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Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 11-Oct-2022 | Report No: PIDA34269

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Brazil	P178888	Brazil Climate Finance Project	
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
LATIN AMERICA AND CARIBBEAN	23-Aug-2022	22-Dec-2022	Finance, Competitiveness and Innovation
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Banco do Brasil	Banco do Brasil	

Proposed Development Objective(s)

To support the expansion of sustainability-linked finance for climate mitigation, and strengthen the private sector's capacity to access high quality carbon credit markets in Brazil.

Components

Expanding access to sustainability-linked finance for mitigation.
Technical assistance.

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	1,896.00
Total Financing	1,896.00
of which IBRD/IDA	500.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	500.00

Non-World Bank Group Financing

Commercial Financing	1,396.00

Unguaranteed Commercial Financing	1,396.00

Environmental and Social Risk Classification

Substantial

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

The proposed Brazil Climate Finance Project is a financial intermediary project that seeks to encourage firms to reduce their company-wide carbon footprint. To do this, the project adopts an innovative outcome-based financing approach that incentivizes firms to adopt and implement meaningful greenhouse gas (GHG) emission reduction plans. The project would also increase the access of these firms to high-quality carbon markets. The project design pilots solutions to address market failures that limit the access of Brazilian firms, small and medium sized companies in particular, to outcome-based financing and high-quality carbon credit markets through innovative approaches.

The project proposes to leverage private finance to scale-up impact in support of Brazil's net-zero target, including in agriculture and land-based sectors. Brazil's greenhouse gas (GHG) emissions profile is dominated by Agriculture, Forestry, and Land Use (AFOLU). In partnership with the *Banco do Brasil,* the largest bank in Brazil and the market leader in lending to agriculture and land-use based sectors, the project aims to leverage US$ 1.4 billion in private capital and to achieve up to 90 million tCO2e in additional emission reductions by 2030[1] across a range of sectors, with AFOLU sectors expected to represent an important share.

Country Context

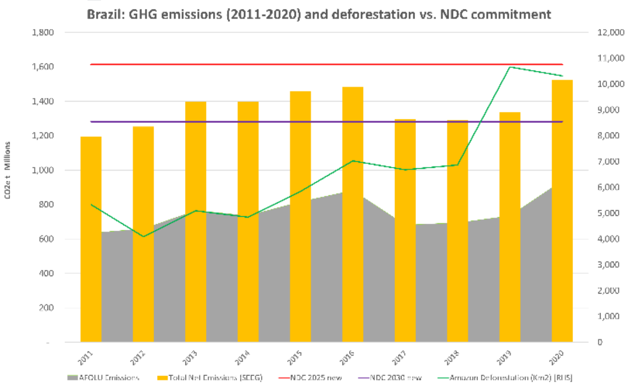
Brazil has significant potential to accelerate its transition to a low-carbon economy. Brazil's GHG emissions profile is dominated by agriculture (38 percent), energy (26 percent), and land use and forestry (24 percent).[2] The country has significant potential to transition to a low carbon-economy given that it is home to the world's largest rainforest, the Amazon, covering about 50 percent of the country's territory. Moreover, renewable energy accounts for almost 50 percent of the Brazilian energy matrix and more than 80 percent of its electricity matrix. These characteristics not only differentiate Brazil but also offer enormous potential in transitioning to a low carbon economy if paired with the right policy and institutional context and access to capital to finance the transition.

Yet, the country faces a growing disconnect between its climate commitments and outcomes. Brazil set a nationally determined contribution (NDC) target for a 50 percent reduction in GHG emissions[3] by 2030 and carbon neutrality (net-zero) by 2050 (Figure 1). Still, its carbon footprint has been growing over the past ten years and the country remains the world's seventh top emitter, contributing 2.9 percent of global

[1] Relative to a business-as-usual scenario.
[2] Source: Sistema de Estimativas de Emissões e Remoções de Gases de Efeito Estufa (SEEG), 2020.
[3] From 2005 levels.

