innovations; shifts in supply-and-demand; and negative perceptions on the institution's contribution to a low-carbon economy; and b) climate-related physical risks characterized as the possibility of losses resulting from events related to frequent and severe meteorological conditions or long-term environmental shifts, which may result from changes in climate patterns, encompassing a non-exhaustive list of instances such as droughts, floods, storms, cyclones, frosts, and forest fires; and rise of sea level, scarcity of natural resources, desertification and change in rainfall or weather patterns.[8]

Environmental and Social Management Policies, Guidelines and Plans

BB's environmental and social management system (the "System") includes, amongst other aspects, four major instruments for setting out its corporate commitment to environmental and social sustainability and inclusion, guiding its social and environmental due diligence and risk management (including not financing through exclusion lists) of social and environmental risks when considering supporting potential investments, namely: a Socio-Environmental Responsibility Policy (the "Policy"), a Sustainability Plan (Agenda 30-BB 2021-2023), the Socio-Environmental Directives (the "Directives"), the Sustainability Guidelines for Loans (the "Guidelines") and a Sustainable Finance Framework (the "Framework").

The Policy

The "Policy" defines social and environmental responsibility as the incorporation of social and environmental aspects into business and administrative practices, with the objectives of generating value for the stakeholders and minimizing any negative impacts of business operations on the environment and society. It was endorsed by BB Board of Directors in December 19th, 2019.

The "Policy" encompasses the ethical and transparent management of the company with its stakeholders and abides to six principles: (a) acting with socio-environmental responsibility based on strategic definitions, in line with the laws and regulations governing the matter, the Sustainable Development Goals (SDGs), the United Nations (UN) Global 2030 Agenda and the Paris Agreement; (b) acting on a socially and environmentally responsible basis, considering ethics, the promotion of human rights, fundamental labor rights, the environment and sustainable development and the contribution to the universalization of social and citizenship rights; (c) respecting, encouraging and valuing diversity and equity in relationships; (d) encouraging, disseminating and implementing sustainable practices in the value chain; (e) adopting a governance structure for socio-environmental responsibility and socio-environmental risk management compatible with the size, nature of the business, the complexity of products and services, and the relationships established with the various stakeholders; and (f) continually seeking to improve socio-environmental performance.

By the "Policy", BB commits to: a) adopt an integrated risk management structure that aims to identify, measure, assess, monitor, report, control and mitigate socio-environmental risk; b) consider socio-environmental impacts when planning our activities, business and administrative practices and define target audience and Socio-environmental Analysis criteria, considering the principles of relevance and proportionality; c) evaluate the socio-environmental risk when doing business, contracting guarantees, advisory services, investments or partnerships with third parties, and in activities with the greatest potential to cause damage and, when applicable, apply the criteria of the Equator Principles; d) adopt the referential model of lines of defense, involving various hierarchical levels in the control of socio-environmental risk e) record the operational risk losses, with occurrences generated and identified by socio-environmental events; f) previously evaluate the risks, including socio-environmental and reputational risk, in the creation and revitalization of products and services; g) define the tolerance to socio-environmental risk by means of a

[8] The resolution is available at https://www.bcb.gov.br/content/about/legislation_norms_docs/BCB_Disclosure-GRSAC-Report.pdf.

limit established in the Declaration of Risk Appetite and Tolerance; h) continually monitor the socio-environmental risk management process; i) monitor changes in the legal and regulatory environment; and j) adopt exclusion criteria for doing business, contracting goods and services, investments or partnerships with third parties that are responsible for intentional damage to the environment.

The "Policy" also sets 36 guidelines addressing aspects related with: (a) environmental and social impact assessment; (b) resource efficiency, prevention of pollution and GHG emissions, and adequate waste management; (c) climate change mitigation; (d) protection of the work force within the bank and across the value chains in which the bank operates, by combating all forms of discrimination, forced labor, exploitation of child labor, sexual harassment, exploitation and abuse and keeping channels to receive and redress grievances related with work places and working conditions; (e) adequate processes and procedures for the management of social and environmental risks (including the definition of responsibilities within the organizational structure, procedures for prior risk screening, definition of risk acceptance levels and mitigation hierarchies, and procedures for risk management monitoring); and (f) engagement with stakeholders, transparency and accountability.

The Agenda 30 BB 2021-2023

Agenda 30 BB 2021-2023 – approved by the Executive Sustainability Committee (which includes the participation of vice presidents and directors) – is structured around sustainability challenges and the United Nations' Sustainable Development Goals (SDGs) and encompasses 40 actions, including – among others: (a) assessing and measuring the socio-environmental and economic impacts generated by BB's products, services and activities in order to maximize the positives and reduce the negatives for the environment and society; (b) strengthening the management of socio-environmental risk in BB's business, processes and commercial relations, developing; (c) improving the governance and management of risks and opportunities related to climate issues, providing transparency to BB's commitments and practices in relation to the topic; (d) improving the management of BB's environmental and eco-efficiency programs, initiatives and practices, ensuring the efficient and sustainable use of natural resources; (e) improving the environmental and social due diligence process in the supply chain and reinforcing the adoption of socio-environmental criteria in the management of BB's supply chain; (f) reinforcing BB's performance in the management of the health, safety, well-being and quality of life of its employees; and (g) preparing and publishing by December 2022 an environmental policy/guideline with the following commitments: implementation of an environmental management system; monitoring of environmental performance; regular reporting on environmental issues, and consultation with stakeholders in relation to environmental issues [https://www45.bb.com.br/docs/ri/ra2013/port/ra/10.htm].

The "Directives"

The "Directives" sets the BB's exclusion, restriction and alert lists that apply to all financing operations[9] – as follows:

- BB's Exclusion List includes all customers and/or activities with regards to which BB does not assume credit risk due to legal impediments or for not meeting BB's guidelines. These comprise companies or customers that: (a) face legal restrictions or may harm BB's image; (b) face proofs of practice of sexual exploration of minors or exploration of child labor; (c) submit workers to degrading forms of labor or maintain them in conditions analogous to slavery; (d) are linked to unregulated gambling or wagering; or (d) are engaged with the cultivation, renewal or funding of crops or industrialization of sugarcane for production of ethanol and other byproducts of sugarcane and sugar in areas not listed as appropriate by the Agricultural and Ecological Zoning of sugarcane and new sugarcane areas (after October 2009) within the Biomes of Amazonas and Pantanal or

[9] https://api.mziq.com/mzfilemanager/v2/d/5760dff3-15e1-4962-9e81-322a0b3d0bbd/ef263bdc-8780-abfb-6447-1b5e82943595?origin=2.

within the Bacia do Alto Paraguai. Of particular interest for the Project, BB does not finance agribusinesses in areas embargoed by the Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis – IBAMA.

- BB's Restriction List includes all customers and/or activities with regards to which BB assumes credit risk under certain conditions. These include all loan transactions for activities that may cause environmental impacts and, in their licensing process, require Environmental Impact Assessments as per the country's rule. They comprise: (a) roadways featuring two or more lanes; (b) railways; (c) ports and terminals for ore, oil and chemicals; (d) airports; (e) oil, gas, and mineral pipelines, sewer trunk collectors and emissaries; (f) water works for exploitation of water resources (such as hydroelectric barrages over 10 MW, sanitation and irrigation dams, opening of navigation, drainage and irrigation channels, rectification of watercourse, opening of river estuaries and mouths, basin transposition and ditches); (g) extraction of fossil fuels (oil, schist, coal); (h) extraction of ores; (i) sanitary embankments, processing and disposal of toxic or harmful waste; (j) power plants over 10 MW (notwithstanding their primary source of energy); (k) industrial and agro-industrial complexes and units (petrochemicals, steel mills, chloro-chemicals, alcohol distilleries, coal, extraction and cultivation of water resources); (l) industrial districts and strictly industrial zones; (m) economic exploitation of timber or firewood in an area over 100 hectares, or less – in case it affects areas that are of environmental significance; (n) city planning projects over 100 hectares or located in an area held as environmentally significant (at the discretion of IBAMA and competent agencies of local and state governments); (o) any activity using charcoal, its byproducts or similar products, at a rate over 10 tons per day; and (p) agricultural and livestock projects with areas over 1,000 hectares or less – in case it affects areas that are environmentally significant. Of particular interest for the Project, agribusiness financing in the Amazon Biome is conditional upon proof of environmental and landholding legality.
- BB's Alert List comprises all loan transactions for activities that display potential environmental impacts and subject to environmental licensing (CONAMA Resolution 237/1997).[10]

A Project-specific Exclusion List (please refer to the end of this section) will be set forth in the IBRD Loan Agreement aiming to exclude high environmental and social risks associated with investments in certain sectors and companies and to ensure consistency with the principles and requirements of the World Bank Performance Standards enshrined in OP 4.03.

The "Guidelines"

The "Guidelines" (https://www.bb.com.br/docs/pub/inst/dwn/DirCompleto.pdf.) apply to the concession of loans to companies operating in ten sectors – agrobusiness, irrigated agriculture, civil construction, energy, mining, oil and gas, transports, paper and pulp, cement and steel. They focus on four key thematic areas: water resources,[11] forest and

[10] They include: (a) ore extraction and processing, (b) industry of non-metal mineral products; (c) metallurgy and mechanical industry, (d) industry of electrical, electronic and communication materials; (e) industry of transportation materials, (f) timber, paper and pulp industry, (g) rubber, leather and furs industry, (h) chemical industry, (i) industry of plastic products, (j) textile, clothing, shoe and fabric artifacts industry, (k) food and beverage industry, (l) tobacco industry, (m) concrete and asphalt plants/galvanoplasty services, (n) civil works, (o) public utilities, (p) transportation, terminals and warehouses, (q) tourism, (r) agriculture and livestock activities, (s) use of natural resources (forestry, timber, exotic fauna, sylvan fauna, natural genetic heritage, live water organisms, exotic or genetically modified species, biological diversity through biotechnology) and (t) other activities (land, district and industrial area developments).

