



# **Green Bond Framework**

November

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# Introduction

Sistema de Crédito Cooperativo Sicredi (“Sicredi System” or the “System”) is the second largest credit cooperative system in Brazil, serving 5.3 million members across 26 states, comprising of 108 individual credit cooperatives known as “cooperativas singulares”, five regional cooperatives (to which each cooperative singular is affiliated), a holding Company (Sicredi Participações S.A. or “Sicredipar”). As a cooperative system, Sicredi is heavily committed to the social and economic development of its members, as well as the community and is an important agent of financial inclusion due to its reach in rural and remote communities that are underserved by the traditional financial system.<sup>1</sup> For instance, 52% of the System’s branches are located in rural areas, 87% of the municipalities in which Sicredi is present have fewer than 100 thousand inhabitants, and in 216 Brazilian municipalities Sicredi is the only financial institution.<sup>2</sup>

Sicredi is committed to the sustainable development of its businesses and the communities where it is present. Until mid-

2020, Sicredi’s sustainability strategy<sup>3</sup> was guided only by their Sustainability and Social and Environmental Responsibility Policy. In 2020 Sicredi developed their Sustainability Policy and their Social and Environmental Risk Management Policy. The Sustainability Policy proposes to establish principles and guidelines to guide decision-making in all areas of the business and in the relationship with stakeholders, considering the economic, social and environmental opportunities and challenges, which involve sustainability related themes, aiming to expand our positive impact and reduce our adverse impact. The document establishes Sicredi’s commitment to promoting a better and sustainable future for the members and communities where they operate, contributing to the sustainable development of the System and society. It reinforces the principles and values of cooperativism as Sicredi’s guiding principles and assigns responsibilities in the governance and management of this theme. In addition, it reinforces Sicredi’s adherence to the Global Compact. The Social and Environmental Risk Management Policy seeks to establish

the guidelines for the management of socio-environmental risks and prevent the occurrence of financial, legal or reputational losses resulting from socio-environmental damage, in compliance with the recommendations of the Central Bank. Additionally, Sicredi is part of the **Febraban Social Responsibility and Sustainability Commission** and is aligned with the **BC# Agenda Sustainability pillar**. Sicredi’s **Sustainability Report 2020** is under the Global Report Initiative (GRI) standard and has a section dedicated to positive impact indicators, such as the amount invested in the green economy (e.g. low carbon emission farming and microcredit), the amount paid to local suppliers, and funding for solar energy. Its carbon emissions are monitored on the Public Emissions Registry of the Brazilian GHG Protocol Program and neutralized with carbon credits from forest conservation programs.<sup>4</sup>

In 2019, IDB Group granted Sicredi a loan equivalent to finance small-scale photovoltaic (PV) energy systems that included a technical assistance to support the development and

<sup>1</sup> Credit cooperatives play a key role in promoting financial inclusion in Brazil due to their capillarity (approximately 10% of Brazilian municipalities have a credit cooperative as the only financial institution ) and business model (they typically do not charge bank fees, allowing unbanked, low-income people to become members and access financial services). Dias, 2019. **Credit Cooperatives in Brazil: Sicredi Case**.

<sup>2</sup> **Sicredi 2020 Sustainability Report**.

<sup>3</sup> Sicredi’s Sustainability and Socio-Environmental Risk Management Policies can be accessed by external stakeholders at: <https://www.sicredi.com.br/site/sobre-nos/sustentabilidade/>

<sup>4</sup> <https://rpe-gvces.s3.amazonaws.com/tmp/cache/pdf/b5f1cfbe/sicredi-sistema-de-credito-cooperativo.pdf>