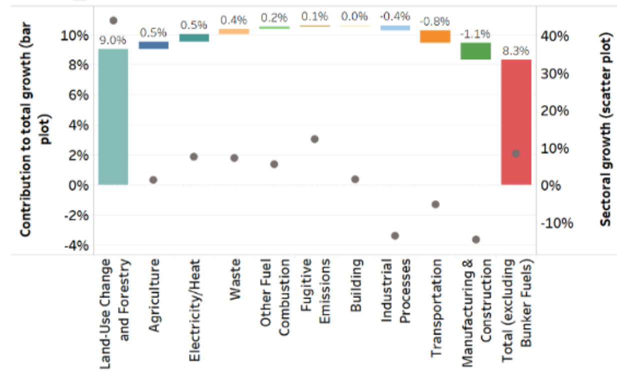
net GHG emissions in 2019.[4] In 2020, Brazil's net emissions grew by 16 percent (compared to the average of the previous three years) driven by the rapid emissions increase in land use change and forestry (Figure 2). Increased deforestation rates in the Amazon, Cerrado and other biomes undermine their potential as global carbon sinks and are of local, regional, and global concern.[5] These outcomes are observed despite Brazil's strong institutional and legal frameworks on environmental protection and climate change, as highlighted in the forthcoming World Bank's Country Climate and Development Report (CCDR) for Brazil.

Figure 1: Brazil's GHG Emissions and NDCs, 2011-2020



Source: World Bank staff, based on SIRENE, SEEG data).

Figure 2: Drivers of GHG Emissions Growth, 2012-2018



Source: World Bank Staff (Brazil CCDR report – forthcoming).

In this context, urgent action is required to accelerate Brazil's path to net-zero by leveraging the roles of both the public and private actors if Brazil is to meet its NDCs. The World Bank is implementing a diverse program of activities in this regard, both to strengthen institutional capacity against deforestation and to support sectoral transitions to net-zero, mainly through public sector-linked projects and analytical work. Continued progress in strengthening institutions and enforcing laws to accelerate the climate transition is critical. But these efforts would be reinforced by leveraging the financial sector's potential for supporting the path to net-zero, particularly given the large costs associated with meeting Brazil's NDCs[6]: the most recent estimates place these costs at US$1.4 trillion between 2016 and 2030, equivalent to US$100 billion (or about 7 percent of GDP) per year.[7] These figures underline the need for a sharp acceleration in market-based financing and more robust climate finance markets to meet these costs, especially given Brazil's more constrained fiscal setting post-COVID-19.

Sectoral and Institutional Context

The project seeks to overcome three main market failures in an integrated manner:

i. **Sustainability-linked finance is a nascent market in Brazil that is largely serving large corporates in a few industries and best practices have not been evenly applied, potentially undermining**

[4] The top eight global GHG emitters are (by share of global GHG emissions): China (23.9%), USA (11.8%), India (6.7%), EU-27 (6.7%), Russia (4.1%), Indonesia (3.5%), Brazil (2.9%), Japan (2.4%). Source: Climate Watch https://www.climatewatchdata.org/

[5] Source: Brazil's National Institute of Space Research, data from August 2020 to July 2021.

[6] Brazil country climate and development report, 2022. Forthcoming.

[7] Source: IFC, 2016. By 2030, the financing gap for achieving net-zero emissions is estimated at US$ 1.3 trillion for energy, transportation, building, waste management, and industrial energy efficiency sectors. An additional US$163 billion for agriculture, of which $78 billion in livestock-related activities is obtained from Climate Bonds Initiative, 2020.

its credibility. To date, sustainability-linked deals in Brazil have mostly benefited larger companies in a few industries (mainly renewables and paper and pulp) and have been limited to Scope 1 and Scope 2 emissions.[8] International best practices such as independent external reviews have not been consistently applied (only a third of sustainability-linked deals received an external review), raising concern around the lack of transparency with performance-linked instruments.

ii. **Carbon credit creation is a complex and lengthy process, raising integrity risks if not well managed.** It involves specialized methodologies and an intensive set of repeat transactions with several entities, domestic and international, such as project developers and certification agencies. The complexity of the carbon credit creation process creates informational asymmetries and raises implementation costs for interested firms that, if not well managed, could raise credibility risks.

iii. **Carbon credit trading takes place within a highly heterogeneous and fragmented global market, adding transaction costs and uncertainty on the price outlook for the carbon credits.** Numerous carbon credit markets, registries, and exchange platforms coexist globally, each with its own specifications and quality standards, making it difficult for companies to engage in this market. The fragmentation in carbon credit trading rules and institutions leads to a wide price dispersion, adding uncertainty to the price outlook for carbon credit sellers.

