



SOCIAL AND ENVIRONMENTAL PERFORMANCE IN THE FINANCIAL SECTOR

**BENCHMARKING OF
DEVELOPMENT FINANCE INSTITUTIONS**

INTRODUCTION

In early 2015, a multi-year plan of actions was approved by BNDES' Board of Directors to promote an effective implementation of the institution's Corporate Social and Environmental Responsibility Policy (CSR Policy). This document established a first work agenda for the period 2015-2017, to be updated every three years, aiming to direct and mobilize efforts to favor advances in BNDES practices, including aspects related to strengthening the socioenvironmental (S&E) governance, risk management and accountability to stakeholders.

Within the scope of the Plan, a benchmarking exercise was carried out with eight international development finance institutions, aiming to identify good practices and opportunities for improving BNDES' S&E management system.

Through interviews and the collection of public information, it was possible to obtain an overview of the socio-environmental management in the institutions studied, especially regarding the integration of this dimension into their strategies, policies, operational processes, organizational structures, dialogue practices and transparency. The study also allowed the consolidation of information on the incorporation of the climate dimension into the performance of these organizations.

The results of this work, presented in this document, demonstrate the seriousness with which the S&E agenda is being treated by development finance institutions. The climate dimension is a more recent issue for these organizations. However, the agenda is already prominently present in strategic priorities, in specific policies and procedures, as well as in organizational structures responsible for climate risk management and the promotion of green business.

BNDES is grateful for the participation of development finance institutions in the research, with the certainty that the results of this work contain important input for strengthening the S&E dimensions in the financial sector.

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1 | ABOUT THE BENCHMARKING

Between May and August 2017, BNDES carried out a benchmarking exercise on the socioenvironmental (S&E) performance of eight development finance institutions, namely:

- World Bank;
- International Finance Corporation (IFC);
- Inter - American Development Bank (IDB);
- German Development Bank (KfW);
- Dutch Development Bank (FMO);
- French Development Agency (AFD);
- Society for Promotion and Participation for Economic Cooperation (Proparco), AFD's subsidiary to support the private sector; and:
- Export Development Canada (EDC).

The work's goal was to identify good practices and opportunities for the improvement of BNDES's S&E management system, within the scope of the Plan for the Implementation of its Social and Environmental Responsibility Policy. In this way, interviews were structured in order to allow a broad view on the S&E performance in the institutions, including the following dimensions:

- i) Strategic Direction;
- ii) Formalization of Internal Policies and Procedures;
- iii) Organizational Structure;
- iv) Operational Processes;
- v) Relationship with other Financial Institutions;
- vi) Transparency Practices and Stakeholder Engagement;
- vii) Climate Change; and
- viii) Challenges in the implementation of the S&E management system.

The knowledge obtained in the interviews was complemented with the search and consolidation of public information regarding the organizations surveyed.

2| RESULTS

In this chapter, the main findings of the interviews and the collection of public information obtained between May and August 2017 are summarized. The results are generally presented in a consolidated way, in order to safeguard the confidentiality of the institutions surveyed. In cases where specific organizations are mentioned, the information has come from public sources.

2.1| Strategic Direction

It was observed that two topics are notably present in the strategic direction of the institutions interviewed - climate change and the promotion of sustainable development, with the prioritization of some objectives of the Agenda 2030 for Sustainable Development.

With regard to the climate dimension, institutions are generally alert to global discussions on the transition to a low-carbon economy (mitigation) and addressing the inevitable impacts of climate change (adaptation), because of their implications for the performance of the financial sector. Among the main trends mentioned by the institutions interviewed were:

- **Climate related financial disclosures:** Faced with the impacts of climate change on society and the economy, the financial sector has been called on to integrate climate risk management in the evaluation of its portfolio and new projects and to provide transparency regarding its exposure to such risks. In 2017, the publication of the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD)¹, established by the Financial Stability Board (FSB) in December 2015, represented a significant milestone for the financial sector. The document includes guidance to different sectors of the economy on the dissemination of aspects related to climate change, including its impacts on financial statements and information on governance, strategy, risk management and metrics. The recommendations are based on the premise that disclosure of climate-related financial information is a prerequisite for the management and pricing of climate risks and for investment decisions. The publication of the recommendations of the TCFD has generated repercussions in the financial sector, with the creation of working groups to enable its implementation, both nationally and internationally, and the strengthening of organizational structures dedicated to climate, as

¹ The Task Force is chaired by Michael Bloomberg, consisting of 32 members from a wide range of industries and countries around the world.

identified in the benchmarking.

- **Carbon disinvestment:** Another trend mentioned in the interviews is the transfer of resources from carbon-intensive activities to green investments. Among the various initiatives for this purpose are the Portfolio Decarbonization Coalition (PDC), a coalition of 27 financial market investors, with more than US \$ 3 trillion in assets under management. The coalition's commitment is to withdraw capital from particularly carbon-intensive companies, projects and technologies and to reinvest that capital in companies, projects and technologies, which are more carbon-efficient, in the same industry. This commitment, so far, has reached the order of US \$ 600 billion. Among the coalition members are Caisse des Depots, ABP, ROBeCOSAM, Hermes, Amundi, Allianz and BNP Paribas. In addition to the PDC, there are several other similar actions by institutional investors to "decarbonise" their portfolios, as mentioned in the interviews.