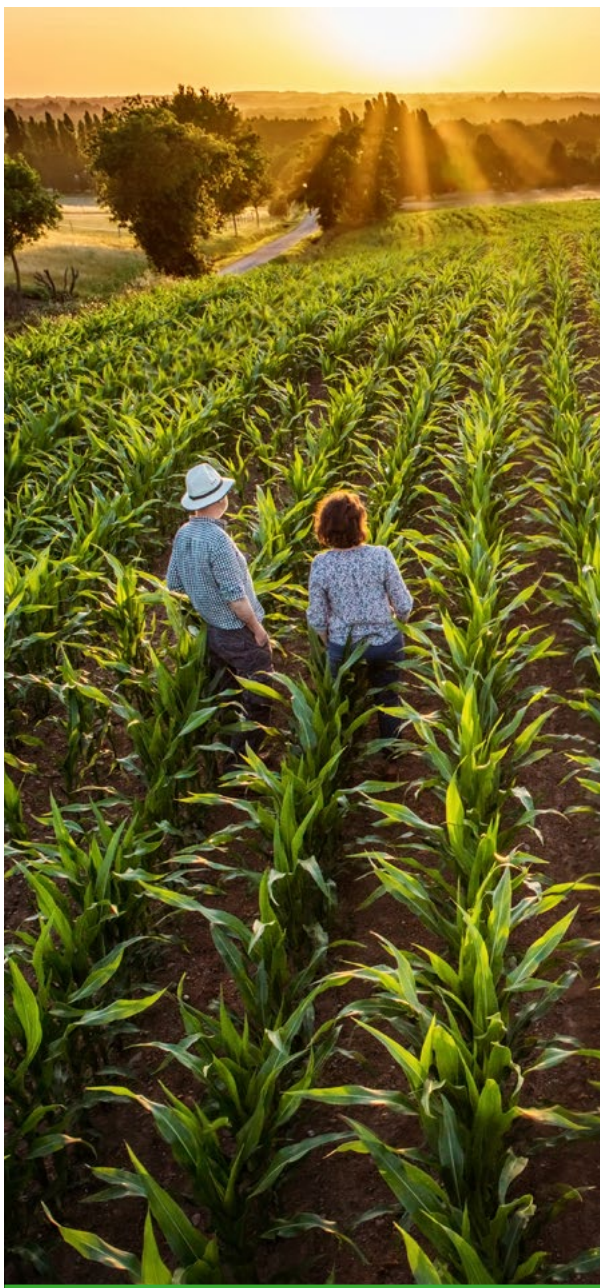


implementation of Sicredi's Sustainable Strategy and help them to create the capabilities necessary for a Green Bond issuance. Given that those capabilities were developed, in 2021 IFC provide Sicredi a certified green loan<sup>5</sup> and IDB

Invest assist Sicredi in the development of this methodological framework that will support the issuance of their first Green Bond, in accordance with the Sustainable Development Goals (SDG), and with the internationally accepted **2021 Green**

**Bonds Principles** (GBP) and its four key pillars: (i) use of proceeds; (ii) process for project evaluation and selection; (iii) management of proceeds; and (iv) reporting.

<sup>5</sup> This was the first transaction of a Brazilian cooperative financial institution to receive the certification issued by the Climate Bonds Initiative (CBI), an international organization that works to promote investments in the low carbon economy, establishing the best practices for the market in terms of the environmental integrity of the green economy products.



# Goals and applicable principles

The Green Bond Principles “GBP”, published by the Principles’ secretariat ICMA, are a voluntary process guideline that recommend transparency and disclosure, and promote integrity in the development of the Green Bond markets by clarifying the approach for issuance of these Bonds. The Principles are intended for broad use by the market: they provide issuers guidance on the key components involved in launching a credible green bond; they aid investors by ensuring availability of information necessary to evaluate the environmental impacts of their Green Bond investments; and they assist underwriters by moving the market towards expected disclosures that will facilitate transactions.

## Use of Proceeds







The net proceeds of the bond issuances will be used exclusively to provide new financing to MSMEs<sup>6</sup> and Individuals in Brazil in accordance with the eligibility criteria presented in the following table:

The funds raised will be assigned within a maximum time horizon of two years from the date of issuance.<sup>7</sup> Regarding the Project location, the investment will be directed through Banco Cooperativo Sicredi to clients through credit cooperatives, exclusively, throughout Brazil.

<sup>6</sup> Sicredi’s MSME definition is enterprises with annual sales below 6 million reais.

<sup>7</sup> During the first year after the issuance date, Sicredi will assign the Bond proceeds to the Renewable Energy category only. In the second year after the issuance date, Sicredi will assign the Bond proceeds to the Renewable Energy category and/or the Energy Efficient category.