To address these market challenges, the project will combine financial and technical assistance resources to offer an integrated solution that: (i) strengthens the access of small and medium enterprises (SMEs) to sustainability-linked finance whilst adhering to international best practices such as independent external validation of target and periodic review progress; (ii) supports borrowing firms to develop and implement credible mitigation plans and targets than can also lead to the generation of high-quality carbon credits; and (iii) supports BB in the establishment of a credit carbon marketplace through which firms can monetize the returns from investing in GHG emissions reduction.

The project proposes a strategic partnership with *Banco do Brasil* (BB), Brazil's second largest bank and a leader in sustainability. This is a financial intermediary project through which the World Bank would provide funds to a financial intermediary that will on-lend to final borrowers. BB brings to the project an unparalleled capillarity in Brazil's regions (with presence in 97 percent of Brazil's municipalities), market share in SME finance, and capacity to support investors and corporate clients to invest in climate change mitigation (55 percent market share in agribusiness). As agent for public programs that provide financing and technical support to agribusiness and SMEs, BB has proven capacity to develop solutions and services packaged with financing. State-of-the-art socio-environmental risk management is therefore critical for BB's reputation, and BB started in 2004 to implement socio-environmental safeguards that have since been periodically refined.

[8] Scope 1 emissions cover direct emissions from a companies owned or controlled resources. Scope 2 emissions cover indirect emissions from the use of purchased electricity, steam, heating, and cooling consumed by the company. Scope 3 emissions include all other indirect emissions that occur in a company's value chain.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

To support the expansion of sustainability-linked finance for climate mitigation and strengthen capacity to access high quality carbon credit markets in Brazil.

Key Results

1. Volume of sustainability-linked finance (tied to climate mitigation plans and targets) leveraged through the project.
2. Number of carbon credit projects registered in recognized registries through project activities.
3 Volume of potential GHG (tCO2e) emission reductions validated through project activities.

D. Project Description

The project proposes to pilot an integrated climate finance solution in partnership with *Banco do Brasil* (BB). This is a financial intermediary (FI) project through which the World Bank would provide funds to a financial intermediary (*Banco do Brasil*) that would on-lend to final borrowers.[9] It seeks to offer an integrated package, combining financing and technical assistance, to support firms[10] in reducing their carbon footprint through sustainability-linked financing and in accessing high-quality carbon credit markets. To that end, the project comprises two components:

i. A financing component (US$ 498 million) to expand access to sustainability-linked financing for borrowers with credible mitigation plans and targets; and
ii. A technical assistance (TA) component (US$ 2 million) to support companies in adopting credible mitigation plans and facilitate their access to high-quality carbon markets.

The two project components will work together in a mutually reinforcing manner. The project will support BB to provide a one-stop-shop of climate mitigation financing and technical assistance. Under Component 1, the project will finance companies that are deemed to have credible mitigation plans and GHG emission reduction targets. These companies could have the potential to generate carbon credits based on the emission reductions achieved. Under Component 2, BB will support companies in adopting robust mitigation plans, will identify the subset of companies with potential for generating and monetizing high-quality carbon credits and support them with technical assistance and services. For these companies, income earned through the sale of carbon credits would provide an incentive and help defray the costs of implementing their mitigation plan. It is expected that beneficiaries will use carbon credits to lower the all-in cost of financing.

Component 1: Expanding sustainability-linked finance for mitigation.

