

**Document of
The World Bank**

Report No.: 89848

PROJECT PERFORMANCE ASSESSMENT REPORT

BRAZIL

**FIRST PROGRAMMATIC DEVELOPMENT POLICY LOAN FOR
SUSTAINABLE ENVIRONMENTAL MANAGEMENT**

(IBRD-76600)

February 19, 2015

IEG Public Sector Evaluation
Independent Evaluation Group

Currency Equivalents (annual averages)

Currency Unit = real (BR\$)

March 5, 2009	US\$1.00	BR\$2.40
June 30, 2010	US\$1.00	BR\$1.87
December 15, 2010	US\$1.00	BR\$1.69

Abbreviations and Acronyms

ABC	Low-Carbon Agriculture
ANA	Water National Agency
ARPA	Amazon Protected Areas Project
ASIBAMA	Association of IBAMA staff
BNDES	National Bank for Economic and Social Development (of Brazil)
BOD	Biochemical Oxygen Demand
CAS	Country Assistance Strategy
CDM	Clean Development Mechanism
CER	Certified Emission Reduction
CO ₂	Carbon dioxide
COFA	Amazon Fund Managing Committee
CONAMA	National Environmental Council
CPE	Country Program Evaluation
CPS	Country Partnership Strategy
CSO	Civil Society Organization
DFID	Department for International Development
DPL	Development Policy Loan
DRM	Disaster Risk Management
EIA	Environmental Impact Assessments
Env PRL	First Programmatic Reform Loan for Environmental Sustainability
Env TAL	Environmental Technical Assistance Loan
EPs	Equator Principles
EPFI	Equator Principles Financial Institutions
ES	Environmental and Social
ESIA	Environmental and Social Impact Assessment
ESMP	Environmental and Social Management Plan
ESMS	Environmental and Social Management System
ESP	Environmental and Social Policy
ETS	Emissions Trading Scheme
EU	European Union
FIL	Financial Intermediary Loan
FSC	Forest Stewardship Council
FY	Fiscal Year
GEF	Global Environmental Facility
GHG	Greenhouse Gas
GOB	Government of Brazil

GP	Green Protocol (<i>Protocolo Verde</i>)
Ha	Hectares
IBAMA	Brazilian Institute for the Environment and Renewable Natural Resources
IBRD	International Bank for Reconstruction and Development
ICMBio	National Institute for Biodiversity Conservation
ICR	Implementation Completion and Results Report
ICTSD	International Centre for Trade and Sustainable Development
IDB	Inter-American Development Bank
IEA	Integrated Environmental Assessment
IEG	Independent Evaluation Group
IEGPS	IEG Public Sector Evaluations
IFC	International Finance Corporation
ILO	International Labor Organization
IMAZON	Amazon Institute of People and the Environment
INPE	Brazilian Space Agency
IPAM	Amazonian Environment Research Institute
ISA	Social and Environmental Institute
ISR	Implementation Status Report
Km ²	Square Kilometers
LDC	Least Developed Countries
M&E	Monitoring and Evaluation
MMA	Ministry of Environment
MOF	Ministry of Finance
MW	Megawatts
NCCAP	National Climate Change Action Plan
NEP	National Environment Project
NICFI	Norway's International Climate and Forest Initiative
NGOs	Non-Governmental Organizations
NORAD	Norwegian Agency for Development Cooperation
NPCC	National Policy for Climate Change
NTS	National Treasury Secretariat
OPCS	Operations Policy and Country Services
PA	Protected Area
PAC	Program for Accelerated Growth (Portuguese acronym)
PAS	Sustainable Amazon Plan
PD	Project Document
PDO	Project Development Objectives
PNMC	National Policy for Climate Change
PNQA	National Water Quality Evaluation Program
PNRH	National Water Resources Plan
PPA	Multi-Year Plan
PPAR	Project Performance Assessment Report
PPCDAm	Action Plan for the Prevention and Control of Deforestation in the Legal Amazon
PPG7	Pilot Program to Protect the Brazilian Rain Forests
PPO	Public Prosecutor Offices
PRODES	Program for Depolluting River Basins

REFLORESTA	BNDES Forest Management Program
RIMA	Environmental Impact Assessment
SEA	Strategic Environmental Assessment
SEM DPL	Sustainable Environmental Management Development Policy Loan
SFB	Brazilian Forest Services
SNUC	National System of Conservation Units
TJ	Terajoules
UNCBD	Convention on Biological Diversity
UNFCCC	United Nations Framework Convention on Climate Change
WWF	World Wide Fund for Nature

Fiscal Year

Government: January 1 – December 31

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Contents

Principal Ratings.....	vii
Key Staff Responsible.....	vii
Preface.....	ix
Overview.....	x
Management Response	xix
Chairperson’s Summary: Committee on Development Effectiveness....	Error! Bookmark not defined.
1. Background and Context.....	1
Environmental Context.....	1
Development Context	2
Operational Context.....	3
2. Objectives, Design, and their Relevance	7
Relevance of Objectives	7
Design	8
Relevance of Design	12
3. Implementation	16
4. Achievement of the Objectives.....	18
Objective A: Improve the overall Brazilian environmental management system.	18
Objective B: Manage natural resources sustainably, reducing the degradation of agricultural lands, forests (in particular the Amazon), and water resources, and promoting renewable energy.....	39
5. Ratings	44
Outcome.....	44
Risk to Development Outcome.....	45
Bank Performance.....	46
Borrower Performance.....	54
Monitoring and Evaluation	57
6. Lessons.....	58
References.....	61
Annex A: Basic Data Sheet.....	71
Annex B: SEM DPL Development Policy Matrix.....	73
Annex C: Summary of outcome indicators and achievements as reported in the World Bank’s ICR*	79

Annex D: Poverty and Social Impacts, and Environmental, Forests, and other Natural Resources Aspects of DPLs	83
Annex E: Comparison of the Equator Principles with Brazil’s Green Protocol and BNDES’s environmental and social policy	85
Annex F: Organization of Brazil’s Federal Ministry of Environment and related Agencies.....	93
Annex G: Project Information Available from BNDES’s Website	94
Annex H: History and Timeline of the Operation	95
Annex I: List of Persons Interviewed	104
Annex J: Borrower Comments.....	108

Boxes

Box 1: Brazil’s National Policy on Climate Change	23
Box 2: BNDES financing for the Belo Monte Hydroelectric Dam	34

Figures

Figure 1: Planned annual emission reductions in the Brazil CDM portfolio.....	25
Figure 2: Area of Amazon deforestation over time	40

Principal Ratings

	ICR*	ICR Review*	PPAR
Outcome	Satisfactory	Unsatisfactory	Unsatisfactory
Risk to Development Outcome	Moderate	Moderate	Moderate
Bank Performance	Satisfactory	Unsatisfactory	Unsatisfactory
Borrower Performance	Moderately Satisfactory	Moderately Unsatisfactory	Moderately Unsatisfactory

* The Implementation Completion Report (ICR) is a self-evaluation by the responsible Bank department. The ICR Review is an intermediate Independent Evaluation Group (IEG) product that seeks to independently verify the findings of the ICR. In this case, the ICR Review is being completed by IEG in parallel with the Project Performance Assessment Report.

Key Staff Responsible

Project	Task Manager/Leader	Sector Manager	Country Director
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About this Report

The Independent Evaluation Group (IEG) assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the Bank's self-evaluation process and to verify that the Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, IEG annually assesses 20-25 percent of the Bank's lending operations through field work. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or Bank management have requested assessments; and those that are likely to generate important lessons.

To prepare a Project Performance Assessment Report (PPAR), IEG staff examine project files and other documents, visit the borrowing country to discuss the operation with the government, and other in-country stakeholders, and interview Bank staff and other donor agency staff both at headquarters and in local offices as appropriate.

Each PPAR is subject to internal IEG peer review, panel review, and management approval. Once cleared internally, the PPAR is commented on by the responsible Bank department. The PPAR is also sent to the borrower for review. IEG incorporates both Bank and borrower comments as appropriate and the borrowers' comments are attached to the document that is sent to the Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

About the IEG Rating System for Public Sector Evaluations

IEG's use of multiple evaluation methods offers both rigor and a necessary level of flexibility to adapt to the lending instrument, project design, or sectoral approach. IEG evaluators all apply the same basic method to arrive at their project ratings. Following is the definition and rating scale used for each evaluation criterion (additional information is available on the IEG website: ieg.worldbankgroup.org).

Outcome: The extent to which the operation's major relevant objectives were achieved, or are expected to be achieved, efficiently. The rating has three dimensions: relevance, efficacy/achievement of objectives, and efficiency. *Relevance* includes relevance of objectives and relevance of design. Relevance of objectives is the extent to which the project's objectives are consistent with the country's current development priorities and with current Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, Sector Strategy Papers, and Operational Policies). Relevance of design is the extent to which the project's design is consistent with the stated objectives. *Efficacy* is the extent to which the project's objectives were achieved, or are expected to be achieved, taking into account their relative importance. *Efficiency* is the extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. The efficiency dimension generally is not applied to adjustment operations. *Possible ratings for Outcome:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Risk to Development Outcome: The risk, at the time of evaluation, that development outcomes (or expected outcomes) will not be maintained (or realized). *Possible ratings for Risk to Development Outcome:* High, Significant, Moderate, Negligible to Low, Not Evaluable.

Bank Performance: The extent to which services provided by the Bank ensured quality at entry of the operation and supported effective implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of supported activities after loan/credit closing, toward the achievement of development outcomes. The rating has two dimensions: quality at entry and quality of supervision. *Possible ratings for Bank Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Borrower Performance: The extent to which the borrower (including the government and implementing agency or agencies) ensured quality of preparation and implementation, and complied with covenants and agreements, toward the achievement of development outcomes. The rating has two dimensions: government performance and implementing agency(ies) performance. *Possible ratings for Borrower Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Preface

This Project Performance Assessment Report (PPAR) is a product of the Independent Evaluation Group (IEG). Following standard IEG procedures, an earlier draft of this evaluation was sent to World Bank Management, who provided extensive comments; and the revised report was then sent to the Government of Brazil, who submitted extensive comments. The PPAR was discussed at a meeting of the World Bank Board's Committee on Development Effectiveness (CODE) on January 21, 2015.

The Management Comments (found on page xix), Chairperson's Summary of the CODE discussion (found on page xxxii), and Borrower Comments (found in Annex J on page 108) are an important part of this evaluation report. The Management and Borrower Comments flag there were significant differences in views with respect to the background, performance, and results of this operation, and the lessons learned from this PPAR. The Chairperson's Summary requested that these divergences in views be flagged.

The report was prepared by William Sutton (Task Team Leader), under the guidance of Emmanuel Jimenez (Director, Public Sector Evaluation) and Marie Gaarder (Manager, Public Sector Evaluation), and overall direction of Caroline Heider (Director General, Evaluation). Napoleão Dequech Neto and Estela Costa Neves provided inputs. The report was peer reviewed by Kenneth Chomitz and Jaime Jaramillo-Vallejo and panel reviewed by John Heath. Richard Scobey, James Adams, Jiro Tominaga, and Marcelo Selowsky also provided helpful comments. Marie Charles provided administrative support.

This Project Performance Assessment Report (PPAR) presents findings based on a review of the Program Document, the Implementation Completion and Results Report, and documents from the World Bank project files, as well as from other World Bank sources and a literature relevant to the subject. In addition, IEG carried out a mission to Brazil in February-March 2013 that included interviews with government officials at the federal, state and municipal levels, World Bank staff, development partners, researchers, representatives of international NGOs and local civil society organizations, and community members. IEG extends its thanks to the Brazilian government officials, other external stakeholders, and current and former World Bank staff for their cooperation with the evaluation. IEG also thanks the World Bank office in Brasilia for logistical support and help in organizing the mission itinerary.

Overview

This is the Project Performance Assessment Report (PPAR) for the First Programmatic Development Policy Loan for Sustainable Environmental Management (SEM DPL 1) (IBRD-76600; P095205). The assessment aims, first, to serve an accountability purpose by verifying whether the operation achieved its intended outcomes. Second, the report draws lessons that are intended to inform future environmental Development Policy Operations, either in Brazil or elsewhere. Third, the assessment will contribute to a forthcoming IEG learning product on environmental policy lending across World Bank client countries.

The SEM DPL was designed as a programmatic series of two loans to the Federal Government of Brazil for a total of approximately US\$2 billion. The first loan—the subject of this evaluation—was for a total of US\$1.3 billion divided into two tranches of US\$800 million and US\$500 million on International Bank for Reconstruction and Development (IBRD) terms. The loan was approved by the World Bank Board on March 5, 2009. The SEM DPL 1 was signed and became effective on June 21, 2010. The first tranche of US\$800 million was released on June 30, 2010, and the second tranche of US\$500 million was disbursed on December 15, 2010. Thus the total loan amount for SEM DPL 1 of US\$1.3 billion was disbursed. The operation was closed on December 31, 2010. The planned second loan in the series, SEM DPL 2, never materialized and was eventually canceled.

To properly evaluate the SEM DPL, it is important to understand the history and evolution of the operation and the context in which it was prepared. The operation was initially proposed as a “BNDES PAC-Env DPL”—a development policy loan to the Brazilian National Bank for Economic and Social Development (BNDES) to support the government’s scaling-up of infrastructure investments while also improving BNDES’s environmental and social policies, which was considered a significant challenge.

The Brazilian government and the World Bank next concluded that BNDES was not eligible for a DPL. Instead preparation began on a US\$1 billion Financial Intermediary Loan—a type of investment loan—to BNDES called the “BNDES Environmental and Social Sustainability Project,” with 99 percent of the funds going to finance BNDES investment operations and 1 percent for technical assistance to strengthen BNDES’s environmental and social safeguards. Internal World Bank reviewers expressed serious concerns about BNDES’s ability to comply with requirements on environmental and social safeguards, interest subsidies, financial management, and procurement.

At the time of the global financial crisis in 2008, an agreement was reached to change the design of the operation again by transforming it into an environmental DPL to the federal government. The reformulation incorporated some of the reform agenda contained in an earlier World Bank-financed environmental DPL—the 2004 First Programmatic Reform Loan for Environmental Sustainability (Env PRL). The Ministry of Environment was added as an implementing agency, the objective was framed at a national scale, and the size of the program doubled to US\$2 billion to create the SEM DPL. BNDES remained an implementing agency and a major focus of the policy actions. BNDES was also on-lent the entire amount of the DPL funds from the federal government.

The evolution of this operation—including significant changes to the financing instrument, the objectives, and the implementing agencies—created issues with the project logic, the delay in effectiveness, and the Bank’s reputation that are important for this evaluation.

The objectives for the SEM DPL series were stated as follows: “The SEM DPL series supports the GOB’s [Government of Brazil’s] concerted efforts to strengthen environmental management, with particular attention to: improvements in the overall environmental management system, sustainable management of agricultural lands, forests, and water resources; reduction of deforestation in the Amazon; reduction of the environmental degradation of land and water resources that are key determinants of the well-being of the poor; and, promotion of renewable energy” (Program Document para. 172). There was no specific objective for the first operation in the series, the SEM DPL 1.

The objectives of the SEM DPL could have been clearer—and they could have included a specific objective for the first loan—but they were undoubtedly relevant, given Brazil’s tremendous environmental wealth of global importance, its rapidly developing economy that is highly dependent on commodities, and the challenges it has faced in balancing the tradeoffs between the two. Although the environment was a priority for the World Bank’s engagement in the country for many years, the 2008-2011 Country Partnership Strategy (CPS) for Brazil notes that “there has been mixed success in dealing with deforestation and other major environmental challenges.” The CPS recognizes that for 2008-2011 the top priority of the Brazilian government was to accelerate economic growth in light of Brazil’s low growth rates when the CPS was prepared. The CPS also emphasizes that the government continues to be committed to environmental sustainability and maintains sustainability as one of four pillars in the Bank’s program. *IEG hence rates relevance of development objective as Substantial.*

The design of the operation, as reflected in the Development Policy Matrix, suffered from disjointed project logic. This is likely a consequence of the rapid change in direction from preparing a loan to BNDES to preparing the broader SEM DPL and the limited opportunities for engagement on the broader reform agenda given the speed with which the operation had to be prepared. The Policy Matrix consists of nine policy areas and related sub-objectives that are generally in line with the program’s broad, national-level objectives. However, the series of three policy actions and the associated outcome indicator for each policy area inconsistently combine national-level policies and actions and outcomes specific to BNDES. For example, for the sub-objective “Improve sustainability of natural resources management,” the First Tranche Prior Action was to strengthen the federal legal framework by enacting specific forest management laws (for example, the Atlantic Forest); the Second Tranche Release Condition was focused exclusively on BNDES forest programs and guidelines; and finally the series outcome indicator was a general measure of the surface area of public and private forests sustainably managed, with no direct link to BNDES or the Atlantic Forest.

As part of the relevance of design to the development objectives, IEG also considers the choice of the lending instrument. The World Bank had already used the programmatic DPL instrument to support very similar objectives in Brazil five years earlier under the Env PRL. That series was canceled after the first US\$500 million loan. The design of the

SEM DPL might have been more relevant if it had been informed by a formal self-assessment of the canceled series: what worked, what did not, what the outcomes of the policy actions were, why the Env PRL series was canceled, and whether a programmatic DPL series was the best instrument for supporting environmental reforms. But the full ICR that is required was not produced and lessons do not appear to have been learned because, once again, a World Bank environmental DPL series was canceled after the first loan. ***Relevance of design is therefore rated as Negligible.***

The SEM DPL had major shortcomings in the achievement of its objectives. For a loan—including a DPL—to be effective in achieving its objectives, it should successfully achieve not only the outputs represented by the various policy actions, but also the associated outcomes for the series to which those outputs are designed to contribute.¹ Moreover, these outputs and outcomes should be attributable to the World Bank’s related engagement under the loan with the client on the reforms.

While Brazil has made substantial progress in strengthening environmental management in some areas, there is little evidence that the SEM DPL contributed to any of this. The ICR contains no presentation of specific information or analysis on whether or how the reforms that the SEM DPL was supposed to support contributed to the achievement of the overall series objectives. It also does not assess the scale of the DPL’s contribution, as one intervention among many by the GOB and development partners, to an environmental reform process that has been active for the last three decades. Many of the SEM DPL’s “prior actions”² were implemented before preparation of the loan even began—in a number of cases, years before. Some are the same as policy actions supported by the Env PRL DPL approved in 2004.

Achievement of Objectives for the first objective of improving the overall Brazilian environmental management system is rated as Negligible. With regard to *improving the effectiveness of government agencies in implementing mandated Brazilian environmental and social management procedures*, the first policy area, the original indicator on the number of judicial challenges to environmental licenses was not being met. The indicator was changed to “number of environmental licenses issued at the Federal level.” This is not a good measure of the intended outcomes because a greater number of licenses could be issued if, for example, standards were lowered, which would not necessarily lead to improved environmental or social outcomes. No other relevant information on “effectiveness” or outcomes is provided in the SEM DPL ICR. Interviews with staff of both Federal and State Public Prosecutor Offices (PPOs) revealed that the number of lawsuits they file on environmental and social grounds has been increasing, due both to the poor quality of environmental impact assessments (EIAs) for investments, as well as a lack of implementation and monitoring of mitigation measures. The indicators also have no direct relationship with the majority of prior actions under the sub-objective, in

¹ Note that in the case of DPL programmatic series such as the SEM DPL, even if the series is canceled before it is completed, whichever operations in the series that have completed are still evaluated against the original objectives for the entire series.

² In a DPL series, the “prior actions” are the first actions to be implemented under each policy area, before the Program Document for the operation is submitted to the World Bank’s Board.

particular those related to the Ministry of Environment or the National Biodiversity Management Institute.

The actions under this sub-objective related to restructuring and strengthening the Ministry of Environment (MMA) and its affiliates and IBAMA (Brazilian Institute for the Environment and Renewable Natural Resources) are very similar to actions under the 2004 Env PRL—including hiring hundreds of new staff and restructuring the two organizations—and were reported by the World Bank as achievements of that loan. It is possible that the actions were repeated in relation to the SEM DPL, but hiring new staff and restructuring an organization would not necessarily lead—on its own—to the desired outcome of “improved effectiveness of government agencies” with respect to environmental licensing. Indeed, in 2013 IBAMA, the Brazilian environmental licensing agency, issued Terms of Reference for consultancies paid for by another World Bank-financed project—The National Environment Program 2—to improve the environmental licensing system and capacity of its staff, citing serious problems that “can compromise the licensing quality” and that were resulting in “the amplification of the environmental conflicts.”

With regard to the policy area on *mainstreaming climate change in public and private sector investments* under this objective, IEG found that progress has lagged behind expectations. The first actions for the two tranche releases of SEM DPL 1 required the drafting and approval of a National Climate Change Action Plan (or “NCCAP”). What was accepted as evidence of fulfillment of the action was, however, the approval by Law 12.187/2009 of a National Policy for Climate Change (NPCC). The NPCC stated that action plans would be prepared, one for each sector. The sectoral plans were supposed to be ready and the National Climate Change Plan revised before the end of 2011, but those deadlines were not met. At the time of this evaluation, the revised National Plan had still not been completed (though the Brazilian government reports that it expects it to be approved in 2014). The government also reports that a series of sector plans and Nationally Appropriate Mitigation Actions (NAMAs) have been produced, though evidence of their existence, status, added value, and relation to the SEM DPL is limited. There is no National Adaptation Plan. The outcome indicator set for this policy area was an “increase in planned signed reductions of 20 million tons of CO₂ equivalent,” and was to result from BNDES developing clean development and carbon funds programs in accordance with the NCCAP and its own new environmental and social policy. Projects proposed for financing under the Clean Development Mechanism (CDM) were being prepared in Brazil since 2003, six years before the SEM DPL, and also well before any of the Brazilian national climate change plans were approved. While the ICR reports that “99% of the target of 20 million tons of CO₂” was achieved, the actual target was for an additional (not total) 20 million tons of CO₂ signed reductions. Moreover, “planned signed reductions” do not necessarily lead to actual reductions.

With regard to *improving the effectiveness of environmental and social management systems in BNDES and other financial institutions*, the only action under this policy area related to “other financial institutions” was the approval of the revised Green Protocol meant to improve environmental and social standards in Brazilian banks. But the revised Green Protocol ceased to be implemented and lost its relevance. As for the implementation of the new Environmental and Social Institutional Policy by BNDES,

there has been little if any discernible improvement in the performance of BNDES's environmental and social system compared to the one described—and critiqued—by the World Bank team during preparation. One of the pillars of BNDES's new environmental and social management system supported by the SEM DPL was supposed to be the development and application to investments of a set of at least 13 sectoral guidelines. But only three of the guidelines were ever developed, and they leave out critical sectors like hydropower, forests, soya, and water and sanitation. The SEM DPL Program Document also promised that BNDES would apply its new policies to all of its investments—including “indirect” investments financed through financial intermediaries—but the monitoring indicator for this policy area only covered direct investments, and BNDES's Environmental and Social Institutional Policy only applies to about half of its disbursements. They also do not apply to BNDES's increasing portfolio of investments in other countries, many of them with lower environmental standards than Brazil. High profile investments financed by BNDES after its environmental and social system was supposedly improved under the SEM DPL—such as Belo Monte and other hydroelectric dams in the Amazon—continue to experience an array of environmental and social problems, and a lack of transparency on environmental and social safeguards by international standards.

Achievement of Objectives for the second objective of integrating principles of sustainable development in key sectors is rated as Modest. A high-profile area where the SEM DPL was supposed to support improvements was in reducing deforestation, both through strengthening of the general forest legal framework and specifically through improved regional planning to reduce deforestation in the Amazon. While Brazil has made major strides in reducing its deforestation rate over the past decade, it has been achieved through policies other than those supported by the SEM DPL. A number of the actions included in the SEM DPL Policy Matrix were already supported by the earlier Env PRL, including the Public Forest Management Law and the Atlantic Forest Law (both enacted in 2006); the preparation and establishment of the Sustainable Amazon Program (PAS); preparation and launch of the Water Resources National Plan; and strengthening of the PRODES sanitation program. With regard to the intended outcome of reducing Amazon deforestation, data show that it peaked in 2004, when the Brazilian government strengthened policies and enforcement on its own, well before the SEM DPL, and continuously decreased over the following years.

With regard to *improving management and quality of water resources*, the ICR reports that 116,144 km of rivers were being monitored as of June 2011, surpassing the program target of 90,000 km. Based on interviews conducted by IEG and a visit to the federal water agency, ANA, Brazil does appear to have made good progress in terms of increasing the coverage of water monitoring sites around the country. ANA has been signing cooperation agreements with an increasing number of states. It is not clear to what extent this can be attributed to the SEM DPL. The first action under the SEM DPL, approval of the Water Resources National Plan (PNRH), was accomplished in 2006, several years before the SEM DPL, while the documentation for the plan was prepared in 2004 and was an action under the earlier Env PRL operation. The quality of the outcome indicator is questionable, as it does not specify which parameters are to be monitored. The most important aspect of the SEM DPL outcome indicator was that the results of water monitoring were to be used “for prioritization of investments for improved water

quality.” On this count ANA could not cite any examples. Nor did the Bank’s ICR provide any information on the use of the water quality information.

With regard to *reducing environmental impacts through improved water, wastewater treatment, and solid waste services*, the prior action on enacting the National Guidelines for Water Supply and Environmental Sanitation (Law 11,455) was approved on January 5, 2007, approximately two years before the SEM DPL. The ICR reports that 141,280 tons of pollution loads were being reduced by June 2011, surpassing the target of 110,000 tons. These pollution reductions were supposed to be achieved by a combination of BNDES-financed investments “reviewed under new BNDES social and environmental guidelines,” and investments financed under the “updated PRODES program.” Although BNDES financed wastewater treatment investments before the SEM DPL, they did not monitor the pollution reduction results, so the baseline indicator was inaccurately set at zero in the Program Document. BNDES credits the SEM DPL with introducing the practice of measuring pollution reductions, which is a positive sign. Support for the innovative PRODES program is important, but is credited to actions under the 2004 Env PRL, and the program is still growing much slower than expected.

With regard to *promoting renewable energy potential*, the ICR reports that 50,102 terajoules per year were being generated from renewable energy sources supported by BNDES, just short of the 60,000 terajoule target, including wind power, mini hydropower and biomass cogeneration projects. Although BNDES had demonstrated commitment to these investments, the incremental change compared to pre-SEM DPL levels is relatively minor. By far, the biggest share of BNDES’s renewable energy investments continue to go to large hydropower dams. Meanwhile, the target for this policy area is specific to BNDES, and has little relation to the prior action on introducing the Integrated Environmental Assessment (IEA) methodology in the Brazilian National Handbook of the Electricity Sector’s Inventory.

Overall, much more should have been expected in terms of outcomes from the largest ever single World Bank loan to Brazil for US\$1.3 billion. A Substantial rating for Relevance of Objectives, one Modest and one Negligible rating for Achievement of the Objectives, and a rating of Negligible for Relevance of Design, leads to the SEM DPL ***Outcome being rated Unsatisfactory.***

Risk to Development Outcome is rated Moderate. The relevant outcomes that could be attributed to the SEM DPL operation were limited, so there are fewer achievements to sustain. In some environmental policy areas where actions began before the SEM DPL—such as reducing deforestation—there appears to be good government ownership and momentum. For others—such as climate change and the Green Protocol—progress has been slower than expected. As for the key actions aimed at improving BNDES’s environmental and social management system, while BNDES reports that it has maintained or continued to develop policies and institutions related to its environmental and social management system, there remains little evidence of progress on putting these changes into practice to improve the outcomes of its investments.

World Bank performance is rated Unsatisfactory. A major shortcoming in the design of the SEM DPL was the lack of learning from the lessons of the 2004 Env PRL. By

proceeding with preparation of the SEM DPL without having properly evaluated the earlier environmental DPL through the required ICR, the World Bank repeated the same mistake, designing the SEM DPL as a programmatic series that was again canceled after the first loan. The World Bank team also included in the SEM DPL Policy Matrix prior actions that had been completed years before the Bank's engagement on the SEM DPL began—a number of which were policy actions already supported under the Env PRL. This materially reduced the added value of the SEM DPL from the outset, and even more so once the remainder of the series was canceled. The World Bank carried out no analytical work on the critical area of BNDES's environmental and social management system. In the interest of transparency, the World Bank team also could have mentioned in SEM DPL program documents that other instruments had been considered, and that the funds would be on-lent to BNDES.

The incoherence of the DPL's results framework is likely due to the rapid change in the financing instrument from a Financial Intermediary Loan (FIL) to a DPL, and a preparation process that afforded little time for the Bank SEM DPL team to engage outside of BNDES with the many government agencies implicated in the national-level reforms. There was also little collaboration or coordination with partners—particularly the International Finance Corporation (IFC)—which had been working with BNDES to improve its approach to environmental and social management by adopting the Equator Principles before the SEM DPL was prepared.

The World Bank's supervision also suffered from important shortcomings. The Bank should have been more candid in reporting on the performance of the SEM DPL, including in the Second Tranche Release Document and the ICR. This led to controversy and serious questions raised by civil society. Despite the lengthy effectiveness delay, the Bank held off on downgrading the operation's implementation status for more than a year. Supervision also failed to ensure the implementation of the promised monitoring and evaluation system, or to provide the promised technical assistance to BNDES. The Bank's ICR provided no information on feedback from stakeholders, and no beneficiary assessment.

Borrower Performance is rated Moderately Unsatisfactory. The 13-month delay in effectiveness of the operation undermined part of the rationale for a DPL as fast-disbursing budget support, and was not dealt with in a timely manner. According to the World Bank ICR, the delay was mainly due to the government having forgotten to include the loan in its budget, and an “extraordinarily lengthy” senate approval process. The cancellation after the first loan of an environmental DPL series that the Government had committed to—for the second time in a matter of years—combined with the lack of progress on a number of environmental policy areas discussed in Section 4, indicates uncertainty and a degree of lack of commitment by the Government to the SEM DPL reform agenda.

BNDES demonstrated little if any results in improving its environmental and social management system under the SEM DPL, and the limited progress has continued in the intervening years. There is no evidence that the Ministry of Finance used its influence to spur the promised BNDES reforms. The federal government lacked follow-up on implementation of the Green Protocol.

The Ministry of Environment has made notable progress in some areas like reducing Amazon deforestation (which began well before the SEM DPL). In other areas such as mainstreaming climate change action and improving the environmental licensing system, progress remains limited four years after the SEM DPL.

Finally, the Ministry of Finance and, ultimately, the Ministry of Environment were responsible for implementing the monitoring and evaluation system for the SEM DPL. The system was never implemented. There is also no evidence that the implementing agencies engaged with Brazilian stakeholders as required by OP 8.60.

The assessment includes a number of lessons, which are summarized below:

- Certain aspects of the World Bank’s policies and guidance on Development Policy Lending should be clarified, including:
 - Both the policies supported and financing provided by DPLs can generate significant environmental and social impacts. There should be more specificity on how to approach an operation like the SEM DPL, where all of the funds are being on-lent to a bank and used to finance investments. While DPL funds are legally viewed as general budget support, the public may view such situations as using Bank funds for investments, thus introducing reputational risk to the Bank.
 - While environmental and social impacts and mitigation mechanisms are supposed to be identified in the Program Document, the requirements on how to monitor and evaluate them are not clear.
- Particularly for DPLs focused on reforms in a sector—rather than on macro-economic stability—the impacts of the actions supported can often not be adequately perceived within the short timeframe of the loan, and the tight deadline for submitting an ICR after closure often does not allow for additional outcome evidence to be available and collected. It would be preferable to require that DPL operations wait for a reasonable period either before closing or before producing an ICR—at least one year—in order to allow for adequate monitoring and evaluation.
- Back-loading of reforms in a DPL programmatic series can increase the risk of later loans in the series being canceled without full realization of the objectives of the series.
- In the future, when attempting to support reforms in state-owned banks like BNDES that finance both public and private-sector investments, it will be important to take a “One World Bank Group” approach. The program would have benefitted from closer collaboration between IFC and World Bank. IFC had been working with BNDES to improve their environmental and social standards before the SEM DPL, but their efforts were later sidelined.
- The level of government targeted by DPL reforms should be consistent with the outcomes intended and the client country’s institutional structure. In Brazil, although many national-level laws and policies are approved by the central government, implementation often depends in large part on states and

municipalities. But the SEM DPL limited itself to the federal-level implementing agencies.

Caroline Heider
Director-General
Evaluation

Management Response

IEG PROJECT PERFORMANCE ASSESSMENT REPORT
BRAZIL - FIRST PROGRAMMATIC DEVELOPMENT POLICY LOAN FOR
SUSTAINABLE ENVIRONMENTAL MANAGEMENT (IBRD-76600)

MANAGEMENT COMMENTS

November 5, 2014

IEG PROJECT PERFORMANCE ASSESSMENT REPORT

BRAZIL - FIRST PROGRAMMATIC DEVELOPMENT POLICY LOAN FOR SUSTAINABLE ENVIRONMENTAL MANAGEMENT (IBRD-76600)

Management Comments

1. On March 9, 2009, the World Bank (WB) Board approved the “First Programmatic Development Policy Loan for Sustainable Environmental Management” (SEM DPL) for the Federal Government of Brazil. The SEM DPL 1 was the first operation of a programmatic series of two loans totaling US\$ 2 billion, and comprised two tranches of US\$ 800 million and US\$ 500 million. On December 31, 2010, the SEM DPL 1 was closed and its ICR was issued on August 12, 2011. The second operation in the programmatic series never materialized.

2. In January 2013, the Independent Evaluation Group (IEG) started the assessment of the performance of the SEM DPL 1, issuing the final version of the *Project Performance Assessment Report (PPAR)* on October 31st, 2014. The assessment falls short of providing impartial and evidence-based analysis and fails to consider the documented achievements and positive evolution of policy reforms in the areas supported by the SEM DPL creating significant reputational risks for IEG as well as the WBG.

3. Management sent a comprehensive reply to IEG on the draft PPAR on March 25, 2014. Management also provided further clarifications at two meetings with IEG, on April 16 and May 13, 2014. In response to the final PPAR, Management presents these brief comments, which address the key points raised by the PPAR and identifies some of the principal achievements of the SEM DPL.

1. Relevance of Design

1.1 Operational Logic

4. IEG claims that the design of the operation suffered from disjointed operational logic. According to IEG, the SEM DPL’s policy actions and associated outcome indicators inconsistently combined national-level policies, and actions and outcomes specific to Banco Nacional de Desenvolvimento Econômico e Social (BNDES). Management disagrees with these assertions.

5. The SEM DPL built upon the long-standing policy dialogue between the Bank and the Government of Brazil (GoB), which resulted earlier in the “First Programmatic Reform Loan for Environmental Sustainability” (Env PRL) (P080829), followed by the “Environmental Sustainability Agenda Technical Assistance Loan” (Env TAL) (P090041). The Bank approved the Env PRL in July 2004, with the objective of supporting Brazil’s goal of balancing economic growth with social development and the maintenance and improvement of environmental quality. The Env PRL was designed as a programmatic series of Development Policy Loans (DPL); however, only the first of these was executed, because of a change in the Brazilian Government’s focus towards subnational lending. Even after deciding not to contract the second operation in

the Env PRL series, the GoB continued implementing the Env TAL in order to support advancing the reforms in the country's sustainability agenda.¹ The SEM DPL series was designed to help formulate and implement the next steps for key policy interventions that were part of the long-term policy reforms initiated with the support of the Env PRL, drawing on the analytical work supported by the Env TAL and other studies. Table 1 summarizes the components of Env PRL, Env TAL, and SEM DPL operations.

Table 1. Continuity of Policy Components

ENV PRL (2004)	ENV TAL (2006–2011)	SEM DPL (2010)
First Component: Improve Environmental Management Systems A) Strengthen the Environmental Management System	Component One: Environmental Management System strengthened	Sub-Objective A: Improving the Overall Brazilian Environmental Management System
B) Improve the Green Agenda	Component Two: Green Agenda improved (biodiversity conservation and sustainable use improved)	Sub-Objective B: Integrating Principles of Sustainable Development in Key Sectors B.1. Natural Resources Management and Conservation
C) Improve the Brown Agenda	Component Three: Brown Agenda improved (management of environmental risks due to hazardous chemicals improved)	B.3. Environmental Sanitation
D) Improve the Blue Agenda	Component Four: Blue Agenda improved (Water Resources Management Plan improved)	B.2. Water Resource Management
Second Component: Mainstream environmental sustainability in selected government sectors	Component Five: Environmental sustainability mainstreamed in selected government sectors	B.4. Renewable Energy

6. As envisaged in Operational Policy 8.60 – Development Policy Financing, the SEM DPL was supportive of, and consistent with, Brazil's reform program of policy and institutional actions associated with environmental sustainability. The SEM DPL took into account the Borrower's interest in engaging both managerial and financial institutions in its reform program. The operation's design considered the fact that environmental and social management systems of financial institutions should supplement and be consistent with Brazil's legal and institutional framework – not be a substitute for the responsibilities of the country's environmental authorities. The operation's design also considered the key role played by state-owned financing institutions as financial agents of governmental programs aimed at promoting environmental sustainability. The GoB requested the Bank's support through the SEM DPL to (i) continue the reform process initiated with the Env PRL – whose policy areas were still a priority for the GoB; and (ii) adopt further actions to improve the effectiveness of the environmental and social management system in the National Bank for Economic and Social Development (BNDES). While the Env PRL and the SEM DPL targeted similar policy areas (which is very common in the context of a policy dialogue), the prior actions required by each operation were different. The

¹ World Bank 2011. *Implementation and Completion Results Report: Environmental Sustainability Agenda Technical Assistance Project, Report No. ICR0001097*, September 23, 2011.

SEM DPL focused on the subsequent stage of policy and institutional reforms at the national level and at BNDES that were the next steps after the Env PRL, and were based on relevant analytical work supported by the Bank.

1.2 Choice of Lending Instrument

7. IEG criticized the selection of a Development Policy Loan (DPL) as the operation's lending instrument, claiming that a Financial Intermediary Loan (FIL) or a hybrid DPL and FIL would have been better in ensuring compliance with the Bank's environmental and social safeguards and fiduciary requirements, and with restrictions on interest rate subsidization. In addition, IEG suggests that the SEM DPL 1 funds were not used as general budget support, but rather to fund the expansion of BNDES's investment projects at subsidized interest rates and that a DPL was selected because it made for faster preparation and disbursement than investment loans.

8. Management strongly disagrees with IEG's assertions regarding the choice of lending instrument, and firmly rejects IEG's suggestion that funds provided were not general budget support. The SEM DPL built on selected policy reform areas previously supported by the Env PRL and the ongoing programs supported by Bank operations, policy dialogue, and analytical work supported by the Env TAL. The DPL was chosen as the most appropriate instrument to support Brazil's reform program of policy and institutional actions associated with environmental sustainability.

9. By improving environmental and social policies at the national level and within BNDES, the impact of the operation was far greater than the Bank could have achieved by supporting a single investment or subset of investments. In March 2008, the Brazilian External Financing Commission (COFIEX) authorized the preparation of a DPL program in the amount of US\$ 1 billion.² During preparation, Management did discuss different options of lending instruments in the course of designing the SEM DPL. During the four-month period of June–September 2008, the Bank considered a Sector-wide Approach (SWAp) Financial Intermediary Loan (FIL). However, considering the size of BNDES's lending portfolio, the operation's leverage would have been strongly reduced if it had financed a limited number of specific projects through BNDES. After extensive discussions, the Bank and the Brazilian authorities decided to maintain the operation's focus on policies and institutional reforms that could improve Brazil's environmental management more broadly, as well as BNDES' environmental and social management systems. Subsequently, the team prepared the Concept Note for a "Brazil: First Programmatic Development Policy Loan for Sustainable Environmental Management," which was discussed on November 11, 2008. The Letter of Development Policy submitted by the GoB to the Bank on February 2, 2009, confirmed that the central objective of the operation was to support a policy-reform process. As such, Management reiterates that the choice of instrument was entirely appropriate.

10. In terms of fiduciary requirements, the SEM DPL also complied with OP 8.60. The Bank's support was made through non-earmarked general budget financing that was subject to Brazil's own implementation processes and systems. According to the Loan Agreement, the

² Secretariat for International Affairs, Ministry of Planning (SEAIN) 2008.

Bank disbursed the loan proceeds to the Federative Republic of Brazil as Borrower, into an account that formed part of the country's official foreign exchange reserves. An amount equivalent to these proceeds was credited to an account of the GoB to finance budgeted expenditures.

11. Management unequivocally disagrees with IEG's assertion that the SEM DPL was not general budget support and that it "earmarked" the loan resources for specific purposes. Neither the financing agreement nor the Program Document includes any specific direction of the funds beyond the budget of the Federative Republic of Brazil. In addition, the legal review by both the Ministry of Finance and the Senate explicitly endorse and comply with the IBRD policy by which DPLs shall not be tied to specific investments. As in every DPL, the team assessed the fiduciary environment and risks to the integrity of Bank resources, and the appropriateness of the fiscal policies and the budget.

12. For these reasons, Management reiterates that the relevance of the design of the SEM DPL was Substantial.

2. Achievement of the Objectives

13. IEG states that, while Brazil has made substantial progress in strengthening environmental management in some areas, these major strides are not attributable to the policy reforms promoted by and associated with the SEM DPL 1. In over 20 years of rich and continuous engagement with Brazil on environmental policy, regulatory, and institutional issues, the World Bank has drawn on numerous complementary lending and non-lending instruments, including economic and sector work, technical assistance, and policy lending operations. Building on that dialogue and on the earlier environmental policy lending operation (that is, the Env PRL), the SEM DPL 1 was substantively focused on key next steps in two areas. The first area was supporting policy measures related to the Government's primary institutions that support environmental management (Ministry of Environment and its subordinate agencies). The second area was mainstreaming internationally accepted environmental management principles and practices at BNDES – Brazil's leading and largest long-term infrastructure financing agency – and the National Water Agency (ANA). Results on issues such as deforestation, climate change, and water management have been highly positive in Brazil, and the GoB strongly acknowledges the SEM DPL 1's contribution to the achievements of enhanced environmental policy, more focused implementation of environmental and social practices at BNDES, and better social and environmental outcomes.

2.1 Objective A: Improving the Overall Brazilian Environmental Management System

14. IEG rates as "Negligible" the efficacy in achieving the first objective of improving the overall Brazilian environmental management system. IEG contends that outcome indicators and the prior actions supported by the SEM DPL under this sub-objective have no direct relationship. IEG also asserts that increasing staff numbers at the environmental management agencies was only one of many inputs required, and would not necessarily lead on its own to the desired outcome.

15. Management reiterates that the SEM DPL addressed central subjects of Brazil's environmental management system. With the support of SEM DPL and building on the work of the Env PRL, the GoB strengthened two new institutions affiliated to the Ministry of the Environment (MMA) (a) the Institute Chico Mendes – (ICMBio), with the mandate to promote the conservation of biodiversity; and (ii) the Brazilian Forest Service (SFB), with the mandate to manage the forest resources of public lands. With this restructuring, the Brazilian Institute for the Environment and Renewable Natural Resources (IBAMA) could concentrate its personnel on the environmental licensing process and enforcement of environmental legislation.

16. Prior to the SEM DPL, IBAMA did not have sufficient staff for executing its mandate, particularly with respect to its responsibilities in environmental licensing. Understaffing had prevented this key institution from carrying out critical policy implementation and enforcement and hence addressing it was a necessary condition to improve implementation of IBAMA's functions. While Management agrees that staffing is only one aspect of environmental licensing, at the time of preparation it was identified as a binding constraint to progress in a key function for environmental management. The SEM DPL thus supported policies to strengthen IBAMA's capacity in terms of strengthening its workforce.

17. In 2008, ICMBio was authorized to hire 175 new employees and the SEM DPL reinforced the conclusion of this process. Also, on April 14, 2011, as a result of the SEM DPL prior action, IBAMA hired 60 new environmental analysts to work directly in the environmental licensing units.³ With 60 new employees, IBAMA could organize at least 12 more licensing teams. After training, the new staff started working in the first licensing processes in 2011. Because IBAMA takes an average of 180 days to process the Preliminary Licenses, the effects of increasing the number of specialists were reflected in IBAMA's performance indicators of the following year.

18. The adopted indicator, "number of environmental licenses issued at the Federal level," had a direct relation to IBAMA's institutional capacity, demonstrating its effectiveness in implementing a major environmental management instrument. This indicator was deemed the most adequate to monitor the supported policy because (i) progress depended on resolving one of IBAMA's major constraints; and (ii) it was under the direct control of that Executing Agency. After the reforms implemented under the SEM DPL, the number of licenses issued at the Federal level increased from 441 in 2009 to 691 and 837, in 2012 and 2013, respectively (see Graph 1 at end of text).

19. IEG also suggests the lack of impact of the measures supported by the SEM DPL in mainstreaming climate change mitigation in Brazil. Despite the evidence and clarifications provided by Management and the GoB, IEG insists on an erroneous interpretation of Brazil's Climate Change Regulatory Framework. The National Plan on Climate Change (NCC Plan), referred to in the SEM DPL matrix, is the Government's plan prepared by the Inter-ministerial Committee on Climate Change and was published in December 2008. This plan was then incorporated as an instrument of the National Policy on Climate Change (NCC Policy), adopted by Law 12,187/2009.

³ *Diário Oficial da União [DOU]*, April 14, 2011.

20. The NCC Plan refers to several instruments and actions,⁴ which include (i) sectoral plans for mitigation and adaptation to climate change; and (ii) action plans for the prevention and control of deforestation in the biomes (hereinafter “sector and action plans”). The Decree incorporated five previously established sector and action plans into the NCC Plan, and set a deadline for adopting the remaining plans required by the NCC Policy. As of March 2014, the following sector and action plans have been concluded: (i) action plan to prevent and control deforestation in the legal Amazon (PPCDAM); (ii) action plan to prevent and control deforestation in the Cerrado (PPCerrado); (iii) decennial energy plan (PDE); (iv) low-carbon agriculture plan (Plano ABC); (v) sectoral plan for a low-carbon economy in transformation industries; (vi) low-carbon mining plan (PMBC); (vii) plan for mitigation of climate change in the sector of transport and urban mobility (PSTM); and (viii) health sector plan for mitigating and adapting to climate change.⁵ Demonstrating its commitment to advance its reform program beyond the SEM DPL, the GoB decided to update the NCC Plan through a participatory process initiated in 2013. IEG, however, incorrectly interpreted that this updated version of the NCC Plan was the prior action required for the SEM DPL 1.

21. IEG also downplays the improvements achieved by BNDES and claims that there has been little discernible improvement to BNDES’s environmental and social management system since the SEM DPL. Management emphasizes that IEG’s misunderstanding regarding BNDES’ performance was partially due to the shortcomings in the evaluation approach. First, IEG disregards that BNDES’s environmental sustainability strategy comprised three types of actions aimed at (i) expanding its investment portfolio to support environment and natural resources projects; (ii) incorporating sustainability principles in other sector operations; and (iii) ensuring that financed operations cause no harm. Second, IEG had only one short-notice meeting with BNDES staff and, going beyond its mandate and beyond the DPL under evaluation, focused its efforts on gathering information about the Belo Monte hydropower project, which had no connection of any kind with the SEM DPL. IEG omits key evidence provided by the Bank team and the Government and disregards the institution’s significant advances in its environmental and social systems. The assertion of a connection between the SEM DPL and a specific investment project is unsubstantiated and misleading.

22. BNDES reports confirmed that, by June 2011, the national bank applied the new environmental and social policies to all relevant operations.⁶ The specific BNDES environmental and social policies that have been strengthened are on par with “international benchmarks” for environmental and social policies. These include the existence of an Ombudsperson Office (*Ouvidoria*) as a formal conflict-resolution mechanism, human rights policies, and its vicinities policies, which are publicly available.⁷ Given that BNDES provided up to 90% of long-term investments in Brazil from 2008 to 2013, the application of BNDES’s policies and guidelines has

⁴ *Federal Decree 7,390/2010 elaborates the instruments for the NCC Plan.*

⁵ Ministry of Environment (MMA), Planos Setoriais de Mitigação e Adaptação. Available at <http://www.mma.gov.br/clima/politica-nacional-sobre-mudanca-do-clima/planos-setoriais-de-mitigacao-e-adaptacao>

⁶ Brazilian National Bank for Economic and Social Development (BNDES) 2011a.

⁷ BNDES Ouvidoria. Available at http://www.bndes.gov.br/SiteBNDES/bndes/bndes_pt/Navegacao_Suplementar/Ouvidoria/; BNDES Política de Atuação no Entorno de Projetos. Available at http://www.bndes.gov.br/SiteBNDES/bndes/bndes_pt/Institucional/Apoio_Financeiro/Politicas_Transversais/politica_entorno_projetos.html

a significant effect on Brazil's efforts to promote sustainable development, which is not recognized by IEG.

23. IEG's criticism of BNDES also includes its decision not to adopt the Equator Principles (EP) and to develop instead its own approach to promote environmental sustainability throughout its portfolio. Management believes that IEG did not sufficiently consider the sensitivities related to domestic political economy and that the environmental and social policies and guidelines adopted by BNDES must meet the requirements established by Brazil's legislation. Also, the EP target commercial banks, and do not constitute an appropriate benchmark for a state-owned development bank, such as BNDES. Finally, Resolution 4327/2014 recently published by the Brazilian Central Bank requires all financial institutions to develop a Policy of Social and Environmental Responsibility (PRSA) to manage environmental and social risks. This new regulation represents an evolution in the country's social and environmental management system, building upon the advances achieved by the financial institutions with the Green Protocol.

24. Given the SEM DPL's support in strengthening Brazil's institutions for environmental management, its role in supporting the National Plan on Climate Change, and its support to strengthening BNDES' environmental and social policies, management reiterates that the operation's efficacy in achieving Objective A was Substantial.

2.2 Objective B: Integrate Principles of Sustainable Development in Key Sectors

25. With regard to the objective of improving the sustainability of natural resource management and conservation, IEG asserts that while Brazil has made major strides in reducing its deforestation rate over the past decade, this has been achieved through policies other than those supported by the SEM DPL.

26. Management notes that a previous evaluation from IEG reached different conclusions. In the Forest Sector Review, IEG stated that "[t]he gains [in deforestation reduction] are partially credited to improved monitoring and enhanced enforcement led by the Brazilian Institute of Environment and Renewable Natural Resources (IBAMA) in cooperation with the Federal Police, the National Security Force, and the Army - and high-level intersectoral cooperation."⁸ IEG then referred to a list of actions and results from both the Env PRL and the SEM DPL 1 in Table 2.3 of its report.⁹ In particular, IEG noted that IBAMA's improved monitoring and enforcement were crucial to reducing deforestation, something that the SEM DPL strategy reinforced. Indeed, IBAMA's institutional strengthening has had direct effects on its capacity to improve monitoring and enhance enforcement, among other environmental management activities. Therefore, it is reasonable to conclude that the SEM DPL, among other important government policies and actions, contributed to reducing deforestation rates. Graph 2 below shows that from 2009 to 2012, the cumulative additional annual emissions reduction is 33,266 MtCO_{2e}/year. Graph 3 presents the annual deforestation rate decline from 12,911 km² in 2008, to 4,571 km² in 2012.

⁸ Independent Evaluation Group (IEG) 2013a. *Managing Forest Resources for Sustainable Development*. Washington, DC: World Bank, February 5. Available at

⁹ https://iee.worldbankgroup.org/Data/reports/chapters/forest_eval.pdf

Ibid.

27. With regard to the sub-objective of improving management and quality of water resources, IEG claims that, although the GoB appeared to have achieved progress in increasing the coverage of water-monitoring sites around the country, it was not clear to what extent this could be attributed to the SEM DPL. IEG also asserts that the quality of the outcome indicator could be questioned, as it does not specify which parameters are to be monitored.

28. Management reiterates its disagreement with IEG's conclusions. Publicly available evidence, documents in the World Bank's official repository (WBDOcs), and information provided in interviews held with officers of the Federal Water Agency (ANA) demonstrate the following: First, the actions supported by the SEM DPL initiated and contributed to the signing of cooperation agreements between ANA and all 27 Brazilian states (the SEM DPL target was Cooperation Agreements with 10 states). Second, the SEM DPL triggered the implementation of the National Water Quality Evaluation Program (PNQA). Third, a number of federal and state governmental organizations, including ANA, have used water quality monitoring data for prioritization of investments for improved water quality. Furthermore, the PNQA has informed investments in wastewater treatment plants, water quality laboratories, and the infrastructure for the national and subnational water quality monitoring network, among others. With regard to the outcome indicator, Management emphasizes that the PNQA sets forth the criteria to standardize procedures for the collection, preservation, and analysis of water quality samples at the entities operating the state networks.

29. Regarding the sub-objective of reducing environmental impacts through improved water, wastewater treatment, and solid waste services, IEG also claims that no information was obtained on pollution reductions from BNDES projects before the SEM DPL to establish a valid baseline, nor was information provided in the ICR on how the pollution reductions were achieved or on how they were measured.

30. Management reiterates that IEG did not consider information provided by the Ministry of Finance that included the BNDES Final Report on the SEM DPL 1 Actions,¹⁰ nor did IEG acknowledge the SEM DPL's effective contribution to reducing environmental impacts through wastewater treatment. Using the baseline as of January 2009, the GoB reported that the estimated Biochemical Oxygen Demand (BOD) abatement associated with fifteen projects accepted for evaluation and approved by BNDES amounted 141,280 ton/year. In addition, contracts financed by the updated Program for Depolluting River Basins (PRODES) were reducing water pollution loads by more than 80,000 tons BOD/year. Therefore, the GoB surpassed the outcome indicator set for this sub-objective.

