

## Environmental and Social Strategy (ESS)<sup>2</sup> Banco Pine Green Line Partnership

### I. Overview

- 1.1 The objective of the proposed loan is to support financing for environmentally-friendly investments in Brazil through a partnership with Banco Pine ("BP"). The proposed Green Line Partnership will provide adequate funding for BP to increase its portfolio as well as expand access to adequate financing for projects that promote sustainable initiatives and reduce the impact on climate change.
- 1.2 The proposed financing would include a senior Loan of up to US\$125 million with an up to 5-year tenor and a 3-year grace period.

### II. Environmental and Social Impacts and Risks

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

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<sup>2</sup> This ESS will be made available to the public in accordance with the Bank's policy on information disclosure. The ESS does not represent either the Bank's approval of the Project or verification of the ESS completeness or accuracy. The Bank, as part of its due-diligence on the feasibility of the Project, will assess the environmental and social aspects. This assessment will be presented in the Project Environmental and Social Management Report that will be prepared by the Bank, and will be made available to public prior to consideration of the Project by the Bank's Board of Executive Directors.





and scale of activities to be financed. There may be specific environmental, social, health and safety (ESHS) and labor impacts and risks related to investments in certain sectors, for example, related to investment in biofuels, wind energy, forestry, and small hydro among others. The assessment of social and environmental impacts for each loan will be the responsibility of Banco Pine through an Environmental and Social Management System (ESMS), which will have to comply with IDB conditions, policies and guidelines. The due diligence will assess Banco Pine's existing environmental and social policies and procedures in terms of their adequacy and/or sufficiency to ensure the management of the environmental risks and impacts of the proposed Partnership.<sup>3</sup> If needed, the project team will work with Banco Pine to enhance its ESMS through an Action Plan in order to appropriately deal with the related E&S issues under this Partnership.

- 2.4 *Reputational risks associated with the impact of other operations:* Reputational risks are associated with Banco Pine's involvement in projects, companies or activities considered unacceptable to the IDB and/or that will face significant public opposition or concerns, such as (i) inappropriate development location; (ii) Banco Pine's finance application and analysis process that is not equitable, fair, and unbiased in terms of social factors (e.g. gender, age, ethnicity, or cultural heritage, etc.); and (iii) significantly deficient labor practices.

### III. Status and Compliance

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

### IV. Strategy for Environmental and Social Due Diligence

- 4.1 The IDB will undertake environmental and social due diligence to evaluate Banco Pine's policies and procedures and identify any necessary improvements to their ESMS to appropriately address the environmental and social risks associated with this Partnership. Given the focus of the Partnership on projects with potentially significant environmental and social impacts, the ESMS will need to set forth (i) policies and standards of performance that comply with IDB Policies, (ii) roles and responsibilities related to E&S Management and related training; (iii) review procedures to ensure compliance with the Pine's policies and IDB policies (exclusion list, eligibility, screening, categorization, environmental assessment requirements, due diligence, public disclosure, and investment agreements); (iv) development of project-specific Environmental and Social Management Plans (ESMP) and systems for each project supported by Pine; (v) supervision and monitoring of the investment portfolio; (vi) reporting requirements on compliance with the ESMS requirements, including compliance of investments funded by the loan with IDB policies; (vii) and incorporation of grievance mechanisms and stakeholder engagement.
- 4.2 The environmental and social due diligence required for this Partnership will comprise of the following steps:

<sup>3</sup> Banco Pine is an existing IDB client through the Trade Finance and Facilitation Program, for which they are in compliance with the corresponding E&S requirements.



- a. A review of environmental and occupational safety conditions in Banco Pine's facilities and operations and if any liabilities or potential liabilities are identified identification of an adequate action plan to properly resolve them.
  - b. An assessment of Banco Pine's compliance status with the applicable country environmental, social, health and safety, and labor regulatory requirements as well as with any relevant conventions and treaties which have been ratified by Brazil;
  - c. An assessment of Banco Pine's actual and pipeline portfolio, to establish potential reputational risks associated with Banco Pine's involvement in projects, companies or activities considered unacceptable to the IDB; and specific ESHS and labor impacts and risks related to investment in certain sectors, likely to be financed under the Partnership. Moreover, the assessment will determine the extent to which the operations under the portfolio comply with applicable requirements and identify any potential issues related to compliance with IDB requirements that would apply to operations under the Partnership
  - d. An assessment of Banco Pine's policies and procedures to ensure that loan, finance application and analysis process is still equitable, fair, and unbiased in terms of social factors (e.g. age, gender, cultural heritage, etc).
  - e. An evaluation of the current credit appraisal, approval and monitoring procedures in place to manage environmental and social impacts and risks and potential liabilities, associated with Banco Pine's portfolio and pipeline, as well as an assessment of Banco Pine's capacity in terms of environmental and social risk management.
  - f. In case issues are identified based on the analysis of Banco Pine's portfolio and/or Banco Pine does not have sufficient environmental and social measures in place, the Bank will define its conditions for the scope, depth and content of an adequate ESMS to be developed and implemented by Banco Pine and if necessary for an E&S action plan.
- 4.3 The results of the due diligence will be presented in an Environmental and Social Management Report and summarized in the Loan Proposal to establish the environmental, social, health and safety, and labor requirements for the Partnership.

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