

1. Project Description: The proposed project is a partial credit guarantee of up to 155.8 billion Guaraníes (“PYG”) to be issued in favor of the Instituto de Previsión Social (“IPS”). IPS will provide a loan in Guaraníes to Banco Bilbao Vizcaya Argentaria Paraguay S.A. (the “Guaranteed Loan”) for the guaranteed amount, the Inter-American Development Bank (“IDB”) and the Inter-American Investment Corporation (“IIC”) will grant a guarantee in favor of IPS covering the credit risk of BBVA Paraguay (Guarantee IDB/IIC) under the Guaranteed Loan.

2. Environmental and Social Categorization and Rationale: This operation is classified as an FI 2 under the IIC’s Sustainability Policy. Based upon the nature of this transaction (i.e. a partnership to provide medium term funding to SMEs in the productive sectors), there are likely to be moderate to significant indirect environmental, social or health and safety (ESHS) and labor impacts and risks. BBVA’s portfolio is concentrated in agriculture (31.5%) and livestock (11.9%), which present risks in the form of deforestation and land-use change, particularly in the Chaco.

3. Environmental and Social Risks and Impacts: Sub-project environmental and social risks may be related to occupational health and safety, supply chains, deforestation, land-use change, and pesticide / chemical use. BBVA will be required to manage these risks through the application of an Environmental and Social Management System (ESMS) with particular attention given to operations in the Chaco or where deforestation is of heightened risk. BBVA will be required to apply the Exclusion List, National Laws, Good Practice Guides in the context of Agriculture, Livestock, and Agro-Industry on-lending, and use a satellite monitoring program for agriculture and livestock on-lending. Additionally, illegal deforestation with IIC’s use of proceeds will not be permitted. BBVA will be required to report annually, and provide monitoring reports of client activity and possible deforestation.

4. Mitigation Measures/E&S Action Plan:

Task	Description
Audit of ESMS	BBVA will share with IIC the audit report evaluating the effectiveness of its ESMS and proposed areas for improvement.
Exclusion of financing from High Value Conservation Areas (HVCA)	BBVA to exclude new financing from areas defined as high value conservation and in accordance with a map provided by IIC (this does not include the Chaco Húmedo). In instances where existing clients are found to be operating in an HVCA, BBVA to take actions in alignment with the guides, to include: (i) agree an action plan; (ii) escalate the level of monitoring; and (iii) present each specific case to IIC.
Adopt and implement the Cattle Ranching, Agriculture, and Agro-Industry Guides	Incorporate the requirements as defined within the respective guides. For the first Guide (Cattle Ranching), BBVA will adopt the same implementation schedule as the Sudameris, Continental, Regional (adjacent), and other guides according to a commonly agreed schedule. BBVA will (1) provide three credit files for review six months after implementation; and (2) hire a consultant to undertake an audit of the Cattle and Agriculture guides’ adoption one year after implementation.

Adopt satellite monitoring software for purposes of analyzing and monitoring sub-project performance	Commit to having mapped all clients in accordance with the requirements and time schedule defined in the guides. Ensure site location is mapped within the Global Forest Watch Finance application (when available). Provide access to mapped clients in order to evidence any deforestation activity.
Prohibit illegal deforestation with IIC's use of funds	For all sub-loans financed with IIC proceeds, prohibit any illegal deforestation.
Membership within the <i>Mesa de Finanzas Sostenibles</i>	Continue participation in the <i>Mesa de Finanzas Sostenibles</i> and actively contribute to its operation and wider engagement with other stakeholders.