



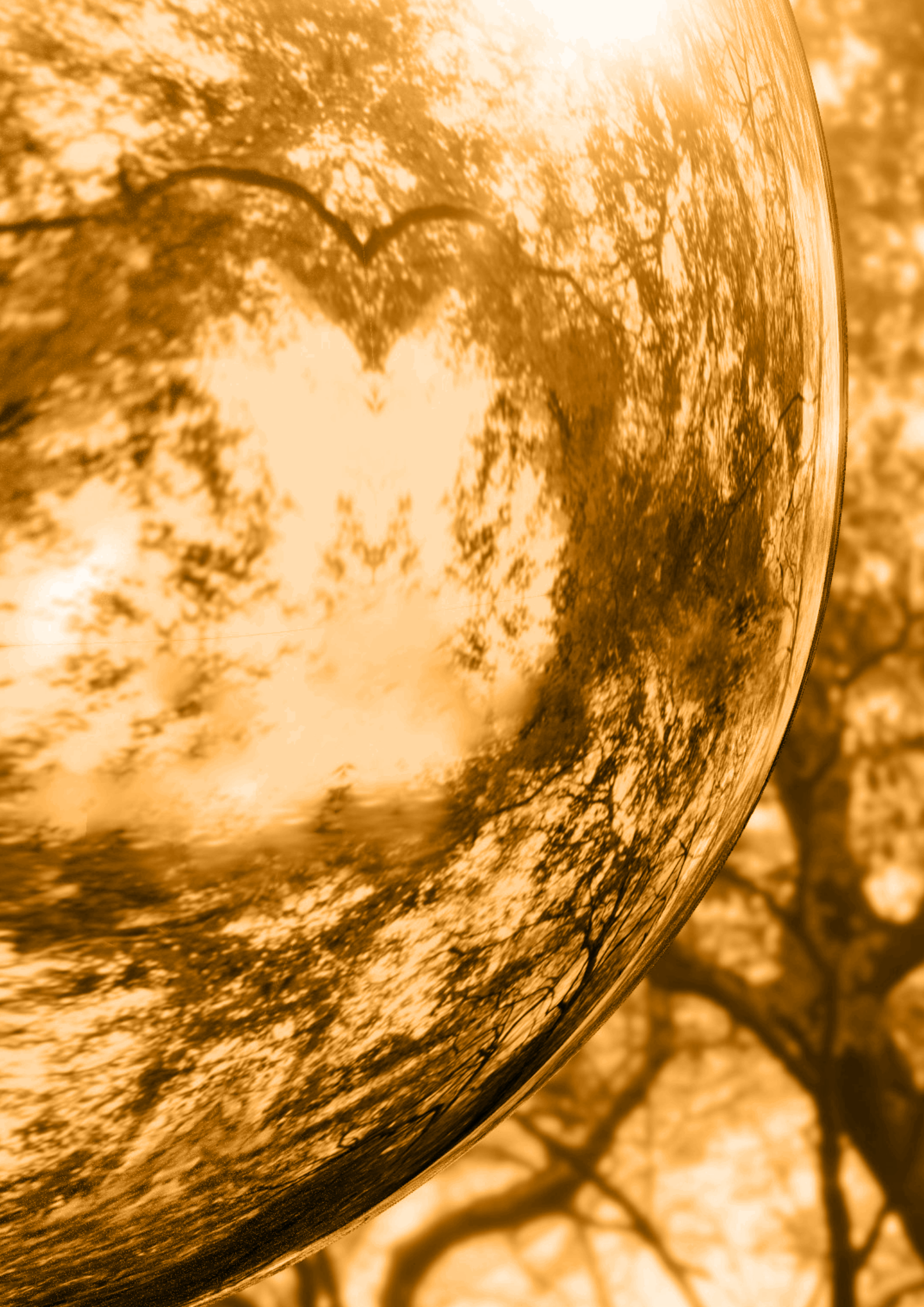
BNDES SUSTAINABILITY BOND FRAMEWORK

**Sustainability Framework for Bond Issuance according
to the Green and Social Bond Principles (GBP/SBP),
Sustainability Bond Guidelines (SBG) and the UN
Sustainable Development Goals (SDGs)**



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INTRODUCTION

The Brazilian Development Bank (BNDES – *Banco Nacional de Desenvolvimento Econômico e Social*, in Portuguese), established in 1952, is a wholly owned federal government company supervised by Brazil's Ministry of Economy. It is the main Federal Government's instrument for long-term financing and investments in several sectors of the Brazilian economy. Throughout its history, BNDES has had a legacy of significant results for the economic and social development of Brazil, having introduced innovative practices in management and socioenvironmental responsibility.