[11] In compliance with the Water Resources National Policy (Law 9,433/97), the Guidelines requires that BB requires the presentation of the Grant of Water Resources Use issued by the responsible state agencies when financing activities that demand: (a) water derivation or capture for final consumption (including public supply or production process input); or (b) extraction of water from underground aquifer for final consumption or production process input; or (c) discharge into a water body of sewage and other liquid or gaseous waste, treated or not, for the purpose of dilution,

biodiversity,[12] climate change[13] and human rights.[14] Their objectives are: a) to mitigate eventual socio-environmental risks in accordance with the legislation in force; b) to reduce the negative impacts of BB's financings and investments; c) to improve the financial resources in the sense of employing them in undertakings that provide better social and environmental conditions; and d) to identify new opportunities of performance in the value chain of sustainable businesses, based on relevant socio-environmental aspects and strategic themes for sustainable development.

The "Guidelines" call attention to 14 relevant socio-environmental issues: (a) improper use of natural resources; (b) conversion of natural habitats without any control or planning; (c) loss of biodiversity; (d) pollution on surface and deep waters; (e) atmospheric pollution and global warming due to greenhouse gases emissions; (f) increase of extreme climate events; (g) desertification; (h) soil erosion and degradation; (i) violation of human rights (slave, child and degrading labor); (j) poverty and hunger; (k) race and gender discrimination; (l) disrespect for the rights of indigenous people and traditional communities, minorities, consumers, decent work and basic education; (m) food safety; and (n) water safety.

The "Guidelines" will be referred to throughout this documents as they are relevant for different Performance Standards. Here it is worthy highlight those that are relevant for the Assessment and Management of Environmental and Social Risks and Impacts. Thus, the "Guidelines" includes provisions to:

Relevant BB's Guidelines in light of PS 1 Requirements related with Environmental and Social Assessment
Use social and environmental criteria in the processes of analysis of loans, granting and conduction of Credit, considering its potential impacts and risks, and the adoption of mitigating and compensatory measures [BBG-1].
Support companies that are in line with the treaties and agreements in force in the country and with the best national and international practices, especially with regard to the environment, territorial management, climate change, and human rights [BBG-6].
Support companies and customers that carry out actions to minimize or compensate for socio-environmental damage [BBG-15].
Encourage companies to prioritize the acquisition of products and services from suppliers that have mechanisms to manage their environmental impacts [BBG-20].
Require environmental compliance during the life of the operation through clauses in the credit instruments that establish the prerogative of early maturity of the operations in the case of revocation, suspension or cancellation of the environmental licenses, or even for non-compliance with socio-environmental requirements [BBG-21].

transport and final disposal; or (d) use of hydroelectric potential; or (e) other uses that change the regime, quantity or quality of water in a water body. Furthermore, the financing of hydroelectric plants and other infrastructure projects covered by the Equator Principles, BB requires an independent socioenvironmental and the implementation of an Action Plan for mitigating the identified risks and impacts.

[12] In compliance with the Brazilian legislation, BB adopts practices that value the biodiversity and environmental services and avoid support initiatives that increase pressure on them in accordance with the Standard of IFC Performance Standard #6 Conservation of Biodiversity and Sustainable Management of Living Natural Resources, includes socio-environmental conditions in the credit agreements and periodically monitors their observance, the non-compliance of which may result in the early maturity of the operation, respecting the provisions in the contracts signed between the parties.

[13] The Guidelines states BB's commitment with the transition to a low carbon economy and the promotion of the engagement of the private sector in efforts to reduce GHGs emissions as well as to promote the adaption of communities located in areas of climate vulnerability.

[14] The Guidelines sets BB's commitments to ban forced, degrading and child as well as to induce both better conditions for the participation of women and youth and the respect for the rights of Indigenous populations and traditional communities ensuring access to information and participation – at the appropriate level – of all stakeholders in decision-making processes.

Demand proof of environmental regularization, environmental licensing and water allocation of the activities and undertakings financed by the Bank, when applicable [BBG-25].
Demand, when applicable, proof of adoption of measures to mitigate and compensate for socio-environmental impacts and monitor compliance [BBG-27].

The "Framework"

Finally, the "Framework" has been recently established aiming to promote a green and inclusive economy by raising funds to issue green, social or sustainability bonds and loans, and use the proceeds to finance or refinance, in whole or in part, existing or future projects that will deliver positive environmental and/or social outcomes.[15] The Framework was assessed by one independent specialized consultancy, which concluded that (a) the framework is aligned with BB's sustainability strategy and the eligible categories will advance a number of key SDGs (particularly 1, 3, 7, 8, 9, 10, 11, 12 and 15) and (b) BB has sufficient measures to manage and mitigate environmental and social risks commonly associated with the eligible projects.[16]

Screening of Environmental and Social Risks and Impacts

Under the "Policy" and the "Guidelines", BB has set processes and procedures as well as developed tools to identify and assess environmental and social risks of companies and/or individual loan transactions under its portfolio. BB has well-defined procedures for (a) the assessment of the socio-environmental responsibility of its clients and (b) the assessment of the socio-environmental risks of their loans.

Processes & Procedures

The procedures take into account the assessment of a set of socio-environmental risk factors – that is, the situations and/or circumstances (directly or indirectly generated) that can rise the probability of risk occurrence. These risk factors include, among others, the absence of documentation of animal, plant or wood origin (when applicable), the absence of socio-environmental risk management tools, intentional damage to the environment, evidence of environmental liabilities, discriminatory or harassing practices. Some of these socio-environmental risk factors are considered extremely high risk, being named, for management purposes, as vetoing social and environmental risk factors – they refer to: a) the submission of workers to degrading forms of labor or keeping them in slave-like conditions; b) sexual exploitation of minors; c) exploitation of child labor; and d) malicious damage to the environment. These factors are referenced in the Specific Socio-environmental Responsibility and Credit Policies and prevent the conducting business.

BB assesses the environmental and social risks at the sector level, the company level and the specific activities financed. Here, considering the nature of the Project, we will look exclusively for the procedures and tools applied at the first two levels: sectors and companies.

At the sector level – All BB companies and individual customers are classified according to the socio-environmental risk level of the sectors where they operate, using for this purpose the identification of socio-environmental risk factors

[15] BB's "Framework" sets several additional exclusion criteria for sub-loans or individual transaction loans that veto financing to: tobacco and cotton crops; production or trade in firearms; alcohol production or trade; activities or production on lands owned, or claimed under adjudication, by Indigenous Peoples without the full and documented consent of such peoples; production of wood or other forest products that are not certified sustainably managed forests; businesses directly linked to the production, distribution or sale of fossil fuels and tobacco; agricultural activities in municipalities located in the Amazon biome; and soybean production in municipalities located in the MATOPIBA region.

[16] Sustainalytics (2020), Second-Party Opinion Banco do Brasil Sustainable Finance Framework, https://api.mziq.com/mzfilemanager/v2/d/5760dff3-15e1-4962-9e81-322a0b3d0bbd/7f7ff30c-f605-3c42-d6d9-0d6638d60ca9?origin=2].

that are characteristic of each sector as stipulated by CONAMA Resolution 237/1997 and drawn from the studies carried out when the BB's *Manual of Socio-environmental Due Diligence* was created.[17] The CONAMA Resolution considers the pollution potential generated, the degree of use of natural resources and the need to obtain environmental licensing for projects in each sector and studies on potential social impacts of projects in each sector. The sectors are classified in a three-categories scale. High risk sectors include agribusiness of animal origin, agribusiness of plant origin, specific construction activities, heavy construction, leather and footwear, agricultural inputs, wood and furniture, mining and metallurgy, pulp and paper, oil tankers, chemicals, textiles and clothing, and transport. Medium risk sectors encompass automotive, beverages, electronics, electricity and services. Finally, low risk sectors comprise public administration, wholesale trade and various industries, retail trade, real estate, financial institutions and services, and telecommunications. Based on the risk level of the sectors, BB identifies the customers that are the target audience for application of the Social and Environmental Responsibility Assessment Questionnaire and for stipulating the Social and Environmental Rating of the clients and - adding considerations on the size of the customers and the potential for socio-environmental impact resulting from the activities they develop – BB determines which customers will be subject to mass assessment or customized assessment of socio-environmental risks.

Matrix of E&S Risk Classification of Sectors[18]

Environmental Classification	Social Classification: Low/Very Low	Medium	High
High	**4**	**5**	**6**
Medium	**3**	**4**	**5**
Low / Very Low	**2**	**3**	**4**

The Risk Classification by sectors is the responsibility of the Risk Management Department Risk Management and – considering also the size of the companies – serves as input for the application of the Socio-environmental Responsibility Assessment Questionnaire (the "Questionnaire") and for the stipulation of Socio-environmental Rating (the "Rating") at the company level.

At the company level – BB carries out an assessment of the companies' Level of Socio-Environmental Responsibility by applying the "Questionnaire", which aims to identify the social and environmental practices adopted by the customers whose activities are classified as having medium or high social and environmental risk as well as the possible social and environmental risks in their operations. Companies are classified into three socio-environmental responsibility categories: (a) High level: all customers who carry out outstanding or advanced socio-environmental responsibility actions with their various stakeholders (employees, customers, suppliers, society, government, etc.); (b) medium level: all those who practice socio-environmental responsibility actions with their various stakeholders, however there would be room for implementing new actions and/or making improvements or improvements in practices already carried out; and (c) low level: all those whose socio-environmental responsibility actions carried out with their various stakeholders are minimal and/or cannot be measured or evaluated. The result of the questionnaire serves as input for establishing the Customer's Social and Environmental Rating.

[17] BB, Nota Técnica Diris/Dicre 2018/39644 - Seção 5 - Possíveis Impactos Decorrentes das Atividades Econômicas Financiadas.
[18] BB, Manual Corporativo de Gestão de Risco Socioambiental, 2020.

"Mass Assessment" of Social and Environmental Risk - The "mass assessment" is the socio-environmental risk assessment procedure that all BB uses with all its customers. It takes into account: (a) the prior checking of lists prepared by government agencies on companies that register incidents of slave labor (the Dirty List of Slave Labor), areas embargoed due to environmental violations (Embargo List) and areas with evidence of contamination (Survey of Evidence of Contamination, instituted FEBRABAN/SARB Normative 14/2014 with the objective of mitigating the risk of financial institutions incorporating environmental liabilities into their assets, arising from the acceptance and execution of real estate pledged as collateral in financial operations and is completed by the real estate appraiser accredited by BB); (b) the classification of Social and Environmental Risk by Sector; (c) the size of the company and its level of socio-environmental responsibility; and (d) the findings of the Media Monitoring of positive and negative socio-environmental news carried out by BB's Risk Management Department.

