

A close-up photograph of a young child with curly hair, looking upwards and blowing a bubble. The child is holding a pink and blue bubble wand. A single bubble is visible in the air above the child's head. The background is a blurred green, suggesting foliage. The text 'SUSTAINABILITY BOND FRAMEWORK' is overlaid in white, and 'BDMG - MAY 2020' is overlaid in yellow below it. A white geometric line graphic is in the bottom left corner.

# SUSTAINABILITY BOND FRAMEWORK

**BDMG** - MAY 2020





## PRESENTATION

This Framework – Títulos Sustentáveis (Sustainable Bonds) embodies BDMG's commitment to encouraging the best socio-environmental practices. By becoming the first Brazilian development bank to publish such a framework, we have advanced in the process of connecting corporate strategy to global sustainability agendas, consolidating our purpose of becoming a bank with impact endorsed by society.

With an essential partnership established with the IDB – Inter-American Development Bank, and the technical consulting firms Sitawi and Sustainalytics, this project provides the market with clear guidelines on eligibility criteria for sustainable social projects financed by BDMG.

More than providing fundraising for the issuance of bonds, the Framework opens up a range of opportunities for Minas Gerais. BDMG wants to contribute even more to the process of diversifying the state's economic matrix. This will only be possible by organizing our clients' business base around a "new economy" in which socio-environmental aspects are strongly positioned as critical success factors.

Thus, we wish that this Framework may be a driver of the future, able to keep BDMG in tune with demands that are compatible with a 21st century development bank. In this journey, our excellent team will never cease to work hard and, above all, to honor its commitment to a more just and sustainable world.

**Sergio Gusmão Suchodolski**

President of the Minas Gerais Development Bank - BDMG



## SUMMARY





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## Introduction

The Development Bank of Minas Gerais (BDMG – *Banco de Desenvolvimento de Minas Gerais*, in Portuguese), founded in 1962, is a financial institution controlled by the State of Minas Gerais. BDMG serves all Minas Gerais's municipalities and border states and is focused on promoting social well-being through the offer of financial products and services directed to production diversification and socioeconomic development.

Over the last year, the Bank's loan portfolio reached 3,752 clients with a balance of approximately R\$ 5.6 billion<sup>1</sup>. BDMG's operations are distributed among public sector, micro and small enterprises, as well as medium and large sized companies. The bank has been working to consolidate its strategy, agenda and operation in sustainability and social development. In 2019, BDMG defined strategic drivers to 2020-2024, which establish five scopes of actuation (Table 1).

Table 1 – BDMG strategic drivers

 <p><b>Sustainability</b></p> <ul style="list-style-type: none"> <li>• United Nations 2030 Agenda for Sustainable Development as a driver for growing with sustainability</li> <li>• Contribute to the renewable energy raise in the Brazilian grid, sanitation, as well as other projects related to sustainability</li> </ul>	 <p><b>Technology and Innovation</b></p> <ul style="list-style-type: none"> <li>• Innovation in the productive sector in the State of Minas Gerais to enable credit market creation and market for technology-based companies</li> <li>• Financial resources to partnerships with FAPEMIG (Foundations for Supporting Research in the states of Minas Gerais – Fundação de Amparo à Pesquisa do Estado de Minas Gerais, in Portuguese), BNDES (National Economic and Social Development Bank – Banco Nacional de Desenvolvimento Econômico e Social, in Portuguese) and Finep (Studies and Projects Funding – Financiadora de Estudos e Projetos, in Portuguese)</li> </ul>
 <p><b>Infrastructure</b></p> <ul style="list-style-type: none"> <li>• Support infrastructure projects through transactions with the public sector and municipalities or through resource mobilization in syndicated deals or through Public-Private Partnership (PPP) structuring</li> </ul>	 <p><b>Agribusiness</b></p> <ul style="list-style-type: none"> <li>• Credit supply to agribusiness, which represent a strategic sector to Minas Gerais's economic dynamic</li> </ul>
 <p><b>MSME</b></p> <ul style="list-style-type: none"> <li>• Credit concession to micro, small and medium enterprises</li> <li>• BDMG has a digital platform exclusive for credit assessment and concession to micro and small enterprises.</li> </ul>	

Source: 2020-2024 BDMG's Strategy.

<sup>1</sup> September 2019.



BDMG developed, in 2013, its Social-Environmental Responsibility Policy (PRSA – *Política de Responsabilidade Socioambiental*, in Portuguese). The policy guidelines include, among other items: (i) alignment of its role to state and national environmental public policies; (ii) prioritization of operations with enterprises with positive socio-environmental externalities – with emphasis on reducing the generation of solid waste and its reuse, energy efficiency, and renewable energy –; and (iii) exclusion of financing for projects with high environmental and social impact.

During 2016, BDMG implemented an internal methodology to manage environmental and social risks in its credit process, as well as a tagging template to its operations related to sustainability (“green tag”). In the following years, the bank launched several credit lines and products aiming sustainability – Solar BDMG, Sustainability BDMG, and Hybrid Cabs BDMG.

The bank also has an extensive experience with a diverse set of international funding agencies, in order to meet its strategy. IDB (Inter-American Development Bank), AFD (*Agence Française de Développement*), MUFG (Mitsubishi UFJ Financial Group), CAF (Development Bank of Latin America), and, more recently, EIB (European Investment Bank) are some of the institutions with whom the Bank has already raised resources. The bank also uses other funding sources from national entities, state funds and its own funds to act in line with Minas Gerais’s strategy, contributing to the economic, social and sustainable development of the state.

Considering the historic engagement in Minas Gerais socioeconomic development, its sustainability strategy and agenda, as well as its capacity to raise resources from several sources, BDMG launched, in 2018, its Green Bond Framework. This framework had a Second Part Opinion from a specialized firm, besides BID’s technical and financial support. In 2019, the bank reviewed eligible green project categories and KPIs (Key Performance Indicators) from its Framework to implement a green tagging and impact monitoring system.

In that sense, following BDMG’s sustainability evolution and driven strategy to the next years, the Bank aims to boost the Framework’s previous scope to enable the issuance of Sustainability Bonds. The funds raised via sustainable bonds will be used to (re)finance projects or operations which present clear and relevant environmental and social impacts and are aligned with United Nations’ Sustainable Development Goals (SDGs). The framework’s new structure was developed in accordance with the Green Bond Principles 2018<sup>2</sup>, the Social Bond Principles 2018<sup>3</sup>, and the Sustainability Bond Guidelines 2018<sup>4</sup>:

- I. Use of Proceeds;
- II. Process for Project Evaluation and Selection;
- III. Management of Proceeds;
- IV. Reporting.

