

**Environmental and Social Management Report**  
**Banco Pine (Brazil) Green Line**  
**(BR-L1391)**

**I. Project Description and Background**

- 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 by permitting sub-loans that meet the defined eligibility criteria.
- 1.2 The proposed financing would include a senior AB Loan of up to US\$125 million. The A Loan amount, provided by IDB, will be of up to US\$ 75 million with a 5-year tenor and a 3-year grace period. The B loan will be syndicated among eligible international investors and is expected to reach an amount of up to US\$ 50 million with a tenor of up to three years.

**II. Project Status and Compliance**

- 2.1 The Environmental and Social Strategy (ESS) for the Project was presented to the Environmental Safeguards Review Team and no special actions were required. Based on Directive B.13 of the Environment and Safeguards Compliance Policy (OP-703), this Project is classified as a financial intermediary and as such is not categorized according to its potential environment and social (E&S) impacts and risks.
- 2.2 Pine has developed and implemented, with the assistance of an external consultant and the IDB, an Environmental and Social Management System (ESMS), which includes the application of local law, certain exclusion criteria, and basic sector checklists. Under this Green Line, Pine will target corporate lending for values between US\$5-15 million to primarily renewable energy sectors, with a predominance of ethanol and power generation. Pine has been working with these sectors and this type of financing for many years, denoting some experience and familiarity with E&S due diligence practices. Due to the potential environmental and social sensitivities of these sub-loans (possible High B category sub-loans), this operation is classified as high risk. .
- 2.3 Pine has confirmed that it is in compliance with country laws and regulations (Directive B.2 of the Environment and Safeguards Compliance Policy OP-703 of IDB Environmental and Safeguards Compliance Policy), complying with all applicable legal and regulatory environmental, social, health and safety, and labor (ESHS&L) laws and regulations. Pine’s ESMS is in compliance with the IDB requirements for the use of its TFFP line, and, as confirmed by Pine, with IFC, Proparco, FMO, BNDES, the Global Climate Change Fund and the IIC for similar uses.

**III. Environmental and Social Risks and Impacts**

*A. Potential risks and impacts associated with Pine’s portfolio*

- 3.1 As a corporate bank, Pine has targeted clients across sectors providing various types of corporate and trade-related finance. Its portfolio concentrations with the potential for environmental and social issues are in Sugar and Ethanol (14%), Construction (12%),

Energy and Renewable Energy (11%), Agriculture (7%), and Infrastructure (7%). Sugar and ethanol loans, which would be a focus under the Green Line, have been for working capital, trade-finance as well as corporate finance operations. In some instances, finance to this sector has also targeted co-generation activities. Banco Pine has a renewable energy project finance line with BNDES. In 2012, Pine signed a Global Climate Change Fund line for energy efficiency finance that commits its investments to achieving a 20% reduction in GHG emissions over the life of each sub-loan.

- 3.2 In the context of Pine's lending operations, the ESHS impacts and risks associated with sub-loans can be minor to significant in nature. Specific to ethanol and sugar (biofuel), agriculture, and renewable energy on-lending, the likely focus of this Green Line, the ESHS risks could include, among others: i) land degradation and conversion (land use change, displacement of small-holder farms, flooding) and impacts on water bodies (extraction, diversion, run off); ii) community impacts (land acquisition, tenure, physical resettlement, economic displacement); iii) cumulative impacts associated with multiple hydro dams or flow diversions and other projects using the same watershed; iv) biodiversity impacts associated with conversion of natural habitats and in rare cases impacts on critical natural habitats (crop plantation, dams); v) worker and community health and safety impacts and risks during construction and operation phases (hydropower, biofuels, agriculture); vi) labor related issues (agriculture, renewable energy); vii) local food security concerns in the conversion of feedstocks away from staple crops (biofuels); viii) contamination and waste and effluent management issues (agriculture, construction, biofuels). These risks will be managed through the application and enhancement of Pine's Environmental and Social Management System (ESMS) to ensure application of the IFC Performance Standards, as applicable, for sub-loans financed under IDB's Green Line.
- 3.3 Pine has demonstrated that it takes E&S issues seriously. For example, in the process of Pine's regular E&S checks, two clients were accused of having engaged in illegal labor practices in 2012. While a final legal decision is pending, Pine has suspended these clients' credit lines.
- 3.4 Although much of the use of the new line may go to corporate finance of the type Pine is accustomed to doing, the green line may be used to finance other types of projects, such as renewable energy generation, which given their nature and the complexity of the respective E&S management measures they will have to apply, will require Pine to expand its capacity in this area and require management commitment and adequate resource allocation.