31. Regarding the sub-objective of promoting renewable energy potential, IEG contends that the target for this policy area – number of terajoules generated from renewable energy sources – was specific to BNDES and had little relation to the prior action on introducing the Integrated Environmental Assessment (IEA) methodology in the Brazilian national *Handbook of the Electricity Sector's Inventory*. IEG also suggests that by far the biggest share of BNDES's renewable energy investments continue to go to large hydropower dams, but BNDES has also increased its investments in other forms of renewable energy. Management emphasizes that the

¹⁰ BNDES 2011b, SEM DPL World Bank – Final Report, Letter AMA/DEMAN No. 14/2011 and AP/DEART No. 04/2011, June 15, 2011. Available at WBDOcs.

energy generated through the large hydropower dams was not included in the target indicator because the SEM DPL focused on three renewable energy sources: wind power, mini-hydropower, and biomass cogeneration projects. New evidence presented by Management demonstrates that there was a major increase in the installed capacity of renewable energy after January 2009, set as the SEM DPL baseline. (See Graph 4 below).

32. Given the contribution of the operation to strengthening the institutions that support sustainable environmental management, its contribution to improvements in measuring and monitoring water quality across all 27 states, its contribution to measurement of and managing the environmental impacts of wastewater treatment, and the SEM DPL's support to policies that promote renewable energy, Management reiterates that the outcomes achieved merit rating the operation's efficacy in achieving Objective B as High.

3. Risk to Development Outcome

33. IEG states that what was achieved is unlikely to be sustained. According to IEG, BNDES in particular has shown a lack of commitment to improving its environmental and social management system. IEG also claims that the cancellation of the programmatic series before the second loan limits the scope for the World Bank to engage with the client to carry planned reforms forward.

34. Management maintains that the evidence provided demonstrates that the implementing agencies of the SEM DPL, including the MMA, IBAMA, ANA, ICMBio, and BNDES, have met the results agreed to in the Policy Matrix for the SEM DPL. Furthermore, all implementing agencies of the SEM DPL have continued to design and implement actions well beyond the operation's original objectives and goals. For example, in relation to the framework described by the Bank team at project preparation, BNDES has made great progress in relation to its environmental and social management system since 2008. BNDES's commitment to improving its environmental and social management system is well reflected in the adoption of a series of policies and guidelines, whose scope and contents are on par with the "international benchmark" cited in the PPAR. In addition, the national bank continues to update and improve its environmental and social system, going beyond the sole aim of doing no harm. BNDES has expanded its portfolio to support more projects related to environment and natural resources, and has incorporated environmental principles in other sector operations. Another example is ANA whose cooperation agreements with the 27 states demonstrate an on-going commitment to monitoring water quality and prioritizing investments to improve water quality.

35. These additional and sustained actions and improvements in policies and programs demonstrate that the Borrower has minimized the risk that the development outcomes would not be maintained. For these reasons, Management reiterates that the risk to development outcome is Negligible.

4. World Bank Performance

36. The lending instrument was selected after extensive discussion between the World Bank and the Brazilian authorities, based on solid technical criteria, and the decision to focus on policy reforms. The SEM DPL drew on robust analytical work, such as the studies sponsored by the

Env TAL, and the results of the Env PRL. Even after the Env PRL closed, the Bank maintained its dialogue with the GoB and direct contact with Brazil's environmental management agencies, such as MMA and IBAMA, to implement the Env TAL and other Bank-financed operations. Consequently, the SEM DPL built on selected policy reform areas previously supported by the Env PRL, and on the ongoing policy dialogue between the Bank and the GoB. The Bank team also engaged with IFC to prepare the operation. Through one of its senior environmental specialists, the IFC provided inputs, especially by reviewing the operation concept notes, and participated in the review meetings.

37. Before concluding that the GoB had accomplished the conditions for the second tranche release, the Bank team reviewed all documentation provided by the Borrower, which was complemented by and scrutinized against relevant literature for the key sectors and environmental issues covered by the SEM DPL. As part of a thorough supervision process, the Bank team conducted several missions to discuss with the GoB the stages of implementation, follow up on executing agencies' requests, and technical assistance needs. The Bank team allocated twenty-seven weeks of their work to supervise the SEM DPL I. For those reasons, Management reiterates that the evidence merits that IEG revise its evaluation ratings for World Bank performance from "*Unsatisfactory*" to "Satisfactory".

5. Borrower Performance

38. IEG rates the Borrower performance as "Moderately Unsatisfactory". Despite the evidence provided by Management and the GoB, IEG states that BNDES demonstrated a lack of commitment to improving its environmental and social management system, and to addressing related issues of a lack of transparency and consultations with civil society.

39. Management strongly disagrees with IEG's claims. It is clear that the GoB and its implementing agencies (MMA, IBAMA, ANA, ICMBio, and BNDES) ensured quality of preparation and implementation, and complied with covenants and agreements toward the achievement of the SEM DPL development objectives. The GoB not only achieved the outcome indicators in all policy areas, but in most policy areas, the GoB surpassed the original target by the time of the operation's completion. In fact, the GoB has executed through its implementing agencies eight out of nine trigger actions originally envisaged for the SEM DPL II, even after the second loan of the series was cancelled. Additionally, the delay in effectiveness of the operation was not due to the alleged omission by the GoB. The Borrower did not include SEM DPL funds in its FY2009 federal budget because the President of the Republic submitted the 2009 Annual Budget Law (LOA) proposal to the National Congress on August 27, 2008, several months before the Board's approval of the SEM DPL I. Once the Board approved the loan in March 2009, the GoB proposed an amendment to the 2009 LOA, but the Senate's discussion process for this budget amendment was extraordinarily lengthy, while this specific amendment was held up until the end of 2009 by an extensive country budget discussion influenced by the global economic crisis. Therefore, the GoB included the funds of the SEM DPL in the FY2010 budget. For this reason, Management suggests that IEG revise its evaluation ratings for borrower performance from "*Moderately Unsatisfactory*" to "Satisfactory".

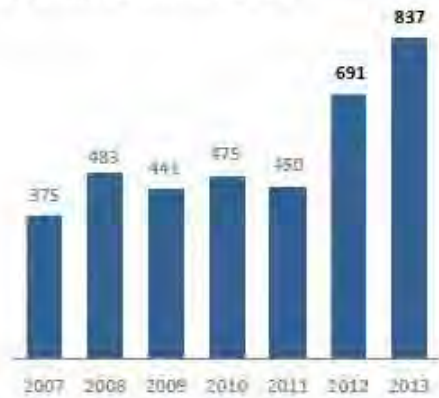
6. Conclusions

40. The SEM DPL produced substantive and critical incremental improvements and supported a significant institutional momentum towards sustained and continuous progress in sustainable environmental management in Brazil. The PPAR's lack of consideration of the documented achievements and positive evolution of policy reforms in the areas supported by the SEM DPL creates significant reputational risks, for IEG as well as the WBG as a whole. In particular, the SEM DPL cannot be tied to specific investment loans.

41. Management regrets IEG's excessively critical assessment regarding the GoB's performance and commitment. While there is always more to do, the GoB has made significant advances in sustainable environmental management, and as acknowledged by the Government, the SEM DPL played a role in this. Like the other executing agencies, BNDES has made significant progress in its environmental and social practices during the operation's implementation period, and has continued to do so to date. This strong commitment of the GoB, coupled with the breadth of actions taken in the years *after* the closure of the SEM DPL, confirms not only the tremendous relevance of the PDO, but also the sustainability of the operation's development outcomes.

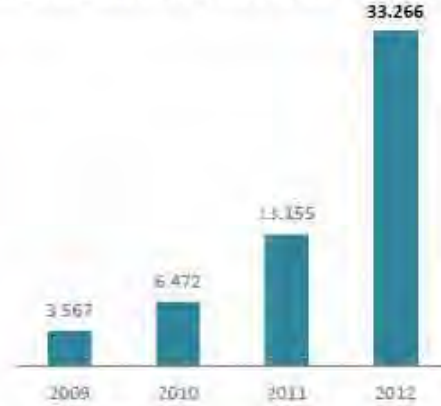
Graphs 1 to 4. Sustainability of the Actions Supported by the SEM DPL I

Graph 1. Number of licenses issued at the Federal level increased to 691 and 837, in 2012 and 2013, respectively



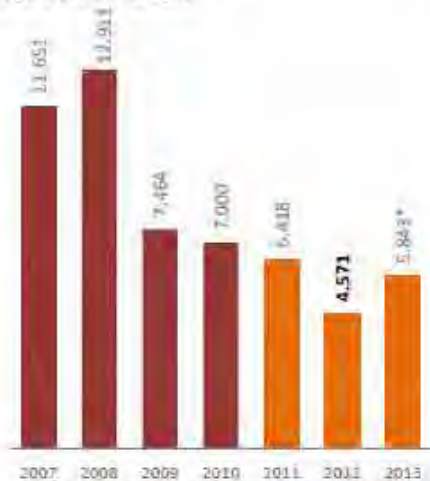
Source: IBAMA 2011; Presidential Message 2013 and 2014.

Graph 2. From 2009 to 2012, the cumulative additional annual emissions reduction is 33,266 MtCO₂e/year



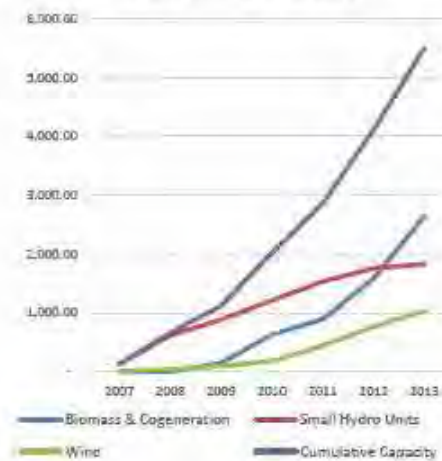
Source: UNEP RISOE.

Graph 3. Annual deforestation rate decreased from 12,911 km² in 2008, to 4,571 km² in 2012.



Source: Amazon Deforestation Monitoring Project / National Institute for Spatial Research (INPE). Note: * = Estimate.

Graph 4. Renewable energy ⁽¹⁾ cumulative capacity (MW). Projects financed by BNDES.



Source: BNDES communication (March 2014). Note: Does not include large hydroelectric units

Chairperson's Summary: Committee on Development Effectiveness

PPAR: Brazil – First Programmatic Development Policy Loan for Sustainable Environmental Management (SEM DPL) and Management Comments

PPAR: Brazil – First Programmatic Reform Loan for Environmental Sustainability (Env DPL) and Management Comments

Report to the Board of Executive Directors from the Committee on Development Effectiveness

Meeting of January 21, 2015

The Committee on Development Effectiveness (CODE) met to discuss IEG's *Project Performance Assessment Report (PPAR): Brazil – First Programmatic Development Policy Loan for Sustainable Environmental Management (2009 SEM DPL) (CODE2014-0042)*, *Management Comments on the SEM DPL (CODE2014-0043)*, IEG's *Project Performance Assessment Report (PPAR): Brazil – First Programmatic Reform Loan for Environmental Sustainability (2004 Env PRL) (CODE2014-0046)*, and *Management Comments on the Env PRL (CODE2015-0001)*.

The Committee welcomed the opportunity to discuss the two country project evaluations. Members noted the different views by Management and the Government of Brazil (GoB) on the IEG approach and findings of the PPAR on the SEM DPL. Several speakers commented that the differing views presented a challenge in assessing the findings and broader lessons. They reiterated the importance of collaboration and clarity in approach and scope among all parties before evaluations are undertaken, and hoped IEG and Management continue their constructive working relationship.

The Committee focused on the two PPARs and the DPLs' achievements and performance, and some members urged Management to consider relevant lessons to help inform future DPF operations; others urged caution given the factual disagreements. Members noted the progress Brazil has achieved in strengthening and mainstreaming environmental sustainability; they supported the Bank's sustained efforts in this sector and the consolidated partnership between the Bank and the Government of Brazil.

Members acknowledged that sector related DPOs raise particular issues related to environmental and social (E&S) risks, and several noted the difficulty in attributing impact and results in DPF operations in general. The Committee looked forward to consideration of the development policy financing retrospective planned for FY16 and, in particular, discussion of E&S risks, implementation, levels of due diligence and monitoring and evaluation requirements in DPLs. Members also looked forward to discussing IEG's broader review of DPFs, expected in the coming months.

The Committee agreed that the PPARs will be disclosed with the Management Comments, Borrower Comments and Green Sheet Summary, and that the disclosure should reference these documents and flag that there were different views.

¹ This report is not an approved record

1. Background and Context

Environmental Context³

1.1 The Federative Republic of Brazil is the largest country in South America and the fifth largest in the world, comparable in size with the US, and covering 8.5 million km².

Thanks in large part to its size and geographic diversity, Brazilian natural resources are diversified and abundant. Such diversity is expressed through a great variety of climates, from the tropical-wet to the semi-arid and temperate, as well as through varied soils, geomorphology and vegetation. Brazil also contains a wealth of mineral and energy resources, including aluminum ore, gold, iron ore, nickel, phosphates, platinum, tin, uranium, petroleum, and hydroelectric power. With more than 5 million km² covered by forests, Brazil also benefits from major wood and other forest product resources, and is home to the largest carbon sink on the planet. Water resources are abundant, but unevenly distributed. Owing to its large size and diverse geography, one of Brazil's greatest natural resource endowments is its biodiversity.

1.2 In 1989, President Sarney announced *Nossa Natureza*, Brazil's first attempt at formulating a national environmental policy, which announced a number of emergency measures.⁴ This move was seen by many as a response to mounting domestic and international criticism over the country's apparent lack of environmentally sound development policies. The main practical and immediate result of *Nossa Natureza* was the setting up of Brazil's environmental control agency IBAMA. The Ministry of the Environment itself (MMA) was set up in 1993 (see Annex F for a diagram of Brazil's federal environmental agencies).

1.3 Brazil's environmental profile was heightened when it took on a leadership role in international environmental matters by hosting the UN Conference on the Environment and Development (UNCED) or "Earth Summit" in Rio de Janeiro in 1992, and also hosted the global Rio+20 summit in 2012. The country was the first to sign the Convention on Biological Diversity (UNCBD) and the United Nations Framework Convention on Climate Change (UNFCCC), during the conference.

1.4 Yet even as it was taking on a leadership role internationally, the idea of incorporating an environmental dimension into development policies and strategies was still highly controversial in Brazil. There had for example been strong resistance by Amazon state governors to the setting up of local environmental control agencies (OEMAs), because they saw this as a potential constraint on development. Environmental management was dominated by a centralized command-and-control approach. IBAMA was provided with statutory powers by the Environmental Crimes Law, which was finally approved in 1998 in the face of strong political opposition. It imposed large fines and prison sentences for a

³ This section draws heavily on IEG's Brazil case study for the global evaluation of environmental management, in some cases verbatim.

⁴ These measures included attempts to curtail Amazon deforestation, limits on log exports, the creation of several national parks and setting up of a National Environment Fund (FNMA).

range of offenses including illegal logging, pollution, and illegal hunting. However, the law was poorly enforced and few fines were ever collected. IBAMA regularly comes under strong political pressure to relax restrictions where commercial interests are at stake; for example, by the steel industry in Pará which relies heavily on native forests for charcoal supplies in pig-iron smelting.

1.5 Brazil has placed a strong emphasis on conservation of the natural resource base. The National System of Conservation Units (SNUC) was established in 2000. According to a recent definitive study of Amazon deforestation, “From 2004 through 2012, protected areas and indigenous territories grew 68% to encompass 47% of the entire Brazilian Amazon region” (Nepstad and others 2014). However, problems of monitoring and enforcement of environmental laws remain.

1.6 While the federal government retains significant control over the ‘green’ environmental agenda through the MMA and IBAMA, responsibility for the ‘blue’ and ‘brown’ agendas has increasingly been devolved to state authorities. Rapid urban expansion made it difficult for the government to keep up with the demand for water, sanitation and solid waste disposal. Brazil’s 1988 Constitution decentralized responsibility for addressing water and sanitation-related pollution issues to the states and municipalities.

1.7 **Environment has been one of the pillars of the World Bank’s program in Brazil for decades.** The portfolio review for the recent IEG Brazil Country Program Evaluation (CPE) found more than one hundred World Bank operations in Brazil with an environment theme over the past decade.

1.8 The World Bank provided an earlier environmental policy loan to Brazil. Called the First Programmatic Reform Loan for Environmental Sustainability (Env PRL), it was designed as a programmatic series of three loans. The first, for US\$ 500 million, was approved in 2004. Like the SEM DPL though, the subsequent loans never materialized and the rest of the series was canceled. A full Implementation Completion and Results Report (ICR) was never completed, and as a result IEG was not able to assign the loan an outcome rating.⁵

Development Context⁶

1.9 Brazil made substantial achievements in fiscal adjustment and price stabilization in the late 1990s and early 2000s. But the resilience and continuity of that stabilization effort was tested in the 2000s by the global economic slowdown, a domestic energy crisis, spillovers from the Argentine crisis, and uncertainties related to the 2002 presidential election. The subsequent macroeconomic stability and a favorable external environment allowed Brazil to resume moderate growth from 2004.

⁵ The Env PRL is the subject of a separate IEG PPAR under preparation.

⁶ This section draws heavily on IEG’s 2013 Country Program Evaluation (CPE) of Brazil, in some cases verbatim (IEG 2013).

1.10 Gross Domestic Product (GDP) grew by nearly 5 percent per year between 2004 and 2008 with some fluctuations. Brazil was one of the last nations to fall into recession in 2008 and among the first to recover; the country's sound fundamentals and prompt response helped mitigate the decline. Brazil has also made considerable progress in its long-term foreign currency sovereign credit ratings. Standard & Poor's rating for Brazil improved by 4 notches from noninvestment grade BB- in 2003 to above investment grade of BBB in 2011.

1.11 Brazil's population has been urbanizing rapidly. Rural out-migration has been encouraged by agricultural modernization and land concentration in the Southeast and Northeast with the expansion of major commercial and export crops such as sugar, cattle, wheat, and soybean. Development of transport, roads, and communications infrastructure has stimulated frontier settlement westwards, with implications for the environment. The growth of Brazilian manufacturing industry through import substitution and exports as well as expansion of the tertiary service sector has further catalyzed urban growth.

1.12 Brazil has made substantial progress in reducing poverty and income inequality. Poverty declined from 35.8 percent of the population in 2003 to 21.4 percent in 2009; and extreme poverty fell from 15.2 percent in 2004 to 7.3 percent in 2009. Non-income indicators of standards of living have also improved; for example, there have been reductions in child malnutrition and increases in primary school enrollment. Gender differences in enrollment have been eliminated.

1.13 Nevertheless, substantial development challenges remain. Although the growth rate during the past decade was higher than in the preceding two decades, it was lower than major emerging countries in most of the years, and has recently slowed significantly from 7.5 percent in 2010, to 2.7 percent in 2011 and 0.9 percent in 2012.⁷ Much of the body of literature on this topic maintains that accelerating Brazil's economic growth requires sharp increases in investment rates, particularly in infrastructure, which was low relative to other emerging market economies over the past decade. Key issues seem to be weak incentives for private investment and low savings rates. Regulatory reform is needed to encourage private investment in infrastructure and to reduce the cost of doing business in order to make Brazil more competitive (The Economist 2013b). The environment is also relevant to the economic situation, including the difficulty of combining agricultural growth and poverty reduction with protection of the environment in general, and forests in particular.

Operational Context

1.14 To properly evaluate the SEM DPL, it is important to understand the history and evolution of the operation, and the context in which it was prepared. Over the course of the preparation process, there were significant changes to the design—including to the financing instrument, the objectives, and the implementing agencies. The changes in turn affected issues that arose later, including with the project logic, the delay in effectiveness, the inclusion of actions previously supported by the Env PRL, and the Bank's reputation. Those

⁷ <http://www.worldbank.org/en/country/brazil/overview>

issues are important for this evaluation. A more complete history of the operation and a Timeline with the many steps involved are provided in Annex H.

1.15 Preparation of the operation began with a World Bank mission to the headquarters of the National Bank for Economic and Social Development (BNDES) in Rio de Janeiro in November 2007. BNDES is a wholly owned Brazilian federal government development bank that finances both private and public investments and is the main source of long-term financing in Brazil, including large infrastructure projects, and whose annual lending has grown to several times that of the World Bank globally (BNDES 2013a).⁸ BNDES has also been increasing its presence internationally, particularly in other countries in Latin American, where it has become one of the most important financial institutions, and in Africa, where it recently opened its first representative office (BNDES; Financial Times 2010, 2012, 2013b, 2013c; BIZ 2011).⁹

1.16 The operation was referred to as the “BNDES PAC-Env DPL” and “a potential PAC and environmental and social policy operation.” The “PAC” is the Portuguese acronym for the Brazilian government’s flagship Program for Accelerated Growth to support a major scaling-up of infrastructure investment, with “BNDES as the primary channel for federal financing of this ambitious program.” At the same time, BNDES had received criticism nationally and internationally for the adverse environmental and social impacts of some of its investments, including in large slaughterhouse operations in the Amazon (see for example, Greenpeace 2009), and both the BNDES and World Bank teams recognized that there were significant weaknesses in BNDES’s approach to environmental and social safeguards (see Program Document).

1.17 According to the World Bank’s 2008-2011 Country Partnership Strategy (CPS) for Brazil and the Country Director at the time, the World Bank consciously made a major change in direction at the time in deciding to engage in financing development in the Amazon—in sectors like energy, agriculture, mining, and infrastructure—and to do it in an environmentally sustainable way (World Bank 2008). The planned World Bank loan to BNDES was seen as a manifestation of the new focus.

1.18 In March 2008, the Government of Brazil External Financing Commission (COFIEX) authorized the preparation of a “DPL/BNDES-World Bank” program. It specified that the loan would be in the amount of US\$1 billion, with BNDES as the only beneficiary, and the Federal Government of Brazil as the guarantor. The DPL is the World Bank’s main instrument for providing a client country with budget support through “rapidly disbursing policy-based financing”, and its use is governed by Operational Policy (OP) 8.60.¹⁰ Although up until that point the idea was to prepare a DPL to BNDES, the first two Concept Notes

⁸ http://www.bndes.gov.br/SiteBNDES/bndes/bndes_en/Institucional/The_BNDES_in_Numbers/

⁹ http://www.bndes.gov.br/SiteBNDES/bndes/bndes_en/Institucional/Press/Noticias/2013/20131206_africa.html

¹⁰ See World Bank Operational Manual, available at: <http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/EXTPOLICIES/EXTOPMANUAL/0,,menuPK:64142516~pagePK:64141681~piPK:64141745~theSitePK:502184,00.html>

issued for the operation in June and September 2008 were for a Financial Intermediary Loan (FIL) from the World Bank to BNDES titled the “BNDES Environmental and Social Sustainability Project” (though still with the same project code, P095205). The proposed US\$1 billion in financing was to be divided into two Components: (A) Strengthening of Environmental and Social Screening and Monitoring would provide US\$10 million for technical assistance and training to BNDES; and (B) a US\$990 million Line of Credit to finance BNDES investments in infrastructure and green lines of business.

1.19 The Concept Notes explain that the originally proposed DPL instrument was rejected because a DPL directly to BNDES would require an exception to OP 8.60, and for the government to borrow from the World Bank and on-lend it to BNDES “is not consistent with the financial requirements of the country” due to concerns about the impact on external debt statistics. But internal World Bank reviewers of the Concept Notes expressed serious concerns about BNDES’s ability to comply with the requirements of a FIL—a type of investment loan—on environmental and social safeguards, interest subsidies, financial management, and procurement.

1.20 Meanwhile, Lehman Brothers filed for bankruptcy in September of 2008, sparking the global financial crisis. At the time there were concerns that “despite its increased resilience, Brazil has been hit hard by the global financial crisis” (World Bank 2009). In response, the Brazilian Government “announced the adoption of countercyclical fiscal policies,” including accelerated financing of infrastructure investments through BNDES. At the World Bank Annual Meetings in October 2008, a meeting was organized between the BNDES President, World Bank management, and Brazilian government officials to discuss this loan. BNDES needed the money to help increase its lending, but they objected to applying World Bank FIL requirements—particularly restrictions on interest rate subsidies, environmental and social safeguards, and procurement rules. So agreement was reached to abandon the idea of a FIL, and change instruments again. This time, the Brazilian Federal Government would borrow the money from the World Bank in the form of a broad, national-level environmental DPL, and on-lend the money to BNDES.

1.21 From that point, the operation was prepared very quickly. In November 2008, another Concept Review Meeting was held, this time for the “Brazil: First Programmatic Development Policy Loan for Sustainable Environmental Management”, or SEM DPL. A programmatic DPL was now proposed with nine policy areas and two objectives that were virtually the same as the objectives for the earlier Env PRL: improve the Brazilian environmental management system, and mainstream environment into targeted sectors. The lending amount for the series was doubled from US\$1 billion to US\$2 billion, and the Ministry of Environment was added as an implementing agency. Though the title and objectives no longer mentioned BNDES, BNDES remained an implementing agency and a major focus of the reforms the SEM DPL aimed to support. On the part of the Borrower, the plan to on-lend all of the SEM DPL funds to BNDES was made official soon after through Interim Measure 450 of the Brazilian Presidency in December 2008 (Presidency of the

Republic 2008; Senate of Brazil 2008), subsequently codified in Brazilian Law Number 11.943, Article 15 (Presidency of the Republic 2009).¹¹

1.22 The use of the DPL instrument allowed the World Bank to prepare the loan and commit the money much faster than would have been possible under a FIL—without having to address FIL requirements related to interest rate subsidies, environmental and social safeguards, and fiduciary oversight. Less than three months later, on February 3, 2009, the Program Document was finalized for the SEM DPL, and the SEM DPL 1 loan was approved by the World Bank Board on March 5, 2009. That contributed to the Bank reversing a steep decline in lending to Brazil, which had fallen from \$3.2 billion over 2005-6 to less than \$300 million in 2007.

1.23 The speed with which the operation was prepared once the decision was taken to change to a DPL to the federal government afforded little time for the Bank SEM DPL team to engage outside of BNDES with the many government agencies implicated in the national-level reforms. Moreover, despite the argument made in the Program Document that “the aim of ensuring adequate credit resources to the financial system is a key motivating factor of the GOB’s request for the SEM DPL” in response to the financial crisis, the loan then lingered for more than a year before the Loan Agreement was signed and the operation made effective. Based on interviews and documentation, IEG understands that the delay was due to the need for the loan to be approved by the Brazilian Senate, which took some time. Legal Opinions prepared prior to the Senate vote explain that all of the funds provided by the World Bank through the SEM DPL would be directed to BNDES, although they also emphasize that because the money is being lent under the World Bank’s DPL instrument, the proceeds from the loans “are not allocated for investments.”

1.24 The SEM DPL was signed and became effective on June 21, 2010. The first tranche of US\$800 million was released on June 30, 2010, fifteen months later than what was planned when the loan was approved by the World Bank Board. The second tranche of US\$500 million was disbursed on December 15, 2010, seventeen months late. Thus the total amount of US\$1.3 billion for SEM DPL 1 was disbursed. Each of these disbursements was accompanied by a detailed Financing Contract signed between the Federal Government of Brazil and BNDES that in many respects passed on to BNDES the terms of the SEM DPL Legal Agreement signed between the federal government and the World Bank. In addition, each of the Brazilian Financing Contracts specified that “this contract aims at granting credit to BNDES...to provide it with the resources for application in its investment operations.”

1.25 The SEM DPL was closed two weeks after the second tranche was disbursed, on December 31, 2010. BNDES subsequently confirmed that the SEM DPL resources were provided as a concessionary loan by the Federal Treasury “to complement the BNDES disbursement budget.” Indeed, BNDES ramped up its lending in a major way at the time of

¹¹ Available at: http://www.planalto.gov.br/ccivil_03/ato2007-2010/2008/Mpv/450.htm : and http://www.planalto.gov.br/ccivil_03/ato2007-2010/2009/Lei/L11943.htm . The Presidency website notes that Interim Measure 450 was revoked once Law No. 11.943 was approved (thus the strikethroughs).

the SEM DPL, reporting that its disbursements increased by 23% in 2010 (BNDES 2013a).¹² The planned second loan in the series, SEM DPL 2, never materialized.

1.26 To provide perspective on the scale of the SEM DPL 1, it was equivalent to the total average annual financing commitment for the environment for the entire World Bank from 2008-2012, including financing from the Global Environment Facility (GEF), and it was ten times larger than the World Bank's total global GEF-financed commitments in 2011 or 2012.¹³ Looking only at the non-DPL environment portfolio (since the SEM DPL itself is included in the overall calculation), SEM DPL 1 was more than 2.5 times bigger than the World Bank's global average annual financing commitment for the environment from 2008-2012.

2. Objectives, Design, and their Relevance

2.1 **The objectives for the SEM DPL series are stated in the Program Document as follows:**

The SEM DPL series supports the GOB's concerted efforts to strengthen environmental management, with particular attention to: improvements in the overall environmental management system, sustainable management of agricultural lands, forests, and water resources; reduction of deforestation in the Amazon; reduction of the environmental degradation of land and water resources that are key determinants of the well being of the poor; and, promotion of renewable energy. (Program Document, para. 172)

2.2 Although the SEM DPL was designed as a programmatic series of two loans, the series was canceled after the first loan. There do not appear to have been separate objectives for the individual loans in the series, including SEM DPL 1. For the purposes of this evaluation, IEG construes the objectives of the SEM DPL as follows:

- a) Improve the overall Brazilian environmental management system; and
- b) Manage natural resources sustainably, reducing the degradation of agricultural lands, forests (in particular the Amazon), and water resources, and promoting renewable energy.

Relevance of Objectives

2.3 Improving Brazil's overall environmental management system, and managing its natural resources sustainably, is relevant to Brazil's national priorities and the Bank's support program in the country. Brazil contains a wealth of natural resources, including some that are

¹² In its 2013 Brazil Economic Survey, the OECD was critical of the significant increase in transfers from the national budget to BNDES, noting that "a large share of BNDES loans is extended to large companies... [which] would be the ones that would probably enjoy the easiest access to credit in private credit markets." It recommends that "private entry will require levelling the playing field by phasing out all direct and indirect financial support to BNDES." (OECD 2013)

¹³ Source: World Bank Business Warehouse.

of global importance, and as a rapidly developing middle-income country whose economy depends to a large extent on its natural resources, there are important environmental challenges that must be carefully managed in order to sustain Brazil's progress over time. The Program Document highlights the inclusion in Brazil's 2008-2011 Multiyear Plan (PPA) of "sustainable use of natural resources" as the fifth of eight themes, and charts various government programs and plans that relate to the different SEM DPL sub-objectives dealing with natural resource management.

2.4 Although the environment is clearly important for Brazil and was also a priority for the World Bank's engagement in the country for many years, the 2008-2011 Country Partnership Strategy (CPS) for Brazil recognized that the top priority of the Brazilian government was to accelerate economic growth in light of Brazil's low growth rates when the CPS was prepared. This effort included the PAC program to support infrastructure investment discussed in the Background section. At the same time, the CPS asserts that the government continues to be committed to environmental sustainability, and maintains sustainability as one of four pillars in the Bank's program.

2.5 On the other hand, the statement of the SEM DPL series objectives is vague, and appears overly broad and ambitious. It is also formulated differently from what is presented as Sub-objective B in the Development Policy Matrix of the Program Document (see Annex B), which is "Integrating Principles of Sustainable Development in Key Sectors." The Program Document also lacks a specific objective for the SEM DPL 1 loan, as distinct from the programmatic series objective, as recommended by OPCS.

Overall, the relevance of objectives is rated Substantial.

Design

2.6 The SEM DPL was designed as a programmatic series of two loans for a total of approximately US\$2 billion. The first loan (SEM DPL 1) was for a total of US\$1.3 billion divided into two tranches of US\$ 800 million and US\$ 500 million. The full US\$ 1.3 billion of the SEM DPL 1 was financed by the World Bank on IBRD terms.

2.7 The key to understanding the design and intended program logic for any DPL is the policy matrix. For the SEM DPL, the "Development Policy Matrix" from the World Bank's Program Document is reproduced in Annex B, including the outcome indicators that were to be achieved by the program by 2011. For a programmatic series such as this, outcome indicators are established for the entire series.

2.8 The policy actions under the two tranches of the SEM DPL were organized around nine "Key Issues and Objectives", or policy areas, which covered a broad array of environmental issues: green, brown, and blue. The policy areas are here regrouped into two sub-objectives: A. improving the overall Brazilian environmental management system, and B. integrating principles of sustainable development in key sectors. Sub-objective B was further divided into four policy areas: natural resource management and conservation, water resource management, environmental sanitation, and renewable energy. The policy areas, as

originally designed in Annex 3 of the Program Document, are described in detail in the discussion that follows and summarized in Annex B.

A. Improving the overall Brazilian environmental management system

2.9 The program sought to support policy reforms to improve and standardize the environmental management system by:

(i) improving the effectiveness of government environmental agencies, including the MMA and IBAMA, in implementing mandated Brazilian environmental and social management procedures, through restructuring and staffing increases;

(ii) mainstreaming climate change in public and private sector investments by drafting and approving a National Climate Change Action Plan, and by BNDES implementing clean development and carbon funds programs; and

(iii) improving the effectiveness of environmental and social management systems in BNDES and other financial institutions, through approving a revised Green Protocol to be approved by all federal public Brazilian banks, the approval and application of a new Environmental and Social Institutional Policy by BNDES to all its directly financed operations, and finally the expansion of the application of this new policy to BNDES's full portfolio.

2.10 By supporting these measures, the SEM DPL aimed to:

(i) improve the environmental licensing process using as a proxy a 20 percent decrease in the number of judicially challenged licenses by the Public Prosecutor's Office (this indicator was later changed; see below);

(ii) increase planned signed reductions of 20 million tons of CO₂ from CDM projects, BNDES projects, and other actions under the National Climate Change Action Plan; and

(iii) achieve 100 percent of projects submitted directly to BNDES screened, approved and monitored according to the new Environmental and Social Institutional Policy.

B. Integrating principles of sustainable development in key sectors

B.1. Natural Resource Management and Conservation

2.11 The program sought to support policy reforms to implement an integrated strategy to address issues of deforestation, biodiversity loss and unsustainable agriculture, and livestock production by:

(i) improving the sustainability of natural resource management, through strengthening of the forest legal framework, restructuring BNDES programs on forests and agriculture, and designing three sub-sectoral guidelines and the REFLORESTA Program based on the new legal framework and BNDES's new Environmental and Social Institutional Policy;

(ii) improving Amazon regional planning for sustainable development and reduced deforestation, through approval of the National Sustainable Amazon Program (PAS), and completion of the Ecological Economic Zoning of the Amazon Region; and

(iii) improving rainforest conservation, through issuance of a Presidential decree regulating the Amazon Fund, making the Amazon Fund operational, and issuance of a Presidential decree to regulate and create operational mechanisms for the Atlantic Forest Fund.

2.12 By supporting these measures, the SEM DPL aimed to: (i) expand sustainable natural forest management of private and public areas from 27,000 km² to 50,000 km²; (ii) reduce Amazon deforestation by 20 percent; and (iii) promote sustainable use of natural resources by supporting 500,000 ha with the Amazon and Atlantic Forest Funds.

B.2. Water Resource Management

2.13 The program sought to contribute to improved management and quality of water resources through the approval of the Water Resources National Plan and the National Water Quality Evaluation Program, and implementation of the National Water Quality Evaluation Program in ten states.

2.14 By supporting these measures, the SEM DPL aimed to achieve regular water quality monitoring for 90,000 km of main rivers, with the results publicly released and used to prioritize investments for improved water quality.

B.3. Environmental Sanitation

2.15 The program sought to support reforms that would improve potable water, wastewater and solid waste service delivery by “supporting the development of related environmental and social regulations, the implementation of integrated solid waste management plans by local and state authorities, and the improvement and scale up of innovative results-based financing mechanisms.” The Program Document (p. 47) further promises that “these reforms would...improve the quality of life and health of the population, particularly in poor and marginal areas.” The specific reforms related to this policy area were: to enact Law 11,445/07 on National Guidelines for Water Supply and Environmental Sanitation, to ensure that BNDES programs are coherent with the new legal framework and BNDES’s new Environmental and Social Institutional Policy, for ANA (the Brazilian National Water Agency) to update and approve new PRODES (Program for Depolluting River Basins) rules and regulations governing payments for wastewater treatment (in accordance with the new legal framework), and to design two new BNDES sub-sectoral guidelines to ensure coherence with the new legal framework and with BNDES’s new Environmental and Social Institutional Policy.

2.16 By supporting these measures, the SEM DPL aimed to reduce pollutions loads by 110,000 tons of biological oxygen demand (BOD) per year from BNDES projects and the PRODES program.

B.4. Renewable Energy

2.17 The program sought to promote the use of renewable energy in Brazil by diversifying energy sources and developing innovative technologies for alternative energy sources. The Program Document further stated that these reforms “would contribute to providing access to safe and renewable energy and related services, thereby reducing air pollution and mitigating its impacts on human health and associated costs related to treatment of respiratory diseases and the loss of income generation opportunities.” The specific reforms related to this policy area were: to include an Integrated Environmental Assessment (IEA) methodology for improving the environmental and social sustainability of the hydroelectric sector in the handbook of the Electricity Sector’s inventory and apply it in ten river basins, to ensure that BNDES programs for energy efficiency and renewable energy are coherent with BNDES’s new Environmental and Social Institutional Policy, and to ensure the coherence of six BNDES sub-sectoral guidelines for renewable energy with BNDES’s new Environmental and Social Institutional Policy.

2.18 By supporting these measures, the SEM DPL aimed to result in 60,000 terajoules per year produced by renewable energy sources or saved energy efficiency under projects supported by BNDES.

Monitoring and Evaluation System Design

2.19 With regard to design of the M&E system, the Program Document includes a Results Framework Analysis (Table 5) with a Baseline, Intermediate Outcome Indicators, and Program Outcome Indicators for each of the Key Issues and Objectives in the Development Policy Matrix (Table 4). There are however problems with the indicators used, which are described in the next section. With regard to implementing a monitoring system in practice, the Program Document states: “In order to monitor this operation and the entire SEM DPL series, the Ministry of Finance and the Ministry of Environment will use the monitoring system developed through the Technical Assistance Loan for Environmental Sustainability project (ENV TAL) to monitor the previous PRL and the ongoing ENV TAL.” It further states that: “This system is web-based and open to the public, ensuring transparency and enabling social participation.” In terms of institutional responsibility for the monitoring system, the Program Document indicates that “this monitoring system is under the responsibility of the project management unit of the ENV TAL under the direct supervision of MMA’s Executive Secretariat.” There is no separate mention of how actions to be implemented by BNDES, which is not under MMA, would be monitored or evaluated. Normally MMA, through IBAMA, would be responsible for legally mandated environmental licenses in relation to BNDES-financed investments, but otherwise would not have an apparent role in the monitoring of the more ambitious changes to its environmental and social policies that BNDES aspired to under the SEM DPL. It would be up to BNDES to monitor the application of these new policies themselves, or make arrangements for someone else to do it. There is however no mention in the Program Document of such arrangements.

Implementation Arrangements

2.20 The SEM DPL Program Document officially lists the Ministry of Finance (MOF) as well as the Ministry of Environment (MMA) and BNDES as implementing agencies.

However, the MOF was primarily responsible for the flow of funds on behalf of GOB, and there were no policy actions related to it. The ICR lists only MMA and BNDES as implementing agencies.

2.21 There were a number of policy actions that were meant to be carried out by agencies not listed as implementing agencies of the operation, such as IBAMA, ANA, ICMBio, and the Forestry Service (SFB). The description of monitoring arrangements in the text of the Program Document (p. 59) states that “the Ministry of Environment and its agencies (IBAMA, ANA, ICMBio, and the Forestry Service (SFB)), and BNDES will be responsible for implementing the proposed components of the operation.” As shown in Figure 1, most of these agencies are autonomous agencies linked to the MMA, except for the Forestry Service, which is directly subordinated to MMA. BNDES has no direct reporting relationship with MMA. It is a federal government-owned bank that reports to the Ministry of Development, Industry, and Foreign Trade, which is not a SEM DPL implementing agency (Colby 2012). IBAMA, linked to MMA, is responsible for the environmental licensing process for Federal-level (that is, spanning more than one state or related to multi-state water bodies) investments financed by BNDES or anyone else. Otherwise, MMA normally has no direct role in the governance of BNDES or in monitoring its internal practices or portfolio.

2.22 Although there is normally no reporting relationship between MMA and BNDES, the SEM DPL Program Document described MMA as being responsible for implementation M&E. In reality, BNDES provided reports such as their input to the ICR to the World Bank team separately from MMA. The Program Document does not explain who will be responsible for implementation and monitoring of the outcomes and mitigation measures related to the “poverty and social impacts” or “environmental aspects” of the operation described in the Program Document.

2.23 The Fiduciary Arrangements and Disbursement section of the Program Document (p. 64) states that “the proceeds of the loan would be deposited...into an account of the National Treasury of the Federative Republic of Brazil, established at the Banco do Brasil for the Borrower’s use.” There is no mention of BNDES, MMA, or any other agencies in this section.

Relevance of Design

2.24 As noted in section 2.a, the statement of objectives in the Program Document was not very clear. The sub-objectives in the statement of objectives in the “Operation Description” section also differ somewhat from the sub-objectives listed in the Development Policy Matrix of the Program Document (see Annex B). For example, there is no mention in the Development Policy Matrix sub-objectives of the “sustainable management of agricultural lands, forests, and water resources” that is stated in the series objective. There was no clear statement of the specific objective of the first operation, or the planned second operation. Part (a) of the series objective in particular—“improve the overall Brazilian environmental management system”—is very broad and ambitious, and not clearly defined. It is not clear whether it is referring to the federal government alone, or whether it also includes the decentralized environmental systems of the states and municipalities as well, and whether the private sector is also included.

2.25 Inconsistencies in the design were created when the World Bank team switched from preparing a loan to BNDES to preparing the broader SEM DPL. Most of the policy areas are similar to those of the earlier, national-level Env PRL DPL, as are the objectives. But the Env PRL did not include BNDES. The relatively narrow focus of many of the policy actions included under the SEM DPL Policy Matrix is inconsistent with the broad scope and ambitious scale of the objectives. While the objectives promise improvements in the management of the entire country's environment and main natural resources, six of the nine policy areas have actions that relate to a single enterprise – BNDES.¹⁴

2.26 BNDES is the largest source of long-term finance for infrastructure investment in Brazil. BNDES's lending volume is also larger than the World Bank's global lending volume, and it is increasingly active not just in Brazil but in many other countries, particularly in Latin America and Africa. So improving the sustainability of BNDES's investments, in particular through the sub-objective of improving their environmental and social management systems, has the potential to leverage increased sustainability throughout their substantial portfolio.

2.27 But BNDES is still only one of many public and private banks operating in Brazil, and according to the Program Document was only the fifth-largest bank in Brazil. BNDES represents less than seven percent of the Brazilian credit market, and even among state-owned banks (including other large state-owned banks like Banco do Brasil, Caixa Economica Federal) its share is only 14 percent (G1 2013a, Infolatam 2013).¹⁵ It could be argued that BNDES's role was relatively more important in the case of infrastructure investments. An analysis of sources of investments in industry and infrastructure in Brazil from 2001-2011 found that for the first half of the decade BNDES's share of the total was around 20 percent (Colby 2012).¹⁶ This increased substantially in the second half of the decade with the PAC and global financial crisis, to a peak of 52.5 percent in 2009, but has since fallen back again. However, for other sectors, BNDES's presence is much smaller. For example for the agriculture sector, which is associated with some of the biggest environmental problems in Brazil, Banco do Brasil is by far the most important lender (MAPA 2013)¹⁷, while Caixa Economica is the most important lender for housing construction, which clearly can also have important economic and social ramifications.

2.28 While improvement of BNDES's environmental and social systems was no doubt important, to achieve the objective of "improving the overall Brazilian environmental management system" would have required a broader approach involving more banks and other institutions. One of the policy areas, A.iii, does state that it will improve environmental and social management systems in "other financial institutions" in addition to BNDES, and

¹⁴ Including actions related to the Amazon and Atlantic Forest Funds, which are managed by BNDES.

¹⁵ <http://g1.globo.com/economia/seu-dinheiro/noticia/2013/01/bancos-publicos-emprestam-quase-4-vezes-mais-do-que-privados-em-2012.html>; and <http://www.infolatam.com.br/2013/01/23/bndes-libera-valor-recorde-de-credito-em-2012/>

¹⁶ Colby, S. 2012, "Explaining the BNDES: what it is, what it does and how it works", Centro Brasileiro de Relacoes Internacionais, Volume 3. <http://www.cebri.org/midia/documentos/bndes.pdf>

¹⁷ http://www.agricultura.gov.br/arq_editor/Pasta%20de%20Junho%20-%202013.pdf

this is meant to be achieved through the signing of the Green Protocol¹⁸ by “all federal public Brazilian Banks”. But no other banks are mentioned by name either here or anywhere else in the policy matrix, the reforms are not carried through in subsequent stages of the series (for example, to implementation) the way they are for BNDES, and the Outcome Indicator for Policy Area A.iii only mentions BNDES, and not the other federal Brazilian banks.

2.29 Since the SEM DPL was a loan to the federal government, it is not immediately clear why—if its intention was to improve the sustainability of investments—it did not support policy actions that would have had a broader impact across all major lenders, or at least across all government-owned financial institutions. The focus on one bank appears particularly incongruous in relation to the very broad, economy-wide nature of the objectives. The Bank team justifies the heavy focus on BNDES by stating that “in view of its size and large number of financial agents, BNDES can also serve as a benchmark for other financial institutions.” (Program Document p. 15) However, BNDES’ financial agents, responsible for two-thirds of BNDES’ lending were ultimately not included in the environmental and social improvements targeted by the SEM DPL (the outcome indicator for improvement of BNDES’s environmental and social systems applied only to “projects submitted directly to BNDES”), and as several sources have pointed out more recently, BNDES trails many other Brazilian banks—including private sector banks—in its environmental and social standards (Reporter Brasil 2011; Widmer 2012). This was confirmed in IEG interviews with experts who assess investments in Brazil financed by both private and public sector Banks. So while improving BNDES’s environmental and social management system is important, given the broad objectives of the loan, the actions should have been broadened to include BNDES’s indirectly financed investments as well as other major public and private banks in Brazil.

2.30 **Results framework and project logic:** The causal chain from the policy actions and triggers to the intended outcomes, sub-objectives, and objectives was disjointed. The Development Policy Matrix from the Program Document is reproduced here in Annex B for convenience. Attempting to follow the logic across the rows—from sub-objective, to actions across each of the SEM DPL stages, to the outcome indicators—reveals that actions across different stages are often not closely related to one another, to the sub-objective, or to the associated outcome indicator. For many of the policy areas and sub-objectives, the actions under the first and sometimes second tranches of the first operation involve the development and approval of national-level policies or laws, but in later stages abruptly switch to actions and outcomes for BNDES with indicators that focus either only on BNDES or only on the other agency, but not both. This design feature meant that in those cases, the policies related to the non-BNDES agencies were not followed through to implementation, and insufficient information was collected to evaluate the outcomes.

2.31 An example of the disjointed project logic is for the Sub-objective B.1.i, “Improve sustainability of natural resources management”, the First Tranche Prior Action was to strengthen the Federal legal framework by enacting three laws that deal with specific aspects of forest management (e.g., the Atlantic Forest); the Second Tranche Release Condition was focused exclusively on BNDES forest programs and guidelines; there was no Trigger specified for the second operation in the series; and finally the series outcome indicator was a

¹⁸ See discussion below and Annex C for more information.

general measure of the surface area of public and private forests sustainably managed (apparently at the national level), with no direct link to BNDES, the Atlantic Forest, etc.

2.32 A second example is the “Promote renewable energy potential” sub-objective, which begins with an action to improve the environmental and social sustainability of the entire hydroelectric sector by including a methodology for Integrated Environmental Assessment in the electricity sector’s Inventory Handbook, which is the responsibility of the Ministry of Mines and Energy. The next two actions under the policy area relate only to BNDES improving its approach to renewable energy, and finally the indicator is only on the amount of renewable energy generated by BNDES projects.

2.33 A third example of the lack of coherence in the Policy Matrix is for the Sub-objective A.ii, to “mainstream climate change in public and private sector investments.” The first and second tranche actions under DPL 1 involve the drafting and approving of a National Climate Change Action Plan (NCCAP); the DPL 2 Trigger is based on BNDES alone establishing “clean development and carbon funds programs”; and finally the outcome indicator introduces the notion of increasing “planned signed” emission reductions under the Clean Development Mechanism (CDM)¹⁹, which is a fairly narrow and marginal program in a large country like Brazil, and for which investments have been prepared in Brazil since 2003, six years before the SEM DPL, and six years before the NCCAP was approved, according to the ICR.

2.34 **Appropriateness of level of government targeted:** The SEM DPL implementing agencies were at the level of the federal government. Many overarching environmental laws and policies are approved at the national level, and the federal government is largely responsible for enforcement of laws related to the Amazon and for management of water basins that span more than one state. However, especially with the increasing emphasis on decentralization of government functions in Brazil, implementation of many environmental laws and policies is the responsibility of state and municipal governments. Examples relevant for the SEM DPL include environmental licensing for investments that do not cross state boundaries, and investments in potable water supply, wastewater treatment, and solid waste services. These local government agencies do not figure at all in the SEM DPL design.

2.35 **Choice of instrument:** As part of the relevance of design to the development objectives, IEG also considers the choice of lending instrument. In the case of this operation, the World Bank team explored several different options in terms of the instrument and implementing agencies as part of the design process. Serious questions can be asked about the final decision to use a programmatic series of national-level DPLs.

2.36 The World Bank had already used this instrument to support very similar objectives in Brazil five years earlier under the Env PRL. Under the Env PRL, the World Bank team made the argument that a programmatic series—accompanied by a technical assistance loan (the Env TAL)—was necessary to achieve the objectives of improving Brazil’s

¹⁹ The Clean Development Mechanism is provided for by Article 12 of the Kyoto Protocol, and is designed to assist developing countries in achieving sustainable development by allowing entities from Annex 1 Parties to participate in low-carbon projects and obtain Certified Emission Reductions (CERs) in return. (Carbon Finance, the World Bank, 2013)

environmental management system and mainstreaming environment into key sectors. However, the series was canceled after the first loan, and the Brazilian government continued to pursue many of the environmental reforms without the remaining two loans.

2.37 The Bank chose to repeat the use of the programmatic environmental DPL series without properly assessing the prior experience. The Bank did not produce the required full ICR of the Env PRL as required by World Bank policy²⁰ after the series was canceled. Thus there was no opportunity to come to an understanding of what worked and what did not, what the outcomes of the policy actions were, and why the series was canceled to inform the design of the SEM DPL. The World Bank team again came to the determination that a DPL programmatic series was necessary to achieve similar objectives with similar policy areas, and again the series was canceled after the first loan.

2.38 It could also be questioned whether a DPL in general was the best instrument for supporting the improvement of BNDES's environmental and social management system. In the SEM DPL Program Document, the Bank team highlights the risk that “full implementation of the reform agenda within BNDES involves a challenging change in corporate culture regarding environmental and social sustainability” (Program Document, p. 66). For a large, complex institution like BNDES, significant time is needed to produce the changes to policies, institutions, and personnel capacity—not to mention culture—necessary for implementation of such a system. The Program Document also states that “BNDES’ management recognizes clearly that the reform steps to be carried out reduce BNDES’ reputational risks associated with adverse environmental and social impacts by improving screening and monitoring.” If BNDES management was already committed to improving its environmental and social system, the longer-term opportunity for engagement and support provided by an investment or technical assistance loan might have been more effective.²¹ (The Program Document states that the risk of BNDES not carrying out the reform agenda would be “addressed through the substantial expansion of the Env TAL project to allow provision to BNDES of technical assistance and capacity building...”, but that never happened.)

2.39 Considering the shortcomings in the Results Framework and project logic, the appropriateness of the level of government targeted, and the choice of instrument, the relevance of design is rated **Negligible**.

3. Implementation

3.1 The Bank team blamed the delay in effectiveness of the operation on the Borrower and delays in its budget legislation. Since there were only three months planned originally between release of Tranche 1 and release of Tranche 2, the nearly fifteen-month delay in Tranche 1 should have provided more than adequate time for the Bank team to ensure that

²⁰ See BP 8.60 – Development Policy Lending for the requirements on evaluation of DPOs (World Bank OPCS)

²¹ Another possibility might have been a single-operation DPL paired with a longer TA loan to BNDES.

Tranche 2 release conditions were also met, and the tranches could have been released at around the same time. Yet by the time of the Tranche 1 release, the Tranche 2 release conditions (see the column “Policy Actions—DPL 1: Second Tranche Release Conditions” in the Policy Matrix in Annex B) still had not been met, and required more than five months of additional time, resulting in a delay of more than seventeen months compared to the originally planned Tranche 2 release date—even greater than for Tranche 1.

3.2 Although the problems related to the Brazilian budget and loan approval process were eventually addressed, and both tranches of SEM DPL 1 were disbursed, the planned second loan in the series never materialized, and the SEM DPL series was eventually canceled.

3.3 The Bank team certified that the second tranche release conditions were met despite a lack of evidence presented in the ICR or made available to the IEG team and serious questions raised by civil society. A coalition of more than thirty national and international CSOs raised serious questions about the operation and about the evidence for disbursement of the two tranches. The CSOs sent letters to the Bank Regional Vice President and Country Director. They requested a dialogue with the Bank team on these issues, disclosure of the evidence, and a hold on disbursement of the second tranche.

3.4 **Monitoring and evaluation were very limited.** The monitoring system promised in the Program Document was never implemented. As reported in the ICR (p. 8), “due to unforeseen bureaucratic delays in contracting the Information Technology firm, the system was not updated during the course of the project.” Considering that the Environmental Technical Assistance Loan (Env TAL) became effective in April 2006, three years before the SEM DPL, and that SEM DPL effectiveness was delayed by over 14 months, this does not appear to be a valid justification for the lack of an M&E system.

3.5 There is no information in the ICR about M&E implementation with regard to BNDES. In an interview, BNDES confirmed to IEG that even today they have no environmental or social indicators with which to either monitor or evaluate the performance of their investments.