Component 1 aims to expand sustainability-linked finance for mitigation. Unlike green lending

[9] The Project's design follows World Bank guidance "investment Project Financing—Financial Intermediary Financing", dated March 30, 2016.
[10] Companies operating in the fossil fuels sector are not eligible for financing or technical assistance under the project, regardless of their mitigation plans.

instruments that follow a "use of proceeds" approach (financing a specified pool of assets or investments), sustainability-linked instruments support the attainment of company-wide sustainability results by tying financing conditions to specific outcomes. The proceeds of the financing typically go to general corporate purposes. But these instruments link financing terms to the achievement of predetermined sustainability performance targets (SPTs) that are both ambitious and relevant to borrowers' operations and sustainability strategy. Progress against the targets is assessed at defined intervals against the achievement of key performance indicators (KPIs). In this way, sustainability-linked instruments are "outcome-based" in that they aim to encourage companies to achieve company-wide results.

The project will tie sustainability-linked financing to mitigation outcomes, as measured through net GHG emission reductions. Sustainability-linked financing will be tied to the attainment of mitigation outcomes through the implementation of mitigation plans and the measurement of GHG emission reductions as the beneficiary companies embark on their transition to decarbonize their business models. A mitigation plan will form the basis for the borrowers' SPTs and KPIs.

Subcomponent 1a: Sustainability-Linked Credit Line (IBRD: US$400 million). BB will on-lend the resources of this subcomponent to originate BRL-denominated sustainability-linked loans (SLLs), at market terms, to companies that have credible mitigation plans and targets.

The credit line will be available to companies with validated emission reduction plans on a company-wide basis. Given the composition of BB's client base, it is expected that a significant share of credit line beneficiaries will be SMEs in agribusiness supply chains. However, the project will not earmark resources to specific sectors or industries. It is expected that the target beneficiary companies operate in sectors that contribute the most to Brazil's GHG emissions, including agriculture, forestry, energy (excluding fossil fuels), and transport.

Subcomponent 1b: Pilot Climate Debt Fund (IBRD US$98 million). **This subcomponent seeks to pilot a Climate Debt Fund (CDF) to mobilize additional private capital towards sustainability-linked financing for mitigation**. The objective of the pilot debt fund is to develop a market for debt instruments of companies with credible mitigation plans. To this end, the fund would provide finance, via Brazil's debt capital market, to larger companies linked to their mitigation plans and targets.

Component 2: Technical assistance (IBRD US$ 2 million)[11]

This component would provide TA in a sequenced manner to *BB* to (i) develop a framework to support participating firms in adopting credible mitigation plans and targets under component one, (ii) develop solutions to support firms in creating carbon credits, and (iii) build channels to increase access to carbon credit markets.

Subcomponent 2a: TA to establish the framework for credible mitigation plans and the carbon credit standards for the project, by supporting BB in establishing:

- A framework for credible mitigation plans.
- Operational modalities.
- The Project's carbon credit standards.

[11] The project estimates up to approx. US$ 6 million in BB own resources to supplement TA activities.

Subcomponent 2b: TA to support the implementation of credible mitigation plans and carbon credit creation. The project proposes to accompany the implementation of the mitigation plans and facilitate the process of creating high quality carbon credits by supporting BB in:

- Establishing a cadre of service providers aligned with the project's mitigation and carbon credit standards.
- Defining standardized documentation to facilitate project transactions.
- Adopting new technologies for end-to-end digitalization of carbon asset generation.

Subcomponent 2c: TA supporting carbon credit monetization. The project would support BB in establishing a "carbon credit marketplace", pooling high-quality carbon credit projects to monetize the credits produced by project beneficiaries and crowd-in other market players. This is a key component for realizing the returns of investing in GHG reduction. The marketplace will offer multiple channels to carbon credit sellers to meet their diverse needs, including:

- "Over the counter" transactions and auctions:
- Linkages to exchanges and global marketplaces:
- Emerging technologies:
- New financial products:

Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Assessment of Environmental and Social Risks and Impacts

OP/BP 4.03 (World Bank Performance Standards for Private Sector Activities) is applicable to the Project in lieu of the World Bank's Environmental and Social Standards. OP/BP 4.03 is well suited for the Project given that this is a private-sector type of project. The proposed project will be operated by BB, which will use the resources to originate sustainability-linked loans for companies that have committed to reduce their carbon footprint, achieve mitigation outcomes and are interested in accessing sustainability-linked finance and carbon markets. Focus will be given to companies operating in sectors that are the greatest GHG emitters in Brazil. The environmental and social co-benefits of the potentially financed sub-loans will far exceed their adverse side-effects. The latter are expected to be mostly limited, site-specific, reversible and not unprecedented.