<sup>2</sup> Disponível em: <<https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>>

<sup>3</sup> Disponível em: <<https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>>

<sup>4</sup> Disponível em: <<https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>>



## I. USE OF PROCEEDS







## I. Use of Proceeds

BDMG Sustainability Bonds' eligible projects are public-and private sector investments that generate clear social and environmental benefits in all economic sectors. Those projects or activities are categorized according Green and Social Bond Principles' taxonomy and are aligned with one or more SDGs (**Image 1**).

**Image 1 – United Nations' Sustainable Development Goals (SDGs)**



Source: United Nations

After a careful consideration, there were identified 11 project categories eligible to receive BDMG Sustainability Bonds' resources. **Table 2** links eligible categories to SDGs and specific targets in which categories are most related to. The Sustainability Bonds' categories are aligned with 28 of 169 SDG targets. Projects that currently compose BDMG sustainable loan portfolio or new projects aligned with the proposed categories can be used to any Sustainability Bond issuance from BDMG.

### Eligible Green Categories:

- a) Sustainable agriculture and sustainable management of living natural resources
- b) Renewable energy and energy efficiency
- c) Sustainable water and wastewater management
- d) Clean transportation
- e) Pollution prevention and control

### Eligible Social Categories:

- f) Access to essential services – Health
- g) Access to essential services – Education
- h) Socioeconomic empowerment – Gender inclusion






- i) Employment generation – Micro and small enterprises
- j) Affordable basic infrastructure – Inclusive and sustainable urbanization
- k) Access to essential services – Economic recovery after disasters

Activities and projects can sometimes fit in more than one category. In those cases, as a matter of internal control simplification and information disclosure (indicators), the project will be categorized in the sector which uses most of the operation's financial volume. Nevertheless, for resources' distribution assessment of Sustainability Bond, it is possible to categorize those projects in more than one category. In addition of categories' criteria, there are exclusion criteria that must be considered.

**Table 2 – Eligible categories and SDG contributions**

CATEGORY	SUSTAINABLE DEVELOPMENT GOALS (SDG)																
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
a Sustainable agri																	
b Renewable energy and EE																	
c Sanitation and waste																	
d Clean transportation																	
e Pollution prevention and control																	
f Health																	
g Education																	
h Gender inclusion																	
i Micro and small enterprises																	
j Inclusive urbanization																	
k Economic recovery																	

Key:  Main SDG aligned to the category  SDG secondary alignment to category  SDG not aligned

Elaboration: SITAWI

The identification of categories as well as compatible SDG and targets with BDMG loan portfolio operations relied on a process of understanding projects' purposes, harmonization with the Brazilian Economic Activities National Classification (CNAE – *Classificação Nacional de Atividades Econômicas*, in Portuguese), as well as assessment of BDMG credit lines and products. In the following sections, eligible categories and their compatibility with SDG and targets will be described and aligned to BDMG products and CNAE. There are some categories which do not present automatically aligned products or CNAE. Nevertheless, BDMG can finance particular operations or specific projects with Sustainability Bonds' proceeds if they are aligned with the category description and parameters.

It is important to highlight that even though suitable projects contribute to reach one or more SDG goal or specific target, they do not claim to cover the complete scope of an SDG. For example, when the Framework indicates a category that contributes to "achieve universal and equitable access to safe and affordable drinking water for all", for example, it does not mean that the specific project or activity financed by BDMG with proceeds

from a Sustainability Bond will achieve the target individually. It only means that the project will support Minas Gerais State and border regions to make this target more realistic in a limited extent.

## ELIGIBLE GREEN CATEGORIES

### a) Sustainable agriculture and sustainable management of living natural resources




Proceeds in this category can be allocated in low carbon agriculture projects or activities that generate reduction of use of water and other resources, organic agriculture, sustainable forest management, reforestation, and agriculture activities which present environmental or social certification schemes, which also include the possibility of purchasing more efficient dedicated machinery (does not include road vehicles, such as trucks) linked to these certifications ([Annex 1](#)).

#### *Definitions of eligible projects and activities:*

- Drip irrigation systems or other precision agriculture projects which deliver at least 15% in water use
- Low carbon agriculture projects which generate at least 20% reduction in greenhouse gases (GHG) emissions or 25,000 tCO<sub>2</sub>eq annually, including:
  - Crop-Livestock-Forest Integration
  - Agroforestry Systems
  - No-Till Farming Systems
  - Biological Nitrogen Fixation
  - Manure management with biodigesters
- Organic agriculture production
- Sustainable forest management activities that increase carbon stocks or reduce the impact of forestry activities:
  - Afforestation on non-forested land
  - Reforestation on previously forested land
  - Biosphere conservation projects
  - Recovery of degraded areas with increase in GHG capture
  - Preservation, conservation or restoration of the flora and fauna of the region surrounding the project location
  - Regularization of statutory reserve liabilities in rural properties
- Certified projects or agriculture and forest producers ([Annex 1](#)). It is important to highlight that resources classified in this category due to a client or project certification must be explicitly directed to the certified activities. Proceeds used by the client/project in other crops or activities that are not directly related to certified processes are not eligible.



## SDG and targets supported:

GOALS	TARGETS
 <p><b>2</b> ZERO HUNGER</p>	<p>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</p>
 <p><b>13</b> CLIMATE ACTION</p>	<p>13.1. Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries</p>
 <p><b>15</b> LIFE ON LAND</p>	<p>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</p>

## Alignment to BDMG products:

- There are no automatically aligned products in this category. Specific projects can be financed with Sustainability Bonds' proceeds once subjected to category criteria and parameters.

## Compatible CNAE:

- CNAE Division 01 – Agriculture, livestock and related services (only if activities and projects meet category requirements and address exclusion criteria in [Section III](#));
- CNAE Group 02.1 – Forestry production – Planted forests.

## b) Renewable energy and energy efficiency

Proceeds allocated in this category can be directed to projects for power generation from wind energy, solar energy, biomass and hydroelectric, power transmission systems for non-conventional renewable energy, as well as efficiency energy activities that deliver at least 20% energy savings over baseline and productivity and efficiency increase in processes. Projects can be built and operated by public or private companies. Sustainable biofuel production is also eligible, when fully compliant with the Brazilian Forest Code, do not compete with food production neither deplete existing terrestrial carbon pools, including:

- Sugarcane ethanol originated from plantations with mechanized harvest that do not employ pre-harvest burning practices; in addition, it will be required BONSUCRO certification for producers with over R\$250 million in revenues and investments of over R\$10 million
- biodiesel originated from certified soy crops (RTRS)

The financing may include projects for power generation units, industrial unit adaptations for the construction and installation of industrial plants, storage systems acquisition, power transmission systems and their connection to the electrical system, technologies that allow the integration of energy systems, and performance monitoring.

