

Banco Schahin

ENVIRONMENTAL AND SOCIAL STRATEGY¹

A. PROJECT STATUS AND COMPLIANCE

- 1.1 Schahin follows Brazilian National Social & Economic Development Bank (BNDES), environmental and social requirements to assess its clients. As part of IDB's financial assistance to Schahin's, The IDB will assist the client to develop an environmental procedure commensurate to the potential environmental and social impacts and risk associated to its operations.

B. Environmental and Social Impacts and Risks

- 1.2 Based upon the nature of this project (i.e. facility to support the growth of paycheck deductible loans), there should be limited direct environmental, social, or health and safety impacts or risks, and thus a limited environmental assessment is required. The potential key environmental, social, health and safety, and labor issues and risks include (i) Schahin's environmental credit risks, and (iii) IDB Reputation Risks associated to Schahin's environmental, social, health and safety, and/or labor practices.

- 1.3 Environmental Credit Risks refer to potential negative effects on Schahin's ability to repay the IDB because of: (i) risks due to Schahin's programs (e.g. lending), such as reduction in asset values held as securities due to environmental issues; (ii) risks associated with Schahin's facilities and operations, such as environmental liabilities in their buildings/offices due to PCB transformers, asbestos, lead paint, etc. or employees having occupational health and safety problems due to Schahin's working conditions/environment (e.g. inadequate emergency preparedness, lack of fire exits, etc).

Reputation Risks are associated with Schahin's involvement in operations considered unacceptable to the IDB such as (i) goods (companies) which may be considered to be non-eligible by IDB (e.g., weapons or munitions, radioactive materials, alcohol, tobacco, etc.); (ii) Schahin's finance application and analysis process that is not equitable, fair, and unbiased in terms of social factors (e.g. gender, age, sex, ethnicity, or cultural heritage etc.); (iii) significantly deficient labor practices by Schahin's.

¹ This Environmental and Social Strategy (ESS) is being made available to the public in accordance with the Bank's policy on information disclosure. The ESS has been prepared based primarily upon information provided by the Project sponsors and 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.

C. Strategy for the Environmental and Social Due Diligence

- 1.4 The Bank, as part of the due diligence process, will analyze the environmental and social aspects of the project. The environmental and social due-diligence will specifically include the components listed below:
- i. An assessment of Schahin's compliance status with the applicable environmental, social, health and safety, and labor regulatory requirements in Brazil.
 - ii. An assessment of the sufficiency of current credit appraisal, approval, and monitoring procedures to manage environmental and social liabilities, risks and/or impacts of Schahin's operations. Current procedure should at a minimum be able to (i) include in the loan application and analysis process (i.e., underwriting guidelines and risk review process) and (ii) count with credit officers qualified and trained to identify potential environmental, social, health and safety, and labor issues/liabilities.
 - iii. An evaluation to assure an appropriate inventory of present environmental and health and safety liabilities in Schahin's facilities and operations, and if they exists, assess the adequacy of the action plan to properly resolve them.
 - iv. An evaluation to ensure that Schahin's has adequate health and safety and Contingency Plans and procedures (i.e. emergency response programs, building evacuation drills, etc) including their technical adequacy, adequate level of training, and sufficient resources to ensure adequate implementation.
 - v. An evaluation of Schahin's compliance with the Fundamental Principles and Rights at Work and with any other international labor organization conventions and treaties which have been ratified by Brazil, to determine presence of any existing major labor problems associated with Schahin, and whether they practice fair and unbiased labor practices related to sex, age, ethnicity, cultural heritage, and collective bargaining. Schahin must have (or develop) written procedures to assure adequate hiring procedures and treatment of employees.
 - vi. An assessment of the adequacy of Schahin's procedures to ensure that loan procedures, finance application and analysis process is equitable, fair, and unbiased in terms of social factors (e.g. age, gender, cultural heritage, etc).
- 1.5 The team will establish environmental, social, health and safety, and labor requirements in the Loan Proposal for review and approval by the Bank's Committee on Environment and Social Impact (CESI).