

Environmental and Social Strategy
SABESP (BR – L1158)

A. Project Description

1. The operation consists of an IDB A/B loan to *Companhia de Saneamento Básico do Estado de São Paulo S.A.* (SABESP, the “Company” or the “Borrower”) to finance part of its 2007-2010 capital expenditure program, which totals approximately US\$3 billion (R\$5.870 billion) and for refinancing.

B. Environmental and Social Compliance

2. Sabesp water and sewage operations are subject to stringent Brazilian federal, state, and local laws and regulations relating to pollution prevention and control. In particular, the construction and operation of water and sewage treatment facilities, as well as the release of effluents and final disposal of the sludge generated as a result of the water and sewage treatment process, must comply with environmental standards established by state and federal laws and decrees. Non-compliance with such laws and regulations can lead to the imposition of administrative and criminal penalties, in addition to civil liabilities that may arise as a result of environmental damages.
3. When Sabesp is involved in the construction and operation of water and sewage facilities that may have significant environmental and social impacts, the company must perform Environmental Impact Assessments (EIAs), which undergo several public consultation with potential affected communities and other stakeholders.
4. There are no indigenous lands in Sabesp direct or indirect area of influence, and no need to resettle people is expected as part of the project; therefore neither the Indigenous Peoples Policy or the Policy on Involuntary Resettlement are relevant for this Project.

C. Environmental and Social Impacts and Risks

5. The investments associated with this operation involve water and wastewater treatment, (including distribution, collection, and final disposal) and therefore it may be considered an environmental and socially beneficial project.
6. As this is a corporate loan to a water and sewage company, involving the support to the 2007-2010 capital expenditure program and the refinancing of existing debt, the main impacts and risks are associated with:
 - a. existing environmental and social liabilities (e.g., contaminated sites, wastewater treatment facilities with nearby opposing population, etc.); and
 - b. environmental and social impacts associated with any new infrastructure works to be built.

7. Experience from the Tietê I and II projects suggest the Company has the management capabilities to appropriately mitigate the potential environmental and social impacts. Furthermore, based on previous experience with similar projects in the sector, all the typical potential environmental and social impacts can be mitigated with readily available practices, and therefore the team recommends this Project to be categorized as a B operation per IDB's Environmental Safeguard and Compliance Policy (O.P. 703).

D. Environmental and Social Strategy for the Due Diligence

10. The Bank, as part of the due diligence process, will analyze the following environmental and social aspects of the Project and prepare an Environmental and Social Management Report (ESMR) for review and approval by the Bank's Environmental and Social Impact Review (ESR):
 - a. An assessment of project compliance status with the applicable country (national, state, municipal) environmental, social, and, health and safety regulatory requirements (e.g., laws, regulations, standards, permits, authorizations, applicable international treaties/conventions, etc.), and any applicable Bank environmental and social policy. Special emphasis will be placed on Sabesp environmental management system and its mechanisms to (i) assess and document compliance with all legal environmental, social, and health and safety country requirements, and (ii) document and manage any public or civil suit associated to existing liabilities;
 - b. An evaluation of the proposed Project to confirm that the Project's direct and indirect environmental and social impacts have been properly identified and evaluated. This will be done by assessing the adequacy of Sabesp corporate environmental management capability to appropriately assess, dimension, and manage environmental and social impacts of existing facilities and new constructions/works;
 - c. An evaluation to ensure completeness, sufficiency of detail, implementability, cost, definition of responsibility, schedule, and quality control of the corporate environmental, social and health and safety programs including mitigation and control measures, emergency and contingency plans, and supervision and monitoring procedures;
 - d. An evaluation of IDB's potential to add value to Sabesp via (i) the participation of SECCI and the possibilities associated with providing resources and/or expertise to improve SABESP energy-use environmental footprint (e.g. energy efficient technologies, carbon finance potential, etc), and (ii) leveraging Bank's partnerships with the private and public donor communities in order to facilitate the provision of water services to "favelas" and/or low income communities.
 - e. An evaluation of Sabesp's compliance with the Fundamental Principles and Rights at Work and with any other international labor organization conventions and treaties which have been ratified by Brazil;

- f. An evaluation of Sabesp's information disclosure and public consultation activities associate to new projects. This will include assurance of public consultation and disclosure of EIAs;
- g. An evaluation of environmental, social and health and safety terms and conditions in relevant Project legal documents (e.g., construction contract, operations and maintenance contract, etc.), in terms of sufficiency, potential risks or liabilities; and
- h. An evaluation of potential, existing and future environmental, social, or health and safety financial/credit risks and liabilities associated with the company.