



Concept Environmental and Social Review Summary

Concept Stage

(ESRS Concept Stage)

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BASIC INFORMATION

A. Basic Project Data

Country	Region	Project ID	Parent Project ID (if any)
Brazil	LATIN AMERICA AND CARIBBEAN	P170682	
Project Name	Southern Brazil Urban Resilience Program (SUL RESILIENTE)		
Practice Area (Lead)	Financing Instrument	Estimated Appraisal Date	Estimated Board Date
Social, Urban, Rural and Resilience Global Practice	Investment Project Financing	1/13/2020	5/15/2020
Borrower(s)	Implementing Agency(ies)		
Banco Regional de Desenvolvimento do Extremo Sul (BRDE)	BRDE		

Proposed Development Objective(s)

To promote urban resilience in the municipalities of Southern Brazil States by increasing their access to financial and technical support aimed at mitigating and/or avoiding disaster risks.

Financing (in USD Million)	Amount
Total Project Cost	125.03

B. Is the project being prepared in a Situation of Urgent Need of Assistance or Capacity Constraints, as per Bank IPF Policy, para. 12?

No

C. Summary Description of Proposed Project [including overview of Country, Sectoral & Institutional Contexts and Relationship to CPF]

The proposed PDO indicators should allow for an efficient tracking of results of the investments to municipalities, with emphasis in reducing exposure and vulnerability to disaster risks and therefore promoting urban resilience:

- Number of people with direct access to disaster risk mitigation infrastructure (e.g. drainage, slope stabilization, coastal protection, etc.);
- Volume of BRDE resources applied towards urban resilience projects and initiatives; and
- Percentage of total Project funds allocated to small and medium municipalities.



D. Environmental and Social Overview

D.1. Project location(s) and salient characteristics relevant to the ES assessment [geographic, environmental, social]

The project will have interventions in the three states of the Southern Region of Brazil. With an extension of 563,802 km² and a population of 29.6 million inhabitants (85% in urban areas and 15% in rural areas). The total area under forest formation in the southern states show an increase of 9.0 percent between 1985 and 2017, contribute to sediment retention, water quality and disaster prevention (<http://mapbiomas.org/>). However, the Southern Region is no exception to the increasing urban and natural disaster issues faced by Brazilian cities. It is recurrently affected by events of floods, flash-floods, droughts, landslides, and windfalls.

Sociodemographic data show that 4.3% of the Brazilian population live in nearly 2.5 million households within 27,660 areas at risk of flooding and geotechnical disasters in 872 critical municipalities. Most of them are located in the Southeast and Northeast regions (35.3 and 33.7%, respectively). They comprised about ¾ of the events registered in the country between 1991 and 2010 [Atlas Brasileiro de Desastres Naturais, UFSC, 2012]. Between 2010 and 2017, 76.7% of the 1,191 municipalities in the Southern region reported situations of emergence in decorrence of floods [Brazilian Integrated System of Information about Disasters]. The Southern region counts for 16.5% of the critical municipalities monitored by CEMADEN (144 municipalities). The population living in at-risk areas is mostly concentrated in the Southeast (51.6%), whereas 8.5% (more than 700,000 people) are found in the South and count for 2.6% of the regional population [IBGE, População em Áreas de Risco no Brasil, Rio de Janeiro, 2018.]

Data from the Integrated System of Disaster Information (<https://s2id.mi.gov.br/>) show that 8,428 events were reported by the Civil Defense as natural disasters in the Southern states between 1991 and 2017. They resulted in 459 deaths, 1.87 million people displaced or homeless, and a total of 36.87 million people affected. Between 1995 and 2014, estimated damages of natural disasters had costs of BRL 3.74 billion for the housing sector and BRL 6.45 billion for the infrastructure sector. These losses had costs of BRL 2.8 billion for the public sector and BRL 14.1 billion for the private sector. With the impact of climate change, it is anticipated that human and economic impacts will grow in the future if adequate measures are not adopted to prevent, mitigate and prepare for such extreme events.

The Southern region presents the best socioeconomic indicators in the country. The region counts for 14.4% of the national population. The average household income per capita in 2017 (BRL 1,788) was 18% higher than in the country. The parcel of the regional population living in households with average per capita monthly income higher than two minimum wages (equal to 23.2%) is 43% above the country's (16.2%). Labor informality is 29% lower than in the country (29.1 and 40.8%, respectively). Poverty rate is 52% lower than in the country (12.8 and 26.5%, respectively). The parcel of the population living in households that faces restrictions in at least three aspects of life (access to education, social protection, adequate housing, sanitation and communication) in the region is 38% below the average in the country (9.8 and 15.8%, respectively). Inequality is also lower within the region than in the country (Gini Index equal 0.477 and 0.549, respectively [IBGE, Síntese de Indicadores Sociais 2018, Rio de Janeiro, 2018]). The regional population living in at-risk areas faces severe socioeconomic conditions: low family incomes, poor access to water and sanitation services and occupation of irregular urban settlements. Children under 5 years of age count for 8.7% of this population and the elderly count for 9.7%; 8.6% of the people living in at-risk areas do not have access to water, 19.7% to sanitation, and 1.5% to adequate destination of solid waste [IBGE, População em Áreas de Risco no Brasil].

D. 2. Borrower's Institutional Capacity

The Brazilian regulatory framework and policies in environmental, labor and work conditions, community safety and health, indigenous peoples, and cultural heritage are robust and compliance with them is likely to allow the Borrower



to address the risks and impacts of the project and enable the project to achieve outcomes materially consistent with the objectives of ESS 1, ESS 2, ESS 4, ESS 7 and ESS 8. Additionally, in the Southern region of Brazil, federal and state environmental and social regulatory agencies hold significant enforcement capacity.