The Institutions also reported their participation in initiatives to treat the climate agenda in the financial sector. The topic is the focus, for example, of a specific working group of multilateral banks. In addition, some of the organizations surveyed are part of the Climate Action in Financial Institutions² initiative, which aims to promote the integration of the climate dimension at the heart of financial institutions, to identify opportunities, strengthen risk management and better allocate capital. Since its launch at COP 21 in 2015, about 38 financial institutions around the world have joined the Initiative, including AFD, Proparco, KfW, FMO, IDB, IFC and the World Bank.

In addition to following the opportunities and implications of climate change in their work, institutions already integrate the topic into their strategy, through formal commitments and public goals. In some cases, such as the World Bank Group³ and AFD⁴, there is dissemination of work plans associated with climate change.

Regarding the promotion of sustainable development, it was possible to observe that the strategic direction of the institutions also prioritizes one or more objectives established in the Agenda 2030.

The commitment of multilateral banks with this agenda was made official through a declaration formalized in October 2016 (Statement by the Multilateral Development Banks: Delivering on the 2030 Agenda⁵). The document, signed by 11 development banks⁶ including IDB, World Bank and IFC, aims to accelerate and make possible the

² <https://www.mainstreamingclimate.org/>

³ <https://openknowledge.worldbank.org/handle/10986/24451>

⁴ <https://www.afd.fr/fr/cadre-intervention-climat-2017-2022>

⁵ <http://www.worldbank.org/en/news/press-release/2016/10/09/delivering-on-the-2030-agenda-statement>

⁶ African Development Bank, Asian Development Bank, Asian Infrastructure Investment Bank, European Bank for Reconstruction and Development, European Investment Bank, Inter-American

achievement of the 17 Sustainable Development Goals (SDGs), established at the United Nations Summit on Sustainable Development in September 2015, in New York. It seeks to agree on common actions to address critical issues in the implementation of the SDGs, such as forced displacement, infrastructure, urbanization, climate finance and private investment.

In the following boxes, the internalization of the climate dimension and the commitments with the SDGs in the strategy of the institutions surveyed can be seen.

Box 1 – World Bank Group Strategic Priorities

The World Bank Group, including the IFC, sets two objectives that guide and provide selectivity in their financial support: a) to end extreme poverty, reducing the number of people living on less than USD 1.90 per day for no more than 3%; and b) to promote egalitarian economic growth, fomenting the increase of income of the poorest 40% for all countries. The Group also has a public target to increase the share of climate-related operations in its portfolio to 28% by 2020. To this end, it has a Public Access Action Plan for Climate Change for the period 2016-2020⁷, namely:

World Bank

- Assist countries to mainstream climate change into development, to reach their NDCs⁸ and set the stage for further advancement;
- Accelerate the transition to renewable energy sources;
- Facilitate the expansion of sustainable infrastructure;
- Boost the climate resilience of communities, economies and ecosystems;
- Unlock trillions of US dollars in climate finance.

IFC⁹

- Scale climate investments to achieve 28% of IFC funding by 2020;
- Catalyze US \$ 13 billion in private sector capital annually by 2020 for climate projects through mobilization, aggregation, and risk reduction products;
- Maximize the impact of IFC by reducing greenhouse gas (GHG) emissions and increasing resilience; and
- Be responsible for the climatic risk in its performance.

Development Bank Group, International Finance Corporation, Islamic Development Bank, New Development Bank, World Bank, International Monetary Fund

⁷ <https://openknowledge.worldbank.org/handle/10986/24451>

⁸ The Intended Nationally Determined Contributions (iNDCs) are voluntary targets set by each country and submitted to the United Nations Framework Convention to reduce their greenhouse gas (GHG) emissions. All iNDCs, together, were the basis for the climate agreement negotiated during COP 21 in December 2015 in Paris. The goals proposed by the countries showed the intention of the nation before the subject, but without legal value. After the ratification of the Paris Agreement in each country, the targets were renamed Nationally Determined Contributions (NDCs) and have legal value.

⁹ https://www.ifc.org/wps/wcm/connect/5f5402804c60b510b6bbbbeaccf53f33d/IFC_Climate_Implementation_Plan_03152016_WBG_v2.pdf?MOD=AJPERES

Box 2 – KfW Strategic Priorities

KfW is aligned with the German government's sustainability strategy, having identified mega trends to be considered in its performance: climate change, environment and demographic variation. The German government has committed to double its financial contribution to climate between 2014 and 2020, with KfW as one of its instruments. This was announced at the Petersberg Climate Dialogue in May 2015¹⁰. In its latest sustainability report¹¹, KfW stated a disbursement of EUR 29.5 million for renewable energy, energy efficiency and reduction of environmental pollution - accounting for 37% of new investments.

