

Social and Environmental Risk

Cases



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Social and Environmental Risk

Social and environmental risks are potential damages an economic activity can cause on society and environment.

Those linked to financial institutions are, for the most part, indirect and result from business relationships with suppliers and from financing and investment activities.

Bradesco's social and environmental risk management process has a robust governance structure, comprised of **committees, policies, rules and procedures**, which allows for proper risk identification, measurement, mitigation, monitoring and reporting.

As a way of disseminating the importance of assessing social and environmental risks, Bradesco continuously strengthens its analysis processes by improving its methodologies and initiatives.

The process for evaluating loan applications and/or contracting suppliers allows contributing to the preventive identification of risks, as well as to the adoption of practices to mitigate potential social and environmental impacts, together with business partners.

Case studies

The following case studies demonstrate the Organization's proactive action as a supporter of sustainable businesses:

I - Monitoring of projects under the Equator Principles

Case 1:

In assessing the proposal for financing a port in Brazil under Equator Principles framework, relevant social and environmental risks were identified, such as a large-scale resettlement, regularization of land ownership and possible negative impact in the fishery activity.

According to the International Finance Corporation (IFC) performance standards, Bradesco and banks' syndicate made technical visit to the project and required new plans for risk mitigation, as well as an improvement

on risk management processes (due diligence). Once the requirements were met, the operation was approved, becoming part of Bradesco's social and environmental monitoring portfolio. According to the independent consulting firm, the action plan has been satisfactorily fulfilled.

Case 2:

Analyzing the proposal for financing a wind power complex, was observed that the project met the Equator Principles scope. Thus, a due diligence

was carried out on the project, which was in the final stage of implementation, aiming to verify the compliance with the IFC Performance Standards and the general and specific for Eolic sector EHS (Environmental, Health, Safety) guidelines. It was verified that the social and environmental programs included in the license's basic environmental plan were implemented. However, there was not an Integrated Management System (IMS) to monitor and manage the social and environmental aspects and the health and safety of workers and the community. Also was observed the need for improvement on the management of degraded areas, solid waste management, workers and community's health and safety, grievance mechanism among others. Therefore was elaborated an action plan for the project to meet the requirements. In the processes carried out since then, the compliance with the Principles and the proposed action plan has been certified, since most of the requirements are met and the remaining ones are under implementation.

Case 3:

A proposal for financing a hydroelectric plant located in the north of the country was analyzed. The project was framed under Equator Principles category A due to its adverse, irreversible or unprecedented social and environmental impacts. The independent consulting company highlighted the following impacts: quantity and quality of water resources; climate aspects; deforestation; fauna; road infrastructure; urban structure; economic activities; quality of life of the local population; public finance; and the archaeological, historical and cultural heritage. These issues were addressed in the operating license's environmental basic plan and the action plan to meet the Equator Principles and IFC Performance Standards. The project is audited annually by an independent consulting consultant and in its last report was verified that the project is compliance, with some points of attention, with emphasis on social aspects and water quality that are being addressed by the project action plan.

II – Power Plant and Small Hydroelectric Power Plant Projects

One of the main negative impacts of the implementation of a hydroelectric power plant is the need to flood areas that invariably have economic use by small producers or communities that used them for subsistence crops and income generation. In most cases, financial compensation is the solution proposed by the entrepreneur to mitigate the negative impact on the community. However, that measure may not guarantee that producers maintain their livelihoods, which might represent a threat to the human rights, as described in Article 25 of the Universal Declaration of Human Rights.

Case 1: Income maintenance for impacted rural producers

During the assessment of financing proposal for the hydroelectric plant installation, the Organization verified the existence of families of small rural producers who would have their land flooded by the project's reservoir. Based on the analysis of the social and environmental impact studies and proposed mitigation or compensation measures, an innovative solution was identified: landowners participation in the project as shareholders through a specific purpose society. Thus, over the full useful life of the project, these families will be entitled to part of the income from the sale of energy. By the time of social and environmental risk assessment, it was certified that the majority of affected families had already formally accepted the proposal. Once the solution was implemented and the mitigation programs for other social and environmental risks were verified, Bradesco approved the operation.

Case 2: service to resettled communities and land regularization

In assessing the loan application for another hydroelectric power plant, the service to resettled communities and land regularization, among other environmental aspects, were analyzed. Part of the analysis involved a technical visit to the project to observe the performance standards of the International Finance Corporation (IFC) and verification of actions that guaranteed the supply of drinking

water to these communities, and the improvements made in relation to new homes for resettlement. The customer met the requirements established by the environmental body, contributing positively to the reduction of social and environmental risks. Therefore, Bradesco granted the requested credit.

Case 3: irreversible social and environmental impacts

When appraising the financing proposal for hydroelectric power plant installation in the Northern Region of Brazil, significant social and environmental impacts were identified, such as silting of rivers, interference in indigenous land, local communities and fauna, as well as degradation of permanent preservation area. After analyzing the Environmental studies, plans and reports about the project, it was found that the social and environmental impacts would be large and irreversible. Thus, Bradesco did not proceed with the financing.

