

Environmental and Social Data Sheet

Overview

Project Name: BDMG CLIMATE ACTION FL II
Project Number: 2019-0040
Country: Brazil
Project Description: Framework Loan to part-finance a series of climate action projects in the state of Minas Gerais, targeting renewable energy and energy efficiency.

EIA required: Some of the schemes will require an ESIA.

Project included in Carbon Footprint Exercise¹: no
Detailed information about greenhouse gas emissions is not available, as this is an intermediated operation.

Environmental and Social Assessment

Environmental Assessment

The operation consists of a Framework Loan to invest across the spectrum of renewable energy (RE) and potentially energy efficiency (EE) technologies that will contribute to the achievement of the national energy expansion plan (PDEE). The technologies to be implemented under the RE component include small-size solar PV, small-scale run-of-the-river hydropower and, to a lesser extent, biomass schemes. The EE component is expected to address public lighting, energy efficiency in buildings, high co-generation of heat and power, energy efficiency measures in industrial facilities and energy efficiency in SMEs.

The investments will contribute to reducing costs and emissions from power generation in the region, improving the generation capacity with renewable plants that will displace less efficient and more polluting sources of energy, and with energy efficiency measures, thus contributing to the Bank's objectives relating to the reduction of greenhouse gas emissions and security of energy supply.

The loan will be intermediated by Banco de Desenvolvimento de Minas Gerais S.A (BDMG), a Brazilian sub-sovereign development bank that operates in the state of Minas Gerais by providing credit to innovation projects, micro and small businesses, medium and large companies, energy and agribusiness, as well as the public sector.

¹ Only projects that meet the scope of the Carbon Footprint Exercise, as defined in the EIB draft Carbon Footprint Methodologies, are included, provided estimated emissions exceed the methodology thresholds: 20,000 tonnes CO₂e/year absolute (gross) or 20,000 tonnes CO₂e/year relative (net) – both increases and savings.

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The Financial Intermediary (FI) conducts environmental and social (E&S) assessments for its operations, based on an internal E&S investment policy and procedures performed by dedicated specialists. This team screens and ensures the compliance of the projects with the state and the national environmental and social law requirements. The FI has consolidated experience in the targeted sectors and its existing portfolio of renewable energy and energy efficiency investments. Nevertheless, since this is a first-time operation with this FI, in order to ensure adherence to the EIB's Environmental and Social standards and requirements, the Bank will seek to support the Financial Intermediary in strengthening its screening capacity with regard to the due diligence process of environmental and social aspects of each allocation, prior to submitting allocations for EIB's approval, by offering technical assistance. This operation will benefit from the experience gathered with an operation in Brazil having a similar scope, i.e. BRDE CLIMATE ACTION FL (2016-0942).

The FI will ensure that potential risks and appropriate prevention, mitigation and compensation measures are identified through an environmental and social impact assessment when relevant, including satisfactory and meaningful public consultation and participation in order to achieve "broad community support;" or in case 'indígenas' are impacted, consultation aiming to achieve "free, prior and informed consent."

Some of the schemes to be part-financed under this operation may be considered to fall under Annex II of EIA Directive 2014/52/EU amending EIA Directive 2011/92/EU, leaving to the competent authority the decision as to whether an EIA is required or not, if they were located within the EU. For the schemes that are subject to an ESIA process, the FI will receive the respective study and ensure that all mitigating measures described in the document are applied.

According to the Brazilian environmental regulations, RE schemes with an installed capacity below 10 MW follow a simplified environmental impact assessment process (i.e. RAS - Relatório Ambiental Simplificado) that takes six months. Schemes that feature an installed capacity above 10 MW will require an Environmental Impact Assessment study, which normally takes one year (Estudo de Impacto Ambiental), including RIMA (Relatório de Impacto Ambiental – non-technical summary).