Box 3 - AFD and Proparco Strategic Priorities

AFD and Proparco are aligned with the sustainability strategy of the French government, listing climate change as a strategic priority, as well as standards of accountability and S&E responsibility. Funding for climate change mitigation and adaptation projects in developing countries is at the heart of AFD's mission. The institution set the goal of devoting 50% of its funding to projects that have climate benefits. This strategy takes into account the contexts and situations of each region. As a result, 70% of projects funded in Asia and Latin America have climate benefits, as do 50% of projects in the Mediterranean area and 30% of projects in sub-Saharan Africa.¹²

Box 4 – IDB Strategic Priorities

IDB, among its priorities, addresses the following challenges: a) social exclusion and inequality; b) low productivity and innovation; and c) limited regional economic integration. In addition, it highlights three cross-cutting topics that need to be considered in the Bank's work to address such challenges: a) gender equality and diversity; b) climate change and environmental sustainability; and (c) institutional capacity and rule of law¹³.

¹⁰ <http://www.germanclimatefinance.de/2017/02/09/german-governments-climate-finance-doubling-on-paper/>

¹¹ <https://www.kfw.de/PDF/Download-Center/Konzernthemen/Nachhaltigkeit/englisch/Facts-and-Figures-Update-2016.pdf>

¹² <https://www.afd.fr/fr/page-thematique-axe/climat?prevId=115>

¹³ <http://idbdocs.iadb.org/mwg-internal/de5fs23hu73ds/progress?id=Y2XOqLVEYg8Hm8O45V9RInTuKPmGa21iWJi69f-qWDk.&dl>

Box 5 - EDC and FMO Strategic Priorities

EDC also includes climate change in its strategy and identifies, as priorities, human rights and transparency¹⁴.

FMO has aligned its strategy with the SDGs, prioritizing three in particular: ODS 8 - decent work and economic growth, which the institution measures by the number of jobs created in its investments; ODS 10 - reduction of inequalities, measured by the number of projects that contributed to the reduction of inequality, especially for women; and ODS 13 - action against global climate change, measured by the amount of GHG emissions avoided by its investments¹⁵.

2.2| Formalization of Policies and Internal Procedures

The institutions researched, in general, have structures of policies and procedures for the S&E agenda, in order to manage the risks and impacts of the supported operations.

In the case of the World Bank and the IFC, there are two sets of policies and procedures¹⁶:

- **for internal use** - documents that establish guidelines and detail responsibilities, workflows and orientations regarding the execution of the S&E analysis and monitoring of the operations; and

- **targeted to their clients** – S&E performance standards to be adopted by the beneficiaries when executing projects supported by the institution. IFC performance standards are considered as international benchmarks for S&E management of financial institutions when supporting the private sector, while those of the World Bank are benchmarks for public sector support.

The so-called "IFC Performance Standards" consist of guidance on eight specific topics: i) Assessment and Management of Environmental and Social Risks and Impacts; ii) Labor and Working Conditions; iii) Resource Efficiency and Pollution Prevention; (iv) Community Health Safety, and Security; v) Land Acquisition and Involuntary Resettlement; vi) Biodiversity Conservation and Sustainable Management of Living Natural Resources; (vii) Indigenous Peoples; and viii) Cultural Heritage. In the case of the World Bank, there are

¹⁴ <https://www.edc.ca/EN/About-Us/Corporate-Social-Responsibility/Pages/default.aspx>

¹⁵ <https://www.fmo.nl/profile>

¹⁶ https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards e <http://www.worldbank.org/en/programs/environmental-and-social-policies-for-projects/brief/the-environmental-and-social-framework-esf>

two additional standards: ix) Financial Intermediaries; and x) Stakeholder Engagement and Disclosure of Information.¹⁷

Figure 1 – IFC's Sustainability Framework



Figure 2 – World Bank's Sustainability Framework



¹⁷ The World Bank's socio-environmental safeguards, addressed to its clients, underwent a wide public consultation process and resulted in a structure of socio-environmental standards similar to those adopted by the IFC (Environmental and Social Standards - ESS). The ten standards came into force in 2018.

To enable the adoption of these policies and procedures, the World Bank and the IFC provide specific tools, such as guides, manuals, case studies and technical benchmarks, such as the Health, Environment and Safety Guidelines (EHS *Guidelines*)¹⁸.

The other institutions interviewed, with the exception of the IDB, explicitly mention the performance standards of IFC and the World Bank in their internal policies, adopting them as a guide for the social and environmental analysis and monitoring of operations.