The bank's purpose is to transform the lives of generations of Brazilians by promoting sustainable development. Its mission is to enable solutions that expand investments in the sustainable development of the Brazilian nation and its vision is being the Brazilian sustainable development bank. BNDES also has key values and principles to achieve its mission: ethics, public spirit, commitment to development, transparency, effectiveness, dialogue, cooperation and pursuit of excellence.

In 2010, BNDES launched its Environmental and Social Responsibility Policy (PRSA – *Política de Responsabilidade Socioambiental*, in Portuguese). Four years later, in 2014, the bank updated its PRSA to comply with the National Monetary Council (CMN) Resolution 4,327/2014, which requires all financial institutions in Brazil to establish and implement such a policy. In 2019, BNDES revised its PRSA with a public consultation, resulting in the current policy.

BNDES's PRSA comprises the guidelines for a sustainable performance integrating the social and environmental dimensions into its strategy, policies and activities, and the relationship with various audiences. The policy also complements the bank's Mission, Vision and Values statement.

The BNDES's Board of Directors approves the PRSA implementation plan. The ongoing plan focus on incorporating new challenges and opportunities related to climate change and the promotion of Sustainable Development Goals (SDGs), as well as improving the BNDES's socioenvironmental (S&E) management system. The plan seeks to give centrality to the theme of sustainability in the Bank's strategy and business and in evaluating the effectiveness of its actions.

Some of the main initiatives in the current PRSA implementation plan is the integration of the climate dimension into the credit appraisal, S&E risk management and transparency practices. The plan also includes the development of new products associated with the promotion of SDGs and the support to the transition to a low carbon economy.

The BNDES's Gender Equality and Diversity Policy reaffirms its commitment to contribute to end all forms of inequality and discrimination in its work environment and institutions of its relationship. BNDES Social and Environmental Operational Policy

(S&E Policy) outlines the instruments, guidelines, and general procedures related to the integration of the S&E dimensions into the operational flow of credit operations.

In line with these policies, BNDES commits to advocate for and invest in projects which integrate economic, social and environmental benefits; respect and promote human rights; manage stakeholder relationships in an ethical and transparent way; and observe international best practice.

At the operational level, sustainability matters are conducted by the Public Management and Socioenvironmental Division. Governance at an institutional level comprises the Socioenvironmental Sustainability Committee, formed by Superintendents and an ESG Committee composed by some of our Board of Directors members, demonstrating an organizational commitment to a progressive improvement of its social and environmental management system.

BNDES plays a role as inducer of sustainable development in Brazil with several initiatives. The bank grants credit lines for socioenvironmental projects, raises funds from multilateral organizations and governmental agencies, offers better conditions to sustainability projects, and invests in funds to purchase domestic green/social debentures. BNDES also holds responsibility to manage the Amazon Fund, created to raise donations earmarked for non-refundable investments in preventing, monitoring and combating deforestation, in addition to the conservation and sustainable use of the Amazon biome forests.

Since 1970, the bank has searched to increase its fundraising sources and to promote sustainable development with several financial instruments and access to international markets. In 2017, BNDES was the first Brazilian bank to issue a USD 1 billion green bond in the international market. In 2020, BNDES became the first Brazilian financial institution to issue a Green Financial Note (“Letra Financeira Verde”) in the domestic market. The proceeds were used to finance expenditures related to new and existing wind and solar power plants. BNDES prepared a Green Bond Framework for the issuance, which had a Second Party Opinion (SPO) from a specialized firm to attest the bond’s credentials.¹

In alignment with BNDES’s mission, vision and values, as well as its Environmental and Social Responsibility Policy (PRSA), the bank works to continuously develop and foster financial solutions to support projects and activities that generate direct benefits for environmental quality, and to reduce the social and regional inequalities in Brazil. In that sense, BNDES aims to expand its Green Bond Framework to enable the issuance of sustainability bonds in Brazil and abroad. Proceeds will be used to finance and refinance expenditures related to new and existing eligible projects that generate clear environmental and social benefits and are aligned with the United Nations’ Sustainable Development Goals² (SDGs).