For the FI investments the environmental and social risk category of the operation is FI-2. This categorization is based on the assessment of BB's Environmental and Social Management System (ESMS)

- which has been deemed aligned with the World Bank Performance Standards (under OP 4.03) - and will be further enhanced by the adoption of a Project-specific Exclusion List and a few environmental and social risk management measures defined on the Project's Environmental and Social Action Plan (ESAP). The Bank will carry out the prior review of the first five sub-loans considered under Subcomponent 1.a to ensure BB’s capacity to screen and monitor the eligible companies according to the Environmental and Social criteria and these arrangements will be further described in the Project-specific Environmental and Social Management Manual. Finally, the bylaws of the CDF Manager (Subcomponent 1.b) will require the establishment of a specific Fund ESMS in line with the principles of the World Bank Performance Standards.

The project-specific Exclusion List, set forth in the Loan Agreement with IBRD, will exclude sub-loans to certain companies in order to align the Project with the requirements of the World Bank Performance Standards and Bank-wide corporate commitments (see below). Based on this, the environmental and social risks and impacts arising from most of the sub-loans are expected to be limited, generally site specific, and can be addressed through implementation of Good International Industry Practice (GIIP), although a very limited number of sub-loans may have potential significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented. Technical assistance activities themselves will not have adverse E&S risk and impacts, and they may provide opportunities to raise environmental and social standards across BB’s portfolio. BB will be fully responsible for identifying, assessing and managing the environmental and social risks associated with the project and has a generally recognized capacity to identify, assess and manage these risks associated with the sub-loans it finances. In addition, BB has been a signatory to the Equator Principles (https://equator-principles.com) since 2005 and has experience with the use of the World Bank Performance Standards.

BB’s existing ESMS incorporates the principles and elements needed and appropriate to the risk profile of the Eligible Companies that are expected to be supported, in line with OP/BP 4.03 (Performance Standards of the World Bank). The BB’s ESMS has also shown adequate procedures and overall capacity to identify and supervise risks and impacts under the technical assistance funded activities.[12] The ESAP adds a few measures for the E&S risk management of the Project, including the Exclusion List set forth in the Loan Agreement, which is needed to align the Project with the requirements of the World Bank Performance Standards and Bank-wide corporate commitments. The **Exclusion List** comprises:

(a) Companies that in their operations face proofs of:
   i. practices of sexual exploration of minors or exploration of child labor in their operations;
   ii. submitting workers to degrading forms of labor or maintain them in conditions analogous to slavery;
   iii. being involved in their operations with activities that (i) imply on the relocation of Indigenous Peoples from lands and natural resources subject to traditional ownership or

[12] Thus, the identification of environmental and social risks is embedded in the analysis of credit risk, which is conducted by Headquarters-based specialists not linked to local loan officers. The BB Sustainability Guidelines prohibit the granting of credit by BB to clients that are responsible for intentional damage to the environment or that have legal restrictions or may affect the bank's reputation (for instance, BB’s financing excludes activities associated with the sexual exploitation of minors and/or child labor; gambling; customers who subject workers to degrading working conditions or keep them in conditions similar to slavery; planting of sugarcane for the production of ethanol and other derivatives located in areas prohibited by the agroecological zoning of sugarcane or new sugarcane areas after October 28, 2009, in the Amazon and Pantanal biomes or in the Upper Paraguay basin). Furthermore, to assess the socio-environmental risks in activities with the greatest potential to cause damage, BB applies the criteria of the Equator Principles and adopts the International Finance Corporation (IFC) Social and Environmental Sustainability Performance Standards and the World Bank Group's EHS Guidelines. Activities classified by BB in categories A or B shall carry out an assessment of relevant socio-environmental risks and impacts. BB’s Environmental and Social Responsibility Policy and Sustainability Guidelines include – among other criteria - the respect for human rights, labor and working conditions, with provision for preventive actions and mitigators.

under customary use, and/or (ii) have significant adverse impacts on critical cultural heritage that is essential to the identity or the cultural, ceremonial and spiritual aspects of Indigenous Peoples, and/or (iii) use the cultural heritage (knowledge, innovations or practices) of Indigenous Peoples for commercial purposes;

iv. being involved in their operations with activities that lead to forced eviction or significant involuntary resettlement resulting from the types of land-related transactions defined by paragraph 5 of PS 5 Land Acquisition and Involuntary Resettlement; and

v. unsettled lawsuits derived from complaints made by local populations over significant environmental and social issues related to their operations.