3.6 In the absence of the intended M&E system, the ICR states that “the Bank supervision team reviewed progress on actions and outcomes during the frequent meetings and supervision missions with the implementing agencies, and by directly tracking and reviewing publicly available monitoring systems (e.g., annual deforestation rate measured by Brazil Space Agency-INPE).” However, monitoring is primarily the responsibility of the client (in this case, MOF and MMA). Based on the information provided in the ICR, it is clear that the monitoring system promised in the Program Document was never updated. Since the SEM DPL team proposed using the system originally developed to “monitor the previous PRL and the ongoing ENV TAL”, and since BNDES was not directly involved in those operations, if the monitoring system was not updated for the SEM DPL, MOF and MMA would not have been able to regularly monitor progress at BNDES, which was implicated in so many of the actions. This is also evidenced in the progress reports provided to the World Bank for the release of Tranche 2, which were submitted separately by BNDES and MMA.

4. Achievement of the Objectives

4.1 Evaluating the Achievement of the Objectives involves assessing not only whether each of the key outcomes indicated in the operation's statement of objectives has been achieved, but also whether the outcomes can be attributed to the actions supported by the operation. In the specific case of designing the results framework for a DPL, OPCS states: "Don't include results that are not directly influenced by actions that are part of the operations or programmatic series of operations supported by the Bank." (OPCS 2011) It is also important to bear in mind that for the evaluation of a DPL programmatic series, such as the SEM DPL, the operation is evaluated against the outcomes promised in the Program Document for the entire series, whether or not one or more of the loans in the series is canceled.

4.2 Brazil has made substantial progress in strengthening environmental management in a number of areas, including the impressive reduction in the rate of deforestation in the Amazon over the past decade. As an example, a definitive new article on the Amazon finds: "Deforestation—the clear-cutting of mature forest—declined from a 10-year average of 19,500 km² per year through 2005 to 5,843 km² in 2013, a 70% reduction" (Nepstad and others, 2014) But there is little if any evidence that the SEM DPL contributed to any of this. As noted in the previous section, there are flaws in the results framework and project logic that lead to a disjointed results chain and make it unclear how the series of actions specified—even if they were carried out—would result in achievement of the intended outcomes. The general nature of the objectives (especially Objective (a)) contributes to the difficulty in assessing its achievement. The ICR contains no presentation of specific information or analysis on whether or how any or all of the reforms that the SEM DPL was supposed to support contributed to the achievement of the overall series objectives.

4.3 An assessment of the achievement of each of the two objectives is provided below, with specifics for each of the policy areas under the objectives. A summary of the outcome indicators that were supposed to be achieved by the program by 2011, and the achievements as reported in the World Bank's Implementation Completion Report (ICR) is provided in Annex C for convenience.

Objective A: Improve the overall Brazilian environmental management system.

4.4 With regard to *improving the effectiveness of government agencies in implementing mandated Brazilian environmental and social management procedures*, as in the Monitoring and Evaluation section below, the original indicator on the number of judicial challenges to environmental licenses was not being met. The indicator was changed to "number of environmental licenses issued at the Federal level", which is not a good measure of the intended outcomes. Moreover, these indicators have no direct relationship to the prior actions under sub-objective A.i related to the Ministry of Environment or the National Biodiversity Management Institute.

4.5 The actions under this sub-objective related to restructuring and strengthening MMA and its affiliates and IBAMA are virtually identical to actions under the 2004 Env PRL, which were reported as achievements of that loan in its ICR. An analysis of the Brazilian environmental licensing system carried out by the World Bank several years after the closing of the Env PRL found that despite the actions supported by that loan, “environmental agencies have to date failed to significantly bolster their institutional capacity” (World Bank 2008). With regard to the actions on increasing staff numbers at the agencies, that is only one of many inputs required, and would by no means necessarily lead—on its own—to the desired outcome of “improved effectiveness of government agencies.” Indeed, the 2008 World Bank analysis of the environmental licensing system found that simply increasing staffing numbers was not sufficient to improve the environmental licensing process, and identified a host of other areas where improvements were needed, including:

- a major training operation for IBAMA staff;
- changes in the staff mix, and particularly an increase in the number of professional staff with social science expertise;
- the need for a law to clarify the responsibilities of the Federal and State Governments with regard to environmental licensing;
- the establishment of a dispute resolution mechanism;
- addressing the risk averse behavior of IBAMA employees caused by a law that renders them personally and criminally liable for licensing decisions.

4.6 Although the SEM DPL was prepared soon after the completion of the analysis of problems with the environmental licensing system, none of the issues above were addressed by its policy actions. Instead, it again included an increase in staffing numbers. While there is some evidence that IBAMA staffing numbers increased again around the time of the SEM DPL, this is only an input to the environmental licensing process, and was unlikely on its own to have much of an impact, for the reasons listed above. Interviews with IBAMA and with representatives of its staff (ASIBAMA) revealed an institution that continues to face major challenges. Although the number of staff has increased, because of high stress resulting from political pressure to approve licenses, and low salaries, there is a very high rate of staff turnover. One symptom of this is that only three staff members remain from the time when IBAMA was restructured in 2002. There are also reportedly 900 IBAMA staff set to retire shortly. Because of the high turnover, ASIBAMA reports that the licensing team has limited experience, and this has an adverse impact on the licensing process.

4.7 IBAMA and ASIBAMA representatives shared with IEG their belief that the revised indicator used by the SEM DPL team—the number of licenses issued—was a poor one. The staff representative stated that “The speed of licensing should not be the main objective. The objective should be to improve environmental outcomes.” To this end, the representative stated that ASIBAMA had suggested alternative indicators, such as post-licensing monitoring of environmental and social impacts, but that they had not been adopted. Meanwhile, IBAMA monitors the time it takes to issue environmental licenses, but does not monitor environmental and social impacts, which makes assessing the impacts of reforms difficult. Moreover, as a result of a restructuring in 2007, IBAMA has closed more than half of its regional offices, significantly reducing its already limited ability to monitor events on the ground. The idea was to decentralize this responsibility to local governments, which in

theory could have benefits in terms of local ownership, but the local governments do not have the capacity, and the SEM DPL contains no provisions for developing capacity at that level.²² This has created potential gaps in Brazil’s environmental licensing system.

4.8 In 2013 IBAMA issued Terms of Reference for consultancies paid for by another World Bank-financed project—The National Environment Program 2—to improve the environmental licensing system and capacity of its staff (IBAMA 2013a; IBAMA 2013b). The Terms of Reference cite an array of problems that continue to adversely affect the environmental licensing system in Brazil several years after the SEM DPL, and which cannot be addressed by hiring additional staff. They include: “the need of greater transparence”; “a deficit in the management capacity of methods—standards, concepts and procedures—that makes the monitoring and control of results difficult”; “blanks, overlapping and ambiguities in the definition of concepts, standards and procedures related to the FEL, EIA, EC processes”; “low capacity to meet the demands and the lack of integration of standards and compatibility of procedures among the partner agencies”; and “deficiencies in the capacitation of environmental analysts”. The Terms of Reference warn that these problems “can compromise the licensing quality” and were resulting in “the amplification of the environmental conflicts.”

4.9 Restructurings of IBAMA that resulted in the creation of the independent ICMBio, another policy action, and the Brazilian Forest Service have also led to coordination problems among the various agencies, which used to all be under IBAMA. Moreover, through review of official documents and interviews with Brazilian government officials, IEG confirmed that the creation of the Brazilian Forest Service and ICMBio was completed well before the SEM DPL (March 2006 and August 2007, respectively), and had no relationship with it.²³

4.10 With regard to *mainstreaming climate change in public and private sector investments*, the first actions for the two tranche releases of SEM DPL 1 required the drafting and approval of a National Climate Change Action Plan (or “NCCAP”), which the Program Document (p. 20) promised would “present a balanced set of command-and-control and economic instruments covering both mitigation and adaptations” and that it would “address the need of cross linking actions carried out by different sector agencies and key actors in the economy” (World Bank 2009). In the ICR, the World Bank team reports that “the revised NCCAP was approved by Law 12.187/2009 to institute a National Policy for Climate Change” (World Bank 2011). . In fact, according to MMA’s website, what was established

²² In the section of the Program Document on Relationships to Other Bank Operations (p. 38), there is one line on the Brazil National Environmental Project (NEP) III, which it states was still under preparation, and which would support environmental capacity in states and municipalities. Presumably, it meant the second phase of the three-phase NEP II, which was approved in September 2009. That USD 24.3 million loan, which could have been important for supporting decentralization efforts, has only disbursed USD 1.5 million so far, and is rated by the Bank supervision team as “unsatisfactory” in the latest Implementation Supervision Report.

²³ See for example : <http://www.florestal.gov.br/menu-horizontal-de-internet/institucional/servico-florestal-brasileiro> ; and: <http://www.icmbio.gov.br/portal/quem-somos/o-instituto.html>

by Law No. 12.187/2009 was a National Policy on Climate Change, which was to be implemented in part via a National Plan on Climate Change (see **Box 1**).²⁴

4.11 The National Policy on Climate Change is an important first step in establishing climate change as a priority in Brazil and laying out in broad strokes what Brazil would like to achieve, and how it intends to achieve it. But it is primarily a framework that establishes the instruments that will be used to achieve the policy aims, including the National Plan on Climate Change and the National Fund for Climate Change. It did include an overall, non-binding emissions reduction target, previously announced by Brazil in the run-up to the Copenhagen Conference of the Parties (COP) to the UNFCCC in December 2009: “the country shall adopt actions to mitigate greenhouse gas emissions with the purpose of reducing between 36.1% and 38.9% of projected emissions by 2020 as a national voluntary commitment.” This is a potentially significant—though non-binding—commitment that has been lauded by some, but criticized by others because rather than use an actual baseline, Brazil set its emissions reduction target against projected future emissions under a business-as-usual scenario, and did not make public its calculations (FAO 2011, WRI 2009). But it leaves it to the other instruments and organizations cited to develop specific actions.

4.12 With regard to “tools for implementation”, the National Plan on Climate Change lists a number of existing funds for financing investments relevant to Brazil’s climate change efforts, including some by BNDES. But in terms of developing new economic instruments, it states: “This item, which specifically addresses economic instruments...should be a detail in the second phase of the plan...” The National Plan also stated that actions plans for implementation were supposed to be sectoral, and that many plans would be prepared, one for each sector. Without the sectoral and action plans, both National Policy and Plan consist mainly of intentions, a few targets and broad guidelines without an implementation mechanism. The sectoral plans were supposed to be ready and the National Climate Change Plan revised before the end of 2011, but those deadlines were not met.. . At the time of this evaluation, the revised National Plan had still not been completed. The government also reports that a series of sector plans and Nationally Appropriate Mitigation Actions (NAMAs) have been produced, though evidence of their existence, status, added value, and relation to the SEM DPL is limited (see **Box 1**). There is no National Adaptation Plan.

4.13 Comparing what has been produced so far for Brazil reveals important contrasts with climate change action plans for other countries such as Turkey and the United Kingdom,

²⁴ Source : <http://www.mma.gov.br/clima/politica-nacional-sobre-mudanca-do-clima/plano-nacional-sobre-mudanca-do-clima>

[An English version of the Law establishing the National Policy on Climate Change can be found at: http://www.preventionweb.net/files/12488_BrazilNationalpolicyEN.pdf](http://www.preventionweb.net/files/12488_BrazilNationalpolicyEN.pdf)

National Climate Change Plan: <http://www.mma.gov.br/clima/politica-nacional-sobre-mudanca-do-clima/plano-nacional-sobre-mudanca-do-clima>

which include many more specifics on mitigation and adaptation objectives, actions, and targets for individual sectors.²⁵

²⁵ Turkey: http://www.preventionweb.net/files/29675_turkeynationalclimatechangeactionpl.pdf ;

UK: <http://www.legislation.gov.uk/ukpga/2008/27/contents> ;
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/209866/pb13942-nap-20130701.pdf

Box 1: Brazil's National Policy on Climate Change

The Brazilian National Plan on Climate Change, released in December 2008, was considered a significant achievement in the international climate change agenda. According to the Brazilian government, the Brazilian Forum on Climate Change (FBMC) played a central role in the process. However, criticism has since been leveled against the Plan regarding its objectiveness, deadlines and strategies (ICTSD 2008).

“On 29 December, 2009, the Brazilian government took a historic step by establishing the National Policy on Climate Change by Federal Law No. 12,187. Under this law, Brazil shall adopt measures to reduce between 36.1 percent and 38.9 percent of its potential emissions by 2020 (i.e. a reduction of 17 percent compared to 2005 levels). This goal includes a reduction target of 80 percent in Amazon deforestation, as defined by the National Plan on Climate Change. Two policy instruments are established under this Plan: the National Plan on Climate Change and the National Fund on Climate Change, established by Law No. 12,114.

On December 9, 2010, the Government of Brazil approved Decree 7.390 to regulate the National Policy on Climate Change by providing for the incorporation of sectoral plans for climate change mitigation and adaptation to the National Plan on Climate that were previously established by Law 12.187, of December 29, 2009. The decree stated that the Sector Plans would be ready by 15 December 2011 and that the National Climate Change Plan would be revised by that year as well. It was also expected that the release of the Action Plans for prevention and control of deforestation in key biomes would take place in 2011. On December, 15, 2011 Decree 7643 was approved and the deadline for revision and for releasing all of the sectoral action plans was postponed to April 16, 2012. However, those deadlines were not met.

Finally, in April 2013 preparation of the National Plan on Climate Change revision was initiated. Based on perceptions that the federal government had not provided any evidence of the implementation status of the 2008 National Plan on Climate Change, and that the revised National Plan would not represent a significant improvement, a large network of NGOs withdrew from the process, casting doubt on its future as well as its impacts to date.²⁶ At the time of this evaluation, the revised National Plan had still not been completed, though the Brazilian government reports that it expects it to be approved in 2014. The government also reports that four sector plans were approved in June 2013 for industry, mining, transportation, and public health, and that in addition Brazil has since 2010 implemented Nationally Appropriate Mitigation Actions (NAMAs)²⁷ to: reduce deforestation in the Amazon and Cerrado; promote low-carbon agriculture; support renewable energy and energy efficiency; and use charcoal more efficiently in the steel industry. The NAMAs were presented in the context of Brazil's Copenhagen emission reduction

²⁶ See:

http://www.observatoriodoredd.org.br/site/index.php?option=com_content&view=article&id=1204:organizacoes-da-sociedade-civil-se-retiram-do-processo-de-revisao-do-plano-nacional-sobre-mudanca-do-clima ; and:

<http://www.axa.org.br/?p=1335> (last visited September 10, 2014)

²⁷ NAMAs are prepared in the framework of the UNFCCC, which defines them as “any action that reduces emissions in developing countries and is prepared under the umbrella of a national governmental initiative.” See: <http://unfccc.int/focus/mitigation/items/7172.php>

commitment.²⁸ Two-thirds of the emission reductions are intended to come from reduced deforestation in the Amazon and Cerrado, through Action Plans for the Prevention and Control of Deforestation in the Amazon and Cerrado, respectively.²⁹ While the Amazon Plan—combined with other efforts—has been an important success, it was prepared in 2003, years before the National Plan on Climate Change, the Copenhagen COP, or the SEM DPL (see below for a more detailed discussion of the Amazon Plan, known as “PPCDAM”). The Cerrado Plan was launched in 2010, but the planned Cerrado Law has been delayed and there is no evidence yet of reduced deforestation in the Cerrado. The energy NAMA appears to consist of pre-existing government strategies related to the sector.

At the time of this evaluation, IEG examined the Brazilian Ministry of Environment’s official webpage on the sectoral plans.³⁰ Although it lists eight sectoral plans, links to only four NAMAs are provided there: on the Amazon, Cerrado, agriculture, and energy. The other plans were unavailable at the time of this evaluation, and so IEG was unable to evaluate them.³¹ And although the NAMAs are grounded in Brazilian policy and legislation, they do not appear to have been officially submitted to or accepted by the UNFCCC, as Brazil’s official UNFCCC NAMA Registry Country Page was empty at the time of this evaluation.³²

The sectoral plans have also been criticized by Brazilian NGOs for not meeting minimum standards as they lack objectives, indicators, M&E frameworks, adequate policies, governance structures, and funding. IEG was not able to independently verify these claims, due to the fact that the documents were not publically available.

With regard to climate change adaptation, there is currently no dialogue, and no National Adaptation Plan.

Additional sources include: <http://www.ipam.org.br/saiba-mais/abc/mudancaspergunta/O-que-sao-Servicos-Ambientais-possivel-compensar-economicamente-a-prestacao-destes-servicos-41/21#> ; <http://ictsd.org/i/news/pontesquinzenal/33092/>

4.14 As part of GOB’s contribution to the preparation of the ICR, MMA’s report states simply that a preliminary low-carbon action plan was prepared for one sector—agriculture—but that it was not being implemented. It also refers to Brazil’s Second National Communication to the UNFCCC. It does not claim that a National Climate Change Action Plan was prepared or approved. This information from the MMA report was not reflected in the World Bank’s ICR.

4.15 The other actions for the “mainstream climate change” policy area, under SEM DPL 2, related to BNDES developing clean development and carbon funds programs in

²⁸ See: <http://mitigationpartnership.net/brazil-voluntary-namas-achieve-ghg-emission-reduction-between-361-and-389-2020-0> (last visited August 29, 2014)

²⁹ See: http://www.mmechanisms.org/document/NAMA/NAMA_LCA15_brazil_EN.pdf (last visited August 29, 2014)

³⁰ See: <http://www.mma.gov.br/clima/politica-nacional-sobre-mudanca-do-clima/planos-setoriais-de-mitigacao-e-adaptacao> (last visited August 29, 2014)

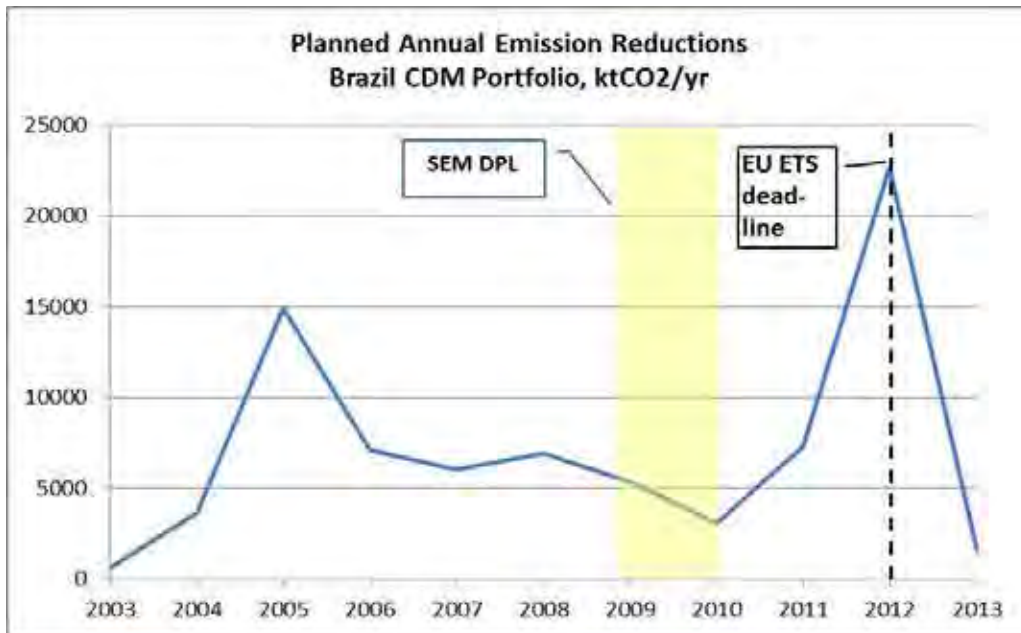
³¹ For the four sectoral plans that are not available, the MMA website includes a note for each stating: “presentation unavailable from 07.05.2014 to 10.26.2014, the election period....”

³² See: <http://www4.unfccc.int/sites/nama/SitePages/Country.aspx?CountryId=24> (last visited August 29, 2014)

accordance with the NCCAP and its own new environmental and social policy. The outcome indicator related to the promotion of projects under the CDM as well as BNDES's programs and the NCCAP. As noted in the previous paragraphs, sectoral action plans with targets have not yet been developed.

4.16 The indicator selected for this policy area related to the CDM—"planned signed reductions"—has no meaning in the CDM lexicon or project cycle, which has very specific steps and requirements for each step.³³ So IEG was required to interpret the intentions behind this indicator in consultation with carbon finance experts (see footnote to Figure 1). Moreover, projects proposed for financing under the CDM were being prepared in Brazil since 2003, six years before the SEM DPL, and also well before any of the Brazilian national climate change plans was approved. Since then, Brazil has had 734 investments proposed under the CDM, the majority of them before 2009.³⁴ The ICR reports that 19.8 million tons of CO₂ equivalent per year of planned emission reductions were signed "from CDM projects and selected BNDES programs", and claims that "99% of the target of 20 million tons of CO₂" was achieved. However, the target was for an increase in emission reductions of 20 million tons of CO₂ (not a total figure of 20 million tons CO₂) or an approximate doubling of annual emission reductions to 40 million tons CO₂ compared to a baseline of 19.5 million tons from CDM projects as reported in the Program Document (footnote, p. 21). The information provided in the ICR on this policy area is limited. IEG conducted its own analysis and its results are presented in Figure 1.

Figure 1: Planned annual emission reductions in the Brazil CDM portfolio



Note: data as of August 2013. Source: UNEP RISOE : <http://cdmpipeline.org>

³³ See UNFCCC: <http://cdm.unfccc.int/Projects/pac/index.html>

³⁴ Based on official data from UNEP RISOE. See: <http://cdmpipeline.org/> ; since, as noted above, "planned signed reductions" has no meaning for CDM, IEG used the "First Start Comment" date as the date when CDM projects were first proposed.

4.17 As the figure illustrates, CDM project preparation began in Brazil in 2003, and planned annual emission reductions from those projects peaked at about 15 million tons CO₂ per year in 2005, before starting a steady decline to just over 3 million tons of CO₂ in 2010, the last year of the SEM DPL, and the last full year that could have been included in ICR. The claim of either an increase or a total (depending on how one interprets the report from BNDES) in CDM CO₂ reductions of 14 million tons of CO₂ is overstated.

4.18 The figure shows that there was a sharp increase in planned emission reductions from proposed CDM projects in Brazil in 2011 and 2012. But as elsewhere in the world, “this did not reflect the demand side but was driven by the upcoming end of Phase II of the EU ETS and the start of Phase III, which sees the introduction of additional restrictions on the use of international credits” at the end of 2012 (Carbon Finance, the World Bank, 2013). Since then, planned emission reductions under the CDM have plummeted in Brazil, continuing their long-term downward trend, to 1.5 million tons CO₂ as of August 1, 2013. In general, the evolution of the CDM portfolio in Brazil mirrors that of the CDM globally. Due to a lack of demand, the price of CERs crashed to 0.34 euros in December 2012, and shows little sign of recovering. The low prices do not even cover the costs of verification and issuance of CERs for CDM projects, “thereby questioning the role of the CDM as a catalyst for private sector investment in climate change mitigation” (Carbon Finance, the World Bank, 2013). Therefore, the SEM DPL does not appear to have had any positive effect on emission reductions under the CDM, and the significance of the CDM in general for “mainstreaming” of climate change in Brazil going forward is doubtful.

4.19 It should also be noted that a “planned signed” emission reduction does not necessarily lead to an actual reduction—which should be the real objective—and indeed in the majority of cases it does not. Of the 734 Brazil projects proposed under the CDM since its inception, only 135, or 20 percent, generated any CERs. Of the Brazil CDM projects proposed since 2008, by 2013 only two had so generated any CERs—for a total of 0.09 million tons CO₂—and none since 2010.³⁵

4.20 In the report submitted by BNDES to the Bank in June 2011 as ICR input, BNDES noted that through its investments in wind power, mini hydropower plants, and biomass cogeneration, it expected to reduce an additional 5.7 million tons of CO₂ equivalent per year. This is a notable increase that BNDES should be credited for. Nevertheless, even if combined with the reductions from CDM, it still represents only about a quarter of the target.

4.21 Brazil’s National Fund on Climate Change (Climate Fund), created under the NPCC, actually includes two funds: one reimbursable managed by BNDES, and a grant fund managed by the Ministry of Environment.³⁶ For the reimbursable fund, BNDES announced in 2012 a special line of credit with preferential interest rates “for projects that reduce

³⁵ It is possible that CDM projects in Brazil generated CERs after 2010, but they would have been proposed before 2008.

³⁶ <http://www.mma.gov.br/apoio-a-projetos/fundo-nacional-sobre-mudanca-do-clima>

emissions”, including for renewable energy.³⁷ This is a positive development that could help to further the goals of mainstreaming climate change in investments in Brazil, if designed and implemented well. But in an interview, a knowledgeable Brazilian government official stated that BNDES was still waiting for the first investments to be made by the fund, hoping that the first 2-3 projects would be initiated in 2013. BNDES attributes the lack of investments under the Climate Fund to the loss of attractiveness of the interest rates in the face of more competitive rates from other sources following the global financial crisis. However, BNDES reports that the Climate Fund is now on a better track after interest rates were reduced in 2013, with operations starting to be contracted in 2014. One area where BNDES does not appear to have increased its support is for energy efficiency, which has been shown to have some of the highest rates of return for emission reductions (IEG 2010). With regard to the grant fund managed by the Ministry of Environment, it was supposed to be financed by royalties from Petrobras, but according to recent reports, new royalty rules have eliminated that source of funding.

4.22 Ultimately, the essential indicator of progress on climate change mitigation is Brazil’s overall level of greenhouse gas emissions. The official greenhouse gas inventory recently released by the government provides a detailed stock-taking of this information (Ministry of Science, Technology and Innovation, Brazil, 2013). The main message is that Brazil has made dramatic progress, reducing its national greenhouse gas emissions by nearly 39 percent from 2005-2010 (Nature 2013). Yet it also underscores that significant challenges lie ahead. All of Brazil’s reduction in greenhouse gas emissions is due to the sharp decrease in deforestation in the country, particularly in the Amazon. This is impressive, but as discussed in detail below, appears to have started well before the SEM DPL and to have had little or nothing to do with that World Bank loan. Moreover, emission reductions from avoided deforestation are not eligible under the CDM that the SEM DPL targeted.

4.23 Other than avoided deforestation, the greenhouse gas inventory found that emissions from all of Brazil’s other main sources increased from 2005-2010. Agriculture is now Brazil’s biggest emitter, with greenhouse gases from the sector increasing 5.2% over the period. The fastest rate of growth of greenhouse gas emissions in Brazil is found in the energy sector. It is in these sectors—especially energy but also agriculture—where the CDM often supports investments to reduce emissions around the world. But in Brazil, emissions from the two sectors contributed 437 million and 399 million tons of CO₂, respectively, over the period, dwarfing both the targeted and actual emission reductions under the SEM DPL. In 2010 the government launched a fund called “the Low-Carbon Agriculture (ABC) Program”³⁸, an ambitious plan to address the challenge of emissions from agriculture. But due to a lack of demand, the program “didn’t manage to lend a single penny of its initial US\$1-billion endowment” in 2010-11, its first year (Nature 2012). The Nature article notes that disbursements did pick up considerably in 2012, but only after the ABC plan had been

³⁷

http://www.bndes.gov.br/SiteBNDES/bndes/bndes_en/Institucional/Press/Noticias/2012/20120213_fundoclima.html

³⁸ This was apparently supposed to be a pilot of a sectoral plan under the National Plan on Climate Change discussed above.

“stripped of some of its environmental character”, and there is no way to know whether the plan is having an impact because “the infrastructure to take the necessary measurements is not in place.”

4.24 The World Bank argues that the support it provided under the SEM DPL was important for getting Brazil to re-engage in a meaningful way in international climate discussions, such as under the UNFCCC process, for example at the 2008 COP-14 meetings in Posnan. Brazil did commit to cutting emissions by reducing deforestation by 70 percent by 2020, and its engagement in these processes is important. But as already noted, the cuts in deforestation began much earlier, in response to actions supported by the Env PRL. Other significant outcomes are not apparent. Thus, in general, the evidence points to a lack of impact of the measures supported by the SEM DPL in mainstreaming climate change mitigation in Brazil.

4.25 With regard to *improving the effectiveness of environmental and social management systems in BNDES and other financial institutions*, this policy area was significant for the SEM DPL because it represented a potentially new area for engagement under the operation, compared to the other policy areas which were based on engagement that was initiated under the 2004 Env PRL and other Bank activities. As the World Bank team stated in the ICR for the operation, “the results obtained on the environmental management front are particularly relevant for Brazil.” Nevertheless, the ICR includes only one sentence on this policy area in the Achievement of Program Development Objectives section (page 11): “Meanwhile, the BNDES screening of its proposals for compliance with its Environmental and Social Institutional Policy reached 100%, from 35% in 2007.” In response, IEG carried out a detailed assessment of the outcomes associated with this policy area under the operation has been carried out for this evaluation.

4.26 In order for the SEM DPL to have been effective in supporting the achievement of sub-sub-objective A.iii, and more importantly contributing in a significant way to the sub-objective of “improving the overall Brazilian environmental management system,” several conditions would have to be met:

- The new environmental and social (environmental and social) policies adopted should be well-designed.
- Improvements to environmental and social systems should go beyond BNDES to encompass other major financiers of environmentally and socially investments.
- The environmental and social policies need to be properly used and monitored by the financial institutions to manage their investment portfolios.
- Implementation of the policies should result in improved environmental and social outcomes.

4.27 To begin with, the only action under this policy area related to “other financial institutions” is the first one, “Revised Green Protocol approved and signed by GOB and all federal public Brazilian Banks, including BNDES”. But neither the Program Document, nor the ICR, nor the BNDES or MMA inputs to the ICR provide adequate information on the signing, implementation, or results of the Green Protocol (GP). The “Green Protocol” (*Protocolo Verde* in Portuguese) is a colloquial term that was first applied to a “Letter of

Intentions” titled “General Principles for Sustainable Development” signed by BNDES and other Federal banks in 1995.³⁹ The 1995 letter contained a set of voluntary principles that were found lacking, so it was eventually decided to try and improve upon them (Widmer 2012). The result was in fact two letters of intention: one for Federal public banks,⁴⁰ and another for private banks. The main focus of the SEM DPL was the revised “Green Protocol” officially called the “Protocol of Intentions on Social and Environmental Responsibility”, and signed by the Minister of Environment, BNDES, and several other Federal banks on August 1, 2008.⁴¹ The Program Document (p. 21) states that the provisions of the GP were supposed to inform the development of BNDES’s new environmental and social Institutional Policy.

4.28 Very little information is available on the current status or past implementation of the “revised Green Protocol”. For this policy area more generally, there is no information in the ICR on the outcomes of the Green Protocol, or on any banks other than BNDES, and all of the other actions and the outcome indicator for this policy area are addressed exclusively to BNDES.⁴² One of the other signatories of the Green Protocol, the state-owned Banco do Brasil, has a webpage devoted to the Green Protocol. But the last entry there refers to a workshop organized in June 2010 by FEBRABAN—Brazil’s official banking federation, which was tasked with overseeing the Green Protocol—in order to work out implementation modalities.⁴³ None of the other signatory banks provided any information. So IEG enquired about the status of the Green Protocol with officials of FEBRABAN, the Brazilian banking federation, and were told that implementation of the 2008 revision of the Green Protocol that the SEM DPL was supposed to have supported is “on standby”, and moreover that “the Protocol has lost its importance as an instrument of voluntary and guiding actions of banks.”

4.29 Apart from the status of the Green Protocol, IEG conducted an assessment of the substance of the 2008 revised Green Protocol, along with BNDES’s new environmental and social policies, by comparing the two sets of policies with an international benchmark—the

³⁹ http://www.mma.gov.br/estruturas/182/_arquivos/protocolo_verde_carta_de_intenes_1995.pdf

⁴⁰ http://www.bndes.gov.br/SiteBNDES/export/sites/default/bndes_pt/Galerias/Arquivos/empresa/download/ProtocoloVerde.pdf

⁴¹ The two versions are in fact quite similar.

⁴² See: <http://www.bb.com.br/portalbb/page251,8305,3926,0,0,1,6.bb?codigoNoticia=28467> (last visited August 29, 2014).

⁴³ As of April 2014, a new regulation has been issued by the Central Bank of Brazil, Resolution 4.327/2014. The resolution is a broad requirement for all financial institutions to develop a Policy of Social and Environmental Responsibility (PRSA) to manage environmental and social risks. In terms of its environmental and social content, the Resolution is less specific than and makes no mention of the Green Protocol and leaves the details of the PRSA up to the individual financial institutions. It requires that financial institutions approve PRSAs and action plans for implementing them by February or July 2015 (depending on the status of the institution). The diffusion of such a requirement to all Brazilian banks has the potential to broaden the use of environmental and social safeguards. But this action was not supported by the SEM DPL and was not mentioned in the World Bank’s ICR, and it is too early to assess what its impacts might be. See:

<http://www.bcb.gov.br/pre/normativos/busca/normativo.asp?tipo=Res&ano=2014&numero=4327>

Equator Principles.⁴⁴ According to a recent assessment by the Harvard Law School, “in the last 10 years, the Equator Principles or EPs have emerged as the industry standard for financial institutions to assess social and environmental risk in the project finance market,” and have been adopted by “79 financial institutions in 32 countries . . . , reportedly covering over 70% of international project finance debt in emerging markets.”⁴⁵ Moreover, as discussed further below, BNDES had the opportunity to adopt the EPs through collaboration with IFC at the time that the SEM DPL was prepared, but instead chose to develop its own approach. Meanwhile, other major public and private Brazilian banks—including large state-owned banks like Caixa Econômica Federal and Banco do Brasil—have already signed on to the EPs.

4.30 The detailed comparison of the three approaches is provided in Annex E to this PPAR. But a summary of some of the main differences is as follows:

- One general difference is immediately apparent upon examination of the three approaches. The Green Protocol and BNDES’s environmental and social policies are much less specific and detailed than the EPs. The elements of the GP and BNDES’s environmental and social policies are more like general principles, and therefore would require additional work to develop operational procedures to make them implementable. In the case of BNDES, this was apparently to be primarily through the promised sector-specific guidelines.
- The EPs put a common global “floor” under environmental and social standards by establishing that if a country’s national environmental and social legislation and capacity are insufficient, then the financial institution will adopt the IFC’s Performance Standards. In contrast, BNDES allows the use of country systems even in countries with weaker environmental standards than Brazil.
- The EPs include specific requirements on transparency; the GP’s and BNDES’s policies do not.
- The EPs provide for a grievance mechanism; the GPs and BNDES’s policies do not.
- The EPs include specific requirements on stakeholder consultation; the GPs and BNDES’s policies do not.

4.31 These differences are significant, and would already vitiate the effectiveness of the GPs and BNDES’s environmental and social policies even if they were fully implemented.

4.32 The BNDES aspect of this objective was one of the original objectives of the operation at the time when it was proposed as a DPL and then FIL to BNDES, and was an area where the Bank had substantial direct engagement with the client through the SEM

⁴⁴ According to its website: “The Equator Principles (EPs) is a risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk in projects and is primarily intended to provide a minimum standard for due diligence to support responsible risk decision-making.” For more information, see Annex C to this evaluation or the Equator Principles website: <http://www.equator-principles.com/index.php/about-ep/about-ep>

⁴⁵ <https://blogs.law.harvard.edu/corpgov/2013/06/18/equator-principles-iii-enters-into-force-this-june/>

DPL. The Program Document Annex 8-Background on BNDES has a section on the “Current Status of BNDES Environmental and Social Screening”, including “Box A: Areas for potential improvement of the BNDES screening process for operations”. This discussion appears, for the most part, to be an accurate reflection of the significant shortfalls in BNDES’s environmental and social standards and procedures.

4.33 One point on which the Program Document states that BNDES should improve is by establishing “a mechanism for applying BNDES environmental and social policies to the projects financed by its financial intermediaries.” This would be important for achieving the BNDES portion of this sub-objective because more than half of BNDES’s lending is in fact through financial intermediaries, or “indirect”. And both the SEM DPL II trigger for this policy area and the Program Document text (p. 21, p. 57) indicate that BNDES’s new environmental and social policies would be applied to the full portfolio. But the SEM DPL outcome indicator—with reported 100 percent achievement—is instead only for “projects submitted directly to BNDES.”⁴⁶ Further, BNDES acknowledges that today it still does not apply its environmental and social policies to even directly financed investments in what it calls the “exports” sector. This sector was estimated at over US\$ 5 billion in 2012 and includes BNDES’s large and growing investments outside Brazil—much of it for major infrastructure investments with serious environmental and social implications—in facilities like hydropower dams, mines, highways, and airports, including in Amazon regions of Bolivia, Colombia, Ecuador, and Peru (see for example the Wall Street Journal 2011). Overall then, even if the SEM DPL achieved its target indicator, it would have affected less than half of the investments of only one of Brazil’s public banks, diminishing from the beginning its ability to achieve the program’s objectives. This restricted scope was not made clear in the project documents.

4.34 **There has been little if any discernible improvement in BNDES’s environmental and social (environmental and social) system.** Based on IEG’s review of the evidence provided by the World Bank team and BNDES as well as third party sources, and interviews of key stakeholders, particularly the staff of BNDES, there has been little discernible improvement to BNDES’s environmental and social management system compared to the one described—and critiqued—by the World Bank team during preparation. For those BNDES investments that should have fallen under the provisions of the SEM DPL, the key action cited under both the DPL-I Tranche Release Conditions and the DPL-II Triggers was the approval of a new BNDES “Environmental and Social Institutional Policy”, and the application of the new policy to the screening, approval and monitoring of BNDES projects. In the Tranche Release Document (para. 18) certifying “full compliance” with the second tranche release conditions, the evidence provided by the Bank for compliance of this policy area is based on the approval by BNDES of three resolutions: Resolutions 2023/10, which

⁴⁶ BNDES divides its portfolio into what it calls “direct operations”, “non-automatic indirect operations”, and “automatic indirect operations”. BNDES’s Socio-Environmental Policy states that it applies only to the direct and non-automatic indirect operations. Including the non-automatic indirect operations is a step in the right direction. However, for the non-automatic indirect operations, the policy states that the financial intermediaries “are responsible for verifying the social and environmental compliances of the borrower and the target project.” In 2011, the non-automatic indirect operations constituted 51 percent of BNDES’s disbursements (BNDES 2011).

the Tranche Release Document describes as the “Social and Environmental Responsibility and Governance (SERG) for the entire BNDES system”; Resolution 2025/10, which is described as “a new Environmental and Social Policy (ESP) governing BNDES operations” in the framework of the SERG; and Resolution 2022/10, described as “a supplementing resolution on the Structure and Use of Environmental and Social Guidelines. None of the actual resolutions is publicly available on BNDES’s website, although content consistent with the resolutions appears on the site where BNDES presents its environmental and social policies.

4.35 IEG has reviewed official copies of all three resolutions. In a slight deviation from what is stated in the Tranche Release Document, Resolution 2023 is actually titled “Social and Environmental Responsibility Policy of the BNDES System” (i.e., there is no “Governance”). It could best be described as a general statement of corporate values with regard to social and environmental issues, such as “To promote an integrated development that includes the economic, social and environmental dimensions”, and “Proactive attitude in line with the Brazilian public policies and rules while in observance of international norms of behavior.” It contains no information on how these policies are to be implemented or which parts of the BNDES portfolio they apply to.

4.36 Resolution 2025 states that it is intended “to approve the environmental and social policy of BNDES system.” Although the title of the resolution sounds similar to that of 2023, the Tranche Release Document explains that 2025 “presents an updated screening process regarding the social and environmental dimensions and guidance on operational supervision,” and also establishes requirements for supervision of operations to track environmental and social indicators and verify compliance with the environmental license. But the contents of Resolution 2025 are, like Resolution 2023, quite vague. It begins with a set of “Guidelines” that do not appear to commit the institution to anything more than adhering to Brazilian law, such as “Acting in line with government policies and legislations, in particular with the provisions of the National Environmental Policy.” Similarly, under the heading “socio-environmental analysis of projects”, it states that “For financial support, are observed: applicable laws, sector-specific norms,...” and so on. In terms of responses, it goes on to explain that BNDES “may” take various actions. There is nothing that resembles a specific, binding environmental or social safeguard.

4.37 Another important aspect of BNDES’s new environmental and social approach was supposed to be the introduction of “sectoral guidelines” governing the application of environmental and social good practices tailored to key sectors. Since neither Resolution 2023 nor Resolution 2025 establishes environmental and social safeguards or procedures for implementing them, it is presumed that those (the “sector-specific norms” referred to in Resolution 2025) would be established via the sectoral guidelines. The SEM DPL Program Document (Annex 8) lists 13 specific sectors for which it says BNDES will develop guidelines as part of the SEM DPL series (p. 104), including for hydroelectric plants. Three sets of guidelines—livestock, ethanol and sugar, and soy—plus a fourth for a forest management and plantation program (“REFLORESTA”) were supposed to be developed for SEM DPL 1.

4.38 On BNDES's website today there are only three sets of sectoral guidelines presented: livestock, ethanol and sugar, and thermoelectric. That means that after five years, BNDES has still only developed three out of the thirteen sectoral guidelines that were promised to be developed under the SEM DPL series by 2011. And absent are guidelines for sectors that are critical from an environmental and social perspective, such as hydroelectric plants, forest management, soya, and water supply and sanitation. For the three sectoral guidelines that BNDES has posted, each has a different structure and approach, and varying degrees of detail. Although the specifics vary for each sector, in general all three simply require projects financed by BNDES to comply with relevant Brazilian legislation (for example, having appropriate licenses and complying with land use and anti-slavery laws). The one area where the sectoral guidelines appear to go beyond these legal requirements is for livestock, where the guidelines state that clients are required to "join a traceability system for the beef production chain, from birth to slaughter, to check the regularity of the environmental supply chain." It made sense for BNDES to make the livestock sector a priority because, as mentioned in the Introduction, BNDES and others were the subjects of an international media campaign launched by Greenpeace aimed at raising awareness of the links between the sector and Amazon deforestation.⁴⁷ But overall, BNDES has made no progress on development of sectoral guidelines—one of the pillars of its new environmental and social policy—since SEM DPL 1 closed in 2010.

4.39 There is no specific evidence provided either in the SEM DPL ICR, or on BNDES's website, or in the Brazilian government's response to this PPAR that BNDES is actually applying the new environmental and social policies to investments, how they are being applied and monitored, and what the outcomes are. This lack of evidence was the basis of criticism leveled by thirty CSOs in a letter of complaint to the World Bank Regional Vice President (see below). In an interview with IEG, BNDES staff confirmed that the current extent of their project environmental and social screening and monitoring is to classify projects into categories "A, B or C", which was something BNDES did even before the SEM DPL (see the Program Document, p. 101), and ensure that the investment has an environmental license if required by Brazilian law. To the extent that previously BNDES did not ensure that investments it financed were in compliance with Brazilian law, this could be seen as a step forward. But even though their own policy requires it, BNDES has no environmental or social monitoring indicators, there is no supervision or evaluation by BNDES of environmental and social aspects of projects under implementation, and BNDES cannot reject project proposals on environmental and social grounds alone (as long as they comply with Brazilian law).

4.40 BNDES points to changes it has made to its internal institutional structure as evidence of progress, such as the upgrading of its Environment Department to an Environmental Division. However, as illustrated by the "Credit concession process flowchart" on page 75 of its 2011 Annual Report, and confirmed by BNDES staff, the Environment Division is not

⁴⁷ The resulting markets demands, combined with legal action taken by Brazil's Public Prosecutor's Office against irregular slaughterhouses, "led to a 'Cattle Agreement' in which the region's largest beef processing companies agreed to exclude from their supply chain those livestock producers who deforested after October 2009" (Nepstad et al., 2014). The Nepstad article does not mention the role of BNDES.

involved in the analysis and approval of investments, including the environmental risk screening, unless it is specially requested to provide input (BNDES 2011). As a result, the impact of these institutional changes on environmental and social outcomes of BNDES's investments is unclear. The lack of progress on BNDES's environmental and social system is confirmed in multiple assessments by other parties since the closing of the SEM DPL (Reporter Brazil 2011; Ramos and Garzon, 2013; Widmer 2012; Lopes Pinto 2012; Fonseca and Mota 2013; Rainforest Foundation UK).⁴⁸ This falls far short of the ambitious goals of the SEM DPL, which among other things stated that "Commitment by BNDES to environmental and social outcomes is manifest by BNDES' attempts to go beyond environmental and social guidelines focused solely on legal compliance" (Program Document, p. 102).

4.41 A critical case study for the application of BNDES's environmental and social system, and an opportunity to showcase any improvements to it supported by the SEM DPL, is the Belo Monte hydroelectric dam complex in the Amazon rainforest of Pará State, Brazil. The site was the subject of an IEG field visit for the purposes of this evaluation, and is described in detail in **Box 2**. Reports indicate that Belo Monte will be the third largest dam in the world ever built, and is also the largest investment ever financed by BNDES, with a total cost of nearly USD 15 billion. Given the scale of the project, great environmental and social sensitivity of the location, and the experience Brazil has with the significant adverse impacts of large dam projects in the past, great care should have been taken to ensure that Belo Monte met the highest environmental and social standards before proceeding with the loan. Yet the Belo Monte investment has been widely criticized by other Brazilian government agencies, international human rights organizations, and local and international civil society organizations for adverse social and environmental impacts, and violations of Brazilian law, international agreements, and BNDES's own environmental and social policies (Library of the European Parliament 2013; NORAD 2011).

Box 2: BNDES financing for the Belo Monte Hydroelectric Dam

A critical case study for the application of BNDES's environmental and social system, and an opportunity to showcase any improvements to it supported by the SEM DPL, is the Belo Monte hydroelectric dam in the Amazon rainforest of Pará State, Brazil. Part of the Brazilian government's PAC infrastructure investment program,⁴⁹ Belo Monte is a massive undertaking: the largest dam project under preparation anywhere in the world, once completed it will be the third largest dam ever built. It is also the largest investment ever financed by BNDES, with a total cost of nearly USD 15 billion, financed by BNDES at 80 percent, the limit for the bank. BNDES announced the first loan for the Belo Monte dam project well before the project had been granted the required license by IBAMA. According to BNDES's environmental and social policy, an

⁴⁸ See also: <http://amazonwatch.org/work/bndes>

⁴⁹ <http://norteenergiasa.com.br/site/ingles/norte-energia/>

IBAMA-issued Installation License⁵⁰ is required before an operation can be contracted.⁵¹ The first loan for the Belo Monte dam project was announced in December 2010,⁵² well before IBAMA issued the Belo Monte consortium an Installation License (and only a week after the disbursement of the SEM DPL second tranche, raising the ire of the NGO community). At that point, only a Preliminary License had been issued based on a long series of conditions. The required Installation License was not issued until June 2011, and even then numerous conditions had still not been met. Many of the conditions were reported to still not have been met in 2013⁵³, and according to some analyses have even worsened.⁵⁴

The consortium building the dam complex, Norte Energia S. A., claims that the project will “generate energy constantly, at a low social and environmental impact” (Norte Energia 2014). BNDES states that it has “adhered to the decisions of the competent authorities” and made efforts to address the environmental and social impacts of the project. But with construction of Belo Monte still at a relatively early stage, there are reports of significant environmental and social consequences. These include involuntary displacement of thousands of families, including indigenous people; destruction of forests and fisheries; tripling of the population of the local town of Altamira without adequate services like healthcare or schools; labor unrest by dam construction workers; and a jump in social problems like drug use, crime, and sex trafficking. These and other problems are the subjects of fifteen separate class-action lawsuits related to Belo Monte filed by the Prosecutors of the Brazilian Federal Public Prosecutor’s Office (Ministério Público Federal).⁵⁵ According to the Federal Prosecutor’s Office, Federal Courts have already ruled against the Belo Monte consortium and BNDES in some important cases. They include halting construction at the end of 2013 due to the invalidity of environmental licenses issued by IBAMA, and a prohibition on BNDES financing, with the judge citing evidence of negative impacts on local communities and the environment.⁵⁶ In August 2014, a Federal Court confirmed that the environmental license

⁵⁰ The licensing process has three distinct stages: 1. Preliminary License, 2. Installation License, and 3. Operating License.

⁵¹ See:

http://www.bndes.gov.br/SiteBNDES/bndes/bndes_pt/Institucional/Apoio_Financeiro/Políticas_Transversais/Política_Socioambiental/analise_ambiental.html ; and http://www.bancoldex.com/documentos/2615_Memorias_ALI14-3_Claudia_Nessi_Seminario_Bogota_19.11.2010_Claudia_Nessi_resumido.pdf

⁵² http://www.bndes.gov.br/SiteBNDES/bndes/bndes_pt/Institucional/Sala_de_Imprensa/Noticias/2010/energia/20101222_BeloMonte.html

⁵³ For example, see: <http://www1.folha.uol.com.br/mercado/2013/07/1318408-obra-de-belo-monte-pode-atrasar-por-problemas-com-ibama.shtml>

⁵⁴ For example, see: <http://www.socioambiental.org/pt-br/noticias-socioambientais/ibama-afirma-que-o-cumprimento-de-condicionantes-de-belo-monte-so-piorou> , and http://www.socioambiental.org/sites/blog.socioambiental.org/files/nsa/arquivos/quadro_condicionantes_2013_isa.pdf

⁵⁵ <http://www.prpa.mpf.mp.br/news/2013/processos-judiciais-do-caso-belo-monte-sao-publicados-na-integra-pelo-mpf>

⁵⁶ http://noticias.pgr.mpf.mp.br/noticias/noticias-do-site/copy_of_indios-e-minorias/norte-energia-e-obrigada-a-paralisar-obras-de-belo-monte-mais-uma-vez/?searchterm=Belo%20Monte (last visited September 17, 2014).

issued by IBAMA was void, citing faulty environmental impact assessments.⁵⁷ While some cases continue to be contested at various levels in Brazil's legal system, the lawsuits provide a large amount of information on violations of Brazilian laws on the rights of indigenous peoples and on environmental protection, as well as violations of the terms of Belo Monte's environmental licenses issued by the Brazilian environmental licensing agency, IBAMA. IBAMA itself has on more than one occasion cited numerous instances of non-compliance with the terms of the licenses issued for Belo Monte (IBAMA 2012, IBAMA 2013, ISA 2013).⁵⁸ As a result, IBAMA has imposed millions of dollars in fines on the Belo Monte consortium.⁵⁹ In the municipality of Altamira, which is the closest to the Belo Monte dam site, the Brazilian Institute for Applied Economic Research (Ipea), a Federal public foundation linked to the Strategic Affairs Secretariat of the Presidency, sponsored field research in 2011 and identified a host of serious urban environmental and social problems associated with the dam and influx of tens of thousands of workers, as well as increased pressure on surrounding protected areas and indigenous lands.⁶⁰ Their general conclusion is: "Overall, Belo Monte repeats the same mistakes of other major historical hydroelectric projects, when it disregards the seriousness of the social consequences already experienced by other populations and the specific socio-cultural, economic and environmental conditions of the region." This was echoed by multiple sources interviewed by IEG, who saw Belo Monte as a missed opportunity to finally do hydropower right from an environmental and social perspective.

Internationally, the Inter-American Commission on Human Rights of the Organization of American States in April 2011 "granted precautionary measures for the members of the indigenous communities of the Xingu River Basin" and "requested that the State of Brazil immediately suspend the licensing process for the Belo Monte Hydroelectric Plant project and stop any construction work from moving forward until certain minimum conditions are met," including carrying out a proper consultation process with indigenous communities and adopting "measures to protect the life and physical integrity of the members of indigenous peoples" (IACHR 2010)⁶¹. The Committee of Experts on the Application of Conventions and Recommendations for the International Labor Organization (ILO) cited the Brazilian government for violating the rights of indigenous communities in the Xingu region while approving Belo Monte. The ILO reports allege that GOB violated the ILO's Convention 169, which guarantees indigenous peoples the right to free, prior and informed consultation over projects that affect their lands and rights (ILO 2012). IBAMA itself has issued reports citing numerous violations of the conditions under which a partial environmental license was eventually issued for the project. The project and the licensing process have also been heavily criticized by a large number of national and international CSOs (ISA, Xingu Vivo, Survival International, WWF, Green Peace, Amazon Watch), who also document

⁵⁷ http://noticias.pgr.mpf.mp.br/noticias/noticias-do-site/copy_of_meio-ambiente-e-patrimonio-cultural/tribunal-nega-recurso-da-norte-energia-e-confirma-prazo-de-90-dias-para-novos-estudos-de-belo-monte/?searchterm=Belo%20Monte (last visited September 17, 2014).

⁵⁸ See also previous two footnotes and here: http://www.socioambiental.org/sites/blog.socioambiental.org/files/nsa/arquivos/3_parecer_ibama.pdf

⁵⁹ For example, see: <http://www1.folha.uol.com.br/mercado/2013/07/1318408-obra-de-belo-monte-pode-atrasar-por-problemas-com-ibama.shtml>

⁶⁰ <http://www.ipea.gov.br/code2011/chamada2011/pdf/area7/area7-artigo19.pdf>

⁶¹ <http://www.oas.org/en/iachr/indigenous/protection/precautionary.asp>

adverse environmental and social impacts, including through video evidence.⁶² At the same time, some have questioned the economic viability of the project (Fearnside, P. 2012).⁶³ The general view of those familiar with the history of large dam projects in Brazil is that BNDES and the Belo Monte consortium have missed a great opportunity to improve environmental and social standards based on the lessons of past projects, but are instead repeating most of the same mistakes, and may be an effort to spearhead more dam construction in the Amazon (Fearnside, P. 2012). Similar complaints were mentioned during a meeting of dozens of community members attended by IEG.

4.42 Although Belo Monte is an emblematic example of the continuing weaknesses in BNDES's environmental and social management system, it is not the only one. A recent investigation of the twenty largest BNDES-financed investments in the Amazon over the past five years found that at least sixteen were subject to legal action by federal prosecutors, states, or labor or civil society organizations due to environmental problems (Fonseca, B. and J. Mota, 2013). Approximately half of the twenty largest Amazon investments by BNDES were related to hydroelectric dams and transmission lines. All of the dams were the target of lawsuits for environmental and social problems. The problems include the poor quality of environmental impact assessments, involuntary resettlement, lack of consultation and disclosure with indigenous populations and other affected communities, and shortfalls in the environmental licensing process. An expert interviewed for the report stated that "compared to what the bank [BNDES] could do, what other international banks do, and what Brazilian law requires BNDES to do, it fails."