Social and Environmental Rating – The final result of mass assessment is the Social-Environmental Rating, which allows BB to classify, assess and monitor its customers according to the degree of socio-environmental risk, considering its size, the sectors of activity and the level of excellence of its socio-environmental practices. The Rating is a classification scale with 7 risk levels (A to G). Ratings A, B and C correspond to the lowest socio-environmental risk ratings and are assigned to customers that cumulatively belong to any sector, but are small in size (outside the target audience of the application of the socio-environmental questionnaire) and do not register occurrences in the blacklist, in the embargo list or in the media monitoring. Ratings D, E and F are assigned to customers with medium to high social and environmental risk ratings, but do not register occurrences in the blacklist, although they may present up to 3 occurrences of socio-environmental risk factors when checking the embargo list and/or carrying out media monitoring. Customers classified in category F are the target audience for the Custom Assessment. Finally, customers are classified in category G when they present at least one occurrence in any of the socio-environmental risk factors that veto BB to operate with them, correspond to the very high socio-environmental risk classification. BB does not operate with category G customers.

Customized Assessment – The customized social and environmental risk assessment is activated for BB's category F customers and aims to deepen the client's socio-environmental risk assessment. The result of the customized assessment can result in actions such as: (i) the aggravation of the client's risk; (ii) the suspension, reduction or anticipation of the maturity of the credit limit; or (iii) the application of specific conditions or action plans or recommendations for business relationships, for internal use by BB, in order to mitigate or remedy the socio-environmental weaknesses found.

Application of the Equator Principles – To assess the environmental and social risks and potential impacts of some financing products with the greatest potential to cause damage,[19] BB applies the criteria of the Equator Principles and adopts the International Finance Corporation (IFC) Social and Environmental Sustainability Performance Standards and the World Bank Group's Environment, Health and Safety Guidelines. When the Equator Principles apply, the environmental and social risk classification of the proposed investments is carried out by a contracted consultancy, which has a multidisciplinary team to assess the different aspects of socio-environmental risks, in addition to evaluate and monitor the socio-environmental programs proposed by the customer. Projects

[19] BB applies the Equator Principles to the following financing products: (a) Project Finance and Project Finance Advisory Services with a total cost above ten million dollars; (b) Project Related Corporate Loans, when most of which are for a single project over which the client has effective direct or indirect operational control, with a total consolidated value of at least US$100 million and the individual commitment of the financial institution is at least US$50 million, and with a term of at least two years; and (c) Bridge Loans with a term of less than two years to be refinanced by Project Financing or by Corporate Project Financing.

categorized as A[20] or B[21] undergo periodic evaluations according to a schedule defined by legal agreement between the client and BB for the award of the BB credit after the formalization of the credit instrument. For projects categorized as A and, at the discretion of BB, for those categorized as B, an action plan is created to comply with the IFC Performance Standards on Sustainability and to correct/mitigate impacts generated by the project. Periodic assessments are carried out through the Social and Environmental Report, a document prepared by an independent consultancy that reports the progress of the actions indicated in the action plan and the adequacy of the project to IFC standards.

Environmental and Social Risk Assessment Tools

The social and environmental risk assessment tools correspond to the a set of public lists (the Dirty List of Slave Labor, IBAMA Embargo List, FEBRABAN/SARB Survey for Signs of Contamination), methodologies (the matrix of environmental and social risk by sector, the socio-environmental responsibility level assessment questionnaire, the mass assessment, the customized assessment, and the definition of the socio-environmental rating) and internal processes (field visits, socio-environmental due diligence, Geo-Socioenvironmental Diagnostic, monitoring of changes in the environmental regulatory framework and media monitoring) that provide information on the customer's social and environmental responsibility and its situation in relation to the Social and Environmental Risk Factors stipulated by Banco do Brasil. By using these tools, BB obtains inputs to evaluate its customers' social and environmental risk management strategies.

Institutional Responsibilities

BB's Risk Management Department (DIRIS) is responsible for the global management of risks, including socio-environmental risk, for classifying the risk by sectors and for assigning the socio-environmental rating to clients. The customized assessment is the responsibility of the Credit Department.

The screening and assessment of Environmental, Social and Governance (ESG) risks are made internally by a specialized team which is independent and segregated from the commercial area. This procedure aims to assure an unbiased analysis.

Monitoring and Reporting

The monitoring and reporting of socio-environmental aspects takes place throughout the duration of the credit operation. Monitoring procedures are proportionate to the level of socio-environmental risks of the sectors and activities to be supported as well as the Socio-Environmental Rating of the companies that will be financed. In order to seek commitment to the socioenvironmental agenda, BB mandatorily includes specific clauses that formalize the socio-environmental responsibility of its borrowers in all credit instruments. These clauses grant BB's prerogative of suspending the transfer of funds and/or the early maturity of the debt in case of non-compliance with the assumed social and environmental commitments. These clauses are applied whenever the competent public authorities verify disagreements with the environmental legislation.

Finally, BB has developed a Geo Social-Environmental diagnosis, which is a tool to prevent rural operations from taking place in areas that have legal restrictions related to socio-environmental aspects, by generating alerts about areas with

[20] Their licensing process requires the preparation of an Environmental Impact Study and the projects have the potential for significant, multiple, irreversible or unprecedented risks or adverse socio-environmental impacts, with emphasis on those related to at least one of the following themes: indigenous peoples, critical habitats, cultural heritage or large-scale resettlement.

[21] Their licensing process requires the preparation of an Environmental Impact Study or equivalent document, in accordance with applicable environmental legislation, and which have the potential for limited adverse socio-environmental risks or impacts, in a small number, generally local, largely reversible and readily controllable through measures mitigation measures, and not classified in category A.

possible risks and qualified information drawn from public geographic bases on environmental or social impact. When validating the rural credit operation, the system presents a screen with the occurrences, if any, allowing for social and environmental risk management actions.

BB's Risk Management Department (DIRIS) produces regular Socio-Environmental Risk Reports that aim to provide information on socio-environmental risk indicators to managers and committees in the socio-environmental risk governance structure for supporting the decision-making process. These reports are issued by DIRIS through a Risk Portal on its intranet page. BB also make public yearly Reports on Sustainability and keeps a dedicated website to the topic (https://www.bb.com.br/pbb/pagina-inicial/sobre-nos/sustentabilidade#/).

Stakeholder Engagement

Complying with the regulatory framework (SARB Normative 14/2014 and Resolution BCB 139/2021), BB must disclose information on social, environmental and climate-related issues are disclosed in a standardized Report on Social, Environmental and Climate-related Risks and Opportunities ("GRSAC Report"), consisting of templates that focus on each of the core elements in Task Force on Climate-Related Financial Disclosures (TCFD) recommendations – namely: governance, strategy, risk management, and metrics and targets. The Resolution states that the GRSAC Report must contain the following information related to social risk, environmental risk, and climate-related risk: a) governance of risk management for the risks listed on the heading, including duties and responsibilities of decision-making instances for social risk, environmental risk and climate-related risk management, such as the board, when existent, and the senior management; b) real and potential impacts, when deemed relevant, of the risks mentioned in the heading in business strategies undertaken by the institution and in risk management and capital management in the short, medium, and long-term under different scenarios, according to documented criteria; and c) processes for management of the risks mentioned in the heading. Furthermore, the "GRSAC Report" must be published on an annual basis, considering December, 31 as the reference date, within 90 days after the respective reference date, must be available for a period of five years from the publication in a single location of easy and public access in the institution's internet website and must also be made available in open data format, according to specifications provided by the Central Bank of Brazil

Engagement with stakeholders, transparency and accountability are also incorporated in the 36 guidelines set in the "Policy", whereas consultation with stakeholders in relation to environmental issues is one of the 40 actions of Agenda 30 BB 2021-2023. Additionally, the "Guidelines" include:

Relevant BB's Guidelines in face of PS 1 Requirements related with Stakeholder/Citizen Engagement
Support companies that are in line with the treaties and agreements in force in the country and with the best national and international practices, especially with regard to the environment, territorial management, climate change, and human rights [BBG-6].
Demand the maintenance of relationship channels with the surrounding communities when supporting large investment projects [BBG-19].

Thus, BB provides channels to respond to stakeholders' calls and address specific issues, breach of the Code of Ethics, and torts of any nature reported. Customers have two service channels: the Relationship Center (CRBB) and the Customer Service (SAC). The first is a phone service channel focused on customer relations and meeting banking consumers' calls, aiming to provide speedy quality solutions with convenience and safety, contribute to results and support the branch network in connection with customer service and doing business. The SAC is a multichannel (telephone, Internet and mobile) aimed to resolve stakeholders' calls based on information, questions, complaints, suspension or cancellation of contracts and services. SAC covers calls falling into consumer relations, regardless of whether the complainant is a customer or not. SAC receives and seeks to resolve calls at first contact (First Call Resolution - FCR), which occurs in 93%+ cases. If the call is not resolved by these primary service channels, customers may escalate the call to the External Ombudsman (see below). An Illegal Acts Reporting Channel was set up for reporting situations with suspected torts of any nature in connection with the bank's activities. Investor's questions about shares, dividend payouts and accounting information are handled by the IR Contact channel.

External Grievance Mechanism

BB's External Ombudsman Office is an autonomous executive unit, under the Corporate Vice Presidency. The External Ombudsman Office keeps the Board of Directors informed about the problems and deficiencies detected in the fulfillment of its attributions and on the result of the measures adopted by the institution's administrators to solve them. Its main objective is to improve stakeholder engagement, satisfaction and experience. In compliance with BB's Relationship and Users Policy, the Ombudsman's Office must mediate conflicts, encouraging a cooperative and balanced relationship with customers, dispensing fair and equitable treatment in cases dealt with in the second instance. Users can contact the External Ombudsman Office by phone (a toll-free phone line) or through the website (www.bb.com.br/ouvidoria). A special toll-free phone line is available for disabled stakeholders and users, namely those with hearing or speech impairments. As determined by CMN Resolution 4,433/15, all grievances are registered and treated by professionals with professional certification in conflict resolution and mediation. The ombudsman has a maximum period of 10 working days to investigate the facts and seek to provide a conclusive solution. Customers can resort to the Ombudsman as a last resort to register complaints about unresolved issues in BB's usual service channels Contact information is widely disseminated to customers on the website, in print, digital channels, among others. In 2020, 99.4 percent of complainants sought our internal channels, such as SAC and the Ombudsman, and only 0.43 percent escalated the call and sought the Central Bank (BACEN). In the first semester of 2021, the Ombudsman registered 62,759 grievances. The average time of response was 5.07 days and 78 percent of them were solved in less than 5 working days. In the same period, nearly 9 percent of the users of the Ombudsman service answered the satisfaction survey and in a scale from 1 to 5 the average with regards to satisfaction with the solution provided was 3 [Banco do Brasil, Relatório de Atividades Ouvidoria BB 1S21]. Complaints may be reported anonymously or be identified, with guaranteed protection for complainants. Average response time is less than 3 days. Regarding social media, average resolution time is less than 24 hours.