¹ Available at: https://www.bndes.gov.br/SiteBNDES/export/sites/default/bndes_pt/Galerias/Arquivos/conhecimento/bndes_em_campo/BNDES_Green_Bond_Framework_and_Second_Opinion_by_Sustainalytics.pdf

² Available at: <https://sdgs.un.org/goals>

FRAMEWORK OVERVIEW

BNDES has developed a Sustainability Bond Framework under which it is able to issue Green, Social and Sustainability Bonds in Brazil and abroad and use the proceeds to finance and refinance expenditures related to new and existing eligible projects. The document's structure was developed in accordance with the four key pillars of the Green Bond Principles (GBP) 2018,³ the Social Bond Principles (SBP) 2020⁴ and Sustainability Bond Guidelines (SBG) 2018⁵:

- Use of Proceeds

 - Eligible Green Categories

 - Renewable Energy
 - Energy Efficiency
 - Sustainable Water and Wastewater Management
 - Pollution Prevention and Control
 - Clean Transportation
 - Environmentally Sustainable Management of Living Natural Resources and Land Use

 - Eligible Social Categories

 - Healthcare
 - Education
 - Micro, Small and Medium Enterprise (MSME) Financing and Microfinance

- Process for Project Evaluation and Selection
- Management of Proceeds
- Reporting

³ Available at: <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Green-Bonds-Principles-June-2018-270520.pdf>

⁴ Available at: <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Social-Bond-PrinciplesJune-2020-090620.pdf>

⁵ Available at: <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Sustainability-Bonds-Guidelines-June-2018-270520.pdf>

USE OF PROCEEDS

BNDES finances economic activities through direct operations, in which the bank analyses the client and the financed project, and through indirect operations, in which partner accredited financial institutions (second-tier banks) borrow funds to final clients.

BNDES Sustainability Bonds' net proceeds will be allocated towards financing or refinancing of new and existing environmental and social projects, including both direct and indirect operations, that meet the eligibility criteria established in this section. The bank identified nine eligible categories to receive Sustainability Bonds' proceeds, classified in accordance with the Green and Social Bond Principles' taxonomy.

In 2018, BNDES began an internal effort to identify the SDGs to which the Bank can contribute, and its potential contribution to each of them. Based on this result, the expectation is to establish a methodological bridge between the Bank's strategic planning, its operational policies, and its effectiveness analysis.

As a consequence, BNDES launched a SDG Portal⁶ presenting the disbursements of the bank for SDG goals. The amounts are georeferenced by states. The classification considered the objectives of BNDES's products and their economic sector. The Portal presents the SDGs linked to an effectiveness Key Performance Indicators (KPI) dashboard. This initiative contributes to improve BNDES's transparency.

In the following sections, eligible green and social categories and their correspondence with one or more SDGs and targets will be described. Projects and activities financed by BNDES will make SDG targets more realistic and achievable. Nevertheless, BNDES contribution to the SDGs and targets indicated in this Framework does not mean the fulfillment of the complete UN goals.




⁶ <https://www.bndes.gov.br/wps/portal/site/home/transparencia/estatisticas-desempenho/sdg>

ELIGIBLE GREEN CATEGORIES

RENEWABLE ENERGY

The category's objective is to finance construction, development, acquisition, maintenance and operation of renewable energy power plants and facilities. Types of projects may include, but are not limited to:





- Electricity generation or usage of wind and solar energy, including off grid and distributed generation of solar energy
- Electricity generation, including co-generation facilities, from agricultural and forestry residual biomass from feedstocks that do not deplete soil carbon and biomass
- Biogas production from industrial biomass and agriculture waste
- Biofuel production from sustainable feedstock that fully meets the requirements of the Brazilian Forest Code, does not compete directly with food production and where at least a 50% reduction in emissions is achieved compared to the relevant fossil fuel, thus limiting carbon emissions to a maximum of about 45-50 gCO₂/MJ for ethanol
- Hydroelectric plants eligible for green or sustainable bonds must be in line with the taxonomy approved by the Climate Bond Initiative (CBI) or the United Nations Framework Convention on Climate Change (UNFCCC) methodology for CDM
- Green Hydrogen production

ELIGIBLE GREEN CATEGORY: RENEWABLE ENERGY		
GBP/SBP project category		Renewable energy (including production, transmission, appliances and products)
SDGs and targets		7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
		13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries

ENERGY EFFICIENCY

Proceeds in this category will be allocated in activities or projects that deliver energy savings or performance improvement over baseline. Types of projects may include, but are not limited to:

- Efficient storage systems
- Efficient cooling systems
- Efficient heating systems
- Efficient equipment replacement
- Efficient productive processes implementation
- Efficient buildings
- Efficient renewable energy cogeneration
- Smart grids applications, such as transmission, distribution and demand digitalization, automation and management systems that deliver more efficient power systems
- LED street lighting