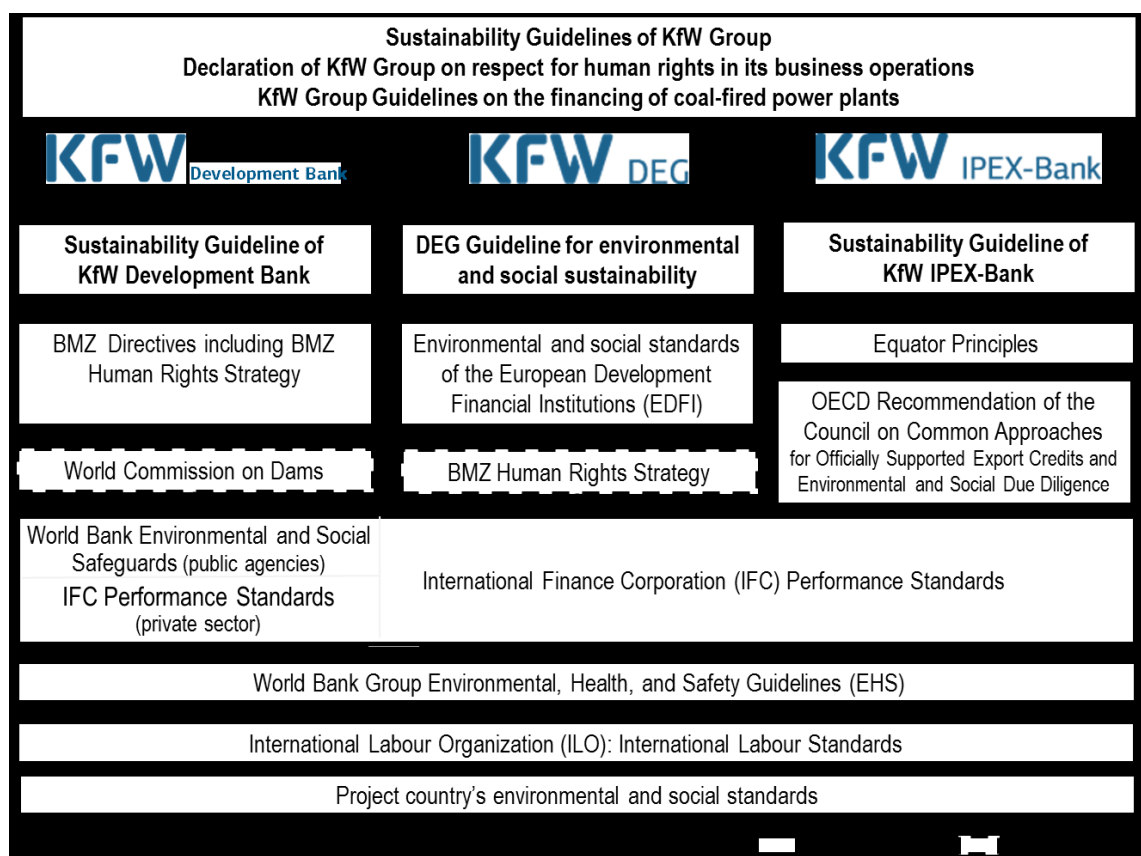
Although they adopt IFC and World Bank performance standards as a parameter for evaluating operations, the institutions generally have their own policy framework, with sustainability guidelines and the formalization of the S&E management system, which includes the definition of roles and responsibilities, workflows and procedures.

Figure 3 – Formalization of Policies and Procedures



¹⁸ As Diretrizes de Saúde, Meio Ambiente e Segurança, adotadas pelo Grupo, são documentos de referência técnica, baseados em boas práticas da indústria internacional (GIIP, na sigla em inglês de *Good International Industry Standards*). Contêm os níveis de desempenho e as medidas normalmente aceitáveis pelo Grupo, consideradas realizáveis em novas instalações a custos razoáveis pela tecnologia existente.

Figure 4 – KfW’s Sustainability Framework¹⁹



IDB, in its turn, has chosen to develop its own policies and procedures, covering the issues addressed by the IFC and the World Bank standards. The institution has an Environmental Policy, which guides its S&E performance, and a broad set of thematic policies, such as:

- Natural Disaster Risk Management (704);
- Involuntary Resettlement (710);
- Gender Equality in Development (761); and
- Indigenous Peoples (765).

In addition, the institution has a Transparency Policy that guides the disclosure of information produced by the bank and its access to the public. IDB also makes available on its website documents which consolidate its work and priorities on specific sectors or topics, such as Agriculture, Water and Sanitation, Education, Urban Development, Environment and Biodiversity, Climate Change, Health, Transport and Energy²⁰.

¹⁹ <https://www.kfw.de/PDF/Download-Center/Konzernthemen/Nachhaltigkeit/englisch/Facts-and-Figures-Update-2016.pdf>

²⁰ <https://www.iadb.org/pt/sobre-o-bid/politicas-operacionais-do-banco-interamericano-de-desenvolvimento%2C6127.html>

2.3| Organizational Structure

The institutions researched have dedicated and qualified teams for performing the S&E analysis and follow-up of operations, which also count on the support of specialized consultants in the subject. Such professionals have training in relevant areas, such as environmental engineering, geography, health and occupational safety engineering or biology. The centralization of activities related to S&E analysis and monitoring is perceived, by most of the DFIs, as fundamental to enable an appropriate risk management.

These institutions also have organizational structures for sustainability management, with assignments such as:

- climate finance strategy and transition to a low carbon economy;
- coordination of initiatives aimed at reviewing and improving S&E processes and working tools;
- support of specific committees related to the S&E agenda, when they exist;
- development of S&E policies and procedures;
- coordination and development of climate finance and sustainability instruments;
- development of internal capacity ;
- dialogue and engagement with stakeholders on S&E issues;
- technical support in fundraising processes (eg Green Climate Fund - GCF);
- external cooperation on the subject; and
- local development.

A dedicated structure to sustainability management was found in all the organizations surveyed, although with different configurations in each case.