Case 4: lack of environmental licensing

Important issues were verified during the analysis of the proposal for financing a set of small hydroelectric plants. They are the installation environmental license was expired and a public civil action against the environmental licensing process; irreversible damages to natural cavities, without authorization and without the conclusion of environmental studies; as well as the unauthorized vegetation suppression

of Permanent Environmental Protection Area (APP). Given the potential risks presented and the weakness of mitigation plans proposed, the financing was not approved.

Case 5: financing not approved

The analysis of the financing requested for a small hydroelectric plant and its respective transmission line found an indirect impact on archaeological sites and on nearby indigenous communities. Studies

related to these communities have not been received, nor has the consent of the National Indigenous Foundation (FUNAI). The impact on indigenous land, without consent, may bring serious risks, in addition to the potential impact on the project's installation and operation schedule. The lack of studies may indicate inadequate management of these issues and a consequent violation of human rights. Thus, Bradesco did not proceed with the financing.

III - Energy Transmission Lines' Project

The social and environmental risks associated with an energy transmission line are directly associated with its route. Interference can occur in both communities, as well as cultural or archaeological heritage. These occurrences, if not managed with good social and environmental practices, can lead to the violation of human rights, as described in Article 27 of the Universal Declaration of Human Rights.

Case: Remaining Quilombos Communities

A project for the installation of a transmission line proposed to cross three States in the Northeast of Brazil, integrating renewable energy generation projects, currently under development, over its 1000 km. In the assessment of the financing proposal, several risks were identified, such as the presence of Remaining Certified Quilombos Communities numerous archaeological sites close to the route and crossing of conservation priority areas under Caatinga, Amazon and Cerrado biomes. During the engagement with customer, it was verified free, prior and informed consent (FPIC) of *quilombola* communities during the environmental

licensing process. The first stages for the preparation of "Basic Quilombo Environmental Plan" with the guidance of actively involving local communities in planning and implementing the measures proposed to recognize and appreciate the quilombo culture and means of production. Moreover, it was found that the Human Rights subject had been incorporated in the proposed programs, which provide for articulation with municipal government initiatives. Considering the robust planning and initial initiatives already demonstrated, in addition to the verification of coherent mitigating measures in relation to the other social and environmental impacts of the project, the Organization approved the operation.

IV - Wind power project

Even though it is considered a low carbon energy, a wind complex construction has potential impacts on biodiversity, especially when located in areas characterized as critical habitats, such as the winged fauna (birds and bats). Considering the current high level of biodiversity loss and species extinction, these possible impacts have gained greater relevance with society and the media.

Case: wind complex near the ocean

When evaluating the proposal for granting credit for a wind farm, potential impacts on biodiversity were identified due to its location close to the ocean. During the assessment of the specific studies and reports, the Organization concluded that the project would not be located on a migratory route for birds, nor would there be interference in the tide line. The impacts on the winged fauna and the reproductive process of sea

turtles were properly identified and coherent monitoring and control measures were proposed. Moreover, the existence of a recovery plan for degraded areas was confirmed, aiming to compensate for the vegetation removal necessary for the installation of the project. Once the project met the guidelines of regulatory bodies and the impacts on biodiversity were of medium severity with adequate mitigation measures, the operation was approved.

V - Other cases

Case 1: potential violation of human rights in the installation of a port terminal

In the analysis of the proposal for financing a port terminal, it was identified several risks such as the indirect impact on indigenous lands, the need to relocate close communities and the impact on archaeological artifacts. In view of the potential risks identified, other documents were requested, such as studies and approvals from management bodies. However, they were not presented. Without evidence that these events would be managed with good social and environmental practices, which could lead to human

rights violation, Bradesco did not proceed with the financing.

Case 2: environmental licensing questioned and potential violation of human rights

When analyzing the proposal for financing a port terminal, the following risks were identified: the existence of a conservation unit within the area directly affected; the indirect impact on archaeological sites; the need to relocate traditional communities; and, the direct impact on artisanal fishing areas. Additionally, the Bank identified the existence of a Public Civil Action that questioned the project's environmental licensing

process. These occurrences, if not managed with good social and environmental practices, can lead to the violation of human rights, as described in Article 27 of the Universal Declaration of Human Rights. Thus, Bradesco did not proceed with the financing.

Case 3: financing for a shopping mall

When evaluating the request for financing the expansion of a large shopping mall in the Northeast of Brazil, a strong indication of contamination was identified in the area of the project. An environmental liability study was asked to the entrepreneur and prepared by a specialized consultant. The conclusion confirmed a high risk of explosion in several points of project's expansion area. The entrepreneur implemented actions for its decontamination, avoiding the exposure of employees and customers to the risks found. After verifying that social and

environmental risks were addressed, financing was granted.

Case 4: analysis of social and environmental risk in the supply chain

Regarding supply chain social and environmental risks assessment, a highlight is the Organization approach in relation to a strategic supplier that provides document storage services. Bradesco recommended the development of an environmental management system that should include greenhouse gas emissions inventory and the respective emission reduction plan; the use of certified paper (FSC or Cerflor); and, the adoption of initiatives to reduce the consumption of water and energy. Bradesco monitors the action plan prepared by the partner, which has already completed most of the initiatives. Actions like this contribute to ensure that the suppliers' social and environmental practices are aligned with those of the Organization.

To learn more, see the latest edition of Bradesco [Integrated Report](#).