

# **The Green Climate Fund should thoroughly assess the policies and practices of the Brazilian National Development Bank (BNDES) and require conditions for its accreditation**

*July 2019*

The Board of the Green Climate Fund (GCF) is considering an application for accreditation of the Brazilian National Development Bank (BNDES, Banco Nacional de Desenvolvimento Econômico e Social). The accreditation process of the BNDES is an opportunity to strengthen the Bank's policies and procedures designed to identify, address and remediate environmental and social impacts linked to its activities and operations.

With the new administration of President Jair Bolsonaro, Brazil is suffering severe setbacks in its environmental, social and climate policies and agenda. Brazilian environmental agencies are being dismantled, while renowned and effective mechanisms such as the Amazon Fund are at risk of becoming inoperative or even eliminated. In such a context, the effectiveness of the country's environmental and social (E&S) governance and its instruments, agencies and institutions, risks being severely undermined.

In order to fulfil its mandate to promote a paradigm shift towards low-emission and climate resilient development pathways within the context of sustainable development,<sup>1</sup> the GCF should ensure that local systems and institutions are adequately equipped to deliver the sustainability outcomes intended by the Fund. The GCF should carefully assess BNDES' existing E&S policies and procedures and ensure that approval is conditioned upon commitments and measurable steps by the Bank, with political support from the Brazilian government, to further strengthen its policies and procedures to address following shortcomings related to:

- 1. Disclosure of environmental and social (E&S) information;*
- 2. Design of E&S policies and monitoring tools;*
- 3. Human rights standards and the rights of indigenous peoples and other traditional communities;*
- 4. Grievance mechanism;*
- 5. Commitments concerning climate change.*

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<sup>1</sup> As described in GCF's Environmental and Social Policy, adopted in early 2018. Available at: [https://www.greenclimate.fund/documents/20182/574763/GCF\\_policy\\_-\\_Environmental\\_and\\_Social\\_Policy.pdf/aa092a12-2775-4813-a009-6e6564bad87c](https://www.greenclimate.fund/documents/20182/574763/GCF_policy_-_Environmental_and_Social_Policy.pdf/aa092a12-2775-4813-a009-6e6564bad87c). Accessed 4 Jul. 2019.

## 1. Disclosure of environmental and social (E&S) information

BNDES has significantly enhanced its information disclosure practices in recent years. In its transparency portal,<sup>2</sup> BNDES discloses data comprising the financial information of projects and geographical location.

However, the Bank still fails to disclose essential information about its environmental and social assessment of projects and programs - including analysis of potential impacts and risks, prior to approval - as well as the action plans to mitigate and remediate identified failures and impacts.<sup>3</sup>

This also applies to all the infrastructure projects that benefit from the credit lines which support the export of engineering goods and services of Brazilian companies (completed or in progress), which still lack disclosure of their E&S information at BNDES' website.

### **Recommendations:**

- Require BNDES to disclose all project-related documents addressing E&S issues, both for GCF and non-GCF-funded projects;
- Require BNDES to disclose key documents prepared in the project life-cycle. In the case of projects financed outside Brazil, the BNDES should disclose key documents, such as studies developed by local legal and independent consultants in charge of ascertaining compliance with environmental requirements for executing the project and its internal E&S analyses;
- Recommend that BNDES clearly delineates the conditions and requirements for invoking banking secrecy (for the Bank and the companies it supports) in its transparency policy, which should be aligned with international standards on transparency and participation in public affairs.

## 2. Design of E&S policies and monitoring tools

Currently, BNDES has a diverse set of policies, instruments, sector-specific resolutions, and guidelines. However, the Bank could be more transparent about their enforcement, coherent application and processes for ensuring improvements. Enforcement of its own E&S policies and instruments in projects financed outside Brazil is also necessary to ensure that the development impact of such projects is consistent with international sustainability standards.

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<sup>2</sup> BNDES. *Portal da Transparência*. Available at <<https://www.bndes.gov.br/wps/portal/site/home/transparencia/>>. Accessed 3 Jul. 2019.