***Definitions of eligible projects and activities related to renewable energy:***

- Centralized generation and transmission (greater than 5 MW) and distributed (up to 5 MW) solar energy projects;
- Small “run-of-the-river” hydroelectric power plants with up to 30 MW of power
- Power generation projects from agricultural residual biomass, sugarcane bagasse co-generation, biogas from industrial and agricultural residues originated from crops that don’t reduce the carbon and biomass storage in the soil
- Production of sustainable biofuels, fully compliant with the Brazilian Forest Code, that do not compete with food production neither deplete existing terrestrial carbon pools
- New information and communication technology, smart-grid and mini-grid
- Storage systems (battery, mechanical, pumped storage).




***Definitions of eligible projects and activities related to energy efficiency:***

- Energy efficiency improvements in the public services through loss reduction, the installation of more efficient lighting or equipment, including:
  - LED lighting
  - Light pole with solar energy capture
- Equipment energy efficiency or building through techniques which deliver at least 20% energy savings over baseline:
  - Intelligent elevators
  - Techniques for better use of natural light
  - Architecture project to enable proper ventilation
  - High levels of thermal insulation
  - Proper design and placement of windows
- Retrofit of existing buildings with architectural or building changes that enable reduction of energy consumption:
  - Windows’ replacement for better use of natural light
  - Ventilation improvements
  - Thermal insulation
- Equipment efficiency energy:
  - Heat and refrigeration systems
  - Appliances’ replacement
  - LED lighting
- More efficient facility replacement of an older facility:
  - Older electrical facilities’ replacement
  - Compressed air facilities
  - Lighting system



- Energy-efficiency improvements through the installation of more efficient equipment, changes in processes, reduction of heat losses and/or increased waste heat recovery.

**SDG and targets supported:**

GOAL	TARGETS
<b>7</b> AFFORDABLE AND CLEAN ENERGY 	7.2. By 2030, increase substantially the share of renewable energy in the global energy mix  7.3. By 2030, double the global rate of improvement in energy efficiency
<b>12</b> RESPONSIBLE CONSUMPTION AND PRODUCTION 	12.2. By 2030, achieve the sustainable management and efficient use of natural resources
<b>13</b> CLIMATE ACTION 	13.1. Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries

**Aligned BDMG products:**

- BDMG SOLAR FOTOVOLTAICO
- BDMG SUSTENTABILIDADE

**Compatible CNAE:**

- CNAE Section C – Manufacturing industries (only if activities and projects meet category requirements and address exclusion criteria in [Section III](#))
- CNAE Section D – Electricity and gas (only if activities and projects meet category requirements and address exclusion criteria in [Section III](#))

**c) Sustainable water and wastewater management**

The main objective in this category is to finance projects that contribute to the universalization of the collection and treatment of water, urban sewage and adequate treatment of solid urban waste by means of complementary investments in public and private service providers and their suppliers that notably contribute to the improvement of the access and quality of the service. It also includes projects of this type carried out by municipalities.

**Definitions of eligible projects and activities:**

- Sewage connections, collection, interception, lifting stations, treatment and final disposal

- Water capture, intake, lifting stations, reservoirs' construction and renovation, water treatment, distribution, measure and operational improvements in order to reduce losses:
  - New water reservoirs
  - Water treatment stations
  - New distribution networks to deliver drinking water to people without access
  - Water network modernization to reduce losses
- Urban Solid Waste management and final disposal:
  - Landfill with energy capture that consider burning of methane emitted in the decomposition of the organic matter in anaerobic conditions
- Waste sorting and composting units
- Waste transshipment station.

**SDG and targets supported:**

GOALS	TARGETS
 <p><b>6</b> CLEAN WATER AND SANITATION</p>	<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><b>11</b> SUSTAINABLE CITIES AND COMMUNITIES</p>	<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</p>

**Aligned BDMG products:**

- BDMG Tender for Municipalities aiming water and wastewater management
- Financing Public-Private Partnerships (PPPs) and public concession operations (only if activities and projects meet category requirements and address exclusion criteria in [Section III](#))

**Compatible CNAE:**

- CNAE Section E – Water, sewage, activities related to waste management and decontamination (only if activities and projects meet category requirements and address exclusion criteria in [Section III](#)).




## d) Clean transportation

In this category, the goal is to finance the modernization of transport systems to reduce GHG emissions – emissions threshold is established on 75gCO<sub>2</sub>/passenger-km and 25gCO<sub>2</sub>/tonne-km, according to Climate Bonds Initiative (CBI) Low Carbon Land Transport standard<sup>5</sup>. It includes the construction, equipping or operation of clean transportation facilities.

### *Definitions of eligible projects and activities:*

- Acquisition of any type of hybrid and electric vehicles for passenger (buses) or cargo transportation
- Acquisition of lightweight electric vehicles
- Recharge infrastructure for renewable fuel or electric charges for hybrid and electric vehicles
- Infrastructure for mass transit transportation including train, subway, electric bus and BRT Standard Bronze, Silver or Gold from the Institute for Transportation and Development Policy<sup>6</sup>

### *SDG and targets supported:*

GOALS	TARGETS
<b>11 SUSTAINABLE CITIES AND COMMUNITIES</b> 	<b>11.2.</b> 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
<b>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</b> 	<b>9.1.</b> 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
<b>13 CLIMATE ACTION</b> 	<b>13.1.</b> Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries

### *Aligned BDMG products:*

- BDMG Hybrid Taxis

### *Compatible CNAE:*

- CNAE Section H – Transport, storage and postal activities (only if activities and projects meet category requirements and address exclusion criteria in [Section III](#)).

<sup>5</sup> Available at: <<https://climatebonds.net/standard/transport>>

<sup>6</sup> Available at: <<https://www.itdp.org/library/standards-and-guides/the-bus-rapid-transit-standard/about-the-brt-standard/>>



## e) Pollution prevention and control

Projects related to the construction, installation and operation of control and monitoring systems of productive processes that prevent and mitigate the negative effects of productive activities on the environment, such as: effluent treatment, industrial waste treatment and final disposal, systems for pollution control and reduction, projects that allow better use of generated waste, and other.

### *Definitions of eligible projects and activities:*

- Industrial wastewater treatment
- Industrial solid waste treatment and final disposal:
  - Recycling
  - Material recovery
  - Industrial waste landfill
- Health services' waste treatment
- Construction waste processing unit or final disposal that involves recycling and/or re-use;
- Rainwater harvesting projects or industrial process water recycle
- Input and material use reduction:
  - Resources' savings
  - Eliminate toxic material use
  - Waste or wastewater reuse as primary material for new processes
- Industrial processing improvements to reduce GHG emissions:
  - Installation of control systems for pollutant emissions
  - Filter installation

### *SDG and targets supported:*

GOALS	TARGETS
<b>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</b> 	12.5. By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse
<b>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</b> 	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

### **Aligned BDMG products:**

- There are no automatically aligned products in this category. Specific projects can be financed with Sustainability Bonds' proceeds once subjected to category criteria and parameters

### **Compatible CNAE:**

- CNAE Section C – Manufacturing industries (only if activities and projects meet category requirements and address exclusion criteria in [Section III](#))

## **ELIGIBLE SOCIAL CATEGORIES**


### **f) Access to essential services – Health**

Resources in this category can be directed to projects and activities related to the construction, equipment or operation of public hospitals and health facilities located in municipalities with any size and level of Human Development Index (HDI) or private health projects located in municipalities with HDI below Brazilian municipalities' average<sup>7</sup>.