IDB, for example, has a centralized team in charge of the S&E analysis of operations, which are supported by external consultants from international companies. In addition, the institution has a division for climate change and sustainable development (Climate Change and Sustainable Development Sector), which advises Management on climate change and sustainable development issues and develops overall Bank policies, strategies, operational guidelines and programs in these areas.. The Division is also responsible for developing relevant sector research, analytical work and case studies on climate change and sustainability, and for providing specialized technical sector support for IDB's operations and activities. The Division supports the execution of and supervises IDB's operations related to

forestry, biodiversity, agriculture development, tourism, sustainable cities, and climate change. Moreover, it provides support to operations in other sectors so as to mainstream climate change and sustainability considerations and improve their effectiveness²¹.

At IFC, the social and environmental assessments are also done by a centralized and dedicated team, allocated at the Environmental, Social and Governance Advice and Solutions Unit. Furthermore, IFC counts on a strategic division for climate financing, the Climate Business Unit²².

AFD has operational departments to promote the transition to a low-carbon economy, divided into Water and Sanitation; Sustainable Transport and Energy; Agriculture, Rural Development and Biodiversity, among others. The institution also has a specific structure for social and environmental issues which provides support to the operational teams. In addition, it has a division responsible for climate change, subdivided into two groups, one that provides support to operational teams in the climate dimension and another specialized in the study of climate vulnerabilities²³.

The size of the teams tends to be proportional to the number of supported projects and to the demands concerning the development of institutional policies and specific tools in this area. The interviews indicated a raising trend on the number of employees in these units to face the increasing challenges related to the S&E agenda of the DFIs.

2.4| Social and Environmental Assessment and Monitoring

The process of social and environmental analysis and monitoring of the institutions studied usually comprises the following phases:

- Screening

At this stage, the identification and preliminary assessment of risks and impacts associated with operations are carried out, through the use of questionnaires, consultation of public information and verification of related documentation. In addition, it is ascertained whether project financing respects restrictions on activities not eligible for financial support, often inspired by IFC's "Exclusion List"²⁴.

²¹ <https://www.iadb.org/en/about-us/departments/csd>

²²

<https://www.ifc.org/wps/wcm/connect/7973ac004a4483708622bf10cc70d6a1/IFC+Org+Chart+as+of+Feb+1+2018+-+External.pdf?MOD=AJPERES>.

²³ <https://www.afd.fr/sites/afd/files/2018-04-02-33-33/organigramme-AFD.pdf>

²⁴ IFC Exclusion List includes all projects that the institution does not support, such as the production and trade of tobacco, arms and ammunition.

Other activities carried out during the screening phase include the S&E risk classification of the operation (categories A, B and C) and the definition of the scope of the analysis to be carried out in the next phase, generally including the identification of IFC performance standards applicable, the necessary studies and the planned stages of disclosure and consultation.

Some good practices were identified in the screening phase of the researched institutions, such as:

- **Use of category B + for S&E risk classification:** Some organizations use category B + to distinguish projects with greater risks and / or S&E impacts from the universe of medium risk projects (B). This category allows the application of differentiated S&E analysis procedures for these cases.
- **Specific Screening for the Climate Dimension:** In addition to the preliminary assessment of potential risks and impacts associated with operations, KfW identifies operations that have significant potential for reducing GHG emissions, contribute to resilience to climate change or are likely to be impacted by the effects of climate change. For such operations, specific evaluations are required by independent consultants in the next phase of analysis.²⁵
- **Restriction in support for carbon intensive projects:** AFD assesses whether the operation in question complies with its policy of not financing high-carbon projects according to the level of development of the countries and their respective climate policy²⁶.
- **Justification for project support:** AFD uses a methodology developed by DEG to evaluate the project's contribution to strategic dimensions and justify financial support, namely: a) social benefits and well-being of the population; b) economic development; c) gender equity; d) biodiversity and natural resource management; e) adaptation to climate change; and f) climate change mitigation²⁷.
- **Specification of procedures for the screening phase:** Several institutions specify which aspects are evaluated at this stage in internal procedures and the documents required. Among the aspects to be considered are: a) associated facilities and the direct, indirect, regional and cumulative impacts of the project; and b) additional risk factors, such as the lack of S&E management capacity of the borrower, the vulnerability of the venture to

https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/company-resources/ifcexclusionlist

²⁵ https://www.kfw-entwicklungsbank.de/PDF/Download-Center/PDF-Dokumente-Richtlinien/Nachhaltigkeitsrichtlinie_EN.pdf

²⁶ <https://www.afd.fr/sites/afd/files/2017-09/rapport-responsabilite-societale-afd.pdf> (Pág. 45).

²⁷ <https://www.afd.fr/sites/afd/files/2017-09/rapport-responsabilite-societale-afd.pdf> (Pág. 64).

natural disasters, and the existence of associated facilities, not financed by the institution, but with significant risks.

- **Existence of a council to approve the preliminary evaluation, with the operation's S&E risk classification:** In the case of IDB²⁸, the evaluation carried out is sent to the Committee on Environmental and Social Impact (CESI). Subsequently, if new risk factors are found, the classification can be changed, provided there is a revalidation by CESI. In addition, there is a procedure to deal with possible divergence in the operational team proposal and CESI deliberation.
- **Existence of S&E risk classification tool:** Some institutions have a questionnaire with previously defined questions, aiming for greater uniformity in the application of S&E risk classification criteria.