ELIGIBLE GREEN CATEGORY: ENERGY EFFICIENCY		
GBP/SBP project category	 The Green Bond Principles	Energy efficiency (such as in new and refurbished buildings, energy storage, district heating, smart grids, appliances and products)
SDGs and targets		7.3 By 2030, double the global rate of improvement in energy efficiency
		9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
		13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries

SUSTAINABLE WATER AND WASTEWATER MANAGEMENT

The category's objective is to expand the access to water supply, sewerage and urban solid waste management. Types of projects may include, but are not limited to:

- Sustainable water treatment and supply
 - Expansion of public access to water supply
 - Reduction in water losses in water transfer and/or distribution
- Sustainable sewerage
 - Expansion of sewage systems
- Solid urban waste and sewage sludge treatment and disposal
 - Landfills with waste to energy technologies
 - Treatment and disposal of sewage sludge (e.g. urban drainage, sanitization, composting)
 - Reuse of sewage sludge (e.g. digestion with biogas recovery, phosphorous recovery, agriculture use, biomass co-combustion)






ELIGIBLE GREEN CATEGORY: SUSTAINABLE WATER AND WASTEWATER MANAGEMENT		
GBP/SBP project category		Sustainable water and wastewater management – sustainable infrastructure for clean and/or drinking water, wastewater treatment, sustainable urban drainage systems and river training and other forms of flooding mitigation)
SDGs and targets		<p>6.1 By 2030, achieve universal and equitable access to safe and affordable drinking water for all</p> <p>6.2 By 2030, achieve access to adequate and equitable sanitation and hygiene for all and end open defecation, paying special attention to the needs of women and girls and those in vulnerable situations</p> <p>6.3. By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally</p> <p>6.4 By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity</p>
		11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management

POLLUTION PREVENTION AND CONTROL

Proceeds in this category will be allocated in projects that promote or improve sustainability of productive and industrial processes, preventing and controlling environmental pollution and emissions to water, air and soil. Types of projects may include, but are not limited to:

- Sustainable and efficient water use projects
 - Reduction in water consumption of economic activities (e.g. industrial processes, agricultural activities, buildings)
 - Water reuse and/or water use avoided by waterless solutions and equipment (e.g. cooling systems for power plants, industrial processes not related to fossil fuel production or usage)
- Wastewater treatment projects
 - Wastewater treatment facilities
 - Avoid and minimize untreated wastewater discharges
 - Reuse wastewater at source
- Waste management projects
 - Material recycling
 - Reduction of industrial waste generation
 - Treatment and correct disposal of industrial waste
 - Transformation of waste into co-products
 - Investments in the recovery of environmental liabilities provided those investments do not include remediation or decommissioning by the party that created the liabilities in the first place

ELIGIBLE GREEN CATEGORY: POLLUTION PREVENTION AND CONTROL

GBP/SBP project category		Pollution prevention and control – reduction of air emissions, greenhouse gas control, soil remediation, waste prevention, waste reduction, waste recycling and energy/ emission-efficient waste to energy
SDGs and targets		6.4 By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity
		9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
		<p>12.2 By 2030, achieve the sustainable management and efficient use of natural resources</p> <p>12.4 By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment</p> <p>12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse</p>
		1.4 By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance

CLEAN TRANSPORTATION

The category's objective is to finance the construction and operation of clean transportation facilities and supporting infrastructure that reduce GHG emissions. Types of projects may include, but are not limited to:





- Production and use of electric and hybrid vehicles for use in public transport
- Construction or rehabilitation of bicycle paths
- Construction and operation of railway and subway
- Multimodal transportation – Multimodality is the use of different means of transport on the same trip, which benefits from the strengths of the different modes of transport (convenience, speed, cost, reliability, predictability, etc.) and aims at a truly integrated and sustainable transport system
- Infrastructure for clean vehicles

ELIGIBLE GREEN CATEGORY: CLEAN TRANSPORTATION		
GBP/SBP project category		Clean transportation (such as electric, hybrid, public, rail, non-motorised, multi-modal transportation, infrastructure for clean energy vehicles and reduction of harmful emissions)
SDGs and targets		11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons
		9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all
		13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries

ENVIRONMENTALLY SUSTAINABLE MANAGEMENT OF LIVING NATURAL RESOURCES AND LAND USE

Proceeds in this category will be allocated in low carbon and sustainable agriculture projects, as well as sustainable forest management. Types of projects may include, but are not limited to:

