

1. **Scope of Environmental and Social Review** .The environmental and social review of the proposed transaction was carried out through desk research, a visit to the clients offices August 6-10, 2018, and an extensive review and audit of the client's existing environmental and social management system and policies. IDB Invest was supported by an external consultant who provided independent analysis and opinion on the application of safeguard requirements under IDB Group previous loan. On the whole, the client was found to be in compliance with requirements, and an action plan has been agreed that addresses the gaps and areas for improvement.
2. **Environmental and Social Categorization and Rationale.** The proposed operation is classified as an FI-2 per IDB Invest's Sustainability Policy. Sub-Investments to be supported will be primarily in the productive sector (agriculture, livestock, agroindustry), and will average between US\$500,000. Category A sub-projects, per IDB Invest's definition, will be excluded from the Fund's financing.
3. **Environmental and Social ("E&S") Risks and Impacts.** The main E&S risks of this projects are associated with FI's capacity to identify and manage the E&S risks associated with its lending activities. Regional's capacity in this respect are considered high based on previous work with IDB Group and other Development Financial Institutions ("DFIs") (see Mitigation Measures). The Environmental, Social, Health, and Safety ("ESHS") impacts and risks associated with loans to Small and Medium-Sized Enterprises ("SMEs") are likely to be moderate in nature. While the dollar size of sub-project loans are small, the portfolio concentration in agriculture (39%), industry (10%) and livestock (10%), alongside the environmental sensitivities of el Chaco region and the bosque Atlantida in Paraguay present more moderate to high potential environmental risks. The ESHS risks and impacts could include, for example: (i) habitat conversion and degradation (agriculture, livestock); (ii) poor land use (industry, agriculture, livestock); (iii) stress/contamination of water resources (agriculture, livestock); (iv) waste management (livestock, agriculture); and (v) use of migratory or informal labor (agriculture, livestock).
4. **Mitigation Measures.** Regional will be required to ensure that all loans supported comply with IDB Invest's Exclusion List, applicable E&S local laws, and Regional's existing Environmental and Social Management System ("ESMS"). As part of the work under IDB Group's previous loan, Regional was a lead bank in the creation of the Mesa de Finanzas Sostenible (the "Mesa"), an industry roundtable, the development of a good-practice guide in the agricultural sector, and has recently adopted two others in the cattle and agroindustry sectors. Regional will continue to work within the Mesa, apply these three guides as part of its policy and ESMS, and undertake satellite monitoring to detect illegal deforestation. As part of this Loan, a TA package is being developed with the aim to evaluate Regional's portfolio and possible clients/loans that could be considered green lending. This TA would fit within a wider market effort coordinated between IDB Invest and other DFIs to define a market for climate-smart agriculture in Paraguay. An Action Plan has been defined below, which sets out small improvements Regional will make in the operation of its ESMS.
5. **Environmental and Social Action Plan**

Task	Description	Deadline
Update of ESMS	ESMS to be updated to include: (i) formal incorporation of the guides as policy requirements; and (ii) inclusion of categorization and analysis templates. Formal sign off by senior management.	Condition precedent to first disbursement

Updated use of satellite imagery	(i) Establishment of a process to receive periodic (e.g. monthly) satellite imagery on illegal deforestation in the Atlantic Region, and screen against portfolio client coordinates; and (ii) request and analyze satellite imagery from all clients under which the livestock and agriculture guides apply.	(i) Periodic; and (ii) Six months post dispersement
Client engagement	Update legal templates for inclusion of corrective action plans where issues are identified with sub-borrowers; continue client visits to assess E&S risks and engage clients on E&S issues.	Within loan agreements with sub-borrowers
Performance Reports to Senior Management	Provide periodic reporting to senior management on client E&S analysis (% analyzed, % visited, % with satellite analysis, key findings/recommendations, # clients rejected on E&S grounds, etc.	Periodic
Green Loan Portfolio Analysis	Regional will undertake along with the assistance of a consultant portfolio analysis and/or engagement activities with its clients in the effort to identify, shape and manage green lending opportunities that fall within emerging climate smart-agriculture criteria. Regional will co-finance the cost of the consultant alongside IDB Invest.	Starting 2019