### **Definitions of eligible projects and activities:**

- Financing construction and operation of Health Basic Units (*Unidades Básicas de Saúde* – UBS, in Portuguese), public hospitals and polyclinics
- Support to modernization and operational efficiency improvements of non-profit Health Philanthropic Institutions
- Financing private hospitals and clinics which provide free or subsidized access to vulnerable communities
- Financing Public-Private Partnership (PPP) and public concession operations related to public health services

### **SDG and targets supported:**

GOALS	TARGETS
<b>3</b> GOOD HEALTH AND WELL-BEING 	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
<b>10</b> REDUCED INEQUALITIES 	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

<sup>7</sup> The Human Development Index (HDI) is a comparative measure composed by three dimensions: longevity, education and income. The index varies from 0 to 1. Brazilian HDI calculated in 2020 and used as comparison measure in this Framework is 0.761.

**Aligned BDMG products:**

- BDMG Tender for Municipalities aiming health infrastructure projects;
- BDMG Saúde;
- BDMG Geraminas Saúde;
- BDMG Giro mais Saúde;
- Financing Public-Private Partnerships (PPPs) and public concession operations related to public health services.

**Compatible CNAE:**

- CNAE Section Q – Human health and social services (only if activities and projects meet category requirements and address exclusion criteria in [Section III](#))

**g) Access to essential services – Education**

Support primary, secondary, as well tertiary education infrastructure. Financing education infrastructure that target public education facilities, municipalities with HDI below the total of Brazilian municipalities' HDI average and vulnerable communities. The focus in this category is financing projects and activities which deliver education infrastructure to vulnerable people.

**Definitions of eligible projects and activities:**

- Construction, refurbishment and expansion of nursery as well as primary and early childhood education units
- Construction, refurbishment and ampliation of schools
- Construction, refurbishment and ampliation of universities or tertiary education facilities

**SDG and targets supported:**

GOALS	TARGETS
<p><b>4 QUALITY EDUCATION</b></p> 	<p>4.1 By 2030, ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes</p> <p>4.3 By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university</p> <p>4.a Build and upgrade education facilities that are child, disability and gender sensitive and provide safe, non-violent, inclusive and effective learning environments for all</p>
<p><b>10 REDUCED INEQUALITIES</b></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>

### ***Aligned BDMG products:***

- BDMG Tender for Municipalities aiming education infrastructure;
- Financing Public-Private Partnerships (PPPs) and public concession operations related to public education services.

### ***Compatible CNAE:***

- CNAE Section P – Education (only if activities and projects meet category requirements and address exclusion criteria in [Section III](#))

## **h) Socioeconomic empowerment – Gender inclusion**

Resources in this category can support companies and enterprises controlled by women and boost the advent of new female entrepreneurs. BDMG focus is to offer credit with distinctive interest rates to micro and small enterprises which have at least six months of existence and are controlled by businesswomen of Minas Gerais for the same period.

### ***Definitions of eligible projects and activities:***

- Credit to new facility planning, expansion through franchises, building new warehouse, or even setting up a small manufacturing unit related to micro and small enterprises controlled by women (micro and small-sized companies with women with capital stock equal to, or higher than 50% for at least six months)
- Credit to balance cash flow and support unforeseen expenses to micro and small business controlled by women
- Long-term working capital to micro and small business controlled by women

### ***SDG and targets supported:***

GOALS	TARGETS
<b>5</b> GENDER EQUALITY 	<p>5.5. Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life</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>
<b>10</b> REDUCED INEQUALITIES 	<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>



***Aligned BDMG products:***

- BDMG Minas Gerais Women enterprising
- BDMG Minas Gerais Women enterprising – Low HDI.

***Compatible CNAE:***

- Any, since activities and projects meet category requirements and address exclusion criteria in [Section III](#)

**i) Employment generation – Micro and small enterprises**

BDMG offers several credit lines and products target at micro and small enterprises (SMEs) in order to empower the economy of different Minas Gerais regions, generating employment and reducing inequalities between municipalities. It includes mainly SMEs linked to commerce and service activities, with small average ticket (between R\$ 20,000 and R\$ 30,000). The Bank has an exclusive digital platform to evaluate and offer credit to micro and small businesses.

In this category, it will be considered operations to finance productive activities in low HDI areas developed by micro and small business, as defined in the Complementary Law 123 of 2006<sup>8</sup>, or individual entrepreneurs:

- Micro enterprises are those companies with gross annual income of up to BRL 360,000
- Small businesses are those with gross annual income ranging from BRL 360,000 to BRL 4,800,000





Brazilian SMEs are intensive in employment generation and play key role for economic and social development. Appropriate credit access for those companies is crucial to allow financial inclusion and to boost Minas Gerais economy.

***Definitions of eligible projects and activities:***

- Credit to new facility planning, expansion through franchises, building new warehouse, or even setting up a small manufacturing unit
- Loan to machinery and equipment purchase to increase productivity
- Credit to balance cash flow and support unforeseen expenses – penalties and specific charges – to micro and small business
- Long-term working capital to micro and small business
- Financing micro and small business which strengthen long-term touristic activities based on environmental and cultural preservation, as well as permanent social benefits

<sup>8</sup> Available at: <[http://www.planalto.gov.br/ccivil\\_03/leis/lcp/lcp123.htm](http://www.planalto.gov.br/ccivil_03/leis/lcp/lcp123.htm)>

## SDG and targets supported:

GOALS	TARGETS
<b>8</b> DECENT WORK AND ECONOMIC GROWTH 	<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>
<b>9</b> INDUSTRY, INNOVATION AND INFRASTRUCTURE 	<p>9.5. Enhance scientific research, upgrade the technological capabilities of industrial sectors in all countries, in particular developing countries, including, by 2030, encouraging innovation and substantially increasing the number of research and development workers per 1 million people and public and private research and development spending</p>
<b>10</b> REDUCED INEQUALITIES 	<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>
<b>12</b> RESPONSIBLE CONSUMPTION AND PRODUCTION 	<p>12.b. Develop and implement tools to monitor sustainable development impacts for sustainable tourism that creates jobs and promotes local culture and products</p>

## Aligned BDMG products:

- BDMG GERAMINAS;
- BDMG GERAMINAS Fidelidade;
- BDMG GERAMINAS Social;
- BDMG Minas Criativa.