4.43 Among the list of major investments financed by BNDES after the SEM DPL 1 is the Teles Pires hydroelectric dam (BNDES 2011).⁶⁴ Like Belo Monte, Teles Pires is accused of significant adverse environmental and social impacts, including lack of consultation with affected indigenous peoples, destruction of spawning grounds for fish that the local population depends on for its livelihood, and shortcomings in the environmental licensing process (Ministério Público Federal e Ministério Público no Estado de Mato Grosso 2012).⁶⁵

⁶² See for example: <http://www.xinguvivo.org.br/2011/06/01/ibama-libera-licenca-de-instalacao-para-belo-monte-as-vesperas-do-dia-mundial-do-meio-ambiente/> ; <http://oglobo.globo.com/economia/miriam/posts/2011/01/27/belo-monte-licenca-parcial-nao-existe-359392.asp> ; <http://www.xinguvivo.org.br/2011/06/01/ibama-libera-licenca-de-instalacao-para-belo-monte-as-vesperas-do-dia-mundial-do-meio-ambiente/> ; <http://www.internationalrivers.org/campaigns/belo-monte-dam>; <http://www.wwf.org.br/?28983/>; www.socioambiental.org/esp/bm/index.asp ; <http://amazonwatch.org/news/blog?start=55>

⁶³ <http://www.economist.com/news/americas/21577073-having-spent-heavily-make-worlds-third-biggest-hydroelectric-project-greener-brazil>

⁶⁴ http://www.bndes.gov.br/SiteBNDES/bndes/bndes_pt/Hotsites/Relatorio_Anual_2011/Capitulos/de_sempenho_operacional/infraestrutura/geracao_de_energia_de_base_hidreletrica.html

⁶⁵ http://www.aneel.gov.br/arquivos/PDF/SUSPENSAO_UHE_TELES_PIRES_uniao_e_aneel_v3_bip_junho_2012.pdf ; and <http://www.internationalrivers.org/resources/comments-to-pjrcs-on-the-teles-pires-hydropower-project-brazil-3056>

In response to a recent civil society request to BNDES—under the Brazilian Law on Access to Information—for detailed information regarding the environmental and social safeguards applied in the case of Teles Pires, including the application of BNDES’s new environmental and social policy, BNDES stated only that the Teles Pires Hydroelectric Company was required to comply with Brazilian labor laws and environmental licensing requirements. These are Brazilian legal requirements regardless of BNDES’s involvement, and with or without the SEM DPL.

4.44 Another issue is BNDES’s continued lack of transparency with regard to environmental and social aspects of the investments it finances. The Equator Principles include Principle 10: Reporting and Transparency, which requires that, at a minimum, a summary of the Environmental and Social Impact Assessment is accessible and available online for relevant projects (see Annex E). The EP Principle 5: Stakeholder Engagement, also requires that financial institutions make assessment documentation readily available to affected communities and other stakeholders. BNDES’s Environmental and Social Policy contains no specific measures for disclosing information on projects. To its credit, in 2008 BNDES began posting on its website lists of investments it finances in Brazil (see Annex G for a sample).⁶⁶ But the list contains only very basic information such as the name of the client, date and financing amount of the loan, sector, and a one-line description of the project. The list also excludes “automatic indirect” investments and all investments if finances outside of Brazil (whether direct or indirect). Moreover, a project is included in the list only after the financing contract has been signed, and the only location information provided is the state, making it very difficult for affected stakeholders to be made aware in a timely fashion. BNDES still provides no information on environmental or social aspects of its investments, including the basic risk categorization, any safeguards applied, and actual impacts.

4.45 BNDES’s approach to reporting and disclosure of environmental and social information is limited compared to, for example, the World Bank, to whom Brazil turned for international best practice in this area under the SEM DPL. The World Bank discloses, during preparation of its investment operations, drafts of the Integrated Safeguards Data Sheet with detailed information on which safeguards are triggered (and which are not), why they are triggered, mitigation measures, and mechanisms for consultation and disclosure; and a Project Information Document with a detailed description of the operation.⁶⁷ Once an investment operation has been approved, the final Integrated Safeguards Data Sheet and full Project Appraisal Document or Program Document (in the case of DPLs) are typically disclosed. And during supervision, the World Bank now discloses information from the Implementation Supervision Reports for all operations. While it would not be realistic to expect BNDES to attain the level of safeguards of the World Bank and other international development banks right away, there should have been more progress in that direction given

⁶⁶http://www.bndes.gov.br/SiteBNDES/bndes/bndes_pt/Institucional/BNDES_Transparente/Consulta_as_operacoes_do_BNDES/operacoes_diretas.html

⁶⁷ No Safeguards Data Sheet is prepared for DPLs since according to the World Bank’s definition, “safeguards” do not apply to DPLs. For DPLs, relevant analytic work conducted by the World Bank in relation to environmental and social aspects is supposed to be made public as part of the consultation process.

the intention to learn from the World Bank's experience. As discussed above, BNDES's policies also fall short of the Equator Principles, another international standard.

4.46 Given the dearth of evidence of progress in achieving Objective A and its sub-Objectives attributable to the SEM DPL, the Achievement of Objective A is rated as **Negligible**.

Objective B: Manage natural resources sustainably, reducing the degradation of agricultural lands, forests (in particular the Amazon), and water resources, and promoting renewable energy.

B.1. Natural Resource Management and Conservation

4.47 With regard to *improving the sustainability of natural resource management, through strengthening of the forest legal framework*, both the Public Forest Management Law and the Atlantic Forest Law were already supported by the 2004 Env PRL. The Public Forest Management Law was enacted in March 2006, and the Atlantic Forest Law was enacted in December 2006. Resolution 3545 of the National Monetary Council was enacted in February 2008, before preparation of the broader SEM DPL began.

4.48 With regard to *improving Amazon regional planning for sustainable development and reduced deforestation*, this has been one of the emblematic challenges and most important environmental goals for Brazil, and arguably for the planet. However, the preparation of the PAS and signing of an agreement to establish it was cited as an action taken under the 2004 Env PRL in its ICR. Ecological Economic Zoning in the Amazon and elsewhere ("area of influence of the BR-163" and "North, North-East and Middle-West regions") was also supported by the Env PRL.

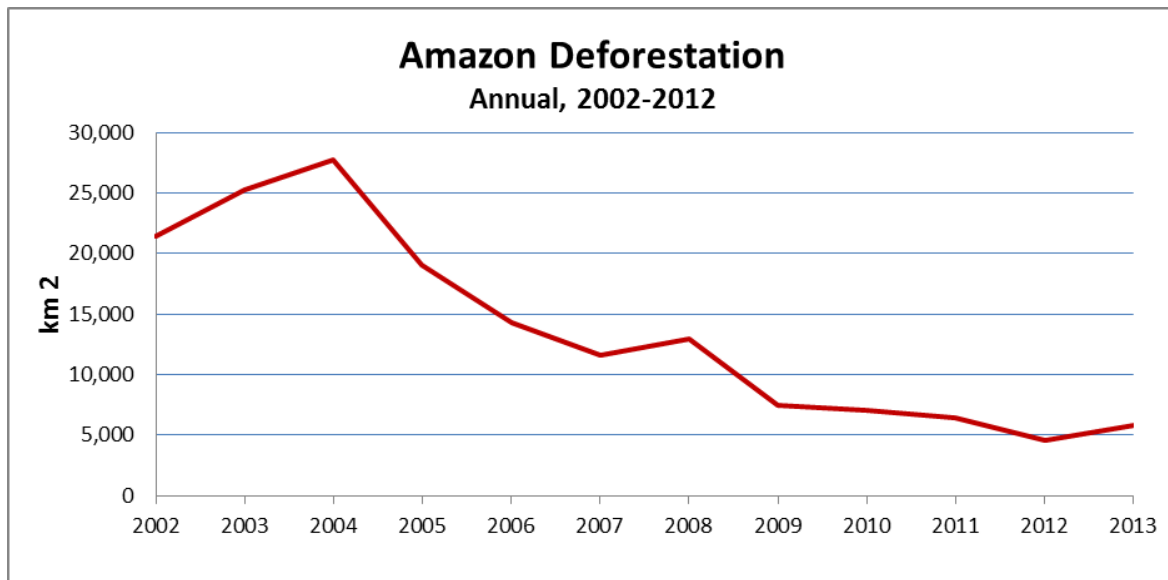
4.49 As to the intended outcome of reducing deforestation in the Amazon, data show that Amazon deforestation peaked at 27,000 km² per year in 2004, well before the SEM DPL, and began continuously decreasing over the following years. The evolution of Amazon deforestation is illustrated in Figure 2.

4.50 In fact, research has demonstrated that the greatest reductions in Amazon deforestation were likely due to the Brazilian government's own Action Plan for the Prevention and Control of Deforestation in the Legal Amazon (PPCDAM) that was launched in 2004 (Nepstad and others 2014; IPEA and others 2011). Particularly impactful were increases in enforcement activities and a massive expansion of protected and indigenous areas, as well as a cutoff in agricultural credit to noncompliant farmers and ranchers via Resolution 3545 and the blacklisting of municipalities with high rates of deforestation in 2008 (Assunção and others 2013a, 2013b; Nolte and others 2013; The Economist 2013b). Interviews by IEG with key sources in Brazil confirmed that there is general agreement that PPCDAM has played a major role, and that it was primarily an initiative of the Brazilian government. Prior support by the Bank to the creation of protected and indigenous areas was also important, but these actions were largely in place by the end of 2006. Indeed, the Director General of the Federal Forest Service, who had worked with the service for decades, stated that he had never before heard of the SEM DPL.

4.51 Another action under this policy area was the macro ecological-economic zoning of the Amazon region, which has been completed. In principle the idea of planning which areas of the Amazon should be used for which purposes (including conservation) makes sense. It has been pursued for many years in Brazil. IEG interviews at the federal and state level found that the macrozoning effort was a paper exercise with little evident impact on interstate planning or coordination.

4.52 In short, Brazil has made major strides in reducing its deforestation rate over the past decade, through policies other than those supported by the SEM DPL. Maintaining and increasing the reductions, according to an analysis for IEG’s Country Program Evaluation of Brazil, will require a new set of policies to support Brazil’s newly revised Forest Code (IEG 2013). These will include implementing the comprehensive rural cadaster, finding ways to minimize the costs to landholders of complying with the Code, and addressing the challenge that residual deforestation is becoming increasingly concentrated among low-income smallholders.

Figure 2: Area of Amazon deforestation over time



Source: PRODES Project, INPE, Brazilian Ministry of Science and Technology

4.53 With regard to *improving rainforest conservation*, the main actions were related to the Amazon Fund (with the Atlantic Forest Fund planned to come in under SEM DPL 2). As an evaluation by the Norwegian Agency for Development Cooperation (NORAD) makes clear, “the creation of the Amazon Fund was a Brazilian initiative” with financial support provided by Norway’s International Climate and Forest Initiative (NICFI) providing “a significant stimulus” in February 2008, before preparation of the SEM DPL began (NORAD 2011). The NORAD report provides a detailed evaluation and history of the Amazon Fund, with no mention of a role for the World Bank. The evaluation finds that “NICFI has been effective in getting things started”, but that “what has been done so far has had limited effectiveness and has not been able to be particularly efficient due to procedural constraints” on the part of BNDES, who manages the fund. This has caused frustration amongst the CSOs

and potential beneficiaries of the fund. More seriously, the evaluation notes that “the bureaucratic and legal bottlenecks encountered...are moreover not only seen by indigenous organisations and community associations as a technical problem, but a mechanism that repeats failures to recognize their rights and importance in reducing deforestation.” At the time of the evaluation in 2011, there was as yet “no clear sustainability strategy for the Fund.”

4.54 More recently, there is evidence that activity has picked up under the Amazon Fund, with a reported 58 projects supported at a total commitment level of R\$ 878 million—though only three projects have so far been completed (Amazon Fund). The Amazon Fund website, meanwhile, could serve as a model for BNDES, with more detailed information on projects, including geo-referencing (though still no information on environmental and social safeguards applied).⁶⁸ BNDES also reports progress with the establishment of the BNDES Mata Atlantica Initiative, which is intended to provide grant support for restoration projects in the Atlantic Forest biome. The BNDES website notes that 15 projects have been approved so far, for a total of R\$ 25 million, though as with BNDES’s other investments, minimal information is provided on the individual projects (BNDES 2014).⁶⁹

B.2. Water Resource Management

4.55 With regard to *improving management and quality of water resources*, the ICR reports that 116,144 km of rivers were being monitored as of June 2011, surpassing the program target of 90,000 km. Based on interviews conducted by IEG and a visit to the federal water agency, ANA, Brazil does appear to have made good progress in terms of increasing the coverage of water monitoring sites around the country. It is not clear to what extent this can be attributed to the SEM DPL. The first action under the SEM DPL, approval of the Water Resources National Plan (PNRH), was accomplished in 2006, several years before the SEM DPL, while the documentation for the plan was prepared in 2004 and was an action under the earlier Env PRL operation. The quality of the outcome indicator could also be questioned, as it does not specify which parameters are to be monitored.

4.56 ANA reports progress in signing cooperation agreements with states for implementing the National Water Quality Program (PNQA), the second tranche release condition. The PNQA is an important advance in Brazilian water resource management policy. It is clear that the ANA monitoring network was strengthened by the agreements established with the states, especially those with pre-existing monitoring systems. The benefits of the PNQA for the states are less clear. The actual implementation of the water monitoring, as well as the use of the information, should be carried out by local governments, which the SEM DPL did not involve. In interviews with state government water and environment officials, they reported that the relationship with the Federal ANA on water

⁶⁸ See http://www.fundoamazonia.gov.br/FundoAmazonia/fam/site_pt/Esquerdo/Projetos_Apoiados/ (last visited August 18, 2014).

⁶⁹ See http://www.bndes.gov.br/SiteBNDES/bndes/bndes_pt/Areas_de_Atacao/Meio_Ambiente/Mata_Atlantica/ (last visited August 18, 2014).

quality monitoring was mostly one-way: the states provide their water quality monitoring to ANA, but have thus far not received in return any support, for example to invest in necessary water monitoring infrastructure or to improve human capacity. The signing of the cooperation agreements is however an important first step.

4.57 The most important aspect of the SEM DPL outcome indicator was that the results of water monitoring were to be used “for prioritization of investments for improved water quality.” On this count ANA could not cite any examples. Nor did the Bank’s ICR provide any information on the use of the water quality information.

B.3. Environmental Sanitation

4.58 With regard to *reducing environmental impacts through improved water, wastewater treatment, and solid waste services*, the prior action on enacting the National Guidelines for Water Supply and Environmental Sanitation (Law 11,455) was approved on January 5, 2007, approximately two years before the SEM DPL, and therefore could not be attributed to the World Bank loan.

4.59 The ICR reports that 141,280 tons of pollution loads (biochemical oxygen demand, or BOD) were being reduced by June 2011, surpassing the target of 110,000 tons. These pollution reductions were supposed to be achieved by a combination of BNDES-financed investments “reviewed under new BNDES social and environmental guidelines,” and investments financed under the “updated PRODES program.” The World Bank team set the baseline at zero, “since the new BNDES social and environmental guidelines and the updated PRODES program are not available yet” (Program Document). As discussed in detail above, the new BNDES environmental and social guidelines have major flaws and gaps. Moreover, the promised sector guidelines on solid waste management, and on water, sanitation and drainage, were apparently never finalized, or at least are not in use. No information is provided on pollution reductions from BNDES projects before the SEM DPL to establish a more valid baseline. No information is provided on how the pollution reductions were achieved (for example, through which investments) or on how they were measured. In their comments on this evaluation, BNDES notes that the 141,280 tons of BOD were the result of 15 projects in nine states. BNDES also indicates that they were financing wastewater treatment investments prior to the SEM DPL, but “did not systematically measure the quantities of BOD.” They credit the SEM DPL with introducing this practice, which is a positive sign. However, it also means that we do not know what incremental reduction in pollution loads can be attributed to the SEM DPL, since the baseline was not zero BOD as indicated in the Program Document and ICR, but rather some unknown quantity.

4.60 Improvement of the national PRODES program, which promised to be highly innovative by taking a payment for results type approach to sewage treatment, was already supported under the 2004 Env PRL. Although it was supposed to be a key aspect of this policy area, the ICR does not report any information on it. In its submission of a report to the Bank in June 2011 as input to the ICR, MMA and ANA did provide information on PRODES. They state that the program did not operate at all over the period of the SEM DPL due to a lack of funding. This is confirmed by the Water Agency (ANA) website, which

shows that no new contracts were issued in 2009 or 2010.⁷⁰ Even prior to the SEM DPL, as mentioned in the Program Document, up-take on this program had been uneven due to the inability of local governments to provide the required up-front financing. There is no indication that this problem has been addressed. Although there were contracts signed in 2011 and 2012, there were again no contracts issued in 2013. In interviews with IEG, the Rio state government (one of the highest-capacity in Brazil) cited the lack of up-front financing as a continuing major shortcoming, and the main reason why, to the best of their knowledge, no PRODES investments had been implemented in the state.

B.4. Renewable Energy

4.61 With regard to *promoting renewable energy potential*, the ICR reports that 50,102 terajoules per year were being generated from renewable energy sources supported by BNDES, just short of the 60,000 terajoule target. The evidence for the renewable energy production comes from a report submitted by BNDES as input to the ICR in June 2011. BNDES reports that 50,102 terajoules per year were produced by renewable energy sources since January 2009. But to arrive at this figure, BNDES took into consideration the potential energy generation from wind power, mini hydropower and biomass cogeneration projects approved since 2007, as well as the projects considered “enquadrados”, or framed, but not yet approved. Over half of the total came from biomass cogeneration. The document mentions that 5 regions would be hosting 77 renewable energy projects.

4.62 Similarly to the environmental sanitation policy area, while no information is provided on renewable energy generation from BNDES projects before the SEM DPL, the Program Document sets the baseline at zero. However, evidence indicates that BNDES did support investments in renewable energy prior to the SEM DPL. BNDES’s 2012 Annual Report provides data showing that the bank disbursed R\$ 5.7 billion for renewable energy and energy efficiency in 2008, and R\$ 6.1 billion in 2012. While BNDES should be recognized for its significant support for these investments, the incremental change over the period is relatively minor (BNDES 2012, BNDES presentation to the IAEA 2013). The biggest share of BNDES’s renewable energy investments—totaling R\$7.1 billion in 2012—continues to go to large hydropower dams, which as described elsewhere continue to suffer from important adverse environmental and social consequences as a result of weak safeguards. But BNDES deserves credit for increasing its investments in other forms of renewable energy as well.

4.63 It should be noted that the target for this policy area is specific to BNDES, and has little relation to the prior action on introducing the Integrated Environmental Assessment (IEA) methodology in the Brazilian national Handbook of the Electricity Sector’s Inventory. The IEA methodology was apparently included in the Handbook of the Electricity Sector’s Inventory in December 2007 (a year before the SEM DPL). The World Bank had been engaging on this issue through its analytical work under other activities (see for example World Bank 2008). It is not clear that the World Bank’s recommendations were fully captured by the new IEA methodology. The World Bank, as elsewhere in the world, had promoted a Strategic Environmental Assessment (SEA) approach, which would examine the

⁷⁰ <http://www.ana.gov.br/prodes/default.asp>

potential environmental, social, and economic—as well as technical—impacts of hydroelectric dams at various sites along an entire river basin, and use the results to inform decisions about whether, where and what to build. The approach that Brazil continues to use has been criticized for selecting sites first based on technical engineering grounds, and only then attempting to estimate the environmental, social, and economic implications.

4.64 In some areas, Brazil has made good progress on this sub-objective, including significantly reducing deforestation and increasing water quality monitoring. It is often less clear whether this progress can be attributed to the SEM DPL, particularly in the case of the decreased deforestation. In other areas, such as using the water quality information to prioritize investments, or expanding the PRODES wastewater treatment program, intended outcomes have still not been achieved. Overall, the Achievement of Objective B is rated as **Modest**.

5. Ratings

Outcome

5.1 The Relevance of Objectives is rated Substantial due to the importance of improving management of the environment for Brazil and consistency with the CPS that prevailed at the time of loan closing. But because of weaknesses in the results framework, project logic, and choice of instrument, the Relevance of Design is rated Negligible.

5.2 In its justification for assigning the loan an overall outcome rating of “satisfactory”, the ICR states that “the results obtained on the environmental management front are particularly relevant for Brazil. BNDES now systematically screens, approves and monitors all projects according to the BNDES new Environmental and Social Institutional Policy.” Yet IEG found no evidence either of improved screening by BNDES or more importantly of improved environmental and social outcomes from its investments. The ICR provided no information on other financial institutions. For other policy areas such as those related to mainstreaming climate change and improving water quality, the reforms seem to have stalled, with no evidence of outcomes. For remaining policy areas such as reducing deforestation, Brazil has achieved success, but this could not be attributed to the SEM DPL. The Achievement of Objective A under the operation suffered from severe shortcomings, with a consistent lack of evidence that it achieved its objectives, and was therefore rated Negligible, while the Achievement of Objective B suffered from major shortcomings and was rated Modest.

5.3 Overall, much more should have been expected in terms of outcomes from the largest ever single World Bank loan to Brazil, for US\$ 1.3 billion. A Substantial rating for Relevance of Objectives, one Modest and one Negligible rating for Achievement of the Objectives, and a rating of Negligible for Relevance of Design, leads to the SEM DPL being rated **Unsatisfactory** for the Outcome.

Risk to Development Outcome

5.4 In general, as discussed in detail in the Achievement of Objectives section, the relevant outcomes that could be attributed to the SEM DPL operation were limited, so there are fewer achievements to sustain. For some of the policy areas, there appears to be good government ownership and momentum, because actions began well before the SEM DPL—including in some cases under the earlier Env PRL DPL—and continue today. But little of this could be attributed to the SEM DPL in the first place. Examples include reducing deforestation, increasing water quality monitoring, and providing BNDES financing for renewable energy investments.

5.5 In other areas, progress has been slower than expected. The revision of the National Plan on Climate Change that Government committed to is years behind schedule, progress on development and implementation of the sectoral action plans is lacking, and the withdrawal of CSOs from the consultations has cast doubts on the process. However, the Government now reports that some sectoral plans have been developed and that approval of the revised National Plan is imminent. The intermittent funding for and uptake of the PRODES program has meant that the growth of that innovative mechanism to finance sanitation has lagged behind expectations. For the financial sector, the implementation of the 2008 revision to the Green Protocol supported by the SEM DPL was put on hold, and its contents fell short of international standards.

5.6 With regard to some policy actions, there is greater uncertainty. For example, a very different, new Forest Code was approved by the Brazilian government in 2012. Though some of the changes are controversial, implementation mechanisms are still being developed and it remains to be seen how this will affect deforestation in the Amazon and elsewhere (Soares-Filho and others, 2014). With regard to the strengthening of environmental institutions, the evidence indicates that Brazil's main Federal environmental agencies continue to suffer from institutional, legal, and human resources problems.

5.7 As for the key actions aimed at improving BNDES's environmental and social management system, not only did progress fall short under the SEM DPL, it has continued to lag in the intervening years. A prime example is the sectoral guidelines that were supposed to be developed under the SEM DPL program in order to provide detailed instructions on application of BNDES's new environmental and social policies. Of the thirteen guidelines promised in the Program Document, only three have been developed. In addition, the resolution BNDES approved to govern the application of the new guidelines (Resolution 2022) does not state that they are binding. Overall, there is almost no evidence that BNDES has improved its environmental and social management system in practice. At the same time, BNDES reports that it has maintained or continued to develop policies and institutions related to its environmental and social management system. The challenge remains for BNDES to put these changes into practice in order to improve the outcomes of its investments.

5.8 Risk to Development Outcome is rated **Moderate**.

Bank Performance

Quality at Entry

5.9 **Quality of program logic:** In some cases, it can be seen as a positive for the World Bank to be responsive to the changing needs and priorities of Borrowers by being flexible in the design of operations and the instrument employed, within the requirements of World Bank policies and procedures. In the case of this operation, the objectives changed significantly from an effort to finance BNDES's investments while improving its environmental and social standards, to a broad-based improvement in the national environment. In making that transition, the World Bank team tried to quickly merge elements of both concepts, and in the process ended up with a muddled program logic that made it unclear what the operation was trying to achieve.

5.10 **Learning from previous operations:** The Program Document has a section that explains how the SEM DPL team has learned from the experience of the first World Bank environmental DPL with Brazil, the First Env PRL that was approved in 2004. The SEM DPL Program Document goes so far as to say that "this operation is based to a large degree on the lessons extracted from the Env PRL I". Nevertheless, as mentioned in the Relevance of Design section, a major shortcoming in the design of the SEM DPL was the lack of learning from the lessons of the Env PRL. The Env PRL had similar objectives, similar policy areas, and used the same instrument. But the World Bank team proceeded with preparation of the SEM DPL without having properly evaluated and completed the required full ICR of the Env PRL. Not having learned the lessons of why the Env PRL series was canceled after the first loan, they repeated the same mistake, designing the SEM DPL as a programmatic series that was again canceled after the first loan.

5.11 The World Bank team also designed the SEM DPL with many of the same policy areas—and some very similar policy actions—as the Env PRL. But without a comprehensive evaluation of the status of actions and outcomes from the Env PRL, there was a lack of determination of what had already been accomplished under the policy areas and what was yet to be completed, and more importantly what the outcomes were.

5.12 **Inclusion of unattributable policy actions:** As indicated in the Good Practice Note for Development Policy Lending: Designing Development Policy Operations, and confirmed in discussions with OPCS, actions included in a DPO policy matrix must be the result of the World Bank's engagement in relation to the DPO, for example through dialogue, analytical work, or technical assistance provided. In the case of the SEM DPL, as established for many of the policy areas in the Achievement of the Objectives section above, the Bank team included multiple policy actions that took place well before the preparation of the SEM DPL began, or that were already supported by the Env PRL.

5.13 **Timing and readiness:** Once it was decided to change the loan instrument to a DPL, the operation was prepared very quickly, with the Program Document being finalized within four months and approved by the Board in less than five months. The loan then sat for nearly 15 months with no disbursements due to a delay in effectiveness. The ICR states that "the delay was caused by the Borrower not having formally requested the reflection of the receipt

of the Loan funds in its 2009 federal budget.” But given the large number of operations that the Bank has with Brazil, including DPLs, the Bank team should have been more aware of this risk at entry, and ensured that any Brazilian legal prerequisites were in place prior to approval of the loan. The additional time could have been usefully employed to improve the quality of the operation. The three months originally allotted between disbursement of Tranche 1 and Tranche 2 also appears inadequate given the many Tranche 2 release conditions, a number of which would have been challenging for the client to implement.

5.14 Sequencing and backloading of reforms: One difference in design between the SEM DPL and the Env PRL was that the SEM DPL divided the first loan into two tranches, so that even though there were long delays in the disbursement of the second tranche, eventually the Bank team certified that the tranche release conditions were met. Dividing the first loan into two tranches appears to have increased the motivation for the government to continue with the loan through the second tranche because they had already signed the loan agreement that covered both tranches. Nevertheless, full implementation of many of the reforms was not foreseen until SEM DPL 2, which was designed as a separate loan, and which was canceled. This is contrary to OPCS guidance, which advises teams to spread critical reform steps evenly across loans in a programmatic series.

5.15 Identification and mitigation of risks: The Bank team underestimated the risk of “the possibility of the reform agenda not being carried out by BNDES” rating it “moderate to substantial” (World Bank Program Document, 2009), and did not follow through on promised mitigation actions. The main mitigation response described in the Program Document was the provision of technical assistance and capacity building to BNDES through the “substantial expansion” of the separate Environmental Technical Assistance (ENV TAL) Project. However, the ICR for the ENV TAL, which is now also closed, makes no mention of any support provided to BNDES, and the ENV TAL was never expanded (World Bank 2011b).⁷¹ The Bank team approached the risk as a technical problem (i.e., how to carry out the reforms), rather than as a risk of lack of political will both inside BNDES and in the Brazilian Government to fully carry out the reform agenda that could result in the slowing or limiting of certain investments at a time when the PAC was calling for major increases in BNDES financing for large infrastructure investments. The Program Document also states that an overall risk mitigation factor for the SEM DPL is “the factor of continuity with the Env PRL I of all policy areas.” This is not accurate, as the Env PRL I did not include policy actions related to BNDES’s environmental and social management systems, which is where the greatest risks lay.

5.16 As noted above, the SEM DPL was a loan to the federal government and was supposed to support policy actions primarily at the federal level, but implementation of many of the policies depends at least in part on state and municipal governments. It should have been considered important therefore for the SEM DPL team to coordinate closely with the National Environment Project, which was supposed to provide capacity building for state and municipal environment agencies, and to help ensure its successful implementation in tandem with the SEM DPL. As noted above, the SEM DPL Program Document makes only a single

⁷¹ In fact, the ENV TAL had only disbursed about 65 percent of its original commitments when it was closed.

sentence reference to the National Environment Project. Phase 2 of NEP II was approved in September 2009, but by the end of 2013 it had disbursed less than 7 percent of its funds and its progress was rated “unsatisfactory”. The potential failure of this project to provide needed support to local governments was never identified as a risk by the SEM DPL team, and coordination on the operations was apparently not adequate to ensure that they both progressed adequately. In interviews with IEG, stakeholders in Brazil frequently cited the continued lack of capacity at these local government levels as a significant weakness in Brazil’s environmental management system.

5.17 Collaboration and coordination with partners: “Coordination with Development Partners” is a requirement of OP 8.60. At the time of the preparation of this loan, the IFC had already been engaged with BNDES in a dialogue on improving BNDES’s environmental and social standards through the adoption of the Equator Principles, which are based on IFC’s Performance Standards, and IFC had invited BNDES to be part of IFC’s Performance Standards Community of Learning. Since BNDES finances both private and public investments, there would have been advantages to learning from IFC’s approach. Other public and private banks in Brazil have already adopted the Equator Principles. The SEM DPL Program Document makes no mention of IFC’s dialogue with BNDES on their environmental and social system. Adoption of the Equator Principles could have been a policy action under the loan, and would have saved BNDES from “reinventing the wheel” in developing its policies, and would have integrated them in an established community of practice. Instead, the Bank team neglected to incorporate IFC in its engagement with BNDES on environmental and social issues, and BNDES’s engagement with IFC on these issues stalled. There was in general a lack of coordination between IBRD and IFC on engagement with BNDES on its environmental and social management system.

5.18 More generally, there are numerous other organizations working on environmental issues in Brazil, including other IFIs as well as important bilateral and civil society donors. The SEM DPL could have been used as an opportunity to enhance coordination and partnership across these organizations. But according to the Program Document and ICR, no other partners were included.

5.19 Mitigation of adverse environmental and social impacts: In general, the SEM DPL Program Document attempts to address environmental and social issues by arguing that “the policies and reforms supported by this operation are likely to have a significant positive impact.” Nevertheless, the Program Document identified several potential social and environmental threats related to specific policy areas targeted by the SEM DPL (pp. 51-58). On the social (and poverty) side, the Program Document identified potential adverse impacts including restricted access resulting from the creation of protected areas; increased water tariffs as a result of policy reforms; and loss of “habitat” by indigenous communities as a result of hydroelectric sector development in the Amazon. With regard to the environment, potential adverse impacts identified in the Program Document include deforestation associated with the expansion of the ethanol sector; “habitat degradation” related to the expansion of hydropower; and deforestation arising from unclear guidelines for logging.

5.20 For the potential adverse environmental and social impacts identified, the Program Document describes mitigation measures that will be put into effect in association with the

loan. These include actions such as improvements to the environmental licensing process, increasing transparency and civil society participation, support for sustainable forestry practices, the adoption of improved BNDES environmental and social guidelines for a variety of sectors, and improvements to basin-wide integrated planning of the hydroelectric sector.

5.21 Of particular importance, the Program Document acknowledges “BNDES’ significant role in financing projects and enterprises which engage in activities with potential adverse environmental impacts” (p. 57). In response to this concern, the Program Document states that “the proposed operation is expected to have a leveraged impact: the full spectrum of BNDES over 70 financial agents is expected to observe the same improved environmental and social policies to be adopted by BNDES with support from this operation.” This seems to indicate that all of BNDES’s “indirect” investments through financial intermediaries, or “financial agents”, will also be covered by the improved environmental and social system, but in reality this was not the case. Both the SEM DPL policy actions described in the Program Document and the GOB’s Letter of Development Policy indicate that only BNDES’s directly financed operations would be covered.⁷² In the same section, the Program Document also cites the adoption of a number of environmental and social sectoral guidelines by BNDES as mitigation actions, including for agriculture, sanitation, and renewable energy/hydropower, but there is no evidence (including on BNDES’s own website) that BNDES has approved any sectoral guidelines other than for livestock, ethanol, and thermoelectric (and even for those there is no evidence of implementation or results).

5.22 If this loan had continued to be prepared as a FIL—a type of investment lending instrument—as proposed in the two Concept Notes issued in June and September 2008, the operation would have had to adhere to the World Bank’s OP 8.30, which among other things requires removal of interest rate subsidies, application of World Bank policies on environmental and social safeguards, and financial management and procurement, to the loan and all sub-projects financed.⁷³ In their written comments, reviewers of the Concept Note were critical with regard to these requirements and BNDES’s ability to meet them, including because BNDES supplies loans at subsidized interest rates, and because one of the main rationales for the operation was that BNDES’s environmental and social policies were weak.

5.23 As a result of the SEM DPL loan, the resources were transferred in their entirety to BNDES and used to finance its investment operations, as discussed in the Background section and Annex H. The environmental and social requirements of OP 8.60 address only the potential impacts of the policy reforms supported by DPLs, and not the potential impacts of the financing, because it is assumed that under budget support operations, there are no investments with “footprints” to be concerned about. But in this case, the US\$ 1.3 billion SEM DPL financing used by BNDES to finance its investment operations could have had a significant footprint, particularly considering the many large infrastructure investments that BNDES finances. According to the official interpretation of OP 8.60, all lending is fungible,

⁷² As discussed in the Achievement of Outcomes section, BNDES now reports that it applies the policies to “non-automatic indirect operations”, but not to “automatic indirect operations”.

⁷³ OP 8.30 was replaced by OP 10.00 - Investment Project Financing, in April 2013.

and the government can do whatever it wants with the money, so there is no connection between the DPL and the money that the government on-lent to BNDES. But this is inconsistent with a common-sense view that the funds were in fact earmarked for BNDES, given that: a) there were explicit legal provisions and contracts to transfer the DPL resources to BNDES on similar terms to the World Bank's; b) BNDES stated that these resources were used "to complement the BNDES disbursement budget"; and c) BNDES's lending increased. The potential environmental and social impacts of the investments financed are unexamined, and this created reputational risks for the Bank, as evidenced by the many complaints this loan generated from a diversity of civil society organizations, and echoed by development partners (see discussion under Quality of Supervision below).

5.24 Inconsistency between results promised and actions supported: With regard to the policy area to "Improve the effectiveness of environmental and social management systems in BNDES and other financial institutions", it was already explained in Section 2 that there was an inordinate focus in the policy actions on BNDES. Even for BNDES alone, the policy actions and indicator that were included in the policy matrix are substantially less ambitious than what was promised. At the time the Program Document was written, two-thirds of BNDES's lending was done indirectly, through financial intermediaries. The Program Document (p. 44) promised that the SEM DPL would target "the promotion of greater facilitation of sustainable investments (directly through BNDES and indirectly)," and later (p. 21) states that "a trigger for the SEM DPL II would be that BNDES apply the new Environmental and Social Institutional Policy to its full portfolio, including operations managed by its financial intermediaries..." The actual outcome indicator for improvement of BNDES's environmental and social systems, however, applied only to "projects submitted directly to BNDES." So not even the majority of BNDES's investments were subject to the actions supported under the SEM DPL.

5.25 Analytic underpinnings: OP 8.60 states that "a development policy operation draws on relevant analytic work...", including explicitly on "social impacts of proposed policies, environment and natural resource management". The Bank team was able to draw on extensive analytical work produced over the years as a result of the Bank's many environmental activities in Brazil over the years, as described in the SEM DPL Program Document section IV.E. Analytical Underpinnings. Much of this analytical work was on topics related to the management of forest resources and Amazon conservation, as well as additional work on water resources, sanitation, energy, and environmental licensing. A notable exception is the absence of any analytical work on BNDES or "other financial institutions" and their environmental and social management systems, despite the prominent role that BNDES in particular was supposed to play in the operation, and the significant risks involved. The Bank also lacked an overall environment strategy for Brazil that could help to prioritize reforms. As noted above, the design of the SEM DPL did not include the recommendations of the environmental licensing study that was completed not long beforehand.

5.26 Absence of consultation, transparency, and disclosure measures: An important aspect of environmental and social management at development Banks such as the World Bank is the establishment of policies and procedures for consultations, transparency, and disclosure of potential impacts and mitigation measures. Yet, despite the absence of such

measures at BNDES, the SEM DPL policy matrix did not contain any actions related to these important aspects of a modern environmental and social management system. And as analyzed in detail in Annex E, neither BNDES's new environmental and social policy nor the Green Protocol contained such measures.

5.27 There are also requirements for “Consultations and Participation” spelled out in the Bank’s OP 8.60 for all DPLs. The SEM DPL Program Document provides a description of the GOB’s consultation process on its 2008-2011 Multiyear Plan, as well as other national processes and plans, as evidence for relevant consultations. But there is no evidence of consultations related to BNDES or its environmental and social systems, and no evidence that the Bank team supported a robust consultation process as part of preparation. OP 8.60 also contains a requirement that “Relevant analytic work conducted by the Bank, particularly on poverty and social impacts and on environmental aspects, is made available to the public as part of the consultation process” (World Bank OP 8.60). IEG could find no evidence that this was done in relation to the SEM DPL. The lack of consultation, transparency and disclosure were some of the main complaints leveled against the World Bank and the SEM DPL by an array of civil society organizations in letters to World Bank management.

5.28 Finally, none of the World Bank’s SEM DPL documents—including the Program Document and ICR—mentions that the operation was previously considered using different instruments and beneficiaries, and that all of the funds were on-lent by the Brazilian government to BNDES. In the interest of transparency, it would have been preferable for the World Bank team to provide that information in the SEM DPL program documentation.

5.29 Quality at Entry is rated **Unsatisfactory**.

Quality of Supervision

5.30 Five supervision missions were conducted, with 30 weeks of Bank staff input. Eight months after approval, with zero disbursements, the Implementation Supervision and Results Report (ISR) still rated performance on DO as satisfactory and on IP as moderately satisfactory. It was only after more than one year without disbursements that these ratings dropped to Moderately Unsatisfactory and Unsatisfactory respectively. The early ratings now appear overly optimistic and not fully candid.

5.31 The Bank team blamed the delay in effectiveness of the operation on the Borrower and delays in its budget legislation. Since there were only three months planned originally between release of Tranche 1 and release of Tranche 2, the nearly 15 month delay in Tranche 1 should have provided more than adequate time for the Bank team to ensure that Tranche 2 release conditions were also met, and the tranches could have been released at around the same time. Yet by the time of the Tranche 1 release, the Tranche 2 conditions apparently still had not been met, and required more than five months of additional time, resulting in a delay of more than 17 months compared to the originally planned Tranche 2 release date—even greater than for Tranche 1.

5.32 Although the problems related to the Brazilian budget and loan approval process were eventually addressed, and both tranches of SEM DPL 1 were disbursed, the Bank team was

not able to continue the engagement with the client necessary to ensure continued momentum under the planned SEM DPL 2. The different explanations provided for this by the Bank team are not very convincing. The ICR states that because disbursement of SEM DPL 1 was so delayed, the preparation of SEM DPL 2 “was not started in time to meet [the] required follow-up preparation timeframe of two years from World Bank’s Board approval” (which would have meant March 2011). It continues that “a follow-up operation would fall into the next CPS implementation period, within which it would no longer be a priority activity to either the Bank or the Client”, but in the next paragraph states that GOB continues to implement the main policies. It is not clear how the improvement of Brazil’s environmental management system could go from being a major priority to justify the original operation and its disbursement to no longer being a priority in the course of two years. In interviews, Bank Brazil Country Office staff stated that the reason for the cancelation of SEM DPL 2 was that the client’s priority was now to provide budget and other support at the state level rather than the federal level, because that’s where the needs are the greatest. However, this was already known at the time of preparation of the 2008-2011 CPS (p. 10) and did not prevent both parties from agreeing to the SEM DPL program in the first place. Moreover, since the SEM DPL resources went to BNDES it meant that they were used to finance investments at the local level anyway. Overall, the ICR provides little analysis of why the second loan in a Brazil environmental DPL series was canceled for the second time in a row.

5.33 The Bank could have been more candid in reporting on the performance of the SEM DPL, including in the Second Tranche Release Document and the ICR. As described in detail in Section 4, Achievement of the Objectives, the SEM DPL in many cases fell short in implementing the reform program described in the Program Document. For example, the Tranche Release Document (para. 19) for the second tranche states that “a supplementing resolution on the Structure and Use of Environmental and Social Guidelines (Resolution 2022/10) gives binding force [emphasis added] to all the sectoral guidelines including those that BNDES has designed for three sectors under the scope of the SEM DPL I.” However, that is not stated in the resolution. On the contrary, the introduction to Resolution 2022 states: “The guidelines have an instructional character and their content does not create obligations additional to the existing Brazilian legislation and Resolutions from BNDES Directorate”. This seems to indicate that the sectoral guidelines are voluntary.

5.34 Also for release of the second tranche, BNDES was supposed to apply its new environmental and social policy to all of its directly financed operations. This is a critical action that was not addressed in the Second Tranche Release Document, and no evidence that BNDES was meeting it was found by IEG.

5.35 In the case of their ICR, in some cases the Bank team did not fully and accurately report information provided by the implementing agencies as input to the ICR. Examples include the failure to mention that the PRODES program had not been funded; that BNDES reported screening of projects according to its new environmental and social system for a period of only three months, and that it excluded indirectly financed investments and foreign investments with potentially serious environmental and social implications; and that the emission reductions from carbon investments were reported as a total instead of the increase over the baseline that the indicator targeted.

5.36 The incomplete evidence of full implementation of SEM DPL actions, combined with limited transparency and public consultations, led to civil society organizations raising serious questions about the loan. For example, a letter dated Dec. 17, 2010 was sent to the World Bank Regional Vice President, with copy to the World Bank Country Director and others, and signed by thirty Brazilian and international CSOs. It stated that “the purpose of this letter is to communicate the existence of serious problems and to request clarifications and other needed actions from the World Bank regarding Loan Agreement No. 7660-BR in the amount of USD 1.3 billion for the SEM DPL 1.” The letter goes on to request that “the second disbursement of the SEM DPL 1 for USD 500 million should not be approved by the World Bank...we convey our extreme concern [emphasis from original] with the lack of evidence regarding implementation of BNDES social and environmental safeguards policies in emblematic cases, such as the unprecedented subsidized loan for the USD 14.7 billion Belo Monte Hydroelectric Complex, whose approval was signaled prior to completion of technical analysis of the project.” The CSOs requested a dialogue with the Bank team on these issues, disclosure of the detailed evidence used to justify the disbursement of the loan, and a hold on disbursement of the second tranche. World Bank Management responded and in at least one case did provide essentially the same evidence that the World Bank team used to justify the second tranche release internally. But the evidence fell short of what the CSOs had expected, and Bank Management offered the possibility of dialogue only in the context of the preparation of the SEM DPL 2 loan, which never materialized. In the midst of this exchange, the Bank disbursed the second tranche of SEM DPL 1 without informing civil society, and quickly closed the operation a few weeks later. This generated a great deal of controversy and suspicion on the part of the CSO community that continues to this day, including in entire reports critical of the loan produced by CSOs, and echoed by important development partners (Library of the EU Parliament 2013; BICECA 2011; Rainforest Foundation UK).

5.37 Despite the broad, active CSO community in Brazil that has an interest in the environment in general and in the SEM DPL in particular, and the potential impacts of the operation on stakeholders, the World Bank team’s ICR left blank the annexes on “Beneficiary Survey Results”, “Stakeholder Workshop Report and Results”, and “Comments of Cofinanciers and Other Partners/Stakeholders”.

5.38 **Supervision of environmental and social impacts was inadequate.** As noted above, the SEM DPL Program Document describes an array of potential adverse environmental and social impacts from the reforms supported, as well as mitigation measures that will be put in place in association with the loan, as required by OP 8.60 (paragraphs 10 and 11). However, OP 8.60 is less clear on requirements for monitoring and evaluating the actual environmental and social impacts of DPLs and the efficacy of the mitigation measures. OPCS has confirmed to IEG that there is currently no explicit requirement for monitoring or evaluation of environmental and social aspects of DPLs. There is however OPCS Good Practice Note 4 on Environmental and Natural Resource Aspects of Development Policy Lending, which was prepared in 2004, and suggests that with regard to potential effects on the environment, DPLs should have “an explicit monitoring and evaluation strategy to review

progress during, as well as beyond, implementation” (OPCS 2004).⁷⁴ In the case of the SEM DPL, despite the importance of the mitigation measures proposed in the Program Document and the environmental and social impacts of the policy areas, there is no follow-up discussion in either the ISRs or ICR of any of the potential adverse impacts identified in the Program Document, mitigation measures implemented, or their efficacy. As discussed above, the extent of the implementation of a number of the mitigation measures is questionable. Moreover, the potential adverse impacts generated by the financing of BNDES investments were never acknowledged in any Bank documents, and therefore not mitigated or monitored.

5.39 The Bank supervision team also appears to lack the participation of a qualified social expert for many of the missions, even though one of the objectives was to improve BNDES’s social as well as environmental management systems, and other policies promoted by the loan (such as the increase in protected areas) have important social implications. For example, ISR #3, dated 05/17/2010, states that “The Bank team has held several meetings...related to (i) development of an overall BNDES social policy to be integrated to its environmental policy, (ii) environmental and social traceability requirements related to cattle ranching, ...” [emphasis added], but the mission did not include a social development specialist. The World Bank’s ICR also lists an environmental and social specialist as part of the supervision team, but when contacted by IEG, the staff member reported never having participated in supervision.

5.40 The ISRs also regularly neglected to report on the “Progress to Date” of many or even any of the outcome indicators for the SEM DPL, as required. They also did not flag for management attention the lack of progress on the M&E system for the loan (see M&E section below), or take action to ensure that the M&E system promised in the Program Document was actually implemented.

5.41 Quality of Supervision is rated **Unsatisfactory**.

5.42 In light of the many Quality at Entry problems and the lack of success in addressing the problems or continuing the engagement during Supervision, **Overall Bank Performance is rated Unsatisfactory**.

Borrower Performance

Government Performance

5.43 Although the SEM DPL project documents list the Ministry of Finance (MOF) as well as the Ministry of Environment and BNDES as implementing agencies, MOF was primarily responsible for the flow of funds and there were no policy actions related to it.

5.44 **Delay in effectiveness:** The ICR (pages 8, 16) attributes the delay in effectiveness of more than 14 months for the SEM DPL 1 to the government (World Bank 2011). The long delay undermined part of the rationale for a DPL as fast-disbursing budget support. The

⁷⁴ According to OPCS, there is no requirement in OP 8.60 to monitor and evaluate the social and environmental impacts of DPLs or the efficacy of mitigation measures.

reported cause relating to the lack of inclusion of the SEM DPL in the budget indicates inadequate planning on the part of the government, and the issue was not dealt with in a timely manner, with the ICR (page 8) criticizing the “extraordinarily lengthy” senate approval process.

5.45 Cancellation of the series: The ICR (page 16) also lays responsibility for cancellation of SEM DPL 2 on the Brazilian government and the effectiveness delays that it caused, stating that “the 14 month delay of Effectiveness affected the possibility of carrying out the second operation of the SEM DPL series as designed.” The cancellation after the first loan of an environmental DPL series that the Government had committed to—for the second time in a matter of years—combined with the lack of progress on a number of environmental policy areas discussed in Section 4, indicates uncertainty and a degree of lack of commitment by the Government to the SEM DPL reform agenda. As discussed in the Risk to Development Outcome section, this appears to have had an adverse impact. In particular, though the Ministry of Finance is one of the most important sources of BNDES’s capital, there is no evidence that it used its influence to encourage BNDES to improve its environmental and social management system in a timely manner..

5.46 In comments, the Brazilian government stated that SEM DPL 2 did not materialize due to their decision to prioritize borrowing for subnational units (states and municipalities) rather than for the federal government. That was the same reasoning given in interviews for the cancellation of the earlier Env PRL series. Moreover, the World Bank-Brazil Country Partnership Strategy for 2008-2011, approved in May 2008, almost a year before the SEM DPL, already stated that “the federal government wants the focus of the IBRD program to change to one in which there is...a major lending program with states, on state priorities,” and SEM DPL 1 was approved as a loan to the federal government nearly a year later anyway (World Bank 2008).

5.47 Monitoring and evaluation: According to the design of the SEM DPL as described in the Program Document, “in order to monitor this operation and the entire SEM DPL series, the Ministry of Finance and the Ministry of Environment will use the monitoring system developed through the [Env TAL] project....” The Program Document also promised that the system would be “web-based and open to the public”. As indicated in the ICR, the promised system was never implemented “due to unforeseen bureaucratic delays in contracting the information technology firm.” The Borrower’s comments on the ICR consisted of only three sentences (ICR Annex 5).

5.48 Progress on the Green Protocol: One SEM DPL area where the federal government was supposed to play a central role was on the revision and implementation of the Green Protocol. However, as discussed in Section 4, there was little follow-up on the revised Green Protocol and all indications are that it has now been abandoned. The lack of follow-up is an indication of insufficient federal government ownership.

5.49 Government Performance is rated **Moderately Unsatisfactory**.

Implementing Agency Performance

5.50 The implementing agencies responsible for carrying out the policy actions were MMA and BNDES. MMA does not appear to have had much direct engagement with the World Bank on the SEM DPL. But it does appear to have carried out, or is continuing to carry out, a number of the policy actions that appear in the SEM DPL Policy Matrix—some in relation to the previous Env PRL, many of its own accord—though these could not be attributed to the SEM DPL in most cases.

5.51 **Lack of progress at BNDES:** BNDES was the agency responsible for most of the actions attributable to the SEM DPL, and was the recipient of all of the funds. One of the main justifications for the loan was BNDES’s reported commitment to improving its environmental and social systems. However, in reality BNDES’s progress in this regard has been much slower and more limited than promised. As just one example, one of the pillars of BNDES’s new and improved environmental and social management system was to be the development of 13 sectoral guidelines under the SEM DPL. Five years later, BNDES has still only developed three guidelines. BNDES also remains highly opaque with regard to sharing information on its investments in general and environmental and social management aspects in particular.

5.52 **Areas of shortfalls at the Ministry of Environment:** MMA also demonstrated less-than-promised progress in some areas under their aegis. Those included mainstreaming action on climate change adaptation and mitigation in public and private sector investments, and improving the environmental licensing process. Issues with the Brazilian environmental licensing process in particular are long-standing (they were also highlighted in the Env PRL Program Document), yet evidence of progress in addressing them is scant.

5.53 **Monitoring and evaluation:** As noted above, the monitoring and evaluation system promised in the SEM DPL Program Document never materialized. That was supposed to be primarily the responsibility of the MMA, which was also the Implementing Agency for the Env TAL that was supposed to finance the monitoring and evaluation system.

5.54 **Absence of consultation and participation:** As discussed in the Bank Performance section above, OP8.60 includes requirements on consultations and participation. As part of this, the Bank team is supposed to advise the Borrower “to consult with and engage the participation of key stakeholders in the country....” But the Borrower also has an important role to play. There is no evidence that this was done by BNDES in the context of the SEM DPL. This was especially important because well before the SEM DPL CSO had been highly critical of BNDES’s environmental and social systems, its lack of consultations with civil society, and its lack of transparency.⁷⁵ But there is no evidence in the project documents of efforts by BNDES to address these concerns through consultations with stakeholders. BNDES reports no system for monitoring its environmental and social policy implementation. More generally, as mentioned in the Bank Performance section above, the ICR annexes on “Beneficiary Survey Results”, “Stakeholder Workshop Report and Results”, and “Comments of Cofinanciers and Other Partners/Stakeholders” were all left blank.

⁷⁵ See for example Spink 2013 for a recent history of the mostly fruitless efforts of CSOs to get BNDES to become more transparent and engage with civil society.

5.55 Implementing Agency Performance is rated **Unsatisfactory**.

5.56 Given that Government Performance is rated Moderately Unsatisfactory and Implementing Agency Performance is rated Unsatisfactory, **overall Borrower Performance is rated Moderately Unsatisfactory**.

Monitoring and Evaluation

5.57 There were problems with the design of the M&E system to begin with, since responsibility was assigned to the project management unit from another project under MMA, and there is no information that BNDES was included in the plans. Indicators were flawed and did not reflect outcomes. The monitoring system promised in the Program Document was never implemented. Since no M&E system was implemented, it does not appear that appropriate data were used to inform decision-making. The lack of an M&E system also hindered the measurement and communication of any SEM DPL results to stakeholders. The important potential adverse environmental and social impacts and mitigation measures described in the Program Document appear not to have been monitored. The MMA was designated as the sole agency responsible for monitoring, even though it has no direct responsibility over the monitoring of BNDES's internal processes and portfolio environmental and social performance, beyond the licensing process.