Eligible Categories	Description	Objectives & benefits	SDG Target
Renewable Energy	<b>Solar photovoltaic energy.</b> Through the financing of small-scale photovoltaic solar energy systems (up to 2MW), with an average size of 1,65 m <sup>2</sup> , an average power capacity of 260kWp and an average 25 years of useful life, Sicredi estimates that each solar panel will reduce CO <sub>2</sub> emission in 1,875 tCO <sub>2</sub> .	<b>Climate change mitigation</b>  <b>Avoid GHG emission</b>	 <b>Target 7.2:</b> By 2030, increase substantially the share of renewable energy in the global energy mix
			 <b>Target 9.4:</b> 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
			 <b>Target 13.A:</b> Implement the commitment undertaken to the UN Framework Convention on Climate Change, mobilizing funds to meaningful mitigation actions and transparency on implementation and fully operationalize the Green Climate Fund
Energy Efficiency	<b>Efficient lighting with LEDs and associated controls.</b> Efficient lights that reduce electricity consumption and CO <sub>2</sub> emission reductions by at least 20%.  <b>Efficient cooling and refrigeration.</b> Technologies that generate at least 20% reductions in energy use and CO <sub>2</sub> emissions. They have wide applications in refrigerating food, as well as in buildings and industrial processes.	<b>Climate change mitigation</b>  <b>Avoid GHG emissions and reduce energy consumption</b>	 <b>Target 7.3:</b> By 2030, double the global rate of improvement in energy efficiency.
			 <b>Target 9.4:</b> 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
			 <b>Target 13.A:</b> Implement the commitment undertaken to the UN Framework Convention on Climate Change, mobilizing funds to meaningful mitigation actions and transparency on implementation and fully operationalize the Green Climate Fund

## Project evaluation & selection

Sicredi carry out several processes to mitigate the existing of environmental and social risks. Among them, we can highlight the following fronts: environmental social risk questionnaires (collection of data on environmental social practices and qualitative assessment of responses), environmental social screening (evaluation of aspects related to the regularization and use of resources, responsible for preventing or allowing the loan), geoprocessing (collection of coordinates of areas benefited by operations, ensuring the exclusion of environmental protection areas, conservation units, indigenous lands, etc.), and quantitative assessments (monitoring indicators from the Risk Appetite Statement (RAS), and calculating the socioenvironmental rating of members). Also, Sicredi conducts a credit analysis process which includes not only the basic mechanisms of internal lending policy, but also the questionnaire of Know Your Client (KYC), which is focused mainly to avoid money laundering resources to get into the financial system. After the KYC is completed, Sicredi extends the analysis for broader information regarding the potential client, relating the past transactions within the national financial system. If all the process is affirmative, the lending is confirmed.

The Corporate Finance team, with support from the Environmental and Social Risk area, will be responsible for evaluating and selecting investments. Green projects will participate in a pre-screening selection based on the IFC standards, furthermore, each operation will follow previously established standards, which meet the scope defined in this Framework in the “Use of Proceeds” section and comply with local laws and Sicredi’s and IDB Invest exclusion lists<sup>8</sup>.

## Management of Proceeds

The proceeds of the Bond will be managed by Banco Sicredi’s Treasury and corporate finance team. Upon settlement of the Bond, the net proceeds are credited to the bank’s treasury account and managed by the treasury department using existing internal tracking systems. While awaiting investment in such projects, the proceeds will be in cash, cash equivalents and fixed income instruments with low carbon intensity until your complete allocation on eligible projects. The proceeds, in any case, will not be used in investments that are not considered in line with the eligibility criteria present in this document and Sicredi’s and IDB Invest exclusion lists<sup>9</sup>.

The amount and composition of the bonds asset portfolio will be monitored once per year by Sicredi’s Corporate Finance team to account for new drawdowns and/or repayments of assets, to monitor compliance with the aforementioned use of proceeds policies and sectorial policies. In case loans are no longer eligible, Sicredi will replace the no longer Eligible Categories within 9 months and report information regarding changes to the portfolio (asset divestment, postponement or replacement) in its annual reports. The allocation of proceeds used will be reviewed annually by an external audit.

The processes set forth above will be applicable throughout the life of the bond issued based on this framework.

<sup>8</sup> Presented in [Annex I](#) and [Annex II](#).

<sup>9</sup> Presented in [Annex I](#) and [Annex II](#).