- S&E Analysis

The institutions researched adopt different analysis procedures for operations with different S&E risks. In general, an environmental and social impact study (ESIS) and a proposal for a plan with preventive and mitigating actions elaborated by independent expert consultancy are required for projects with a higher S&E risk (category A) in order to meet IFC performance standards. In these cases, the client is expected to have an organizational structure and a S&E management system proportional to the risks and impacts related to the enterprise, which ensure the implementation of the agreed actions.

In the case of medium risk operations (B), the analysis focuses on the critical items identified in the screening, resulting in the agreement of an action plan to comply with applicable IFC standards. The need for and scope of the ESIS is defined on a case-by-case basis, and it is generally required to hire specialized consultancy for B + projects.

For operations with S&E classification C, there are no additional analysis procedures. The client needs only to comply with local legislation.

²⁸ <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=35597106>

Box 6 - Requirements for S&E Risk Classification

	Requirements	Expectations
A	- ESIS ²⁹ + Action Plan	S&E risk management system
B	- Analysis focused on critical items identified in screening + Action plan - Need and scope of ESIS defined on a case-by-case basis	Procedures for risk mitigation
C	- No additional analysis	Compliance with local law

In general, the costs of implementing preventive and mitigating measures are considered in the economic feasibility study of the project and included in the scope of the financial structure. The institutions researched also provide support in training and implementation of the client's S&E management system.

Among the good practices related to the analysis phase are:

- **Specific analysis for the climate dimension:** KfW requires in-depth climate assessments³⁰ by independent consultants for projects that have been marked by their potential for reducing greenhouse gas emissions, because of their vulnerability to the effects of climate change, or because of their contribution to the resilience of the population or ecosystems;
- **Systems for registering operational documents:** Certain institutions have a computerized system for recording and archiving documents and action plans related to S&E analysis. In addition, reports are produced directly in the system;
- **Capacity building:** For financial support to the public sector, certain institutions have training programs in social and environmental management for public officials, in order to ensure good progress of the projects financed.

²⁹ Environmental and Social Impact Study.

³⁰ https://www.kfw-entwicklungsbank.de/PDF/Download-Center/PDF-Dokumente-Richtlinien/Nachhaltigkeitsrichtlinie_EN.pdf, pg. 11 e 12. Acesso em 05/09/2017.

- Approval and Contract

The S&E analysis and the related action plan are generally included in the global report of the operation and forwarded to senior management. However, for some institutions, a separate S&E report is produced, with prior approval for the remainder of the operation. The action plan, in turn, is generally incorporated as an annex to the contract.

- S&E monitoring

In the institutions surveyed, S&E monitoring consists primarily of following up the execution of the activities contained in the action plan agreed with the clients, in order to manage S&E risks associated with operations.

However, in some interviews, it was identified that follow-up is not limited to monitoring the implementation of the plan, but also in ascertaining the adequacy of the project to IFC standards, if any, or to the policies of the financial institution.

In order to enable monitoring, financial institutions generally establish a reporting model to be presented periodically by the beneficiary. The organizations surveyed also carry out follow-up visits, the frequency of which is established according to the risk of the operation. Such periodicity can be changed over time, depending on the degree of compliance with the action plan. For higher risk projects (category A and, where available, B +), visits occur at least annually. If the plan is not performed satisfactorily, the visit interval may be reduced to quarterly or bimonthly.

For higher risk projects (category A and, where existing, B +), the institutions surveyed require the contracting of independent external consulting to carry out the S&E monitoring. In addition, solutions for eventual problems are verified to address the main complaints from interested parties. It should be noted that the institutions are flexible to alter the action plan due to unforeseen occurrences.

As a result of the follow-up, a document is produced by the bank staff describing what was observed and the measures to be checked at the next monitoring.

Some good practices related to the S&E monitoring of the institutions researched can be highlighted:

- **Follow-up report template:** certain institutions attach a model of a S&E monitoring report to the contract of the operation, to be presented periodically by the client. Some of the information presented in this report model includes the status of the implementation of actions agreed upon in the projects supported, the frequency of follow-up visits, the number and nature of incidents or social and environmental accidents occurred during the period, as

well as complaints received and treatments applied. In addition, it is contractually required the commitment of the client to report and promptly notify the occurrence of social and environmental incidents and accidents;

- **Approach to unforeseen situations:** One of the institutions requires the beneficiary to present a management procedure to deal with unforeseen circumstances. The proposal is analyzed by the team of the bank that verifies if they are proportional to the risks associated with the project;
- **Identification of problematic projects:** Some institutions adopt the use of a watch list of projects with problems in the implementation of the Action Plan, which prevents future hiring until the issues are solved. IFC, for example, classifies operations according to compliance in the execution of the Plan. Such classification ranges from 1 (satisfactory) to 4 (unsatisfactory), and is updated at each follow-up. If an operation receives a rating 4 (unsatisfactory), new operations with the client in question are prohibited until there is a change in classification³¹;
- **Indicators to measure the execution of the action plan:** Some institutions establish indicators that allow measuring the implementation of the mitigation measures and the goals agreed upon with the clients.

- Transparency practices in the operational procedures

The eight institutions surveyed have Corporate Transparency Policies, specifying the documents and information to be disclosed at each stage of the operation.