- Low carbon agriculture activities that deliver at least 20% reduction in GHG emissions
 - No-till farming systems
 - Biological nitrogen fixation
 - Integration crop-livestock-forest systems
 - Agroforestry systems
- Organic agriculture
- Certified sustainable agriculture through recognized certifications listed in [Annex 1](#)
- Sustainable forestry and forest management
- Native vegetation conservation, restoration and recovery
- Recovery of degraded areas
- Certified sustainable fishing and aquaculture through recognized certifications listed in [Annex 1](#)




ELIGIBLE GREEN CATEGORY: ENVIRONMENTALLY SUSTAINABLE MANAGEMENT OF LIVING NATURAL RESOURCES AND LAND USE		
GBP/SBP project category		Environmentally sustainable management of living natural resources and land use (including environmentally sustainable agriculture; environmentally sustainable animal husbandry; climate smart farm inputs such as biological crop protection or drip-irrigation; environmentally sustainable fishery and aquaculture; environmentally-sustainable forestry, including afforestation or reforestation, and preservation or restoration of natural landscapes)
SDGs and targets		2.4 By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality.
		15.1 By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements 15.2 By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally
		13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries

ELIGIBLE SOCIAL CATEGORIES

HEALTHCARE

The category's objective is to support healthcare services and infrastructure that target public units or other facilities located in underserved municipalities with Human Development Index (HDI⁷) below the Brazilian average. Types of projects may include, but are not limited to:

- Construction or expansion of public hospitals
- Construction or expansion of health posts, emergency care units (UPA), family clinics
- Construction or expansion of philanthropic health institutions complementary to the Unified Health System (SUS)
- Production of non-patented medicines and vaccines, in particular:
 - Capital expenditure to medicines and vaccines distributed by the Unified Health System (SUS)
 - Capital expenditure to medicines and vaccines related to new infectious diseases and pandemic outbreaks




ELIGIBLE SOCIAL CATEGORY: HEALTHCARE		
GBP/SBP project category		Access to essential services – health, education and vocational training, healthcare, financing and financial services
Target beneficiaries		Underserved populations – habitants that access public health facilities or those living in municipalities with Human Development Index (HDI) below the total of Brazilian municipalities' HDI average
SDGs and targets		3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all 3.B Support the research and development of vaccines and medicines for the communicable and noncommunicable diseases that primarily affect developing countries, provide access to affordable essential medicines and vaccines, in accordance with the Doha Declaration on the TRIPS Agreement and Public Health, which affirms the right of developing countries to use to the full the provisions in the Agreement on Trade Related Aspects of Intellectual Property Rights regarding flexibilities to protect public health, and, in particular, provide access to medicines for all
		1.4 By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance

⁷ The Human Development Index measures key dimensions of development: long and healthy life, knowledge, and decent standard of living. The final score, which varies from 0 to 1, is an average of indicators in the three dimensions: life expectation index, education index and GNI index. Bonds' issuance based on this Framework will use the most recent HDI data available for Brazil and its municipalities at the time (<http://hdr.undp.org/en/countries/profiles/BRA>).

EDUCATION

The category's objective is to support education services and infrastructure that target public units or other facilities located in underserved municipalities with Human Development Index (HDI⁸) below the Brazilian average. Types of projects may include, but are not limited to:

- Building, upgrading or expansion of public schools or other education facilities located in low HDI municipalities
- Capacity building for public schools' teachers and managers
- Construction of internet infrastructure for public schools
- Purchase of software and electronic devices for educational use in public units or facilities located in low HDI municipalities

ELIGIBLE SOCIAL CATEGORY: EDUCATION		
GBP/SBP project category		Access to essential services – health, education and vocational training, healthcare, financing and financial services
Target beneficiaries		Underserved populations – habitants that access public education facilities or those living in municipalities with Human Development Index (HDI) below the total of Brazilian municipalities' HDI average
SDGs and targets		4.2 By 2030, ensure that all girls and boys have access to quality early childhood development, care and preprimary education so that they are ready for primary education 4.3 By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university
		1.4 By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance

⁸ The Human Development Index measures key dimensions of development: long and healthy life, knowledge, and decent standard of living. The final score, which varies from 0 to 1, is an average of indicators in the three dimensions: life expectation index, education index and GNI index. Bonds' issuance based on this Framework will use the most recent HDI data available for Brazil and its municipalities at the time (<http://hdr.undp.org/en/countries/profiles/BRA>).

MSME FINANCING AND MICROFINANCE

BNDES finances micro, small and medium enterprises (MSMEs)⁹ mostly through indirect credit lines, in which partner accredited financial institutions (second-tier banks) borrow funds to final clients.