5.58 The "outcome indicators" for the SEM DPL series in many cases are not sufficient to measure achievement of the operation's objectives. An important example is in relation to sub-objective A.iii, "improve the effectiveness of environmental and social management systems in BNDES and other financial institutions." The outcome indicator target was that "100 percent of the projects submitted directly to BNDES screened, approved and monitored according to the new Environmental and Social Institutional Policy". First, measuring the way projects are screened, approved and monitored is not the same as measuring environmental and social outcomes. Second, while the sub-objective targets "other financial institutions" in addition to BNDES, the indicator only relates to BNDES. Another example is in relation to sub-objective A.i, "improve effectiveness of government agencies in implementing mandated Brazilian environmental and social management procedures." The original indicator on the number of judicial challenges to environmental licenses by the Public Processor's Office was not being met (and, as reported in the ICR, was ultimately not met). The indicator was changed to "number of environmental licenses issued at the Federal level". This is not a good measure of the intended outcomes. For example, a greater number of licenses could be issued if standards were lowered, which would not necessarily lead to improved environmental or social outcomes. No other relevant information on "effectiveness" or outcomes is provided in the ICR. Interviews with staff of both Federal and State Public Prosecutor Offices (PPOs; in Portuguese, Ministério Público, or literally "Public Ministry") revealed that in fact the number of lawsuits they file on environmental and social grounds has been increasing, due both to the poor quality of environmental impact assessments (EIAs) for investments, as well as a lack of implementation and monitoring of mitigation measures. The Brazilian PPO is credited with being one of the most important and effective institutions in representing the public interest and promoting the enforcement of environmental legislation (Crawford 2009). The public attorneys interviewed by IEG were critical of the original SEM DPL indicator on environmental licensing. Moreover, these

indicators have no direct relationship with the majority of prior actions under sub-objective A.i, in particular those related to the Ministry of Environment or the National Biodiversity Management Institute, since Federal environmental licenses are the responsibility of IBAMA.⁷⁶

5.59 Another example of a poorly designed indicator is for sub-objective A.ii on mainstreaming climate change. As discussed above, the indicator for this was based on “planned signed” greenhouse gas emission reductions, firstly from CDM projects. The scale of the CDM compared to the emission reduction needs of a large economy like Brazil’s is marginal. While potentially useful as an approach to piloting incentive programs for emission reduction investments, it was from the beginning limited by its inclusion under the Kyoto Protocol, and even more so by the fact that the dominant buyer of credits generated by the CDM is the European Union Emissions Trading System (EU ETS). The EU announced some time ago that after the end of 2012, only Certified Emission Reductions (CERs) from projects hosted by Least Developed Countries (LDCs) would be eligible for the EU ETS, meaning that Brazil is no longer eligible (Carbon Finance, the World Bank, 2013). Moreover, the indicator used by the team—“planned signed reductions”—has no meaning in the CDM lexicon or project cycle, which has very specific steps and requirements for each step.⁷⁷ In interviews with IEG, carbon finance specialists found the use of CDM “planned signed reductions” an odd indicator for national climate change policy implementation. A more meaningful indicator for Brazil’s progress in climate change mitigation would have been, for example, reductions in national emissions, which are inventoried.⁷⁸ Finally, “mainstreaming” climate change should include adaptation, which should be a priority for Brazil, as well as mitigation, but there is no indicator for adaptation.

5.60 **In a number of cases, the Bank team did not fully and accurately report important monitoring information in the ICR**, even when the information was provided as input to the ICR by the implementing agencies. Specific examples are discussed in the Quality of Supervision part of Section 5 above. The lack of candor contributes to a misleading representation of the achievements of the operation.

5.61 **Overall, Monitoring and Evaluation is rated Negligible.**

6. Lessons

6.1 **Certain aspects of the World Bank’s policies and guidance on Development Policy Lending should be clarified.** The lack of clarity with regard to certain aspects of the

⁷⁶ <http://www.mma.gov.br/governanca-ambiental/portal-nacional-de-licenciamento-ambiental/licenciamento-ambiental/compet%C3%A2ncias-para-o-licenciamento>

⁷⁷ See UNFCCC: <http://cdm.unfccc.int/Projects/pac/index.html>

⁷⁸ See Ministry of Science, Technology and Innovation, Brazil, 2013: http://www.mct.gov.br/upd_blob/0226/226578.pdf

World Bank’s OP 8.60 and associated guidance notes led to confusion on the part of the World Bank team, the Borrower, and civil society, as described at various points in this evaluation. The following questions governing the design, implementation and evaluation of DPLs should be clarified:

- According to the official interpretation, all lending is fungible, and the government can do whatever it wants with the money, so there is no connection between the DPL and the money that the government on-lent to BNDES. This is inconsistent with the common-sense view of the money being transferred to BNDES to complement their disbursements. There is a reputational risk to the Bank in such a case, particularly in relation to the potential environmental and social impacts of the financing. Such impacts are not covered by OP 8.60, which addresses only the potential impacts of policy reforms.
- The requirements for monitoring and evaluation of potentially adverse social and environmental impacts of policies supported under DPLs are also not clear. While those impacts and mitigation mechanisms are supposed to be identified in the Program Document, the requirements on how to monitor them after the reforms are put in place and how to evaluate them in the ICR are not clear.

6.2 Particularly for DPLs focused on reforms in a sector—rather than on macro-economic stability—the impacts of the actions supported can often not be adequately perceived within the short timeframe of the loan, making monitoring and evaluation of outcomes difficult. The tight deadline for submitting an ICR after closure of an operation often does not allow for additional outcome evidence to be available and collected. It would be preferable to require that DPL operations wait for a reasonable period either before closing or before producing an ICR—at least one year—in order to allow for adequate monitoring and evaluation.

6.3 Back-loading of reforms in a DPL programmatic series can increase the risk of later loans in the series being canceled without full realization of the objectives of the series. This appears to be the case with the SEM DPL. “Back-loading” refers to the practice of placing reforms that are more meaningful and have greater value-added—but are also often more difficult—later in a DPL series.⁷⁹ In this regard, the SEM DPL does not appear to have benefitted from the lessons of the earlier Brazil environmental DPL, the 2004 Env PRL, which was planned as a three-loan programmatic series, but was also canceled after the first loan.

6.4 In future, when attempting to support reforms in state-owned banks like BNDES that finance both public and private-sector investments, it will be important to take a “One World Bank Group” approach. BNDES combines characteristics of the World Bank/IBRD and IFC: it lends both for large public sector infrastructure projects, as

⁷⁹ For example, a “back-loaded” DPL series would typically have actions related to carrying out a study or drafting a law under loan/tranche 1, approving a law under loan/tranche 2, and implementing the loan under loan 3. For a law to have any impact, it has to be effectively implemented, but this is typically more difficult than drafting it.

well as to the private sector. IFC was engaged in high-level discussions with BNDES on improving their environmental and social safeguards—including a visit to BNDES by IFC’s then-Vice President for Business Advisory Services—at the time the Bank began preparation of the SEM DPL. They were encouraging BNDES to adopt the Equator Principles, derived from IFC’s Performance Standards, as other Brazilian banks have. By working together with the IFC, the World Bank could have helped ensure that BNDES adopted environmental and social standards that were considered as good practice internationally, and that were appropriate for both public and private investments. It also would have saved BNDES from having to “re-invent the wheel” by developing its own approach. This is consistent with IEG’s often-repeated assertion that the IFC and the World Bank should work together more to increase development effectiveness.

6.5 The level of government targeted by DPL reforms should be consistent with the outcomes intended and the client country’s institutional structure. Brazil has a federal system of government. Although many national-level laws and policies are approved by the central government, implementation depends in large part on lower levels of government—particularly states and municipalities. That was the case with a number of the policy areas targeted by the SEM DPL, including improving the environmental licensing process, improving water quality, and implementing wastewater and solid waste investments. By limiting itself to federal-level implementing agencies, the SEM DPL had reduced scope to influence the achievement of objectives related to these policy areas.

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Annex A: Basic Data Sheet

FIRST PROGRAMMATIC DEVELOPMENT POLICY LOAN FOR SUSTAINABLE ENVIRONMENTAL MANAGEMENT (LOAN IBRD-76600)

Key Project Data (amounts in US\$ million)

	Appraisal estimate	Actual or current estimate	Actual as % of appraisal estimate
Total project costs	1,300.0	1,300.0	100
Loan amount	1,300.0	1,300.0	100
Cofinancing			
Cancellation			

Cumulative Estimated and Actual Disbursements

	<i>FY09</i>	<i>FY10</i>	<i>FY11</i>
Appraisal estimate (US\$M)	800,000.0	1,300.0	1,300.0
Actual (US\$M)		797,750.0	1,297,750.0
Actual as % of appraisal		61.3	99.8
Date of final disbursement: 12/08/2010			

Project Dates

	Original	Actual
Initiating memorandum	11/11/2008	
Negotiations	12/18/2008	
Board approval	03/05/2009	
Signing		
Effectiveness	05/12/2009	06/21/2010
Closing date	12/31/2010	12/31/2010

Staff Inputs (staff weeks)

Stage	Staff Time and Cost (Bank budget only)	
	Staff Weeks (number)	US\$ 000s (including travel and consultant costs)
Lending		
FY05	1	0.47
FY06	1	10.13
FY07	1	2.37
FY08	15	109.45
FY09	38	344.74

	Total:	55	467.16
Supervision/ICR			
FY09		3	42.10
FY10		15	132.27
FY11		12	196.60
	Total:	30	370.97

Task Team Members

Other Project Data

Name	Title (at time of appraisal and closure, respectively)	Unit	Responsibility/Specialty
Lending			
Marcos T. Abicalil	Sr Water & Sanitation Spec.	LCSUW	
Alexandre Moreira Baltar	Water Resources Mgmt. Spec.	LCSEN	
Garo J. Batmanian	Sr Environmental Spec.	LCSEN	
Regis Thomas Cunningham	Sr Financial Management Spec.	LCSFM	
Estanislao Gacitua-Mario	Lead Social Development Spec.	LCSSO	
Augusto Juca	Sr. Energy Specialist	LCSSD	
Mark R. Lundell	Sector Leader	LCSSD	
Isabella Micali Drossos	Senior Counsel	LEGLA	
Alberto Ninio	Chief Counsel	LEGEN	
Miguel-Santiago da Silva Oliveira	Senior Finance Officer	CTRFC	
Paula Silva Pedreira de Freitas	Operations Analyst	LCSEN	
Luis R. Prada Villalobos	Senior Procurement Specialist	MNAPR	
Paul Procee	Senior Infrastructure Spec.	EASCS	
Cristina Oliveira Roriz	Operations Analyst	LCSRF	
Jennifer J. Sara	Sector Manager	EASVS	
Eduardo Martin Urdapilleta	Sr Financial Economist	LCSPF	
Supervision/ICR			
Marcos T. Abicalil	Sr Water & Sanitation Spec.	LCSUW	
Alexandre Moreira Baltar	Water Resources Mgmt. Spec.	LCSEN	
Garo J. Batmanian	Sr Environmental Spec.	LCSEN	
Fernando Andres Blanco Cossio	Senior Economist	AFTP4	
Estanislao Gacitua-Mario	Lead Social Development Spec.	LCSSO	
Daniella Ziller Arruda Karagiannis	Program Assistant	LCC5C	
Alberto Ninio	Chief Counsel	LEGEN	
Paula Silva Pedreira de Freitas	Operations Analyst	LCSEN	
Paul Procee	Senior Infrastructure Spec.	EASCS	
Cristina Oliveira Roriz	Operations Analyst	LCSRF	
Jennifer J. Sara	Sector Manager	EASVS	
Eric Shayer	Sr Environmental Spec.	CESI1	
Barbara Farinelli	Economist	LCSSD	
Abdoulaye Sy	Economist	LCSSD	

Borrower/Executing Agency:

Follow-on Operations

<i>Operation</i>	<i>Credit no.</i>	<i>Amount (US\$ million)</i>	<i>Board date</i>

Annex B: SEM DPL Development Policy Matrix

Policy Area	Policy Actions – DPL I: First Tranche Prior Actions	Policy Actions – DPL I: Second Tranche Release Conditions	DPL II - Triggers	Outcome Indicators for Program for 2011
<i>Sub-objective A: Improving the Overall Brazilian Environmental Management System</i>				
<p>Improve effectiveness of government agencies in implementing mandated Brazilian environmental and social management procedures</p>	<p>MMA and its affiliates restructured to support the implementation of environmental policies, processing of environmental licenses and enforcement of environmental regulations through: i) the establishment of a new institutional structure for MMA; ii) the creation of the National Biodiversity Management Institute (<i>Institute Chico Mendes – ICMBio</i>) and the Brazilian Forest Service (<i>SFB</i>); iii) the restructuring of IBAMA to focus on environmental licensing and enforcement; and, iv) increase staffing of MMA and IBAMA.</p>		<p>Formal selection and hiring processes to fill 600 vacancies to staff ICMBio and AFB concluded.</p>	<p>Improve the environmental licensing process using as a proxy the decrease by 20 percent the number of judicially challenged licenses by Public Prosecutor's Office compared with the number of environmental licenses issued at the Federal level during 2002-2007.</p>
				<p><i>Revised: Number of environmental licenses issued per year at the Federal level.</i></p>

<p>Mainstream Climate Change in public and private sector investments</p>	<p>· National Climate Change Action Plan drafted by the Inter-ministerial Committee for Climate Change and submitted for public consultation</p>	<p>· National Climate Change Action Plan, approved by the Inter-ministerial Committee, after public consultation</p>	<p>BNDES clean development and carbon funds programs (in equity investment funds) approved and operating in accordance with the National Climate Change Action Plan and its New Environmental and Social Institutional Policy.</p>	<p>Increase planned signed reductions of 20 million tons of CO₂ equivalent/year from: (i) CDM projects; (ii) other selected BNDES projects; and (iii) other actions monitored under the National Climate Change Action Plan.</p>
<p>Improve the effectiveness of environmental and social management systems in BNDES and other financial institutions</p>	<p>· Revised Green Protocol approved and signed by GOB and all federal public Brazilian Banks, including BNDES</p>	<p>· New Environmental and Social Institutional Policy, which includes the provisions of the Green Protocol, is approved by BNDES Board of Executive Officers and applied to BNDES' directly financed operations</p>	<p>BNDES' new Environmental and Social Institutional Policy applied to its full portfolio through procedures specified differentially for each major type of operation.</p>	<p>100 percent of the projects submitted directly to BNDES screened, approved and monitored according to the new Environmental and Social Institutional Policy.</p>

Sub-objective B: Integrating Principles of Sustainable Development in Key Sectors

B.1. Natural Resources Management and Conservation

<p>Improve sustainability of natural resources management</p>	<ul style="list-style-type: none"> Forest legal framework strengthened through the enactment of three key legal acts: Public Forest Management Law which promotes forest management in public land; Atlantic Forest Law which promotes conservation of this highly endangered biome; and, Resolution 3545 of the National Monetary Council that regulates bank lending to agribusiness 	<ul style="list-style-type: none"> BNDES programs on forest management, forest plantations, agriculture and associated processing industries restructured to provide incentives for long-term forest management and sustainable land use, and three sub-sectoral guidelines and the REFLORESTA Program are designed to ensure coherence with the new forest legal framework and BNDES' new Environmental and Social Institutional Policy 		<p>Sustainable Natural Forest Management of private and public areas expanded from 27,000 km² to 50,000².</p>
<p>Improve Amazon regional planning for sustainable development and reduced deforestation</p>	<ul style="list-style-type: none"> National Sustainable Amazon Program (PAS) approved by GOB and the governors of the Amazon region 		<p>Ecological Economic Zoning at the macro scale (1 : 1 million) of the Amazon Region, based on PAS, concluded.</p>	<p>Reduction in average annual rate of deforestation un the Amazon for the period 2008-1020 to 20 percent below 2005-2007 average annual rate of deforastation (14,800 km²).</p>

<p>Improve Rainforest Conservation</p>	<ul style="list-style-type: none"> Presidential decree regulating the Amazon Fund issued, to support grant activities that promote sustainable use of natural resources, rehabilitated degraded areas or, prevent/combat deforestation 		<p>Amazon Fund operational policies approved by its managing committee (COFA), Amazon Fund operational, and Presidential decree regulating the Atlantic Forest Fund, including its operational mechanisms, issued.</p>	<p>An area of 500,000 hectares receiving support from the Amazon and Atlantic Forest Funds for activities that promote sustainable use of natural resources and biodiversity conservation, rehabilitate degraded areas or, prevent/ combat deforestation.</p>
<p><i>B.2. Water Resource Management</i></p>				
<p>Improve management and quality of water resources</p>	<ul style="list-style-type: none"> The Water Resources National Plan (PNRH) and the National Water Quality Evaluation Program (PNQA) approved by GOB 	<ul style="list-style-type: none"> ANA Signs cooperation agreements with five states for the purpose of implementing the National Water Quality Evaluation Program (PNQA) at the state level 	<p>ANA sigs cooperations agreements with additional five states for the purpose of implementing the National Water QualityEvaluation Program (PNQA) at the state level.</p>	<p>Water quality monitoring and evaluation for 90,000 km of main rivers being executed and publicly released on a regular basism with results used for prioritization of investments for improved water quality.</p>
<p><i>B.3. Environmental Sanitation</i></p>				

Reduce environmental impacts through improved water, wastewater treatment, and solid waste services	<ul style="list-style-type: none"> Law 11,445/07 on National Guidelines for Water Supply and Environmental Sanitation enacted 	<ul style="list-style-type: none"> BNDES ensures that programs for water and environmental sanitation are coherent with the new legal framework and with BNDES' new Environmental and Social Institutional Policy 	<p>PRODES rules and regulations governing payments for wastewater treatment updated and approved by ANA, in accordance with the new legal framework. BNDES' new Environmental and Social Institutional Policy.</p>	<p>Projected reduction of 110,000 tons of pollution loads (tons of bio-chemical oxygen demand - BOD per year) discharged into rivers: i) from approved BNDES environmental sanitation projects reviews under new BNDES social and environmental guidelines; and, ii) from the updated PRODES program.</p>
<i>B.4. Renewable Energy</i>				
Promote renewable energy potential	<ul style="list-style-type: none"> Integrated Environmental Assessment (IEA) methodology for improving the environmental and social sustainability of the hydroelectric sector included in the handbook of the Electricity Sector's inventory and applied in ten river basins 	<ul style="list-style-type: none"> BNDES ensures that programs for energy efficiency and renewable energy are coherent with BNDES' new Environmental and Social Institutional Policy 	<p>BNDES six sub-sectoral guidelines for renewable energy designed to ensure coherence with BNDES new Environmental and Social Institutional Policy.</p>	<p>60,000 tera joules per year (TJ/year) to be produced by renewable energy sources or saved by energy efficiency projects supported by BNDES, once they are fully operational.</p>

Source: World Bank Program Document, 2009

Annex C: Summary of outcome indicators and achievements as reported in the World Bank's ICR*

Policy Area	Outcome Indicators for Program for 2011	Achievements as Reported in the Bank's ICR
<i>Sub-objective A: Improving the Overall Brazilian Environmental Management System</i>		
Improve effectiveness of government agencies in implementing mandated Brazilian environmental and social management procedures	Improve the environmental licensing process using as a proxy the decrease by 20 percent the number of judicially challenged licenses by Public Prosecutor's Office compared with the number of environmental licenses issued at the Federal level during 2002-2007.	Estimated 30 percent judicially challenged licenses by Public Prosecutor's Office.
	<i>Revised: Number of environmental licenses issued per year at the Federal level.</i>	<i>Revised: From 375 to 475</i>
Mainstream Climate Change in public and private sector investments	Increase planned signed reductions of 20 million tons of CO ₂ equivalent/year from: (i) CDM projects; (ii) other selected BNDES projects; and (iii) other actions monitored under the National Climate Change Action Plan.	19,762,768 tons of CO ₂ equivalent/year.
Improve the effectiveness of environmental and social management systems in BNDES and other financial institutions	100 percent of the projects submitted directly to BNDES screened, approved and monitored according to the new Environmental and Social Institutional Policy.	100 percent.
<i>Sub-objective B: Integrating Principles of Sustainable Development in Key Sectors</i>		
<i>B.1. Natural Resources Management and Conservation</i>		

Improve sustainability of natural resources management	Sustainable Natural Forest Management of private and public areas expanded from 27,000 km ² to 50,000 ² .	33,415 km ² in private and public land.
Improve Amazon regional planning for sustainable development and reduced deforestation	Reduction in average annual rate of deforestation in the Amazon for the period 2008-2010 to 20 percent below 2005-2007 average annual rate of deforestation (14,800 km ²).	Annual average rate in 2008-2010 is 8,942 km ² , a decrease of the annual average rate of deforestation of 40.3%,
Improve Rainforest Conservation	An area of 500,000 hectares receiving support from the Amazon and Atlantic Forest Funds for activities that promote sustainable use of natural resources and biodiversity conservation, rehabilitate degraded areas or, prevent/ combat deforestation.	20,250 km ² .
<i>B.2. Water Resource Management</i>		
Improve management and quality of water resources	Water quality monitoring and evaluation for 90,000 km of main rivers being executed and publicly released on a regular basis with results used for prioritization of investments for improved water quality.	116,141 km.
<i>B.3. Environmental Sanitation</i>		
Reduce environmental impacts through improved water, wastewater treatment, and solid waste services	Projected reduction of 110,000 tons of pollution loads (tons of biochemical oxygen demand - BOD per year) discharged into rivers: i) from approved BNDES environmental sanitation projects reviews under new BNDES social and environmental guidelines; and, ii) from the updated PRODES program.	141,280 tons of pollution loads.
<i>B.4. Renewable Energy</i>		

Promote renewable energy potential	60,000 terajoules per year (TJ/year) to be produced by renewable energy sources or saved by energy efficiency projects supported by BNDES, once they are fully operational.	50,102 TJ/year
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Source: World Bank Program Document and ICR. * Note that the information contained in this table was transposed as accurately as possible from the relevant Bank documents, and do not reflect IEG's assessment.

Annex D: Poverty and Social Impacts, and Environmental, Forests, and other Natural Resources Aspects of DPLs

The World Bank's environmental and social safeguard policies are designed to ensure that potentially adverse impacts of Bank-supported programs on the environment and people are avoided or minimized, and unavoidable adverse impacts are mitigated. When applied correctly, they also help to reduce risks to the Bank's reputation.

Under the World Bank's OP 8.60 governing DPLs, the safeguards and fiduciary requirements for typical investment operations do not apply. The reasoning in both cases is essentially the same: DPLs are for general (in this case national) budget support, budget resources are fungible, and expenditures are too diffuse to be tracked or to have a significant footprint through any specific investment. This does not however mean that there are no risks or impacts related to these issues.

As noted above, when the operation P095205 was proposed as a Financial Intermediary Loan to BNDES, commenters on the Concept Notes raised serious doubts regarding the ability and willingness of BNDES to meet World Bank safeguards and fiduciary requirements on the investments financed by the loan, and also about the possibility of adhering to World Bank restrictions on the subsidization of interest rates under OP 8.30 on FILs. After all, one of the main justifications for the operation was the need to improve BNDES's environmental and social safeguards. After the instrument for the loan was switched from a FIL to a DPL, those responsible were able to achieve the same goal of providing financing for BNDES's investments, but without having to apply any of the World Bank's requirements on environmental and social safeguards, fiduciary oversight, or interest rate subsidization.

Although the World Bank's definition of environmental and social "safeguards" does not technically apply to the financing of DPLs, the "Design of Development Policy Operations" section of OP 8.60 does include requirements for determining whether the policies supported by DPLs could have significant environmental or social consequences. These requirements are described in paragraphs 10 and 11 of the OP, titled "Poverty and Social Impacts," and "Environmental, Forests, and other Natural Resources Aspects." (World Bank Operational Manual 2012) In both cases, the OP states: "If there are significant gaps in the analysis of shortcomings in the borrower's systems, the Bank describes in the Program Document how such gaps or shortcomings would be addressed before or during program implementation, as appropriate." The potential environmental and social consequences and the borrower's systems for mitigating them are supposed to be described in the Program Document, and any potential shortcomings are supposed to be identified along with measures for addressing them before or during implementation.

Annex E: Comparison of the Equator Principles with Brazil's Green Protocol and BNDES's environmental and social policy

This section compares the provisions of these three sets of policies. The information used for the Equator Principles was based on the initiative's website.⁸⁰ The information for the Green Protocol was based on the protocol's document available in BNDES's website. The information regarding BNDES was based on the institution's website and on BNDES's resolutions 2023/10 and 2025/10. The latter two carry different names but are very similar in content.

Equator Principles

“The [Equator Principles](#) (EPs) are a risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk in projects and is primarily intended to provide a minimum standard for due diligence to support responsible risk decision-making.

The EP apply globally, to all industry sectors and to four financial products 1) Project Finance Advisory Services 2) Project Finance 3) Project-Related Corporate Loans and 4) Bridge Loans. The relevant thresholds and criteria for application is described in detail in the Scope section of the EP.

Equator Principles Financial Institutions (EPFIs) commit to implementing the EP in their internal environmental and social policies, procedures and standards for financing projects and will not provide Project Finance or Project-Related Corporate Loans to projects where the client will not, or is unable to, comply with the EP.

While the EP are not intended to be applied retroactively, EPFIs apply them to the expansion or upgrade of an existing project where changes in scale or scope may create significant environmental and social risks and impacts, or significantly change the nature or degree of an existing impact.

Currently [78 adopting financial institutions \(77 EPFIs and 1 Associate\)](#) in 35 countries have officially adopted the EPs, covering over 70 percent of international Project Finance debt in emerging markets”.

Green Protocol

⁸⁰ Since the time of the SEM DPL and this analysis, the EPs were further strengthened. See: <http://www.equator-principles.com/index.php/ep3>

“The Protocol of Intentions on Environmental and Social Responsibility, informally known as the Green Protocol is a charter of principles for sustainable development signed by official banks in 1995 (Banco do Brazil, Banco do Nordeste, Banco da Amazônia, BNDES, Caixa Economica Federal and Banco Central Brazil) in which they propose to undertake policies and practices that are always and increasingly in harmony with the objective to promote development that does not compromise the needs of future generations.

In May 2008, as a result of discussions on the impacts of deforestation in the Amazon involving both government and federal banks, it was established an informal working group to review and revision of the Green Protocol. The group was composed of representatives from the Ministry of Environment, Ministry of National Integration, Ministry of Finance, Bank of Northeast Brazil, the National Bank of Economic and Social Development, Banco da Amazonia, Caixa Economica Federal and Banco do Brazil.

The result of this effort was to propose a new wording which argues that banks can play a role in inducing fundamental pursuit of sustainable development that assume responsibility for environmental preservation and continuous improvement in social welfare. To do so, they are provided principles that involve the commitment of banks: the promotion of sustainable development, the environmental assessment of projects to be funded, the eco-efficiency of administrative practices, the development of policies and practices aimed at sustainability, and forecasting mechanisms governance and monitoring of commitments made by signatories”⁸¹.

BNDES

“Economic development on sustainable bases and support for environmental conservation initiatives and for investments of a social nature are part of the BNDES’ commitment to present and future generations.

The BNDES not only respects social and environmental principles when granting credit, but also maintains its commitment to providing adequate funding to foster socially and environmentally sustainable efforts.

Fostering sustainable development, proactively and in all the projects supported, is the main objective of the Bank’s Socioenvironmental Policy, focusing on the integration of economic, social, environmental and regional aspects.⁸²”

⁸¹ <http://www.bb.com.br/portalbb/page251,8305,3926,0,0,1,6.bb?codigoNoticia=28467>

⁸²

http://www.bndes.gov.br/SiteBNDES/bndes/bndes_en/Institucional/Social_and_Environmental_Responsibility/environmental_policy.html

BNDES's present Social and Environmental Policy and BNDES's Social and Environmental Responsibility were signed in November 2010 according to BNDES's resolution 2023/10 and 2025/10.

Equator Principle as a global reference

The criteria used in this analysis took as reference the Equator Principles. During “the last 10 years, the Equator Principles or EPs have emerged as the industry standard for financial institutions to assess social and environmental risk in the project finance market. The EPs – which are based on the International Finance Corporation or IFC's performance standards on social and environmental sustainability and the World Bank's environmental, health and safety guidelines – have significantly increased attention on social/community responsibility, including as related to indigenous peoples, labor standards, and consultation with locally affected communities. They have also promoted convergence in the market: at present, 79 financial institutions in 32 countries have officially adopted the EPs, reportedly covering over 70% of international project finance debt in emerging markets”⁸³

1. Review and Categorization of Investments

Equator Principles: According to the Equator Principles III (third version) “when a Project is proposed for financing, the EPFI [Equator Principles Financial Institution] will, as part of its internal environmental and social review and due diligence, categorize it based on the magnitude of its potential environmental and social risks and impacts”. The categories are A to C, having A as the projects with highest risks of potential impacts and C with the lowest or minimal adverse impacts.

Green Protocol: The protocol's guideline is “to consider the impacts and socio-environmental costs of asset management (owned and Third party) and the analysis of customer and investment risks based on Brazil's National Environment Policy, subject to the following : (i) The funding of potential polluter projects or effectively using natural resources in the production process should be conditioned to the environmental legislation and licensing (ii) Incorporate socio-environmental criteria in the process of analyzing and conceding credit for investment projects, considering the magnitude of their impacts and risks and the necessity of mitigating and compensating measures; (iii) Carry out socio-environmental analysis of clients whose activities require environmental licensing and / or representing significant adverse social impacts (iv) to take into consideration during the credit analysis the recommendations and restrictions mentioned in the agro-ecological zoning or, preferably, the ecological-economic zoning during the credit analysis”. The Green Protocol does not provide specific criteria for the categorization for its projects.

⁸³ <https://blogs.law.harvard.edu/corpgov/2013/06/18/equator-principles-iii-enters-into-force-this-june/>

BNDES: According to the BNDES's environment and social policy "the categorization of environmental and social risks will be defined according to the sector and type of activity, its location, attributes and the magnitude of environmental impacts inherent to the project. The Environmental category established for a certain investment will determine the procedures during the Analysis and Monitoring phases of the operation." The categories are A to C, having A as the projects with highest risks of potential impacts and C with the lowest or minimal adverse impacts.

2. Environmental and Social Assessment

Equator Principles: Based on the Equator Principle III "for all Category A and Category B Projects, the Equator Principle Financial Institutions (EPFI) will require the client to conduct an Assessment process to address, to the EPFI's satisfaction, the relevant environmental and social risks and impacts of the proposed Project. The Assessment Documentation should propose measures to minimize, mitigate, and offset adverse impacts in a manner relevant and appropriate to the nature and scale of the proposed Project".

Green Protocol: According to the protocol's guidelines there are no suggested pre-established procedures to assess environment and social impacts of the projects. Still the protocol suggests that "all activities should consider the impacts and socio-environmental costs in asset management (own and third party) and the analysis of customer and investment's risks based on Brazil's National Environment Policy on Environment. This includes incorporating socio-environmental criteria in the process of analyzing and conceding credit for investment projects, considering the magnitude of their impacts and risks and the necessity of mitigating and compensating measures. Last, for investments with potential social and environmental risks the protocol suggests the compliance with the environmental legislation".

According to BNDES's website in order "to grant financial assistance, the following are respected: applicable legislation; the beneficiary's policy of social and environmental responsibility; environmental compliance; environmental risk of the undertaking, in addition to social and environmental practices that raise the level of competitiveness of organizations and economic sectors and contribute to the improvement of social and environmental factors, not only of undertakings, but also of the country."

3. Applicable Environmental and Social Standards

Equator: According to the Equator Principles III, "the Assessment process should, in the first instance, address compliance with relevant host country laws, regulations and permits that pertain to environmental and social issues. EPFIs operate in diverse markets: some with robust environmental and social governance, legislation systems and institutional capacity designed to protect their people and the natural environment; and some with evolving technical and institutional capacity to manage environmental and social issues. For projects in countries with robust environmental regulation and governance, the process evaluates

compliance with the relevant country law and for project in countries without a robust environmental governance, the process evaluates compliance with the then applicable IFC Performance Standards on Environmental and Social Sustainability (Performance Standards) and the World Bank Group Environmental, Health and Safety Guidelines (EHS Guidelines)”

Green Protocol: Based on the protocol’s guidelines “the environmental assessments will be taken under the guidance of Brazil’s National Environmental Policy”. The protocol does not mention the environmental & social standards to be applied in investments abroad.

BNDES: According to the BNDES’s environmental and social policy, the institution requires environmental obligations established by Brazilian law. There is no information regarding environmental and social assessments applied to BNDES projects in other countries.

4. Environmental and Social Management System

Equator Principles: According to the Equator Principle’s III document “for all Category A and Category B Projects, the EPFI will require the client to develop or maintain an Environmental and Social Management System (ESMS). Further, an Environmental and Social Management Plan (ESMP) will be prepared by the client to address issues raised in the Assessment process and incorporate actions required to comply with the applicable standards. Where the applicable standards are not met to the EPFI’s satisfaction, the client and the EPFI will agree an Equator Principles Action Plan (AP). The Equator Principles AP is intended to outline gaps and commitments to meet EPFI requirements in line with the applicable standards”

Green Protocol: The protocol’s orientation is “to guide the borrower in order to induce the adoption of production practices and sustainable consumption”.

BNDES’s environmental and social policy mentions that “the institution will promote and guide the adoption of preventive and mitigation of social and environmental impacts.” Still according to its website, BNDES “may, for example, recommend the project be revised; offer resources to strengthen mitigation measures to stimulate the achievement of social and environmental investments by the beneficiaries; and even refuse financial support due to non-compliance or social and environmental risks.”

5. Stakeholder Engagement

Equator Principles: According to the Equator Principles’ III document “for all Category A and Category B Projects, the EPFI will require the client to demonstrate effective Stakeholder Engagement as an ongoing process in a structured and culturally appropriate manner with Affected Communities and, where relevant, Other Stakeholders. For Projects with potentially significant adverse impacts on Affected Communities, the client will conduct an Informed Consultation and Participation process. The client will tailor its consultation

process to: the risks and impacts of the Project; the Project's phase of development; the language preferences of the Affected Communities; their decision-making processes; and the needs of disadvantaged and vulnerable groups. This process should be free from external manipulation, interference, coercion and intimidation".

Green Protocol: The protocol's orientation is "to inform, sensitize and continuously engage stakeholders in policy and sustainable practices of an institution by enabling the workforce to develop the skills necessary to implement the principles and guidelines of this protocol; to develop mechanisms for consultation and dialogue with stakeholders, and to publish annually the results of the implementation of the principles and guidelines set forth in this protocol." BNDES's environmental and social responsibility guidelines say that the institution will concentrate efforts to "develop partnerships and share experiences with other organizations in order to foster social and environmental responsibility and to strengthen transparency and dialogue among stakeholders while reinforcing citizen participation in public management";

6. Grievance Mechanism

Equator Principles: The Equator Principles III mention that "for all Category A and, as appropriate, Category B Projects, the EPFI will require the client, as part of the ESMS, to establish a grievance mechanism designed to receive and facilitate resolution of concerns and grievances about the Project's environmental and social performance. The grievance mechanism is required to be scaled to the risks and impacts of the Project and have Affected Communities as its primary user. It will seek to resolve concerns promptly, using an understandable and transparent consultative process that is culturally appropriate, readily accessible, at no cost, and without retribution to the party that originated the issue or concern. The mechanism should not impede access to judicial or administrative remedies. The client will inform the Affected Communities about the mechanism in the course of the Stakeholder Engagement process".

Green Protocol: The protocol's orientation is to develop mechanisms for consultation and dialogue with stakeholders. No mention is made of grievance mechanism in the protocol.

BNDES: Similarly to the green protocol, there is no guidance in this specific topic in the BNDES environmental social policy.

7. Independent Review

Equator Principles: The principle's document says that "for all Category A and, as appropriate, Category B Projects, an Independent Environmental and Social Consultant will carry out an Independent Review of the Assessment. For project-related corporate loans an Independent Review by an Independent Environmental and Social Consultant is required for Projects with potential high risk impacts including, but not limited to, any of the following:

(i) adverse impacts on indigenous peoples; (ii) Critical Habitat impacts; (iii) significant cultural heritage impacts and (iv) large-scale resettlement”.

Green Protocol: There is no reference to independent review in this protocol.

BNDES: Independent reviews are not mentioned in BNDES environmental and social policy.

8. Covenants

Equator Principles: According to the principle’s document “an important strength of the Equator Principles is the incorporation of covenants linked to compliance. For all Projects, the client will covenant in the financing documentation to comply with all relevant host country environmental and social laws, regulations and permits in all material respects”.

Green Protocol: The protocol does not mention the incorporation of covenants. Still, the protocol mentions that potential polluters projects or effectively using natural resources in the production process should be conditioned to legislation compliance.

BNDES: The BNDES does not mention the incorporation of covenants.

9. Independent Monitoring and Reporting

Equator: The Equator Principle’s document says that “to assess Project compliance with the Equator Principles and ensure ongoing monitoring and reporting after Financial Close and over the life of the loan, the EPFI will, for all Category A and, as appropriate, Category B Projects, require the appointment of an Independent Environmental and Social Consultant, or require that the client retain qualified and experienced external experts to verify its monitoring information which would be shared with the EPFI. On the Project-Related Corporate Loans For Projects where an Independent Review is required under Principle 7, the EPFI will require the appointment of an Independent Environmental and Social Consultant after Financial Close, or require that the client retain qualified and experienced external experts to verify its monitoring information which would be shared with the EPFI”.

Green Protocol:”No independent monitoring mechanism and report is mentioned in this protocol.

BNDES: Still and according to the BNDES’s social and environmental policy, BNDES will provide “internal socioenvironmental guides, assessment methodologies of beneficiaries, assessment of credit risk and monitoring and impact assessment of projects supported” .

However, the institution does not mention the use of an independent mechanism/consultant to monitor its projects.

10. Reporting and Transparency

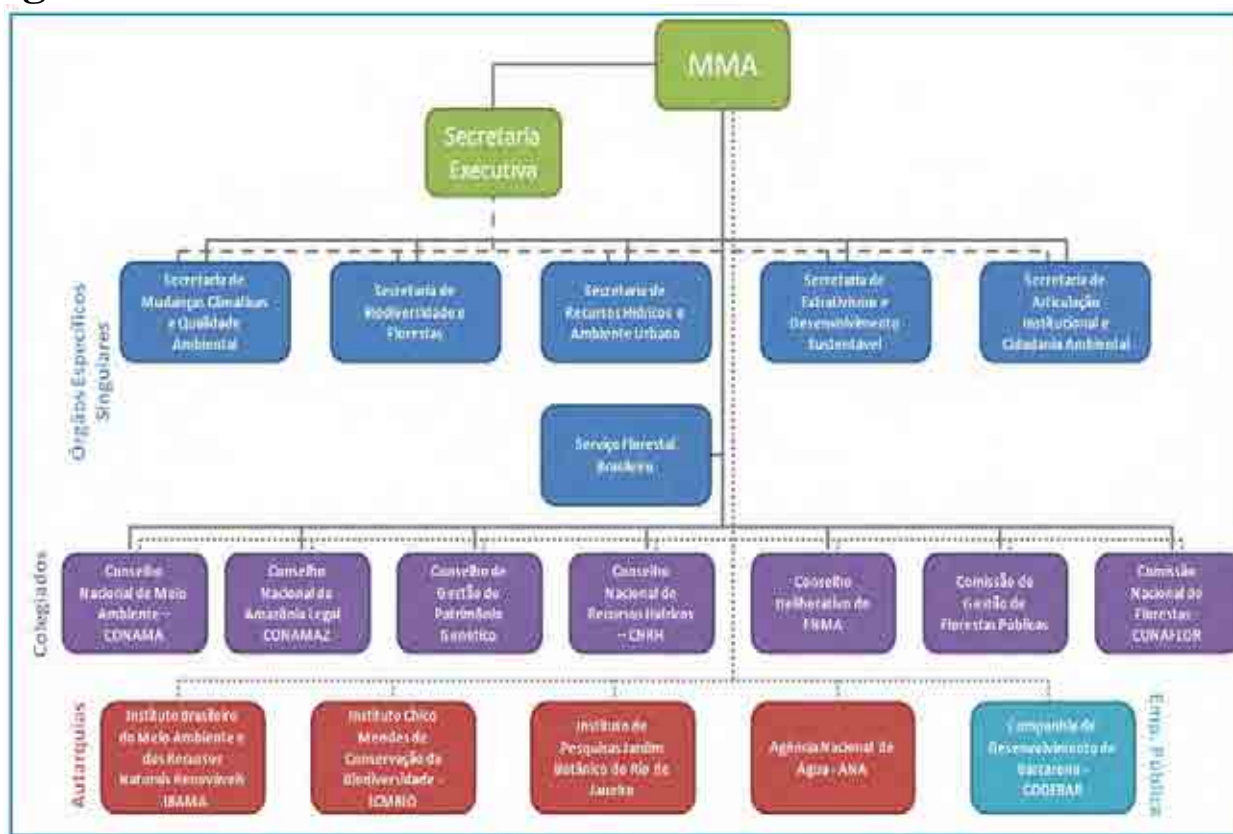
Equator Principles: According to the principles' document "for all Category A and, as appropriate, Category B Projects (1) The client will ensure that, at a minimum, a summary of the ESIA is accessible and available online; (2) The client will publicly report GHG emission levels (combined Scope 1 and Scope 2 Emissions) during the operational phase for Projects emitting over 100,000 tons of CO₂ equivalent annually. Refer to Annex A for detailed requirements on GHG emissions reporting".

"The EPFI will report publicly, at least annually, on transactions that have reached Financial Close and on its Equator Principles implementation processes and experience, taking into account appropriate Except in cases where the client does not have internet access".

Green Protocol: The protocol's orientation is "to commit to publish annually the results of the implementation of the principles and guidelines set forth in the protocol".

BNDES: The BNDES expressed intention is "To continuously expand and update knowledge concerning sustainable development as well as social and environmental responsibility while sharing information and experiences with beneficiaries, financial institutions and other organizations, seeking dialogue and fostering the integration of efforts to strengthen the approach to social and environmental dimensions as a strategic issue. Still, according to BNDES' social and environmental responsibility the institution considers "ethics and transparency as the pillars of relations with all stakeholders, ensuring dialogue and accounting for its decisions and efforts" However there is no expressed commitments on annual reports or on individual projects.

Annex F: Organization of Brazil’s Federal Ministry of Environment and related Agencies



Legenda
 — Subordinação
 Vinculação
 - - - - - Supervisão e coordenação

Source: GEF Evaluation Office, 2012

Annex G: Project Information Available from BNDES's Website

Cliente	CNPJ	Descrição do Projeto	UF	Data da Contratação	Valor Contratado R\$	Porte da Empresa	Ramo/Gênero de Atividade	Área Operacional	Modalidade de Apoio
ESTADO DE SANTA CATARINA	8295122900176	CONTRIBUIR PARA O DESENVOLVIMENTO ECONÔMICO DO ESTADO DE SANTA CATARINA POR MEIO DO APOIO A EMPREENDIMENTOS PRODUTIVOS, SELECIONADOS POR UM OU MAIS EDITAIS, PARA A INCLUSÃO DE PESSOAS DE BAIXA RENDA.	SC	1/8/2013	10.000.000	ADMINISTRAÇÃO PÚBLICA DIRETA	COMERCIO E SERVIÇOS/ADMINISTRAÇÃO PÚBLICA	ÁREA AGROPECUÁRIA E DE INCLUSÃO SOCIAL	NÃO REEMBOLSÁVEL
PEDRA BRANCA S/A	1270999600198	IMPLANTACAO DE UM PARQUE EOLICO, COM CAPACIDADE INSTALADA TOTAL DE 30 MW, ENVOLVENDO MONTAGEM DE TURBINAS EOLICAS, CONSTRUÇÃO DA INFRAESTRUTURA E INSTALAÇÕES ELÉTRICAS.	BA	1/8/2013	50.654.100	GRANDE/MÉDIA-GRANDE	COMERCIO E SERVIÇOS/ELETRICIDADE E GÁS	ÁREA DE INFRA-ESTRUTURA	REEMBOLSÁVEL
SÃO PEDRO DO LAGO S/A	12709813000134	IMPLANTACAO DE UM PARQUE EOLICO, COM CAPACIDADE INSTALADA TOTAL DE 30 MW, ENVOLVENDO MONTAGEM DE TURBINAS EOLICAS, CONSTRUÇÃO DA INFRAESTRUTURA E INSTALAÇÕES ELÉTRICAS.	BA	1/8/2013	51.746.800	GRANDE/MÉDIA-GRANDE	COMERCIO E SERVIÇOS/ELETRICIDADE E GÁS	ÁREA DE INFRA-ESTRUTURA	REEMBOLSÁVEL
SETE GAMELEIRAS S/A	12710327000136	IMPLANTACAO DE UM PARQUE EOLICO, COM CAPACIDADE INSTALADA TOTAL DE 30 MW, ENVOLVENDO MONTAGEM DE TURBINAS EOLICAS, CONSTRUÇÃO DA INFRAESTRUTURA E INSTALAÇÕES ELÉTRICAS.	BA	1/8/2013	55.146.700	GRANDE/MÉDIA-GRANDE	COMERCIO E SERVIÇOS/ELETRICIDADE E GÁS	ÁREA DE INFRA-ESTRUTURA	REEMBOLSÁVEL
ESTADO DO MARANHÃO	0635446800180	VIABILIZAR A EXECUÇÃO DE PROGRAMAS DE DESENVOLVIMENTO INTEGRADO CONSTANTES DO PLANO PLURIANUAL E LEIS ORÇAMENTÁRIAS ANUAIS DO ESTADO DO MARANHÃO	MA	1/14/2013	1.001.340,520	ADMINISTRAÇÃO PÚBLICA DIRETA	COMERCIO E SERVIÇOS/ADMINISTRAÇÃO PÚBLICA	ÁREA DE INFRAESTRUTURA SOCIAL	REEMBOLSÁVEL
INFRAFERICA CONCESSIONÁRIA DO AEROPORTO DE BRASÍLIA S/A	1555902000186	AMPLIACAO, MANUTENÇÃO E EXPLORAÇÃO DOS 84 PRIMEIROS MESES DA CONCESSÃO DO AEROPORTO INTERNACIONAL DE BRASÍLIA, DENOMINADO PRESIDENTE JUSCELINO KUBITSCHEK, LOCALIZADO EM BRASÍLIA, DISTRITO FEDERAL, OBJETO DO EDITAL DO LEILÃO Nº 2/2012 DA ANAC, REALIZADO EM 06/02/12.	DF	1/14/2013	488.000.000	GRANDE/MÉDIA-GRANDE	COMERCIO E SERVIÇOS/TRANSPORTE AÉREO	ÁREA DE INFRA-ESTRUTURA	REEMBOLSÁVEL
FUNDAÇÃO CPQD CENTRO PESQ. DESENV. EM TELECOMUNICAÇÕES	02641663000110	DESENVOLVIMENTO DE UM CIRCUITO INTEGRADO (CHIP) DO TIPO ASIC (APPLICATION SPECIFIC INTEGRATED CIRCUIT) COM A FINALIDADE DE PROCESSADOR OTN (OPTICAL TRANSPORT NETWORK), PARA APLICAÇÕES EM REDES ÓPTICAS OPERANDO A 100 GBITS.	SP	1/16/2013	29.328.080	MPME	COMERCIO E SERVIÇOS/ATIV. MOBIL. PROFISSIONAL E ADM	ÁREA INDUSTRIAL	NÃO REEMBOLSÁVEL
ESTADO DE GOIÁS	01409580000138	FINANCIAMENTO NO ÂMBITO DO PRONINVEST, DE DESPESAS DE CAPITAL RELATIVAS A AMORTIZAÇÃO DO PRINCIPAL DA DÍVIDA DO ESTADO DE GOIÁS DECORRENTE DO CONTR. DE FINANCIAMENTO MEDIANTE A ABERTURA CREDITO N.10201371(PEF2), CELEBRADO COM BNDES EM 01/06/2010, E APOORTE PARA AUMENTO DE CAPITAL DA SANEAGO CONTRAPART	GO	1/18/2013	280.416,043	ADMINISTRAÇÃO PÚBLICA DIRETA	COMERCIO E SERVIÇOS/ADMINISTRAÇÃO PÚBLICA	ÁREA DE INFRAESTRUTURA SOCIAL	REEMBOLSÁVEL
CIA DE DESENVOLV. DOS VALES DO SÃO FRANCISCO E PARNABA	00399857000126	IMPLANTACAO DO ACORDO DE COOPERACAO ENTRE BNDES E MINISTERIO DA INTEGRACAO NACIONAL - ACOES EMERGENCIAS DE CONVIVENCIA COM A SECA.	E	1/22/2013	38.000.000	MPME	COMERCIO E SERVIÇOS/OUTRAS ATIV. SERVIÇOS	ÁREA AGROPECUÁRIA E DE INCLUSÃO SOCIAL	NÃO REEMBOLSÁVEL
DEPARTAMENTO NACIONAL DE OBRAS CONTRA AS SECAS	00043711000143	IMPLANTACAO DO ACORDO DE COOPERACAO ENTRE BNDES E MINISTERIO DA INTEGRACAO NACIONAL - ACOES EMERGENCIAS DE CONVIVENCIA COM A SECA.	E	1/22/2013	19.000.000	MPME	COMERCIO E SERVIÇOS/OUTRAS ATIV. SERVIÇOS	ÁREA AGROPECUÁRIA E DE INCLUSÃO SOCIAL	NÃO REEMBOLSÁVEL
ESTADO DE PERNAMBUCO	10571982000125	VIABILIZAR A EXECUÇÃO DO PROGRAMA MULTISSETORIAL DE APOIO A INTERIORIZAÇÃO DO DESENVOLVIMENTO SUSTENTÁVEL DO ESTADO DE PERNAMBUCO, COMPOSTO POR PROJETOS CONSTANTES DO PLANO PLURIANUAL E LEIS ORÇAMENTÁRIAS DO POSTULANTE.	PE	1/23/2013	423.613.990	ADMINISTRAÇÃO PÚBLICA DIRETA	COMERCIO E SERVIÇOS/ADMINISTRAÇÃO PÚBLICA	ÁREA DE INFRAESTRUTURA SOCIAL	REEMBOLSÁVEL
INSTITUTO ATLÂNTICO	04614281000123	DESENVOLVIMENTO DE UM SISTEMA ÓPTICO DE VARREDURA E LECTURA A LASER, BASEADO NA TECNOLOGIA DE FILMES FLUORESCENTES DE FOSFORO (PSPL), INCLUINDO UM SOFTWARE DE GERAÇÃO DE IMAGENS PARA USO EM RADIOLOGIA DIGITAL ODONTOLÓGICA, NO ÂMBITO DO BNDES FLUNDO TECNOLÓGICO - BNDES FUNTEC.	CE	1/24/2013	5.627.273	MPME	COMERCIO E SERVIÇOS/ATIV. MOBIL. PROFISSIONAL E ADM	ÁREA INDUSTRIAL	NÃO REEMBOLSÁVEL

Source: BNDES's website, direct contracts, posted by 8/10/2013, accessed on 10/1/2013; available at:

http://www.bndes.gov.br/SiteBNDES/bndes/bndes_pt/Institucional/BNDES_Transparente/Consulta_as_operacoes_do_BNDES/operacoes_diretas.html

Annex H: History and Timeline of the Operation

To properly evaluate the SEM DPL, it is important to understand the history and evolution of the operation, and the context in which it was prepared. Over the course of the preparation process, there were significant changes to the design—including to the financing instrument, the objectives, and the implementing agencies—that affected issues that arose later, including with the project logic, the delay in effectiveness, the inclusion of actions previously supported by the Env PRL, and the Bank’s reputation. Having the complete story up-front in one place makes it more coherent, and allows the report to refer back to certain aspects of it later in the evaluation where relevant. To summarize the many steps involved, a Timeline is provided at the end of this section.

According to documentation and World Bank management, preparation of the operation, with the same project ID (P095205) began with a World Bank mission to the headquarters of the National Bank for Economic and Social Development (BNDES) in Rio de Janeiro in November 2007. BNDES is a wholly owned Brazilian federal government development bank that finances both private and public investments, including large infrastructure projects, and whose annual lending has grown to several times that of the World Bank globally (BNDES 2013a; Colby 2012).⁸⁴ BNDES has also been increasing its presence internationally, particularly in other countries in Latin American, where it has become one of the most important financial institutions (Financial Times 2012, 2013b; BIZ 2011; Rainforest Foundation UK). It also finances investments in Africa, and recently opened its first representative office in Africa in order to expand its presence there (Financial Times 2010, 2012, 2013c, 2013d).⁸⁵

The World Bank memo with the objectives of the first mission referred to the operation as the “BNDES PAC-Env DPL”, and said that the World Bank team would “discuss with the main counterparts key design aspects of a potential PAC and environmental and social policy operation.” The “PAC” is the Portuguese acronym for the Brazilian government’s flagship Program for Accelerated Growth to support a major scaling-up and acceleration of infrastructure investment, and the World Bank team’s back-to-office report highlighted “BNDES as the primary channel for federal financing of this ambitious program,” and noted that as a result, “infrastructure lending is projected to more than double in 2007-2010.” At the same time, BNDES had received criticism nationally and internationally for the adverse environmental and social impacts of some of its investments, including in large slaughterhouse operations in the Amazon (see for example, Greenpeace 2009), and both the BNDES and World Bank teams recognized that there were significant weaknesses in BNDES’s approach to environmental and social safeguards (see Program Document). BNDES therefore wanted to make “the widespread strengthening of BNDES social and

⁸⁴ http://www.bndes.gov.br/SiteBNDES/bndes/bndes_en/Institucional/The_BNDES_in_Numbers/

⁸⁵ http://www.bndes.gov.br/SiteBNDES/bndes/bndes_en/Institucional/Press/Noticias/2013/20131206_africa.html

environmental screening policies and of their implementation throughout the BNDES portfolio” one of the main objectives of the operation.

According to the Country Director at the time, the World Bank consciously made a major change in direction at the time in deciding to engage in financing development in the Amazon. Apart from “boutique” environmental projects, the World Bank had not engaged in lending for economic development in the Amazon since the 1980s, and wanted to support investments in sectors like energy, agriculture, mining, and infrastructure, and to do it in an environmentally sustainable way. This was reflected in the World Bank’s 2008-2011 Country Partnership Strategy (CPS) for Brazil, which states that “...the Bank Group will reverse its de facto decades’ long withdrawal from the financing of development in the Amazon...” through what it called the Amazon Partnership Program, which among other things would support “...the planning and implementation of major energy and transport infrastructure...” (World Bank 2008). In view of BNDES’s extensive financing of projects in the Amazon, including in the context of the PAC, the planned World Bank loan to BNDES was seen as a manifestation of the new focus.