BRDE’s board of directors approved an umbrella Environmental and Social Responsibility Policy (ESRP) in 2014, setting principles of social and environmental sustainability to be followed by the institution. In 2015, an action plan to enable the implementation of this policy was also approved. In 2016, a coordination and committee of social and environmental responsibility were established. BRDE’s Action Plan is based on three pillars:

- (i) Management of the direct impact of its internal activities – the adoption of principles of environmentally sustainable behaviors within BRDE’s facilities following the Ministry of Environment’s A3P Program (Environmental Agenda in Public Administration);
- (ii) Management of social and environmental risks of its financing operations – a corporative system of management of social and environmental risks (SARAS) is under development; and
- (iii) Promotion of social and environmental products – the Program for the promotion of sustainable production and consumption (BRDE PCS) supports FI subprojects in five areas: sustainable cities, rational and efficient use of water resources, clean and renewable energy, solid waste management and recycling, and sustainable agrobusiness (a total loan amount of 1.1 billion Brazilian Reais up to 2018). BRDE’s portfolio of lending operations have supported activities closely associated with SDGs 2, 3, 7 and 8.

In compliance with Federal Law 12,527/2011 and Complementary Law 105/2001 (on bank secrecy), BRDE keeps an Ombudsman Office, a website portal of Transparency and an Ethics Channel for internal use only.

An assessment commissioned to an independent consultancy evaluated the maturity of BRDE’s Social and Environmental Risk Management System. This assessment included: (i) a diagnostic of the susceptibility of BRDE portfolio to environmental and social risks; (ii) the level of sensitivity of the territories in which BRDE subprojects are executed; (iii) a gap analysis between the regulatory framework with which BRDE operates and best international practices; and (iv) an assessment of BRDE’s processes, procedures and practices of socioenvironmental risk management. This assessment considered this system as: (i) satisfactory with regards to socioenvironmental policy and initial screening of socioenvironmental risks, but (ii) limited with regards to previous experience, socioenvironmental risk analysis, socioenvironmental management, monitoring and evaluation, and institutional governance and internal resources as well as (iii) inexistent with regards to categorization of socioenvironmental risks. The track record of BRDE shows no noncompliance and/or legacy issues with the environmental and social regulatory framework.

The weaknesses and gaps found in BRDE’s ESMS will be addressed through capacity building and ongoing training that will be detailed in the ESCP.

II. SCREENING OF POTENTIAL ENVIRONMENTAL AND SOCIAL (ES) RISKS AND IMPACTS

A. Environmental and Social Risk Classification (ESRC)

Substantial

Environmental Risk Rating

Moderate

The Project will finance through BRDE’s intermediation around 30 FI municipal subprojects, aiming to promote urban resilience. The FI municipal subprojects will be implemented mainly in urban and peri urban areas. The foreseen potential adverse environmental impacts are expected to be site specific. It is not expected these municipal subprojects will have significant adverse environmental impacts that are irreversible or unprecedented. Most FI subproject activities would be developed in modified habitats and most impacts during the implementation phase can



be properly mitigated. It is expected that mitigation measures would be required for the following direct environmental impacts that are common on these types of projects: (i) civil works/construction activities can bring about noise, dust, and wastes; (ii) temporally water pollution; and (iii) stormwater runoff would contain suspended sediments, metals, petroleum hydrocarbons, coliform, etc. Considering the potential environmental impacts from urban flow and extreme events, the expected FI subprojects may have net positive impacts on the local ecosystems, controlling the stability of the stream channels, reducing runoff from urban areas; and compensate the urbanization tends to increase both the flood volume and the flood peak. Nevertheless, channels and draining infrastructure can be engineered to convey floodwater and debris quickly downstream and the local benefits of this approach must be balanced against the possibility of increased flooding downstream.

In Brazil, water springs and river banks are classified as Permanent Preservation Areas (APP). They are and legally protected (Federal Law 4771/65). According to the Brazilian Legislation, any use of APPs for water systems, flow or drain control requires specific permitting, mitigation and regeneration measures. The FI subproject will need authorization or licenses from governmental agencies to convert natural vegetation and implement FI subprojects activities involving conversion of natural habitats within urban areas. In the states and municipalities eligible to propose FI Subprojects, the licensing agencies have adequate institutional capacity for environmental management. The process of environmental licensing carried out by the Environmental Institute of Parana (IAP), The Environmental Institute of Santa Catarina and the Environmental Agency of Rio Grande do Sul (FEPAM) is based on a broad and robust legal framework that rules all activities that may have environmental impacts and relies on online systems that include technical, administrative, monitoring and inspection modules and ensure the enforcement of the legislation. In these states, 95% of the municipalities have organized administrative structures to inspect, regulate and coordinate actions related with the environment. In the states where the BRDE operates, there is adequate capacity for managing environmental risks and impacts and, especially, capacity for monitoring and enforce the regulatory framework.

Considering the potential FI subproject to be financed, location, scale of FI subprojects, the nature and magnitude of potential risk and impacts and the capacity of the FI and Environmental State Agencies, the proposed project is classified as Moderate risk.

Social Risk Rating

Substantial

The Project is a FI operation involving technical assistance and infrastructure works required to reduce exposure and vulnerability to extreme natural events and to improve urban land uses in the Southern region of Brazil (and, particularly, in small municipalities). It is expected the Project will support around 30 FI Subprojects. The project will prioritize small municipalities in the Southern region, where disaster risks are of lesser magnitude when compared to the big cities and is expected to have a transformational impact on the mid and long-term on their capacity for disaster risk management and urban planning, ultimately avoiding they follow the similar urban growth patterns that many cities experienced in Brazil in the past decades – i.e. uncontrolled urban expansion and occupation of hazards areas without proper provision of disaster risk mitigation and public services.

Initial assessments of BRDE’s Environmental and Social Management System (ESMS) show it needs some enhancements. BRDE’s Environmental and Social System (and the regulatory environment under which it operates) properly addresses the risks and impacts of the project related with the aspects considered under ESS 1, ESS 2, ESS 4, ESS 7 and ESS 8 and enables it to achieve outcomes materially consistent with their objectives. There are minor gaps with regards to the requirements set by ESS 9 and ESS 10, which are being addressed by a review of its ESMS that is underway as part of BRDE’s engagements with other development agencies (the French Development Agency and the Deutsche Gesellschaft für Internationale Zusammenarbeit - GIZ) and will include improvements in the processes and procedures related with socioenvironmental risk assessment, classification and management. Some more significant



gaps exist between the Brazilian regulatory framework and the requirements of ESS 5. In consequence of these gaps, there are early agreements that the selection of FI Subprojects will prioritize those that have only minor adverse impacts related with land acquisition, restrictions to land use and involuntary resettlement. For precaution, where FI Subprojects involve land acquisition and minor risks and impacts related with resettlement, a Resettlement Framework will be prepared and included in the Project's Environmental and Social Management Framework to clarify resettlement principles, organizational arrangement, and design criteria that are consistent with ESS 5. The RF will be prepared during project preparation. By early agreements with BRDE, proposals of FI subprojects that may have significant adverse impacts related with physical displacement will be ruled out.