Proceeds in this category will be directed to micro, small and medium enterprises (MSMEs) located in underserved municipalities, with Human Development Index (HDI)¹⁰ below the Brazilian average, or companies owned or led by women or other gender minorities.¹¹ Types of projects may include, but are not limited to:

- Financing for planning the opening of new units, expansion through franchises, construction of new warehouses and/or structuring of small product manufacturing units
- Purchase of machinery and equipment needed to increase productivity, modernization, and competitiveness
- Investments in equipments that could reduce use of energy and/or natural resources and result in efficiency and environmental benefits
- Credit to balance cash flow and support with unexpected expenses, such as specific charges, for micro and small companies
- Long-term working capital for micro and small enterprises
- Financing of micro and small companies that strengthen tourism activity in the long term, supported by environmental and cultural preservation and generating permanent social benefits
- Microcredit
- All types of projects listed above for companies owned or led by women or other gender minorities

⁹ See BNDES's internal definition of micro, small and medium companies at <https://www.bndes.gov.br/wps/portal/site/home/financiamento/guia/porte-de-empresa>.

¹⁰ The Human Development Index measures key dimensions of development: long and healthy life, knowledge, and decent standard of living. The final score, which varies from 0 to 1, is an average of indicators in the three dimensions: life expectation index, education index and GNI index. Bonds' issuance based on this Framework will use the most recent HDI data available for Brazil and its municipalities at the time (<http://hdr.undp.org/en/countries/profiles/BRA>).

¹¹ BNDES will undertake a process to identify women-led MSMEs considering six parameters in which women can represent the major share: 1. Managing partners; 2. Board; 3. President/CEO; 4. Directors; 5. Managers; 6. Sole owner.

ELIGIBLE SOCIAL CATEGORY: MSME FINANCING AND MICROFINANCE

<p>GBP/SBP project category</p>		<p>Access to essential services (e.g. health, education and vocational training, healthcare, financing and financial services)</p>
<p>Target beneficiaries</p>		<p>Underserved populations – habitants living in municipalities with Human Development Index (HDI) below the total of Brazilian municipalities’ HDI average</p> <p>Women</p>
<p>SDGs and targets</p>		<p>1.4 By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance</p>
		<p>5.A Undertake reforms to give women equal rights to economic resources, as well as access to ownership and control over land and other forms of property, financial services, inheritance and natural resources, in accordance with national laws</p>
		<p>8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services</p> <p>8.9 By 2030, devise and implement policies to promote sustainable tourism that creates jobs and promotes local culture and products</p>
		<p>9.3 Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets</p>
		<p>10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status</p>

PROCESS FOR PROJECT EVALUATION AND SELECTION

SELECTION AND APPROVAL PROCESS

BNDES's Superintendents of the Financial Division, Public Management and Socio-Environmental Division, and the Operational Division responsible for each sector will approve a list of specific types of projects that meet the eligibility criteria, and that are expected to be funded out of the net proceeds of the bonds.

In specific cases, BNDES may change projects and find a substitute one that meets the eligibility criteria. If there is a need to replace a pending project on the list of eligible projects, any new projects that meet the eligibility criteria must be approved jointly by all aforementioned Superintendents.

ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT

BNDES has an S&E risk management system that comply with the requirements of CMN Resolution 4,327/2014 and other Brazilian federal and state legal and regulatory requirements. The system includes methodologies to evaluate the E&S risk associated to clients and projects, as well as to assess the positive impact of the operations.¹²

The first step of S&E assessment is the verification of the client activities against BNDES's exclusion list ([Annex 2](#)). Also, the bank search for relevant labor and environmental lawsuits or administrative fines against the client. Once checked, BNDES starts to identify, evaluate and monitor social and environmental risks.

For direct or indirect non-automatic¹³ operations, BNDES undertakes preliminary evaluations of the main S&E aspects and classifies according to sector and activity type in one of the following categories:

- High risk (A) – Activity intrinsically linked to the risk of significant environmental impacts or those covering a regional scale. Licensing requires impact studies, preventive measures and mitigating actions
- Medium risk (B) – Activity involves lighter or local environmental impacts and requires evaluation and specific measures
- Low risk (C) – Activity does not present a significant environmental risk at first

BNDES performs a screening over labor and environmental records and assess the projects according to a S&E questionnaire on the client and the project. Borrowers must demonstrate compliance with Brazilian federal and relevant state legislation and environmental licensing. Other information beyond legal requirements are considered for the assessment of these operations: BNDES assesses the client's policies and practices, as well as the environmental and social management system at the company and project's level, in order to identify mitigation measures and recommendations. In

¹² Available at: https://www.bndes.gov.br/SiteBNDES/bndes/bndes_en/Institucional/Social_and_Environmental_Responsibility/

¹³ Indirect operations are those made through partner accredited financial institutions.

case of relevant gaps regarding S&E risks raised by BNDES staff, the bank can ask the company for corrective measures.