*B. Environmental and social risks associated with Pine's facilities and human resources practices*

- 3.4 Pine has stated that they have no material health issues (including legal claims) and do not have any material employee or labor disputes. Pine has also indicated that its finance application and analysis process is equitable, fair, and unbiased in terms of social factors (e.g. gender, age, ethnicity, or cultural heritage). Pine's guidelines for employee compensation (salary, pay raise, benefits) and analysis (evaluations) are based on the local legislation, following also Brazilian labor regulations. This is defined in their HR labor policy.
- 3.5 Pine's headquarters in Sao Paulo is located in a LEED certified building

#### **IV. Environmental and Social Management**

A. *Pine Environmental and Social Management System (ESMS)*

- 4.1 Pine first developed its ESMS in 2008 with the support of an external consultant, Sustainable Finance and the assistance of the IDB. The system has been amended periodically since then at both Pine's own initiative and as a result of Development Finance Institution requirements<sup>1</sup>. The current version of their ESMS, *Políticas Corporativas, SocioAmbiental*, (version 3, 2012) is applied to all financing activities.
- 4.2 The environmental and social process as defined by Pine includes the following: (i) application of an exclusion list and local law, (ii) a KYC client assessment (renewed every 2 years), (iii) a periodically E&S check (ongoing) to evaluate any outstanding fines, legal disputes, negative press coverage, or non-compliance with relevant ESHS permits (iv) client visits to assess, among other things, environmental and social issues and completion of a sector checklist.<sup>2</sup> Banco Pine does not currently categorize its transactions into high, medium, or low E&S risk operations.
- 4.3 Under a BNDES loan for renewable energy finance, Pine applies a more exhaustive screening process following the rules of the BNDES. In addition to the above stages Pine verifies that all environmental licenses are obtained and that labor laws are fulfilled. In order to obtain these licenses, Pine's clients must comply with: (i) Brazilian environmental law, including specific rules for deforestation; (ii) Brazilian labor rules, specially prevention child/forced labor; and (iii) an engineer's report reviewing the operation including any proposed corrective actions required for operating permit issuance (permits are reviewed and reauthorized every four years). Pine does not participate in the process of obtaining these licenses or request documents supporting them.
- 4.4 In December 2012, Banco Pine became an Equator Principles Signatory and intends to apply the EP standards on future project finance operations. No project has yet received an EP screening. Additionally, Pine has subscribed to Febraban's (Brazilian Federation of Banks) Green Protocol for sustainable banking. In October 2012 Pine joined the Global Compact initiative incorporating in its business practices fundamental internationally-accepted values related to human rights, the environment and the prevention of corruption.
- 4.5 The operation of the ESMS is managed by Pine's Credit Risk Officer (CRO) and includes the compliance and credit risk departments. In 2012, Pine published its first GRI sustainability report (Level B).

B. *Training on Environmental and Social Risk Management*

- 4.6 Environmental and social risk management receives notable support and attention. Staff across service units are trained periodically on E&S risk management, and Pine's related policy and procedures. In 2013/14 Pine has set a target for strengthening employee and supplier engagement on sustainability.

C. *IFC Performance Standards and Model for an Environmental and Social Management System*

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<sup>1</sup> Pine currently has financing from FMO, DEG, Proparco, IIC, IDB and KfW.

<sup>2</sup> These checklists are specific to Sugar and Ethanol, Agiculture, Construction and Engineering, Electric Energy Food Industry, Chemicals, Meat Packing, Commercial Services, Transport and Logistics.

- 4.7 On approval of the Loan, and prior to making any investments, Banco Pine will be required to enhance the operation of their ESMS, or alternatively design a specific procedure for the deployment of IDB resources (the “Procedure”), to achieve compliance with the Environmental and Social Requirements (in this case defined as Pine’s environmental and social policies, the environmental, social, health and safety and labor laws and regulations of Brazil, the IDB List of Excluded Activities and the IFC Performance Standards). The ESMS or Procedure will detail environmental, social, labor, health and safety policies and procedures to properly identify, assess, categorize, mitigate and monitor the potential environmental and social impacts and risks associated with each sub-loan where IDB resources are used.
- 4.8. The specific and standard elements of the ESMS or Procedure will include: (a) a policy statement that sets forth Pine’s policy and standards of performance, (b) roles and responsibilities for E&S management, coordination, and training, (c) review procedures to ensure compliance with the Pine’s policies and the IFC Performance Standards (exclusion list, eligibility, screening (including exclusion of operations with potential impacts on Critical Natural Habitats), categorization, environmental assessment requirements, due diligence, public disclosure, and investment agreements), (d) development of operation specific Environmental and Social Management Plans (ESMPs) and systems, as applicable, for loans supported by the IDB’s Green Line, (e) supervision and monitoring of the loan portfolio, (f) reporting requirements on compliance with the ESMS or Procedure requirements, including compliance of loans funded with IDB’s proceeds, (g) a procedure for external communications and a grievance mechanism to receive external complaints from the public regarding any aspects of operations. (h) disclosure requirements consistent with IDB and IFC guidelines.
- 4.9 Specific to the use of external experts, for Category A and High Risk B in accordance with the categorization guidelines agreed with IDB and the Environmental and Social Requirements, including the IFC Performance Standards, both as included in the Procedure, Pine will ensure compliance with one of one of the following options<sup>3</sup>:
- (i) Verify that the sub-borrower is already compliant and has, when the IFC Performance Standards so indicate, commissioned an independent review of the high risk operation’s E&S evaluation and mitigation plans, as part of the documentation presented to Pine;
  - (ii) hire the necessary consultants to review the high risk operation’s E&S evaluation and mitigation plans, and identify any gaps, and require the sub-borrower to (1) amend the respective evaluation or plans prior to financing, or (2) include any necessary measures as covenants or as part of an action plan in the sub-loan agreement;
  - (iii) require the sub-borrower to hire the necessary consultants to review the high risk operation’s E&S evaluation and mitigation plans and identify any gaps, and require the sub-borrower to (1) amend the respective evaluation or plans prior to financing, or (2) include the necessary measures as covenants or as part of an action plan in the sub-loan agreement; or
  - (iv) send all material to IDB for review for which IDB will either: (1) undertake an in-house review, or (2) recommend hiring the necessary consultants to review the high risk operation’s E&S evaluation and mitigation plans and identify any gaps so that: (1) the evaluation or mitigation plans can be amended prior to financing, or (2) any necessary

