

Environmental and Social Strategy (ESS)

NSG Interregional Europe - Latin America and the Caribbean Small and Medium Enterprise Financing Facility

I. Overview

- 1.1 The Inter-American Development Bank (IDB) will partner with the European Investment Bank (EIB) to create a facility that will support companies seeking overseas expansion. The IDB will provide a facility of up to US\$150 million in financing to European Union (EU) Small and Medium Enterprises (SMEs) with new investments in Latin America and the Caribbean (LAC) following the Non Sovereign Guarantee (NSG) lending policy. In parallel, the IDB will provide a facility of up to US\$350 million following the Sovereign Guarantee (SG) lending policy to finance EU SMEs with new investments in LAC. Also in parallel, the EIB will provide up to US\$500 million in financing to LAC SMEs with foreign direct new investments (FDIN) projects in EU and support capital investments of EU SMEs with import and export activities in LAC.
- 1.2 This facility is ultimately designed to increase productivity and job creation in LAC, by reducing the financial gap in FDIN from the European Union to LAC, particularly for SME. The focus of the proposed project will be on European based SMEs.

II. Status and Compliance

- 2.1 Based on Directive B.13 of the Environment and Safeguards Compliance Policy (OP-703), this facility is classified as a Flexible Lending Instrument and as such this operation is not categorized according to its potential environmental and social impacts and risks.

III. Environmental and Social Impacts and Risks

- 3.1 The facility will provide finance to FIs for SME projects that have not been identified at this time and thus, the potential environmental and social, health and safety (ESHS) and labor risks and impacts cannot be assessed ex-ante. These impacts will be diverse and their significance will depend on the project characteristics, such as size, sector, and location. To that end the environmental and social due diligence at the level of the facility will focus on understanding the mechanisms of the facility and potential investments likely to be made under it, in order to develop an environmental and social procedure. Subsequently specific environmental and social due diligence will be required at the level of the individual FIs applying directly for funding under the facility.
- 3.2 The potential key ESHS and labor risks and impacts associated with this facility are those related to the portfolios and lending practices and processes of participating Financial Institutions in the facility. These could include

(i) environmental credit risks; (ii) specific ESHS and labor risks and impacts related to SME investment in certain sectors; and (iii) IDB Reputation Risks associated with the activities of participating FI operations.

- 3.3 Based upon the differing nature of the SME portfolios of the FIs to be funded under this facility there may be a range of direct and indirect environmental, social or health and safety (ESHS) and labor risks and impacts. In most cases these risks and impacts are expected to be minimal to moderate. Examples of potential impacts include habitat conversion and degradation resulting from participating FIs investments in SMEs in the construction, agriculture, transport, energy sectors; aquatic biodiversity loss (fisheries, agriculture sectors); solvent emissions and waste (print shops, tanneries); occupational health and safety (industry, construction, agriculture sectors); poor land use (construction, agriculture sectors); noise and air pollution (industry, construction sectors), increased greenhouse gas emissions (industry, energy sectors). However, in certain cases the ESHS and labor risks and impacts may range from moderate to significant (for example FIs with portfolios particularly focused on agriculture and livestock SME investments, particularly in sensitive areas such as the Atlantic Forest or the Amazon Biome, or those financing tourism developments in coastal areas, or with portfolios focused on energy projects, such as hydropower, where there could be impacts on natural or critical natural habitats and on indigenous peoples. The nature of ESHS and labor risks and impacts will be assessed during the due diligence of each participating Financial Institution applying for financing under the facility.

IV. Strategy for Environmental and Social Due Diligence

- 4.1 As part of the environmental and social due diligence ESDD process, the Bank will (a) analyze the facility's general requirements for participating FIs, and establish an appropriate environmental and social, health and safety and labor Procedure; (b) establish a preliminary identification of any particularly sensitive impacts or risks that may be posed by participating FIs expected to apply to the facility (if known).
- 4.2 It is expected that the environmental and social management aspects of the facility will center on ensuring that the eligibility criteria for each participating FI under the facility include (i) compliance with IDB's environmental and social policies (ii) compliance with the Fundamental Principles and Rights at Work and with any other relevant international labor organization conventions and treaties which have been ratified in the country of operation; and (iii) application of an acceptable environmental and social management system (ESMS) commensurate with the anticipated impacts and risks associated with the SME portfolio to be financed with the use of proceeds under the facility.