(b) Companies operating in: a) in agribusinesses in areas embargoed by the *Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis* – IBAMA; b) commercial logging in primary tropical moist forest or purchasing logging equipment for use in primary tropical rainforest; c) commercial mining in natural areas or purchase of mining equipment for use in mining operations located in natural areas; and/or d) drift net fishing in the marine environment using nets in excess of 2.5 km in length.

(c) Companies that are engaged with the cultivation, renewal or funding of crops or industrialization of sugarcane for production of ethanol and other byproducts of sugarcane and sugar in areas not listed as appropriate by the Agricultural and Ecological Zoning of sugarcane and new sugarcane areas (after October 2009) within the Biomes of Amazonas and Pantanal or within the *Bacia do Alto Paraguai*.

(d) Companies that are involved with operations located in critical habitats or converting or degrading natural habitats.

(e) Companies that are involved in the construction, operation or maintenance of dams, mining tailings dams, or ash ponds which a) structural elements or components are situated in high-risk locations, and their failure or malfunction may threaten the safety of communities and b) the company has not engaged one or more external experts with relevant and recognized experience in similar infrastructures – separate from those responsible for the design and construction – to conduct a review in project development and throughout the stages of design, construction, operation, and decommissioning and c) lacking a positive stability condition declaration.

(f) Companies operating in the production or trade of: a) any product or activity deemed illegal under host country laws or regulations or international conventions and agreements; b) weapons and munitions; c) alcoholic beverages (excluding beer and wine); d) tobacco; e) radioactive materials; f) pharmaceuticals subject to international phase outs or bans; g) products containing polychlorinated biphenyls; h) unbonded asbestos fibers; i) wildlife or wildlife products regulated under CITES (convention of international trade in endangered species of wild fauna and flora); and j) pesticides/herbicides subject to international phase outs or bans.

(g) Companies that have operations linked to unregulated gambling or wagering.

(h) [In compliance with the World Bank OP 7.50 – Projects on International Waterways] Companies operating a) hydroelectric, irrigation, flood control, navigation, drainage, water and sewerage, industrial, and similar projects that involve the use or potential pollution of international waterways[13] whenever there is no previously agreed and signed International Treaty among the

[13] According to the World Bank OP 7.50, international waterways include: a) any river, canal, lake, or similar body of water that forms a boundary between, or any river or body of surface water that flows through, two or more national states; b) any tributary or other body of surface water that is a component of any waterway described in (a) above; and (c) any bay, gulf, strait, or channel bounded by two or more national states or, if within one state, recognized as a necessary channel of communication between the open sea and other states-- and any river flowing into such waters.

neighboring national states with regards to the uses of these international waterways.

Furthermore, and as per the requirements of OP 4.03 as set forth in the ESAP:

(a) BB will ensure compliance with the Project-Specific Exclusion List set forth in the Loan Agreement and develop a Project Specific Environmental and Social Management Manual based on a) its existing Environmental and Social Management System, b) the Project-Specific Exclusion List, and c) the requirements of the ESAP. This Manual will set the Project-specific E&S criteria to validate the eligible expenditures submitted to reimbursement and will be a covenant for disbursements.

(b) BB will ensure that all Eligible Companies supported by the Project that engage in operations with moderate to substantial social or environmental risks are operated in a manner consistent with the WB Performance Standards and will submit the first five proposals submitted by Eligible Companies that have a Socio-Environmental Rating classified as D, E and F (according to BB's classification system) to prior review and no-objection by the World Bank. [The Bank will retain the prior review right until satisfactory with the BB's E&S capacity and performance.]

