

PROJECT ABSTRACT

Project number:	BR-L1014
Project name:	Construtora Norberto Odebrecht S. A (CNO) Secured Corporate Bond
Country:	Brazil
Bond Issuer:	Special Purpose Vehicle
Bond Issue:	US\$ 100 million equivalent in local currency or approximately R\$300 million at the prevailing exchange rate
Total Guarantee coverage:	Up to 25% of the bond issue, or approximately US\$25 million equivalent
Department:	Private Sector Department
Status:	Beginning of Due Diligence
Date:	March, 2004

I. PROJECT DESCRIPTION

- 1.1 The project consists in the provision of credit support via a Partial Credit Guarantee (PCG) for the issuance of a US\$100 million corporate bond in local currency by Construtora Norberto Odebrecht S.A. (CNO or “the Company”), a leading Brazilian construction company, to be placed in the domestic capital markets. The Bank’s PCG would enable the Company to secure local currency funding at tenors longer than it has obtained to date in the market. Proceeds of the bond issue will be used to support CNO’s 2004-2008 work contract needs.
- 1.2 The bonds will be issued through a Special Purpose Vehicle (SPV). Payments due under the bonds will be backstopped, among other structuring elements, by the flow of future revenues from a pool of construction projects of CNO in Brazil.

II. PROJECT HIGHLIGHTS

- 2.1 The Bank would provide a PCG for up to 25% of the bond issue. The Bank’s guarantee is intended to raise the rating of the bond from CNO’s current rating of brBBB+ by Standard & Poor’s (S&P) to a target level acceptable to the investors. In the event of debt service shortfalls, and after the structure’s credit enhancement has been exhausted, IDB’s PCG will cover payments to bondholders.
- 2.2 At present Brazilian corporations have limited access to long term local currency funding: private local banks lack funds with appropriate maturity and tenors achieved in the capital markets for most corporate issues are between 2-3 years. Bank’s participation in the proposed transaction will offer a private market-based alternative to secure local currency financing at longer tenors (5 years or longer).

By participating in this transaction, the Bank would contribute to the development of local capital markets by: (i) increasing the tenor of the bonds; (ii) attracting institutional investors; (iii) increasing the volume of private sector bonds; and (iv) creating an additional financial instrument for portfolio risk diversification.

III. ENVIRONMENTAL AND SOCIAL STRATEGY¹

A. Project Status and Compliance

- 3.1 CNO reports that its operations are in compliance with all applicable legal and regulatory Environmental, Social, Health and Safety (H&S) and labor requirements, including permits and authorizations applicable to its engineering and construction contracts globally.
- 3.2 In 2002 the IFC arranged a US\$280 million loan to improve CNO's financial structure. In its evaluation IFC concluded that CNO met the applicable World Bank/IFC environmental and social policies and the environmental and health and safety guidelines, and successfully implemented the agreed mitigation measures. IFC evaluates CNOs' compliance on a yearly basis.
- 3.3 The Bank will require the Sponsor to present an Environmental Analysis (EA) of the Project, outlining (i) environmental, social, labor, and H&S liabilities, risks and impacts associated with the use of the bond proceeds and (ii) information on the Corporate environmental, social, labor, and H&S liabilities, risks, impacts and management practices. Since, as noted above, the bond proceeds are to be used mainly on working capital (e.g. equipment, heavy machinery), in the latter section the EA will include information associated with the environmental, social, labor, and H&S impacts, risks, liabilities and management practices for selected high-profile projects currently under construction, as to illustrate CNO's ESHS management capabilities. In compliance with IDB Operation Policy O.P-102 on Disclosure of Information this EA will be made available to the public locally and in Washington DC before the ESDD visit takes place.

B. Environmental, Social, Labor, and H&S issues and mitigating measures

- 3.4 The potential key negative environmental, social, labor, and H&S impacts and risks associated with this operation are those related to or caused by the specific infrastructure projects constructed by CNO. These impacts can be diverse and

¹ This Environmental and Social Strategy (ESS) is being made available to the public in accordance with the Bank's Policy on Disclosure of Information. The ESS has been prepared based primarily upon information provided by the project sponsors and does not represent either the Bank's approval of the project or verification of the ESS's completeness or accuracy. The Bank, as part of its due-diligence on the feasibility of the project, will assess the environmental and social aspects. This assessment will be presented in the project Environmental and Social Management Report, prepared by the Bank, and will be made available to the public prior to consideration of the project by the Bank's Board of Executive Directors.

their significance will depend on the project characteristics (e.g. sector, type, location, etc.).