Further to the due diligence conducted by the Bank team on BB's environmental and social management system (ESMS), as described in detail above and below, the Bank is proposing to rely on the robust ESMS of BB to adequately manage the ES risks of proposed investments under this Project, while adding an additional negative list of activities that cannot be support because of the requirements of the World Bank Performance Standards and Bank-wide corporate commitments. BB would be required to monitor them adequately and report back to the Bank on the ES risk management aspects of such transactions, as detailed in the Loan Agreement for the proposed project.

Assessment and Recommendations to Enhance BB's Environmental and Social Management System

BB has a process to assess environmental and social impacts and risks of all its customers, applying the relevant national regulatory framework and taking into consideration the specific features of the sectors and areas of influence in which its customers operate (including potential impact in the environment, in neighboring communities, and in disadvantaged and vulnerable social groups).

Based on this assessment, BB includes in their loan agreements with customers provisions for the management of environmental and social risks that are proportionate to the risk of their activities and clauses of maturity that consider compliance with the agreed measures.

The responsibilities and authorities for managing environmental and social risks are clearly defined and communicated and the staff in charge of E&S risk management is properly trained.

Furthermore, BB has established requirements for appropriate disclosure of information, consultation and continued engagement between companies that develop activities with medium and high socioenvironmental ratings and neighboring communities as well as well-established channels for receiving and facilitating resolution of concerns and grievances.

Throughout Project Implementation, BB will enhance its already robust Environmental and Social Management System, with particular attention to the Project window, by:

a) Adopting and ensuring compliance with the Project-Specific Exclusion List set forth in the IBRD Loan Agreement, which aims i) to exclude high environmental and social risks associated with investments in certain sectors and companies and ii) to ensure consistency with the principles and requirements of the World Bank Performance Standards enshrined in OP 4.03

Project-Specific Exclusion List
1. Companies that in their operations face proofs of: a) practices of sexual exploration of minors or exploration of child labor in their operations; b) submitting workers to degrading forms of labor or maintain them in conditions analogous to slavery; c) being involved in their operations with activities that (i) imply on the relocation of Indigenous Peoples from lands and natural resources subject to traditional ownership or under customary use, and/or (ii) have significant adverse impacts on critical cultural heritage that is essential to the identity or the cultural, ceremonial and spiritual aspects of Indigenous Peoples, and/or (iii) use the cultural heritage (knowledge, innovations or practices) of Indigenous Peoples for commercial purposes; d) being involved in their operations with activities that lead to forced eviction or significant involuntary resettlement resulting from the types of land-related transactions defined by paragraph 5 of PS 5 Land Acquisition and Involuntary Resettlement; and e) unsettled law suits derived from complaints made by local populations over significant environmental and social issues related to their operations.
2. Companies operating in: a) in agribusinesses in areas embargoed by the Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis – IBAMA; b) commercial logging in primary tropical moist forest or purchasing logging equipment for use in primary tropical rainforest; c) commercial mining in natural areas or purchase of mining equipment for use in mining operations located in natural areas; and/or d) drift net fishing in the marine environment using nets in excess of 2.5 km in length.
3. Companies that are engaged with the cultivation, renewal or funding of crops or industrialization of sugarcane for production of ethanol and other byproducts of sugarcane and sugar in areas not listed as appropriate by the Agricultural and Ecological Zoning of sugarcane and new sugarcane areas (after October 2009) within the Biomes of Amazonas and Pantanal or within the Bacia do Alto Paraguai.
4. Companies that are involved with operations located in critical habitats or converting or degrading natural

	habitats
5.	Companies that are involved in the construction, operation or maintenance of dams, mining tailings dams, or ash ponds which a) structural elements or components are situated in high-risk locations, and their failure or malfunction may threaten the safety of communities and b) the company has not engaged one or more external experts with relevant and recognized experience in similar infrastructures – separate from those responsible for the design and construction – to conduct a review in project development and throughout the stages of design, construction, operation, and decommissioning and c) lacking a positive stability condition declaration issued by relevant authorities and/or technical experts.
6.	Companies operating in the production or trade of: a) any product or activity deemed illegal under host country laws or regulations or international conventions and agreements; b) weapons and munitions; c) alcoholic beverages (excluding beer and wine); d) tobacco; e) radioactive materials; f) pharmaceuticals subject to international phase outs or bans; g) products containing polychlorinated biphenyls; h) unbonded asbestos fibers; i) wildlife or wildlife products regulated under CITES (convention of international trade in endangered species of wild fauna and flora); and j) pesticides/herbicides subject to international phase outs or bans.
7.	Companies that have operations linked to unregulated gambling or wagering.
8.	[*In compliance with the World Bank OP 7.50 – Projects on International Waterways*] Companies operating a) hydroelectric, irrigation, flood control, navigation, drainage, water and sewerage, industrial, and similar projects that involve the use or potential pollution of international waterways[1] whenever there is no previously agreed and signed International Treaty among the neighboring national states with regards to the uses of these international waterways.

b) Implementing the Environmental Social Action Plan with clearly defined timelines and responsibilities described in Section III.A, below and also set forth in the Loan Agreement.

c) The submission for reimbursement exclusively of eligible expenditures of companies that meet i) the criteria of verification of the mitigation targets and ii) the environmental and social requirements set forth in the Project Operation Manual.

d) Developing and including in the by-laws of CDF an specific Environmental and Social Management System to be adopted by its manager as a condition for its capitalization and operation with Project support. This specific ESMS will follow the principles and hold the functionalities and capacities that are required by the World Bank Performance Standards as a condition for the creation, capitalization and operation of CDF. The World Bank will review and provide prior no-objection to this Fund-Specific ESMS.

The overall arrangement for E&S risk management of the Project, considering BB's existing ESMS and Project-specific E&S requirements set forth in the ESAP are presented as follows:

[1] According to the World Bank OP 7.50, international waterways include: a) any river, canal, lake, or similar body of water that forms a boundary between, or any river or body of surface water that flows through, two or more national states; b) any tributary or other body of surface water that is a component of any waterway described in (a) above; and (c) any bay, gulf, strait, or channel bounded by two or more national states or, if within one state, recognized as a necessary channel of communication between the open sea and other states-- and any river flowing into such waters.

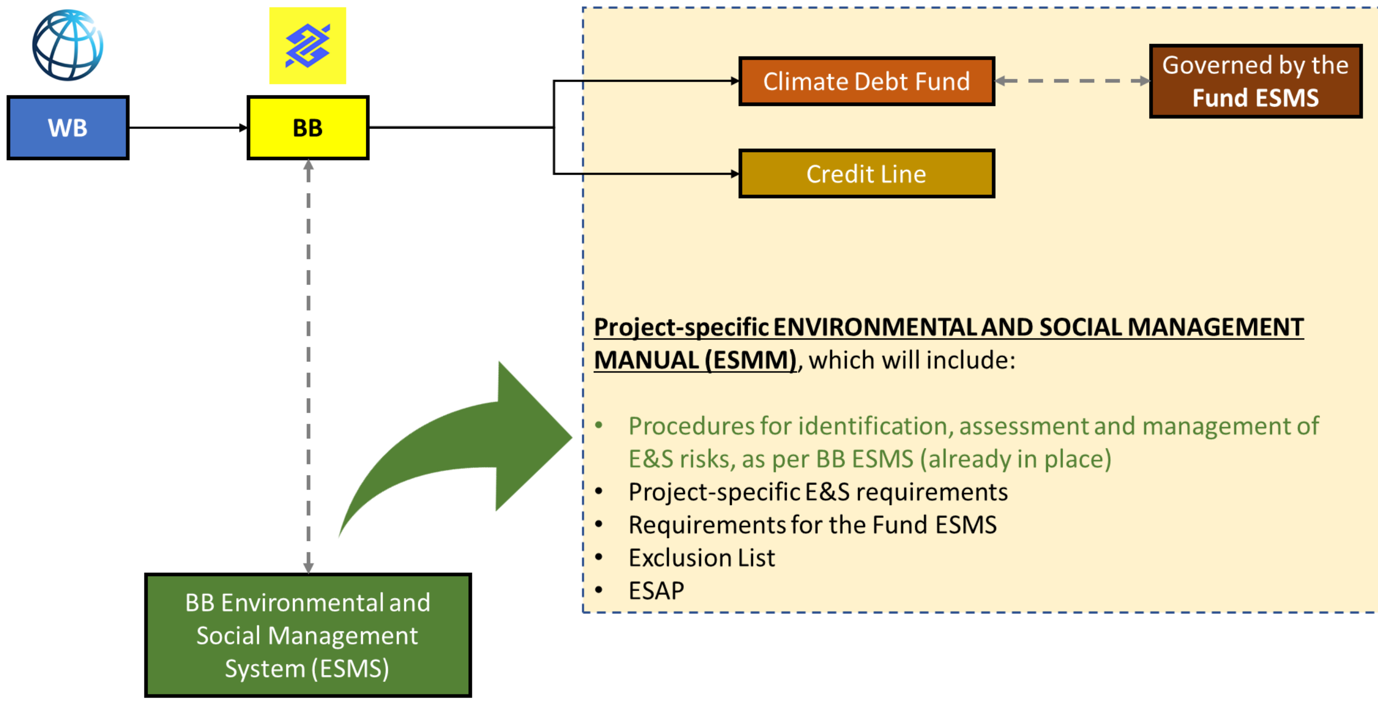

Figure 1: Project arrangement for E&S risk management.

PS 2 Labor and Working Conditions

Overview of the relevance of PS2

This Performance Standard is relevant.