The World Bank's S&E safeguards and IFC performance standards require public consultations and the disclosure, at the analysis stage, of the ESIS's draft, in a location and language appropriate to affected communities. Such demands are also made by other researched institutions that refer in their policies to IFC and World Bank performance standards.

In terms of good practices, it may be highlight:

- **Requirement for two rounds of public consultations:** For projects with greater S&E risk (category A), IDB and World Bank³² require two rounds of public consultations: first, the project objective and terms of reference are presented, while in the second the findings of the S&E assessment are

³¹

https://www.ifc.org/wps/wcm/connect/190d25804886582fb47ef66a6515bb18/ESRP_Manual.pdf?MOD=AJPERES

³² <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=35597106> e <https://policies.worldbank.org/sites/ppf3/PPFDocuments/090224b0822f7384.pdf>

disclosed;

- **Disclosure of documents to receive contributions:** IDB requires its clients to disclose a summary of the consultancy's evaluation and to publish the register of consultations with interested parties, including a list of those present and questions submitted. IDB also publishes the summary of its social and environmental report on its website, as well as other documents of the operations. The World Bank and IFC disclose on their websites a summary of the S&E analysis and the action plan prior to approval, in sufficient time to receive contributions³³.

2.5| Relationship with other Financial Institutions

The institutions surveyed, in general, carry out an evaluation of the socioenvironmental risk management capacity of financial intermediaries. In addition, it is common practice to classify financial agents into categories of S&E risk, depending on the profile of their portfolio and their management capacity in the area.

Depending on the results of the evaluation, there are specific requirements for the agents, negotiated in the contract, such as:

- Refusal of financial support for certain activities listed in an exclusion list;
- Development and implementation of a S&E management system, as described in IFC performance standard 1;
- Social and environmental policy validated by senior management;
- Procedures for the analysis and monitoring of the operations' S&E risk, in order to ensure the application of IFC performance standards in projects of more significant S&E risk;
- Appointment of a Director and a coordinator responsible for S&E management;
- Analysis and monitoring teams trained in the S&E agenda and IFC performance standards;
- Inclusion of S&E clauses in contracts signed with clients;

³³ <https://www.iadb.org/en/projects> e <https://disclosures.ifc.org/#/landing> e <http://projects.worldbank.org/>

- Presentation, to the financier, of periodic reports on the S&E risk management system and information on the S&E dimension in the projects supported, including status of agreed action plans; and
- Prompt notification to the financier of incidents or social and environmental accidents involving operations supported with its resources.

If fragilities are identified in the S&E risk management system of the financial agent, a plan of action is agreed upon in order to strengthen it. Support is usually provided by the development bank for the execution of the plan and supervision is carried out through periodic reports and continuous dialogue. Certain institutions also have technical assistance programs to improve the S&E management system of their financial intermediaries.

The S&E management system of the agents is also re-evaluated throughout the contract, including any changes in the S&E risk profile of the portfolio, advances in the implementation and / or modifications in the system and relevant S&E aspects of the credit line linked to the subprojects.

2.6| Dialogue and engagement with stakeholders

The banks surveyed stated that they had involved stakeholders in the process of formulating or reviewing their structure of policies and procedures regarding the S&E agenda. This practice came in response to pressures from organized civil society for transparency and dialogue, and for the integration of social and environmental factors into the decision-making process of financial institutions.

IFC, for example, reviewed its Sustainability Framework between 2009 and 2011 with broad stakeholder engagement. The World Bank has recently concluded a consultation on its new structure of environmental and social policies and procedures. The process lasted two years and involved the participation of eight thousand participants in 63 countries. IDB, in turn, reviewed its policies through dialogue with stakeholders over four years.

It's worth mentioning the example of the EDC, which reviews its social and environmental policies every three years, on average, in a process lasting about 18 months. The draft is discussed internally and subsequently released to the public, through Public Consultations. In addition, EDC has an annual process of dialogue with stakeholders on its social and environmental performance, with an on-line public consultation and a conference call with the CEO and members of the Board answering questions from the public about their policies on the subject.

Finally, the expansion of dialogue and engagement with stakeholders is a prominent topic in the AFD Social Responsibility Policy action plan ³⁴.

The institutions also reported that they have grievance mechanisms for solving conflicts, in order to provide credibility and appropriate treatment for complaints related to projects supported by them, such as:

- IDB has the Independent Consultation and Investigation Mechanism (ICIM) ³⁵, which consists of an arbitration and conciliation office to resolve conflicts, receiving complaints about projects supported by the Bank and seeking to resolve them before bringing them to the attention of top management;
- At IFC, there is the Compliance Advisor Ombdsman (CAO) ³⁶, which seeks to address the concerns of communities affected by supported projects, reporting directly to the President of the World Bank Group;
- DEG and FMO present an Annual Report with a summary of the complaints received and their outcome. It also requires that implementing agencies have conflict resolution procedures in place aligned with international standards³⁷.

It should be mentioned that certain institutions have an independent audit of their processes and operations, with public disclosure of their results. The World Bank Group and IDB, for example, have an independent structure for supervision of strategy, policies, programs and activities, reported in public documents (WBG's IEG³⁸, IDB's OVE³⁹). AFD's Social and Environmental Responsibility Policy goes through an external S&E audit annually as a requirement of rating agencies⁴⁰. EDC, in turn, reports to the Canadian Congress⁴¹.