Regarding indirect automatic operations, accredited financial institutions are responsible to verify environmental and social compliance of the final client supported.

All contracts (direct and indirect) include clauses for social and environmental issues. For the duration of the credit agreement, the Operational Division is responsible for monitoring the project development and its compliance with the contractual conditions, including those related to the S&E laws.

EXCLUSION CRITERIA

Projects, activities or credit operations that fall into one or more exclusion criteria described below cannot be allocated to the Sustainability Bonds issued by BNDES:

- Working capital lending directed exclusively for big companies or debt replacement¹⁴
- On-lending credits previously financed with resources from Development Banks and Multilateral Agencies
- Projects with first disbursement before 48 months prior to bond's issuance
- Projects whose financing maturity is in the same year of bond's issuance
- Projects and activities related to fossil fuel production or usage
- Electricity generation or biofuel production from biomass feedstock that deplete existing terrestrial carbon pools

In addition, BNDES will apply its list of sectors, enterprises and items that are not eligible for financial support ([Annex 2](#)).

MANAGEMENT OF PROCEEDS

Prior to the allocation to eligible sustainability projects, the net proceeds of the bonds will be tracked by BNDES and will be held in cash, cash equivalents or Brazilian government securities, which are financial instruments with high liquidity and low risk. Payment of principal and interest on the bonds will be made from BNDES's general resource and will not be linked to the performance of the eligible sustainability projects. The Operational Division will be responsible for the monitoring process of the eligible sustainability projects. The allocation of net proceeds of the bonds will occur in a period of up 36 months and the tracking of the allocation of proceeds be managed by the Financial Division.

BNDES has an internal system for tracking sustainability funding secured for environmentally and socially impactful initiatives. Proceeds raised from bonds' issuance will be tagged in internal systems by the source of financing, and will be labelled as the correspondent Sustainability Bond financing, to be used only for eligible projects.

¹⁴ Working capital operations for small and micro companies located in low HDI municipalities or that are controlled by women and other gender minorities are eligible once they contribute to several SDGs: 5 (Gender), 8 (Employment), and 10 (Reduced Inequalities).

REPORTING

During the term of the bonds, BNDES will make and keep readily available, on its website (<https://www.bndes.gov.br>), information on the allocation of the net proceeds, to be updated annually until full allocation. This information will include:

- Use of Proceeds: amounts allocated to eligible sustainability projects and brief descriptions of the projects
- Impact report: relevant estimated impact metrics related to the eligible projects.

BNDES will report overall aggregated impacts per use of proceeds category, and will provide **at least one outcome indicator and one impact indicator for each eligible category**. The indicators to be reported will be selected over the examples shown in the **Table below**. In the future, BNDES may develop more examples of indicators.

This reporting will include an assurance by BNDES auditors as to the allocation of the net proceeds to eligible projects after checking the tracking and monitoring process used by the Financial Division within the allocating process.

TABLE – EXAMPLES OF SUSTAINABILITY INDICATORS		
INDICATOR TYPE	INDICATOR	UNIT
FINANCIAL REPORTING (BREAKDOWN BY ELIGIBLE SUSTAINABILITY CATEGORY)		
Allocation	Number of beneficiaries	Clients
	Number of sustainability operations	Operations
	Disbursement per eligible sustainability category	BRL
	Sustainability loans' average ticket	BRL/operation
	Amount of proceeds not yet allocated	BRL
	Percentage of proceeds allocated in refinancing	%
ELIGIBLE GREEN CATEGORIES		
RENEWABLE ENERGY		
Outcome	Capacity of renewable energy plants constructed or rehabilitated	MW
	Annual renewable energy generated	MWh/GWh (electricity) or GJ/TJ (other energy)
Impact	Annual GHG emissions reduced/avoided	Tones of CO ₂ equivalent

