

## Environmental and Social Review Summary (“ESRS”)

### Sudameris: Senior Loan in Guaraníes and A/B Loan to Support Financing for SMEs and the Sustainable Forestry Sector in Paraguay / 15381-01

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- 1. Scope of Environmental and Social Review.** The Environmental and Social assessment (“E&S”) of the proposed transaction consisted of a review of documentation, including the sustainability policy and current E&S procedures, and coordination meetings with the team of Banco Sudameris S.A.E.C.A. (“Sudameris” or the “Bank”). Sudameris is a current IDB Invest client with satisfactory performance and a proven track record in E&S management. Its policies in this area are aligned with the requirements of the IIC Sustainability Policy.
- 2. Environmental and Social Categorization and Rationale.** The subprojects to be financed present a medium risk, as they focus partly on Small and Medium-Sized Enterprises (“SMEs”) and partly on Paraguay's forestry sector. Therefore, in accordance with the IIC's Environmental and Social Sustainability Policy, the operation has been classified as FI-2.

Following an analysis conducted in accordance with the IDB Group's Implementation Approach for Alignment with the Paris Agreement, this operation is considered to be aligned with the agreement.

- 3. Environmental and Social Risks and Impacts.** The main E&S risks of this project are related to the financial institution's ability to identify and manage the environmental and social risks inherent in its lending activities.

Sudameris' portfolio focuses on the agro-industrial sector, manufacturing, and retail. Sudameris seeks to expand its forestry project portfolio, which includes pulp and paper production, as well as financing for SMEs that supply the Paracel pulp mill. The average term and amount of the SME sub loans are five years and US\$500,000, respectively, while the forestry sub loans are seven years and US\$2,000,000.

Potential E&S risks for the SME portfolio, and particularly for the forestry sector, include land-use change, habitat conversion, and impacts on biodiversity due to plantation establishment; pollution prevention, including the use of hazardous chemicals such as pesticides; climate change; and occupational health and safety. A limited number of sub-loans are expected to be classified as higher risk, for which environmental and social standards such as the International Finance Corporation (“IFC”) Performance Standards (“PS”) will be applied, in accordance with the scopes defined in Sudameris' Environmental and Social Management System (“ESMS”).

- 4. Mitigation Measures.** Sudameris is a founding member of Paraguay's Sustainable Finance Roundtable, created in 2012. It has an E&S management system to identify and manage the E&S risks of its portfolio, which includes a sustainability policy and a comprehensive exclusion list, both publicly available. Its system includes the use of satellite monitoring to detect deforestation, sector-specific best practice guides, and, since 2020, the application of the IFC's Environmental and Social Protection Principles to higher-risk operations. Sudameris has an external communication mechanism to address inquiries or complaints from any stakeholder regarding the environmental and social risks and impacts of its operations. With the support of a European development finance institution, the Bank is conducting a consulting project to develop and implement climate risk identification and management practices. The team regularly develops specific action plans to ensure loan beneficiaries' compliance with local legislation and international standards, and includes at least annual visits to high-risk projects. It is composed of five E&S experts: Among them is a deputy manager and four analysts. The area reports directly to the Integrated Risk Division Management. Overall, Sudameris' capacity in environmental and social risk management is considered high.

Sudameris must ensure that all loans financed comply with IDB Invest's exclusion list, applicable local E&S legislation, and IDB Invest's E&S guidelines. For higher-risk subprojects, or when the loan amount and term exceed US\$5 million and 36 months, respectively, the Bank will apply IFC PS. Sudameris must also develop and implement a climate risk management procedure and will be prohibited from engaging in any deforestation activities, even legal ones, with IDB Invest funds. It must also implement a monitoring system to detect illegal deforestation in its portfolio of productive projects. To ensure compliance with international standards in the forestry sector, Sudameris will require loan recipients to obtain Forest Stewardship Council ("FSC") certification. In addition, it will submit the first two sub loans exceeding US\$1 million to IDB Invest for review.

#### 5. Environmental and Social Action Plan ("ESAP"):

No.	Activity	Deliverable	Compliance Date
<b>PS 1: Assessment and Management of Environmental and Social Risks and Impacts</b>			
<b>E&amp;S Assessment and Management System</b>			
1	Apply IFC Environmental and Social Sustainability Standards to operations exceeding three years in duration and US\$5 million in loan value, and submit E&S Due Diligence ("ESDD") for the first three funded sub-loans to which these standards apply, in order to verify: (i) the E&S classification (excluding Category A); (ii) the assessment report and the application of IFC standards; and (iii) the proposed action plan.	ESDD reports and action plans of first three applicable sub-loans and prior to the Bank's Investment Committee review	When each sub-loan is generated
<b>Climate change exposure</b>			
2	Develop and implement procedures, including the assignment of roles and responsibilities, to identify and manage climate-related risks and integrate them into the ESMS.	Climate Risk Management Procedure	6 months after first disbursement
3	Provide training to relevant employees on the climate risk management procedure.	Training records	12 months after first disbursement
<b>Zero deforestation</b>			
4	Sudameris will be prohibited from financing any deforestation activity, even legal ones, with funds provided by IDB Invest, and will be required to conduct ongoing monitoring to detect any illegal deforestation activity among its productive sector clients.	Annual reporting	From first disbursement
<b>Forestry asset class</b>			
5	Sudameris will require its forestry sector borrowers, who are beneficiaries of IDB Invest funds, to obtain international FSC certification.	Annual reporting	From first disbursement
6	IDB Invest will review the first two sub loans in the forestry sector valued at more than US\$1 million.	The ESDD and action plans for the first two sub-loans must be submitted before the Bank's Investment Committee reviews them	When each sub-loan is generated

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