- 4.3 The results of the due diligence will be presented in an Environmental and Social Management Report (ESMR) and summarized in the facility's loan proposal.
- 4.4 The specific ESHS and labor aspects of participating FIs' SME portfolios, as well as their lending practices and procedures (including environmental and social risk management) will be individually assessed at the time each FI applies for financing under the facility. At the time of application, ESG will carry out an ESDD for each FI. Prior to each QRR a summary of the ESHS and labor impacts and risks, and the recommended specific environmental and social risk management measures to be undertaken will be presented in individual ESMRs for each participating FI. The ESHS and labor conditions and the arrangements for monitoring and reporting will be documented in the corresponding loan agreement.

SAFEGUARD POLICY FILTER REPORT

PROJECT DETAILS	
IDB Sector	[Not Set]
Type of Operation	Financial Intermediation/Global Credit
Additional Operation Details	
Investment Checklist	Generic Checklist
Team Leader	[Not Set]
Project Title	Toolkit: NSG Interregional European LAC SME facility
Project Number	[Temporary Project]
Safeguard Screening Assessor(s)	Da Cunha, Maria (MARIADC@iadb.org)
Assessment Date	2014-01-19

SAFEGUARD POLICY FILTER RESULTS		
Type of Operation	[Not Set]	
Safeguard Policy Items Identified (Yes)	The Bank will make available to the public the relevant Project documents.	(B.01) Access to Information Policy– OP-102
	The operation is in compliance with environmental, specific women's rights, gender, and indigenous laws and regulations of the country where the operation is being implemented (including national obligations established under ratified Multilateral Environmental Agreements).	(B.02)
	The Bank will monitor the executing agency/borrower's compliance with all safeguard requirements stipulated in the loan agreement and project operating or credit regulations.	(B.07)
	Operation for which ex-ante impact classification may not be feasible. These loans are: Policy-based loans, Financial Intermediaries (FIs) or loans that are based on performance criteria, sector-based approaches, or conditional credit lines for investment projects.	(B.13)
	Suitable safeguard provisions for procurement of goods and services in Bank financed projects may be incorporated into project-specific loan agreements, operating regulations and bidding documents, as	(B.17)

	appropriate, to ensure environmentally responsible procurement.	
Potential Safeguard Policy Items(?)	Potential disruption to people's livelihoods living in the project's area of influence (not limited to involuntary displacement, also see Resettlement Policy.)	(B.01) Resettlement Policy– OP-710
	Potential to negatively affect Indigenous People (also see Indigenous Peoples Policy.).	(B.01) Indigenous People Policy– OP-765
	Activities to be financed by the project are in a geographical area and sector exposed to natural hazards* (Type 1 Disaster Risk Scenario).	(B.01) Disaster Risk Management Policy– OP-704
	Operation for which (Type 1) disaster risk is most likely to be low .	(B.01) Disaster Risk Management Policy– OP-704
	The operation itself has a potential to exacerbate hazard risk* to human life, property, the environment or the operation itself (Type 2 Disaster Risk Scenario).	(B.01) Disaster Risk Management Policy– OP-704
	The operation (including associated facilities) is screened and classified according to their potential environmental impacts.	(B.03)
	The Borrower/Executing Agency exhibits weak institutional capacity for managing environmental and social issues.	(B.04)
	Consultations with affected parties will be performed equitably and inclusively with the views of all stakeholders taken into account, including in particular: (a) equal participation of women and men, (b) socio-culturally appropriate participation of indigenous peoples and (c) mechanisms for equitable participation by vulnerable groups.	(B.06)
	Environmental or culturally sensitive areas, defined in the Policy as critical natural habitats or critical cultural sites in project area of influence (please refer to the Decision Support System for more information).	(B.09)
The operation has the potential to impact the environment and human health and safety	(B.10)	

	from the production, procurement, use, and disposal of hazardous material, including organic and inorganic toxic substances, pesticides and Persistent Organic Pollutants (POPs).	
	The operation has the potential to pollute the environment (e.g. air, soil, water, greenhouse gases...).	(B.11)
	Any part of the investment or component(s) is being co-financed.	(B.15)
Recommended Action:	Operation has triggered 1 or more Policy Directives; please refer to appropriate Directive(s), including B13, for guidance. No project classification required. Submit Report and PP (or equivalent) to ESR.	
Additional Comments:	B.13 Potential Risks: The specific intermediaries are not identified. Therefore it is not possible to determine the nature of impacts risks and the respective E&S requirements. Overall risks are expected to be predominantly low to moderate as the operations will focus on SME financing. An ESDD will be carried out as each intermediary applies for a loan. ESG will work with the team at that time to ensure that each operation contains the necessary E&S procedures, capacity and reporting arrangements to address the risks of the operations each proposes to finance.	

ASSESSOR DETAILS	
Name of person who completed screening:	Da Cunha, Maria (MARIADC@iadb.org)
Title:	
Date:	2014-01-19