

ESG and
Infrastructure delivery:
Belo Horizonte Rodoanel Project
Biannual Conference of the Section of Energy,
Environment, Natural Resources and Infrastructure Law

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WITH SPECIFIC ESG PROVISIONS – WHAT
DOES IT MEAN?**

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CONTEXT

*ESG and Infrastructure Delivery:
Brazilian Experience*

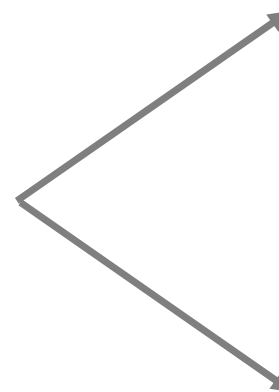


Context

Infrastructure in Brazil has recently developed mainly through public-private partnerships (PPPs)



Brazil is one of the largest PPP markets in the world



Continental size

~8million km²



Budgetary constraints

3 levels of government



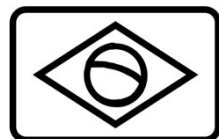
Under PPPs, **private partner** is usually responsible for building/expanding, operating and maintaining the infrastructure, meaning it will render public services directly to USERS, on behalf of the competent government authority

Context

PPPs are long-term contracts



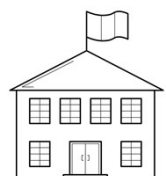
PPPs: long term contracts between **public entity** and private partner



Federal: Ports, railways, airports, energy, roads (if in more than one state).



State: Roads (if within a state)



Municipal: Water and sewage, urban mobility

Context

ESG in PPP Infrastructure Projects

Limited ESG applicability in Infrastructure PPP Projects through:



Environmental Licensing

ESG standards incorporated through licensing requirements (environmental laws)



Loans

ESG standards as lender requirements for the loan

Context

How is ESG broader scenario in Brazil?



Environmental: One of the **most advanced environmental frameworks** in the world

Governance: Significantly improved after *Lava Jato* corruption scandal (especially re. corporate governance and anti-corruption policies)



Social: Lagging behind / Difficulties in setting up mechanisms to mitigate negative impacts of infrastructure projects to surrounding communities

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CASE STUDY

*Belo Horizonte Rodoanel
Toll Road Project
Minas Gerais State, Brazil*

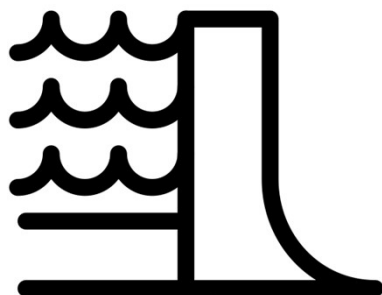


Belo Horizonte Rodoanel

What's new?



Scope of project: Outer ring toll road creating an expressway around the metropolitan region of Belo Horizonte, in Minas Gerais State, to be entirely built, maintained and operated for 30 years by the private concessionaire. Grantor is the Minas Gerais State.



What's new?

- ✓ **First PPP Contract with specific ESG obligations to be undertaken by future Concessionaire:** PPP Contract draft attached to RFP includes a chapter providing for specific ESG obligations

Belo Horizonte Rodoanel

How did ESG provisions come into the game?



Part of funding for Rodoanel comes from the Brumadinho Settlement Agreement:

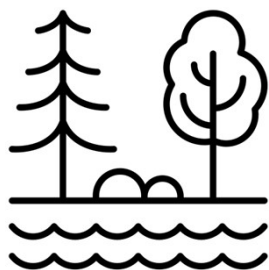
- ✓ After the dam collapse in 2019, Vale executed a settlement agreement with the Minas Gerais State to compensate for the damages caused;
- ✓ Agreement established that part of the funds would be used to build the Rodoanel Project.

Communities' activism:

- ✓ During the public consultation phase preceding the tender, communities surrounding the toll road route challenged the Project;
- ✓ Their activism forced State Government to modify some aspects of the project and include ESG provisions.

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Examples of ESG Obligations – Environmental



Carbon Emissions

Concessionaire must:

- ✓ Calculate and report, on a yearly basis, project's carbon emissions
- ✓ Submit for approval and execute a plan to compensate those emissions every 5 years throughout PPP Contract period



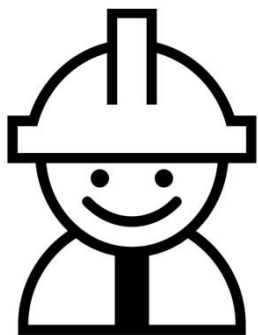
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Examples of ESG Obligations – Social



Human Rights

Concessionaire must implement a program to map and mitigate risks of breaching human rights, especially contemplating the communities affected by the PPP project



Labor Health and Safety

Concessionaire must implement a system to manage labor health and safety during project construction and operation

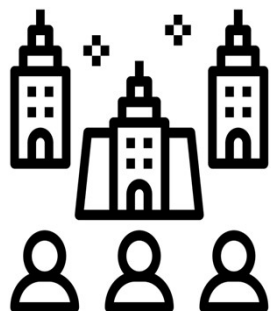
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Examples of ESG Obligations – Governance



Anti-corruption

Concessionaire must implement anti-corruption and compliance programs

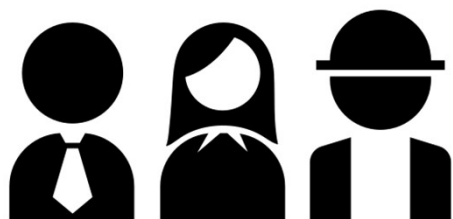


Related Parties

Concessionaire has to prepare, publish and implement policies for transactions with related parties

Belo Horizonte Rodoanel

*Examples of ESG Obligations –
Mitigating Brumadinho's consequences*



Employment for Brumadinho victims' family members and inhabitants

Concessionaire must prioritize hiring Brumadinho dam collapse victims' family members or inhabitants for the construction and operation of the project



Project partially financed by Vale compensation

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CONCLUSION

*First PPP Contract with
specific ESG obligations:
What does it mean?*



Conclusion

First PPP Contract with specific ESG obligations: What does it mean?



- ✓ State of Minas Gerais is taking one step further in the ESG agenda by including ESG obligations in the Belo Horizonte Rodoanel PPP Contract;
- ✓ Some obligations are too broad and lack metrics, which puts their effectiveness at risk;
- ✓ This could be solved by selecting proposals during tender phase also based on their ESG plans or creating contractual incentives for implementation of ESG plans (higher ESG accomplishments triggering higher financial contributions by Grantor, for example)
- ✓ Although the Belo Horizonte Rodoanel project includes ESG obligations due to a major environmental and social disaster, its innovations could mean a long-lasting change in the way infrastructure projects are delivered



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