In March 2008, the Government of Brazil External Financing Commission (COFIEX), authorized the preparation of a “DPL/BNDES-World Bank” program. It specified that the loan would be in the amount of US\$ 1 billion, with BNDES as the only beneficiary, and the Federal Government of Brazil as the guarantor.

The DPL is the World Bank’s main instrument for providing a client country budget support through “rapidly disbursing policy-based financing”, and its use is governed by Operational Policy (OP) 8.60.⁸⁶ Although up until that point the idea was to prepare a DPL to BNDES, at the first formal stage in the World Bank project preparation cycle, the Concept Note issued for the operation in June 2008 was not for a DPL, but rather for a Financial Intermediary Loan (FIL) from the World Bank to BNDES titled the “BNDES Environmental and Social Sustainability Project” (though still with the same project code, P095205). The proposed US\$ 1 billion in financing was to be divided into two Components: (A) Strengthening of Environmental and Social Screening and Monitoring would provide US\$ 10 million for technical assistance and training to BNDES; and (B) a US\$ 990 million Line of Credit to finance BNDES investments in infrastructure and green lines of business.

The June 2008 Concept Note contains a section wherein the Bank team discusses alternative lending instruments that they had considered but rejected in favor of the FIL instrument. In particular, they discuss at some length the originally proposed DPL instrument—which the Bank team reports was the preferred option of BNDES—and why the Bank team rejected it for the operation. The June 2008 Concept Note states: “Though BNDES deemed that a policy based loan is the most appropriate instrument, this would require that either BNDES receive DPL funding through on-lending through the Federal Government or through a DPL directly to BNDES which would entail the granting of an exception to OP 8.60 by the World Bank’s Board” because, they explain, “OP 8.60...states that only Bank members and their sub-

⁸⁶ See World Bank Operational Manual, available at: <http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/EXTPOLICIES/EXTOPMANUAL/0,,menuPK:64142516~pagePK:64141681~piPK:64141745~theSitePK:502184,00.html>

national divisions may benefit from a DPL.” The Bank team expressed uncertainty about whether such an exception would be granted. The Concept Note further states that “an approach for this sort of operation in which the government borrows from the Bank and then on-lends to BNDES is not consistent with the financial requirements of the country.” In detailing why the government did not want to borrow from the Bank and on-lend to BNDES, the Concept Note refers to concerns by the client about the impact on the external debt statistics of the Federal government.

If this loan had continued to be prepared as a FIL as previously proposed, the operation would have had to adhere to the World Bank’s OP 8.30, which among other things requires removal of interest rate subsidies, application of World Bank policies on environmental and social safeguards, and financial management and procurement, to the loan and all sub-projects financed.⁸⁷ In their written comments, reviewers of the Concept Note were critical with regard to these requirements and BNDES’s ability to meet them, including because BNDES supplies loans at subsidized interest rates, and because one of the main rationales for the operation was that BNDES’s environmental and social policies were weak. The Bank team did not receive clearance to proceed with preparation of the operation at the Concept Review Meeting in June and, unusually, Decision Notes were never circulated. A revised Concept Note was issued—again for a FIL to BNDES—and a Concept Review Meeting held in September 2008. As reflected in the Decision Notes from the meeting issued on October 8, 2008, many of the same issues remained as in June, but nevertheless the Bank team received clearance to proceed with preparation of the FIL—with guidance to take care to address the many outstanding issues that remained, including with interest rate subsidies, safeguards, and procurement.⁸⁸

In the meantime, Lehman Brothers filed for bankruptcy in September of 2008, sparking the global financial crisis. Although we now know that Brazil emerged from the crisis relatively unscathed, at the time there was a great deal of uncertainty. In a special annex to the SEM DPL Program Document on “The Brazilian Economy in the World wide Financial Crisis”, the World Bank highlighted that “despite its increased resilience, Brazil has been hit hard by the global financial crisis,” which had “already shocked the real economy” (World Bank 2009). In response, the Brazilian Government “recently announced the adoption of countercyclical fiscal policies,” including through accelerated financing of infrastructure investments through BNDES.

In this context, the World Bank Annual Meetings were held from October 11-13, 2008. The BNDES President took the unusual step of traveling to Washington, DC to attend, and a meeting was organized between him, World Bank management, and Brazilian government officials to discuss the loan. According to World Bank team members and those familiar with the meeting, BNDES needed the money to help increase its lending, but they objected to requirements of OP 8.30 on FILs. According to those familiar with the discussions, BNDES objected to applying World Bank investment lending requirements—particularly restrictions on interest rate subsidies, the application of World Bank policies on environmental and social

⁸⁷ OP 8.30 was replaced by OP 10.00 - Investment Project Financing, in April 2013.

⁸⁸ The Decision Notes contained no recommendation to change the instrument to a DPL.

safeguards, and procurement rules—to the sub-investments financed. So agreement was reached to abandon the idea of a FIL, and instead pursue other options. Brazilian government representatives noted that since the earlier discussions on a DPL, its debt situation had improved (due in part to exchange rate depreciation; see Program Document Annex 9). Moreover, the Brazilian officials noted that there was still an unfinished environmental policy reform agenda in Brazil from the earlier Env PRL series, and that many of the 15 policy areas from that earlier environmental DPL could be revisited to help justify a broader national-level policy operation.

So agreement was reached that the Brazilian Federal Government would borrow the money from the World Bank in the form of an environmental DPL, and on-lend the money to BNDES. This allowed the World Bank, to prepare the loan and disburse the money much faster than would have been possible under a FIL—without having to deal with FIL requirements related to interest rate subsidies, environmental and social safeguards, and fiduciary oversight. It also allowed the Bank to reverse a steep decline in lending to Brazil, which had fallen from \$3.2 billion over 2005-6 to less than \$300 million in 2007. World Bank Brazil team members reported that they felt pressure from senior management, at the time, to increase lending.

From that point, the operation was prepared very quickly. In November 2008, another Concept Review Meeting was held, this time for the “Brazil: First Programmatic Development Policy Loan for Sustainable Environmental Management”, or SEM DPL. Although the project ID remained the same, a programmatic DPL was now proposed with nine policy areas and two objectives that were virtually the same as the objectives for the earlier Env PRL: improve the Brazilian environmental management system, and mainstream environment into targeted sectors. The lending amount for the series was doubled from that originally requested by COFIEX for the BNDES DPL and proposed by the World Bank in the FIL Concepts: from US\$ 1 billion to US\$ 2 billion. The Ministry of Environment was added as an implementing agency. Though the title and objectives no longer mentioned of BNDES, BNDES remained an implementing agency and a major focus of the reforms the SEM DPL aimed to support. Less than three months later, on February 3, 2009, the Program Document was finalized for the SEM DPL, and the SEM DPL 1 loan was approved by the World Bank Board on March 5, 2009. None of the World Bank documentation for the SEM DPL—including the Program Document, Loan Agreement, and the Implementation Completion and Results Report (ICR)—mentioned that all of the financing would be on-lent to BNDES, or that other instruments and beneficiary arrangements had been considered.

On the part of the Borrower, the plan to on-lend the SEM DPL funds to BNDES was made official through Interim Measure 450 of the Brazilian Presidency in December 2008, several months before the SEM DPL was submitted to the World Bank Board of Directors (Presidency of the Republic 2008; Senate of Brazil 2008).⁸⁹ The measure authorizes the Brazilian federal government to transfer up to US\$ 2 billion from the World Bank (IBRD) to

⁸⁹ Available at: http://www.planalto.gov.br/ccivil_03/_ato2007-2010/2008/Mpv/450.htm . The Presidency website notes that Interim Measure 450 was revoked once Law No. 11.943 was approved (thus the strikethroughs).

BNDES.⁹⁰ The Interim Measure later became Brazilian Law number 11.943, Article 15, which authorizes the transfer of up to the full US\$ 2 billion planned for the SEM DPL series, in the form of a loan from the Federal Government to BNDES (Presidency of the Republic 2009).⁹¹ The law is dated May 28, 2009, not long after the SEM DPL was approved by the World Bank Board, and specifies that “the Government will pass on resources to BNDES under the same financial terms offered by the IBRD.”

Despite the speed with which the SEM DPL was prepared and approved, and the argument made in the Program Document that “the aim of ensuring adequate credit resources to the financial system is a key motivating factor of the GOB’s request for the SEM DPL” in response to the financial crisis, the loan then lingered for more than a year before the Loan Agreement was signed and the operation made effective. Based on interviews and documentation, IEG understands that the delay was due to the need for the loan to be approved by the Brazilian Senate, which took some time. In preparation for the vote in the Senate, detailed official Legal Opinions (“Parecer” in Portuguese) were prepared by the Brazilian Treasury, Ministry of Finance, on March 31, 2010 (Parecer PGFN/COF/No. 589/2010) and by the Senate on April 20, 2010 (Parecer No. 410 of 2010). The Legal Opinions explain that all of the funds provided by the World Bank through the SEM DPL would be directed to BNDES. Moreover, they say that the Brazilian Treasury entered into the SEM DPL on behalf of BNDES, with the purpose of on-lending the funds to BNDES on the same terms that the World Bank lent the money to the Government of Brazil. The Legal Opinions also emphasize that because the money is being lent by the World Bank under its DPL instrument, the proceeds from the loans “are not allocated for investments.”

The SEM DPL was signed and became effective on June 21, 2010. The first tranche of US\$800 million was released on June 30, 2010, fifteen months later than what was planned when the loan was approved by the World Bank Board. The second tranche of US\$500 million was disbursed on December 15, 2010, seventeen months late. Thus the total amount of US\$1.3 billion for SEM DPL 1 was disbursed. Each of these disbursements was accompanied by a detailed contract signed between the Federal Government of Brazil and BNDES (Financing Contracts 544 and 590, respectively). The Financing Contracts were quite detailed and in many respects passed on to BNDES terms that were specified in the SEM DPL Legal Agreement signed between the Federal Government and the World Bank (IBRD), stating that the “financing must observe the same financial conditions agreed in the IBRD Loan Contract”, and integrating copies of the World Bank Loan Agreement and The General Conditions for IBRD Loan Contracts, including the interest rate and the amortization schedule. There was however at least one notable difference: each of the Brazilian Financing Contracts specified that “this contract aims at granting credit to BNDES...to provide it with the resources for application in its investment operations.”

⁹⁰ Although the SEM DPL is not mentioned by name, there were no other World Bank loans to BNDES around that time, and the amount of US\$ 2 billion quoted is the same as the total planned for the SEM DPL series. As noted below, a subsequent legal review by the Brazilian Treasury does name the SEM DPL, and links it to the earlier Interim Measure and Law cited here.

⁹¹ Available at: http://www.planalto.gov.br/ccivil_03/_ato2007-2010/2009/Lei/L11943.htm .

The SEM DPL was closed two weeks after the second tranche was disbursed, on December 31, 2010. The planned second loan in the series, SEM DPL 2, never materialized. To provide perspective on the scale of the SEM DPL 1, it was equivalent to the total average annual financing commitment for the environment for the entire World Bank from 2008-2012, including financing from the Global Environment Facility (GEF), and it was ten times larger than the World Bank's total global GEF-financed commitments in 2011 or 2012.⁹² Looking only at the non-DPL environment portfolio (since the SEM DPL itself is included in the overall calculation), SEM DPL 1 was more than 2.5 times bigger than the World Bank's global average annual financing commitment for the environment from 2008-2012.

Not long after the SEM DPL 1 closed, the Brazilian Federal Prosecutor's Office (Ministério Público Federal) enquired about the loan with BNDES, and BNDES confirmed that the full US\$1.3 billion “were transferred to BNDES for complementing its investment budget”. BNDES's response stated further that the resources were provided as a concessionary loan by the Federal Treasury “to BNDES in order to provide resources to be applied in its investment operations. That way, the resources from the financing were utilized to complement the BNDES disbursement budget.” Indeed, BNDES ramped up its lending in a major way at the time of the SEM DPL, reporting that its disbursements increased by 23% in 2010 (BNDES 2013a). The large amounts of money that the Brazilian government has been channeling through BNDES was recently criticized by the OECD.⁹³

Timeline for World Bank operation P095205 (“SEM DPL” and other manifestations)

Date	Event	Comments
2007		
Nov. 13-14	World Bank mission to BNDES for preparation of a “BNDES PAC-Env DPL”	“PAC” is the Portuguese acronym for Brazil's “Program for Accelerated Growth”, a major government infrastructure investment program. There is no indication that Brazilian agencies other than BNDES were involved.
2008		
Mar. 27	COFIEX sends fax to World Bank authorizing the preparation of a “DPL/BNDES-World Bank”	The fax specified that the beneficiary of the loan should be BNDES, with the Federal Government of Brazil as the guarantor, for US\$ 1 billion.
June 4	Concept Note for a “Brazil: BNDES Environmental and	The Concept was for a US\$ 1 billion loan to BNDES, with US\$ 10 million for

⁹² Source: World Bank Business Warehouse.

⁹³ In its 2013 Brazil Economic Survey, the OECD was critical of the significant increase in transfers from the national budget to BNDES, noting that “a large share of BNDES loans is extended to large companies...[which] would be the ones that would probably enjoy the easiest access to credit in private credit markets.” It recommends that “private entry will require levelling the playing field by phasing out all direct and indirect financial support to BNDES.” (OECD 2013)

	Social Sustainability Project” Financial Intermediary Loan (FIL) formally issued by World Bank team for comment	environmental and social TA, and US\$ 990 million to finance BNDES investments. It argued that a DPL would not be appropriate. Serious issues were raised by reviewers. No Decision Notes were ever issued.
Sept. 6	A second Concept Note for a “Brazil: BNDES Environmental and Social Sustainability Facility” FIL was formally issued by World Bank team.	The Concept is similar to the one issued in June 2008.
Oct. 8	The Decision Notes issued for a Concept Review Meeting for “BNDES Environmental and Social Sustainability Facility” FIL held on Sept. 12.	The Decision Notes reflect serious issues that continued to be raised by reviewers; instruct Bank team to pay attention to these during project preparation. No mention of a decision to change to the DPL instrument.
Oct. 11-13	BNDES President attends Annual Meetings of the World Bank in Washington, DC	A meeting is held between the BNDES President, Brazilian government officials, and World Bank management to discuss the loan. Agreement is reached to prepare DPL to the Federal Government, which would pass the financing to BNDES.
Nov. 3	Concept version of a Program Document for “Brazil: First Programmatic Development Policy Loan for Sustainable Environmental Management” (SEM DPL) completed	The Program Document is now for a programmatic series of two loans totaling US\$ 2 billion; SEM DPL1 for US\$1.3 billion. Implementing agencies: Ministry of Finance, Ministry of Environment, and BNDES. No mention of earlier efforts to prepare a loan to BNDES. No mention of financing going to BNDES.
Nov. 11	Concept Review Meeting for “Brazil: First Programmatic Development Policy Loan for Sustainable Environmental Management” (SEM DPL)	Decision Notes state “Despite the key role to be undertaken by BNDES, it was reiterated clearly that the loan is designed as a DPL.” And “highlight the importance of BNDES without generating the erroneous perception that we are directly supporting investments.”
Dec. 9	Brazilian President issues Interim Measure 450 that authorizes the government to transfer up to US\$ 2 billion from the World Bank to BNDES.	The news is covered in Brazilian media, including the largest paper in the country.
Dec. 18	Begin Negotiations	

2009		
Feb. 3	Program Document for SEM DPL finalized	There is no mention of the earlier efforts to prepare a loan to BNDES, or that other instruments were considered. No mention of financing going to BNDES.
Mar. 5	World Bank Board approval	No discussion of earlier efforts to prepare a loan to BNDES, or consideration of other instruments. No mention of financing going to BNDES.
May 28	Law 11,943 enacted by Brazilian government authorizes the government to transfer up to US\$ 2 billion from the World Bank to BNDES.	The Law replaces Interim Measure 450.
2010		
April 13	Bank receives Legal Opinion (Parecer) 589 from Ministry of Finance	The 10-page Opinion explains in detail plans by GOB to on-lend the SEM DPL funds in their entirety to BNDES, on IBRD terms. States: "According to IBRD DPL procedures, the funds will not be destined to new investments..."
April 20	Federal Senate issues Legal Opinion (Parecer) 410	Similar to the Ministry of Finance Legal Opinion. Also confirms that the funds are not intended for new investments, and will be "allocated to BNDES to finance actions for the management of Brazilian environmental sustainability."
June 21	SEM DPL 1 loan for US\$ 1.3 billion becomes effective	Effectiveness is 13 months behind schedule. The Bank blames this on GOB forgetting to put the loan in the budget the previous year.
June 30	SEM DPL 1, tranche 1, is disbursed for US\$ 800 million	The disbursement is 15 months late.
June 30	BNDES and Federal Government sign Financing Contract 544, granting BNDES a loan for US\$ 800 million from the SEM DPL.	The contract states that the purpose is "to provide [BNDES] with the resources for application in its investment operations." Other content of the contract is similar to the World Bank Loan Agreement.
Dec. 15	CSO representatives meet with Bank Management in Brasilia	The CSOs seek clarification on achievement of SEM DPL policy actions, and request that SEM DPL tranche 2 not be disbursed in the meantime.
Dec. 15	SEM DPL 1, tranche 2, is disbursed for US\$ 500 million	The disbursement is 17 months late.

Dec. 15	BNDES and Federal Government sign Financing Contract 590, granting BNDES a loan for US\$ 800 million from the SEM DPL.	The contents appear identical to Contract 544. Again confirms that funds are for BNDES's investment operations.
Dec. 17	More than 30 international and national CSOs write to World Bank LAC VP about SEM DPL.	Stated that there were "serious problems" with the SEM DPL, and expressed "extreme concern" regarding lack of transparency, consultations, and evidence of implementation of reforms. Raises specific questions about BNDES. Requested dialogue with the Bank and hold on disbursement of tranche 2.
Dec. 31	SEM DPL 1 is closed	
2011		
Jan. 13	World Bank Brazil Country Director responds to CSO letter of 12/17/10 (on behalf of VP)	States: "the documents presented by the borrower as evidence of compliance with the second tranche release conditions of the SEM DPL 1 were received in confidence and cannot be disclosed by the Bank..."
Feb. 14	Brazilian Federal Prosecutor's Office writes to BNDES President to enquire about the SEM DPL.	Specific questions on the SEM DPL relate to BNDES's use of the funds, and actions taken to improve BNDES environmental and social management.
April 25	BNDES responds to the Federal Prosecutor's Feb. 14 enquiry.	States that the funds from the SEM DPL were completely transferred to BNDES, on concessionary terms, "to be applied in its investment operations...to complement the BNDES disbursement budget."
?	SEM DPL 2 is canceled	The planned second loan in the programmatic series never materializes.
Aug. 12	SEM DPL Implementation Completion and Results Report completed.	There is no mention of funds being on-lent to BNDES. The Bank team rates the operation "Satisfactory".

Annex I: List of Persons Interviewed

Brazilian Officials	
Name	Designation
Rodrigo Vieira	General Coordinator for External Financing, SEAIN (Secretaria de Assuntos Internacionais), Ministry of Planning
Leny Maria Corazza	Substitute Coordinator of Social Projects, SEAIN, Ministry of Planning
Tania Ribeiro	Manager, Environmental Projects, SEAIN, Ministry of Planning
Marcus Barreto	Coordinator of Institutional Development Projects and State Reform, SEAIN, Ministry of Planning
Lilia Maya Cavalcante	Coordinator of Social Projects and Substitute coordinator of External Financing, SEAIN, Ministry of Planning
Paulo Lopes Varella	Director, ANA - Agência Nacional de Águas (National Water Agency)
Marcos Neves	Advisor, ANA - Agência Nacional de Águas (National Water Agency)
Antônio Carlos Hummel	General Director, SFB (Serviço Florestal Brasileiro)
Daniel Tristão	Governmental Manager – Head of International Cooperation Division, SFB (Serviço Florestal Brasileiro)
Ana Maria Evaristo Cruz	President, ASIBAMA (Associação Nacional dos Servidores do IBAMA)
Volney Zanardi Junior	President, IBAMA (Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis)
Carlos Klink	Secretary of Climate Change and Environmental Quality, MMA (Ministério do Meio Ambiente / Ministry for the Environment)
Artur Lacerda	Deputy Assistant Secretary for International Affairs / Coordinator-General for International Financial Institutions, Ministry of Finance
Juliana Torres da Paz	Operation Specialist, Treasury, Ministry of Finance
Roberto Sainz	Researcher at EMBRAPA, Brazil / Professor at the Department of Animal Science, University of California, Davis
Roberto Ricardo Vizentin	President, ICMBio (Instituto Chico Mendes de Conservação da Biodiversidade)
Gustavo Luedemann	CDM Designated National Authority, Ministry of Science and Technology
Mario Sérgio Vasconcelos	Director, International Relations, FEBRABAN (Brazilian Banking Federation)
Alessandra Panza	FEBRABAN (Brazilian Banking Federation)
Paulo Araujo	Head of Department of International Division – Institutional Funding and International Relations Department, BNDES
Vivian Machado	Manager for International Organizations, BNDES

Marcio Macedo	Head of Environment Department, BNDES
Rafael da Silva Andrade	BNDES
Daniel Soeiro	BNDES
Ana Paula	BNDES
Fabricio Barreto	Former Program Coordinator, MMA (Ministério do Meio Ambiente / Ministry of Environment)
Fátima Soares	Manager, Water Quality Department, SEA/RJ (Secretaria do Ambiente do Estado do Rio de Janeiro)
Anselmo Frederico	Environmental Specialist, SEA/RJ (Secretaria do Ambiente do Estado do Rio de Janeiro)
Luiz Firmino	Undersecretary Executive, SEA Secretariat for the Environment of Rio de Janeiro State
Denise Lobato	Superintendent of International Relations, SEA Secretariat for the Environment of Rio de Janeiro State
Victor Zveibil	Superintendent of Sanitation Policy, SEA Secretariat for the Environment of Rio de Janeiro State
Fátima Soares	Manager of Water Quality, SEA Secretariat for the Environment of Rio de Janeiro State
Anna Cristina Henney	Director of Environmental Licensing, INEA/ SEA Secretariat for the Environment of Rio de Janeiro State
Justiniano Netto	Secretary, Pará State Secretary for Programa Municípios Verdes
Meliza Alves Barbosa Pessoa	Prosecutor, Ministério Público Federal
Felício Pontes Júnior	Prosecutor, Ministério Público Federal, Pará
Ubiratan Cazetta	Prosecutor, Ministério Público Federal, Pará
Helena Palmquist	Assessora-Chefe de Comunicacao, Ministério Público Federal, Pará
Lilian Regina Furtado Braga	Promotora de Justica, Ministério Público, State of Pará
Eliane Moreira	Promotora de Justica, Ministério Público, State of Pará

World Bank	
Name	Designation
Mark Lundell	Country Director, AFCS2; former Brazil Sector Leader and SEM DPL TTL
Garo Batmanian	Lead Environmental Specialist, EASCS; former SEM DPL co-TTL
Deborah Wetzel	Country Director, LCC5C
Gregor Wolf	Sector Leader, LCSSD
Laura Tuck	Vice President, ECA Region; former Sector Director, LAC Region
John Briscoe	Former Country Director, Brazil (retired)
Adriana Moreira	Senior Environmental Specialist, LCSEN

Alberto Ninio	Chief Counsel for Environment (currently on leave)
Jennifer Sara	Sector Manager; former Sector Leader, Brazil
Miguel Santiago da Silva Oliveira	Senior Finance Officer
Isabella Micali Drossos	Senior Counsel, LEGAM
Kirk Hamilton	Lead Environmental Economist
Erick Fernandes	Adviser
Klaus Oppermann	Team Leader, Policy and Methodology Team, Climate Policy and Finance Department, Carbon Finance Unit
Mauricio Athie	Senior Environmental Specialist, IFC, CESI2 (formerly based in Brazil)
Alexander Indorf	Principal Environmental Specialist, IFC, CESI2 (formerly based in Brazil)
Eric Shayer	Senior Environmental Specialist, IFC, CESI2 (currently based in Brazil), team member
Judith Lisansky	Senior Social Specialist (retired)
Isabel Braga	Senior Environmental Specialist (retired)
Robert Schneider	Sector Leader (retired)
Stephen Lintner	Senior Adviser, OPSOR
Manuela Francisco	Economics Adviser, OPSPQ
Qays Hamad	Senior Operations Adviser, OPSOR
Katia Madeiros	Environmental Specialist supporting World Bank (and other IFI) operations, FAO Investment Center

Civil Society Organization Representatives	
Name	Designation
Oriana Rey	Lawyer and advisor of the Eco-Finance Program, Amigos da Terra Amazônia. Member of Amazon Fund Advisory Committee
Pedro Bara Neto	Infrastructure Strategy Leader, Living Amazon Initiative, WWF
Carlos Tautz	Coordinator, Instituto Mais Democracia, Rio
Adalberto Veríssimo	Senior Researcher, IMAZON (Instituto do Homem e Meio Ambiente da Amazônia)
Cássio Pereira	Researcher, IPAM (Instituto de Pesquisa Ambiental da Amazônia); formerly of MMA and Agency for Development of the Amazon
Vincent McElhinny	Senior Policy Advisor, Bank Information Center
Brent Millikan	Amazon Program Director, International Rivers
Maíra Irigaray	International Finance Advocate and Amazon Watch Brazil Campaign Coordinator, In Casa do Índio
Sarah Freeman	Amazon Watch
Antonia Melo	Coordinator, Movimento Xingu Vivo

Marcelo Salazar	ISA- Instituto Socioambiental, Adjunct Coordinator of Xingu Program
Leonardo José Amorim	Lawyer, ISA - Instituto Socioambiental, Programa Xingu
Jammilye Sales	Lawyer, International Rivers/AIDA (Interamerican Association for Environmental Defense)
Roberta Amanajás	Lawyer, Programa de Acesso à Justiça Internacional SDDH (Sociedade Paraense de Defesa dos Direitos Humanos)
Walter Silva Santos	CSP – CONLUTAS (Central Sindical e Popular)

Attendees at Group Meeting with Community Members, Field Visit, Altamira, Para State	
Name	Designation
Juma Xipaia	Indigenous leader
Maria do Socorro	Community member
Ivana	Community member
Moacyr	Community member
Maria das Graças	Fisher, saleswoman
Vanusia Brito	Community member
Ivoneia	Community member
Mariano	Community member
Silvia	Community member
Antonia	Fisher, Arara ethnicity
Cecilio Kayapó	Fisher and Kaiapó Representative
Leonardo Kayapó	Indigenous leader
Maria de Nazaré Barroso	Women representative. Movement of Women from BR-1 63 and Midwives
Santa Duarte Vieira	Quilombola representative
Helenilda	Community member
Soror Maria Vitti	Community member
Cileanto	CIMI (Conselho Indigenista Missionário)
Helena	Instituto Xingu Vivo
Milene Simone	Instituto Xingu Vivo
Benedita	Franciscan Sister
Irmã Terezinha Jesus de Brito	Franciscan Sister
José Bernardo	Representative of Altamira's potters
Adam Fest	Altamira's Parish Articulator
Caroline Militão	Community member
Ana Paula	Community member
Mazeth	Community member
Sarah Freeman	Amazon Watch

Annex J: Borrower Comments



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Ofício nº 287/2014/SAIN/MF-DF

July 22, 2014

Ms. Marie Gaarder
Manager
Public Sector Evaluation - Independent Evaluation Group
The World Bank
1818 H Street N.W.
Washington, DC, 20433 – United States

Re: BRAZIL – First Programmatic Development Policy Loan for Sustainable Environmental Management – Draft Project Performance Assessment Report

Dear Ms. Marie Gaarder,

1. The Ministry of Finance of Brazil, in coordination with the Ministry of the Environment (MMA) and the Brazilian Development Bank (BNDES), has reviewed the Draft Project Performance Assessment Report (PPAR) on the “Brazil First Programmatic Development Policy Loan for Sustainable Environmental Management” (SEM DPL).

2. The SEM DPL was designed to support the Government of Brazil’s efforts to (a) improve the effectiveness and efficiency of policies and guidelines of the Brazilian environmental management system, and (b) further integrate principles of environmentally sustainable development in natural resource management and conservation, water resource management, environmental sanitation and renewable energy, while supporting mainstreaming climate change issues.

3. The Government of Brazil acknowledges that the SEM DPL provided relevant support for improving environment management and sustainable development policies in Brazil. Program development objectives were achieved and, for the most part, target indicators were surpassed by the time of completion. In this sense, the assessment provided by the IEG did not capture the contribution of the SEM DPL to the country.

Instead of assessing the effectiveness of IBRD's operation, the PPAR presents a very superficial and inaccurate assessment of BNDES' performance and the evolution of environment policies in Brazil in the period.

GENERAL COMMENTS ON IEG APPROACH

4. The IEG provides an incomplete, partial and sometimes biased view of recent developments in Brazil, lacking a clear understanding of the context for the implementation of the SEM DPL. Unfortunately, there was a very limited engagement with the agencies and officials involved with the DPL, and it is also clear that limited time was devoted by IEG staff to collect information and seek feedback from the GoB. Moreover, despite the relevance of the operation, the IEG did not seek to engage Government agencies on an institutional basis, choosing to contact individuals one-by-one. In a number of cases, IEG contacted or interviewed officials that were not directly involved in the SEM DPL. In at least one occasion, IEG staff tried to use a meeting dedicated to a wholly different issue to seek comments on the SEM DPL. Although the person interviewed stated that he did not know the details of the operation, his name was listed in the PPAR.

5. The IEG did not consider, in the process of engaging Government officials, the need to provide adequate translation to Portuguese when engaging with representatives that were not able to communicate in English, severely diminishing the effectiveness of the dialogue.

6. The PPAR states incorrectly that IEG staff was unable to meet with key staff from BNDES to discuss the SEM DPL, and that BNDES granted IEG only one meeting. Staff from BNDES from all relevant areas met with the IEG for an institutional meeting, and BNDES was open to receive the IEG for additional meetings and further provide feedback. However, the IEG did not contact BNDES any further, which might explain the lack of understanding of the results of the SEM DPL for improving BNDES policies.

7. Surprisingly, IEG listed several individuals from the Planning as representatives from the Treasury. Although this may seem as a minor mistake, in fact, these representatives affirmed that they did not discuss the issue of the SEM DPL with IEG. Another uncommon mistake related to the fact that, contrary to previous experience and practice, the Secretariat for International Affairs of the Ministry of Finance, the Brazilian focal point for the World Bank, was not contacted by IEG to discuss the SEM DPL, nor was the National Treasury Secretariat.

8. The assessment from IEG, instead of focusing on the issues related to the SEM DPL, such as the implementation of the Development Policy Matrix and the engagement of the World Bank with the implementing agencies, drifts towards providing opinions and considerations about issues beyond the scope of the operation. In particular, the IEG presents considerations regarding Brazilian environment policies

and BNDES socio-environmental policies based on superficial analysis and newspaper stories, with an inordinate focus on one project, Belo Monte hydroelectric plant, which has no relation whatsoever to the SEM DPL.

9. The comments from the Government of Brazil are presented in two parts. Part A provides overall comments by the Government on the operation and the assessment by the IEG, and Part B presents comments from BNDES, considering the degree to which the PPAR focuses on the activities of this institution.

PART A. OVERALL COMMENTS BY THE BRAZILIAN GOVERNMENT

CONTEXT AND DESIGN OF THE SEM DPL

10. Considering the background and context of the operation, the design of the SEM DPL is the result of extensive dialogue between World Bank management and Government agencies. During this process, the proposal evolved from a DPL focused solely on the BNDES, with a view to support improving its environmental and social policies, to include the Federal Government directly as Borrower, while maintaining BNDES and including the Ministry of the Environment as implementing agencies. The use of other loan instruments, besides a DPL, was also considered during project preparation, and the GoB and World Bank management agreed that a DPL would be the most appropriate instrument to support the improvement of policies of the Brazilian environmental management system and deepening the integration of sustainable development in key sectors (Natural Resources Management and Conservation; Water Resource Management; Environmental Sanitation; and Renewable Energy).

11. This allowed the operation to consider and support the improvement of environmental management on the level of the Federal Administration and national environment agencies (IBAMA, National Biodiversity Management Institute – ICMBIO, Brazilian Forest Service, National Water Agency – ANA), as well as on the BNDES. This approach also highlighted the complementarity between policy actions under the aegis of the Federal Government and BNDES, confirming the link between the elaboration of strategic programs, policies and regulations by the GoB and the implementation of such efforts by the BNDES.

12. The central objective of the SEM DPL was to support a policy-reform process, building upon previous initiatives supported by the World Bank and addressing the sustainability pillar of the Brazil World Bank Group's Country Partnership Strategy (CPS) 2008-2011. The resources obtained through the SEM DPL provided general budget support for the Brazilian Federal Government, and disbursement was tied to the fulfillment of the loan's prior actions, adequacy of the macroeconomic policy program, and the overall implementation of the reform program being supported, as documented in the Implementation Completion and Results Report (ICR) elaborated by the World Bank.

13. We would like to emphasize that the Legal Agreement between the Government of Brazil and the World Bank for the SEM DPL does not provide for the earmarking of resources towards any specific area or investment. This procedure followed the pertinent World Bank policy for DPLs and was explicitly referred to in the legal opinion produced by the Ministry of Finance prior to the operation (Parecer PGFN/COF/n.º 589/2010) and the review from the Commission for Economic Issues of the Federal Senate of Brazil (Parecer n.º 410/2010).

14. The allocation of resources from Brazil's Federal Budget towards different areas and agencies, including the BNDES, is an internal matter pertaining to the Government of Brazil and the National Congress, formed by both the Chamber of Deputies and the Federal Senate. Allocations of resources to BNDES are done in a transparent manner, as part of the ordinary annual budgetary process. The proceeds from the SEM DPL were internalized by the Government of Brazil following the provisions of the Loan Agreement, and the decision to allocate such budget support is a sovereign decision, subject to Brazilian law.

15. Furthermore, one of the strengths of using the DPL instrument is the flexibility it provides, supporting the promotion of policy reforms and providing budget support that is not tied to specific investments. This key feature should not be weakened, impairing the ability of the World Bank to assist and support relevant policy reforms that impact far beyond the application of specific disbursed resources under a loan.

ACHIEVEMENT OF OBJECTIVES

Objective A: Improve the overall Brazilian environmental management system

Sub-Objective A.1: Improve effectiveness of government agencies in implementing mandated Brazilian environmental and social management procedures

16. The PPAR rates as "Negligible" the efficacy in achieving the first objective of improving the overall Brazilian environmental management system. The IEG does not recognize the marked improvements in this area during the period of the SEM DPL, while lacking a proper understanding of the relation between the policy actions considered under the SEM DPL and the objectives of the First Programmatic Reform Loan for Environmental Sustainability (Env PRL), agreed in 2004. Again, this lack of comprehension may derive from the superficial approach used by IEG staff and the very limited effort to consult and engage Government agencies in the assessment.

17. The SEM DPL was designed with a view to build upon the experience of the Env PRL and supporting the restructuring of the Ministry of the Environment. Two new institutions were created (the National Institute for Biodiversity Conservation – ICMBIO and the Brazilian Forest Service), which incorporated some of the previous functions of IBAMA, allowing this institution to focus on its core mandate, environmental licensing and enforcement of environmental legislation. This reform was

instrumental for curbing deforestation rates, a key objective of the SEM DPL (as it will be detailed under the topic on *Objective B*, below).

18. Restructuring Government agencies is a complex challenge, and the Env PRL and SEM DPL supported the Ministry of the Environment to address a central issue for improving the effectiveness of Brazil's environmental management system, notably understaffing of IBAMA.

19. The Government of Brazil strongly rejects the claim presented in the IEG report that the SEM DPL or other public policies were aimed at weakening the environmental licensing process or could contribute to this end. The main goal of the project was to improve the overall Brazilian Environmental Management System and strengthening the effectiveness of government agencies. The significant results achieved during the period of the SEM DPL confirm that the Government efforts are bearing fruits, despite the remaining challenges still ahead. In that sense, we highlight the need for the assessment of any World Bank project to be evidence-based, with a view to provide lessons and help improve the Bank engagement with its clients in order to help them enhance the effectiveness of public policies.

Sub-Objective A.2: Mainstream Climate Change in public and private sector investments

20. Regarding the policy action on "mainstreaming climate change in public and private sector investments", we would like to highlight the significant progress achieved during the period of the SEM DPL. Contrary to what is claimed in the PPAR, Brazil's National Climate Change Policy has been consolidated as a backbone for Government planning, through the elaboration of a set of Nationally Appropriate Mitigation Actions (NAMAs) and sector plans, contemplating also a host of instruments and policies to incentivize the private sector to take action on climate change mitigation.

21. Since 2010 Brazil has implemented NAMAs: (a) to reduce deforestation (Amazon forest and Cerrado savannas); (b) to promote a low carbon emission agriculture through the use of technologies appropriate for tropical soils and conditions – ABC Plan; (c) an energy plan to increase the use of hydropower, biofuels, renewables, and energy efficiency; and (d) a charcoal production plan for the iron/steel industries through more efficient production and use of charcoal.

22. Additionally, in 2013 the Brazilian government approved four new sector plans: (a) Industry (carbon inventory & management, recycling, energy efficiency, co-generation, dissemination of new technologies, and new credit lines for the aluminum, cement, paper & pulp, chemistry, glass, and iron/steel sectors); (b) Mining (use of renewable fuels, optimization of machinery and mining processes); (c) Transportation (information systems, logistics, carbon programs for both cargo and urban mobility); and (d) a first plan on adaptation of the public health system to increase preparedness and decrease vulnerability to climate change.

23. The climate change policy has promoted a better coordination of efforts among governmental institutions, has created new funds and investment opportunities (e.g. the climate change fund, the Amazon fund, the low carbon emission agriculture credit line), and engaged the Brazilian society (academia, civil society, and the private sector). This policy enabling environment is already producing bold results. To cite a few examples, deforestation has been reduced by 75% - that represents a spectacular reduction of over 30% in the Country's total emissions; the Low Carbon Agriculture program has over 22,000 contracts with farmers and supported around US\$2.9 billion in low carbon agriculture investments; in February 2014 we launched the "production of sustainable, renewable biomass-based charcoal for the iron and steel industry in Brazil" a GEF sponsored program with the industry sector of Minas Gerais state, the largest steel/iron industry in the country. The climate change fund is sponsoring over 100 projects (over half on adaptation measures) and the Amazon fund over 50 programs.

24. The PPAR provides an incomplete account of the process for the discussion and approval of Brazil's National Policy on Climate Change, as well as the participation of the Brazilian society. The Brazilian Forum on Climate Change (FBMC), a not-for profit organization, occupies a central role raising awareness and engaging society on discussions and decision making regarding climate change in Brazil – nevertheless, the IEG does not even cite the FBMC in the report. It counts with representatives from all sectors of the Brazilian society, private sector, civil society, academia, states and municipalities representatives. The honorary chairmanship of FBMC is given to the President of Brazil, and usually once a year the annual meeting of FBMC is held in Brasilia with the President.

25. The National Policy on Climate Change explicitly requires that FBMC follows the implementation of all actions regarding reduction of emissions and that it takes a central role on the mandatory revision of the National Plan and the sector plans. Also FBMC is responsible for nominating representatives of civil society on the steering committee of the climate change fund.

26. FBMC coordinated the public consultation of both the new sector plans (industry, mining, transportation, and public health) and the revision of the National plan. Consultation meetings for the construction of the sector plans were coordinated by FBMC in 2012 in Rio, Curitiba, Recife, Cuiabá, Manaus and Brasilia. Public consultation was complemented by an electronic consultation that was coordinated by the Ministry of the Environment. MMA is the coordinator of the steering committee of the national policy (GEx) that works under the guidance of the Inter-Ministerial Committee on climate change (CIM). The new sector plans were approved by the Brazilian Government in the annual meeting of FBMC with the President of Brazil on the 5th of June 2013.

27. The National Plan on Climate Change was elaborated in 2008, to corroborate into a single document the domestic conditions on how to deal with climate change. In 2009, after the approval of the national climate change policy, the Plan was integrated

into the policy as one of its instruments. The climate change policy is the main legal framework for Brazil on principles, objectives, and instruments to be developed and deployed to tackle with climate change in the country.

28. During 2012 and 2013, the process focused on updating the National plan, given the recent creation of highly relevant legal framework as the climate change policy, the NAMAs, the 2013 sector plans, and the beginning of the operation of the climate change fund.

29. During 2012, drafting and supporting documents were prepared. The updating process took effect in 2013 when 17 ordinary and working meetings were held by the GEx. Public consultation and participation was coordinated by FBMC along 2013 through seven "sector dialogues" with labor unions, civil society, finance sector, energy sector, forestry sector, and industrial sector. Again, a complementary electronic consultation was coordinated by MMA in 2013. A final consolidation workshop was held in Brasilia in December 2013. The final text of the updated National plan was approved by the GEx in early 2014 and was submitted to the CIM; final approval is expected for July/August 2014.

Sub-Objective A.3: Improve the effectiveness of environmental and social management systems in BNDES and other financial institutions

30. In relation to this objective, the IEG report argues that the revised Green Protocol "ceased to be implemented and lost its relevance" (Summary, page xiv), thus being unable to contribute to the improvement of the effectiveness of environmental and social management systems in the Brazilian financial sector. The comments in the IEG paper demonstrate ignorance about the creation, structure and adherence to the Green Protocol (GP).

31. The first version of the Green Protocol, signed in 1995 by a group of State-owned Banks, provided guidance for a set of initiatives of the banks concerning socio-environmental policies. In 2008, an updated version of the GP was signed by the same banks (*Banco do Brasil, Caixa Econômica Federal, Banco do Nordeste, Banco da Amazônia and BNDES*), establishing new principles and guidelines. Since then, these institutions have significantly improved their practices in terms of criteria and safeguards, and their portfolio of financial instruments related to social and environmental development.

32. Building upon the successful experience of the Green Protocol, a voluntary undertaking, the Federal Government established ambitious obligations by means of a regulation on the social and environmental responsibility for all financial institutions and other institutions authorized to operate by the Central Bank (National Monetary Council Resolution 4.327/2014, approved in April 2014).

33. The IEG states that there has been little discernible improvement to BNDES's environmental and social management system compared to the one described by the World Bank team during preparation. This assessment does not take into consideration the advances that occurred in the period of the SEM DPL, such as the revision of the Statute of BNDES (approved by Federal Decree 6.322/2007), which determined that the Bank assess social and environmental aspects of proposed operations as a requirement for approving loans.

34. Also, the report claims incorrectly that BNDES's policies do not apply to projects financed by financial intermediaries. BNDES socio-environmental policy and sector policies also apply to its indirect non-automatic operations, and, in the case of indirect automatic operations, BNDES requires presentation by the financial agent of the relevant environmental license or a license exemption certificate issued by the responsible agency.

35. The PPAR criticizes the fact that BNDES preferred to develop its own socio-environmental policies instead of being a signatory of the Equator Principles. Doing so, the IEG does not take into account that there was no expectation under the SEM DPL for BNDES to accept the Equator Principles, as provided in the project documentation. Surprisingly, the IEG disregards the principle of country ownership, a key component for all World Bank operations, and without a proper understanding of the national context and the particularities of operations of a development bank, seeks to portray the Equator Principles as a "benchmark" that should be applied by BNDES.

36. BNDES decided to develop its own more comprehensive methods for assessing projects (including social and environmental projects). It should be highlighted that the Equator Principles apply different and unjustified obligations for OECD countries and the rest of the world, creating an asymmetry that implies a lack of recognition for the legal and institutional frameworks of developing countries, as well as their capacities.

37. We strongly disagree that the Equator Principles can be considered as the benchmark for evaluating BNDES performance. The bank's role is not only to establish safeguards and criteria but primarily to provide incentives for improving the socio-environmental performance of economic sectors in Brazil. The fact that the participation of development banks as signatories of the Equator Principles is very uncommon clearly shows that such principles are not appropriate for a development bank's purposes. The lack of understanding of this concept demonstrates the superficiality of IEG's critique in this regard and a lack of understanding of the real purpose of a development bank.

Objective B: Integrate principles of sustainable development in key sectors

38. Considering the objective of integrating principles of sustainable development in key sectors, we would like to highlight that during the period of the SEM DPL Brazil has achieved significant progress in all sectors considered in the Results Indicators Matrix – a factor that was corroborated by the World Bank. In particular, the significant

reduction in deforestation rates in the Amazon over this period is a confirmation of the effectiveness of the strategies implemented since 2004, based on improvements in law enforcement monitoring and incentives that are being used to proactively and vigilantly fight deforestation. The results achieved by Brazil are unparalleled in the international context, providing considerable contributions to tackling global carbon emissions and promoting sustainable development.

39. The PPAR incorrectly points out that the results in reducing deforestation have been achieved through “*policies other than those supported by the SEM DPL*”, also noting that “*the period of the SEM DPL engagement witnessed the slowest decline since Brazil began to curb deforestation in 2004*”. Regrettably, the IEG did not comprehend the context for the implementation of the Plan to reduce Amazon forest conversion (PPCDAM), which began in 2004, and how the policy actions considered under SEM DPL contributed to consolidate this effort and improve the capacity of the Brazilian Government to maintain results in the long term.

40. The IEG seems to disregard that maintaining successful results in reducing deforestation is a substantial outcome by itself, and reducing rates even further, as achieved by Brazil, requires significant additional effort. Combating deforestation is a continuous challenge, requiring sustained focus and the institutionalization of tasks, roles and responsibilities among the different agencies involved. The SEM DPL supported restructuring the Ministry of the Environment and affiliated agencies, allowing, for instance, IBAMA to focus its efforts on the core mandate to enforce environmental legislation. The reorientation of IBAMA was key to improve monitoring of deforestation in the Amazon and leading enforcement actions, in coordination with security forces (the Federal Police, the Armed Forces, local law enforcement) and state environmental agencies.

41. Since 2004, the year that PPCDAM first began to be implemented, deforestation in Brazil has been declining steadily. While there have been periods over this timeframe when the rate has bounced back, such as in the period from 2007-2008, the trend demonstrates an overall and sustained decline in deforestation rates. This is most clearly supported by the following facts: the average rate of deforestation in the Brazilian Amazon during the first phase of PPCDAM (2004-2008) was 17,127 square kilometers per year; for the second phase (2009-2011), it was 6,961 square kilometers per year; for its third phase (2012-2015) it is so far, 5,207 square kilometers per year. In fact, the three lowest deforestation rates ever recorded in Brazil were achieved in the past three years. Our goal, in accordance with the Brazilian climate change policy of 2010, is to reach less than 4,000 square kilometers of deforestation per year by 2020.

RISK TO DEVELOPMENT OUTCOME

42. We strongly disagree with the statement by the IEG that the cancellation of the second loan under the SEM DPL “*may be an indicator of low client commitment to the reforms that the SEM DPL series was supposed to support*”. The second loan planned

under the SEM DPL did not materialize due to a decision by the Brazilian Federal Government to prioritize the implementation of projects financed by MDBs in subnational units (states and municipalities). Considering this strategy and that Brazil is approaching the Single Borrower Limit in the World Bank, the Federal Government decided not to implement the SEM DPL II. Indeed, the loan incurred for the first phase of the Programmatic DPL was prepaid in full to the World Bank in October 2011, together with most other loans to the Federal Government (totaling a prepayment of US\$5.1 billion), with a view to provide additional space for IBRD financing to subnational units, in accordance with new Government priorities for external financing.

43. Notwithstanding, the policy actions planned in SEM DPL were not discontinued following the cancellation of the second planned loan. As reported in Part B of this document, prepared by the BNDES, the Bank's environmental performance made significant progress during the period 2009–2014, and the Federal Government has continued its efforts to improve environmental management in the key sectors focused by the SEM DPL. As explained below, significant progress has been made, among other areas, in the implementation of the National Climate Change Policy, in the approval of federal regulations regarding the socio-environmental responsibility of financial institutions and in the consolidation of environment agencies' activities under the MMA.

44. IEG does not seem to comprehend the nature of the policy dialogue that is involved in the preparation and implementation of such a DPL. Contrary to the assessment provided in the PPAR, the Government of Brazil evaluates as positive the contribution of the SEM DPL to strengthening the Brazilian environmental management system and integrating principles of sustainable development in key areas.

45. The process of structuring the operation provided a key opportunity to conduct extensive technical and high-level discussions between the Ministry of Finance, the Ministry of the Environment and BNDES, as well as a fruitful dialogue with the World Bank technical team. This process resulted in agreement on a set of strategic policy actions that would form the SEM DPL, providing a concrete framework for structuring the efforts to improve environmental management in different agencies of the Government.

46. In addition, the SEM DPL played a key role in the institutionalization of social and environmental issues in BNDES, accelerating the implementation and formalization of ongoing processes and policies in the institution. Through the SEM DPL, BNDES' activities started to have a schedule of implementation, the implementation of social and environmental agenda in the institution became more agile and there was a relevant increase in the quality of technical work related to the activities agreed with the World Bank.

BORROWER PERFORMANCE

47. The Government of Brazil demonstrated its commitment to improving environmental management systems and integrating principles of sustainable development in key sectors. The policy actions planned under the SEM DPL I have been fully accomplished, and actions considered for a second loan (SEM DPL II) continue to receive the attention and commitment of the Government, regardless of the decision not to seek additional resources through this operation. Therefore, we note that the assessment of the IEG on the performance of the Borrower as “Moderately Unsatisfactory” does not reflect the progress realized in Brazil during implementation of the SEM DPL.

48. In addition, the Government of Brazil has achieved results, for the most part, beyond the trigger actions considered for the SEM DPL II, further demonstrating the commitment of implementing agencies:

- (a) Formal selection and hiring processes have taken place to fill staff vacancies of ICMBIO and SFB;
- (b) Fundo Clima, a Fund operated by BNDES dedicated to finance projects that contribute to mitigation and adaptation to climate change, was approved and started operations in 2012, in accordance with the National Climate Change Policy;
- (c) BNDES’s new Socio-Environmental Policy (Resolution 2025) is being applied to most of its portfolio since 2011;
- (d) the Ecological Economic Zoning at the macro scale of the Amazon Region, based on PAS (Sustainable Amazon Plan), was concluded;
- (e) operational policies for the Amazon Fund were approved and the Fund is operating and supporting projects;
- (f) the Atlantic Forest Fund (*Iniciativa BNDES Mata Atlântica*) was created and is operating;
- (g) ANA signed cooperation agreements with all states and the Federal District, for the purpose of implementing the National Water Quality Evaluation Program (PNQA);
- (h) PRODES rules and regulations governing payments for wastewater treatment were updated and approved by ANA in 2011;
- (i) The Low Carbon emission agricultural Plan and credit line created in 2010.

49. In particular, we would like to highlight the commitment of BNDES to improving its environmental and social systems, as amply demonstrated during the period of implementation of the SEM DPL – a fact that was recognized by World Bank management. Regrettably, this effort has eluded the analysis of the IEG, due to the

critical failures that permeate this assessment, as outlined in this section and the **Part B** of this document, below, prepared by BNDES.

PART B – SPECIFIC COMMENTS FROM BNDES

Presentation

50. BNDES was one of the leading participants of the SEM DPL due to its position as the main funding institution for long-term industrial and infrastructure projects, as well as for micro, small and medium-sized companies. Therefore, under these conditions, there is high potential for a development bank to provide financing for social and environmental investments. The BNDES has a powerful set of risk mitigation mechanisms and financial instruments to strengthen sustainability in Brazil.

51. The World Bank realized the BNDES' potential and contribution to Brazil's environmental policies. The SEM DPL can be considered a milestone in developing such policies since it helped accelerate changes in the BNDES' organizational framework and consolidated its social and environmental management system.

52. Currently, financial institutions worldwide face the challenge of creating and especially applying social and environmental policies. The BNDES is undergoing the same process and has a long history of improving internal operating policies and guidelines. Interaction with other institutions from developing countries and with national and international development banks allows substantial knowledge-sharing of their practices and plays an important role in improving the BNDES' policies.

53. Unfortunately, the IEG's evaluation was unable to accurately show this reality and had methodological and analytical shortcomings. As one of the institutions that maintained obligations to the DPL, the BNDES strongly contests the IEG's ratings related to its performance.

54. Besides complying with the terms of the DPL, the BNDES has demonstrated its historical evolution in social and environmental aspects since the 1970s. Evidence of such progress is presented in this document and confirms the BNDES' commitment to permanently improving social and environmental policies, more closely from 2008, after SEM DPL negotiations. Therefore, we refute the claim the BNDES lacks commitment to improving its institutional framework on social and environmental issues.

55. The IEG's analysis and conclusions concerning the BNDES do not have the quality of independence expressed in its name, taking into consideration its pre-conceived positions that disqualify the Bank's performance. These are partial views on the BNDES and Brazilian society's efforts to promote sustainable development. In sum, in this document, we identify the following methodological shortcomings in the document presented by the IEG:

a) Shortcomings in data collection

56. Given the scope and importance of the BNDES' commitments to the DPL, the amount of time IEG staff devoted to collecting information on the BNDES' performance was insufficient. The consequences of this option strongly impacted the Project Performance Assessment Report (PPAR) and resulted in partial and extremely negative reviews on the BNDES;

57. IEG held one single interview with BNDES staff and did not make additional visits to understand the Bank's broad range of initiatives regarding the social and environmental aspects – which seems to have significantly affected the results of their Report.

58. The IEG team visited the town of Altamira in the state of Pará and the Belo Monte Hydroelectric Rio site located in the Xingu River and interviewed a large number of people in the region. They used this single case to make generalized assessments on the BNDES' application of social and environmental policies. Thus, two serious mistakes can be revealed. Firstly, IEG did not consider the Bank's social and environmental performance in the Belo Monte project. In consequence, relevant aspects were hidden, and IEG's analysis became an oversimplification of a very complex issue. Secondly, IEG did not assess other projects financed by the BNDES and known for their positive environmental outcomes.

b) Flawed Analysis

59. All sections of the PPAR reveal an inadequate procedure regarding analysis on the BNDES' participation in DPL. The author selects the aspects that try to demonstrate a pre-conceived view that the BNDES has no commitment to improving its social and environmental policy. For example, the significant increase in the BNDES' financing for renewable energies, particularly wind parks and biomass, is not properly mentioned. The PPAR clearly demonstrates the lack of knowledge concerning Brazil's social and environmental challenges and the scope of the BNDES' efforts beyond the terms of the DPL.