- 3.5 CNO has an Integrated H&S and Environmental Program which is fully compatible with ISO 14.0001 and B.S. 8800. The Integrated Program (IP) Manual is the main corporate document reflecting CNO's system for managing environmental and H&S aspects of its operations, and includes (i) EHS Policy, (ii) General Requirements, (iii) Organization and Responsibilities, (iv) Training, (v) Communication, (vi) Measurements and Monitoring, (vii) Inspection and Corrective Actions, (viii) Documentation and (ix) Auditing Program, among other aspects. Additionally, specific corporate procedures complementing the IP Manual include, (x) EHS Management Plan, (xi) EHS Risk and Impact Evaluation Procedure, (xii) Emergency Planning and Preparedness, and (xiii) Internal Auditing Procedures.
- 3.6 The Integrated EHS Program of CNO holds ISO 14000 certification of compliance issued by Bureau Veritas Quality International for the areas of petrochemical plants and thermoelectric power plants, being the only Brazilian engineering construction company to hold such certification. Additionally, in order to keep these certifications, EHS audits are conducted twice a year in all contracts where it is applicable.
- 3.7 Some CNO construction and engineering projects may be located near protected areas or involve population resettlement (e.g. hydropower projects or highways), but typically the responsibility over such issues are of the clients for which CNO is building the project. Nevertheless, CNO acknowledges its responsibilities with environmental, social, and cultural impacts and risks associated with the projects in which it participates. Therefore in addition to the IP Manual, CNO has developed three socio-environmental guidelines: (i) Involuntary Resettlement, (ii) Cultural Properties, and (iii) Indigenous Populations, which are compatible with World Bank guidelines.
- 3.8 The Bank will work with the Company on the implementation of the appropriate systems and procedures to (i) assess, manage, and document environmental, social, labor, and H&S liabilities, impacts, and risk associate to CNO projects, and (ii) disclose and consult these project related liabilities, impacts, and risk with relevant stakeholders and affected populations when applicable.

C. Strategy for the Environmental and Social Due Diligence

- 3.9 The Bank, as part of the due diligence process, will analyze the environmental, social, labor, and H&S management capability of CNO and establish environmental, social, labor, and H&S requirements in the Guarantee Proposal for review and approval by the Bank's Committee on Environment and Social Impact (CESI). The environmental and social due-diligence will specifically:

At the Corporate Level:

- i. Assess CNO's 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.).
- ii. Assess completeness, sufficiency of detail, field implementation, cost, definition of responsibility, schedule, and quality control of CNO's Environmental and Social Management System (*i.e.* EHS Integrated Program), included but not limited to (i) consistency with ISO 14000, (ii) mitigation and control measures, (iii) monitoring plans, and (iv) staffing and budget.
- iii. An evaluation to ensure adequate H&S plans and procedures, including their technical adequacy, given the potential project-specific H&S risks, adequate level of training to be performed, and sufficient resources to be made available to ensure adequate implementation.
- iv. An evaluation to confirm adequate contingency plans (*i.e.* emergency response program or spill prevention plans), including confirmation that all relevant project-specific environmental risks have been identified, proper procedures have been developed, and sufficient resources will be made available to ensure adequate implementation;
- v. An evaluation of CNO'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;
- vi. An evaluation of potential, existing, and future environmental, social, H&S, and labor financial/credit risks and liabilities associated with CNO, with a special emphasis on determining the existence of any past or present environmental, social, labor or H&S legal action against CNO.
- vii. An assessment of CNO's environmental, social, and labor practices, including the procedure to evaluate contractors. This procedure should include as a minimum a system to assure contractors' compliance with: (i) environmental, social, health and safety, and labor local laws and any ratified international treaty; and (ii) IDB Environmental Requirements.

1. For selected high-profile projects:

- viii. Assess 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 project-specific legal requirements (*e.g.* concession contract, etc.), and any applicable Bank environmental and social policy and guidelines.

- ix. An evaluation of the projects to confirm that their direct and indirect environmental and social impacts have been properly identified, evaluated, and managed.
- x. An assessment of the adequacy, sufficiency and completeness of the field application and implementation of the EH&S Integrated System, including but not limited to Environmental and Social Management Plan, H&S Plan, Contingency and Spill Prevention and Counter-Control Plans, and any Resettlement Plan, if applicable.
- xi. An evaluation of information disclosure and public consultation activities associated with the selected high-profile projects, and of any proposed future actions to provide adequate ongoing information disclosure and public consultation with the affected local population;
- xii. An evaluation, and further development as necessary, of project monitoring and supervision procedures to ensure proper implementation of environmental, social, and health and safety actions and requirements; and
- xiii. An evaluation of environmental, social and health and safety terms and conditions in relevant project legal documents (*e.g.* concession contract, construction contract, operations and maintenance contract, etc.), in terms of sufficiency, potential risks or liabilities. An evaluation of environmental, social and health and safety terms and conditions in relevant project legal documents (*e.g.* concession contract, construction contract, operations and maintenance contract, etc.), in terms of sufficiency, potential risks or liabilities.