ENERGY EFFICIENCY		
Outcome	Annual energy savings	MWh/GWh (electricity) or GJ/TJ (other energy)
	For second tier operations with MSMEs: Number of MSMEs with investments in Energy Efficiency	Enterprises
Impact	Annual GHG emissions reduced/avoided	Tones of CO ₂ equivalent
SUSTAINABLE WATER AND WASTEWATER MANAGEMENT		
Outcome	Expanded water or sewage annual treatment capacity	m ³ /year
	Annual urban solid waste and sewage sludge collected or treated	Tones/year
	Capacity to generate energy by solid urban waste	MW/H
	Annual energy generation from landfills	MWh/GWh (electricity) or GJ/TJ (other energy)
Impact	Population with access to water supply, sewage and solid waste projects	Habitants
	Annual GHG emissions reduced/avoided from waste management	Tones of CO ₂ equivalent
POLLUTION PREVENTION AND CONTROL		
Outcome	Annual water use reduction	m ³ /year
	Water recovery capacity	m ³ /day
	Annual amount of waste reused or recycled	Tones/year; or % of total waste
	Annual amount of waste separated, collected, treated (including composted) and/or disposed of	Tones/year; or % of total waste
	Reduction in the emission of pollutants	Ton
	Co-processing capacity	Ton/day
	Industrial solid waste treatment and disposal capacity	Ton/day
	Annual volume of wastewater treated or reused	m ³ /year
Impact	Annual GHG emissions reduced/avoided from waste and wastewater treatment	Tones of CO ₂ equivalent
CLEAN TRANSPORTATION		
Outcome	Length of clean transportation projects	km
	Clean transportation traffic measurement (passenger and freight)	Passenger-kilometer or tone-kilometer
	Annual avoided fossil fuel consumption	Liters/year
Impact	Annual GHG emissions reduced/avoided	Tones of CO ₂ equivalent

ENVIRONMENTALLY SUSTAINABLE MANAGEMENT OF LIVING NATURAL RESOURCES AND LAND USE		
	Planted, cultivated or reforested area	Hectares
Outcome	Number of financed clients certified against sustainable agriculture, fishery and aquaculture schemes	Clients
Impact	Annual GHG emissions reduced/avoided	Tones of CO ₂ equivalent
ELIGIBLE SOCIAL CATEGORIES		
HEALTHCARE		
	Number of hospitals, clinics and other healthcare facilities built/upgraded	Facilities
	Number of hospital beds financed	Beds
Outcome	Annual hospitalization and inpatient care capacity	Patient-days/year
	Annual capacity of surgical care	Surgeries/year
	Annual capacity of outpatient care	Outpatient care/year
	Annual amount of non-patented medicines and vaccines produced and distributed	Doses/year
Impact	Number of patients reached	Patients
	Number of SUS beds / Number of total beds financed (SUS and non-SUS)	%
EDUCATION		
	Number of schools and other education facilities supported (constructed, upgraded or connected to the internet)	Facilities
	Number of electronic devices for educational use purchased – PCs, chrome books and tablets	Electronic devices
Outcome	Number of training and experimentation spaces in technologies for teachers created	Spaces
	Number of spaces dedicated to students for pedagogical use of technology implemented and/or modernized	Spaces
	Number of digital educational resources for pedagogical use – applications and content	Resources
	Number of students reached	Students
Impact	Number of public facilities / Number of total education facilities financed	%
MSME FINANCING AND MICROFINANCE		
Outcome	Number of financed MSMEs	Enterprises
Impact	Estimated number of employments created or maintained	Employees

ANNEX 1 – ELIGIBLE CERTIFICATIONS FOR SUSTAINABLE AGRICULTURE, FORESTRY AND AQUACULTURE

AGRICULTURE

- Rainforest Alliance
 - UTZ
 - Round Table for Responsible Soy (RTRS)
 - BONSUCRO
-

FORESTRY

- Forest Stewardship Council (FSC)
 - Program for the Endorsement of Forest Certification (PEFC)
 - CERFLOR
-

AQUACULTURE

- Aquaculture Stewardship Council (ASC)
- Global GAP Aquaculture
- Global Aquaculture Alliance
- Marine Stewardship Council (MSC)

ANNEX 2 – SECTORS, ENTERPRISES AND ITEMS NOT ELIGIBLE FOR BNDES FINANCIAL SUPPORT

NON-ELIGIBLE SECTORS

- Arms trade
 - Motels, saunas, and adult entertainment establishments
 - Gambling
 - Banking/financial activity, except for the support of microcredit
-

NON-ELIGIBLE ENTERPRISES

- Developments in the mining sector that incorporate basic process of mining
 - Social actions and projects already covered by fiscal incentives
 - Real estate, such as residential buildings, commercial buildings for resale, commercial enterprises for office rentals, timeshares, hotel residences, and housing developments
-

NON-ELIGIBLE ITEMS

- Land acquisition and expropriation
- Any expenses involving remittance of foreign currency, including franchise fees paid abroad
- Purchase of animals for resale.



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 **BNDES** *The Brazilian
development bank*

 **PÁTRIA AMADA
BRASIL**
BRAZILIAN GOVERNMENT