## Reporting

To enable investors to follow the development of the Bonds, Sicredi will report annually, a detailed account of the annual allocation of the proceeds during the life of the bond. The process of monitoring, data collection, consolidation, aggregation and reporting will be carried out by Sicredi's Corporate Finance team. The report will also inform about the following indicators aggregated by eligible category:

Indicator	Description
<b>Use of proceeds indicators</b>	
Bond Beneficiaries per eligible portfolio (#)	Number of clients financed by the Green Bond disaggregated by the eligibility portfolios.
Disbursement per eligible portfolio (BRL)	Value of proceeds (in BRL) allocated to the eligible assets in the eligibility portfolios.
Amount not allocated (BRL)	Value of proceeds (in BRL) not yet allocated.
<b>Portfolio indicators</b>	
Amount of outstanding loans (BRL) - by sub portfolio and enterprise size	Total value of the Financial Intermediary's Green portfolio at the end of the reporting period by sub-portfolio (Renewable energy and Energy Efficiency) and enterprise size (Following the FI definition: Persona Física, Micro (annual sales up to BRL 360,000); Small (BRL 360,000 up to 1 million); Middle (BRL 1 million up to 6 million); and Large (over BRL 6 million)).
Number of clients (#) - by sub portfolio and enterprise size	Total number of clients in Financial Intermediary's Green portfolio at the end of the reporting period by sub-portfolio (Renewable energy and Energy Efficiency) and enterprise size (Following the FI definition: Persona Física, Micro (annual sales up to BRL 360,000); Small (BRL 360,000 up to 1 million); Middle (BRL 1 million up to 6 million); and Large (over BRL 6 million)).
Number of outstanding loans (#) - by sub portfolio	Total number of outstanding loans in the Financial Intermediary's Green portfolio at the end of the reporting period by sub-portfolio (Renewable energy and Energy Efficiency).
Amount of loans disbursed (BRL) - by sub portfolio	Value of loans disbursed in the Green Portfolio during the reporting period by sub-portfolio (Renewable energy and Energy Efficiency).
Number of loans disbursed (#) - by sub portfolio and enterprise size	Number of loans disbursed in the Green Portfolio during the reporting period by sub-portfolio (Renewable energy and Energy Efficiency).
<b>New installed capacity (kW) - by sub portfolio</b>	New installed capacity added during the reporting period in kW by sub-portfolio (Renewable energy and Energy Efficiency).
GHG emission reduction (tCO <sub>2</sub> e) - by sub portfolio	Greenhouse gas emission reduction due to the new installed capacity added during the reporting period. Measured in tons of CO <sub>2</sub> equivalent per year by sub-portfolio (Renewable energy and Energy Efficiency).

The methodology used to determine the GHG reductions will be disclosed in the annual reporting.



# External reviews

## Second Party Opinion

CICERO Shades of Green AS, an independent provider of independent, research-based evaluations of green bond investment frameworks, has provided a second party opinion on this framework, which can be found on [Sicredi's Investor Relations webpage](#).<sup>10</sup>

## Annual Verification

The Annual Report of each Bond issued by Sicredi will be verified by an independent auditor or an external reviewer to validate the alignment of the allocation of the Bond issued with the Reference Framework. The resulting reports will also be published Sicredi's Investor Relations webpage.

<sup>10</sup> The link to the Second Party Opinion will be available once the issuance occurs.



# I. Annex

## Sicredi - List of Excluded Activities

- Production or activities involving harmful or exploitative forms of forced labor/harmful child labor.
- Production or trade in weapons and munitions or related components.
- Production or trade in alcoholic beverages (excluding beer and wine).
- Production or trade in tobacco.
- Production or trade in radioactive materials (This does not apply for medical use).
- Production or trade in unbonded asbestos fibers. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.
- Commercial logging operations for use in primary tropical moist forest.
- Gambling, casinos and equivalent enterprises.
- Production or trade in any product or activity that may relate to misdemeanors as importers and exporters (mainly in border regions), natural extraction, polluting/polluting substance producers.
- Drift net fishing in the marine environment using nets in excess of 2.5 km in length.