## Compatible CNAE:

- Any, since activities and projects meet category requirements and address exclusion criteria in [Section III](#)

## j) Affordable basic infrastructure – Inclusive and sustainable urbanization

Resources can be destined to support Minas Gerais municipalities improving citizens' life-quality through small-sized infrastructure projects, as the implementation, expansion and adaptation of urban infrastructure. It may include paving of urban roads already equipped with water and sewage utilities, exclusive lanes, sidewalks, cycleway, public squares, shelter for urban collective transport stops.

### **Definitions of eligible projects and activities:**

- Development of paving urban roads in areas that lack connectivity, sewage and other social infrastructure, allowing inclusive urbanization in underserved cities
- Implementation, expansion and adaptation of exclusive lanes, sidewalks, cycleways
- Implementation, expansion, and adaptation of public squares
- Implementation, expansion, and adaptation of public lighting, including Public-Private Partnerships (PPPs) and public concession operations
- Construction of shelter for urban collective transport stops
- Infrastructure and operational facilities for urban drainage
- Contention of unstable hillsides

### **SDG and targets supported:**

GOALS	TARGETS
 <p><b>11</b> SUSTAINABLE CITIES AND COMMUNITIES</p>	<p>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</p> <p>11.3. By 2030, enhance inclusive and sustainable urbanization and capacity for participatory, integrated and sustainable human settlement planning and management in all countries</p> <p>11.7 By 2030, provide universal access to safe, inclusive and accessible, green and public spaces, in particular for women and children, older persons and persons with disabilities</p>
 <p><b>9</b> INDUSTRY, INNOVATION AND INFRASTRUCTURE</p>	<p>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</p>

### **Aligned BDMG products:**

- BDMG Tender for Municipalities aiming health urban infrastructure projects

### **Compatible CNAE:**

- CNAE Division 42 – Infrastructure works (only if activities and projects meet category requirements and address exclusion criteria in [Section III](#))



## k) Access to essential services – Economic recovery after disasters

Proceeds can be delivered to support economic activities in municipalities affected by natural and human hazards and health emergencies.

### *Definitions of eligible projects and activities:*

- Support activities located in Minas Gerais municipalities which were struck by intense rainfalls and enacted state of emergency or disaster decreed and acknowledged by the Minas Gerais Civil Defense
- Boosting the economic activity of those municipalities most affected by the failure of tailing dams in order to recover, mitigate, remediate and repair social, environmental and economic impacts on communities affected by disasters. It does not include actions taken to repair tailings dams/ponds or remediation of mines
- Accessible and customized credit for business, with reduced rates and extended due dates, during health emergencies

### *SDG and targets supported:*

GOALS	TARGETS
 <p><b>11</b> SUSTAINABLE CITIES AND COMMUNITIES</p>	<p>11.5. By 2030, significantly reduce the number of deaths and the number of people affected and substantially decrease the direct economic losses relative to global gross domestic product caused by disasters, including water-related disasters, with a focus on protecting the poor and people in vulnerable situations</p>
 <p><b>13</b> CLIMATE ACTION</p>	<p>13.1. Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries</p>

### *Aligned BDMG products:*

- BDMG Geraminas Solidário;
- BDMG RIO DOCE;
- BDMG Solidário Coronavírus.

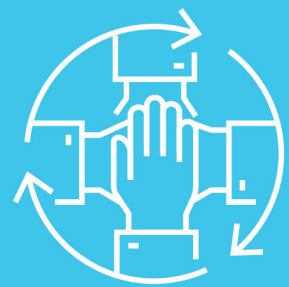
### *Compatible CNAE:*

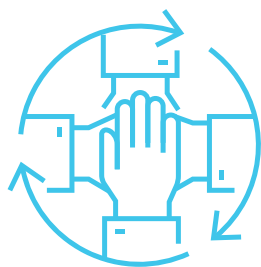
- Any, since activities and projects meet category requirements and address exclusion criteria in [Section III.](#)





## II. PROCESS FOR PROJECT EVALUATION AND SELECTION





## II. Process for Project Evaluation and Selection

### *Credit and Renegotiation Committee*

The Credit and Renegotiation Committee, responsible for credit operations' approval in BDGM, will be designated to approve projects financed with proceed from Sustainability Bonds. The Committee consists of representatives from different BDMG areas and departments: Credit Analysis, Operations, Credit Management, Products, Risks and Internal Control, Financial and Legal. The operations will be evaluated by the Committee with the purpose of deliberating on:

- a) The conditions of the credit operation regarding the borrower's financial capacity, proposed guarantees and risk
- b) Alignment of projects with the eligibility and exclusion criteria
- c) The positive environmental impacts of the project
- d) Definition of monitoring indicators
- e) Alignment of the projects with the BDMG's Social-Environmental Responsibility Policy.

### *Portfolio Categorization*

BDMG has a portfolio of projects that covers several items highlighted in the topic I. Use of Proceeds, which consists of lines of credit supported by on-lending resources from other institutions or funds raised directly by the Bank. The financing lines with which the Bank currently works and others that may arise can finance projects that compose its portfolio of sustainable projects, provided that they meet the eligibility, categorization and evaluation criteria established in this document.

The proceeds from Sustainability Bonds' issuance will be allocated to: (i) projects that will be financed by BDMG after any issuance; or (ii) for reimbursement of projects originated before any issuance. In this case, the contract balance will be considered for this purpose. New projects may also be financed with Sustainability Bond issuances up to the total amount of the financing.

## ***Environmental and Social Risk Management***

The Bank's Social and Environmental Risk Management follows the requirements of Central Bank of Brazil's Resolution 4327/2014 and aims to identify, measure, mitigate and monitor the direct and indirect risks related to social and environmental issues of the Bank's processes, products and businesses. In this context, BDMG uses classification and management systems, in routine procedures, to ensure the identification, classification, monitoring, mitigation and control of socio-environmental risk in its activities and operations. For this purpose, evaluation questionnaires are used for socioenvironmental risk classification, which is based on the economic sector and the company revenues.

The socio-environmental risk classifications are defined in three levels:

- A: companies with activities intrinsically related to significant environmental impacts or regional reach risks and with high revenues (above R\$ 250 million);
- B: companies with activities intrinsically related to significant environmental impacts or regional reach risks and with lower revenues (between R\$ 30 million and R\$ 250 million); and
- C: small businesses (up to R\$ 30 million in revenues), operations with municipalities and other companies not classified as A or B, that is, those with revenues above R\$ 30 million, but that do not carry out risky activities.

Companies with a minimum revenue of R\$ 30 million are requested to fill out the socio-environmental questionnaire. A company with a revenue of up to R\$ 30 million is considered low risk, and it is not required to fill out the environmental questionnaire. However, the environmental conformity related to environmental licensing is required. The questionnaire is valid for one year and consists in a credit analysis document required at the time of the use of the credit limit. It should be renewed in case of new credit or new investment, in the case of interest in companies.