(c) BB will facilitate the Bank periodic reviews of a sample of Project-beneficiary Eligible Companies with a Socio-Environmental Rating classified as D, E and F. The frequency and focus of supervision visits by the Bank and BB will be commensurate with the identified environmental and social risks.

(d) BB shall immediately notify the Bank of any environmental and social accidents/incidents which have, or are likely to have, significant adverse effect on the environment, the affected communities, the public or workers and shall provide a subsequent report with sufficient details regarding the incident or accident, and indicating immediate measures taken or that are planned to be taken to address it and prevent its recurrence, as appropriate.

(e) BB will disclose and permit, in writing, the Bank to disclose at the Bank's external website the Project-specific Environmental and Social Management Manual (ESMM) . BB will also disclose – through its website – relevant information on the Project and the supported-sub-loans and keep a channel to collect feedback from citizens and stakeholders on environmental and social issues associated with the operation of Project-supported companies.

(f) BB will require the Eligible Companies operating in sectors with environmental and social risks rated medium and high that are implementing sub-loans to keep open relationship channels with neighboring communities and will disclose information on and operate a Grievance Mechanism to facilitate in a timely manner resolution of concerns and grievances related to the Project and raised by Project stakeholders and other citizens.

(g) BB will furnish to the Bank, throughout implementation, an biannual environmental and social performance report ("ESPR") and will certify – through the ESPRs – that each beneficiary Eligible Company is in compliance with: the Brazilian national law, BB's specific policies and "Guidelines" and the requirements of World Bank Performance Standards on labor and working conditions, resource efficiency and pollution prevention, community health, safety and security, Biodiversity Conservation and Sustainable Management of Living Natural Resources, Indigenous Peoples and cultural heritage.

E. Implementation

Institutional and Implementation Arrangements

BB will be both the borrower and the implementing agency for the proposed project. As the implementing agency for the Project, BB will supervise/monitor components to ensure they are in compliance with Brazilian and World Bank requirements. BB will provide periodic reports, including fiduciary, technical, and safeguards reports to the Ministry of Finance and the World Bank. An assessment of BB from the perspective of financial intermediation (OP.10), financial management, procurement, environmental and social safeguards was finalized during appraisal.

BB will be the direct lender of sub-loans under component 1a. BB will identify and select sub loan beneficiaries based on predefined eligibility criteria and conduct detailed due diligence on technical, economic, environmental, financial feasibility, and other project-related assessments. In its role as a lender, BB will have the responsibility to appraise sub loans and make credit decisions. BB will also monitor the compliance of beneficiaries with the eligibility criteria, as well as fiduciary, environmental, and social requirements for the under Component 1a.

BB will invest directly in the debt fund under component 1b using the BRL equivalent of IBRD loan proceeds. It will act as the anchor investor to seed the fund and attract other investors (possibly including the IFC). Specific subsidiary implementation arrangements for Subcomponents 1b are as follows: the Fund will be created under Law 6385 of 1976 and regulated by the Brazilian Capital Market regulator (CVM) under its Instruction 555. The Fund administrator is the legal entity authorized by CVM that manages the organized market where the shares are traded. Its duties and responsibilities are detailed in Chapter 8 of CVM 555, including information to be reported to shareholders and its periodicity. The Fund administrator may outsource the provision of services to the Fund as listed in Chapter 8. If the Fund Manager is selected competitively, it may appoint the Fund administrator using its own procedures in consultation with BB and the Bank.

BB will also be responsible for implementing the TA activities under Component 2. Private services providers will be contracted by BB to implement the defined TA activities as needed pursuant to the Procurement Regulations for IPF Borrowers November 2020. BB shall appoint a coordinator of the procurement function under this Component to manage STEP and the procurement activities, which consist mainly of hiring consulting services. Procurement under component 2 will consist mainly of the hiring of specialized consulting services and including the hiring of Fund Manager under Component 1b, if Bank's loan proceeds are used to cover the management fee. A procurement plan is being uploaded into STEP and will be available by negotiations stage. A simplified Project Procurement Strategy for Development (PPSD) shall be finalized by BB before Effectiveness to cover for the procurement under this Component. The PPSD shall include a statement on the private sector commercial procurement practices generally used under sustainability-linked financing.

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APPROVAL

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