Other social risks are not envisaged and the project is expected to have an overall positive social impact, benefiting the most the poor who are overrepresented among those living in areas at-risk of natural disasters and unable to cope with their consequences. These benefits are expected to be higher among women, children, the elderly, and disable people, who are the least able to cope and respond to natural disasters.

It is envisaged that these FI Subprojects will have low and/or moderate social risks, because an exclusion list will be set ruling out projects that may have significant adverse impacts related with physical displacement.

The robust regulatory context and enforcement capacity of Brazilian agencies under which BRDE operates also bring the social risks of the project down. However, the current indefiniteness of the FI Subprojects that may be funded, the number of FI Subprojects to be supervised, and the weaknesses and gaps identified in BRDE's ESMS the gaps between the Brazilian regulatory framework and ESS 5 are factors that increase the social risk. This may be revised as the FI Subprojects are identified.

B. Environment and Social Standards (ESSs) that Apply to the Activities Being Considered

B.1. General Assessment

ESS1 Assessment and Management of Environmental and Social Risks and Impacts

Overview of the relevance of the Standard for the Project:

This project is a Financial Intermediary operation with BRDE, which will open a particular window in its portfolio for financing the delivery of resilient infrastructures able to cope with extreme natural events (floods and geotechnical risks) as well as institutional capacity building for municipalities to deal with disaster risk management and urban planning. Project support to specific FI subprojects will be traceable and a specific type of financing. Subprojects will be selected on a demand-driven basis and will not be known before Project Appraisal. BRDE will finance around 30 FI subprojects, aiming to promote urban resilience in selected municipalities of the Southern region of Brazil. The average costs of each FI Subproject will be around US\$ 3 million and may finance construction works related with flood, landslide and erosion management systems (including: macro and micro drainage; dredging, cleaning and maintenance of channels; solid waste management; sanitation; integrated urban-water management for flood mitigation; flood retention reservoirs; slope stabilization; drainage upgrades; riverbanks protection; reforestation; and conservation of soils and springs) as well as structural and non-structural solutions (including capacity building, acquisition of hydrometeorological monitoring equipment, acquisition and installation of Early Warning Systems, and resilient urban amenities and social facilities to avoid the occupation or re-occupation of disaster risk areas). Some of these works may interfere with Permanent Preservation Areas (APPs), which must be the object of recovery. Technical assistance activities may include: (i) the preparation of future infrastructure works, feasibility studies or detailed technical designs, which category of environmental and social risk will be associated with the envisaged impacts of the infrastructures themselves; (ii) conceptual studies for mapping natural disasters and assessing vulnerability and the formulation of urban land use plans and contingency plans, which may have significant but more



induced downstream implications in the longer-term; and (iii) the strengthening of the capacity of the FI and FI Sub-borrowers to cope with natural disasters and deal with urban planning.

The adverse environmental impacts of FI Subprojects are expected to be temporary, site-specific and reversible. The probability of significant adverse effects on the environment is low and, given the Project's features and objectives related with environmental recovery for improved disaster risk management, its overall impact on the environment is expected to be positive. Most FI subproject activities will be developed in urban and periurban altered areas and most impacts during the implementation phase can be properly mitigated, but some of their activities may require suppressing natural vegetation in drainage basins and riparian forests, which are known for its role in maintaining local biodiversity, acting as corridors for animal migration and influence on limnic bodies through the deposition of particulate and dissolved organic matter and nutrients via mineralized accumulated litterfall. Some TA activities may lead to downstream social and environmental implications that differ in terms of directness, specificity and timing. Overall the impacts of project activities are expected to be positive and benefit the most vulnerable social groups (children, the elderly, disabled people and women) that live in at-risk urban areas, are mostly exposed to extreme natural events, hold less capacity to cope with its adverse consequences and recover at a slower pace when hit by natural disasters. Thus, they are expected to contribute to gender equity and social inclusion as well as to contribute to SDG 11 – Make cities and human settlements inclusive, safe, resilient and sustainable.

BRDE's board of directors approved an umbrella Environmental and Social Responsibility Policy (ESRP) in 2014, setting the principles to be followed by the institution. In 2015, an action plan to enable the implementation of this policy was also approved. In 2016, a coordination and a committee of social and environmental responsibility were established with clearly defined roles and responsibilities. The management of social and environmental risks of its financing operations is one of the pillars of this policy and requires all FI subprojects be prepared and implemented in accordance with relevant environmental, labor and social national and local laws and regulations. The corporative system of management of social and environmental risks (SARAS) is being enhanced as part of an ongoing donor-funded technical assistance project. These enhancements include the development and adoption of a categorization system for subprojects with clearly defined risk categories. In compliance with Federal Law 12,527/2011 and Complementary Law 105/2001 (on bank secrecy), BRDE keeps an Ombudsman Office, a website portal of Transparency and an Ethics Channel for internal use only. These actions are consistent with the requirements of ESS 9, paragraphs 14, 17, 19 and 25.

During preparation, a comprehensive review of BRDE's ESMS will be carried out in light of the requirements of ESS 1-10, gap-filling and capacity-building measures to strengthen BRDE ESMS will be proposed and an Action Plan discussed as part of the projects ESCP. BRDE may be required to adjust its ESMS, adopt and implement additional or alternative environmental and social requirements depending the nature and magnitude of environmental and social risks and impacts of the FI Subprojects. These additional requirements will be applied to the new resilience window, consolidated in an Environmental and Social Management Framework (ESMF) and incorporated in all FI loan agreements signed under this window. The ESMF will address the weaknesses and gaps identified on BRDE's ESMS ensuring FI Subprojects will achieve results consistent with the objectives of ESS 1 – 10. It will also include a capacity building plan. The Project's ESMF will require that all subprojects are assessed, prepared and implemented to meet the Brazilian Forest Code and other relevant national environmental and social laws. An exclusion list will be defined during project preparation and set in the Project's ESMF and loan agreement, ruling out high risk FI subprojects, including interventions that interfere with critical habitats, have significant adverse impacts related with physical displacement and restrictions on land use, and works related with new or existing dams for example. The Project's ESMF will also outline the criteria for the use of independent experts.



