

# CSR and lending in Brazil

Rabobank's position in the food and agribusiness sector also involves a major corporate responsibility arising from our global operations. Within our Food & Agri Research Department, we are accumulating knowledge about all relevant aspects of CSR. This gives us a broader perspective on the trends in the various sectors. Whether it concerns the cultivation of sugar cane, soy, palm oil, coffee or cotton; time and time again, CSR aspects play a major role.

With our full spectrum of knowledge about chains and sectors, we are able to give Rabobank staff and clients better insight into the relevant developments in the chain, enabling them to anticipate these developments. This high-grade knowledge, including the CSR component, plays a role at various levels within Rabobank. It gives us an improved grasp of changes in demand and the opportunities and threats in each sector and country. Furthermore, our knowledge directly influences our lending operations. Rabobank seeks to have CSR aspects play a more specific role in its lending services. A CSR assessment tool was developed in order to support the lending operations. This instrument helps Rabobank staff make a reliable analysis. This section sets out the case study of the

development of the specific CSR instrument for the lending operations of Rabobank Brazil. It shows that the development of an appropriate CSR policy takes major effort.

## **Brazil: state of affairs**

The legal framework of social and environmental regulations underpinning government policy pursued is complex in Brazil. Enforcement is limited in general. This results in a low level of compliance by the business community. The experience of several multinational companies shows that in Brazil attention focuses on the social aspects of CSR and on showing social involvement. The topics receiving most attention are employment conditions, income distribution, safety and health in the workplace, and support for the

local economy. Environmental issues are important for large companies, but are mistakenly assigned to production processes instead of production chains.

The situation in Brazil is as follows:



#### **Corporate governance**

Accountability pursuant to complex legislation relating to forests (Reserva Legal/APP), codes of conduct, transparency (annual reports), corruption and illegality.

#### **HRM policy (including human rights)**

Child labour, forced labour, slave labour, poor working conditions, seasonal work and migration, moonlighting, housing, transport, accidents, working environment.

#### **Social commitment (including product and food safety)**

Relations with local populations, approach to Indian reservations, areas occupied by landless workers, cultivation of genetically modified soy.

#### **The environment**

Deforestation, the use of pesticides, erosion, pre-harvest burning of sugarcane fields, environmental impact of sugar production, soy and cotton cultivation (residues, water and energy consumption), industrial emissions.

#### *André Freitas*

(responsible for the development and execution of the CSR policy of Banco Rabobank International Brazil):

"We have developed a CSR tool for the assessment of existing issues. During a six-month period, the companies of 64 clients were assessed with this tool. Credit analysts reviewed the results and any indications of serious problems were scrutinised. If certain clients do not improve their performance within two or three years, Rabobank will end its relationship with them. We believe that this will strengthen the bank's position in the long term, even if we lose several clients or contracts."

#### *Roberto Smeraldi*

(Friends of the Earth):

"We focus mainly on economic and political stakeholders. The law is being ignored on a large scale throughout Brazil, even regarding agricultural activities in the Amazon region. Government and the private sector should take a more consistent approach to both policy and practice. The financial sector plays a crucial role in this respect. The policy pursued by Rabobank in Brazil is a good start, but embodies a dilemma, i.e. if the law is taken seriously, no business can be done or further growth realised; if the law is not taken seriously, the financial risks and the potential liability both increase."



The environment as a theme takes a central role, but it is generally viewed from the CSR perspective of combating poverty. In an international context, attention to environmental aspects in Brazil is regarded as an important issue. This can be attributed to the ecological value of the Amazon region. Finding the right balance between economic development and the harmful effects on the Amazon region is in itself already a complex issue: the surface area of the primary forests in the Amazon region is larger than the 25 EU Member States combined. How much of this can be sacrificed to economic development? The 20% the Brazilian government is willing to sacrifice?

### Corporate clients with specific characteristics

In Brazil, we face an entirely country-specific take on CSR. In addition, we have to realise that we, as Rabobank, do business with clients of a highly specific nature. Many of them are large and professional agricultural companies. Depending on their type and size, these com-

### Exclusion criteria and qualification criteria

In the policy, a distinction is made between exclusion criteria and qualification criteria. When assessing companies, twelve exclusion criteria apply (including breach of integrity, breach of freedom of trade unions, the existence of child labour, forced labour and/or discrimination, trading in protected species and illegal logging). If one of these criteria is met, we will not enter into a relationship with the company concerned. Qualification Criteria include compliance with the legislation covering reservations and protected areas, responsible storage, use and waste treatment of chemicals, fuels and lubricants.

These criteria have been applied so far, albeit implicitly. By formalising the assessment procedure and by supporting the assessment itself with software, information and training, CSR issues will be approached more and more in a structured and systematic manner. Rabobank's knowledge and experience in the field of CSR

topic is deforestation. The assessment shows that our clients do not yet fully comply with the Reserva Legal regulation, which requires companies to maintain part of their land as forest. In addition, the required percentage of forest is often not achieved on agricultural land that was once rainforest or savannah woodland.

Our approach in Brazil was successful in 2005. The assessment shows that the instrument works and provides the required information for a proper analysis of a client's business operations. Rabobank Brazil expects to be able to evaluate all its clients on their CSR performance in 2006. A comparable assessment procedure will be implemented for our lending operations worldwide in 2006.

***Rabobank seeks to have CSR aspects play a more specific role in its lending services. A CSR assessment tool was developed in order to support the lending operations. This instrument helps Rabobank staff make a reliable analyses.***

panies often consist of farms situated widely apart, with their own permanent or seasonal housing facilities for employees. In addition, offices, production plants, buses, harvest processing installations, childcare and training facilities, etc. are spread over the region.

Both the Brazilian CSR perspective and our clients demand customized lending products. Rabobank Brazil has laid down its CSR objectives in the Social and Environmental Policy of Rabobank Brazil. This Policy has been agreed with various NGOs in Brazil and the Netherlands and came into effect in 2006.

allows it to serve clients adequately and support them in finding appropriate solutions to CSR problems.

In 2005, Rabobank developed an instrument to assess the CSR performance of its Brazilian clients. At year-end 2005, we assessed one-third of the total number of clients eligible for financing. We visited companies and in meetings with clients, we discussed the opportunities for improving their CSR performance.

At all the clients concerned, areas of improvement relative to CSR were identified. We did not find any unacceptable situations. An important