

## Environmental and Social Review Summary (“ESRS”) Fedecredito (DPR 2023) - Women Entrepreneurs Empowerment Bond / 14639-01 – El Salvador

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- 1. Scope of Environmental and Social Review.** The Environmental and Social (“E&S”) assessment of the proposed transaction consisted in reviewing the documentation on E&S risk management and human resources policies of Federación de Cajas de Crédito y de Bancos de los Trabajadores, SC de RL de CV (“Fedecredito” or “FDC”). A virtual meeting was held with the people responsible for E&S management of FDC. Fedecredito is an existing client of IDB Invest since 2018.
- 2. Environmental and Social Categorization and Rationale.** The proposed issuance is classified as FI-2 under the IIC Sustainability Policy. The segments to be supported have moderate risk potential, i.e., the sub loans granted by Fedecredito include or are expected to include activities with relatively few potential limited adverse E&S risks, generally specific to the site, mostly reversible and that may be remedied through mitigation measures. This issuance will provide Fedecredito with funds from IDB Invest to be used to support entities providing loans mainly to Micro, Small and Medium Enterprises (“MSMEs”).

Fedecredito grants loans solely through its membership formed by 47 Cajas de Credito (“CC”) and seven Banco de los Trabajadores (“BDT”), jointly “Member Entities” (ME). In average, Fedecredito’s loans to MEs amount to US\$394,000 with an average tenor of seven years; the exposure amount to each of the MEs is a function of Fedecredito’s total net worth and each ME’s risk category.

Close to 95% of the ME portfolio is formed by Small- and Medium-sized Enterprises (SME) while Micro-sized enterprises account for 5% of the portfolio. The loan portfolio of the MEs by economic sector is composed of consumer products (49.0%), services (15.5%), retail (15.3%), housing and construction (14.9%) and other (5.3%). Additionally, the loans granted by the ME’s average US\$10,507 with a tenor of up to three years.

Category A (High Risk) subprojects, as per IDB Invest’s definition, will be excluded. The potential issuance will be subject to all the applicable regulatory approvals prior to its formalization, IDB Invest’s Exclusion List and Eligibility List.

The transaction 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 relate to FDC’s ability to identify and manage the E&S risks related to its lending activities to its Member Entities, especially in the retail, agriculture, and services sectors, including compliance with local legislation, pollution and land use change. Fedecredito established an Environmental and Social Management System (ESMS), drafted in 2011, which includes an Exclusion List and five assessments with follow-up forms. The ESMS Rules determine an E&S categorization in accordance with two customer risk categories and industry risk profile parameters which consider four aspects: amount of the loan, term of the loan, sector risk and intrinsic E&S risk. Most of the

productive loan portfolio covered under the ESMS by MEs presents low risk (62%) followed by medium risk (32%) and high risk (6%).

E&S Management, that has reporting line to the Administration Office, is responsible of executing the ESMS. The ESMS is provided to the MEs so that they may assess the E&S risk for its customers. FDC requires that its MEs apply the ESMS and provides them with training sessions on the application of the ESMS and its questionnaires. MEs apply Fedecredito's ESMS on productive loans over US\$5,000 that have a tenor of more than 12 months. In the event gaps are identified, each ME develops an action plan and based on the E&S risk categorization, they establish different contractual clauses.

On a yearly basis, FDC conducts an E&S supervision process on its MEs by taking a random sample to check on the implementation of the ESMS. During the last supervision (sample of 107 loans), FDC identified 40 mistakes in the application of the ESMS by its MEs.

To safeguard labor rights, FDC has an Internal Work Manual, Code of Ethics, Policy for Work in Extraordinary Circumstances, a Personnel Recruiting, Selection, Hiring and Onboarding Procedures Policy and a Grievance Mechanism, among others.

- 4. Mitigation Measures.** FDC will need to confirm that all the MSME loans included in the issuance meet IDB Invest's Exclusion List, the applicable local E&S legislation, the Eligibility List, and the Social Bond Framework.

FDC will strengthen its ESMS Policy and Rules to assess ME loans in connection with: (i) local regulations; and (ii) IDB Invest's Exclusion List. Also, to complement the ESMS strengthening process, FDC will assess the root causes of ME non-compliance upon applying the ESMS, it will identify any gaps and propose measures to counter them.

The FDC personnel in charge of ESMS management and monitoring, as well as of assessing risk in general, will be trained to support the training processes under national legislation and the climate risk assessment, especially focused on the agricultural and other sectors deemed appropriate.

The financing to be granted by Fedecredito with IDB Invest should meet the provisions set forth in IDB Invest's Exclusion List, the Eligibility List, local and national laws applicable from an E&S standpoint. In order for FDC to integrate IDB Invest's requirements, FDC's personnel in charge of managing and monitoring FDC's ESMS should attend IDB Invest's E&S Risk Management training for financial intermediaries.

**5. Environmental and Social Action Plan (“ESAP”):**

Item	Task	Activity	Deliverable	Compliance
1	Strengthening of the Policy and Rules of Fedecredito’s System ESMS	1. Identify any gaps and corrective measures so that MEs may apply the ESMS adequately.	1. Gap and corrective measures report	1. Three (3) months after the issuance
		2. Strengthen the ESMS (Rules and Manual) to assess its projects in connection with: (i) local regulations (especially for loans to the agricultural sector); and (ii) IDB Invest’s Exclusion List.	2. Optimized ESMS Policy and Rules	2. Eight (8) months after the issuance
2	Assessment of the first two E&S medium- or high-risk transactions of the three MEs with the greatest exposure for FDC	FDC will send the first six transactions included in the issuance to get IDB Invest’s comments in order to: (i) confirm the E&S assessment; and (ii) comment on the proposed action plan.	E&S assessments of the 6 transactions	Upon each transaction
3	Capacity development and training	FDC will train its personnel and MEs on the ESMS, local legislation and Exclusion List. Ensure that all new hires are trained on the ESMS.	Post-training certificate of the risk management personnel, and for every new risk management hire	Eight (8) months after the issuance  Every time there is a new hire in risk management

**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.