Following the World Bank Environmental and Social Framework (ESS 1, footnote 5), when supporting technical assistance activities, BRDE will: (i) review the proposals of technical assistance activities and define their environmental and social risk category; (ii) review the terms of reference, work plans or other documents defining the scope and outputs of these technical assistance activities, ensuring that they are drafted so that the advice and other support provided is consistent with the World Bank Environmental and Social Standards; and (iii) require that the Sub-borrowers (a) apply environmental and social risk management measures as relevant and appropriate to the nature of the envisaged risks and impacts of the Technical Assistance activities and (b) promote broad stakeholder engagement and participation in a manner proportionate to the direct, diffuse and induced social and environmental impacts and downstream implications envisaged as potential outcomes of the technical assistance activities. These guidelines will be included in the Project's ESMF.

Areas where “Use of Borrower Framework” is being considered:

The Borrower framework is not being considered for this operation in replacement of any standard.

ESS10 Stakeholder Engagement and Information Disclosure

Organizational capacity and commitment – In line with the requirements of ESS 10 and the Brazilian regulatory framework (Federal Law 12,527/2011 on access to information and Complementary Law 105/2001 on bank secrecy), BRDE has clearly defined roles, responsibilities, authority and assigned personnel for the implementation and monitoring of stakeholder engagement activities. Its Ombudsman Office, Transparency Unit and ethic commission are accountable for these activities. They are responsible for: (i) answering public enquiries in a timely manner as established by the Brazilian regulatory framework; (ii) lodging, processing, redressing external complaints as well as monitoring and reporting this grievance redress mechanism; and (iii) assessing, responding and taking remedy actions with regards to internal complaints.

Grievance Mechanism – Public enquiries and requests for information external can also be lodged through the Transparency website Portal (<http://www.brde.com.br/transparencia/>) e-mail of the Transparency Portal (transparencia@brde.com.br). External complaints can be lodged through a toll-free number (0800-600-1020), the Ombudsman Office's website and an e-mail address (ouvidoria@brde.com.br). Requests of information and complaints are processed and answered in ten working days. Internal complaints related with the behavior of BRDE staff and work and labor relationships are dealt with by BRDE's Ethic Commission, which is composed by six elected members of BRDE's regular staff by their employees. These grievance redress and transparency mechanisms will be assessed by the team during project preparation and measures may be proposed (as needed) to strengthen them.

External Communication and Information Disclosure – The Ombudsman Office and the Ethics Channel publicly disclose bi-annual reports. The website portal of Transparency publicly discloses reports on an annual basis. In addition, since 2006, BRDE publicly discloses annual reports on socioenvironmental sustainability aspects of its operations, which are publicly available through the website <http://www.brde.com.br/socio-ambiental/relatorios/>. A section on the environmental and social performance of the FI subprojects will be included in the semi-annual progress reports of the FI to the Bank.

Stakeholder Engagement Plan – In compliance with the requirements set in ESS 9 – Financial Intermediaries with regards to stakeholder engagement (paragraphs 24-27) and ESS 10, BRDE will require their Sub-borrowers to carry out stakeholder engagement in a manner proportionate to the risks and impacts of their FI Sub-projects. The criteria to define the proportionate measures to be followed by the Sub-borrowers and the provisions of ESS 10 that will be relevant for each FI Subproject will be defined in the Project's ESMF and included in the loan agreements between BRDE and the Sub-borrowers. As FI subprojects will not be known before appraisal, during preparation, BRDE will



prepare a SEP that will take the format of a framework approach, outlining general principles and a collaborative strategy to help sub-borrowers to identify stakeholders and plan for an engagement process in accordance with ESS 10, which will be implemented once the location of the subprojects are known (according to ESS 10, paragraph 18). In designing this stakeholder engagement framework, BRDE will engage with key stakeholders (state and municipal governments, DRM and Environmental agencies) for the definition of the general principles of stakeholder engagement as well as technical criteria for selection of sub-borrowers under the special resilience window. BRDE will include a section on environmental and social risk management under the project in its annual socioenvironmental sustainability reports and will use its External Communication channels (the website-based portal of Transparency) for communicating on environmental and social matters related with the Resilience Window and its subprojects as well as the Project's ESMF and ESCP. BRDE's Transparency Unit will be responsible for responding public enquiries related with social and environmental aspects of FI Sub-projects it receives and BRDE's Ombudsman Office will respond the complaints it receives. BRDE will require its Sub-borrowers to disclose any FI Subproject-related documents required by the application of the World Bank Environmental and Social Standards.

B.2. Specific Risks and Impacts

A brief description of the potential environmental and social risks and impacts relevant to the Project.

ESS2 Labor and Working Conditions

FI subprojects will include civil construction works that will be hired by municipal governments. Direct, contracted and primary supply workers will be protected under the Brazilian legislation, which is fully able to achieve outcomes consistent with the principles of ESS 2. All FI Sub-borrowers will be required to comply with this legislation and ensure that all direct, contracted and primary supply workers are hired under formal labor relationships – meaning that labor agreements are fully registered on their Labor Cards (Carteira de Trabalho) – the official Brazilian document for registering labor and working conditions, which provides access to social security, worker's and labor rights and retirement system). The FI Sub-borrowers will be responsible to oversee these contracts and ensure they comply with the Brazilian labor legislation and the requirements of ESS 2. The contractors will be required to organize and carry out daily dialogues about Health and Safety in the work place, also addressing regularly issues related with the conduct contracted laborers shall keep with the local population. These activities will be supervised by the FI. These procedures will be set in the Project's written Labor Management Procedures that will be developed by BRDE during preparation. These Labor Management Procedures will be included in all FI loan agreements.