The Project will engage workers directly and through third parties to perform work related to core business processes for a substantial duration and workers may also be engaged by main primary supplies (supply chain workers). BB operates under a broad, well-established and adequately enforced regulatory framework for labor and working conditions (including fair, equitable, and non-discriminatory treatment), workers' freedom of association, measures for protection of the labor force (including minimum age of work, prohibition of any form of forced labor, and measures against S*exual Harassment, Abuse and Exploitation*) and international standards of Occupational Health and Safety (The Consolidation of Labor Laws – Decree-Law 5,452/43 and subsequent legislation, Labor Code, and Penal Code).

In terms of the regulatory framework, it can be highlighted that Resolution BCB 139/2021 includes noncompliance with labor or pension legislation and practices related to slave-like labor conditions or irregular, illegal or criminal exploitation of child labor among the social risks to be assessed, addressed and informed by financial institutions. Furthermore, SARB Normative 14/2014 (art. 15) includes a) combating slave labor, child labor, and sexual exploitation, b) promoting diversity and inclusion practices and c) complying with labor obligations and Occupational Health and Safety Regulatory Standards as essential aspects to be considered by financial institutions in managing their socio-environmental impacts. The "Policy" also calls for respecting fundamental labor rights and protecting the work force within the bank and across the value chains in which the bank operates, by combating all forms of discrimination, forced labor, exploitation of child labor, sexual harassment, exploitation and abuse and keeping channels to receive and redress grievances related with work places and working conditions.

BB has adopted well-disseminated corporate labor management procedures applicable to the labor force.

Thus, BB's "Policy" is based on measures consistent with the principles of PS2, including: rejection of conducts that may characterize harassment of any nature; respect for the Universal Declaration of Human Rights, fighting discrimination; commitment to the eradication of all forms of degrading work, child, forced and slave labor; promotion of quality of life at work, prioritizing health and safety at work, considering the individual in its biological, psychological and social dimensions; adoption of exclusion criteria in the realization of business: child, forced and slave; the promotion of quality of life at work, prioritizing health and safety at work, considering the individual in his biological, psychological and social dimensions; the adoption of exclusion criteria in doing business, contracting goods and services, investments or corporate partnerships with third parties that subject workers to degrading forms of work or slave-like conditions or that practice the sexual exploitation of minors and/or child labor.

Furthermore, Agenda 30 BB 2021-2023 has set the goal of achieving a rate of 30% of women and 23% of Afro-Brazilian employees in leadership positions by 2025. BB’s internal regulations emphasize that selection criteria (such as age, gender, race, time in the bank, among others) that characterize discrimination and prejudice are not used, promote gender-affirmative actions in corporate career advancement programs, combat practices discrimination and seek to include diversity with a focus on attention to people with disabilities, LGBTIQIA+ (including the use of the social name and the recognition of same-sex partners). Furthermore, the “Directives” incorporates provisions aimed at promoting (a) the fair treatment, non-discrimination and equal opportunity of workers hired by its Clients, (b) compliance with national employment and labor laws, (c) the protection of workers engaged by third parties, by its clients and by the clients supply chain, (d) safety and healthy working conditions and (e) avoidance of the use of child and forced labor. These provisions are consistent with the requirements and objectives of this Performance Standard.

The “Guidelines” also states the commitments to:

Support companies that observe the valorization of the work of women, people with disabilities and minority groups [BBG-42].

Prohibit the concession of credit to companies that submit workers to degrading forms of labor or conditions analogous to slavery, the sexual exploitation of minors and child labor or that are responsible for malicious damage to the environment [BBG-45].

Support companies and enterprises that adopt health and safety practices, policies and systems aimed at promoting a safe and healthy work environment for their own and third-party employees [BBG-49].

Withhold financing to companies who incur in crimes resulting from racial or gender discrimination practices [BBG-51].

In fact, Human Rights is one of the four strategic themes that permeate the “Guidelines” and the violation of Human Rights in matters related with slave-like, child and degrading labor is one of the relevant socio-environmental issues addressed. Thus, as part of the BB’s Exclusion List, companies or customers that submit workers to degrading forms of labor or maintain them in conditions analogous to slavery or explore child labor already are denied financing

Furthermore, BB’s human resources policies and procedures – set in BB’s Code of Ethics (last updated in 2021) - addresses issues related with: (a) respect to social, cultural physical, race, religious, sexual orientation and gender identity diversities in the work place; (b) good practices of personal relationships; (c) occupational health and safety;

(d) repudiation of conducts that may characterize harassment of any nature or may lead to discrimination or its inducement; (e) respect for worker's rights to form and join worker's organizations and to bargain collectively with negotiation as a permanent practice; and (f) compliance with the labor, social security and fiscal legislation and measures to ban child and forced labor and to protect the environment.

Finally, BB has a specific policy for occupational health and safety in the workplace (the "OHS Policy") under the responsibility of the Human Resources Director. This OHS Policy complies with Law 6,514/77, Ordinance 3,214/78, Decree 7,602/11, NBR 18,801 and ISO 45,001/18 and shall be reviewed every three years. It is based on compliance with the Brazilian legislation and adoption of International Best Practices. It aims to protect workers by anticipating, acknowledging, evaluating and controlling the occurrence of risks in working processes and environment as well as to promoting behaviors that avoid or minimize the risks. It also fosters the participation of the workers in the management system of occupational and health safety in the workplaces through the Internal Commission of Accident Prevention and requires continued training in OHS for all workers. BB maintains a network across the country (Service of Engineering and Occupational Medicine - SESMT), which operates in accordance with the legislation [https://api.mziq.com/mzfilemanager/v2/d/5760dff3-15e1-4962-9e81-322a0b3d0bbd/7c870835-cd76-ce89-7b52-5d8b6e06765d?origin=1].

BB Worker's Freedom of Association – BB employees are represented by two workers' organizations: the National Confederation of Workers of the Finance Sector (CONTRAF – Confederação Nacional de Trabalhadores do Ramo Financeiro) and the National Confederation of Workers in Credit Companies (CONTEC – Confederação Nacional dos Trabalhadores nas Empresas de Crédito). Two collective bargaining agreements were signed in 2020 between Bank of Brazil and these worker's organizations that are valid and in force until 2022.

Grievance Mechanism **–** BB keeps an autonomous and specialized Internal Ombudsman Office to receive and redress grievances and denunciations from workers, which can be made anonymously. The Internal Ombudsman's premises are confidentiality and repudiation of any retaliation against the complainer. The Internal Ombudsman can be reached through several channels: e-mail (ouvidoriainterna@bb.com.br), phone, intranet, letter or personal assistance. Aimed at employees, interns, apprentices and contractors, the Internal Ombudsman receives calls and complaints about conflicts in the workplace, misconduct, noncompliance with internal rules and complaints regarding human management processes. Furthermore, it acts as an intermediary in conflict resolution and assesses any suspected objectionable behavior. Once a serious incident is identified, the case is referred to investigation, analysis and trial by the Disciplinary Control, which sets involvement, accountability and defines how to handle the case and those involved.

Labor Standards among Customers/Suppliers – It is relevant to highlight that all BB's credit instruments have an extraordinary/early maturity clause in cases of non-compliance with laws and regulations relating to Human Rights, including combating child labor and sexual exploitation and abuse; combating forced and/or slavery-like labor; combating race and gender discrimination; and fostering working opportunities of women. BB always consults the Ministry of Labor and Employment's list of employers that subject workers to conditions analogous to slave labor and recorded a note in the register of clients on the list, preventing them from operating with loans/financing. If the client already has operations with BB and becomes part of the list, BB has the prerogative to close the operations in advance.

Hence, BB guidelines and human resource policies are well aligned with the principles and requirements of PS 2 as: (a) its human resource policies are readily accessible by employees, clear and understandable and provide information on rights under national labor and employment laws; (b) document and communicate working conditions and terms of employment – in accordance to the national law and collective agreements – to all workers directly contracted; (c) make available a grievance mechanism to review and address employee complaints; (d) allow workers to form and join workers organizations without retaliation or discrimination; (d) hold documented transparent procedures for recruitment, discipline, promotion that are non-discriminatory and fair; (e) ensure that child labor and forced labor are not used directly or through contractors or in the supply chain; and (f) provide it workers with a safe and healthy work environment.

Throughout Project implementation, BB will follow these principles as they are enshrined in its policies and the national law as well as consistent with the provisions of the World Bank PS 2. To enhance further these provisions, the Project-specific Exclusion List set forth in the Loan Agreement requires that BB and the Debt Fund Manager do not provide financing to companies that in their operations:

- Face proofs of practice of sexual exploration of minors or exploration of child labor; and/or
- Face proofs of submitting workers to degrading forms of labor or maintain them in conditions analogous to slavery.

PS 3 Resource Efficiency and Pollution Prevention

Overview of the relevance of PS3:

This Performance Standard is relevant. The Project will support Eligible Companies operating in sectors that are the main GHG emitters in the country and committed to implement Mitigation Plans and Targets that may contribute to reduce GHG emissions and to avoid, minimize and/or control the release of pollutants to air, water, and land due to routine (as well non-routine or accidental) circumstances.

By the "Policy", BB commits to a) develop actions aimed at socio-environmental management, eco-efficiency, and prevention of pollution and carbon emissions in products, services, and processes, as well as care for the proper disposal of waste generated and b) support initiatives and enter into partnerships that contribute to mitigating the effects of climate change and that aim to reduce emissions or stabilize the concentration of greenhouse gases in the atmosphere.

The "Guidelines" deal with several aspects related with resource efficiency and pollution prevention and management in a manner that is consistent with the requirements of this Performance Standard. Thus, BB supports the adoption of practices that allow adaptation to climate change. Thus, they require BB to:

> Support the adoption of practices that allow adaptation to climate change, such as: the improvement, development and diversification of production systems, the management of water resources, the contracting of insurance, and the opening of new markets [BBG-2].
>
> Make credit lines available for companies that preserve resources and/or reduce risks to the environment and that use clean technologies, innovative and more efficient processes and productive arrangements [BBG-7].
>
> Support companies that contribute to the conservation of water resources; water storage; water, waste and effluent treatment; reduction; recycling, reuse, and monitoring of water use [BBG-8].
>
> Support, through credit and financial advice, projects that contribute to the development of a low carbon economy, especially financing for low carbon agriculture, energy efficiency, renewable energy (wind, photovoltaic, biomass and small hydro), among others [BBG-12].