<sup>11</sup> Reference documents are: Council Regulation (EEC) No 2455/92 of 23 July 1992 Concerning the Export and Import of Certain Dangerous Chemicals, as amended from time to time; United Nations Consolidated List of Products whose Consumption and/or Sale have been Banned, Withdrawn, Severely Restricted or not Approved by Governments; Convention on the Prior Informed Consent Procedures for Certain Hazardous Chemicals and Pesticides in International Trade (Rotterdam Convention); Stockholm Convention on Persistent Organic Pollutants; World Health Organization Recommended Classification of Pesticides by Hazard, World Health Organization Pharmaceuticals: Restrictions in Use and Availability.

<sup>12</sup> Stockholm Convention on Persistent Organic Pollutants (POPs) as amended in 2009

<sup>13</sup> Ozone Depleting Substances (ODSs) are chemical compounds which react with and deplete stratospheric ozone, resulting in the widely publicized 'ozone holes.' The Montreal Protocol lists ODSs and their target reduction and phase out dates. The chemical compounds regulated by the Montreal Protocol include aerosols, refrigerants, foam blowing agents, solvents, and fire protection agents. ([www.unep.org/ozone/montreal.shtml](http://www.unep.org/ozone/montreal.shtml)).

# II. Annex

## IDB Invest List of Excluded Activities

The IDB Invest will not knowingly finance, directly, or indirectly through FIs, projects involved in the production, trade, or use of the products, substances or activities listed below. Additional exclusions may apply in the context of a specific operation.

### 1. Prohibited Activities

a) Activities that are illegal under host country laws, regulations or ratified international conventions and agreements, or subject to international phase out or bans, such as:

i. Polychlorinated biphenyl compounds (PCBs).

ii. Pharmaceuticals, pesticides/herbicides and other hazardous substances subject to international phase-outs or bans.<sup>11</sup>

iii. Persistent Organic Pollutants (POPs).<sup>12</sup>

iv. Ozone depleting substances subject to international phase out.<sup>13</sup>



v. Wildlife or wildlife products regulated under Convention on International Trade in Endangered Species of Wild Fauna and Flora CITES.<sup>14</sup>

vi. Transboundary trade in waste or waste products,<sup>15</sup> except for non-hazardous waste destined for recycling.

vii. Lead paint or coatings in the construction of structures and roads.<sup>16</sup>

b) Activities that are illegal under host country laws, regulations or ratified international conventions and agreements relating to the protection of biodiversity resources or cultural heritage.

## 2. Other Activities

a) Activities that, although consistent with a country's legal and/or regulatory framework, may generate particularly significant adverse impacts on people and/or the environment.

i. Weapons, ammunitions, and other military goods/technology.

ii. Tobacco.<sup>17</sup>

iii. Gambling, casinos, and equivalent enterprises.<sup>18</sup>

iv. Radioactive materials.<sup>19</sup>

v. Unbonded asbestos fibers or asbestos-containing products.

vi. Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.

b) Activities that are inconsistent with IDB and IDB Invest's commitments to address the challenges of climate change and promote environmental and social sustainability.

i. Thermal coal mining or coal-fired power generation and associated facilities<sup>20</sup>.

ii. Upstream oil exploration and development projects.

iii. Upstream gas exploration and development projects. Under exceptional circumstances and on a case-by-case basis, consideration will be given to financing upstream gas infrastructure where there is a clear benefit in terms of energy access for the poor and where greenhouse gas (GHG) emissions are minimized, projects are consistent with national goals on climate change, and risks of stranded assets are properly analyzed.

<sup>14</sup> [www.cites.org](http://www.cites.org)

<sup>15</sup> As defined by the Basel Convention ([www.basel.int](http://www.basel.int))

<sup>16</sup> Paints or coatings with a total lead concentration great than 90 ppm or the concentration limit set by the host country, whichever is lower.

<sup>17</sup> This does not apply to projects whose primary objective is not related to the production, trade, or use of tobacco.

<sup>18</sup> This does not apply to projects whose primary objective is not related to the construction and operation of gambling, casinos and equivalent enterprises.

<sup>19</sup> This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where it can be demonstrated that the radioactive source is to be trivial and/or adequately shielded.

<sup>20</sup> This applies only to associated facilities which primary objective is related to the production, trade or use of coal for power generation or to the transmission of energy generated by a coal-fired power plant (e.g. a dedicated transmission line).

# Credits

Sicredi

[www.sicredi.com.br](http://www.sicredi.com.br)

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