BRDE – the financial intermediary – regularly screens its clients and suppliers with regards to compliance with the Brazilian labor legislation. BRDE also follows a corporative code of ethics (publicly available at http://www.brde.com.br/wp-content/uploads/2018/07/codigo_conduta.pdf), which is based on principles of non-discrimination and equal opportunity, no-harassment, freedom of association, safety and health at the work place, avoidance of child labor and forced labor. This code of ethics also provides BRDE's workers with accessible means to raise workplace concerns without retaliation (BRDE's Ethic Commission – as defined by BRDE code of ethics, chapter XIX). During preparation, the team will review labor and working conditions within BRDE to confirm they meet the requirements of ESS 2.

Regulatory labor agencies and labor unions are well-organized and actives in the Southern region. Therefore, it is not envisaged any adverse risks related with labor and working conditions. The working conditions of the FI will be evaluated during preparation in light of the requirements set in ESS 9 and ESS 2.



ESS3 Resource Efficiency and Pollution Prevention and Management

This ESS is relevant because civil works for the construction of resilient infrastructures may have temporary direct adverse impacts environmental pollution and degradation of natural resources (air, soil, water). Many works can generate pollution by the use of oil and gasoline in equipment, air pollution by emissions, water pollution by land movement and increased sediments and turbidity. Activities such as the creation of linear urban parks, reforestation and APP's recovering are beneficial at the medium and long-term even if in the short-term of their implementation they may cause some small adverse impacts as a result of inadequate use of pesticides and agrochemicals. The Project ESMF will set the rules to be followed when FI subprojects will involve recourse to pest management measures, following the requirements of ESS 3 for selection and use of pesticides.

The FI subprojects should avoid the release of pollutants or, when avoidance is not feasible, adopt measure specified in Brazil legal framework. To address such risks and adverse impacts, the Project's ESMF will include specific guidelines on how to: (i) prevent and mitigate the pollution of natural resources, mainly soil and water, when handling hydrocarbons (oil and gas) for equipment and machinery; (ii) avoid the use of prohibited pesticides at the national level and those prohibited in the international lists that are applicable, prepare and implement integrated pest management plans as appropriate; (iii) promote the sustainable use of resources, water, energy and raw materials, avoid or minimize pollution, emissions and generation of hazardous and non-hazardous waste related with project activities. The ESMF will also address issues of waste management, pollution, energy use (in lighting) and water use.

ESS4 Community Health and Safety

Focusing on directing resources to resilient infrastructure delivery to cope with extreme natural events and on risk awareness and citizen participation, FI subprojects will contribute to reduce community exposure and vulnerability to floods and geotechnical risks. Therefore, its overall impact on community health and safety is expected to be positive. As the structural elements of components of the FI subprojects will most certainly be situated in high-risk locations (including those with risk of extreme weather events), and their failure or malfunction may threaten the safety of the beneficiary communities, the Borrower may engage independent experts to review project design, construction, operation and decommissioning. Design, construction, operation and decommissioning of infrastructure works will be conducted in accordance with the requirements of ESS 4, the national legal framework, the EHSs and other GIIP, taking into consideration safety risks to third parties and affected communities. The main subprojects that will be subject to the requirements of ESS4 are those involving civil construction works, which may put the population at risk by moving large equipment and which may also have a potential risk of hydrocarbon pollution. Brazilian regulatory framework related with civil works are well aligned with EHSs and Brazil has many policies to address health and safety risks of construction works to both workers and communities. Technical responsibility for project design and implementation is taken by engineers and architects and is regulated by federal legislation regarding the competency of professionals. Health and safety risks are included in all construction contracts firmed with public agencies, which are regulated by the Federal Constitution, the Consolidation of Labor Laws (CLT), Administrative Rulings (Ordinance No. 3214/78 of the Ministry of Labor and Employment) known as NR (Normas Reguladoras), rules and standards issued by ABNT (The Brazilian Association of Technical Standards), and International Labor Organization Conventions. In addition to this, construction companies usually buy the following insurance, which might have some bearing on the type of risks related to the community: (a) Engineering risks; (b) property; (c) third parties' civil liability; (d) automobile liability; (e) employer's civil liability; and (f) environmental risks.



Other risks to health and safety of communities and users of public infrastructures can be covered by the issuance of environmental licenses for installation and operation as well as by the licensing permits issued by municipal governments, which have special codes for local construction (lei de posturas, uso e ocupação do solo), which include regulations on accessibility, safety of users, ventilation, lighting and installations. The certificate of occupancy can require inspection by the Fire Department, and the Health Department to ensure measures for fire prevention and sanitary conditions are met.

With regards to universal access to new infra structures, Brazil has comprehensive and advanced legislation on the accessibility and social inclusion of persons with disabilities. This legislation comprises two main legal instruments: Law 10,098/2000, which was regulated by Decree 5296/2004, and Law 13,146/2015. The first of these laws sets the general standards and key criteria for promoting the accessibility of people with disabilities by removing obstacles and barriers in public spaces, urban facilities, modes of transport and communication. The second law expands the first law and relates issues of accessibility to the human rights of people with disabilities).

FI Subprojects will not include the design, construction, operation and maintenance of new, under construction or existing dams. Proposals of FI subprojects will be screened against exclusions set in the legal agreement, which will include subprojects that require the construction, operation and maintenance of large dams and all other dams (regardless of size or retention capacity) that could cause safety risks in the selected municipalities.

The ESMS of the BRDE that will be applied to the new resilience window will be commensurate with the nature and magnitude of environmental and social risks and impacts of FI subprojects and supplemented with ESF requirements when gaps are identified.

ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement

Regulatory Framework. As required by ESS 5 and in accordance with the Brazilian regulatory framework, the State cannot resort to forced evictions of affected people. However, the Brazilian regulatory framework related with the exercise by the state of the eminent power of domain to retake lands oftentimes falls short to enable Borrowers to achieve outcomes materially consistent with the objective of providing timely compensation for loss of assets at replacement costs, particularly where functioning real estate markets are weak and specially in regards to “persons who do not have formal legal rights to land or assets, but have a claim to land or assets that is recognized or recognizable under national law”.

Potential Risks and Impacts. Some of the eligible types of FI Subprojects (such as the linear urban parks and the stormwater storage facilities) may require land acquisition. In addition, some technical assistance activities (such as the preparation of urban land use plans) may also have downstream implications related with land acquisition, restrictions on land use and involuntary resettlement as preventative measures to avoid exposure of persons living in at-risk areas to natural disasters.