The process of obtaining an EIA permit consists of three stages of licensing: i) prior licence (Licença Prévia), ii) installation licence (Licença de Instalação) and iii) operation licence (Licença de operação). After an E&S screening process conducted by the local environmental authority, i.e. SEMAD (Secretária de Estado de Meio Ambiente e Desenvolvimento/ www.meioambiente.mg.gov.br), the EIA permit is issued by the Environmental Policy Committee of the Minas Gerais state (COPAM - Conselho Estadual de Política Ambiental), which is composed of SEMAD plus the local water & forest authorities.

Considering the pipeline provided by the FI, none of the projects will be located in or within the proximity of protected areas. Nevertheless, the Bank services will assess ex-ante all individual schemes requiring ESIA's under this operation to determine potential environmental and social impacts and compliance with its Environmental and Social standards. In addition, alignment with the principles of the relevant EU Directives (e.g. Habitats Directive 92/43/EEC, Birds Directive 2009/147/EC, Water Framework Directive 2000/60/EC amended by Directive 2008/32/EC, the amended Energy Efficiency Directive 2012/27/EU and the Industrial Emissions Directive 2010/75/EU) will be sought. Hydropower schemes with dams above 15 metres height, or between 5 and 15 metres with a reservoir greater than 3 million cubic metres in volume shall be excluded from this Framework Loan. Eligible biomass type of schemes include non-contaminated, feedstock sustainable biomass, preferably forestry and agricultural waste from inside Brazil.

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Any other biomass type needs to be explicitly accepted ex-ante by the Bank's services. Cogeneration schemes based on natural gas have to generate electricity predominantly from high-efficient cogeneration. Schemes with significant E&S risks will not be eligible under this operation.

Social Assessment, where applicable

The schemes to be part-financed under this operation are not expected to have substantial adverse social impacts, such as resettlement. The Bank services will review ex-ante each allocation request subject to an ESIA submitted by the FI and will ensure compliance with its Social standards. The Bank will furthermore request the FI to submit a social checklist per proposed scheme, in order to identify red flags, based on which either a light-touch or more intensive social assessment will be agreed with the FI. If deemed necessary, the Brazilian legislation may request, prior to licensing, the opinion of the Institute of the History and Artistic Servants National (IPHAN) of Indigenous people (FUNAI).

Particular attention will be paid to risks due to resettlement, impacts on 'indígenas' or on vulnerable non-indigenous communities, community health and safety (including waste management), and dependency of communities on their natural resource base, both in terms of biodiversity as well as eco-functionalities.

Public Consultation and Stakeholder Engagement

The Bank will verify that adequate disclosure of information and meaningful public consultation have been carried out or are planned for, both in the context of the EIA process, as well as prior to and during the construction phase, and if applicable throughout the lifetime of the project, the objective being to achieve "*broad community support*," or in case of impacted '*indígenas*' to achieve '*free, prior and informed consent*.' At project level, the FI will ensure that comprehensive grievance mechanisms, both for communities and for the project workforce (including EPC contractor and sub-contractors), are in place during both implementation and the entire operation period of the schemes.

Conclusions and Recommendations

The Bank's E&S standards and requirements will be included in the FI's due diligence procedures and in the Finance Contract of this Framework Loan. Further support of the FI in building up capacity for the E&S screening process of the underlying schemes will be sought.

Schemes with an investment cost over EUR 3m up to EUR 50m or biomass, hydropower or solar PV schemes subject to an ESIA will require approval by the Bank prior (ex-ante) to authorising the allocation of the funds to the project beneficiaries, after the review for compliance with the Bank's standards and requirements. Schemes with an investment cost equal or below EUR 3m (e.g. small-size rooftop solar PV) will be subject to ex-post verification by the Bank's services. Environmental and Social Impact Assessments (ESIAs), Cumulative Impact Assessment studies, hydro morphological analysis including downstream flow alteration and other related E&S studies will be provided to the satisfaction of the Bank.

In view of the above findings and conditions, the project is deemed acceptable for EIB financing from an E&S perspective.