2.7| Climate Agenda

The climate agenda is notably present in the institutions studied. It is usually reflected in strategic priorities, in specific policies and procedures, and in dedicated organizational structures. Certain institutions have precise and measurable public goals, action plans to implement those commitments, and analytical practices that consider mitigation and adaptation to climate change.

³⁴ <https://www.afd.fr/fr/responsabilite-societale-plan-action>

³⁵ <https://www.iadb.org/pt/mici>

³⁶ <http://www.cao-ombudsman.org/>

³⁷ https://www.deginvest.de/DEG-Documents-in-English/About-us/Responsibility/170101_Independent-Complaints-Mechanism_DEG.pdf

³⁸ *Independent Evaluation Group.* <http://ieg.worldbankgroup.org/>

³⁹ *Office of Evaluation and Oversight.* <http://www.iadb.org/en/office-of-evaluation-and-oversight/ove,19686.html?>

⁴⁰ <https://www.afd.fr/fr/responsabilite-societale-plan-action>

⁴¹ <https://www.edc.ca/EN/About-Us/Documents/Information-for-MPs.pdf>

The mitigation and adaptation measures to climate change have exceeded the limit of these institutions and is already outlined as a joint policy of several financial institutions, becoming a strategic global action of the sector. These initiatives recognize the important role of financial organizations in making the commitments signed in the Paris Agreement viable, as well as the investment opportunities related to the transition to a green economy. In addition, such mobilization stems from the fact that climate change can present significant risks for the sector and should be considered in the portfolio management of financial institutions and in the evaluation of projects supported. Tools and methodologies are being considered and developed in global initiatives with the participation of the institutions researched, in order to enable the disclosure of climate information, better pricing of assets, resource allocation and qualified decision-making.

2.8| Challenges

In the interviews, financial institutions highlighted challenges related to the social-environmental analysis and monitoring of the operations, being the following:

- The need for a balance between the practices required of clients and competition with less restrictive financial institutions in their S&E criteria of financial support;
- The limited capacity of execution of certain beneficiaries of the resources, mainly in the case of public managers;
- The existence of significant gaps between local legislation and some IFC performance standards, such as involuntary population resettlement (performance standard 5);
- The reduced team to the challenges associated with the agenda; and
- The difficulties in applying IFC performance standards in indirect operations.

According to some institutions, another challenge is to ensure the application of the standards by subcontractors of companies that borrow funds, which KfW seeks to solve through the development of bidding and contract models⁴², was identified.

⁴² https://www.kfw-entwicklungsbank.de/Download-Center/PDF-Dokumente-Development-Research/2004_02_PP_Korruptionsvermeidung_E.pdf

3| CONCLUSION

The objective of the benchmarking with international development finance institutions was to identify good industry practices and opportunities for the improvement of the S&E performance of BNDES.

Among the practices observed, the following stand out:

- **Internalization of the S&E agenda in the strategy:** the commitment to the climate agenda and the sustainable development goals (SDGs) are present in the strategic directions of the organizations. This commitment is reflected in public goals, action plans and resource allocation drivers;
- **Formalization of a S&E management system:** the institutions researched have a framework of policies that formalize their social and environmental management system, including roles and responsibilities, workflows and analysis and monitoring procedures;
- **Criteria for S&E assessment of operations:** institutions clearly define the parameters adopted for socio-environmental assessment of operations, generally referring directly to IFC performance standards. In the case of the IDB, its own policies were developed based on IFC's performance standards;
- **Centralization of S&E analysis and monitoring:** the institutions have a dedicated team to carry out S&E analysis and monitoring for better risk management, without impacting the approval period of operations;
- **Structure for the management of the S&E agenda:** there are also organizational structures dedicated to the management of social and environmental issues that are responsible for: coordinating initiatives aimed at reviewing and improving work processes and tools; developing related policies and procedures; dialogue and engagement with stakeholders on the S&E performance of the institution; climate finance strategy; construction of internal capacity for the agenda; management of local development; support in fundraising processes; management of partnerships and external cooperation;
- **Management of S&E risks in indirect operations:** Institutions, in general, carry out classification of the socio-environmental risk of financial agents, considering the profile of their portfolio and their socio-environmental management capacity. Depending on the classification, specific requirements and agreed upon action plans are adopted;
- **Engagement with stakeholders in policy formulation and review:** the policies of financial institutions are developed and reviewed through broad public consultation

and dialogue with stakeholders to give legitimacy to the process;

- **Commitment to the Climate Agenda:** in the institutions surveyed, the climate agenda is generally reflected in: strategic priorities; specific policies and procedures; dedicated organizational structures; analytical practices that consider mitigation and adaptation to climate change; and a broad mobilization of other agents in the financial sector to build methodologies and joint solutions.

These findings constitute an important input for the improvement of social and environmental practices of financial institutions. The systematization of this knowledge and its publication contribute to foster a more sustainable performance of development finance institutions, driving forward the financial sector to achieve a greener economy.



Sustainability Committee (CSS)