Proposed Measures. The FI subprojects will be screened to prioritize those that do not lead to significant adverse impacts related with land acquisition, restriction on land uses and involuntary resettlement. FI Subprojects that may have minor impacts related with involuntary resettlement (namely: the affected people are not physically displaced and less than 10% of their productive assets are lost) will apply the relevant requirements of this ESS. Special procedures consistent with these requirements will be set in a Resettlement Framework (RF) to be prepared by the client before appraisal. As initially agreed with the FI, FI Subprojects with major adverse impacts related with physical displacement will be ruled out. These principles will be mentioned in the Project’s Resettlement Framework (RF) that will apply to the new special BRDE’s resilience window. These principles and procedures will be followed throughout implementation to ensure activities achieve results consistent with the objectives of ESS 5..



With regards to technical assistance activities that may lead to downstream implications related with involuntary resettlement, the Terms of Reference, work plans or other documents defining the scope and outputs of technical assistance activities will be drafted (and reviewed by the Bank) so that the advice and other support provided is consistent with ESS 5. This provision will also be included in the Project's RF (developed as part of the resilience window ESMF) and loan agreement.

ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources

This standard is relevant because FI subprojects will support civil works for the construction of resilient infrastructures on modified habitats that could impact springs and river banks, which are classified as Permanent Preservation Areas (APP) and legally protected by the Brazilian Legislation (Federal Law 4771/65). APPs within urban areas will be subjected of Municipal Land Use Plans (Planos Diretores) and would require specific permitting, mitigation and regeneration measures. In rural areas, according to the Brazilian Legislation, the Borrower would have to request previous authorization from the State Environmental Agency to convert natural vegetation and implement activities involving conversion or degradation of natural habitats.

Some of the areas of interference may include significant biodiversity value (to be determined by the environmental and social impact assessment required by ESS 1) and mitigation measures may be implemented as appropriate to avoid or minimize these impacts.

Maintenance of escape areas for flood waters and execution of hillside containment infrastructure works can generate temporary and reversible adverse impacts on the environment such as increased sediments from land movement, and atmospheric pollution from smoke and particulate matter emissions and increased emission of greenhouse gases from the use of machinery. Reforestation in degraded areas and Permanent Preservation Area (PPA – defined in accordance with the Forest Code (Law 12.651), in which one of the primary functions is maintenance of water resources, may generate impacts that in the short term are adverse, such as (i) increased sediments from land movement, (ii) interference in natural habitats, (iii) atmospheric pollution from smoke and particulate matter emissions and increased emission of greenhouse gases from the use of machinery, (iv) increased erosion from soil movement, (v) increased water consumption for irrigation of seedlings, (vi) use of agrochemicals and pesticides.

To ensure that FI subprojects will be consistent with ESS6 guidelines, BRDE will prepare an Environmental and Social Management Framework (ESMF), which will assess possible risks to modified habitats and maintain an Environmental and Social Management System (ESMS). To address the mentioned risks, the ESMF will include:

- (i) A list of ineligible activities under the Resilience window, including any activity that may: (a) produce adverse impacts on critical natural habitats; (b) introduces or promotes the use of invasive species or non-native species (not currently established in the region) on reforestation activities; (c) spread alien species already established in the region into areas in which they have not already become established; (d) promote land use change from non-disturbed forests (to be classified by structural parameters such as size, stratification, presence or absence of significant disturbances by specific studies already performed or mapped by Environmental Agencies at Federal, State and Municipal levels) to the implementation of any infrastructure;
- (ii) A screening plan for activities to identify potential negative impacts on biodiversity;
- (iii) A process for categorizing in terms of expected level of environmental risks and impacts the FI subprojects;
- (iv) Procedures to determine the need for development of site-specific assessments and guide the implementation of safeguard measures, adequately applying the Mitigation Hierarchy and following GIIPs. Such measures include: guidelines for best construction practices, procedures for preventing hydrological changes and



consequent impacts on water users downstream of the areas of intervention; measures to ensure that any activities undertaken in legally protected areas and areas of internationally recognized biodiversity importance are consistent with the area's protection status and and/or management and designation objectives; and

(v) Procedures for verification of practices used by the primary suppliers (mainly nurseries) and certification of the forest origin of all timber from native species used for civil construction.

The relevance of this ESS will be further assessed during the preparation when a more detailed description of the FI Subprojects will be available.

ESS7 Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities

Indigenous Peoples in Southern Brazil. Indigenous Peoples are present at the areas that will be potentially benefited by the project and, consequently, this standard is considered relevant because the FI Sub-projects have not been selected yet, they will be chosen on a demand-driven basis and they may interfere with areas in which Indigenous Peoples are present.

According to the last demographic census, 78,773 people have been self-identified as Indigenous Peoples in the Southern Region of Brazil. They count for 9.2% of the self-identified Indigenous Peoples in the country. By states, they count for just 0.2% of the population of the Paraná state and 0.3% of the population of the Santa Catarina state and 0.3% of the Rio Grande do Sul state. Between 2000 and 2010 (the latest official figures available), the Indigenous Peoples population in the region declined 1.2%. It increased in rural areas (2.3%) but fell 4.2% in urban areas. They are mostly of the Kaingang Indigenous Peoples, but also include the Guarani (Ñandeva and Mbya), the Xokleng and the Xeta Peoples. By states, 43.2% of these Indigenous Peoples live in the Rio Grande do Sul, 33.7% in the Paraná state and 23.1% in the Santa Catarina state. Half of them lives in Indigenous Lands.

There are 104 Indigenous Lands within the region: 46% in the state of Rio Grande do Sul (53.7% of the population); 28% in the state of Santa Catarina (50.6% of the population); and 26% in the state of Paraná (44.9% of the population).