All of the financing contracts and direct interest in companies incorporate specific clauses for social and environmental issues. The monitoring of the contractual covenants is done at the moment of the credit release and during the term of the contract.

Projects from all risk categories may be eligible to make use of the Sustainability Bond proceeds. Projects classified with risk class C will automatically be eligible if they fall within one of the categories of section I, while Category A and B projects will have to be evaluated individually by the Credit and Renegotiation Committee.

### ***Exclusion Criteria***

Projects or credit operations that fall into one or more exclusion criteria described below cannot be financed with funds raised through the Sustainability bonds issued by BDMG:



- Transactions exclusively for working capital for big companies<sup>9</sup> or debt replacement
- Projects that have previously been financed by BDMG with resources from on-lending from Development Banks and Multilateral Agencies
- Credit for uncertified palm oil production
- Projects with first disbursement before 48 months prior to issuance
- Projects whose financing maturity is in the same year of issuance
- Fossil Fuel Projects & Fossil Fuel Energy Generation
- Construction of new large hydro projects (>30 MW)
- Energy generation from biomass sources that deplete existing terrestrial carbon pools

Furthermore, the Bank has a list of activities that are excluded from funding, which is presented in the [Annex 2](#) and included in its Social-Environmental Responsibility.

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<sup>9</sup> Working capital operations for micro and small companies are eligible once they specifically contribute to SDG 8.



sell	4901.701	1.01439	4972.23647
sell	4901.62186233	0.001	4.90162186
sell	4901.62186233	0.00306021	14.9999922
sell	4901.62186233	0.04599855	225.467498
sell	4901.6817	0.99459	4875.16360
sell	4901.62186233	0.00361509	17.7198041
sell	4901.62186233	0.00276556	13.5557293
sell	4901.62186233	0.0027471	13.5557293
sell	4901.62186233	0.0152094	75.2208517
sell	4901.62186233	0.0384543	188.499986

### III. MANAGEMENT OF PROCEEDS





### III. Management of Proceeds

Funds raised from the Sustainability Bonds issued by BDMG will be managed by the Bank's Financial Management Department to finance new or existing projects. Until the actual disbursement, the funds will be kept in the Bank's cash account or in high liquidity and low risk instruments and, in any case, will not be used in investments that are not aligned with the Sustainability Bonds' goals.

We reiterate that resources obtained from any Sustainability Bond issuance will be used exclusively to finance projects that meet the eligibility criteria described in this document. In addition, the allocation of the resources used will be reviewed by annual external audit.

BDMG has a robust internal accounting function as it is used to on-lend resources from several tier-2 banks, such as BNDES and AFD, as well as federal and state funds. The Sustainability Bond will be registered as a new "source" in the accounting system and properly tracked.





#### IV. REPORTING





## IV. Reporting

### *Use of Proceeds*

BDMG will annually disclose the use of proceeds of issued Sustainability Bonds, indicating the number of beneficiaries, the average value of the loans, the disbursement amount for each sustainable category that composes the portfolio and the regional distribution of resources in Minas Gerais, through an Annual Report, which should be published in the following media: BDMG website ([www.bdmg.mg.gov.br](http://www.bdmg.mg.gov.br)).

The report will also demonstrate whether resources have been allocated to existing projects in the sustainable portfolio at the date of issuance or in projects contracted at a later date. The reported values and allocations will be validated by external audit.

### *Impact report*

BDMG will also report annually overall aggregated impacts per use of proceeds category, presenting selected indicators and relevant cases in terms of the application of resources and positive impacts on the environment. The impact and outcome indicators to be reported will be selected over **Table3**.

The bank is committed to provide at least one impact indicator and one result indicator for each eligible category, in accordance with the best international practices. During the first year of the issuance, BDMG may integrate more examples of indicators.

Impact measure will be held a year later after implementation, considering as baseline the project or client performance before financed project implementation. BDMG will not directly carry out the measures. The Bank will ask for its clients to send information, which must be verifiable. The client is responsible to provide to the financial institution the requested information with the frequency established in the contract.

**Table 3 – Examples of financial, result and impact indicators for BDMG Sustainability Bonds**

Type	Indicator	Approach
<b>Indicators for total sustainable eligible portfolio</b>		
Financial	Number of beneficiaries (clients)	= Number of beneficiaries
	Loans' average ticket (BRL)	= Amount disbursed / Number of beneficiaries
	Disbursement per eligible project category (BRL)	= Amount disbursed per project category
	Amount of proceed not yet allocated (BRL)	= Amount not yet allocated
	Part dedicated to refinancing (%)	= Amount disbursed to refinancing/total amount disbursed
<b>Eligible Green Categories</b>		
<b>a) Sustainable agriculture and sustainable management of living natural resources</b>		
Result	Planted, cultivated or reforested forest area (ha)	= hectares of planted, cultivated or reforested vegetation
	Certified production area (ha)	= hectares of certified productive area (agriculture, livestock and forestry products)
	Low carbon agriculture or livestock area (ha)	= hectares with low carbon agriculture/livestock
Impact	Water use reduction (m <sup>3</sup> /year)	= m <sup>3</sup> (annual) of water use (productive process) after project / m <sup>3</sup> (annual) of water use (productive process) before project
	Input use reduction (tones/year)	= tones (annual) of input use (productive process) after project / tones (annual) of input use (productive process) before project
	Stocked GHG (tCO <sub>2</sub> eq)	= hectares of planted, cultivated or reforested vegetation * carbon storage potential of the area
<b>b) Renewable energy and energy efficiency</b>		
Result	Renewable energy installed capacity (MW)	= MW of renewable energy installed in the project
	Renewable energy annual generation (MWh/year)	= MWh of energy generated annually in the project
Impact	Annual GHG emissions' reduction – GHG avoided (tCO <sub>2</sub> eq)	= MWh of energy generated annually in the project * GHG average emission factor of the Brazilian energy matrix or other applicable methodologies (IPCC)
	Lower energy consumption total or per production unit after project implementation (kWh or kWh/unit)	= kWh consumption (annual) before project implementation – kWh consumption (annual) after project implementation
<b>c) Sustainable water and wastewater management</b>		
Result	Expanded water or sewage annual treatment capacity (m <sup>3</sup> /year)	= water or sewage annual treatment capacity of financed projects
	Urban solid waste collected or treated (tones)	= Annual urban solid waste collected or treated
Impact	Population with access to water and wastewater projects – sewage, solid waste or water supply (habitants)	= number of habitants served by the project
<b>d) Clean Transportation</b>		
Result	Avoided fossil fuel consumption (liters)	= Fossil fuel consumption (annual) before project implementation – fossil fuel consumption (annual) after project implementation
Impact	Pollutants/GHG emissions reduction	= annual volume of fuel consumption * average emission factor of fuel
<b>e) Pollution prevention and control</b>		
Result	Volume of industrial wastewater treated (m <sup>3</sup> /year)	= annual volume of industrial wastewater treated
	Waste collected or treated (tones)	= annual waste collected or treated
Impact	Avoided GHG emission with wastewater treatment (tCO <sub>2</sub> eq)	= annual volume of industrial wastewater treated * average emission factor of industrial wastewater

