

## Environmental and Social Review Summary (“ESRS”) Finexpar MSME Financing Partnership / 13925-01 – Paraguay

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- 1. Scope of Environmental and Social Review:** The environmental and social (“E&S”) review of the proposed transaction consisted of the review of the documentation related to the Environmental and Social Management System (“ESMS”) of FINEXPAR, and information on the loan portfolio of the Micro, Small and Medium Enterprises (“MSME”) segment that will be financed by IDB Invest. Also, conversations were held with risk management team and members of senior management. FINEXPAR is a new client for IDB Invest, however, it maintains financing lines with other Development Finance Institutions that have promoted the strengthening of its ESMS.
- 2. Environmental and Social Categorization and Rationale:** The proposed transaction is classified as FI-2 under the IIC’s Environmental and Social Sustainability Policy, as the financing will exclusively support the MSME segment, whose subprojects have a moderate E&S risk. FINEXPAR will not finance category A (high risk) subprojects as defined by IDB Invest, nor those that involve activities that are on IDB Invest’s exclusion list.

FINEXPAR defines MSME as: (i) Micro: are those companies with annual sales of less than US\$100,000; (ii) Small Enterprises: are those companies with annual sales between US\$100,000 - US\$3 million; and (iii) Medium Enterprises: are those companies with annual sales between US\$3 million - US\$15 million. The average loans in this portfolio are in the range of US\$100,000 - US\$200,000 and have an average tenor of 24 months. The five sectors with the highest representation in the MSME portfolio are: agricultural crops (17%), wholesale trade (15%), retail trade (9%), personal services (9%) and animal husbandry (8%).

- 3. Environmental and Social Risks and Impacts:** The main E&S risks of this transaction relate to FINEXPAR’s ability to identify and manage the risks associated with its financing activities, primarily in the agricultural and animal husbandry sectors. The vast majority of subprojects in these two sectors are located in the Eastern Region of Paraguay.

E&S risks and impacts could include: changes in land use, greenhouse gas emissions, stress/pollution of water resources, waste generation, labor rights, among others. Considering that the sub loans will focus on the MSME segment, these risks are considered to be moderate.

- 4. Mitigation Measures:** FINEXPAR has an ESMS that applies to its entire portfolio, which is adequate for the risk level of the subprojects to be financed and meets the requirements of IDB Invest’s sustainability policy. The ESMS integrates several procedures, guides and forms, such as an E&S risk categorization procedure, a process flow for E&S risk assessment, among others. It also incorporates local E&S laws and regulations and an exclusion list. FINEXPAR has an E&S risk analyst, who collaborates with six other credit analysts and personnel from other operating areas, to carry out E&S evaluations and follow up on the implementation of the ESMS.

FINEXPAR has a Human Resources Policy and a code of ethics that applies to all officers, directors, contractors and suppliers.

FINEXPAR must ensure that the current ESMS is applied to the entire MSME loan portfolio, complying with the provisions of the E&S Sustainability policy and IDB Invest exclusion list, and applicable local laws on E&S matters. In addition, FINEXPAR must strengthen risk assessment in the agricultural and livestock sector, through the application of the three sectoral guides developed by the Sustainable Finance Roundtable of Paraguay.

**5. Environmental and Social Action Plan:**

Activity	Description	Compliance Indicator	Term
Incorporate in the ESMS the application of the three sectoral guides (Livestock, Agriculture and Agroindustry)	Incorporate in the ESMS the requirements defined in the sectoral guides (Livestock, Agriculture and Agroindustry) developed by the Sustainable Finance Roundtable of Paraguay, which include, among others, the application of satellite monitoring to detect deforestation.	ESMS Updated	6 months after the first disbursement

**Contact Information:** For project inquiries, including environmental and social questions related to an IDB Invest transaction please contact the client (see **Investment Summary** tab), or IDB Invest using the email [requestinformation@idbinvest.org](mailto:requestinformation@idbinvest.org). As a last resort, affected communities have access to the IDB Invest Independent Consultation and Investigation Mechanism by writing to [mecanismo@iadb.org](mailto:mecanismo@iadb.org) or [MICI@iadb.org](mailto:MICI@iadb.org), or calling +1(202) 623-3952.