In 16 municipalities at the Southern region, Indigenous Peoples comprise more than 10% of the population. They are: Nova Laranjeiras (19.9 % of the municipal population), Manoel Ribas (12.9 %) and Tamarana (12.1 %) in Paraná; Ipuacu (50.5%), Entre Rios (20.5%) and José Boiteux (18.7%) in Santa Catarina; and Charrua (43.9%), Benjamin Constant do Sul (43.5%), Redentora (39.5%), São Valério do Sul (39.4%), Engenho Velho (34.1%), Cacique Doble (19.1%), Tenente Portela (14.6%), Gramado dos Loureiros (13.4%), Muliterno (11.4%) and Ronda Alta (10.1%) in Rio Grande do Sul. These are small-size municipalities. Tamarana is the largest one with a population of 14,548 people. Brazilian Regulatory Framework. Brazil is a signatory of ILO Convention 169 and the Brazilian regulatory framework includes the provision of free, prior and informed consent whenever projects interfere with Indigenous Peoples and their lands and sets that compensatory measures are agreed whenever a project interferes with indigenous lands and livelihoods. The Brazilian regulatory framework with regards to rights of Indigenous Peoples is considered mostly consistent with the requirements of ESS 7.

Proposed Additional Measures. If any of the municipalities where Indigenous Peoples are present applies and is benefited by FI subprojects, the relevant requirements of ESS 7 will apply to all activities that directly or indirectly interfere or benefits Indigenous Peoples. The special procedures set in ESS 7 will be followed, including those related with Free, Prior and Informed Consent (FPIC) as defined by ESS 7 (paragraph 24) . These principles will be set in an Indigenous Peoples Policy Framework to be included as part of the Resilience window ESMF.



ESS8 Cultural Heritage

The requirements of ESS 8 are relevant.. The Borrower and Sub-borrowers will consider any existing cultural heritage potentially impacted by project investments and to consider “chance finds” from any excavation works or other activities. The FI ESMF for the special resilience window supported by the project will include provisions to consider ESS 8 requirements in the screening, assessment, implementation and monitoring of all FI-Subprojects as applicable. Brazil has a well-developed legislative framework for protection of its cultural, historical and archeological heritage and the Institute of National Historical and Artistic Heritage (IPHAN), directly responsible for this matter, has adequate normative tools to deal with these aspects, under the environmental licensing process. Law 3,924/1961 rules over the property of pre-historical and archeological heritage, its use and exploitation as well as chance find procedures. IPHAN requirements and procedures are fully in line with the requirements of ESS 8. IPHAN Instruction 001/2015 establishes administrative procedures to be observed in the licensing processes of which this agency participates. In high risk projects, IPHAN nominates an Archeological Coordinator as responsible for the management of archeological sites and materials throughout project implementation. The implementation of project activities can be suspended if periodical Archeological Supervision Reports are not timely presented. The entrepreneur and archeological coordinator are responsible for the execution of the activities approved by IPHAN also analyzes the plans, programs, projects and measures for environmental control envisaged on the project’s PBA before the issuance of the Installation License, which may include a Program of Management of Cultural Heritage, including measures to ensure the preservation and safeguard of cultural heritage and monitoring and report guidelines among other aspects.

ESS9 Financial Intermediaries

This is a Financial Intermediary operation with the Regional Development Bank of Southernmost Brazil (BRDE – Banco Regional de Desenvolvimento do Extremo Sul).

BRDE was founded in 1961. BRDE is controlled by the governments of the states of Paraná, Santa Catarina and Rio Grande do Sul. In 2018, BRDE counted with 463 employees (66% with graduation degrees, 68% males, 63% with age between 36 to 55 years old). BRDE had 35,331 clients and managed about 13.5 billion Brazilian Reais in credit operations and held total assets equal to 17.3 billion Brazilian Reais [Source: BRDE, Relatório de Administração e Socioambiental 2018, available at <http://www.brde.com.br/wp-content/uploads/2019/04/Relatorio-2018-1.pdf>.] Regulatory Framework – In 2014, the Brazil Central Bank issued Resolution 4,327/2014 of the National Monetary Council, which establishes guidelines with regards to the management of environmental and social risks that have to be observed by all finance institutions operating in the country. Resolution 4,327/2014 adheres to the principles of relevance (i.e., level of exposure to environmental and social risks of the institutions activities and operations) and proportionality (i.e., the consistency between the Socioenvironmental Responsibility Policy, the nature of the institution and the complexity of its activities and financing services and products). It sets principles and guidelines to address socioenvironmental actions and the relationship between financing institutions and key stakeholders, encouraging their participation in the design of the corporative Socioenvironmental Responsibility Policy. It also states that this policy must be evaluated and updated (as needed) by the Board of Directors and Administrative Council of the financing institution, which are responsible for ensuring the implementation, monitoring and evaluation of the Socioenvironmental Responsibility Policy and assess the adequacy of the socioenvironmental risk management system. This management system of socioenvironmental risks must include routines and procedures that enable the identification and previous evaluation of potentially adverse socioenvironmental impacts (including reputational risks), classification, evaluation, monitoring, mitigation and control over socioenvironmental risks.



Environmental and Social Policy - BRDE board of directors endorsed its umbrella Environmental and Social Responsibility Policy (ESRP) in 2014. The ESRP sets the principles of social and environmental sustainability followed by the institution and requires that all FI Subprojects be prepared and implemented in accordance with relevant environmental, social and labor laws and regulations. Brazilian regulations require that all activities that can have environmental and social impacts are screened for environmental and social risks and impacts as part of their environmental licensing process. In 2015, BRDE’s Board of Directors and Administrative Council also endorsed an action plan to enable the implementation of the policy, which is based on three pillars: (i) Management of the direct impact of its internal activities); (ii) management of socioenvironmental risks of its financing operations; and (iii) promotion of social and environmental products.

Organizational and capacity and competency – In 2016, BRDE established the Coordination of Socioenvironmental a coordination (CRESA) and a Socioenvironmental Responsibility Committe. CRESA was early subordinated to the Superintendence of Planning and Sustainability.

Stakeholder Engagement – In compliance with Federal Law 12,527/2011 and Complementary Law 105/2001 (on bank secrecy), BRDE keeps an Ombudsman Office to receive and redress grievances, a website portal of Transparency (<http://www.brde.com.br/transparencia/>) and an Ethics Channel for internal use only, which rely on different channels for lodging complaints and follows the Brazilian legislation to redress them. These offices within BRDE also comply with the regulatory framework on access to information and publicly disclose their reports on an annual or biannual basis.

