

Environmental and Social Review Summary (“ESRS”)

Banco Agricola Subordinated Debt to Strengthen Women-led SMEs and Green Financing in El Salvador / 13958-01 – El Salvador

Original language of the document: Spanish
Issuance date: April 2022

- 1. Scope of Environmental and Social Review:** The environmental and social (E&S) assessment of the proposed transaction consisted in a review of Banco Agricola’s E&S Management System (ESMS) as well as its SME loan and green loan portfolio. In addition, discussions were held with the Bank’s officials and Management. The Bank is an existing client of IDB Invest’s and holds financing lines with other development financial institutions.
- 2. Environmental and Social Categorization, and Rationale:** The proposed transaction was classified as FI-2 as per the Environmental and Social Sustainability Policy of IDB Invest since the financing will provide support to the SME and green portfolios, with subprojects entailing a moderate E&S risk. Within the SME portfolio, a portion of the financing will be earmarked for women-led SMEs.

In the terms of Banco Agricola, an SME is a company with annual sales ranging from US\$25,000 to US\$5,000,000. The underlying loans in this portfolio have an average amount of US\$40,000 and an average tenor of 9 years. The four sectors mostly represented in the SME portfolio are: Retail (46%), Services (31%), Manufacturing (10%), and Logistics, Storage and Transportation (8%).

The green portfolio is mainly concentrated in the corporate segment and breaks down into five categories: (i) renewable energies; (ii) water efficiency; (iii) energy efficiency; (iv) sustainable construction; and (v) e-mobility. Most of the loans in the existing green portfolio relate to solar energy projects with an average amount of US\$5,000,000 and 12 years tenor. The solar energy subprojects have an average installed capacity of about 7MW. All the subprojects in the green portfolio will meet IDB Invest’s eligibility criteria for green financing.

Banco Agricola will not finance either Category A (high risk) subprojects as defined by IDB Invest or those involving activities included in IDB Invest’s Exclusion List.

- 3. Environmental and Social Risks and Impacts:** The E&S risks of this transaction relate to Banco Agricola’s ability to assess and manage any risks associated to its investments, especially loans for renewable energy subprojects. Such risks may include the following environmental issues: occupational health and safety (OHS), waste generation, emission of polluting gases, change in soil use, handling of hazardous materials, community health and safety, and labor rights, among others. The E&S impacts and risks related to the subprojects are moderate.
- 4. Mitigation Measures:** Banco Agricola has a robust ESMS in place that includes an exclusion list, an E&S risk categorization procedure, an E&S risk assessment process, and guidelines to design E&S action plans. The ESMS includes the International Finance Corporation’s (IFC) Performance Standards (PSs) as well as the local E&S laws and regulations. The Bank has an E&S Risk Analyst

who is in charge of the E&S assessments and of monitoring the implementation of subproject action plans with the support of personnel from other operational areas. For high E&S risk, the ESMS considers hiring external consultants to perform assessment and monitoring tasks. Banco Agricola has HR policies and a grievance mechanism in place available for its employees. External communications are received through Banco Agricola’s web site (<https://www.bancoagricola.com/desarrollo-sostenible>) and are recorded in a database so that they may be resolved duly based on their type.

Banco Agricola shall assure that all subloans in the green and SME portfolios observe IDB Invest’s Exclusion List, the local applicable laws, the existing ESMS and the IFC’s PSs (when applicable under the ESMS). The Bank will need to strengthen the E&S risk assessment in the supply chain for solar energy subprojects. In order to disseminate IDB Invest’s requirements better, the personnel in charge of managing and monitoring the ESMS should attend IDB Invest’s E&S Risk Management training for financial intermediaries.

5. E&S Action Plan (ESAP):

Activity	Description	Compliance Indicator	Delivery Date
Strengthening of the E&S risk assessment in the supply chain for solar energy subprojects	Prepare and implement a procedure to assess E&S risks in the solar panel supply chain in solar energy subprojects.	Procedure to assess the E&S risks in the solar panel supply chain	Three months after the disbursement
Review of the first three solar energy subproject transactions	Send the E&S due diligence reports of the first three green portfolio financing transactions in order to verify: (i) the E&S categorization; and (ii) the proposed action plan.	Due diligence reports and updated action plans	When each sub-loan is generated

6. **Contact Information** For questions on the projects, including E&S issues related to IDB Invest’s transactions, please contact the client (see **Investment Summary** tab) or IDB Invest by e-mail: 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.