

PRODUCT 1

CFA-SITAWI TECHNICAL ASSISTANCE WORK PLAN

I. CONTEXT FOR TECHNICAL ASSISTANCE WORK

Climate risk management is a key factor in the financial sustainability of the Brazilian National Bank for Economic and Social Development (BNDES, the Bank) and the overall economic growth of Brazil. Identifying, analyzing, and proposing actions for the mitigation of climate risks can help protect public and private investments, as well as ensure the continued operation of the services provided by those investments.

The German Agency for International Cooperation (GIZ) with financial support by the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) aims to support Brazil's efforts for Climate Change Adaptation. In this context a cooperation with the Brazilian Ministry of Economy and the Brazilian Ministry of Environment was established in order to mainstream climate risk analyses into investment decisions and public spending. This effort aims to contribute to the reduction of economic, social, and ecological losses associated with climate change in Brazil.

As part of this effort, a joint action plan between GIZ, the above-mentioned ministries of the Federative Republic of Brazil, and BNDES was developed. Climate Finance Advisors and SITAWI (the "Project Team") were contracted to provide the Bank with training for and capabilities to integrate climate risk analysis and methodologies for adaptation into its project financing process. The project involves four main activities under the Scope of Work:

- Developing a Framework for integrating climate change risk considerations into BNDES' project financing cycle;
- Preparing a Methodological Guide for implementing the Framework;
- Training Bank staff on the implementation of the Framework and Methodological Guide; and
- Coaching BNDES staff in a pilot test of the Framework and Methodological Guide.

The Project Team presents the following detailed workplan for the mainstreaming of climate change considerations into BNDES' financing.

II. WORK PLAN TO SUPPORT IMPLEMENTATION OF BNDES' MAINSTREAMING OF CLIMATE RISK CONSIDERATIONS INTO ITS PROCESSES

The work plan to support the implementation of BNDES' mainstreaming of climate risk considerations into its processes includes four [4] distinct Activities, elaborated as follows:

*Activity 1: Framework for including climate change risk into the processes of BNDES, including the Bank's project cycle (**March – May 2019**).*

This activity is comprised of three distinct [3] Phases, as follows:

Phase #1: Review of BNDES internal documents required during the development, approval, and supervision of projects; an analysis of other processes for managing climate risk; and assessment of tools to identify and quantify climate risk in Bank operations (March 2019)

The Project Team will review of BNDES internal documents required during the development, approval, and supervision of projects and undertake an analysis of the project cycle and other processes that may be relevant for managing climate risk. The Project Team will review internal BNDES documents related to the origination, evaluation, approval, and supervision of infrastructure projects financed by the Bank to understand the flow of project analysis from pipeline to portfolio. The current risk (including climate risk) management systems and tools used by BNDES will be a particular focus of analysis with the aim of identifying their efficacy for addressing climate risk in the overall processes of the Bank. Furthermore there will be exchange of ideas with the national consultant, Alexandre Gross, with regard to the analyses of the regulatory framework and possible entry points for climate risk analysis under which BNDES is operating.

In addition, the Project Team will review other methods for climate risk management for project finance, taking advantage also of the results of the IPACCII project for benchmarking with multilateral, regional, and national banks. This will include a comparison between different frameworks identified in the benchmarking process.

Timeline Activities under Phase 1: The Project Team will undertake the following activities during this Phase:

- **March 2019:** Document request from BNDES - March 2019
- **March/April 2019:** Analysis and assessment through desk review and interviews of existing BNDES processes and procedures relevant for understanding and integrating climate risk into BNDES project cycle.
- **March/May 2019:** Assess existing tools or approaches that can be useful to identify and quantify climate risk in Bank operations.

Phase #2: Interviews with BNDES staff and other relevant stakeholders (March-April 2019)

As part of collecting information for the development of the Framework, the Project Team will meet with BNDES staff to conduct individual and/or group interviews with relevant committees and groups. These interviews and meetings are intended to gain a better understanding of the Bank's project cycle, the main sectors of focus, and the types of infrastructure projects financed (i.e. the investments management, governments and structure management, origination and credit management, and strategy management teams) and the institutional culture relevant for the framework approach. This phase will include identifying possible ways to incorporate the consideration of climate risks throughout the overall project cycle and describe potential challenges or barriers to the incorporation of such considerations into BNDES' processes. The Project Team will also maintain a register of meetings held and outline key findings from these meetings.

Timeline Activities under Phase 2: The Project Team will undertake the following activities during this Phase:

- **March/April 2019:** In person or virtual interviews to gain additional insights beyond desk research, and validate findings

Phase 3: Preparation of a Framework Proposal for the management of climate risk in BNDES financed projects (April - May 2019)

The Framework Proposal will outline the entire project financing cycle of the Bank and provide proposed options and recommendations for including climate risk considerations at each stage of the cycle based on the information from phases 1 and 2. This will be presented to BNDES, members of the Management Committee of the project, and other relevant stakeholders for review and input.

The Framework Proposal will also include an analysis of other climate risk management approaches reviewed, an overview of the input of the relevant stakeholders, and an evaluation of tools and other data sources for the identification and quantification of climate change risks and adaptation measures.