Support clients that adopt responsible consumption policies and practices, aiming at eco-efficiency and innovation in the use of inputs, minimizing and correctly disposing of waste and refuse [BBG-13].

Support customers that adopt more energy efficient systems, including through the use of by-products from the industrial process to generate and cogenerate energy [BBG-14].

Support proposals for enterprises that contemplate hydric risk analysis and the mitigation of environmental impact in the hydrographic basin(s) where they are located, when applicable [BBG-18].

Support the reduction and absorption of greenhouse gases in support of the Sector Plan for Mitigation and Adaptation to Climate Change for the Consolidation of a Low Carbon Emission Economy in Agriculture (ABC Plan) and the Nationally Determined Contribution (NDC) of the Brazilian government before the parties to the Paris Agreement [BBG-23].

Observe in the contracting of real estate credit operations the adequate management of water, energy, materials and residues through the PBQP-H or ISO 9001 Certification, as the case may be [BBG-36].

Support companies that present forms of control and new technologies that reduce, eliminate and compensate the emission of greenhouse gases (GHG) into the atmosphere [BBG-39].

Consider proposals from companies that have the capacity to implement prevention and preparation actions for national response to incidents of pollution and/or contamination by oil and its derivatives [BBG-40].

Support proposals from companies that have actions aimed at reducing the emission of Greenhouse Gases (GHG), such as: inventory of emissions, analysis of reduction alternatives, implementation of compensation projects, adaptation and use of low GHG emission vehicles, among others [BBG-41].

Therefore, in line with the PS3, the BB’s ESMS outlines a set of requirements applicable to subloans/investments on resource efficiency and pollution prevention and control in line with internationally disseminated technologies and practices. The BB’s ESMS adequately addresses issues related with the use of chemical pesticides.

PS 4 Community Health, Safety and Security

Overview of the relevance of PS4:

This Performance Standard is relevant. As the Project will finance Eligible Companies that can implement Mitigation Plans and Targets aimed at reducing GHG emissions, it is not expected that its sub-loans will (a) increase community exposure to (i) health and safety risks and impacts and water-borne, water-based, water-related, vector-borne and communicable diseases, or (ii) hazardous materials and substances that may be released by their routine and non-routine activities and may be life-threatening, or (b) affect ecosystem services in a way that may result in health-related risks or impacts, or (c) accelerate, intensify or exacerbate the impacts from climate change. On the contrary, the impact on the health and safety of communities located within and nearby the areas where the Eligible Companies operate tend to be positive.

Brazil has a robust legislation with regards to the identification and proposition of preventive/mitigating measures related to the impacts on the affected communities. CONAMA Resolution 01/86 defines environmental impact as any change in the physical, chemical and biological properties of the environment, caused by any form of matter or energy resulting from human activities that directly or indirectly affect: a) the health, safety and welfare of the population; b) social and economic activities; c) the biota; d) the aesthetic and sanitary conditions of the environment; and e) the quality of environmental resources. Regarding the environmental licensing process, community safety aspects are assessed during the socioeconomic diagnosis phase, when potential issues related to building site location, accesses use, proximity to communities, etc., are identified and the related mitigating measures are proposed. Law 9,605/98 (the Environmental Crimes Law) establishes the sanctions and penalties related to conducts harmful to the environment, including activities that cause pollution of any nature at levels that result or may result in harm to human health, or cause the death of animals or significant destruction of the flora, with penalties more severe if the crime renders an area, urban or rural, inappropriate for human occupation, or causes atmospheric pollution that requires the removal, even momentarily, of the inhabitants of the affected areas, or that causes direct damage to the population's health, or causes water pollution that requires the interruption of a community's public water supply. Regarding the management of hazardous materials, the main legislation is Law #12,305/10, which establishes the National Policy for Solid Waste. ANTT Resolution #5,947/21 establishes the requirements for dangerous products transportation, including needed authorization and registration, transportation conditions, vehicle conditions, cargo conditioning, personnel training/qualification, procedures related to accidents and emergencies, responsibilities, inspections and sanctions and penalties. Law #12,334/10 establishes the National Policy for Dam Safety and broadly covers the safety aspects of dams' installation and operation. Dam safety is the entrepreneur's responsibility and which enforcement is split among four national regulatory agencies according to the purpose of the dam

The "Guidelines" specifically deals with aspects related with community health, safety and security.

Relevant BB's Guidelines in face of PS 4 Requirements related with Community Health, Safety and Security
Support companies and customers that carry out actions to minimize or compensate for socio-environmental damage [BBG-15].
Require environmental compliance during the life of the operation through clauses in the credit instruments that establish the prerogative of early maturity of the operations in the case of revocation, suspension or cancellation of the environmental licenses, or even for non-compliance with socio-environmental requirements [BBG-21].
Demand, when applicable, proof of adoption of measures to mitigate and compensate for socio-environmental impacts and monitor compliance [BBG-27].
Enforce in the financing contracts of large projects, when applicable, a clause where the company commits to decommission the installations [BBG-38].
Consider proposals from companies that have the capacity to implement prevention and preparation actions for national response to incidents of pollution and/or contamination by oil and its derivatives [BBG-40].
Support companies that observe the valorization of the work of women, people with disabilities and minority groups [BBG-42].
Support companies that adopt procedures to value the interests, culture, customs, values and heritage of local communities and traditional populations [BBG-47].

Support companies that present proposals of value generation for society and the environment from their business model, recognizing organizations that contribute to the socio-environmental development of communities and income generation [BBG-48].
Weigh in the credit analysis the existence of mining tailings dams without a positive stability condition declaration [BBG-50].
Withhold financing to companies who incur in crimes resulting from racial or gender discrimination practices [BBG-51]

BB documents on environmental and social risk management do not address aspects related with the retainment of direct or contracted workers to provide security to safeguard personnel and property, but these activities are strictly ruled by the country's regulatory framework (Law 7,102/83, Law 8,863/94 and Federal Police Ordinance 3,233/2012). Authorizations to carry out activities related with private security (as well as security guards' training courses) are issued by the Federal Police, the Ministry of Justice/Federal Police and the State Secretariats of Public Security. Security Guard Company's owners, directors and other employees may not have a criminal record and, in order to exercise the profession, the security guards must: be Brazilian, born or naturalized; be at least twenty-one years old; have education corresponding to the fourth grade of elementary school; have been approved in a security guard training course, carried out by a duly authorized training course company; have passed health and psychological aptitude exams; have proven suitability through the presentation of negative certificates of criminal record, without records of indictment in a police investigation, of being criminally prosecuted or having been convicted in a criminal proceeding from where he resides, as well as from the place where the training course was carried out, recycling or extension, or from the Federal Court, or the State Court, or the Federal Military Justice or the State Military Justice or the Electoral Justice; be even with the electoral and military obligations; and be registered in the Register of Individuals. Physical and mental health and psychological aptitude exams are renewed when the guard is retrained, at the employer's expense and the psychological examination is applied by professionals previously registered with the Federal Police, according to specific regulations.

Hence, BB guidelines and applicable national law address adequately the community health and safety aspects during design, construction, operations, decommissioning and closure, address emergency preparedness and response requirements in some more risk sectors and clearly define roles and responsibilities related with the retention of security services. To enhance the management of risks related with community health and safety, the Project-specific Exclusion List set forth in the Loan Agreement include the provision of no-financing of companies that:

- are involved in the construction, operation or maintenance of dams, mining tailings dams, or ash ponds which a) structural elements or components are situated in high-risk locations, and their failure or malfunction may threaten the safety of communities and b) the company has not engaged one or more external experts with relevant and recognized experience in similar infrastructures – separate from those responsible for the design and construction – to conduct a review in project development and throughout the stages of design, construction, operation, and decommissioning and c) lacking a positive stability condition declaration.
- Are involved in the production, use or trade of unbonded asbestos fibers.
- Face unsettled law suits derived from complaints made by local populations over significant environmental and social issues related to their operations.

PS 5 Land Acquisition and Involuntary Resettlement

Overview of the relevance of PS5:

This Performance Standard is considered not relevant.

Performance Standard 5 recognizes that project-related land acquisition and restrictions on land use can have adverse impacts on communities and persons that use this land. This performance standard is relevant: a) whenever the occurrence of (i) lawful expropriation and/or temporary or permanent restrictions on land use or (ii) negotiated settlements in which the buyer can resort to expropriation or impose legal restrictions on land use if negotiations with the seller fail is possible (para. 1); b) to help avoid expropriation and eliminate the need to use governmental authority to enforce relocation, clients are encouraged to use negotiated settlements meeting the requirements of this Performance Standard, even if they have the legal means to acquire land without the seller's consent (para. 3); and c) under certain project situations requiring evictions of people occupying land without formal, traditional, or recognizable usage rights (para. 5).

None of these three circumstances are envisaged under the Project. Under the Brazilian legislation, loans provided to private companies would not meet any of the criteria considered under the two conditions in which lawful land expropriation processes can start (on behalf of public interest or social interest). Furthermore, BB will provide sub-loans to private companies, which do not have the power to carry out lawful expropriation, temporary or permanent restrictions on land use or negotiated settlements in which the buyer can resort to expropriation or impose legal restrictions on land use if negotiation with the seller fails.

Additionally and preventatively, the Project-specific Exclusion List set forth in the Loan Agreement includes the provision of withholding the concession of sub-loans or suspending the sub-loans conceded to companies that face proofs of being involved with activities that lead to forced eviction or significant involuntary resettlement resulting from the types of land-related transactions defined by paragraph 5 of PS5 Land Acquisition and Involuntary Resettlement.[22]

PS 6 Biodiversity Conservation and Sustainable Management of Living Natural Resources

Overview of the relevance of PS6:

This Performance Standard is relevant. The Agriculture and Forest sectors are the main emitters of GHG in Brazil. Many of the MSMEs that may become eligible to get sub-loans from BB and the Debt Fund as part of the Subcomponents 1.1 and 1.2 are expected to be from these two sectors, which have been main drivers of deforestation and biodiversity loss in the country – particularly as they expand over the Amazon Rainforest and the Cerrado biome.