60. Contrary to what is stated in the report, the BNDES considers the influence from the whole process of structuring the transaction positive, including the constant interaction with the World Bank technical team, as well as the institutionalization of social and environmental issues in the BNDES' debate. The DPL played a key role in accelerating the implementation and formalization of ongoing processes and policies in the institution.

61. The BNDES would not have achieved the same progress socially and environmentally had a strong commitment to the World Bank, through the DPL, not established in first place. Through the SEM DPL, the BNDES' activities took on an

implementation schedule, and setting up the social and environmental agenda in the institution became more agile. Furthermore, there was an important increase in the quality of technical work related to the activities agreed upon with the World Bank.

62. The IEG report also fails to analyze the progress of the BNDES' social and environmental performance, which significantly improved in the 2009-2014 period as a result of prioritizing the issue in the institution's strategy and consolidating major changes in structure, changes, policies and instruments. All of this contributed to strengthening the approach to social and environmental issues in the operational flow. Achievements in this period, together with current initiatives, relate closely to the way the Bank's approach to the subject has matured over the years, bolstered by the DPL and the partnership with the World Bank.

63. Unreasonably, the IEG report does not highlight the positive outcomes of social and environmental policy for the cattle-raising sector, despite the relevance of the topic. The Report did not consider the boldness of the BNDES in creating such new instruments, especially the criteria and forms of support for environmental improvements in the performance of meat-packing companies. The omission of this matter reflects the negative bias IEG's analysis employed.

64. IEG did not grasp the scope and improvement in the BNDES' performance as a result of the DPL in issues such as the Amazon Fund, support for forest restoration, knowledge conception in specific sectors with the support of the World Bank, transparency related to the BNDES' operations and relations with civil society.

65. Finally, the report minimizes the role of the BNDES in the Brazilian economy (§ 2:27 - page 13). Despite being "only" (SIC) the 5th largest bank in Brazil to be taken as a basis for comparing total assets (Colby, S. 2012), the BNDES is the main source of long-term financing in the country, responsible for over 70% of long-term bank loans in Brazil. Furthermore, due to the operations maintained with more than 80 commercial banks as financial agents in indirect operations, the BNDES boosts the dissemination of sustainability within the Brazilian financial system. The Bank is also the largest State-owned bank with international recognition from an environmental point of view.

66. The intensification of the BNDES' international performance coincides with a period of structural change in the Brazilian economy. Overall, this period is also marked by a return to the debate related to environmental issues, which has taken a prominent position on the agenda of governments, governmental and private financial institutions, as well as multilateral agencies. As already mentioned, interaction with other international development institutions and the knowledge of their practices and policies has an important role in improving the BNDES' policies.

67. International recognition of the BNDES' practices can be understood for its participation in high level fora that promote discussions on sustainability, such as the UN's panels "Sustainable Energy for All" and "CDM Policy Dialogue", as well as the

Bank's participation in development bank associations dedicated to disseminating good practices and experience-sharing on the subject. Likewise, the several loan agreements signed with major international development banks, to support projects in Brazil so as to foster the climate change mitigation, strengthen confidence in the BNDES' policies, practices and procedures applied when financing its operations.

68. In sum, as will be demonstrated later, the IEG team presented no independence that was essential in preparing such a report. In contrast, the IEG seems to have already had a thesis to defend and selectively chose the arguments to support it.

IMPORTANCE OF THE SEM DPL TO THE BNDES

69. Before presenting the BNDES' arguments related to each criticism presented by the IEG Report, it is important to demonstrate the institution's track record of efforts and advancements in the social and environmental fields, with vast acceleration throughout the 2009-2014 period.

70. From 1976 onwards, the BNDES was one of the first institutions in Brazil to identify and address the environmental variable in its technical analyses that precede any offer of financial support for projects. Note that after incorporating environmentally-related criteria into its procedures, the acronym used for the bank (BNDE) gained the additional letter "S" (for social) which symbolizes the bank's interest in directly supporting social projects.

71. In 1989, the BNDES established its first environmental unit (at departmental level). This was responsible for coordinating the process for internalizing the environmental aspect into the bank's operational procedures and also for rating operations according to their environmental impact.

72. In 1995, the BNDES was instrumental in influencing public banks to give formal status to the '*Protocolo Verde*' (Green Protocol). Later, in 2008, the BNDES and the federal public banks, together with the Ministry of the Environment, welcomed the "Protocol of Intent for Socio-Environmental Responsibility", which effectively updated the Green Protocol.

73. In 2008, when negotiations on DPL commenced, the BNDES sought to show the WB team how the bank's socio-environmental activities had gradually evolved through the 1970s, 1980s, 1990s and into the present century. The BNDES also described the assorted initiatives that were being examined at that time, such as new credit lines for financing social and environment-related investments, socio-environmental sectorial policies, training courses for BNDES analysts, new procedures for socio-environmental analysis of projects and, finally, the possible creation of an Environmental Division within the bank.

74. This discussion and negotiation process with the experienced World Bank team was important in defining the measures needed to develop planned activities. The

implementation of the socio-environmental agenda in the Bank was thus given a boost, resulting inter alia in better quality work by the technical teams directly involved in the activities agreed upon with the WB.

75. For the 2009-2014 period, advancing and strengthening the BNDES' commitment to the social and environmental facets can be attested when analyzing the Bank's strategy and the relevant changes that occurred over these years, regarding its organizational structure, policies, procedures and operational tools.

76. In 2008, the BNDES commenced a new cycle of corporate planning covering the 2009-2014 period, which gave concrete expression to its strategic objectives, particularly regarding its international and socio-environmental efforts. The topics "socio-environmental development" and "socio-environmental responsibility" were selected as priorities in the BNDES' strategic plan set forth in 2008, as can be seen in the BNDES' Strategic Guidelines for the 2009-2014 period¹. These Guidelines were then incorporated into a "Corporate Balanced Scorecard (BSC)"², highlighting the goals of the strategy as well as the key measures needed to ensure its success.

77. The same resolution contained "Guidelines for Across-the-Board Issues", placing emphasis on fostering local, regional and socio-environmental development, establishing of the BNDES' Corporate Social Responsibility Policy (CSR Policy) and the need to enhance ongoing training in these areas.

78. To ensure that the BSC's goals are correctly implemented, the BNDES' senior management, each year, prioritizes the strategic issues for the "Corporate Projects" to focus on³. The matter of "Sustainability Management" was prioritized as a corporate project in 2010, 2011, 2012, 2013 and 2014. Every year, these projects contribute to the ongoing improvement not only of the BNDES' socio-environmental management system but also its tools for supporting sustainable development. It is clear that sustainability is an important topic for the BNDES in view of the existence of corporate projects since 2010, which specifically address the socio-environmental aspects.

79. Further evidence of the BNDES' growing expertise in this matter are the changes that the Bank has introduced to its organizational structure over the past few years.

¹ The "12 Strategic Guidelines" of the Corporate Plan 2009/2014, together with the 'Mission' and 'Vision' of the institution, formed the basis for formulating the Bank's corporate strategy.

² The 2012 Annual Review of the Bank's strategic objectives resulted in improvements to and updating of the goals in the Corporate BSC. This latest version of the BSC, still in effect in 2014, highlights the main strategic objectives: (i) "to encourage innovation, environmental sustainability and regional development" and (ii) "to contribute to social and production inclusion"

³ The work schedules for corporate projects have been monitored monthly since 2013 by a Project Guidance Committee consisting of two of the Bank's managing directors and two of its deputy managing directors. Its activities are undertaken by teams from different divisions within the BNDES using an across-the-board approach.

80. In 2008, the BNDES upgraded its Environment Department (in the Planning Division) to an Environmental and Social Responsibility Department, and adjusted the responsibilities of the Environmental Working Group, now known as the Socio-Environmental Task Group.

81. In 2009, an area dedicated specifically to the environment (the Environmental Division - AMA) was created, together with its respective departments. Creating the Bank's Environmental Division was a significant breakthrough in structural terms, leading to an increase in the number of officials working on the subject, and once again demonstrating BNDES' determination to incorporate environmental issues in all its project and lending analyses. The Environmental Division, which currently employs 68 officials, immediately set to work to explore opportunities to engage the Bank in international environmentally-related activities. Finally, it is worth noting that officials from AMA are allowed formal access to the BNDES' collective decision-making process, which again highlights the Bank's commitment to ensuring that socio-environmental matters are taken into account before any financial support is approved.

82. In 2008, simultaneously with the creation of the Planning Division, the BNDES' executives decided to maintain a specific structure (the "Department of Articulation"-DEPAS) within the Planning Division (AP) to deal with Social and Environmental Responsibility and foster regional development, liaising with several BNDES departments. This new structure, coupled with the already existing Social Inclusion Division, gave way to a more ambitious agenda for the BNDES' activities in the socio-environmental area.

83. In 2012, by strengthening and broadening the BNDES' sustainability agenda, further organizational adjustment was made. The DEART would then be merged with the department responsible for the BNDES' Operational Policies (in the Planning Division) to form the Policy, Articulation and Sustainability Department (DEPAS), thus giving even greater priority to the sustainability issue within the Bank's structure. The main reason for merging the above-mentioned departments was basically to ensure that sustainability was prioritized in the "Operational Policies", the heart of the BNDES' operations.

84. Finally, to reiterate the continued progress and strengthening of the BNDES' commitment, what has stood out more recently is the creation of the Sustainability Committee in 2014. Establishing such a Committee was held under a general review of corporate governance in the BNDES, which culminated in realigning internal committees to help implement the institution's strategic objectives.

85. The BNDES' engagement in sustainable development can also be seen by the involvement of the Bank and its staff in national and international initiatives related to the subject.

86. One example of this was the Bank's involvement in Rio +20. The BNDES was the official sponsor of the event, providing financial support to the tune of R\$ 2.9 million which, according to the Brazilian Foreign Ministry, was essential in supporting the "Sustainable Development Dialogues" cycle.

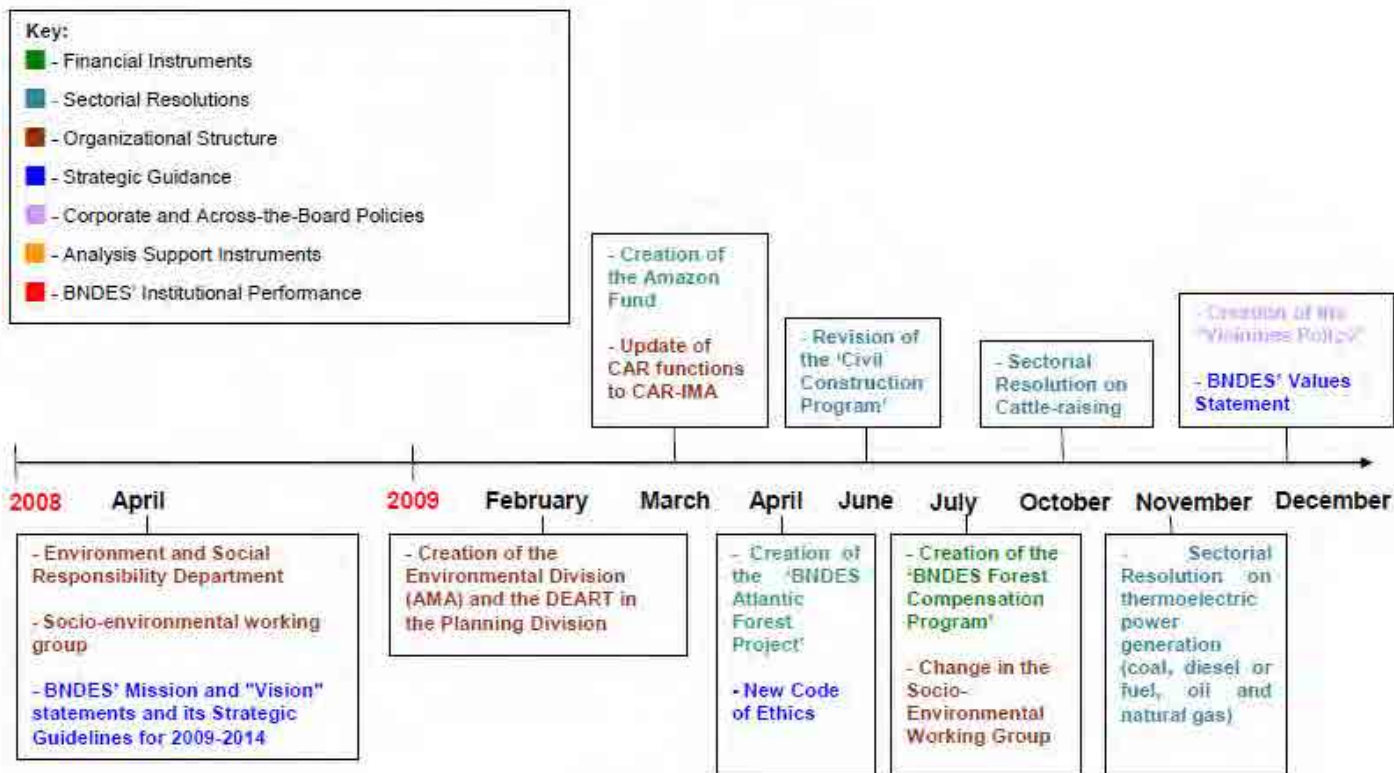
87. The Bank also supported Rio+20 from early 2012 by lending its premises to the National Organizing Committee (CNO Rio+20). Moreover, senior managers from the Bank formed part of the Brazilian government's delegation at the event.⁴

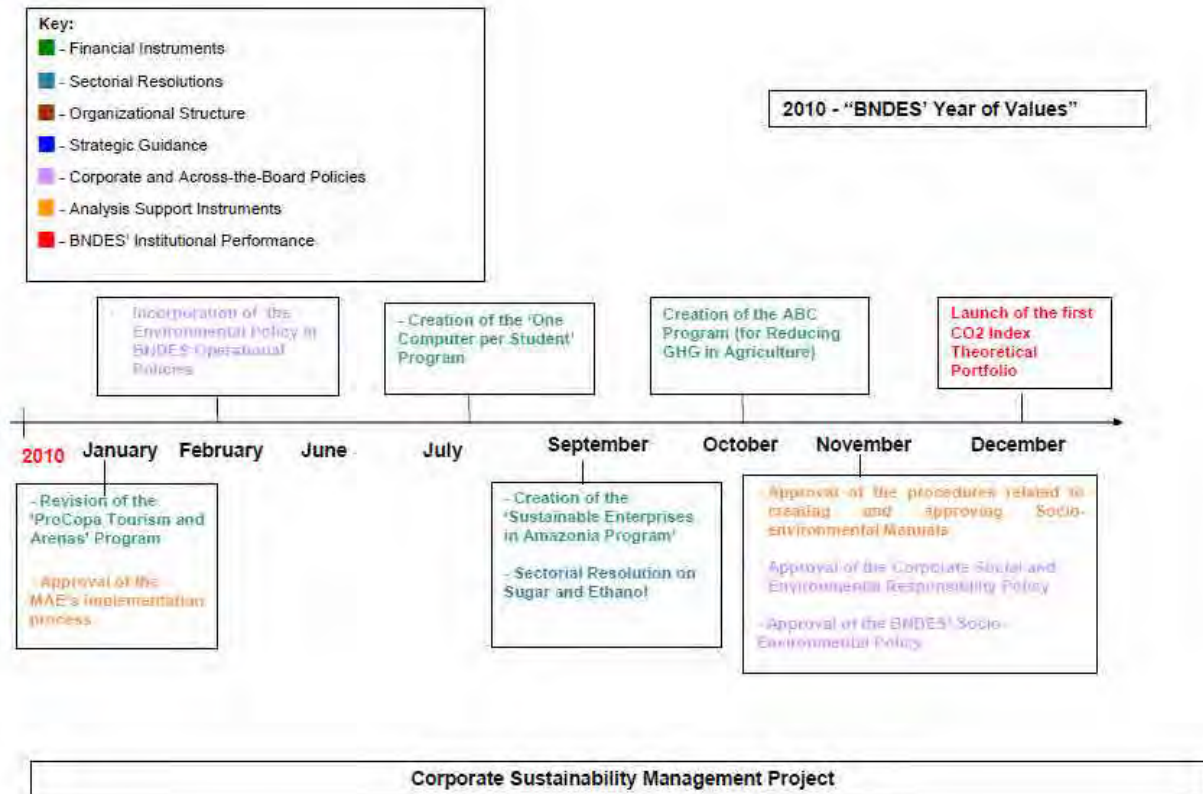
88. Within the legal context, since 2012, the BNDES has actively participated in discussions on new regulation from the National Monetary Council on the environmental and social responsibility policy of financial institutions, published in April 2014. This new regulatory instrument will be key to strengthening and consolidating the socio-environmental agenda in the financial sector and to helping show ways to permanently improve transparency and sustainability practices. The year 2015 is the deadline for financial institutions to present action plans and tools related to fulfilling regulatory obligations.

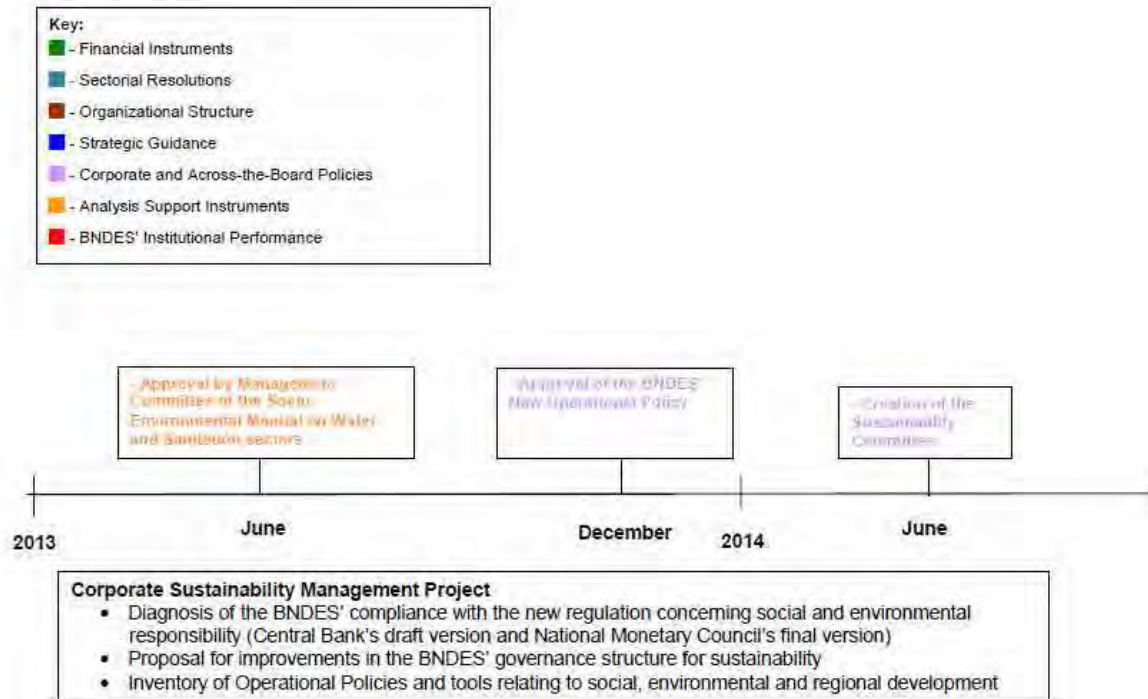
89. To illustrate the BNDES' track record regarding the social and environmental efforts, the following tables summarize the major decisions taken by the Bank's executives related to: strategy, corporate and across-the-board policies, organizational structure, financial products to finance environmental and social investments, sectorial resolutions with socio-environmental criteria that complement Brazilian legislation, tools to support operational analyses and assessments of the socio-environmental profiles of projects and customers.

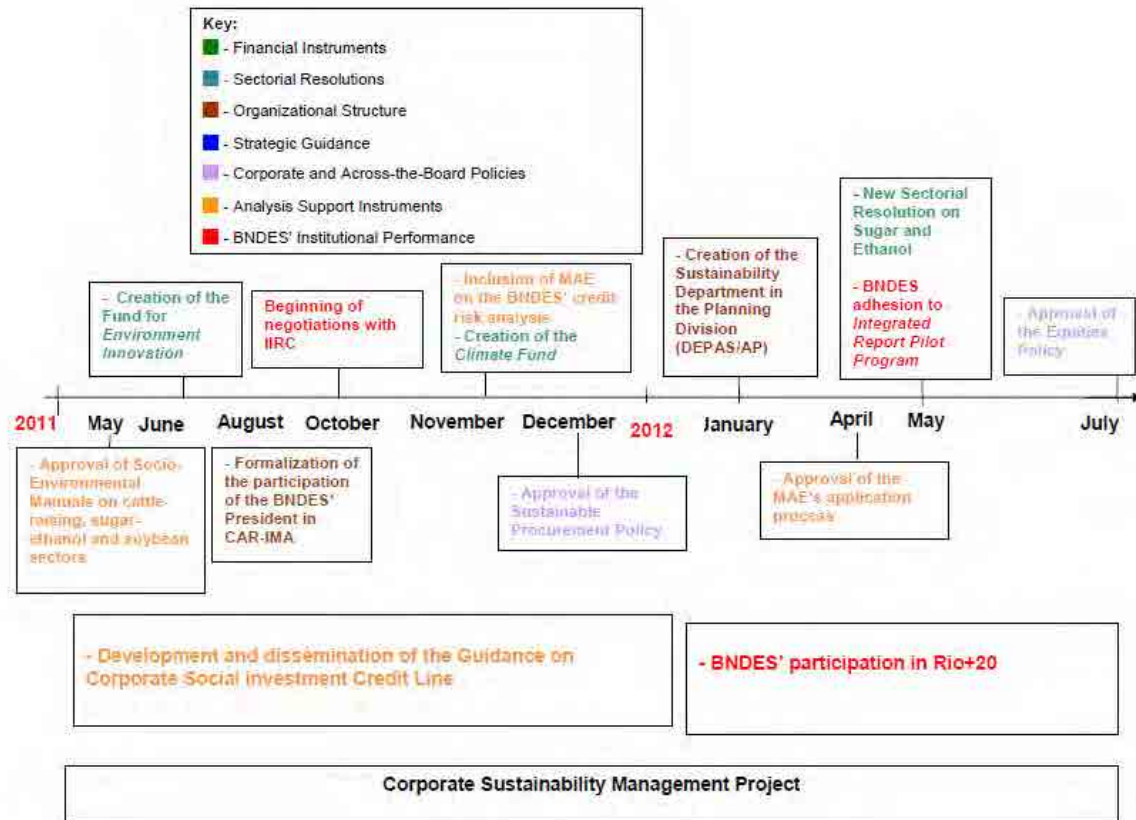
90. These achievements are representative that the BNDES' approach to the matter has matured significantly, which has been bolstered by the DPL and its partnership with the World Bank. Contrary to what was stated in the IEG document, the DPL in fact played an important role in developing the scope and effectiveness of the BNDES' socio-environmental policy.

⁴ The BNDES encouraged its officials to attend the event and to thoroughly familiarize themselves with environmental questions. Over a period of 10 days, approximately 150 representatives from seven different areas, departments and divisions of the bank attended the event in Rio de Janeiro. Some 60 BNDES officials attended the above-mentioned development dialogues cycle, where they participated in valuable discussions on innovation, water, energy, forests, poverty eradication, sustainable production and consumption etc. The institution also contributed to discussions at official level and in the parallel programmed events. The BNDES had a booth at the *Athletes' Park*, which provided information on the Bank's financing mechanisms. A special area was set aside there for Amazon Fund personnel to exchange views with different stakeholders and distribute information on its main partnership projects.









ACHIEVING THE SEM DPL'S OBJECTIVES

91. This section contains the BNDES' responses to criticism presented in the IEG report with regard to limitations in achieving the SEM DPL's objectives. The comments are grouped into two sub-objectives, following the same structure proposed by the IEG report:

- A. Improving the overall Brazilian environmental management system
- B. Integrating principles of sustainable development in key sectors

92. Sub-objective B was further divided into four policy areas: natural resource management and conservation (B1), water resource management (B2), environmental sanitation (B3), and renewable energy (B4).

Improving Brazil's overall environmental management system (Objective A)

93. The SEM DPL aimed to support policy reforms to improve and standardize environmental management system by:

- (i) improving the effectiveness of government environmental agencies, including the MMA and IBAMA, in implementing mandated Brazilian environmental and social management procedures, through restructuring and staffing increases;
- (ii) mainstreaming climate change in public and private sector investments by drafting and approving a National Climate Change Action Plan, and by the BNDES implementing clean development and carbon fund programs; and
- (iii) improving the effectiveness of environmental and social management systems in the BNDES and other financial institutions, by approving a revised Green Protocol to be adopted by all of Brazil's federal public banks, the BNDES approving and applying a new Environmental and Social Institutional Policy to all its directly-financed operations, and finally the expanding the application of this new policy to the BNDES' entire portfolio.

94. This section presents the BNDES' comments related to topic (iii), in response to the arguments brought by the IEG report.

95. First, it presents comments on the affirmative regarding the failure to achieve the objective of improving the social and environmental management system in the Brazilian financial sector by adopting the Green Protocol (hereinafter Objective A1). Then the allegations of failure to achieve the objective of improving the social and environmental management system in the BNDES are discussed (hereinafter Objective A2).

Improving the effectiveness of environmental and social management systems in the Brazilian financial sector (Objective A1)

96. In relation to this objective, the IEG report argues that the revised Green Protocol “ceased to be implemented and lost its relevance” (Summary, page xiv), thus becoming unable to help improve the effectiveness of environmental and social management systems in the Brazilian financial sector. There are also allegations of a lack of information concerning implementation or the results of the Green Protocol.

97. The IEG’s main criticism is presented as follows:

With regard to improving the effectiveness of environmental and social management systems in BNDES and other financial institutions, the only action under this policy area related to ‘other financial institutions’ was the approval of the revised Green Protocol meant to improve environmental and social standards in Brazilian banks. But the revised Green Protocol ceased to be implemented and lost its relevance (Summary, page xiv)

To begin with, the only action under this policy area related to ‘other financial institutions’ is the first one, “Revised Green Protocol approved and signed by GOB and all federal public Brazilian Banks, including BNDES”. But neither the Program Document, nor the ICR, nor the BNDES or MMA inputs to the ICR provide adequate information on the signing, implementation, or results of the Green Protocol (GP). (...) (4.27)

Very little information is available on the current status or past implementation of the “revised Green Protocol”. For this policy area more generally, there is no information in the ICR on any banks other than BNDES (...). So IEG enquired about the status of the Green Protocol with officials of FEBRABAN, the Brazilian banking federation, and were told that implementation of the 2008 revision of the Green Protocol that the SEM DPL was supposed to have supported is “on standby”, and moreover that “the Protocol has lost its importance as an instrument of voluntary and guiding action of banks” (4.28)

98. The comments in the IEG paper demonstrate a lack of knowledge when it comes to creating, structuring and adhering to the Green Protocol (GP).

99. The IEG minimizes the importance of the Green Protocol in the Brazilian financial system. The first version of the Green Protocol, signed in 1995 by a group of State-owned banks, on the initiative and under the leadership of the BNDES, was

important as a guideline for a set of initiatives of the banks concerning socio-environmental policies.

100. In 2008, an updated version of the GP was signed by the same banks (Banco do Brasil, Caixa, Banco do Nordeste, Banco da Amazônia and the BNDES), establishing new principles and guidelines. Since then, these institutions have significantly improved their practices not only in terms of criteria and safeguards, but also their portfolio of financial instruments related to social and environmental development.

101. The IEG did not attempt to the fact that the GP is monitored separately by each of the signatory banks. By failing to consult these banks, the IEG could not confirm this evolutionary trend – a fact which almost certainly detracted from the IEG’s independent analysis, especially since two of these banks, Banco do Brasil and Caixa, are signatories to the Equator Principles.

102. Furthermore, to state that the Green Protocol does not meet international standards reveals the superficial perception of the IEG review, since it fails to understand that the structure of the GP is not the same as that of the Equator Principles or other protocols that establish detailed procedures. The GP only sets out general guidelines and should not be compared with what is considered to be the international benchmark.

103. The Green Protocol, as a voluntary undertaking, played an important role in improving the sector’s approach to the socio-environmental issue, to the extent that ambitious obligations were included in regulation related to the environmental responsibility of financial institutions, published by the National Monetary Council (CMN) in 2014.

104. The CMN Resolution N^o 4,327/2014,⁵ approved in April 2014, addresses the socio-environmental responsibility of financial institutions and other institutions that Brazil’s Central Bank has authorized to operate. Among the obligations presented in the CMN Regulation, the following are of particular interest:

- to establish and implement a socio-environmental responsibility policy, consistent with the nature and complexity of its (i.e. the financial institution’s) services and products supplied and proportionate to the socio-environmental risk exposure of the institution;

⁵ On June 13, 2012, Public Hearing Notice 41/2012 was published by the Central Bank of Brazil. This contained the drafts of two normative acts related to the environmental responsibility of financial institutions and other institutions with Central Bank operating licenses. The first draft memo addresses the formalization and implementation of a Social and Environmental Responsibility Policy, and the other deals with the regular disclosure of duly audited social and environmental responsibility reports. In October 2013, the Central Bank circulated a new version of the latter, containing comments received by the CB as a result of the first public hearing. This draft was to be subject to a further public ‘restricted’ hearing.

- to maintain a governance structure capable of ensuring compliance with the guidelines and objectives of the Social and Environmental Responsibility Policy (PRSA), with responsibilities for monitoring compliance with the efforts established in the PRSA, assessing the effectiveness of the efforts made, verifying the adequacy of the socio-environmental risk management established in the PRSA and identifying possible shortcomings in implementing efforts;
- to implement a social and environmental risk management system, which includes systems, routines and procedures for identifying, classifying, evaluating, monitoring, mitigating and controlling the environmental risk presented by the institution's efforts and active operations;
- a preliminary assessment of the potential negative social and environmental impacts of new types of products and services;
- to establish procedures to ensure that the environmental risk management system is in keeping with legal, regulatory and market changes;
- to establish criteria and specific mechanisms of risk mitigation for economic activities with high potential of causing socio-environmental damage.

105. Brazil's Central Bank coordinated the development of the resolution, promoting discussions among different stakeholders, including the BNDES, and a series of public and confidential hearings, all of which have highlighted the mature approach of financial institutions to socio-environmental responsibility. The Central Bank's role as a regulator of the sector has given this institution a key role in understanding the reality of the sector and in proposing rules to foster the socio-environmental responsibility of the country's financial institutions.

106. The BNDES favors the publication of regulations on social and environmental responsibility in the financial sector. The CMN Regulation dovetails with the ongoing efforts by the BNDES to improve its social and environmental performance. Moreover, it is clear that by fostering socio-environmental responsibility in the financial sector, future rules and regulations will tend to simplify the complex challenge facing the BNDES in its quest to encourage responsible social and environmental behavior among financial agents.

107. Thus, contrary to IEG's assertions, there was significant improvement in social and environmental management of financial institutions since DPL's arrival, and the Green Protocol plays a key role in this context. Continuous improvement is also ensured since these initiatives, previously voluntary, became a legal obligation issued by the

National Monetary Council through a resolution focused on social and environmental responsibility of financial institutions.

Improving the effectiveness of environmental and social management systems in the BNDES (Objective A2)

108. According to the IEG, “there has been little if any discernible improvement in the performance of BNDES’ environmental and social system compared to the one described – and critiqued – by the World Bank team during preparation” (Summary, page xiv). Throughout the document, the following arguments have been used by IEG to justify this conclusion:

- Weaknesses in the BNDES’ policies, particularly the Social and Environmental Responsibility Policy of the BNDES System (Resolution 2023) and the Socio-Environmental Policy (Resolution 2025) (3.1.2.1)
- Lack of commitment by the BNDES to improve its environmental management system (3.1.2.2)
- Limitations related to the development of sectorial guidelines (3.1.2.3)
- Lack of evidence concerning the application of the BNDES’ social and environmental policies (3.1.2.4)
- Lack of evidence concerning the application of the BNDES’ social and environmental policies to its indirect operations and exports sector (3.1.2.5)
- Lack of transparency and consultation with civil society (3.1.2.6)

109. The BNDES’ comments concerning the points mentioned above are presented below:

Weaknesses in the BNDES’ policies, particularly the Social and Environmental Responsibility Policy of the BNDES System (Resolution 2023) and the Socio-Environmental Policy (Resolution 2025)

110. With regard to the Social and Environmental Responsibility Policy of the BNDES System (Resolution 2023), the following criticism is presented in the IEG Report:

(...) In a slight deviation from what is stated in the Tranche Release Document, Resolution 2023 is actually titled Social and Environmental Responsibility Policy of the BNDES System (i.e. there is no Governance). It could be best described as a general statement of corporate values with regard to social and environmental issues, such as ‘To promote an integrated development that includes the economic, social and environmental dimensions’ and ‘Proactive attitude in line with the Brazilian public policies and rules, while in observance of international norms of behaviour’. It contains no information on how these policies

are to be implemented or to which parts of the BNDES portfolio they apply. (4.35)

111. IEG's statements reflect a lack of knowledge when it comes to the BNDES' structure and policies and the important role played by its Corporate Policy in Social and Environmental Responsibility.

112. The BNDES' Corporate Environmental and Social Responsibility Policy (CSR Policy) was approved in 2010 by Resolution N°. 2.023/2010. This emerged from the 2009-2014 Strategic Plan, adopting references such as ISO 26000 and the Protocol of Intention for Social Responsibility - "The New Green Protocol", signed by the BNDES in 2008. The CSR Policy is an important document formalizing the guidelines and principles that guide the work of the BNDES in its quest for social and environmental responsibility.

113. The CSR policy aims to provide greater consistency to the BNDES' existing tools related to socio-environmental issues, as well as to guide the development of other instruments based on the same principles and guidelines. The policy purposely does not establish procedures since, in accordance with the BNDES' norms, **these are defined as 'BNDES Socio-Environmental Policy' under Operational Policies.**

114. The Policy sets out four principles and 10 guidelines related to the strategic and operational activities of the Bank, its relationship with stakeholders and its role in encouraging and fostering sustainability. The principles and guidelines contained in the policy encompass the BNDES' varying activities, demonstrating that the institution possesses sufficient maturity to understand the responsibilities inherent to all of them.

115. Moreover, within the CSR Policy, a definition of social and environmental responsibility is clearly presented: "... to value and ensure the integration of social and environmental dimensions in its strategy, policies, practices and procedures in all its activities and relationships with its various stakeholders". The BNDES has taken steps to comply with all of these goals, as will be discussed later in this paper.

116. Finally, it is worth mentioning that although the word "Governance" does not appear in the title of this policy, a section entitled "Strategy and Governance" specifically deals with this issue. This section states that the BNDES employs "... teams dedicated to social and environmental issues and corporate committees for discussing, deciding and monitoring the integration of the social and environmental dimension in the bank's strategy, policies, practices and procedures".

117. Regarding the BNDES' governance structure concerning this topic, it is worth mentioning the Social and Environmental Sustainability Committee, created in 2014 as part of a broader process for reviewing the structure of collegiates inside the institution.

118. The IEG Report also criticizes the BNDES' Social and Environmental Policy (Resolution 2025):

But the contents of Resolution 2025 are, like Resolution 2023, quite vague. It begins with a set of 'Guidelines' that do not appear to commit the institution to anything more than adhering to Brazilian law, such as "Acting in line with government policies and legislations, in particular with the provisions of the National Environmental Policy". Similarly, under the heading "socio-environmental analysis of projects", it states that "For financial support, are observed: applicable laws, sector-specific norms,..." and so on. In terms of responses, it goes on to explain that BNDES "may" take various actions. There is nothing that resembles a specific, binding environmental or social safeguard. (4.36)

119. The IEG report brings unfounded criticism on the BNDES' Social and Environmental Policy (Resolution 2025). IEG biasedly selected isolated excerpts of the Social and Environmental Policy, minimizing its content and its importance to the institution.

120. The Socio-Environmental Policy describes the procedures when identifying and addressing the social and environmental impacts of financed projects (in the non-automatic direct and indirect modalities) at the different stages of the financial support process. This document, on an operational level, lays forth the guidelines and principles of the CSR Policy.

121. The Socio-Environmental Policy specifies, for example, that at the screening stage ("eligibility") a preliminary analysis of socio-environmental matters related to the project and the beneficiary must be carried out. This is based on a set of data requested from the applicant company (Application Form and its Annexes) and on a survey of the borrower's registration, including verification of any records related to labor practices concerning slavery, environmental crimes and activities in areas forbidden by IBAMA.

122. As specified in the Socio-Environmental Policy, projects are also ranked according to their environmental risks (A, B or C), considering sector, type of activity, location, and the size and nature of the environmental impacts related to the project.

123. This preliminary analysis results in social and environmental recommendations to be observed during the analysis stage. These recommendations aim to promote environmental compliance and sustainability in any projects supported by the Bank. The ratification of social and environmental recommendations occurs within the Eligibility and Credit Committee (CEC), which comprises the BNDES' deputy managing directors.

124. The Socio-Environmental Policy also sets forth procedures to be followed during the analysis, approval and awarding stages, e.g.:

- The beneficiary (company, etc.) is assessed in light of its environmental policies, practices and management, and account is taken of the beneficiary's adherence to public policies and sustainable local and regional development.
- An assessment is also undertaken to evaluate the beneficiary's status *vis-à-vis* environmental agencies, any pending legal problems and whether environment-related performance has been satisfactory.
- An assessment of the main social and environmental impacts of projects, including impacts on their immediate surroundings, their adhesion, wherever appropriate, to preventive and mitigating efforts proposed in the environmental licensing arrangements and, finally, verification of regular compliance with environmental procedures.
- An assessment of compliance with legal environmental requirements, especially with the ecological-economic and/or agro-ecological zoning rules, and verification of the existence (or not) of practices constituting crimes against the environment.
- The preparation of social and environmental indicators to monitor and assess the beneficiary and the project (as applicable).
- The inclusion of contractual clauses of a social and/or environmental nature which may come to light as a result of the assessment undertaken (of the beneficiary and company), in accordance with legal requirements, if applicable.

125. It is important to note that the BNDES possesses a set of prior-to-contract conditions and standard contractual clauses regarding social and environmental issues for each type of contract signed. In addition, a number of specific conditions of a social and/or environmental nature may be included in the contract, based on the assessment carried out (of the borrower and the project).

126. Furthermore, the Socio-Environmental Policy states that the following steps must be taken at the monitoring stage:

- Verification of tax, social security and environmental status of the project beneficiary;
- Verification of the beneficiary's compliance with possible mitigation measures, obligations to adjust conduct and any problems involving the contract and environmental permits, if applicable;
- Tracking of social and environmental indicators to monitor and assess the project beneficiary, if applicable;
- Presentation of the Operating License of the project to be supported, if applicable.

127. The Socio-Environmental Policy establishes procedures to be followed (by all economic sectors) at the various stages of the operational flow. For certain sectors, additional rules exist over and above the general procedures. This has been the case

over the last four years for the cattle-raising, sugar and ethanol industries, power generating plants (coal, diesel or oil) and the natural gas sectors. Technical work continues with discussions on resolutions for sectors that are already supported and, in addition, the development of new instruments.

128. Finally, the IEG Report also criticizes the fact that the BNDES preferred to develop its own policies instead of being a signatory to the Equator Principles. Besides this, the IEG Report compares the BNDES' Policies with the Equator Principles, arguing that the BNDES' Policies are much less specific and detailed than the Equator Principles. This criticism is presented as follows:

The IFC had been working with BNDES to improve their environmental and social standards before the SEM DPL, but their efforts were later sidelined. (p. xvii)

(...) BNDES had the opportunity to adopt the EPs through collaboration with IFC at the time that the SEM DPL was prepared, but instead chose to develop its own approach. Meanwhile, other major public and private Brazilian banks - include large state-owned banks like Caixa Econômica Federal and Banco do Brasil - have already signed on to the EPs. (4.29)

(...) Adoption of the Equator Principles could have been a policy action under the loan, and would have saved BNDES from "reinventing the wheel", in developing its policies, and would have integrated them in an established community of practice. Instead, the Bank team neglected to incorporate IFC in its engagement with BNDES on environmental and social issues, and BNDES's engagement with IFC on these issues stalled (5.17)

(...) The Green Protocol and BNDES's environmental and social policies are much less specific and detailed than the EPs. The elements of the GP and BNDES's environmental and social policies are more like general principles, and therefore would require additional work to develop operational procedures to make them implementable. In the case of BNDES, this was apparently to be primarily through the promised sector-specific guidelines. (4.30)

The EPs put a common global "floor" under environmental and social standards by establishing that if a country's national environmental and social legislation and capacity are insufficient, then the financial institution will adopt the IFC's Performance Standards.

The EPs include specific requirements on transparency, the GP's and BNDES's policies do not. (4.30)

The EPs provide for a grievance mechanism, the GPs and BNDES's policies do not (4.30).

The EPs include specific requirements on stakeholder consultation; the GPs and BNDES's policies do not (4.30).

These differences are significant, and would already vitiate the effectiveness of the GPs and BNDES's environmental and social policies even if they were fully implemented (4.31).

129. Concerning the criticism that the BNDES is not a signatory to the Equator Principles, it must be mentioned that, in keeping with the position adopted by other development banks, the BNDES in 2006 studied the proposal, but decided to develop its own more comprehensive methods to assess projects (including social and environmental projects), that resemble the procedures set out in the Equator Principles.

130. There are two aspects that played a key role in this decision. The first concerns the asymmetry of obligations between high-income OECD countries and the rest. For the former, the Equator Principles affirmed that it was sufficient to 'undertake a socio-environmental assessment' and comply with the requirements of national/local legislation. For the latter, it was necessary for them to follow the IFC and World Bank standards, verify the Action Plan of the company involved, and refer the entire process to an independent review by specialist consultants. Even taking into account that some problems might arise in ensuring compliance with Brazilian social and environmental legislation, asymmetry reveals a somewhat astringent view of the legal and institutional apparatus in these countries. In Brazil's case, it does not seem to be appropriate in any shape or form. Moreover, submitting projects to the scrutiny of third parties does not appear to be necessary, given the BNDES' acknowledged institutional and operational capacity to analyze its projects in light of their financial-economic viability and social, environmental or fiscal aspects.

131. A second point is that the Equator Principles were, at that time, still focused on *project finance*, while the BNDES had adopted its Environmental Policy for all direct operations (i.e. those over US\$10 million), according to their ABC environmental risk level.

132. The BNDES is still developing its procedures for conducting socio-environmental project assessments. However, in no way can it be argued that the Equator Principles should be the *benchmark* for BNDES' performance, because the BNDES' role is not only to establish safeguards and criteria, but also, and primarily, to provide incentives to improve the socio-environmental performance of economic sectors in Brazil. In short, the Equator Principles are not appropriate for a development bank's purposes and do not serve as a benchmark, as the IEG document states. The lack of understanding of this point demonstrates the superficiality of IEG's critique in this regard and a lack of understanding of the real purpose of a development bank.

133. With regards to the criticism that the BNDES' policies do not contain specific requirements on transparency and engagement with stakeholders, it is important to note that the principles espoused in the Bank's Corporate Policy on Social and

Environmental Responsibility, contain "...ethics and transparency as cornerstones of the relationship with all stakeholders, thus ensuring dialogue on and accountability for their decisions and activities".

134. A specific guideline also exists, describing transparency and engagement with stakeholders, namely: "... developing partnerships and sharing experiences with other organizations to promote social and environmental responsibility and **strengthening transparency and dialogue between stakeholders and citizen participation in governance.**"

135. The Socio-Environmental Policy does not, however, contain specific measures for disclosing information on projects. Note that, in Brazil, studies and environmental impact assessments (EIA/RIMA) that have been developed as part of the licensing process for projects with substantial environmental impacts (BNDES "A" rating) are public documents provided by the competent environmental agencies.

136. The licensing process also requires public hearings attended by all stakeholders. This documentation is submitted to the BNDES and constitutes an integral part of the analysis process of a transaction.

137. The BNDES is also systematically, and on request, prepared to dialogue with public and private entities and civil society organizations.

138. This does not mean that further progress cannot be attained. "Transparency" was, for example, the subject of a specific meeting with civil society groups this year, and a task group has been created within the BNDES to work on proposals related to this subject. Meanwhile, the Bank has continued to seek closer ties with civil society groups in an effort to understand their information needs and the nature of their demands, so that adjustments and fine-tuning can be undertaken to provide better circulation of information without compromising compliance with the national law on banking confidentiality (*Lei de Sigilo Bancário*).

A lack of commitment from the BNDES to improving its environmental management system

139. According to the IEG Report, the BNDES lacks commitment to improving its environmental system, which would consist basically of classifying the environmental risk of operations (ABC) and ensuring legal compliance. Some of the main criticism related to this topic is presented as follows:

Based on IEG's review of the evidence provided by the World Bank team and BNDES as well as third party sources, and interviews of key stakeholders, particularly the staff of BNDES, there has been little discernible improvement to BNDES's environmental and social management system compared to the one described – and critiqued – but the World Bank team during preparation. (...) (4.34)

In an interview with IEG, BNDES staff confirmed that the current extent of their project environmental and social screening and monitoring is to classify projects into categories A, B, C, which was something BNDES did even before the SEM DPL (...), and ensure that the investment has an environmental license if required by Brazilian law. To the extent that previously BNDES did not ensure that investments it financed were in compliance with Brazilian law, this could be seen as a step forward. (...) (4.39)

(...) The lack of progress on BNDES's environmental and social system is confirmed in multiple assessments by other parties since the closing of the SEM DPL (Reporter Brazil 2011; Ramos and Garzon, 2013; Widmer, 2012; Lopes Pinto, 2012). This falls short of the ambitious goals of the SEM DPL, which among other things stated that Commitment by BNDES to environmental and social outcomes is manifest by BNDES attempts to go beyond environmental and social guidelines focused solely on legal compliance (...) (4.39)

But even though their own policy requires it, BNDES has no environmental or social monitoring indicators, there is no supervision or evaluation by BNDES of environmental and social aspects of projects under implementation, and BNDES cannot reject project proposals on environmental and social grounds alone (as long as they comply with Brazilian law).(...) (4.39)

In an interview, BNDES confirmed to IEG that even today they have no environmental and social indicators with which to either monitor or evaluate the performance of their investments. (3.5)

140. IEG' criticism concerning the BNDES' lack of commitment to improving its environmental management system is unfounded. The BNDES' environmental performance made significant progress in the years 2009-2014. In addition to prioritizing the environmental issue in the Bank's strategy, major changes were effected in terms of organizational structure, policies and instruments that contributed to strengthening the way that social and environmental issues were dealt with in the operational flow. Achievements throughout the period and current initiatives are related to the development of the institution concerning this subject, and both the DPL and the partnership with the World Bank have contributed to it.

141. Some of the major advances during this period in terms of **Organizational Structure, Policies (Corporate, Sector and Cross-cutting), Financial Instruments and Analysis Support Instruments** are as follows:

Organizational Structure

142. Changes over the last few years in the BNDES' organizational structure reflect the increasing importance that the Bank has given to the socio-environmental matter.

143. In April 2008, the BNDES upgraded its Environment Department (in the Planning Division) to an Environmental and Social Responsibility Department, and adjusted the responsibilities of the Environmental Working Group, now known as the Socio-Environmental Task Group.

144. In February 2009, an area dedicated specifically to the environment (the Environmental Division - AMA) was created, and a specific department (the Articulation Department - DEART) was established in the Planning Division (AP). A review of the structure was carried out to implement the Strategic Directions within the socio-environmental context and to take responsibility for managing and administrating the *Amazon Fund* (created by the federal government on 01/08/2008).

145. This new structure demonstrated that the Bank was aware of the increasing importance of responsible socio-environmental management and the enhanced working partnership with the federal government in implementing environmental policies.

146. AMA was responsible for the following: to liaise with other operational division in the Bank to ensure that environmental support procedures were applied, especially regarding the BNDES Atlantic Forest Initiative, the BNDES Clean Development Fund and the Amazon Fund; to provide technical support for other BNDES departments on the environmental aspects of operations; to coordinate the activities of the Social and Environmental Working Group; to ensure continuous updating and training of BNDES staff on environmental issues; and, finally, to prepare and update the Socio-Environmental Manuals (*Guias Socioambientais*) as an important operational support tool.

147. DEART was set up mainly "... to coordinate the formulation of, and proposals for, BNDES policy with emphasis on territorial, social, environmental and innovation dimensions, in accordance with the guidelines set forth in the Corporate Plan 2009 - 2014".

148. As the sustainability agenda at the BNDES became stronger and expanded further, more organizational changes became necessary. DEART was merged with the department responsible for the BNDES' Operational Policies to form the Department of Policy, Articulation and Sustainability (DEPAS), thereby heightening the visibility of the sustainability issue even more within the structure of the Bank. The merger of the departments was carried out so as to strengthen the sustainability issue in the Operational Policies, the heart of the BNDES' operations.

149. In March and July 2009, also stemming from the Corporate Planning Process, the CAR (Committee for Production Arrangements and Regional Development), which

had been set up in November 2007, became the CAR-IMA (Committee for Production Arrangements, Innovation, Local and Socio-Environmental Development) in March 2009. The Committee's revised responsibilities included the key matters of 'innovation' and 'socio-environmental development'.

150. The CAR-IMA, chaired by the President of the BNDES, comprises deputy managing directors and other officials from several departments in the Bank. Its responsibilities include: assessing the potential impact of instruments adopted by the BNDES on production and innovation arrangements; local, regional and environmental development; monitoring, according to the criteria and guidelines of the competent authorities, the efforts of the BNDES' units involved with these matters and expanding the consistency of the Bank's work; and, finally, discussing and defining mechanisms to assess the BNDES' efforts in these areas.

151. In August 2011, the BNDES President (Luciano Coutinho) who, since the establishment of the CAR-IMA, had attended in 36 of its 38 regular meetings, formally became a member of the Committee. The Committee had in fact been designed by the President himself with the aim of encouraging deputy managing directors and other to objectively discuss key issues, and generally promoting better integration between departments.

152. On a final note, it should be mentioned that, in 2014, as part of a broader process of reviewing the structure of the collegiates inside the institution, the BNDES has created the Social and Environmental Sustainability Committee.

153. The IEG's Report failed to mention any of these achievements.

Policies (Corporate and Multi-Sectorial)

154. Between October 2009 and August 2010, the BNDES' Board approved three important resolutions that address social and environmental matters in specific sectors:

- Beef cattle industry, approved in October 2009;
- Coal-fired, diesel, oil and natural gas thermoelectric generation, approved in November 2009;
- Sugar and ethanol sector, in accordance with National Monetary Council Resolutions Nº. 3,813 and 3,814, approved in September 2010 and later revised and improved in 2012;

155. In December 2009, the 'Policy for Operating in the Surrounding Areas of Projects' was established. This was an innovative approach designed to encourage local development in the event that projects had significant impact on the surrounding territory.

156. The so-called "Surrounding Areas Policy" (*Política do Entorno*) is being trialed in a number of 'pilot' cases with a view to taking advantage of the economic and social dynamics catalyzed by economic and production investments supported by the BNDES to further develop these territories.

157. This involves the BNDES encouraging participatory preparation (developer, government, civil society and other stakeholders) in schemes to develop these areas and provide grant aid if necessary. This approach enables the Bank to contribute to sustainable development by supporting and coordinating efforts, and providing different types of credit lines according to local development priorities.

158. With its "Surrounding Areas Policy" the Bank takes an active role in coordinating efforts and investments of different types, prioritized according to the appropriate planning. A concrete example of the application of this policy (*Belo Monte*) will be described further in this document.

159. In 2010, the BNDES' Corporate Social and Environmental Responsibility Policy (CSR Policy) was approved. This was based on the Strategic Plan for 2009-2014, adopting references such as ISO 26000 and the Protocol of Intention for Social Responsibility ("New Green Protocol"), signed by the BNDES in 2008. This is a key document which gives formal status to the guidelines and principles governing the BNDES' work involving full social and environmental responsibility, as explained in chapter 3.1.2.1.

160. At the operational level, important progress has been made since the DPL contract. In January 2010, the Environmental Policy was incorporated into the BNDES' Operational Policies. This decision strengthened the application of environmental guidelines in the operational flow, as well as in the development of new financial products.

161. Subsequently, the Socio-Environmental Policy was approved, substituting the previous Environmental Policy. With the Social and Environmental Policy, procedures were introduced to identify and address the social and environmental aspects as well as impacts from financed projects (in the direct and indirect non-automatic modalities) at different stages of the support process. Effectively, the guidelines and principles of Social and Environmental Responsibility Policy were incorporated into the operational procedures level.

162. In 2011, the Sustainable Procurement Policy was approved, reflecting the guidelines of the CSR Policy at the administrative and organizational levels, and ratifying the undertakings established in the Green Protocol. Implementing this policy strengthens the BNDES' role as a promoter of sustainable operating practices, benefiting not only the products and services supplier chain, but also public entities and society as a whole.

163. It should be mentioned that, in 2012 and 2013, the BNDES' inventory of greenhouse gas emissions was accepted and published by the GHG Protocol (<http://www.ghgprotocolbrasil.com.br/index.php?r=site/conteudo&id=7>).

164. In 2012, BNDESPAR (Equities Policy) was incorporated into the institution. Its goals included "the promotion of best management practices, governance and sustainability" in accordance with the guidelines of the BNDES System Social and Environmental Responsibility Policy.

Financial Instruments

165. The BNDES' Operational Policies cover the different lines, programs and reimbursable and non-reimbursable resources available for financial support. These policies are continually updated, reflecting the need for dynamic planning to meet the demand for financial products and specific policies.

