

Environmental and Social Review Summary (“ESRS”)

Promerica ES - Bond / 11861-03 – El Salvador

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- 1. Scope of the Environmental and Social Review:** An environmental and social (E&S) assessment of the proposed transaction was conducted during July and September 2021 through a document review and interviews with the E&S and Sustainability leadership. The documents reviewed covered E&S risk assessment and human resource management policies and procedures. Banco Promerica in El Salvador (ES) is an IDB Invest client with a Trade Finance Facility Program (TFFP) since 2011. IDB Invest has a long-standing relationship with the Promerica group in several countries.
- 2. Environmental and Social Categorization and Rationale:** The proposed issue is classified as IF-2, according to IDB Invest's Environmental and Social Sustainability Policy. The potential E&S risks of the of the sub-projects supported under the bond issuance are moderate. The underlying loans will be entirely focused on small and medium-sized enterprises (SMEs). The average value of Promerica ES's sub-loans to SMEs is US\$183,000, with an average term of six years. Category A sub-projects will be excluded, as defined by IDB Invest. The proposed bond issuance will require all applicable regulatory approvals before being formalized.
- 3. Environmental and Social Risks and Impacts:** The main E&S risks of the proposed bond issuance are related to Promerica ES's ability to identify and manage the E&S risks associated with its lending activities. The risks associated with its main lending activities include respect for labor rights and pollution prevention and mitigation.

The SME portfolio at Promerica ES mainly consists of loans to manufacture (24%), trade (24%), services (21%), construction and infrastructure (10%), transportation and warehousing (6%), public administration (6%), restaurants and hotels (4%), and agricultural production (3%) sectors. The SME portfolio at Promerica ES represents approximately 15% of its total portfolio. Promerica ES has an exclusion list and an Environmental and Social Risk Management Policy Manual (ESMS) with detailed forms by sector. The E&S risk rating and the extent of the E&S due diligence (DD) is determined by both the intrinsic E&S risk and Promerica ES's risk exposure compared to its equity.

Promerica ES has three DD levels: basic, medium, and extended. Basic DD is performed on transactions valued at less than 0.25% of equity and with a low or medium intrinsic E&S risk, in which case, in accordance with the ESMS, no E&S assessment is required. Nevertheless, Promerica ES is to be required to evaluate compliance with legal regulations and the exclusion list. Medium and extended DD require completing an E&S risk rating form, a detailed questionnaire, and an analysis by sector. Loans with high E&S risks also require a field visit.

4. Mitigation Measures: Promerica must confirm that all SME loans included under the bond issuance comply with the IDB Invest exclusion list, local E&S legislation, and local aspects of the bank's ESMS policy manual. If solar energy projects are included in the issue and there is a direct relationship to the panel supplier, Promerica ES will conduct a forced labor risk assessment of the solar panel supply chain. Promerica will apply the IFC Performance Standards to high-risk sub-loans or when project costs exceed US\$5 million, and the term exceeds 36 months. The eligibility criteria for the proposed bond will establish the conditions for sub-loans to be considered sustainable. These criteria are aligned with ICMA principles.

5. Environmental and Social Action Plan (ESAP):

Item	Task	Activity	Deliverable	Compliance date
1	Strengthen the ESMS to include SME loans.	Expand the ESMS policy to: (i) include an evaluation of SME sub-loans focused on local law and national E&S requirements; (ii) include the new IDB Invest exclusion list; (iii) apply the IFC Performance Standards when project costs exceed US\$5 million, and the term exceeds 36 months; (iv) align ESMS at Promerica ES to the latest version of Corporate ESMS policy;	Strengthened ESMS.	Six months after issuance.
2	Evaluation of the first three medium or high E&S risk SME transactions.	Promerica ES will send the first three transactions classified as medium or high E&S risk for review and comment by IBD Invest, in order to: (i) confirm the E&S classification; and (ii) evaluate the proposed action plan	Pilot project due diligence reports.	When evaluating each of the three transactions.
3	Capacity building and training	The Bank will train all staff within the Financial and Credit Analysis Department on how to implement the ESMS policy, apply the IDB Invest exclusion list and apply local regulations and the Performance Standards, where applicable. Ensure that all new staff involved in risk assessment or ESMS policy implementation receive training.	Training certificate for staff responsible for implementing the ESMS, and upon hiring new staff	Six months after issuance. Every time risk management staff are hired.

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