**Annex III**

**Environmental and Social Strategy (ESS)**[[1]](#footnote-1)

**Banco Sicredi – Partnership to support rural producers**

1. **Overview** 
   1. The purpose of the proposed partnership with Banco Cooperativo Sicredi is to expand access to finance Brazilian rural producers. IDB’s proceeds will be used to increase Banco Sicredi’s rural lending portfolio (production, related capital expenditures, etc) giving priority to the financing of activities and projects related to low carbon agriculture[[2]](#footnote-2) of the ABC Program[[3]](#footnote-3).
   2. The Project will combine an A-Loan of up to US$35 million, 4 year tenor with an up to US$15 million co-loan from the China Co-Financing Fund for LAC..
2. **Environmental and Social Impacts and Risks**
   1. Based upon the nature of this operation to support rural lending, there may be minimal to moderate direct environmental, social or health and safety (ESHS) and labor risks and impacts. To that end, specific environmental due diligence is required. The potential key ESHS and labor risks and impacts associated with this operation are those related to (i) specific projects financed by Banco Sicredi with IDB’s use of proceeds, (ii) reputational risk associated with other operations, and (iii) adequacy of E&S risk management capacity to manage risks under this credit line.
   2. *Environmental and social risks with IDB’s use of proceeds*: The type and extent of impacts will vary depending on the amount of loans to be extended and on the type of activities to be financed. Based upon Banco Sicredi’s rural portfolio composition, which includes working capital (60%) and equipment (40%), and with an average loan of US$17,000 *as gathered during the pre-due diligence assessment*, the E&S risks appear to be minimal to moderate and can be managed by Banco Sicredi with a set of E&S procedures.
   3. With regard to loans located in states with high environmental richness (i.e. Mato Grosso and Mato Grosso do Sul)[[4]](#footnote-4) further analysis will be undertaken during due diligence as to the E&S risk identification and management response of Banco Sicredi in regards of deforestation, land clearing, and biodiversity loss.
   4. *Reputational risks associated with the impact of other operations:* Reputational risks related to Banco Sicredi’s involvement in projects, companies or activities considered unacceptable to the IDB and/or that will face significant public opposition or concerns. Based on early indication, the potential for reputational risk is low.
   5. *E&S Risk Management Capacity:* Banco Sicredi has a Sustainability Policy in place promoting the economic development while protecting the environment and the society. In addition, Banco Sicredi has recently implemented, its Internal Environmental and Social Policy (Norma Interna-Risco Socioambiental Direcionado ao Credito) which is in line with Resolution No 4.327 of Brazil’s Central Bank that establishes the guidelines for the implementation of the Environmental and Social Responsibility Policy for Financial Institutions. The Policy is applicable to operations above R$2 million (aprox.US$700,300); therefore, will not be applicable to subprojects financed with this operation. As part of the due diligence, the Bank will assess Banco Sicredi’s Environmental and Social management procedures applicable to the portfolio related to the IDB use of proceeds.
3. **Status and Compliance**
   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. Based on early indication, this operation is estimated to be low risk (FI-2). This classification and the associated risks and mitigation will be evaluated during due diligence.

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

* 1. As per the IDB Environment and Safeguards Compliance Policy and Guidelines, and as part of its due diligence process, the Bank will further assess related E&S risks under this credit line, possible reputational risks, and capacity for environmental and social risk management. The IDB will ensure that appropriate and feasible ESHS and labor requirements, in the form of an Environmental and Social Management System (ESMS) for FI-2, and other conditions as needed, tailored to the particular needs of the operation, are included in the legal agreements. The operation will also include a capacity building plan commensurate with the risks of the operation and the needs of the FI and its clients.
  2. The environmental and social due diligence required for this operation will comprise the following steps:
     1. An identification of any environmental and occupational safety liabilities in Banco Sicredi’s facilities and operations and, if required, an assessment of the adequacy of action plans to properly resolve them.
     2. An assessment of Banco Sicredi’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;
     3. An assessment of Banco Sicredi’s procedures to ensure that its loan, finance application and analysis process is equitable, fair, and unbiased in terms of social factors (e.g. age, gender, cultural heritage, etc).
     4. An assessment of Banco Sicredi’s actual portfolio and proposed pipeline, in light of relevant contextual factors, to establish: (i) potential specific ESHS and labor impacts and risks related to investment in certain sectors, projects or activities, likely to be financed under the operation; (ii) reputational risks associated with Banco Sicredi’s involvement in projects, companies or activities considered unacceptable to the IDB or posing significant reputational risks or material risks to local communities; and.
     5. A full evaluation of the client’s Environmental and Social procedures/ tools and of all current credit appraisal, approval and monitoring procedures in place to manage potential environmental and social impacts, risks and liabilities, associated with Banco Sicredi’s portfolio.
     6. An assessment of Banco Sicredi’s capacity in terms of environmental and social risk management.
  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 operation.

1. 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. [↑](#footnote-ref-1)
2. These activities include: (1) recovery of degraded land, implementation of organic rural production systems,(2) no-tillage practices, (3) implementation of systems for the integration between tillage-livestock, tillage-forest, livestock-forest or tillage-livestock-forest and agroforestry systems, (4) implementation, maintenance and enhancement of the management of forestry for commercial exploration, including those used for industrial purposes or for production of vegetal coal, (5) compliance of rural properties with environmental legislation, (6) implementation, maintenance and enhancement of animal waste treatment systems for energy generation and composting, (7) implementation, enhancement and maintenance of “dendezeiro” forests, mainly in degraded productive areas, (8) utilization of biologic fixation of nitrogen. [↑](#footnote-ref-2)
3. Developed by the Government of Brazil, was created to reduce GHG emissions from agriculture and livestock activities through sustainable agricultural practices. [↑](#footnote-ref-3)
4. Banco Sicredi operates in 11 States through 100 cooperatives: Rio Grande do Sul, Santa Catarina, Paraná, São Paulo, Mato Grosso do Sul, Mato Grosso, Tocantins, Pará, Rondônia, Goiás and Bahia. [↑](#footnote-ref-4)