

Environmental and Social Review Summary (“ESRS”)

Sustainable Financing with Banco de Machala / 14919-01

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- 1. Scope of Environmental and Social Review.** The environmental and social (“E&S”) review of the proposed transaction was carried out through desk research, a portfolio review, and due diligence calls with Banco de Machala S.A. (“Banco de Machala”). Banco de Machala is an existing client for IDB Invest.
- 2. Environmental and Social Categorization and Rationale.** The proposed operation is classified as an FI-2 per IDB Invest’s Sustainability Policy since the associated E&S risks are considered moderate. The proposed operation seeks to support Banco de Machala’s green, blue and food production portfolios, including SMEs and corporates that meet IDB Invest’s eligibility criteria, e.g. projects that promote water conservation and sustainable aquaculture production. 63% of Banco de Machala’s total portfolio is focused on the productive segment, whose main productive sector is agriculture, livestock farming, forestry, and fishing (represents 28% of total credit portfolio). The average size of the sub loans to be supported is US\$1 million with an average tenor of five years.

Category A sub-projects, per IDB Invest’s definition, are excluded and not considered in the context of this asset class, as well as those sub-projects involving activities included in IDB Invest’s Exclusion List. The project is considered Paris Agreement aligned based on an analysis conducted in accordance with the IDB Group Paris Alignment Implementation Approach.

- 3. Environmental and Social Risks and Impacts.** The main E&S risks of this transaction are associated with the Banco de Machala’s capacity to identify and manage any risks associated with their loans, mainly focused on the productive segment, including banana and shrimp production. Such risks may include the following environmental and social issues: workers’ health and safety, physical climate risks, water management, waste generation, biodiversity impacts, among others. The E&S impacts and risks associated with the sub loans are considered moderate.
- 4. Mitigation Measures.** Banco de Machala has an Environmental and Social Management System (ESMS) that was updated in September 2023 and is in the pilot implementation phase. Banco de Machala recently received technical assistance (AT) from another DFI to review and improve such ESMS. Banco de Machala’s ESMS includes a policy, an exclusion list, an E&S risk categorization matrix, an E&S risk assessment, and procedures to manage and mitigate the E&S risks. The updated ESMS categorization is based on three factors: E&S risk exposure limits, E&S risk category, and credit risk rating (A1, A2 or A3). These three factors determine three tiers of due diligence: simplified, medium and amplified.

Moreover, the updated version of the ESMS applies local E&S laws and regulations, the International Finance Corporation (“IFC”) Performance Standards (“PS”) for triggered transactions, as well as the ASOBANCA sectoral guides for agribusiness.

Banco de Machala’s E&S risk assessment and monitoring procedures for collateral mortgages also include the implementation of a Geospatial Information System (GIS), which allows the georeference of the collaterals. In addition, Banco de Machala is developing “Project ARIT”: a digital transformation project that aims to optimize appraisal and technical inspection processes by capturing data more efficiently and assessing climate risks in real time. Project ARIT includes the acquisition and implementation of a software that digitalizes the climate risk assessment of collateral and assets. The software will allow the assessment of physical climate risks that affect the collateral, including coastal and river flooding, water stress, forest fires, drought, among others. Project ARIT’s development is expected to be completed by Q4 2024, and once it is implemented, it will be integrated into Banco de Machala’s ESMS.

Banco de Machala has HR policies, policies and procedures for managing salaries and fees to address gender wage gaps, and a grievance mechanism in place available for its employees. In March 2023, Banco de Machala joined the Partnership for Carbon Accounting Financials (PCAF) and has committed to decarbonize its portfolio by 2050.

Banco de Machala shall assure that all supported sub loans comply with IDB Invest’s Exclusion List, the local applicable E&S laws, the existing ESMS and the IFC PSs (when applicable). In order to better disseminate IDB Invest’s requirements, the personnel in charge of managing and monitoring the ESMS should attend IDB Invest’s E&S Risk Management training for financial intermediaries.

5. Environmental and Social Action Plan.

Activity	Description	Compliance Indicator	Delivery Date
ESMS updated approved by the Board	Send the final version of the ESMS approved by Banco de Machala’s Board.	ESMS approved by the Board	1 month after disbursement
Sectoral guides implementation	Provide evidence of the application of ASOBANCA’s sectoral guides in three transactions with high-risk clients in Banco de Machala’s dominant high-risk sectors (e.g. banana, shrimp, etc.)	Due diligence reports	When each transaction is generated
Review of the first three transactions triggering the Performance Standards	Provide the E&S due diligence reports of the first three operations with corporates that trigger IFC PS for IDB Invest’s review and feedback, to verify: (i) the E&S categorization;	Due diligence reports	When each transaction is generated

	and (ii) the proposed action plan.		
Climate Risk Management	<p>Prepare and incorporate procedures to identify and manage physical climate risks, based on the implementation of Project ARIT. These procedures will be fully integrated into the ESMS.</p> <p>Demonstrate evidence of application in two transactions.</p>	<p>Consolidated procedures into the ESMS</p> <p>Due diligence reports and mitigation measures</p>	<p>12 months after disbursement</p> <p>When each transaction is generated</p>

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.