[22] The list of land transactions referred to in paragraph 5 of PS 5 comprises: land rights or land use rights acquired through expropriation or other compulsory procedures in accordance with the legal system of the host country; land rights or land use rights acquired through negotiated settlements with property owners or those with legal rights to the land if failure to reach settlement would have resulted in expropriation or other compulsory procedures; project situations where involuntary restrictions on land use and access to natural resources cause a community or groups within a community to lose access to resource usage where they have traditional or recognizable usage rights; certain project situations requiring evictions of people occupying land without formal, traditional, or recognizable usage rights; or restriction on access to land or use of other resources including communal property and natural resources such as marine and aquatic resources, timber and non-timber forest products, freshwater, medicinal plants, hunting and gathering grounds and grazing and cropping areas.

Given the focus of the project on developing the voluntary carbon market in Brazil and its focus on companies that can implement Mitigation Plans and Targets (fostering low-carbon and climate-smart agriculture, promoting more efficient use of resources or any other activities that contribute to reduce GHG emissions), the sub-loans are strongly connected with the sustainability of common goods and expected to bring co-benefits related with biodiversity protection and conservation, the maintenance of the benefits of ecosystem services, and the sustainable management of living natural resources. However, some of the companies that apply for these sub-loans may be located in modified and natural habitats or be dependent on ecosystem services. During the environmental and social risk screening of these companies, the direct and indirect impacts of their activities on biodiversity and ecosystem services shall be identified and threats to biodiversity and ecosystem services (such as habitat loss, degradation and fragmentation, invasive alien species, overexploitation, hydrological changes, nutrient loading and pollution) shall be considered even if they are just residual impacts.

Biodiversity conservation and sustainable management of living natural resources are also intensively addressed by BB's "Guidelines".

Relevant BB's Guidelines in face of PS 6 Requirements related with Biodiversity Conservation and Sustainable Management of Living Natural Resources
Support the environmental regularization of rural properties, as defined by the Forest Code, and offer credit lines for the recovery of the Legal Reserve and Areas of Permanent Preservation [BBG-4].
Support the national strategy to reduce deforestation rates through government plans to combat deforestation: Action Plan for the Prevention and Control of Deforestation in the Legal Amazon; Plan for the Protection and Combat of Burning and Deforestation in the Cerrado Biome, among others [BBG-5].
Support companies and projects that adopt sustainable agricultural production practices, such as: organic agriculture, agroforestry systems, Agricultural Integrated Production System (PI Brazil) and Animal Welfare [BBG-10].
Support, through credit and financial advice, projects that contribute to the development of a low carbon economy, especially financing for low carbon agriculture, energy efficiency, renewable energy (wind, photovoltaic, biomass and small hydro), among others [BBG-12].
Support the adoption of sustainable practices with companies involved in the value chain of agricultural, timber and non-timber forest products and other raw materials that have direct and indirect impacts on water resources, ecosystems and biodiversity [BBG-32].
Apply mechanisms to encourage the recovery of degraded areas, Legal Reserve and Permanent Preservation Areas as defined by the Forest Code, and the use of clean technologies [BBG-22].
Figure in granting rural credit the observance of the recommendations and restrictions of Agroecological Zoning, Agricultural Climate Risk Zoning and Ecological-Economic Zoning (ZEE), when available [BBG-26].
Enter into partnerships to orient and support rural producers that adopt water and soil conservation practices [BBG-28].

Encourage the increase in productivity of cattle ranching, and its integration with crops and/or forests, as a strategy to reduce the pressure for opening new areas/deforestation [BBG-30].
Encourage practices related to certification for Good Agricultural Practices in agricultural and forestry production [BBG-31].
Strengthens family farming by transferring resources to finance sustainable production practices and ensure the food security of family farmers.
Encourage forestation, reforestation, and forest management activities, in order to supply the timber industry and reduce the pressure on native vegetation areas [BBG-34].
Encourage the adoption of differentiated production models such as crop-livestock-forest integration systems, agroforestry or agroforestry-pastoral systems, direct planting systems, and reduction in the use of nitrogen fertilizers [BBG-35].

Given these guidelines, the Project is neither expected to provide sub-loans to companies with activities located in critical habitats or within legally protected and internationally recognized areas, nor sub-loans to companies with activities that convert or degrade natural habitats. Eligible Companies pursuing land-based agribusiness and forestry activities are expected to operate only on unforested land or land already converted. Eligible Companies are also expected to incorporate the application of industry-specific good management practices and available technologies, managing living natural resources in a sustainable manner, as well as to purchase primary production from primary suppliers who do not produce where there is a risk of significant conversion of natural and/or critical habitats and who are not adversely impacting natural and/or critical habitats.

Where the Eligible Companies operate in the commercial agriculture and forestry sector, BB already requires they located on land that is already converted, modified habitats or legally allowed under Brazilian Forest Code, implement sustainable management practices, and avoid impacts on biodiversity and ecosystems services. Nevertheless and given that such activities have the potential to introduce invasive alien species and threaten biodiversity, these companies shall be required to adopt measures to avoid, minimize, mitigate or offset their potential threats to natural habitats.

In summary, the BB's ESMS requirements are consistent with the PS6 recognizing that protecting and conserving biodiversity, maintaining ecosystem services, and sustainably managing living natural resources are fundamental. To enhance the management of relevant environmental risks, the Project-specific Exclusion List to be set forth in the Loan Agreement includes the no-financing of sub-loans to companies that:

- Are involved with operations located in critical habitats or within legally protected, or involved with the conversion or degradation of natural habitats.
- Are engaged in agribusinesses in areas embargoed by the Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis – IBAMA.
- Are involved in the commercial logging operations for use in primary tropical moist forest or the purchase of logging equipment for use in primary tropical moist forest.
- Are engaged with the cultivation, renewal or funding of crops or industrialization of sugarcane for production

of ethanol and other byproducts of sugarcane and sugar in areas not listed as appropriate by the Agricultural and Ecological Zoning of sugarcane and new sugarcane areas (after October 2009) within the Biomes of Amazonas and Pantanal or within the Bacia do Alto Paraguai.

- Are involved in the trade in wildlife or wildlife products regulated under CITES (convention of international trade in endangered species of wild fauna and flora).
- Are involved in the drift net fishing in the marine environment using nets in excess of 2.5 km in length.
- Are involved in the production, use or trade of pesticides/herbicides subject to international phase outs or bans.
- Are involved in the commercial mining operation in natural areas or purchase of mining equipment for use in mining operations located in natural areas.

PS 7 Indigenous Peoples

Overview of the relevance of PS7:

This Performance Standard is relevant. It requires the identification of all communities of Indigenous Peoples within the project area of influence who may be affected by the project; the identification of the nature and degree of the expected direct and indirect economic, social, cultural (including cultural heritage), and environmental impacts on them; and the avoidance (where possible) of any adverse impacts on Affected Communities of Indigenous Peoples – or, where avoidance is not possible – the minimization, restoration, and/or compensation for these impacts in a culturally appropriate manner commensurate with the nature and scale of such impacts and the vulnerability of the Affected Communities of Indigenous Peoples.

The Project will finance private companies (with special focus on MSMEs) from BB's client-base – which may or may not include companies owned or led by Indigenous Peoples – that can implement Mitigation Plans and Targets. Many of these Eligible Companies are expected to be operating in the Agriculture and Forestry sectors. Overall, the effects of the implementation of these Mitigation Plans and Targets are expected to be beneficial for the livelihood and well-being of Indigenous Peoples who may be found within the direct area of influence of the financed companies as they may – directly or indirectly – contribute to reduce the pressures and threats that Indigenous lands are facing due to the expansion of the agriculture frontier.

Hence, it is expected that even if Indigenous peoples (and traditional communities) do not benefit directly of the financed private sector sub-loans, they may be able to derive co-benefits from project supported activities, which are related with the reduction of pressure for converting new native forest areas, the protection of headwaters and riparian zones, the improvement of the physical, chemical and biological conditions of the soil, the reduction of water and soil pollution, and the better conservation of natural resources on which their livelihoods hugely rely as far as the Project (and the Mitigation Plans and Targets that the Eligible Companies will implement) introduce or influence towards the adoption of more sustainable practices and procedures on the operations of these companies.

The Brazilian indigenist regulatory framework is robust with regards to the licensing of operations that may have adverse impact on Indigenous Lands, requiring the free, prior and informed consultation of the affected Indigenous Peoples, technical assessment and authorization of the National Indian Foundation (Fundação Nacional do Índio – FUNAI) and compensation for adverse impacts (FUNAI Normative Instruction 1/2012, FUNAI Normative Instruction

2/2012, Interministerial Regulation 60/2015 and IBAMA/FUNAI Joint Normative Instruction 1/2021). Furthermore, Brazil is one of the signatories of ILO 169 Convention (Decree 5,051/2004 and Decree 10,088/2019) and the United Nations Declaration on the Rights of Indigenous Peoples. Finally, according to BB's socio-environmental Directives, any investments led by non-indigenous private sector companies within or with impacts on Indigenous Lands are part of BB's restrictive list and require Environmental Impact Assessments as part of their licensing process, in which FUNAI is always consulted.

BB's "Guidelines" and "Directives" address aspects related to Human Rights, including – among others – issues related i) to race and gender discrimination, ii) the work of women, people with disabilities and minority groups, iii) the protection of indigenous lands, and iv) the valorization of local communities and traditional populations. All the credit instruments have a clause for extraordinary early maturity in cases of non-compliance with laws and norms related to Human Rights, which contemplate the respect for traditional peoples and communities, among which are indigenous people, quilombolas, rubber tappers, and riverside dwellers, among others. Three "Guidelines" are relevant for this Performance Standard.

Relevant BB's Guidelines in face of PS 7 Requirements related with Indigenous Peoples
Prohibit the concession of credit to clients when it is destined to finance activities developed by third parties on indigenous lands [BBG-44].
Support companies that adopt procedures to value the interests, culture, customs, values and heritage of local communities and traditional populations [BBG-47].
Support companies that present proposals of value generation for society and the environment from their business model, recognizing organizations that contribute to the socio-environmental development of communities and income generation [BBG-48].

The Brazilian indigenist regulatory framework, the "Policy" and the "Guidelines" of BB are well aligned with the principles and requirements of PS 7 as they include measures to avoid adverse impacts on Indigenous Peoples, to avoid impacts on traditional or customary lands under use of Indigenous Peoples, to promote informed participation of Indigenous Peoples, to respect their values, norms and knowledge, and to provide for fair and equitable sharing of benefits with them.

