

**Environmental and Social Strategy (ESS)**  
**Banco Regional SME Financing Partnership**  
**(PR-L1076)**

**I. Overview**

- 1.1 The proposed project consists of a financing facility (the “Facility”) for Banco Regional S.A.E.C.A (“Regional”) to support the growth of its small and medium enterprises (“SMEs”) portfolio. It is envisioned that the Facility will be partially earmarked to support green and gender initiatives. To that end, this project is also being designed within the framework of a joint initiative between the IDB’s Structured and Corporate Finance Department (SCF) and the Multilateral Investment Fund (MIF).
- 1.2 The Facility would be for a total amount of US\$ 25 million, comprised of a US\$ 20 million senior A loan to be provided by the IDB for up to 5 years with up to two years grace period. Subject to market demand, the IDB will try to syndicate a senior B loan of approximately US\$ 5 million on a best effort basis.

**II. Environmental and Social Impacts and Risks**

- 2.1 Based upon the nature of this operation to support SMEs with a focus on green and gender initiatives, there may be minimal to moderate direct environmental, social or health and safety (ESHS) and labor risks and impacts. To that end a specific environmental due diligence is required. The potential key ESHS and labor risks and impacts associated with this operation are those related to the specific projects financed by Regional with the proposed financing and could include (i) Regional’s environmental credit risks; (ii) specific ESHS and labor risks and impacts related to investments in certain sectors; and (iii) IDB reputation risks associated with the impact of other Regional operations and/or financing.
- 2.2 *Environmental credit risks:* Environmental credit risks refer to potential negative effects on Regional’s ability to repay the IDB because of: (i) risk of an eventual non-repayment of loan due to environmental and social issues (e.g. law suits, fines, etc) associated with its loans; and (ii) risks associated with Regional’s facilities and operations, such as environmental liabilities in their offices due to asbestos, lead paint, etc. or employees having occupational health and safety problems due to working conditions (e.g. inadequate emergency preparedness, lack of fire exits, etc).
- 2.3 *Direct impacts associated with loans to SMEs:* The Facility may generate minimal to moderate negative social and environmental impacts associated with loans to SMEs. The type and extent of impacts will vary depending on the amount of loans to be extended and on the type of activities to be financed. There may be specific environmental, social, health and safety (ESHS) and labor impacts and risks related to SME investment in certain sectors, for example, related to investment in energy, forestry, waste management, water and wastewater treatment and industrial technology sectors. The assessment of social and environmental impacts for each loan will be the responsibility of Regional, and managed through the use of an existing Environmental and Social Management System, an assessment of which will be undertaken during due diligence.

- 2.4 *Reputational risks associated with the impact of other operations:* Reputational risks are associated with Regional's involvement in projects, companies or activities considered unacceptable to the IDB and/or that will face significant public opposition or concerns, such as (i) inappropriate development location; (ii) Regional's finance application and analysis process that is not equitable, fair, and unbiased in terms of social factors (e.g. gender, age, ethnicity, or cultural heritage, etc.); and (iii) significantly deficient labor practices.
- 2.5 These risks may be minimal to moderate and will be assessed during due diligence.

### **III. Status and Compliance**

- 3.1. Given that this is a financial intermediary and based on Directive B.13 of the Environment and Safeguards Compliance Policy (OP-703), this transaction is not categorized.

### **IV. Strategy for Environmental and Social Due Diligence**

- 4.1 As per the IDB Environment and Safeguards Compliance Policy and Guidelines, and as part of its due diligence process, the Bank will assess Regional's capacity for environmental and social risk management. During this process the Bank will establish whether appropriate procedures are in place to assess and manage the potential environmental risks and impacts associated with sub-loans. The IDB will ensure that appropriate and feasible ESHS and labor requirements, including capacity building, in the form of their existing Environmental and Social Management System (ESMS), tailored to the particular needs of the Facility, are included in the legal agreements.
- 4.2 The environmental and social due diligence required for this facility will comprise of the following steps:
- a. An identification of any environmental and occupational safety liabilities in Regional's facilities and operations and, if required, an assessment of the adequacy of action plans to properly resolve them.
  - b. An assessment of Regional's compliance status with the applicable country environmental, social, health and safety, and labor regulatory requirements as well as with any relevant conventions and treaties which have been ratified by Paraguay;
  - c. An assessment of Regional's procedures to ensure that its loan, finance application and analysis process is equitable, fair, and unbiased in terms of social factors (e.g. age, gender, cultural heritage, etc).
  - d. An assessment of Regional's actual and pipeline portfolio, to establish potential reputational risks associated with Regional's involvement in projects, companies or activities considered unacceptable to the IDB; and specific ESHS and labor impacts and risks related to investment in certain sectors, likely to be financed under the Facility.
  - e. An evaluation of the current credit appraisal, approval and monitoring procedures in place to manage environmental and social liabilities, impacts and risks associated with Regional's portfolio as well as an assessment of Regional's capacity in terms of environmental and social risk management.

- 4.3 The results of the due diligence will be presented in an Environmental and Social Management Report and summarized in the Loan Proposal to establish the environmental, social, health and safety, and labor requirements for the Facility. Any requirements will be proposed in the context of their existing ESMS.