166. There are diverse products, programs and financing lines specially dedicated to socio-environmental development. The concern with sustainability is also present in a range of financial products which are not specifically related to social or environmental development goals, as long as they establish sustainability criteria for eligibility.

167. In 2013, a series of internal debates was launched in the BNDES, aimed at reviewing the Bank's Operational Policies. Discussion mainly centered on the strategic goals of Corporate Planning: Competitive and Sustainable Development (CSD) and Financial Sustainability.

168. The review highlighted the priority given to Production Inclusion and Sustainability - reflected in the better financial terms offered by the BNDES.

Instruments to Support Analysis

169. The BNDES' financial support process is divided into: (a) financial support for direct operations (those in which the credit risk is assumed by the Bank itself) and non-automatic indirect operations (where the credit risk is assumed wholly or partly by financial agents); and (b) financial support for automatic indirect operations (where the credit risk is assumed by the financial agents).

170. Control of the financial support process in cases of **direct and indirect non-automatic operations** brings together different stakeholders and several departments from the bank. Requests for financing are first addressed to the Priorities Department (DEPRI) in the Planning Division. DEPRI, in addition to other duties, undertakes environmental risk rating, pre-analysis of environmental aspects and submitting socio-environmental recommendations when appropriate. The results are then sent to the **Eligibility and Credit Committee (CEC)** comprising BNDES deputy managing directors. The CEC meets weekly to consider the applications received and to decide

whether the financial support must be rejected by the BNDES or must be forwarded to the next phase in the operational flow (analysis stage).

171. Once a positive decision is made, the application is forwarded to the department in the operational area responsible for project analysis. This task is undertaken by a multidisciplinary team to ensure effective and comprehensive analysis of the projects by fully-trained specialists. The resulting report is then submitted to the **BNDES' Board of Directors** which also meets weekly. If the operation is approved by the Board, the process then moves on to the awards preparation stage.

172. Resources are then released in accordance with a pre-established timetable and conditions. The relevant department in the operational area prepares follow-up reports, which include social and environmental issues, and submits them to senior management. Monitoring plays an important role in consolidating the Bank's relationship with its customers since it enables the Bank to gain knowledge on different sectors, companies and projects, and provides a basis to continuously improve analyses, as well as an opportunity for officials to identify requirements for new support mechanisms and processes.

173. To guide the borrower during the application process, the BNDES has certain tools at its disposal which can aid consideration of the socio-environmental aspects of a proposed project.

174. During 2009 and 2014, there have been important improvements related to analysis support instruments, such as:

- Development of a "Social Questionnaire", a specific instrument designed to obtain information on social aspects related to the borrower and the proposed project, in order to improve the BNDES' social and environmental analysis.
- Creation of new Questionnaires, replacing the two existing questionnaires (a Social and an Environmental one), to better identify project impacts and related preventive and mitigatory actions.
- Development and implementation of the Assessment Methodology for Companies (MAE), aimed at assessing the so-called intangible assets of the BNDES' clients.

175. The MAE is a major BNDES innovation since it incorporates an assessment of the borrower's intangible assets during the analysis stage. Seven intangible assets are assessed in the methodology, including the "Socio-Environmental Capital", which analyses the commitment of the Beneficiary to the concept of Socio-Environmental Responsibility. Therefore, MAE goes well beyond a traditional approach which only takes into account legal compliance.

176. The Social and Environmental Capital investigates the existence of policies and commitments related to social and environmental responsibility, the integration of social and environmental aspects in the company's strategic planning process, its organizational structure related to social and environmental issues, its social and environmental management system and its activities in the immediate surroundings of projects.

177. The MAE began trials in 2009 and the following year, the MAE *modus operandi*, implementation strategy and schedule of activities for 2010 were established.

178. In 2011, MAE outcomes began to be taken into account in qualitative credit risk analyses in cases of high current or projected exposure of a particular company or economic group. In 2012, cases were identified for preferential application of MAE (in addition to the above-mentioned 'higher risk' clients). These cases involved credit limit operations and those linked to strategic across-the-board topics (innovation, socio-environmental and regional impact) and/or structuring transactions that could involve the strategic realignment of a company or economic group.

- Approval, in November 2010, of the structure and procedures related to the preparation, approval and updating of the BNDES' Socio-Environmental Manuals. These instruments provide technical support to operational units when working on the social and environmental analysis of projects from specific sectors.
- Development of Socio-environmental Manuals for Cattle-raising, Sugar-Ethanol, Soybean, Water Supply and Sanitation sectors.
- Development of Sectorial Resolutions for Cattle-raising, Sugar-Ethanol and Fossil fuel-fired power plants, which define the social and environmental criteria to be obligatorily followed in each sector.
- Development and internal publication, in 2011, of the Guidance on Corporate Social Investment Line⁶, in order to support the BNDES' staff when analyzing projects related to corporate social investments.

Limitations related to the development of sectorial guidelines

179. The IEG Report argues that the BNDES has not developed sectorial guidelines that were promised under the SEM DPL series. There is also criticism related to the

⁶ The Corporate Social Investment Credit Line supports (at favorable rates) the establishment, expansion and consolidation of projects and programs involving social investments, focused on increasing the level of corporate social responsibility and targeted at coordinating and strengthening public policies.

For example, Guidance on Corporate Social Investment Line includes the following best practices:

- Project to be in tune with local needs, involving better understanding of local conditions and proposals for sustainable improvement;
- Shared activities with other stakeholders (e.g. government, community representatives, trade unions etc) with a view to promoting better governance and management;
- The development of mechanisms for management and monitoring by establishing goals and indicators.

voluntary character of the sectorial guidelines, among others. The major arguments brought by the IEG Report are presented as follows:

The SEM DPL Program Document (...) lists 13 specific sectors for which it says BNDES will develop guidelines as part of the SEM DPL series (...), including for hydroelectric plants. Three sets of guidelines - livestock, ethanol and sugar, and soy - plus a fourth for forest management and plantation program ("REFLORESTA") were supposed to be developed for SEM DPL 1. (4.37)

On BNDES's website today there are only three sets of sectoral guidelines presented: livestock, ethanol and sugar, and thermoelectric. That means that after five years, BNDES has still only developed three out of the thirteen sectoral guidelines that were promised to be developed under the SEM DPL series by 2011. And absent are guidelines for sectors that are critical from an environmental and social perspective, such as hydroelectric plants, forest management, soya, and water supply and sanitation. (...) (4.38)

(...) For the three sectoral guidelines that BNDES has posted, each has a different structure and approach, and varying degrees of detail. (...) (4.38)

(...) Although the specifics vary for each sector, in general all three simply require projects financed by BNDES to comply with relevant Brazilian legislation (for example, having appropriate licenses and complying with land use and anti-slavery laws). The one area where the sectoral guidelines appear to go beyond these legal requirements is for livestock, where the guidelines state that clients are required to "join a traceability system for the beef production chain, from birth to slaughter, to check the regularity of the environmental supply chain." This has the potential to provide increased assurances that beef does not come from deforested areas. (...) (4.38)

(...) But overall, BNDES has made no progress on development of sectoral guidelines—one of the pillars of its new environmental and social policy—since SEM DPL 1 closed in 2010 (4.38).

(...) The Program Document also cites the adoption of a number of environmental and social sectoral guidelines by BNDES as mitigation actions, including for agriculture, sanitation, and renewable energy/hydropower, but there is no evidence (including on BNDES's own website) that BNDES has approved any sectoral guidelines other than for livestock, ethanol and thermoelectric (and even for those there is no evidence of implementation or results) (5.21)

(...) the Tranche Release Document (...) for the second tranche states that "a supplementing resolution on the Structure and Use of

Environmental and Social Guidelines (Resolution 2022/10) gives binding force [emphasis added] to all the sectoral guidelines including those that BNDES has designed for three sectors under the scope of the SEM DPL I. However, that is not stated in the Resolution. On the contrary, the introduction to Resolution 2022 states: "The guidelines have an instructional character and their content does not create obligations additional to the existing Brazilian legislation and Resolutions from BNDES Directorate". This seems to indicate that the sectoral guidelines are voluntary. (5.32)

180. Two distinct instruments exist within the BNDES' socio-environmental policy structure that show the Bank's concern with the specificities in certain sectors. These are (i) the Socio-Environmental Manuals already described above, and (ii) the Sectorial Socio-Environmental Policies. The IEG report confuses these instruments with one another. Confusion also exists as to what is required by Brazilian legislation and the additional criteria established by the BNDES.

181. The BNDES Socio-Environmental Manual is designed as a guideline to provide technical support to the Bank's operational units through:

- I. A selection and description of the main technical and regulatory aspects and environmental impacts of the activities in a specific sector.
- II. An indication of the best practices available to raise the level of sustainability in the sector (not conditional to Bank support);
- III. An indication of the BNDES' socio-environmental policy for the sector, with a set of criteria (minimum requirements for support) and performance guidelines established by the resolutions approved by the Bank's Board of Directors; and
- IV. An indication of the information required to describe the environmental profile of the project /applicant and rate the social and environmental risks related to an operation.

182. Four socio-environmental manuals have been approved: for cattle-raising, soybean, water and sanitation, and sugar-ethanol sectors.

183. The Bank's sectorial socio-environmental policies have defined objective and mandatory criteria for financing sectorial projects. Currently, the Bank has three sectorial policies that have been approved: fossil-fired power plants, cattle-raising, and the sugar-ethanol sectors. These were sectors where the Bank identified a need to establish certain criteria over and above straightforward compliance with legal obligations.

184. Information on sectorial policies is publicly available on the BNDES' website:

Fossil fuel-fired power plants:

http://www.bndes.gov.br/SiteBNDDES/bndes/bndes_pt/Areas_de_Atacao/Meio_Ambiente/Politica_Socioambiental/criterios_socioambientais_geracao.html

Cattle-raising:

http://www.bndes.gov.br/SiteBNDDES/bndes/bndes_pt/Areas_de_Atacao/Meio_Ambiente/Politica_Socioambiental/diretrizes_pecuaria_bovina.html

Sugar and Ethanol:

http://www.bndes.gov.br/SiteBNDDES/bndes/bndes_pt/Areas_de_Atacao/Meio_Ambiente/Politica_Socioambiental/diretrizes_acucar_alcool.html

A lack of evidence concerning the application of the BNDES' social and environmental policies

185. According to the IEG Report, there is no evidence to attest the application of the BNDES' new environmental and social policies to investments, as presented in the following:

There is no specific evidence provided either in the SEM DPL ICR or on BNDES's website that they are the new environmental and social policies to investments, how they are being applied and monitored, and what the outcomes are. (p. 31)

Also for release of the second tranche, BNDES was supposed to apply its new environmental and social policy to all of its directly financed operations. This is a critical action that was not addressed in the Second Tranche Release Document, and no evidence that BNDES was meeting it was found by IEG. (5.33)

186. The IEG also argues that BNDES' social and environmental policies are not being applied in the case of Belo Monte and other hydroelectric projects. Some of this criticism is presented as follows:

High profile investments financed by BNDES after its environmental and social system was supposedly improved under the SEM DPL – such as the Belo Monte hydroelectric dam in the Amazon – continue to experience an array of environmental and social problems (Summary, pages xiv – xv)

A critical case study for the application of BNDES's environmental and social system, and an opportunity to showcase any improvements to it supported by the SEM DPL, is the Belo Monte hydroelectric dam complex in the Amazon rainforest of Pará State, Brazil. (...) (4.40)

(...) Yet the Belo Monte investment has been widely criticized by other Brazilian government agencies, international human rights

organizations, and local and international civil society organizations for adverse social and environmental impacts, and violations of Brazilian law, international agreements, and BNDES's own environmental and social policies (...) (4.40)

BNDES announced the first loan for the Belo Monte dam project well before the project had been granted the required licence by IBAMA. According to BNDES's environmental and social policy, an IBAMA-issued Installation License is required before an operation can be contracted. The first loan for the Belo Monte dam project was announced in December 2010, well before IBAMA issued the Belo Monte consortium an Installation License (an only a week after the disbursement of the SEM DPL second tranche, raising the ire of the NGO community). At that point, only a Preliminary License had been issued based on a long series of conditions. The required Installation License was not issued until June 2011, and even then numerous conditions had still not been met. Many of the conditions were reported to still not have been met in 2013, and according to some analyses have even worsened. (Box 2, page 32)

Although Belo Monte is an emblematic example of the continuing weaknesses in BNDES's environmental and social management system, it is not the only one. A recent investigation of twenty largest BNDES-financed investments in the Amazon over the past five years found that at least sixteen suffered from legal action by federal prosecutors, states or labor or civil society organizations due to environmental problems (...) (4.41)

(...) An expert interviewed for the report stated that "compared to what the bank [BNDES] could do, what other international banks do, and what Brazilian law requires BNDES to do, it fails".(4.41)

In a response to a recent civil society request to BNDES – under the Brazilian Law on Access to Information - for detailed information regarding the environmental and social safeguards applied in the case of Teles Pires, including the application of BNDES's new environmental and social policy, BNDES stated only that the Teles Pires Hydroelectric Company was required to comply with Brazilian labor laws and environmental licensing requirements. These are Brazilian legal requirements regardless of BNDES's involvement, and with or without the SEM DPL (4.42)

The approach that Brazil continues to use has been criticized for selecting sites first based on technical engineering grounds and only then attempting to estimate the environmental, social and economic implications (p. 41)

187. The advances in analyzing impacts and inducing good practices related to social and environmental issues were not actually assessed in IEG's Report. The BNDES meets the criteria established in its policies and procedures for analysis, monitoring and tracking, according to the specificities of each operation.

188. It is important to reiterate that the BNDES, in addition to its internal policies, operates under Brazil's legal framework, and as one of the actors in licensing, supervision and social and environmental control systems, and it is subordinated to control and auditing agencies, which verify the execution of the BNDES' policies and procedures. We also highlight the role of the BNDES as a promoter of best practices for companies and society as a whole, as well as relevant and complementary part of a set of institutions and organizations that comprise the Brazilian system for sustainable development.

189. To illustrate compliance with environmental procedures and criteria established in the BNDES' policies, its role as a promoter of good practices, its complementary role in Brazilian environmental licensing system covering environmental compliance and sustainable development of the regions affected by large projects, we took into consideration the same case mentioned by IEG - "BNDES Socio-Environmental Analysis of the Belo Monte Hydroelectric Plant". It is important to mention that the BNDES adhered to the decision of the competent authorities in each phase of the process.

190. According to the main aspects of the operation, especially those more relevant to the social and environmental issues, from 2009 to the present, attitudes and efforts considering the flow of the BNDES' financial support procedures were taken: socio-environmental policies and surrounding areas project, operating and legal preparations and other instruments.

191. Just to illustrate, efforts took into consideration: the analysis of the environmental aspects of post-auction transaction (including, besides the licensing conditions, the requirement from ANEEL of an investment of R\$ 500 million to the region of the Xingu, under the Guidance Committee of PDRS Xingu); discussions carried out by an internal committee of executives from different areas to coordinate efforts aimed at sustainable development of the territory, with the creation of an internal multidisciplinary group to analyze, propose and execute efforts on the economic, social and environmental impacts surrounding the project and the design of the public call-to-submission to design a Development Agenda for the Territory (*ADT – Agenda de Desenvolvimento do Território*) financed by BNDES; the social and environmental legal requirements under the BNDES' regulations, with the inclusion of specific recommendations and contractual restrictions related to environmental aspects (including a special clause on the loan prior to the release of the implementation license); monitoring the structure and management of the Basic Environmental Plan (*Plano Básico Ambiental*); and follow-up efforts arising from previously-established contractual terms.

192. Regarding the assessment of the project, the BNDES respects the positions and the determinations of the competent entities, especially those related to IBAMA - supervision and monitoring of compliance with environmental restrictions (which are an integral part of financing from the BNDES) - and the instances within the Brazilian legal system.

193. It is worth mentioning that the information involving licensing and environmental compliance, including the matter of constraints, mitigation and the Basic Environmental Plan are public and can be found on IBAMA's website⁷.

194. The following chart presents the reports and opinions already issued:

Schedule Related to the Publication of the "Basic Environmental Plan" (PBA) Belo Monte					
	1st Semiannual Report	2nd Semiannual Report	3rd Semiannual Report	4th Semiannual Report	5th Semiannual Report
NESEA	November 16th, 2011	July 31st, 2012	Jan 30th, 2013	August 30th, 2013	January 31st, 2014
	IBAMA's Report	IBAMA's Report	IBAMA's Report	IBAMA's Report	IBAMA's Report
IBAMA	December 20th, 2011	December 20th, 2012	May 21st, 2013	December 20th, 2013	
Period of time (days)	34	140	120	110	

Limited scope in applying the BNDES' new policies, because of the exclusion of indirect investments supported through financial intermediaries and operations in the export sector.

195. According to the IEG Report, the BNDES' social and environmental policies are only applied to a limited scope of operations, which do not include "indirect" investments financed through financial intermediaries or operations in the export sector. These arguments are presented as follows:

The SEM DPL also promised that BNDES would apply its new policies to all of its investments – including "indirect" investments financed through financial intermediaries – but they did not. (Summary, pages xiv – xv).

However, BNDES' financial agents, responsible for two-thirds of BNDES' lending were ultimately not included in the environmental and social improvements targeted by the SEM DPL (the outcome indicator for improvement of BNDES's environmental and social systems applied only to projects submitted directly to BNDES) (2.29)

One point on which the Program Document states that BNDES should improve is by establishing a "mechanism for applying BNDES environmental and social policies to the projects financed by its financial intermediaries". This would be very important for achieving Objective (b), because more than half of "BNDES's lending is in fact through financial intermediaries, or "indirect". And both the SEM DPL II trigger

⁷ <https://www.ibama.gov.br/licenciamento/index.php>

for this policy area and the Program Document text (...) indicate that BNDES's new environmental and social policies would be applied to the full portfolio. But the outcome indicator, with reported 100 percent achievement is instead only for "projects submitted directly to BNDES" (...) (4.33).

(...) Overall then, even if the SEM DPL achieved its target indicator, it would have affected significantly less than half of the investments of only one of Brazil's public banks, diminishing from the beginning its ability to achieve the program's objectives. This restricted scope was not made clear in the project documents (4.33).

The actual outcome indicator for improvement of BNDES's environmental and social systems, however, applied only to projects submitted directly to BNDES. So not even the majority of BNDES's investments were subject to the actions supported under the SEM DPL. (5.24)

Further, BNDES acknowledges that today it still does not apply its environmental and social policies to even directly financed investments in what it calls the "exports" sector. This sector was estimated at over US\$ 5 billion in 2012 and includes BNDES's large and growing investments outside Brazil—much of it for major infrastructure investments with serious environmental and social implications—in facilities like hydropower dams, mines, highways, and airports, including in Amazon regions of Bolivia, Colombia, Ecuador, and Peru. (4.33)

196. The claim that the BNDES' policies do not apply to projects financed by financial intermediaries is incorrect. The BNDES' socio-environmental policy and sectorial policies also apply to its indirect non-automatic operations.

197. For indirect automatic operations, which involve financing for specific isolated equipment (*equipamentos isolados*) or small projects (under R\$20 million), the BNDES requires the financial agent to present the relevant environmental license or a license exemption certificate issued by the agency responsible. Note that this procedure also applies to the BNDES, which has been the subject of criticism by financial agents claiming that some programs have been held up by these procedures.

198. By way of comparison, it is interesting to note that while the Equator Principles (III) establish the minimum threshold of US\$100 million for project financing operations ("Project-Related Corporate Loans") and US\$10 million for "Project Finance", the BNDES does not have a minimum limit to apply the procedures outlined in the Socio-Environmental Policy, given that it is sufficient for operations to be direct or indirect non-automatic. The minimum limit for transactions directly with the BNDES is currently R\$20 million, but this could be less for certain financial instruments, such as the Innovation Line (*Linha de Inovação*). Thus, the scope of application of the

BNDES' Social and Environmental Policy is considerably broader than what is stated in the Equator Principles.

199. With regard to the criticism that the BNDES' policies are not applied to the exports sector, some clarifications must be taken into consideration. The BNDES primarily supports the export of goods and services produced in Brazil with very clear objectives: to increase the competitiveness of Brazilian companies, generating jobs and income in Brazil and thus increasing the inflow of foreign exchange which contributes to improving *inter alia* the trade balance. It is worth mentioning that disbursements are made in Brazilian currency (*Reais*), in Brazil, on presentation of proof of shipment/delivery of machinery and equipment/services exported from Brazil.

200. Over the past few years, the BNDES has improved its structure to better analyze the socio-environmental questions related to projects implemented abroad using goods and services exported from Brazil. In this respect, despite the fact that the BNDES is restricted to supporting the sale of goods and services abroad, and not running the actual projects, the Bank has made efforts to understand the social and environmental impacts of these projects in the respective countries with a view to establishing, as far as possible, socio-environmental conditions prior to the Bank lending financial support.

201. The Bank's analysis of these operations seeks to establish safeguards and non-financial conditions to mitigate the risks of the operations to the Brazilian export credit system. This results in contractual arrangements that subject the release of funds to the exporter to compliance with these safeguards. The relevant analysis is based on the methodology developed jointly by the Foreign Trade and Environment Divisions in the Bank.

202. The BNDES' concern with this issue is made evident by the fact that social and environmental issues are examined all the way from the analysis stage through to final project approval. After the environmental risks of a project have been identified, conditions and mitigation mechanisms are established and the most appropriate tools for managing such risks are given consideration. Furthermore, the Bank requires presentation of a legal-environmental compliance notice indicating that the environmental legislation in the country where the project will be undertaken has been complied with (the socio-environmental licensing process is of course the sovereign responsibility of the local government).

203. When financing exports of goods and services supported by the BNDES that are also co-financed by multilateral organizations (e.g. IDB, CAF and CABEI), the social and environmental requirements resulting from environmental due diligence undertaken by these institutions are also included in contracts financed by the BNDES.

204. Finally, in the financing agreements, the financed parties/importers are obliged to declare to the BNDES that the project, for which exports are financed under the contract, comply with all the applicable environmental regulations in effect in the

respective country. Before disbursing resources, the BNDES also requires a legal opinion (in terms that are satisfactory to the Bank), prepared by a qualified legal practitioner in the country of the financed party's/importer's domicile. This legal opinion, among other information that the BNDES deems necessary, must certify that the environmental requirements have been complied with, particularly with regard to licenses and permits. Canceling, revoking or suspending any government license or permit that could affect the capacity of the financed parties to comply with the obligations under the contract (including socio-environmental-related permits) are regarded as defaults leading to the suspension of the BNDES financing or early closure of the contract.

A Lack of Transparency and Dialogue

205. The IEG Report also argues that the BNDES lacks transparency and disclosure regarding social and environmental issues, presented as follows:

Another issue is that BNDES continues to lack transparency and disclosure regarding the investments it finances, and especially with regard to environmental and social aspects (...) (4.43).

BNDES has started posting on its website lists of investments it finances in Brazil (...). But the list contains only very basic information such as the name of the client, date and financing amount of the loan, sector, and a one-line description of the project. There is no information whatsoever on environmental and social safeguards for the investments. There is also no information on investments BNDES finances outside of Brazil, a fact that has been criticized by Brazilian legislators, because even they cannot access this information. (...) (4.43)

(...) And despite the fact that BNDES receives nearly all of its funds from the Brazilian Treasury and Workers' Support Fund (the FAT), BNDES has been criticized for not allowing Brazil's federal Controller General access to financial information in order to conduct audits and has fallen short in responding requests under Brazil's Law on Access to Information. (...) (4.43).

(...) BNDES also only posts the project data on a semi-annual basis once a contract has been signed, making it too late for stakeholders to react, and does not post any monitoring and evaluation information on investments (...) (4.43).

An important aspect of environmental and social management at development banks such as the World Bank is the establishment of policies and procedures for consultations, transparency and disclosure of potential impacts and mitigation measures. Yet, despite the absence of such measures at BNDES, the SEM DPL matrix did not contain any

actions related to these important aspects of a modern environmental and social management system, (...) neither BNDES's new environmental and social policy nor the Green Protocol contained such measures (5.25)

206. Transparency is one of the principles that the BNDES prizes in its relationship with society. As a State-owned company, aware of its responsibilities, the Bank has sought to provide information to citizens and its own clients in order to comply with disclosure principles. Given the rather wide range of stakeholders with which the BNDES deals (clients, financial agents, civil society, municipal, state and federal governments, official regulatory and supervisory agencies etc.), the Bank is constantly concerned with appropriately addressing the many different demands for information and transparency. In this respect, the Bank uses a variety of communication and accountability instruments for each of these sectors. In view of the priority that must be given to this area, the Bank continues efforts to improve its channels of communication with stakeholders.

207. Complying with Brazil's **Information Access Law** Nº. 12.527/2011 (LAI), which states that State-owned agencies and entities, whether requested or not, shall disclose information of general or collective interest, except for information that is rated confidential according to Brazilian law, the BNDES provides information on its activities in several sections on its website³.

208. Unlike what is shown in the IEG report, the BNDES meets the highest standards of transparency and accountability, paying constant attention to improving its channels of communication and interaction with stakeholders and to broadening the dissemination of information regarding its financing operations. The report's difficulty to comprehend the framework of BNDES' mechanisms and instruments of transparency and accountability - which leads the report to partial conclusions - can be explained by the fact that the report only takes into consideration (and without proper investigation) the BNDES' website. The several mechanisms and instruments of transparency and accountability ignored by the IEG report are highlighted throughout this section.

209. The IEG report demonstrates inaccuracy in its knowledge regarding the work of the BNDES and unfamiliarity concerning the BNDES' transparency practices when it states the opacity of the institution in disseminating information on its investments in general and, in particular, when it mentions - with no further evidence - the BNDES' investments outside Brazil. In keeping with the concept of Active Transparency, the BNDES provides a set of information on the matter in the section BNDES Transparent on the BNDES' website.

210. In addition, the report assesses the contents of the BNDES' website without taking into account the improvements in recent years regarding the constant increase in information provided. Besides this increase in information available on projects

³ <http://www.bnades.gov.br>

supported by the BNDES, the way of making available information has also been recently enhanced with its consolidation into a single worksheet, which facilitates citizens' search for information, even allowing a search per operational area in the BNDES. In 2013, the information, which was already available in xls format, began to be delivered in CSV format, which allows the use of free software, ensuring better access to documents. The CSV format has been extended to data from previous years (2008-2011).

211. Regarding the timing for disclosure of information, the IEG report demonstrates partiality by inducing an understanding that stakeholders become aware of the impacts of projects financed by the BNDES only when such information is included on its site. As already mentioned, the stages of the licensing process, established by the National Environmental System (SISNAMA), include Environmental Impact Studies (which are public documents), public hearings and consultations with several federal and state agencies. Throughout the licensing process, which begins well before the BNDES provides financing, stakeholders have ample means of becoming aware of investments and their socio-environmental aspects. Moreover, the report does not take into account the fact that, given the weight that the BNDES has in the Brazilian economy, the disclosure of information in a careless or hasty way can interfere with the behavior of market players and investors, with potential damage to Brazil's financial, economic and currency stability.

212. Another important aspect that the IEG report does not seem to consider refers to the fact that the BNDES, through the exercise of its banking activity, is a custodian of customer information. It is the duty of the institution to cautiously manage and disclose specific information in their custody in order not to expose the intimacy of those, punishable by civil, administrative and criminal accountability. It is also worth noting that such a duty is supervised by other institutions, such as the Brazil's Central Bank and the Securities and Exchange Commission (CVM). Not properly considering this point demonstrates a lack of knowledge concerning the BNDES' activities and Brazilian legislation (regarding the issue of Banking Secrecy Law and Information Access Law).

213. As an example of the above-mentioned naivety, the IEG Report bases the statement – with no further explanation – that the BNDES has been criticized for not granting the Comptroller General (CGU) access to information in order to conduct its audits and inspections on a newspaper article⁹. It would had been salutary if the IEG report had better investigated its assessment by consulting both parties (the CGU and the BNDES) to clarify the issue and to give more consistency to its argument. It is also worth noting that the report ignores important information present in the article itself regarding the complexity of the issue of breaching banking and tax secrecy. Based on the same newspaper article, the IEG Report mentions that the BNDES has not

⁹ <http://www.estadao.com.br/noticias/interesse:disputa-entre-banco-e-comptroladoria-espere-parecer-da-cgu-,1120268.0.htm>

adequately adhered to the Information Access Law. This claim is frivolous and lacking in fundamentals, as will be shown below, in Section B of this section.

214. Thus, it is worth noting that the BNDES is subjected to constant scrutiny by Brazilian Congress and the country's official regulatory and supervisory agencies, confirming its willingness to provide transparency regarding its activities. This point is not properly considered by the IEG Report, which describes the BNDES as an institution with no commitment to transparency requirements in its activities. Just to illustrate, it is important to note that, from 2011 to 2013, the BNDES received approximately 700 requests for information from the Comptroller General (CGU) and 600 from the Court of Accounts (TCU). All were properly answered, respecting the limits imposed by banking secrecy, established by Complementary Law N^o. 105/2001

215. Several communication channels provided by the BNDES are listed below and, throughout the text, other criticisms present in the IEG report are assessed, with special attention to the allegations that the BNDES has no mechanism to consult with civil society and also with special attention to the BNDES' adherence to the Information Access Law.

A) COMMUNICATION CHANNELS PROVIDED BY THE BNDES

A.1) THE BNDES' WEBSITE

- **Access to Information Section**¹⁰: this section brings together important information so that citizens are able to follow the Bank's performance in a simple and objective fashion. Additionally, in this section, one can access other information, such as stocks and government programs under the responsibility of the BNDES, ongoing projects, transfers and transfers of resources, costs, audits, procurement and staffing.
- **BNDES Transparent Section**¹¹: seeking to communicate better with stakeholders, the BNDES in 2007 launched this section on its website. This provides access to data and statistics on the Bank's activities and a comprehensive insight into its operations, credit policies, contracts and sources of resources. In the subsection "Consulting BNDES' Operations"¹², it is possible to obtain information on operations with entities of Direct Public Administration and other customers.
- **Relations with Investor Section**¹³: another important mechanism to facilitate communication between the Bank and stakeholders regarding accountability. In this section, information can be found on the BNDES' performance, e.g. disbursements, net profits and default levels, along with other financial information, risk management reports and the BNDES' Annual Report.

¹⁰ http://www.bndes.gov.br/SiteBNDES/budes/budes_pt/Institucional/acesso_a_informacao/index.html

¹¹ http://www.bndes.gov.br/SiteBNDES/budes/budes_pt/Institucional/BNDES_Transparente

¹² http://www.bndes.gov.br/SiteBNDES/budes/budes_pt/Institucional/BNDES_Transparente/Consulta_as_operacoes_do_BNDES/

¹³ http://www.bndes.gov.br/SiteBNDES/budes/budes_pt/Institucional/Relacao_Com_Investidores/Desempenho/

A.2) THE BNDES' ANNUAL REPORT¹⁴

Annually, the BNDES publicizes its Annual Report aiming to highlight its activities throughout the year for the benefit of stakeholders, including its performance on the economic, social and environmental fronts. The Report also has sections on financial, operational, strategic, governance, transparency, risk management, support for culture and human resource management aspects, comprising its subsidiaries (FINAME and BNDESPAR), its overseas representations (in Uruguay and South Africa) and its subsidiary in London (BNDES PLC) activities. The Annual Report is published in Portuguese and English and is available in PDF format on the BNDES' website.¹⁵

A.3) THE BNDES' INSTITUTIONAL CHANNELS FOR DIALOGUE WITH SOCIETY

In order to identify other flaws in the assertion made in IEG's report concerning the opacity of our institution with regard to sharing information, it should also be pointed out that, in addition to disseminating information throughout the many section on its website, the institution seeks to constantly expand the institutional channels for dialogue with society, in order to disclose the impact of its work, improve its internal procedures, provide public information and ultimately avoid the appearance of conflicts involving Bank-supported projects. Of these many channels, we highlight:

Structured dialogue channels between the BNDES and Organized Civil Society:
The BNDES systematically promotes meetings with Brazilian OCS stakeholders with a view to establishing partnership agendas on mutual interest issues and to draw diagnostics on possible improvements to achieve, as well as share and analyze information on the BNDES' activities and discuss recommendations and proposals to improve the BNDES' performance. Some examples of these initiatives are: holding workshops with the Brazilian Solidarity Economy Forum (FBES), participating in the Management Committee of the Technical Cooperation Agreement between the BNDES and the Ministry of Labor and Employment (MTE), sitting on the Amazon Fund's Management Committee (COFA). In particular, it is important to mention that in 2003 permanent **Forum for Dialogue between the BNDES and Organized Civil Society** was established. Throughout 2014, the Forum has met on two occasions to discuss issues brought to the table by the OCS, such as the BNDES' Social and Environmental Policy and the matter of improving on the BNDES' transparency practices. As a result of these meetings, an agenda for internal work has been established aimed at implementing diagnosed improvements in terms of transparency. On both occasions, over 20 entities from the OCS sector were present as well as senior officials from the BNDES.

¹⁴ http://www.bndes.gov.br/SiteBNDES/bndes/bndes_pt/Institucional/Relacao_Com_Investidores/Relatorio_Anual/

¹⁵ http://www.bndes.gov.br/SiteBNDES/export/sites/default/bndes_pt/Galerias/Arquivos/empresa/RelAnual/ra2013/R_A_2013.pdf

- i) **Citizens Information Service (SIC)**¹⁶: regulated by the Information Access Law (LAI) N°. 12,527/2011, which guarantees the citizens' right to access public information, the SIC is an instrument to control public administration. Since May 2012, this new channel has been available to citizens and has provided information and data on the BNDES' activities. There is more information on the BNDES' SIC in section B.
- ii) **The BNDES' Ombudsperson's Office**¹⁷: established in 2003, its task is to work together with the BNDES' senior management to suggest necessary improvements based upon an analysis of complaints received. So, the Ombudsperson Office has the mandate to act, in an independent, impartial and confidential way, as a communication channel between the institution and its external and internal stakeholders (employees and associates). In 2013, the Ombudsperson's Office dealt with 2,308 queries - an increase of 17% compared to the previous year.

Additionally, it is important to state that the strategic priority the BNDES has given the matter of relationship with society may also be proven by the recent establishment of the **Committee for External Relations** which aims to enhance its external institutional relationships. The committee has monthly meetings and comprises senior officials representing all division in the BNDES. In the bulk of the Committee's duties, improving practices and transparency tools is a topic of work already diagnosed and in implementation.

A.4) THE NATIONAL SPATIAL DATA INFRASTRUCTURE (Infraestrutura Nacional de Dados Espaciais -INDE)¹⁸

It is vital to mention another achievement by the BNDES, yet ignored in the IEG report. Such achievement is opposed to IEG's assessments regarding BNDES' disclosure practices. In 2012, the BNDES *voluntarily* joined the **National Spatial Data Infrastructure (Infraestrutura Nacional de Dados Espaciais - INDE)**, an initiative of the Brazilian Ministry of Planning, Budget and Management, designed to offer access to federal, state, district and municipal entities' geospatial data. This means that the BNDES has provided information on this platform, concerning approved operations, per municipality, for the years 2009 to 2012, which can be viewed in a map format. Joining the INDE shows the BNDES' intention to expand and democratize access to its activities for Brazilian society and the international community. Access to geospatial data of the BNDES' activities allows a territorial analysis of its impact on the Brazilian economy.

¹⁶http://www.bndes.gov.br/SiteBNDES/bndes/bndes_pt/Institucional/acesso_a_informacao/SIC/index.html

¹⁷http://www.bndes.gov.br/SiteBNDES/bndes/bndes_pt/Navegacao/Suplementar/Outvidoria/index.html

¹⁸<http://www.inde.gov.br>

A.5) OTHER CHANNELS OF COMMUNICATION PROVIDED BY THE BNDES:

- **The BNDES' Customer Service Center:** aims to promote a good relationship between the Bank and its clients, as well as with the general public, by telephone or e-mail (**Fale Conosco**). In the first quarter of 2013, the Center dealt with approximately 400,000 queries from members of the public (87% by telephone and 3% by e-mail).
- **Personal Service:** for potential BNDES clients from any sector or of any size, this personal service is provided in the Bank's offices in Brasília, Recife, Rio de Janeiro and São Paulo. During the first half of 2013, approximately 250 visits were made to the Rio de Janeiro office alone, mainly by micro and small businessmen.
- **Institutional Lectures:** given the considerable global interest in the Brazilian economy and the Bank's role as a major international player, the BNDES is constantly sought out by educational institutions and other entities, both domestic and foreign, to give lectures. In the first half of 2013, bank staff participated in 27 corporate presentations in Portuguese, English and Spanish (651 participants).
- **"BNDES Closer to You" Presentations:** held in all regions of the country, this series of lectures aims to promote the BNDES' financial instruments for micro, small and medium-sized enterprises. In the first six months of 2013, eight lectures attracted a total audience of 1,270 across seven states.

B) COMPLIANCE WITH THE INFORMATION ACCESS LAW

The Information Access Law (LAI), mentioned earlier, provides mechanisms, deadlines and procedures for responding to requests for information made via the Citizen Information Service (SIC), with which the BNDES has attentively complied, contrary to what is stated, with no further investigation, in IEG's report. As can be seen in the following table, from 2013 to June 2014, the BNDES' SIC received 990 inquiries, of which 55.4% was granted full access to information, and 10.4% was granted partial access, totaling 65.8% access to information, totally or partially granted. In 14.1% of the requests, information was denied; but it is important to emphasize, as the Comptroller General (CGU) reports¹⁹, that 73.1% of these denials in 2013 were based on the prohibition to disclosure personal data and 18.3% of the denials were based on the fact that the information had been classified as confidential according to specific legislation in accordance with Law 12,527/2011. These statistics demonstrate the BNDES' willingness to meet the demand for information from Brazilian citizens.

¹⁹ http://www.acessoainforma.gov.br/sistema/site/relatorios_estatisticos.html

Citizen Information Service - SIC/BNDES Requests for Information Received Jan/2013 to Jun/2014						
	2013		2014 until Jun		Total	
granted access	387	59.3%	161	45.8%	548	55.4%
partially granted access	64	9.9%	39	11.3%	103	10.4%
denied access	104	16.1%	36	10.5%	140	14.1%
missing information	26	5.6%	14	4.1%	50	5.1%
it is not a Information Request	16	2.5%	51	23.6%	97	9.8%
the institution is responsible for the subject requested	16	2.5%	9	2.6%	26	2.5%
replicated or repeated question	23	3.6%	4	1.2%	27	2.7%
Total	546	100.0%	344	100.0%	990	100.0%

It is worth noting that the LAI's Court of Appeal to review decisions has, in most cases, confirmed the BNDES' decision about the information requested²⁰. Among the appeals presented between 2013 and June 2014, in 78.37% of the cases the decision was upheld in the First Court of Appeals, and, in 80.0%, the decision was upheld in the Second Court of Appeals. Some 75.0% of the appeals that were addressed to CGU also did not succeed in reversing the BNDES' decision. The CGU Report registers that no appeal was forwarded to the final Court of Appeals in this period. These statistics are important as they confirm that the treatment the Bank has given transparency meets the LAI requirements.

INTEGRATING PRINCIPLES OF SUSTAINABLE DEVELOPMENT IN KEY SECTORS (OBJECTIVE B)

Management and Conservation of Natural Resources (OBJECTIVE B1)

216. With regard to this particular objective, IEG's report argues that the Amazon Fund has presented limited effectiveness due to "procedural constraints on the part of the BNDES, who manages the fund" (4.51).

217. However, the so-called "procedural constraints" of the Amazon Fund were in fact part of the learning curve of the Fund and its beneficiaries regarding the implementation of operations, since the Amazon Fund also operates in keeping with all the BNDES' procedures.

218. The Fund is now fully operational. Disbursements on funded projects have amounted to more than US\$220 million.

219. It should also be noticed that the Fund was one of the first within the BNDES to use the methodology known as "the logical framework"²¹ to measure its results. Some examples can be found on the Amazon Fund's website:

²⁰ <http://www.scsisocinformacao.gov.br/sistema/Relatorios/Anual/RelatorioAnualRecursos.aspx>

²¹ The logical framework is a tool developed for planning, managing, monitoring and assessing results, and is customized for each project while preserving the capacity to aggregate all outcomes of supported projects.

- http://www.fundoamazonia.gov.br/FundoAmazonia/fam/site_pt/Esquerdo/Projetos_Apoiados/Maiores_Informacoes/IOV
- http://www.fundoamazonia.gov.br/FundoAmazonia/fam/site_pt/Esquerdo/Projetos_Apoiados/Maiores_Informacoes/Alta_Floresta
- http://www.fundoamazonia.gov.br/FundoAmazonia/fam/site_pt/Esquerdo/Projetos_Apoiados/Maiores_Informacoes/Porto_Gauchos

220. In addition to the Amazon Fund, the BNDES published a public invitation for tenders for ecological rehabilitation projects in the Atlantic Forest. This became known as the BNDES Mata Atlantica Initiative (IBMA). Using its own resources, the Bank currently has a portfolio of 15 projects worth R\$42 million, and is reforesting over 3,000 ha in that area.

221. This particular initiative has already produced the following benefits:
- Strengthening technical and financial management capacity for beneficiaries undertaking IBMA restoration projects;
 - Opportunities for beneficiaries to provide restoration services for landowners and businesses in general;
 - Increased investment in nurseries and demand for seedlings;
 - Generating income for local communities;
 - Creating approximately 900 direct jobs;
 - Publicly recognizing the BNDES as an important agent in reforestation.

Environmental Sanitation (OBJECTIVE B3)

222. With regard to reducing environmental impacts through wastewater treatment and solid waste services, the IEG report questions the results of reducing pollution presented by the BNDES and criticizes the failure to develop environmental guidelines related to the matter. This criticism is presented as follows:

The ICR reports that 141,280 tons of pollution loads were being reduced by June 2011, surpassing the target of 110,000 tons. These pollution reductions were supposed to be achieved by a combination of BNDES-financed investments "reviewed under new BNDES social and environmental guidelines", and investments financed under the "updated PRODES program". The World Bank team set the baseline at zero, "since the new BNDES social and environmental guidelines and the updated PRODES program are not available yet". (4.56) No information is provided on pollution reductions from BNDES projects before the SEM DPL to establish a more valid baseline (...) (4.56)

(...) No information is provided on how the pollution reductions were achieved (for example, through which investments) or on how they were measured (4.56)

(...) the promised sector guidelines on solid waste management, and on water, sanitation and drainage, were apparently never finalized, or at least are not in use. (4.56)

223. The BNDES has not provided the required information simply because the institution did not monitor such indicator until the signature of the DPL program. The Bank did not systematically measure the quantities of BOD (Biochemical Oxygen Demand) avoided as a result of projects financed by the Bank.

224. On account of the DPL program, this indicator started to be applied to all the sanitation projects supported by the BNDES. Since then, it has been possible to systematically measure the fall in pollution from Bank-supported projects. This is more evidence of the advances in the BNDES due to signing the DPL program.

225. A reduction of 141,280 t/year of BOD was the result of investments in 15 projects across nine states.

226. With regard to the IEG's criticism on the lack of sector guidelines for these particular sectors, it should be mentioned that preparation of the *Social and Environmental Manual on Water Supply and Sanitation* started during the DPL execution. This document has been already approved and is currently being used by the BNDES' Operational Division, which is responsible for financing sanitation operations. The *Social and Environmental Manual for the Urban Solid Waste sector* will be approved in the second half of 2014.

Renewable Energy (OBJECTIVE B4)

227. In relation to this particular objective, IEG's report questions the evidence presented by the BNDES for renewable energy production.

With regard to promoting renewable energy potential, the ICR reports that 50,102 terajoules per year were being generated from renewable energy sources supported by BNDES, just short of the 60,000 terajoule target. The evidence for the renewable energy production comes from a report submitted by BNDES as an input to the ICR in June 2011. BNDES reports that 50,102 terajoules per year were produced by renewable energy sources since January 2009. But to arrive at this figure, BNDES took into consideration the wind power, mini hydropower and biomass cogeneration projects approved since 2007, as well as the projects considered "enquadrados", or framed, but not yet approved. (...) (4.58)

(...) no information is provided on renewable energy generation from BNDES projects before the SEM DPL to establish a baseline. (...) (4.59)

228. Other criticism presented by IEG's report is related to the Climate Fund.

But in an interview, a knowledgeable Brazilian government official stated that BNDES was still waiting for the first investments to be made by the fund, hoping that the first 2-3 projects would be initiated in 2013.(4.21)

229. The delay related to the first investments of the Climate Fund cannot be attributed to the BNDES. In fact, the delay is due to a momentary loss of attractiveness in the Climate Fund's interest rates, due to changes made to the basic interest rate by the Brazilian government, in response to the global financial crisis.

230. The National Fund on Climate Change (*Fundo Clima*) is an instrument of the National Policy on Climate Change linked to the Ministry of the Environment. The Fund has a non-reimbursable *modus operandi* administered by the Ministry of the Environment, as well as a reimbursable modality for which the financial agent is the BNDES, as defined by law. The latter consists of the *Climate Fund Program*, launched in February 2012, supporting projects to mitigate GHG in nine sectors of the Brazilian economy.

231. It is worth drawing attention to the fact that the BNDES' ordinary financing lines can finance any viable project under the Climate Fund Program. It is therefore a reasonable assumption that the Climate Fund Program will prove to be more attractive given the lower interest rates when compared to the BNDES' usual financing lines. However, when reacting to the global financial crisis, the Brazilian government chose to stimulate investment by reducing basic interest rates including the TJLP (reference rate for the BNDES' loans) and the Investment Maintenance Program (PSI) (for purchase of machinery and equipment). These measures caused a decline in the relative attractiveness of the Climate Fund Program, which resulted in low demand for financing in the second half of 2012 and the first half of 2013. This situation was reversed in September 2013 when the Climate Fund Program rates were reduced, thus making them competitive once again compared with TJLP and PSI.

232. The Climate Fund Program currently has R\$560 million in resources available for loans, and the prospect of receiving a further R\$560 million in 2014. The Program has two operations under contract (totaling US\$73.6 million) and a portfolio of potential projects worth R\$500 million.

233. Finally, IEG' report also claims that the BNDES has not increased the amount of financial resources related to energy efficiency projects:

One area where BNDES does not appear to have increased its support is for energy efficiency, which has been shown to have some of the highest rates of return for emission reductions (4.21).

234. There is no claim that the BNDES has not increased its support for energy efficiency in the period of the SEM DPL. It is known that the BNDES' funds focused on the matter are expressive, but there is a difficulty in determining this value.

235. A specific credit line to foster energy efficiency, known as "Support for Energy Efficient Projects" (PROESCO), was created in 2005. Its main goal was to boost the market prospects for energy-saving companies (ESCOs). From the time of its creation up to the second half of 2012, some 18 projects were awarded under the PROESCO line, worth US\$110.9 million. However, this figure does not represent all of the BNDES' support for energy efficiency projects.

236. The BNDES has a wide variety of programs and credit lines, and most of them can involve investments in energy efficiency, an across-the-board issue. Since the primary purpose of the BNDES' operating policies is to finance investments, enhancing and modernizing energy production capacity and overall support for energy efficiency is obviously a feature of many of the Bank's loans granted to the energy sector. Technical difficulties exist in accounting for how much this investment produces 'energy efficiency'. This problem is faced by all the financial institutions engaged in this sector. It is for this reason that the Bank has always maintained a conservative approach when announcing its support for energy efficiency and restricts itself to presenting PROESCO numbers.

237. The BNDES has been involved in a number of recent small initiatives to support energy efficiency. For example, it has included a number of relevant subprograms in the Climate Fund Program. Through the Efficient Machinery and Equipment Subprogram, for example, the Bank is providing financial support for one-off purchases of machinery and equipment with a view to helping families benefit from higher levels of energy efficiency, as defined by the Brazilian Labeling Program (PBE) for electric goods. A number of categories of equipment that reduce energy consumption are not yet included in the PBE. Furthermore, the Charcoal Subprogram finances purchases of charcoal furnaces with higher gravimetric efficiency than those currently used by industry.

RATINGS

238. In this section, we present comments regarding ratings prepared by IEG, notably the ratings for "Outcomes", "Risks to development outcome" and "Implementing agency performance."

Outcomes

239. IEG's report rates the Efficacy of the operation for Objective A as Negligible, while the Efficacy for Objective B was rated as Modest, based on the claim that there was a lack of evidence concerning the achievement of these objectives.

240. However, throughout this paper, several pieces of evidence have been presented to attest the achievements of Objectives A and B, with respect to the BNDES' performance.

241. The classification presented by IEG is incorrect and does not appropriately reflect the achievement of the program's objectives.

Risks to Development Outcome

242. IEG's report rates the "Risks to Development Outcome" as Substantial, based on the following arguments:

What little was achieved and can be attributed to the SEM DPL is unlikely to be sustained. BNDES in particular has shown a lack of commitment to improving its environmental and social management system. (...) (5.4)

For the financial sector more broadly, the implementation of the 2008 revision of the Green Protocol supported by the SEM DPL is on hold, and its contents fall short of the international standards anyway. There is therefore a high risk that the outcomes targeted by the operations will not be maintained (and indeed have already not been maintained, or were never realized). (5.4)

The fact that the programmatic series was canceled before the second loan limits the scope for the Bank team to engage with the client to carry planned reforms forward, and may also be an indicator of low client commitment to the reforms that the SEM DPL series was supposed to support. (5.8)

243. As proven throughout this document, IEG's statements related to the BNDES' lack of commitment to improving its environmental management system are unfounded.

244. The cancellation of the SEM DPL is not due to a lack of engagement, as stated by IEG. Actually, the decision of the Brazilian government is due to its current relationship strategy with multilateral organizations, which prioritizes the implementation of projects in subnational units (states and municipalities). In view of this strategy, and considering the WB's exposure limit to Brazil, the Brazilian government decided not to implement the SEM DPL II.

245. However, it is important to emphasize that the cancellation of the program loan did not result in canceling efforts planned in SEM DPL. As reported in this paper, the BNDES' environmental performance made significant progress during the 2009-2014 period. In addition to the increasing importance of the social and environmental aspects in the Bank's strategy, important changes were implemented in terms of organizational

structure, policies and instruments. These achievements contributed to strengthening the way in which environmental issues were dealt with in the operational flow.

246. More recently, the creation of the Sustainability Committee, comprising the BNDES' deputy managing directors, has further strengthened the environmental management system of this institution.

247. Regarding Brazil' financial system, the risk of discontinuity is also irrelevant, given the recent publication of the new National Monetary Council resolution with respect to the social and environmental responsibility of financial institutions. Commitments previously made, such as the Green Protocol, contributed significantly to raising the level of social and environmental responsibility, so that ambitious obligations could be presented in the new regulations.

248. Thus, the classification of risk of discontinuity presented by IEG is incorrect and does not appropriately reflect the risk of discontinuity of results.

Implementing Agency Performance

249. Based on the following arguments, IEG's report rates the Implementing Agency Performance as Unsatisfactory:

BNDES was the agency responsible for most of the actions attributable to the SEM DPL, as was the recipient of all of the funds. One of the main justifications for the loan was BNDES's reported commitment to improving its environmental and social systems. However, in practice BNDES has not demonstrated this commitment to environmental and social improvements. BNDES also remains highly opaque with regard to sharing information on its investments in general and environmental and social management aspects in particular (5.45)

CSOs have been highly critical of BNDES's environmental and social systems, its lack of consultations with civil society, and its lack of transparency. But there is no evidence in the project documents of efforts by BNDES to address these concerns through consultation with stakeholders. BNDES reports no system for monitoring its environmental and social policy implementation (5.46)

In a further sign of its lack of transparency, BNDES refused to honor requests by IEG for interviews with key staff in relation to the evaluation of the SEM DPL. Despite the significant financing it received from the World Bank as a result of the SEM DPL and BNDES's centrality to the operation, BNDES staff granted IEG only one meeting (5.47)

250. IEG's report presents baseless criticism to justify an incorrect rating for the BNDES' performance. In this paper, the BNDES has presented comments on such criticism concerning a lack of transparency and consultation with civil society and has refuted allegations concerning the lack of the institution's commitment to improving its environmental management system.

251. Besides this, IEG's statement that the BNDES refused to receive its (IEG's) staff is unfounded. IEG was, in fact, seriously and methodologically untimely in scheduling the interview, as explained below.

252. On February 21, 2013, the BNDES received a message from the World Bank informing that the IEG mission was in Brazil and was requesting a meeting with the BNDES on February 22 to discuss the implementation of the SEM DPL. Due to its last minute request, the BNDES employees who had been most closely involved in the operation were unable to attend the meeting with the IEG team on the requested day.

253. IEG then mentioned its interest in holding separate meetings with the BNDES' representatives. However, as in all operations with international agencies, the BNDES always acts institutionally and not individually in terms of negotiation, implementation, monitoring and assessment.

254. In spite of this, a meeting took place on February 26, 2013, in which all the representatives who had been involved in the operation could participate. On that occasion, the BNDES clarified the questions raised by IEG regarding the DPL. After that one single interview, there was no additional visit by IEG to the BNDES – which seems to have significantly affected the results of their work, which in its turn brings partial and biased arguments as well as incorrect conclusions.

CONCLUSION

255. The Government of Brazil acknowledges that the SEM DPL provided relevant support for improving environment management and sustainable development policies in the country. Program development objectives were achieved and, for the most part, target indicators were surpassed by the time of completion. The significant progress in these areas, including the improvement of BNDES environmental policies, was not recognized due to a range of failures in the assessment by the IEG, as outlined in this document.

256. Instead of assessing the effectiveness of IBRD's operation, the PPAR presents a very superficial and inaccurate assessment of BNDES' performance and the evolution of environment policies in Brazil in the period. There was a very limited engagement with the agencies and officials involved with the DPL, and it is also clear that limited time was devoted by IEG staff to collect information and seek feedback from the GoB.

257. In particular, the IEG provides baseless comments on issues beyond the scope of the SEM DPL, based on superficial analysis and without a real understanding of the

Brazilian context, a factor that significantly compromised the value of this assessment to provide lessons and improve future World Bank operations.

Yours sincerely,



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