These principles and requirements will be enhanced by the adoption of the Project-specific Exclusion List set forth in the Loan Agreement, which includes the veto to provide sub-loans to Companies that face proofs of been involved with activities that (a) imply on the relocation of Indigenous Peoples from lands and natural resources subject to traditional ownership or under customary use, and/or (b) have significant adverse impacts on critical cultural heritage that is essential to the identity or the cultural, ceremonial and spiritual aspects of Indigenous Peoples, and/or (c) use the cultural heritage (knowledge, innovations or practices) of Indigenous Peoples for commercial purposes.

PS 8 Cultural Heritage

Overview of the relevance of PS8:

This Performance Standard – which aims to protect cultural heritage from the adverse impacts of project activities and support its preservation and to promote the equitable sharing of benefits from the use of cultural heritage, regardless of whether or not it has been legally protected or previously disturbed - is relevant, although the risks with regards to cultural heritage are foreseen to be low.

The Eligible Companies financed by BB sub-loans as part of this operation are neither expected to operate in locations where they can have impacts on cultural heritage (replicable or critical tangible cultural heritage), nor to carry out operations that use cultural heritage (including knowledge, innovations or practices of local communities for commercial purpose).

The Brazilian regulatory framework with regards to the protection of tangible and intangible cultural heritage (including chance finds procedures) is well-developed and well aligned with the principles and requirements of PS8 – Cultural Heritage. the National Historical and Artistic Heritage Institute (IPHAN) is responsible for the protection of cultural heritage and comprises 27 Superintendencies (one in each Federative Unit), 28 Technical Offices and five Special Units. IPHAN is always preventively consulted in environmental licensing processes conducted by federal, state or municipal agencies (Ministerial Decree 60/2015) to ensure that a project or activity in the licensing process will not impact or destroy the cultural heritage assets. During the environmental licensing process, IPHAN analyzes aspects related with the risks and impacts to tangible and intangible resources and the proposed mitigation measures.

Furthermore, IPHAN may require a Program of Management of Cultural Heritage or the presentation of a Commitment by the entrepreneur for projects with low interference on the land, located in modified habitats that are not coincident to registered archeological sites. IPHAN shall also be consulted on decisions upon guaranteeing or not access of stakeholders to cultural heritage taken during the environmental licensing process (Decree Law 25/1937, Law 3924/1961, Decree 3551/2000, Law 11483/2007, and IPHAN Instruction 001/2015).

Finally, whenever "chance finds” occur it is mandatory to stop works in the site and make an immediate communication to IPHAN, which nominates an specialist to oversee programs related with the management of impacts on cultural heritage. Existing chance finds procedures include measures of archeological rescue where it is not possible to promote in situ preservation and the identification of institutions able to receive the materials (Law 3,924/1961 and IPHAN Normative Instruction 01/2015).

Cultural heritage is also addressed by BB’s “Guidelines, which require BB to support companies that adopt procedures to value the interests, culture, customs, values and heritage of local communities and traditional populations [BBG-47].

Eligible Companies will commit to comply with the National Legislation on Cultural Heritage.

B. Other Relevant Project Risks

None.

C. Reliance on Borrower’s policy, legal and institutional framework, relevant to the Project’s specific ES risks and impacts. This is relevant only for components that apply the ESSs.

The ESSs do not apply to this Bank-supported project.

D. Common Approach (yes/no). This is relevant only for components that apply the ESSs.

The ESSs do not apply to this Bank-supported project.

E. Legal Operational Policies that Apply (to the Project)

OP 7.50 Projects on International Waterways No

Explanation:

Given the current understanding of the Project design and as stated in the Project-Specific Exclusion List, companies operating a) hydroelectric, irrigation, flood control, navigation, drainage, water and sewerage, industrial, and similar projects that involve the use or potential pollution of international waterways (as defined by OP 7.50)[23] will not be eligible for Project-financing whenever there is no previously agreed and signed International Treaty among the neighboring national states with regards to the uses of these international waterways.

OP 7.60 Projects in Disputed Areas No

Explanation:

The Project will not be carried out within disputed areas. This will be clearly set out in the Negative List of investments for the Project per the IBRD Loan Agreement.

III. CLIENT's ENVIRONMENTAL AND SOCIAL ACTION PLAN (ESAP)

Provide a summary of the actions required under the ESAP

	Description	Anticipated Completion Date
PS1 Assessment and Management of Environmental and Social Risks and Impacts		
1	Environmental and Social Risk Management: BB will ensure compliance with the Project-Specific Exclusion List set forth in the Loan Agreement and develop a Project Specific Environmental and Social Management Manual based on a) its existing Environmental and Social Management System, b) the Project-Specific Exclusion List, and c) the requirements of the ESAP. This Manual will set the Project-specific E&S criteria to validate the eligible expenditures submitted to reimbursement and will be a covenant for disbursements.	Within 30 days after Project Effectiveness and thereafter throughout project implementation
2	Environmental and Social Risk Management: BB will ensure that all Eligible Companies supported by the Project that engage in operations with moderate to substantial social or environmental risks are operated in a manner consistent with the WB Performance Standards and will	As part of the environmental and social risk assessment of the proposed Eligible Companies and

[23] According to the World Bank OP 7.50, international waterways include: a) any river, canal, lake, or similar body of water that forms a boundary between, or any river or body of surface water that flows through, two or more national states; b) any tributary or other body of surface water that is a component of any waterway described in (a) above; and (c) any bay, gulf, strait, or channel bounded by two or more national states or, if within one state, recognized as a necessary channel of communication between the open sea and other states-- and any river flowing into such waters.

	submit the first five proposals submitted by Eligible Companies to prior review and no-objection by the World Bank. The Bank will retain the prior review right until satisfactory with the BB's E&S capacity and performance.	throughout project implementation
3	Due Diligence: BB will facilitate the Bank periodically reviews a sample of Project-beneficiary Eligible Companies with a Socio-Environmental Rating classified as D, E and F (according to BB`s classification system). Bank implementation support may include visits to the FI, as well as to selected recipients of FI loans/investments. The frequency and focus of supervision visits will be commensurate with the identified and reported environmental and social risks of investments.	Within 120 days after Project Effectiveness and thereafter throughout project implementation.
4	Incidents and Accidents BB shall immediately notify the Bank of any environmental and social accidents/incidents, including, inter alia, cases of sexual exploitation and abuse, sexual harassment, fatalities or serious workplace related injuries, child labor, forced labor, in accordance with the ESMS, and the Performance Standards, which have, or are likely to have, significant adverse effect on the environment, the affected communities, the public or workers and shall – as requested by the Bank – provide a subsequent report with sufficient details regarding the incident or accident, and indicating immediate measures taken or that are planned to be taken to address it and prevent its recurrence, as appropriate.	Notify the Bank within 48 hours after learning of the incidents/accidents Provide a subsequent report within a timeframe acceptable to the Bank as requested
5	Disclosure of Information: BB will disclose and permit, in writing, the Bank to disclose at the Bank's external website the Project-specific Environmental and Social Management Manual (ESMM). BB will also disclose – through its website – relevant information on the Project and the supported-sub-loans and keep a channel to collect feedback from citizens and stakeholders on environmental and social issues associated with the operation of Project-supported companies.	Within 30 days after Project Effectiveness and thereafter throughout project implementation
6	Stakeholder Engagement BB will require the Eligible Companies operating in sectors with environmental and social risks rated medium and high that are implementing sub-loans to keep open relationship channels with neighboring communities.	Within 30 days after Project Effectiveness and thereafter throughout project implementation
7	Grievance Mechanism:	Within 30 days after Project Effectiveness and thereafter

	BB will disclose information on and operate a Grievance Mechanism to facilitate in a timely manner resolution of concerns and grievances related to the Project and raised by Project stakeholders and other citizens.	throughout project implementation
8	Reporting BB will furnish to the Bank, throughout implementation, a biannual environmental and social performance report ("ESPR") and will certify – through the ESPRs – that each beneficiary Eligible Company is in compliance with: the Brazilian national law, BB's specific policies and "Guidelines" and the requirements of World Bank Performance Standards on labor and working conditions, resource efficiency and pollution prevention, community health, safety and security, Biodiversity Conservation and Sustainable Management of Living Natural Resources, Indigenous Peoples and cultural heritage.	Biannually
PS 2 Labor and Working Conditions		
9	Due diligence and reporting Ensure through the ESMS management that each beneficiary Eligible Company is in compliance with Brazilian national law, BB's specific policies and "Guidelines" and the requirements of this PS.	Biannually.
PS 3 Resource Efficiency and Pollution Prevention		
14	Due diligence and reporting Ensure through the ESMS management that each beneficiary Eligible Company is in compliance with Brazilian national law, BB's specific policies and "Guidelines" and the requirements of this PS. As part of the Component 1 investments' GHG emission performance would be regularly evaluated by accredited third parties under IBRD loan supervision protocols.	Biannually.
PS 4 Community Health, Safety and Security		
15	Due diligence and reporting Ensure through the ESMS management that each beneficiary Eligible Company is in compliance with Brazilian national law, BB's specific policies and "Guidelines" and the requirements of this PS.	Biannually.
PS 5 Land Acquisition and Involuntary Resettlement		
16	Due diligence and reporting Ensure compliance with the Project-Specific Exclusion List.	Within 30 days after Project Effectiveness and thereafter throughout project implementation
PS 6 Biodiversity Conservation and Sustainable Management of Living Natural Resources		

17	Due diligence and reporting Ensure through the ESMS management that each beneficiary Eligible Company is in compliance with Brazilian national law, BB's specific policies and "Guidelines" and the requirements of this PS.	Biannually.
PS 7 Indigenous Peoples		
18	Due diligence and reporting Ensure through the ESMS management that each beneficiary Eligible Company is in compliance with Brazilian national law, BB's specific policies and "Guidelines" and the requirements of this PS.	Biannually.
PS 8 Cultural Heritage		
19	Due diligence and reporting Ensure through the ESMS management that each beneficiary Eligible Company is in compliance with Brazilian national law, BB's specific policies and "Guidelines" and the requirements of this PS.	Biannually

V. WORLD BANK ES OVERSIGHT

Corporate advice/oversight will be provided by an Environmental and Social Standards Adviser (ESSA) during project preparation — No

VI. CONTACT POINTS

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VII. FOR MORE INFORMATION CONTACT

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VIII. APPROVAL

Task Team Leader(s): Shireen Mahdi
Practice Manager: Maria Gonzalez de Asis – October 12, 2022