<sup>3</sup> INSTITUTO DE ESTUDOS SOCIOECONÔMICOS (INESC). *Política socioambiental do BNDES: presente e futuro*. Available at: <<https://www.conectas.org/arquivos/editor/files/Miolo%20BNDES%20-%20v2%2018x24%20WEB.pdf>>. Accessed 3 Jul. 2019.

Significant improvements may be observed in the E&S standards adopted for managing the Amazon Fund (Fundo Amazônia), supported by donations from Norway and Germany, including aspects related to transparency and civil society participation. However, similar practices have yet to be mainstreamed into the core lending portfolio of BNDES, and the future of the Amazon Fund is currently under threat from the incoming Bolsonaro administration.<sup>4</sup>

### **Recommendations:**

- Require BNDES to periodically disclose monitoring reports developed by internal departments and external parties along the project cycle;
- Require BNDES to meaningfully consult with communities and civil society organizations in the different stages of project planning, implementation, monitoring and evaluation.

### **3. Human rights standards and the rights of indigenous peoples and other traditional communities**

Human rights due diligence (HRDD) is an ongoing risk management process to identify, prevent, mitigate and account for how a company addresses its adverse human rights impacts. BNDES has not incorporated HRDD at any stage of its project cycle, which led the United Nations to “[e]ncourage the Brazilian Development Bank (BNDES) to ensure that bank-funded projects include safeguards against adverse human rights impacts, in line with the Guiding Principles” in a recent resolution.<sup>5</sup>

In line with good international practice, most funders require the implementation of detailed plans to ensure respect for human rights when there is involuntary resettlement of population or impacts on the livelihoods or territories of indigenous peoples. In contrast to the performance standards of various international financial institutions - and the GCF’s Indigenous Peoples Policy - BNDES has not yet adopted mechanisms to ensure meaningful participation of affected populations, including due diligence on process of free, prior and informed consent (FPIC) with indigenous peoples and other traditional communities as a prerequisite for project funding.<sup>6</sup>

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<sup>4</sup> Globo, *Ministro do Meio Ambiente e embaixadores admitem hipótese de extinção do Fundo Amazônia*, 7/3/2019, <https://g1.globo.com/natureza/noticia/2019/07/03/ministro-do-meio-ambiente-e-embaixadores-admitem-hipotese-de-extincao-do-fundo-amazonia.ghtml> (Accessed 4 Jul.2019)

Deutsche Welle, *Noruega e Alemanha admitem hipótese de extinção do Fundo Amazônia*, 7/3/2019 <https://www.dw.com/pt-br/noruega-e-alemanha-admitem-hipotese-de-extincao-do-fundo-amazonia/a-49464888?> (Accessed 4 Jul.2019)

<sup>5</sup> UN. *Report of the Working Group on the issue of human rights and transnational corporations and other business enterprises on its mission to Brazil*. Available at: <<https://documents-dds-ny.un.org/doc/UNDOC/GEN/G16/096/43/PDF/G1609643.pdf?OpenElement>>. Accessed 3 Jul. 2019.

<sup>6</sup> CONECTAS DIREITOS HUMANOS. *Banco nacional, impactos globais: o apoio do BNDES à exportação de bens e serviços de engenharia e seus efeitos sobre o meio ambiente e os direitos humanos*. See pages 30-32. Available at: <[https://www.conectas.org/wp/wp-content/uploads/2018/08/bnds\\_conectas\\_spread-1.pdf](https://www.conectas.org/wp/wp-content/uploads/2018/08/bnds_conectas_spread-1.pdf)>. Last access on July 7, 2019.

It is important to consider that the adoption of specific social and environmental guidelines for high risk sectors, such as construction of hydroelectric dams, have been repeatedly stalled at BNDES.<sup>7</sup>

#### **Recommendations:**

- Require BNDES to apply ILO 169 before developing guidelines for involuntary resettlement of communities and specific standards on indigenous peoples and traditional communities;
- Require the BNDES to continue the development of sector-specific policies and directives, prioritizing high-risk activities.