Eligible Social Categories		
<b>f) Access to essential services – Health</b>		
Result	Number of hospitals, clinics and other healthcare facilities built/upgraded	= number of hospitals
	Number of health patients served	= number of patients
Impact	Number of health patients served in the category / Number of health patients served in all health credit lines (%)	= number of patients in the category/ total number of patients in all BDMG credit lines
<b>g) Access to essential services – Education</b>		
Result	Number of schools and other education facilities built/upgraded	= number of schools
	Number of students enrolled in facility	= number of students
Impact	Number of students enrolled in the category/Total number of students financed by BDMG (%)	= Number of students in the category/ total number of students in all BDMG credit lines
<b>h) Socioeconomic empowerment – Gender inclusion</b>		
Result	Number of financed micro and small enterprises controlled by women	= number of enterprises
	Average credit ticket granted to micro and small enterprises controlled by women	= total credit in the category/number of enterprises
Impact	Number of micro and small enterprises controlled by women financed in the category/Total number of micro and small enterprises controlled by women financed by BDMG (%)	= number of micro and small enterprises in the category/ total number of micro and small enterprises
<b>i) Employment generation – Micro and small enterprises</b>		
Result	Number of financed micro and small enterprises	= number of enterprises
Impact	Estimated number of jobs supported	= estimated number of jobs supported after project implementation
<b>j) Affordable basic infrastructure – Inclusive and sustainable urbanization</b>		
Result	Number of attended municipalities with less than 100,000 habitants	= number of financed municipalities with up to 100,000 habitants
	Number of urban infrastructure facilities built/upgraded	= number of urban infrastructure facilities
Impact	Population assisted by the urban infrastructure (habitants)	= number of municipalities' habitants assisted by the infrastructure
	Number of attended municipalities with less than 100,000 habitants served in the category/ Total number of attended municipalities (%)	= number of municipalities served in the category/ Total number of attended municipalities
<b>k) Access to essential services – Economic recovery after disasters</b>		
Result	Number of financed companies located in municipalities that suffered natural and environmental disasters	= number of financed companies
Impact	Estimated number of jobs supported	= estimated number of jobs supported after project implementation
<b>l) Affordable basic infrastructure – Quality infrastructure</b>		
Result	Number of municipalities connected by the infrastructure	= Number of municipalities connected
	Number of infrastructure built/upgraded	= number of municipalities served in the category
Impact	Population assisted by the infrastructure (habitants)	= number of habitants assisted by the infrastructure



## Annex 1 – Eligible environmental and social certifications for agriculture and forestry products

### Agriculture:

- Starbucks Coffee and Farmers Equity (C.A.F.E Practices)<sup>10</sup>
- The Common Code for the Coffee Community (4C)<sup>11</sup>
- Fair Trade - Hired Labour<sup>12</sup>
- Fair Trade - Small Producer<sup>13</sup>
- Rainforest Alliance<sup>14</sup>
- UTZ<sup>15</sup>
- ProTerra<sup>16</sup>
- Naturland<sup>17</sup>
- Roundtable on Responsible Soy (RTRS)<sup>18</sup>
- Bonsucro<sup>19</sup>
- Roundtable on Sustainable Biomaterials (RSB)<sup>20</sup>
- Florverde Sustainable Flowers<sup>21</sup>
- International Sustainability Carbon Certification (ISCC EU)<sup>22</sup>
- International Sustainability Carbon Certification (ISCC Plus)<sup>23</sup>
- Regenerative Organic Certified<sup>24</sup>
- IBD Fair Trade<sup>25</sup>
- Demeter Biodynamic Standards<sup>26</sup>
- Union for Ethical Biotrade (UEBT)<sup>27</sup>

### Forestry products:

- Forest Stewardship Council (FSC)<sup>28</sup>
- Program for the Endorsement of Forest Certification (PEFC)<sup>29</sup>

<sup>10</sup> Available at: <<https://www.scsglobalservices.com/services/starbucks-cafe-practices/>>.

<sup>11</sup> Available at: <<http://douque.com/certification/the-common-code-for-the-coffee-community-4c-association/>>.

<sup>12</sup> Available at: <<http://www.fairtrade.net/hired-labour-standards.html>>.

<sup>13</sup> Available at: <<https://www.fairtrade.net/standards/our-standards/small-producer-standards.html>>.

<sup>14</sup> Available at: <<https://www.rainforest-alliance.org/business/solutions/certification/agriculture/>>.

<sup>15</sup> Available at: <<https://utz.org/>>.

<sup>16</sup> Available at: <<http://www.proterrafoundation.org/non-gmo/certification/>>.

<sup>17</sup> Available at: <<https://www.naturland.de/en/producers/steps-to-naturland-certification.html>>.

<sup>18</sup> Available at: <<http://www.responsiblesoy.org/>>.

<sup>19</sup> Available at: <<https://www.bonsucro.com/>>.

<sup>20</sup> Available at: <<https://rsb.org/>>.

<sup>21</sup> Available at: <<https://florverde.org/>>.

<sup>22</sup> Available at: <<https://www.iscc-system.org/certificates/all-certificates/>>.

<sup>23</sup> *Ibid.*

<sup>24</sup> Available at: <<https://regenorganic.org/>>.

<sup>25</sup> Available at: <<https://www.ibd.com.br/selo-ibd-fair-trade/?lang=en>>

<sup>26</sup> Available at: <<https://www.demeter.net/certification/standards>>

<sup>27</sup> Available at: <<https://www.ethicalbiotrade.org/>>

<sup>28</sup> Available at: <<https://ic.fsc.org/en>>.

<sup>29</sup> Available at: <<https://www.pefc.org/>>.





## Annex 2 – Legal Restrictions, Impediments and Non-financeable Items

### I. Legal Restrictions:

1. Legal restrictions that make it impossible to grant credit and provide guarantees to certain bidders, and BDMG cannot compromise on them. Only the changes in the respective legislation may create, extinguish, extend or reduce legal restrictions to credit concession.