Timeline Activities under Phase 3: The Project Team will undertake the following activities during this Phase:

- April/May 2019: Preparation of draft Framework document, including results of analysis of climate risk management approaches and tools relevant for the Bank's project cycle.

Activity 1 Deliverables: Framework for the management of climate risk in BNDES' financing processes and project cycle; analysis of other frameworks, tools, and sources of information evaluated; questionnaire and consolidated answers from interviews, register of meetings held; proposed options and recommendations for including climate risk considerations at each stage of the cycle; powerpoint presentation on the Framework.

Activity 2: Preparation of a Methodological Guide detailing the process of implementation of the Framework at each stage of the process of financing infrastructure projects (March-May 2019)

This Activity complements the work undertaken in Activity 1, and as a result has one main phase of work. Based on the input of the relevant stakeholders and results of the pilot project for implementing the Framework, the Project Team will build a Methodological Guide to assist BNDES internal teams in the implementation and use of the Framework. The development of the Methodological Guide will include conducting individual and group interviews with analysts of BNDES to understand and detail their roles in incorporating climate change considerations in the project cycle. These interviews, as well as meetings with the Management Committee of the Project will be used to inform the design and construction of the Methodological Guide.

Building on Activity 1, including interviews with key BNDES staff, the Project Team will develop a Methodological Guide Proposal which will feature an analysis of similar manuals or methodological guides for the integration of climate change risk frameworks into project cycles and financing processes of other institutions. The Methodological Guide Proposal will also include information on translating climate risk analyses from project evaluations into recommendations for adaptation measures.

The Project Team will record feedback on the proposed methodological guide from BNDES staff, the Management Committee of the project, and other relevant stakeholders.

Timeline Activities under Activity 2: The Project Team will undertake the following activities during this Activity:

- **March – May 2019:** Preparation of draft Methodological Guide, incorporating relevant information from the Framework document, results of analysis of climate risk management approaches and tools relevant for the Bank’s project cycle.

Activity 2 deliverables: Methodological Guide for implementing the Framework in BNDES’ financial processes; analysis of other methodological guides or manual evaluated; questionnaire and consolidated results of interviews; register of meetings held; powerpoint presentation on BNDES’ Proposed Methodological Guide.

Activity 3: Training of BNDES’ project teams, representatives of the IPACCII, and the management committee of ProAdapta on understanding the framework and applying the methodological guide (April-August 2019)

To design the necessary training, the Project Team will identify the needs of the various parties for: (i) understanding the concepts associated with climate risk management; and (ii) understanding the Framework and the proper use of the Methodological Guide. Based on these needs the Project Team will prepare a training script as well as didactic material (e.g. case studies) for use during the training program(s).

In person training will be conducted to ensure a comprehensive understanding of the Framework and Methodological Guide for each participant to understand the integration of climate risk analysis in BNDES’ processes and the role of each relevant department. This training will encompass the social, economic, and climatic data inputs for proper climate risk analyses throughout the project cycle. The Project Team will also keep records of the learning challenges encountered during the in-person training.

Timeline Activities under Activity 3: The Project Team will undertake the following activities during this Activity:

- **Late-April – June 2019:** Develop content and case-study based curriculum and training script for application of the Methodological Guide and Framework for integrating climate risk considerations into the BNDES project cycle.
- **May – August 2019:** Undertake training of key stakeholders, including BNDES staff, the IPACCII, the Proadaptive Management Committee, and other relevant stakeholders as requested.
- **June-August 2019:** Document and track key learning challenges, results and lessons learned from ongoing training exercises.

Activity 3 deliverables: Training script for the understanding of the Framework and application of the Methodological Guide; report containing the key learning challenges, results, and lessons learned from the training exercises

Activity 4: Direct coaching during the application of the Framework and the Methodological Guide (May-August 2019)

Efforts under this Activity complement and augment Activity 3 and enable greater capacity building within BNDES and other stakeholders. Using a test case from BNDES' portfolio, the Project Team will evaluate the Framework Proposal's application¹, receive feedback, and propose modifications and adjustments to enhance the Framework and the Methodological Guide for final, consolidated versions.

The Project team will implement a coaching program to guide the proper application of the methodological instruments developed for assessing climate risk in BNDES' infrastructure project financing. Coaching will also include clarifying questions that arise during the application of the Framework and Methodological Guide. The Project Team will also outline the main coaching needs, challenges, inquiries, and answers from Activity 4.

Based on the coaching, the results of the applications of the Framework and the Methodological Guide, and feedback from all relevant parties, the Project Team will prepare the final, consolidated versions of the Framework and the Methodological Guide.

Timeline Activities under Activity 4: The Project Team will undertake the following activities during this Activity:

- **Mid-May – August 2019:** Develop coaching program to guide the application of methodology for assessing climate risk in BNDES' infrastructure project financing.
- **June-August 2019:** Document and track results from coaching exercises, including key learning challenges, results and lessons learned from ongoing coaching and training exercises. Integrate such learning into the final Framework and Methodological Guide for climate risk assessment in BNDES' project cycle.

Activity 4 deliverables: Prepare and deliver a report outlining the process and results of the coaching for the simulated application of the Framework and Methodological Guide, as well as the Final consolidated Framework of the assessment of climate risk in infrastructure investment projects, and the Final Methodological Guide.

¹ Application to be carried out by the BNDES team.