Previous Assessments of BRDE’s ESMS – An independent assessment of the maturity of the BRDE’s environmental and social management system (ESMS) concluded that it is satisfactory with regards to (a) socioenvironmental policy and (b) initial screening of socioenvironmental risks, but limited with regards to (c) previous experience, (d) socioenvironmental risk analysis e) socioenvironmental management, monitoring and evaluation and (f) institutional governance and internal resources as well as faulty with regards to (g) categorization of socioenvironmental risks. An improved ESMS is being designed and implemented by BRDE in a pilot-basis in activities supported by the French Development Agency.

Additional Requirements – During preparation, the existing FI ESMS will be object of a comprehensive review. Gap-filling and capacity-building measures will be agreed to ensure that: (i) all FI subprojects will be (a) screened against any exclusions set in the legal agreement, (b) categorized according to their potential environmental and social risks and impacts, (c) regularly monitored and reported in their environmental and social aspects and impacts; (ii) all legal agreements between BRDE and the sub-borrowers set the measures needed to satisfy the requirements of the relevant environmental and social standards; and (iii) all FI sub-borrowers will comply with the requirement to conduct a stakeholder engagement strategy. These measures will be proportionate to the risk category of each subproject and incorporated in the ESMF that BRDE will develop for its resilience window.

Public Disclosure

C. Legal Operational Policies that Apply

OP 7.50 Projects on International Waterways

No

This policy is not being triggered, as the Project activities will not influence international waterways.

OP 7.60 Projects in Disputed Areas

No

Not applicable.

III. WORLD BANK ENVIRONMENTAL AND SOCIAL DUE DILIGENCE



A. Is a common approach being considered?

No

Financing Partners

No financing partners are envisaged for this operation.

B. Proposed Measures, Actions and Timing (Borrower's commitments)

Actions to be completed prior to Bank Board Approval:

Prior to Appraisal, the Bank team will assess the sectors and type of FI subprojects to be supported by the project as well as the nature and scope of its risks and potential impacts. Considering the findings of this assessment, the Bank team will also assess BRDE's ESMS and its external communication mechanisms, considering its capacity to achieve outcomes consistent with the principles of the World Bank's Environmental and Social Standards when dealing with the expected environmental and social risks and impacts of the FI Subprojects.

The Bank team will require BRDE to adopt and implement additional or alternative environmental and social requirements, depending on the envisaged risk category of the FI subprojects. These additional or alternative requirements will be commensurate to the level of risk and apply to moderate and substantial risk FI Subprojects. Low risk FI Subprojects will be assessed, prepared and implemented to meet national law.

For the new resilience window that BRDE will open within its portfolio in attendance with this operation, BRDE will develop an Environmental and Social Management Framework (ESMF) that will incorporate these additional or alternative requirements needed to adjust its ESMS to the requirements of the ESSs. The resilience window ESMF will define the criteria for the environmental and social risk assessment and classification of the FI subprojects as well as the principles and procedures to be applied by BRDE when dealing with moderate and substantial risk FI Subprojects. The resilience window ESMF will also set the exclusion list to be included in the loan agreement. BRDE will manage environmental and social issues in low risk FI Subprojects in accordance with national law. The ESMF will also define how stakeholder engagement will be documented and recorded. Finally, the ESMF will also set the exclusion list to be included in the loan agreement. BRDE will manage environmental and social issues in FI Subprojects with minimal or no adverse risks or impacts in accordance with national law.

During preparation, BRDE will also develop a SEP in the format of a framework approach (ESS 10, paragraph 18), which will define the guidelines to be followed by the sub-borrowers with regards to: (i) FI sub-borrowers commitments with regards to the carrying out of stakeholder engagement plans in a manner proportionate to the risk and impacts of their FI subprojects; (ii) disclosure of information related with the environmental and social aspects of the FI subprojects; (iii) responses to public enquiries about FI subprojects in a timely manner; and (iv) grievance redress mechanism.

A decision about triggering or not OP 7.50 and given notification to neighboring countries will also be taken prior to Bank Board Approval.

BRDE will also: (i) prepare a Resettlement Framework (RF) and an Indigenous Peoples Policy Framework, to be included as part of its Resilience Window ESMF/ESMS; (ii) assign the unit that will be responsible for environmental and social risks and impacts management under the Project; (iii) a draft of the loan agreements with FI Sub-borrowers to be used under the Resilience Window, including clauses related with environmental and social risks and impacts management; and (iv) agree with the Bank about the Project's Environmental and Social Commitment Plan.

Possible issues to be addressed in the Borrower Environmental and Social Commitment Plan (ESCP):



The ESCP may include:

- a. Incorporation of the guidelines set by the resilience window ESMF/ESMS in the loan agreements between BRDE and sub-borrowers in accordance with the FI Subprojects environmental and social risk category;
- b. Previous screening of all FI Sub-projects against the exclusion list set in the legal agreement;
- c. Previous environmental and social risk categorization of all FI Sub-Projects;
- d. Validation of the Sub-borrowers’ stakeholder engagement strategies;
- e. Implementation of the resilience window ESMS, improving its Environmental and Social Risk Assessment and Management System;
- f. Grievance redress mechanism – ensure that BRDE’s channels to lodge and redress complaints will be able to filter the public enquiries and concerns related with the FI Subprojects, respond to them in a timely manner, and report them to the Bank;
- g. Periodical reports of the Project’s performance with regards to environmental and social risk management;
- h. Intermediary evaluation of the Project’s performance with regards to environmental and social risk management; and,
- i. Final evaluation of the Project’s performance with regards to environmental and social risk management.

C. Timing

Tentative target date for preparing the Appraisal Stage ESRS

30-Sep-2019

IV. CONTACT POINTS

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Borrower/Client/Recipient

Borrower: Banco Regional de Desenvolvimento do Extremo Sul (BRDE)

Implementing Agency(ies)

Implementing Agency: BRDE

V. FOR MORE INFORMATION CONTACT

Public Disclosure



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VI. APPROVAL

Task Team Leader(s):	Emanuela Monteiro, Frederico Ferreira Fonseca Pedroso
Practice Manager (ENR/Social)	Valerie Hickey Recommended on 23-Jul-2019 at 21:59:42 EDT
Safeguards Advisor ESSA	Noreen Beg (SAESSA) Cleared on 24-Jul-2019 at 14:34:4 EDT