2. According to the MNI - Operational Standards of Financial and Similar Institutions Manual, of the Central Bank of Brazil, BDMG is prohibited:

2.1. To finance allotment of land and construction of real estate for resale or incorporation, except for the deployment of industrial districts (article 15, VI of Res. CMN 394);

2.2. To grant loans or advances, directly or indirectly, in the cases of article 17 of Law No. 7492, dated 06/16/1986, such as (Res. CMN 1996, article 1, 2):

a) To companies or entities directly or indirectly controlled (Res 1996 art.1º I / III) by the state government, its municipalities, foundations, public companies and mixed-economy companies (CMN 1996, article 1, II);

b) Individuals who are members of the statutory bodies of any of the entities mentioned in the previous item, including the BDMG (Res. CMN 1996, article 2, I) and the company whose control is exercised by these persons, directly or indirectly (Res. , article 2, III);

c) To the spouse, ascendants or descendants, to relatives in the collateral line up to the second degree, consanguineous or related, of the persons mentioned in the previous item (Res. CMN 1996, article 2, II);

2.3. To carry out operations that do not comply with the principles of selectivity, guarantee, liquidity and risk diversification (CMN Resolution 1559, IX, a, CMN 2488, article 1, CMN 3258, article 1);

2.4. Grant credit or advance without the constitution of an adequate bond, representative of the debt (Res. CMN 1559, IX, b; Res. CMN 2488, article 1; Res. CMN 3258, article 1);

2.5. Apply or promote the placement abroad, by any means, of resources collected in the Country (Bacen Circular 24);

3. To grant loans, credit or financing for new investments to be made in fixed assets of companies whose majority of voting capital belongs to persons not resident in Brazil, except for: (Decree 2233 of 1997 and Law 4131 of 03.09.1962):

3.1. Public infrastructure services of the following segments:

a) Exploration of energy sources, generation, transmission and distribution;

- b) Any form of energy;
- c) Any form of telephony
- d) Ports and transport systems, including cargo and passengers
- e) Environmental sanitation

3.2. Industrial complexes of the following segments:

- a) Chemical-petrochemical, including the basic chemical industries, petrochemical, fine chemicals and fertilizers
- b) Mineral-metallurgical
- c) Automotive, including the automobile and auto parts industries
- d) Agroindustrial and forestry, ranging from input suppliers to processors and distributors of agricultural products, food, beverages and wood panels, paper and pulp;
- e) Capital goods, including equipment and components supplying industries
- f) Electronic, including the industries of electronic components, telecommunications equipment and automation, as well as the manufacture and distribution of consumer and computer electronics (Decree No. 5688, of 2006).

3.3. Tourism Complex (Included by Decree No. 5688, of 2006);

3.4. Leasing of capital goods (Included by Decree No. 5,768, of 2006);

3.5. On-lending arising from loans' funds, credit and financing obtained abroad, according to §2 of art. 35 of Decree 55.762 / 65.

4. In Public Sector Operations, BDMG is prohibited:

4.1. To grant credit to organs and entities of the public sector that are in default with financial institutions and other institutions authorized to operate by the Central Bank of Brazil; that present pending registration in the Registry System of Operations with the Public Sector - CADIP; that do not meet the legal limit of indebtedness established by the Federal Senate (Resolution CMN 2827 of 2001 and Resolutions 40 and 43 of 2001 of the Federal Senate);

4.2. To grant credit that imports in any transference, of any direct or indirect responsibility for the payment of the debt to entities of the public sector (Resolution CMN 2827 of 2001);

4.3. To grant credit to the controlling entity - State of Minas Gerais (Complementary Law 101 of 2000);

4.4. To grant credit to the other entities of the Federation, including its entities of the indirect administration, even if in the form of

novation, refinancing or postponement of previously contracted debt, that are allocated to (Complementary Law 101 of 2000):

- a) Financing of current expenses, directly or indirectly;
- b) Refinance debt non-contracted with other financial institutions

5. According to the Federal Constitution and the Constitution of the State of Minas Gerais, as a public company, BDMG is prohibited:

5.1. To enter into contracts with individuals holding mandates from State Deputies, Federal Deputies and Senators;

5.2. To enter into a financing agreement with legal entities that have Senators, Federal Representatives and State Representatives as owners, controllers or directors, when the source of funds is State Fund or other legal entity of the Public Law.

6. To grant credit to persons prevented from operating with the National Financial System, informed by the Central Bank through Sisbacen.

## II. Impediments:

7. There are circumstantial restrictions due to technical, market, ethical, behavioral, economic or financial factors, among others, that are relevant to decision making and do not recommend the granting of credit or the provision or acceptance of guarantees.

7.1. In the FAHMEMG operations, created by Law No. 17,949 / 2008, in which the BDMG acts as a representative of the State Fund, in relation to impediments, only those that have the regulation of the Fund will be observed.

8. The following are considered to be impediments to the granting of credit, leasing, and the provision of guarantee by BDMG:

8.1. Deferred debt, including those related to State assets managed by BDMG, pending liquidation or regularization with BDMG for more than 5 business days, with the responsibility being of the proponent of the credit, member of its Economic Group or the guarantors of the operation;

8.2. Judicial or extrajudicial recovery process or bankruptcy against the proponent of the credit, members of his economic group or guarantors of the operation;

8.3. Conviction for the crime of practice of bankruptcy or against the popular economy, or any other that legally prevents the exercise of economic activity, from credit bidders, from members of its economic group, or from guarantors of the operation;

8.4. Registration of the proponent, members of his economic group or guarantors of the operation in the list of employers who adopt slave and child labor, published by the Ministry of Labor and Employment;

8.5. Relevant registration details of the tenderer, members of his economic group or guarantors of the operation whose justification has not been accepted by the Department responsible for credit analysis;

8.6. Term of office of Senator, Federal Deputy and Minister of State:

- a) By the credit proposer,
- b) By a participant from the company proposing the credit or member of its economic group;
- c) By a participant of the guarantor companies of the operation;
- d) By individuals guaranteeing the operation

8.7. State Representative office term, position of Secretary of State, member of the Board of Directors and Executives of Public Companies, all by the State of Minas Gerais:

- a) By the credit proposer;
- b) By a participant from the company proposing the credit or member of its economic group;
- c) By a participant of the guarantor companies of the operation;
- d) By individuals guaranteeing the operation

8.8. Suspicion informed by BDMG to the BACEN of the practice of the money laundering crime by the proponent of the credit, by members of his economic group or by guarantors of the operation.

### III. Non-financeable items:

9. BDMG will not fund the following items or activities:

- 9.1. Activities foreseen as non-fundable by resource providers;
- 9.2. Mining activities incorporating rudimentary mining;
- 9.3. Broadcasting and television services companies as well as companies that are in the same economic group;
- 9.4. Newspaper and magazine publishing companies as well as companies that are in the same economic group;
- 9.5. Weapons trade;
- 9.6. Pastures and crops in environmental preservation areas;
- 9.7. Sawing, exploitation and commercialization of native wood;
- 9.8. Activities that contaminate the environment or are potentially formative of environmental liabilities that are irreparable incorrigible by mitigating technologies or practices;
- 9.9. Developments related to gambling games and activities alike.