#### **4. Grievance mechanism**

An independent, democratic, transparent and effective grievance mechanism is essential to provide answers and redress to people and communities that feel they have been harmed a Bank's operations. Although the BNDES has its own "Ouvidoria" ("Ombudsperson office"), it has so far served more as a channel for commercial information for Bank clients than for providing redress in the context of E&S impacts and conflicts.

#### **Recommendations:**

- A suitable Ombudsman for the BNDES should be in line with the highest standards for financial institutions, including those established in the UN Guiding Principles on Business and Human Rights;
- The BNDES should require companies receiving its funds to set up their own grievance mechanisms capable of addressing the potential E&S impacts and human rights abuses stemming from its loans and activities.

#### **5. Commitments concerning climate change**

BNDES has taken initial steps to strengthen its contributions against climate change. It has substantially increased its financing to renewable energies, especially wind power, and has adopted a commitment to ban funding to thermal power plants using coal. However, the recent measures adopted by other development finance institutions and even private sector in terms of setting targets and disclosing climate-related information, both in terms of GHG emissions and climate resilience, may serve as further inspiration for the BNDES to strengthen its climate governance and actions.<sup>8</sup>

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<sup>7</sup> AIDA. *Behind the dams*. BNDES investments in Belo Monte and Hidroituango. Lessons learned for responsible financing. Available at: <<https://aida-americas.org/en/behind-dams-bndes-investments-belo-monte-and-hidroituango>>. Accessed 3 Jul. 2019.

<sup>8</sup> See generally about development banks and their lack of commitment for climate change: CURADO, Luiza; MARTINS, Guilherme. *Bancos de desenvolvimento e mudanças climáticas*. Available at: <[https://web.bndes.gov.br/bib/jspui/bitstream/1408/7209/1/Bancos%20de%20desenvolvimento%20e%20mudan%C3%A7as%20clim%C3%A1ticas\\_P.pdf](https://web.bndes.gov.br/bib/jspui/bitstream/1408/7209/1/Bancos%20de%20desenvolvimento%20e%20mudan%C3%A7as%20clim%C3%A1ticas_P.pdf)>. See for BNDES policies in the context of green economy and climate

### **Recommendations:**

- Work with BNDES to ensure that it leads by example and lead the path towards a low carbon economy. This will require the Bank to immediately measure the emissions of its portfolio, especially in high-polluting sectors.
- Require BNDES to set more ambitious goals on phasing out financing to fossil fuels.
- BNDES should stop financing mega-infrastructure projects, notably dams and coal/gas energy generation, and focus on small-scale projects and innovative solutions to power generation and energy transmission and distribution, which empower local communities and help in mitigation and adaptation efforts.

**Brazil has been suffering serious setbacks in its environmental and climate governance, especially under the Bolsonaro administration. In this scenario, the fundamental principles of human rights in development, such as transparency, participation, non-discrimination and remediation of social and environmental impacts are being undermined by the federal government. These issues and the current Brazilian political conjuncture must be thoroughly assessed by the GCF, with the Bank's candidacy for accreditation proceeding only if political support exists and robust conditions and verifiable steps are adopted to ensure that the Bank's policies, procedures and institutional capacity meet the requirements for effective implementation of the GCF's Environmental and Social Policy, with due attention to the need for transparency, independent monitoring and civil society engagement. In this sense, a final recommendation is the establishment of a participatory committee to guarantee that interested stakeholders, including civil society organizations, can be part of a decision-making process on general guidelines, priorities and monitoring of conditions related to BNDES' accreditation with the GCF.**

### ***Endorsed by:***

Asian Peoples Movement on Debt and Development (Regional)  
Center for International Environmental Law (CIEL)  
Conectas Human Rights (Brazil)  
Grupo Carta de Belém (Brazil)  
Interamerican Association for Environmental Defense - AIDA (Regional)  
International Rivers (Brazil)  
Instituto Socioambiental - ISA (Brazil)  
Fundación Ambiente y Recursos Naturales - FARN (Argentina)  
Rainforest Foundation (Norway)