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<sup>3</sup> Pine is at liberty to consult IDB at an early stage of its origination process for assistance in pre-categorization identification.

measures can be included as covenants or as part of an action plan in the sub-loan agreement.

- 4.10 Pine will present the first three sub-loans to IDB for non-objection, along with an independent report, if the sub-loan is a high risk operation, unless Pine elects to utilize option (iv) above for one or more of these sub-loans.

## **V. Environmental and Social Requirements**

- 5.1 For this operation which will involve corporate lending for IDB Green Lines for an average value of between US\$5-15 million per sub-loan, the Bank will require Pine as part of and only within the scope of the Loan Agreement to:
- (i) Comply with all applicable Brazilian environmental, social, health and safety, and labor regulatory requirements, directly related to the Loan Agreement and in relation to the financing of sub-loans with IDB's proceeds ensure that each loan complies with: (a) Pine's environmental, social, health and safety and labor related policies; (b) in-country regulations; (c) the IDB List of Excluded Activities for Non-Sovereign-Guaranteed (NSG) operations; (d) the Fundamental Principles of the Rights at Work; and (e) the IFC Performance Standards (the Environmental and Social Requirements).
  - (ii) Enhance Pine's current ESMS, or develop a corresponding Procedure, specific to IDB's use of funds, to include, development and implementation of: (i) a checklist that categorizes operations into Category A, High Risk B, B, and C operations with corresponding management responses, to be agreed with IDB before closing, (ii) policies and procedures to ensure compliance with the Environmental and Social Requirements (including the IFC Performance Standards) as detailed in paragraphs 4.7 - 4.10 above. A final version of the ESMS, or Procedure, will be required to be approved by the IDB and formally adopted and put into effect by Pine prior to IDB disbursement of the first sub-loan, and kept operational through the life of the IDB Loan. The ESMS, including the categorization guidelines, once approved by IDB, will not be modified until the final maturity of the Loan, unless both parties agree to any such modification in writing.
  - (iii) For Category A operations, demonstrate that Pine has achieved the agreed management capacity milestones set out in the ESMS, apply an exclusion list to screen out projects that pose potential risks or impacts to Critical Natural Habitats, and request IDB's non-objection, before financing any Category A operations with IDB's use of proceeds; and for High Risk B operations, provide IDB with a summary E&S investment review for the first three sub-loans for IDB non-objection.
  - (iv) Comply with the engagement of external experts for all Category A and High Risk B operations as stated in paragraphs 4.9 and 4.10 above.
  - (v) Assign roles, responsibilities and resources for the ESMS (or Procedure) to a qualified Environmental Manager, and ensure that at least one staff member with responsibility for the ESMS implementation and maintenance take part in the IIC/IDB Environmental Risk Management training course, or a similar workshop by other organizations such as UNEP-FI, to be agreed upon by the IDB, annually, to ensure that Pine continue to remain up to date with its environmental and social risk management expertise.
  - (vi) Present an Annual Environmental and Social Compliance Report (ESCR) with information on the Green Line portfolio, including a list of individual investments and their E&S category breakdown of financing by subsectors and Environmental risk categorization, and any particular risk issues identified during screening and mitigation measures agreed with clients. Pine will require Sub-borrowers to provide external review

of their compliance reports for high risk operations as applicable in accordance with the monitoring provisions of the IFC Performance Standards, and may use the support from external experts to carry out its own monitoring when it considers necessary.

- 5.2 The IDB will supervise the environmental and social aspects related to the use of the proceeds of the IDB loan either by an in-house specialist or with external consultants, and if necessary, will require actions to address impacts and risks and /or enhance their management.