

Environmental and Social Review Summary (“ESRS”) COOPAC Abaco / 11545-03 – Peru

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1. Environmental and Social Review Summary

An environmental and social review of the proposed transaction was performed through a desk review of general information and the client's green portfolio, as well as telephone calls with the team responsible for institutional projects, green portfolios, social performance, and human resources at Abaco. IDB Invest reviewed Abaco's internal organizational aspects for environmental and social issues, its sustainability framework, the studies conducted on Abaco's lending potential to the energy efficiency and renewable energy sector, and its environmental, social, and human resources action plans and policies, in order to assess its internal capacity to manage the environmental and social risks of the projects to be financed with IDB Invest. The transaction proceeds of US\$25 million will be used to support the growth of the micro and small business portfolio and will also include blended financing from the Canadian Climate Fund for the Private Sector in the Americas to grow the green portfolio.

2. Environmental and Social Categorization and Rationale

The proposed transaction has been classified as an FI-3 operation under the IDB Invest Sustainability Policy. The sub-projects and transactions to be financed will have a low-risk potential, with the average loan in the small business segment being US\$13,511.96. Abaco's current loan portfolio to small and micro businesses represents 31% of its disbursements by value and 89% by transaction volume for the period 2018–2020. Abaco's main products during this period were: Abaco business (37.4%), commercial class (21.4%) and portfolio purchases (19.5%). The main business sectors in its portfolio are real estate (36%), personal services (11%), business support services (11%), land transportation (10%), head offices (8%), retail (7%), grain farming (6%), forestry (6%) and building construction (5%).

Abaco seeks to encourage participation in green loans and has identified the following initiatives as potential focus areas: energy efficiency; renewable energies such as bio-digesters, solar thermal and photo-voltaic panels, and hydropower; waste management; forestry management; sustainable transportation; water management, and green business certification. The sub-borrowers for solar initiatives have no direct relationship with the companies producing the panels. One of Abaco's objectives in terms of SMEs is to work in sectors activated and reactivated by the COVID-19 pandemic in Peru.

3. Environmental and Social Risks and Impacts

The main environmental and social risks associated with the proposed transaction relate to the ability of the financial institution to identify and manage the environmental and social risks associated with its lending business. The potential risks associated with its main lending activities include the appropriate use of water, energy, and material resources, emissions generation, waste generation, and failure to comply with legal requirements.

Abaco has been working with the IDB since 2008 through an Institutional Strengthening Project and with other financial institutions such as the Development Bank of Latin America (CAF) and the Japan International Cooperation Agency (JICA). Its strategic business lines are currently focused on social inclusion, business development, and personal and family development. Abaco has been a member of the Global Alliance for Banking Value since 2019 and participates in conventions every year. It is one of the two Cooperatives in Peru that participates as a bank with values.

4. Mitigation Measures

Abaco's financing contracts include an exhibit that defines environmental and social obligations and money laundering and terrorism financing prevention. These obligations include fulfilling employee's fundamental principles and labor rights.

Abaco's Institutional Projects' department manages Abaco's social performance, its green portfolio, and the educational program for its clients. In November 2020, a specialized consulting firm analyzed the portion of Abaco's transaction portfolio that can be considered "green credit" under the Global Climate Partnership Fund's criteria (GCPF), as well as the associated potential of the Peruvian market. Action plans were prepared accordingly, which included staff training and the planned design and implementation of an Environmental Policy.

In the social area, an action plan has been prepared to organize clients' social data, whose proposals include creating a social performance committee, implementing a social performance training program, preparing reports and tools involving senior management, and designing social objectives and indicators to be incorporated into Abaco's strategic plan.

In terms of human management, Abaco has labor policies and employee benefits that supplement those required by law, such as a succession policy, training policy, staff credit policies, flexible hours, professional development, mobility, etc. Employees are required to comply with a Code of Conduct that was updated in September 2019, and Abaco has conflict resolution mechanisms based on its internal labor regulations. Finally, a working climate survey was conducted in 2019, as a result of which new activities and changes to human resources management were implemented.

Abaco should confirm that all sub-projects financed through IDB Invest funding comply with the IDB Invest Exclusion List and all national environmental and social regulations, and that staff assigned to environmental and social risk management take the IDB Invest online training course in Environmental and Social Risk Management. Abaco will report on the use of these funds every year, including solar panel financing.

5. Environmental and Social Action Plan (ESAP) N/A

6. 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. As a last resort, affected communities have access to the IDB Invest Independent Consultation and Investigation Mechanism by writing to mecanismo@iadb.org or MICI@iadb.org, or calling +1(202) 623-3952.