

## Annex III

### Environmental and Social Management Report

#### VISION BANCO II: FINANCING TO IMPROVE ACCESS TO POTABLE WATER FOR THE BASE OF THE PYRAMID IN PARAGUAY

(PR-L1088)

#### I. Project Description and Background

- 1.1 The objective of the project is to **increase access to financing for water and sanitation boards (“Juntas de Agua y Saneamiento”)** in Paraguay, and therefore contribute to improving access to potable water and sanitation services of families living in peri-urban and rural areas of the country. The project also aims to increase access to **home improvement financing to households with limited access to credit, so that they can finance intra-domiciliary pipe-water and sewerage connections** and other home improvements that facilitate the use of Water Supply and Sanitation (WSS) services (such as construction of bathrooms or sink installations).
- 1.2 In order to achieve this objective, Opportunities for the Majority (OMJ) proposes to provide a local currency Partial Credit Guarantee (The “Guarantee”) for an amount up to PYG \$50 billion, in favor of the *Instituto de Previsión Social* (“IPS”) to guarantee a loan to Vision Banco (“VB”). The Guarantee will be issued in Paraguayan Guaraní under the IDB-IPS Partnership and will have a tenor of up to seven years.
- 1.3 The project seeks to address the lack of financing for Juntas and the insufficient supply of home improvement financing in Paraguay by helping reduce information asymmetries that make housing credit difficult to access for BOP families, since the majority of such families have no credit history. Traditional credit scoring methodologies are not able to separate the creditworthy from the un-creditworthy, hence limiting the supply of financing to this market segment.
- 1.4 *Previous IDB Group Involvement with Vision Banco.* IDB’s experience with VISION has been entirely positive. VISION has the following prior relationship with the IDB Group: (a) IIC provided a loan up to US\$ 5 million; (b) SCF/FMK provided an uncommitted TFFP line of US\$ 1.0 million, 1 year; (c) MIF granted a Technical Cooperation for US\$496,400 with the purpose of strengthening Vision Banco’s technical capacity to significantly expand its geographic coverage and the number of small enterprise clients receiving credit services; and (d) OMJ provided a Partial Credit Guarantee (PCG) for up to US\$2.5 million equivalent in *Paraguayan Guaraní* (PGY) to contribute to reduce the housing qualitative deficit in Paraguay by increasing access to loan term financing for Base of the Pyramid households. In all of these operations, Vision Banco has fulfilled adequately all environmental and social requirements.

#### II. Project Status and Compliance

- 2.1 Based on Directive B.13 of the Environment and Safeguards Compliance Policy (OP-703), this Project is classified as a financial intermediary and as such is not categorized according to its potential environment and social (E&S) impacts and risks.

- 2.2 Vision Banco has confirmed that it is in compliance with Directive B.2 (country laws and regulations) of IDB Environmental and Safeguards Compliance Policy, complying with all applicable legal and regulatory environmental, social, health and safety, and labor (ESHS&L) laws and regulations. This is defined in their HR labor policy.
- 2.3 Based on the sector focus, tenor and average loan size, this operation is categorized as low risk.

### **III. Environmental and Social Risks and Impacts**

- 3.1 The loans to beneficiaries are **limited to a maximum amount of US\$150,000** and expected to have a positive impact on the living conditions of individual borrowers and their families by improving the quality in accessing water and sanitation services (WSS). The project works that can potentially cause minimal negative environmental impacts are those related to the expansion and rehabilitation of the WSS systems and construction of small water systems for the rural areas.
- 3.2 However, given the amount of the sub-loans to be provided by Vision to *Juntas*, implementation of most of the works planned with the Project's resources is not expected to lead to significant environmental impacts. In order to receive financing, the *Juntas* should be registered at the *Servicio Nacional de Saneamiento Ambiental* (SENASA), the national regulator entity, and have a valid license to operate. As a part of the credit analysis, Vision Banco will consider this requirement as a first step to continue with the assessment of the potential client.
- 3.3 The ESHS impacts and risks associated with sub-projects financed with this line are expected to be minimal and could include, for example: i) Water discharges, ii) Liquid effluents; iii) Solid waste; iv) Air emissions and odors; v) Hazardous chemicals; vi) Ecological impacts; vii) Water system leaks and viii) loss of pressure.
- 3.4 Vision has stated that they have no material health issues (including legal claims) and do not have any material employee or labor disputes. Vision Banco indicated that its finance application and analysis process is equitable, fair, and unbiased in terms of social factors (e.g. gender, age, ethnicity, or cultural heritage). Vision Banco's guidelines for employee compensation (salary, pay raise, benefits) and analysis (evaluations) are based on the local legislation, following also Paraguay labor regulations.

### **IV. Environmental and Social Management**

- 4.1 Vision Banco is currently working on the development of an Environmental and Social Management System that will detail environmental, social, labor, health and safety policies and procedures to properly identify, assess, categorize, mitigate and monitor the potential environmental and social impacts and risks associated with each sub-loan. Vision is piloting its ESMS, once the ESMR is in place will be presented for final approval to its Board of Directors. . As part of its credit procedure, Vision applies an Exclusion List consistent with IDB List of Excluded Activities for NSG operations. Vision has organized workshops on environmental issues for its clients in order to raise awareness and build capacity.

- 4.2 Vision has previously received financing from the Netherlands Development Finance Company (FMO) and the German Investment Corporation (GED). As part of Vision's work on E&S management, it is a founding member of the Roundtable for Sustainable Finance in Paraguay, which includes six other banks together representing a majority of the SME lending market. They have voluntarily agreed to a 'Green Protocol' whereby they evaluate and manage the environmental and social risks of their SME lending activities. The Roundtable was officially launched in June 27<sup>th</sup>, 2013.

## **V. Environmental and Social Requirements**

- 5.1 For this operation which involves financing for water and sanitation boards and microcredits to finance households for intra-domiciliary pipe-water and sewerage connections and other water and sanitation related home improvements, the conditions described below are required to be fulfilled for the Project, as a condition of lending from IDB, prior to loan approval/financial close and throughout the life of the loan, in form and substance satisfactory to IDB:
- (i) Comply with all applicable Paraguayan environmental, social, health and safety, and labor legal and regulatory requirements, and in relation to the financing of SMEs to ensure that each loan complies with: (a) in-country laws and regulations; (b) the IDB List of Excluded Activities for Non-Sovereign-Guaranteed (NSG) operations; and (c) the Fundamental Principles of the Rights at Work.

## **VI. Supervision**

- 6.1 The IDB will supervise the environmental and social aspects related to the use of the proceeds of the IDB loan either by an in-house specialist or with external consultants, and if necessary, will require means of enhancing management of impacts and risks.