

1. Project Description. The proposed Ficohsa Sub-debt Financing Partnership (the “Project”) entails subordinated financing of US\$18 million to Banco Ficohsa (“Ficohsa” or the “bank”), the largest private-sector bank in Honduras, in terms of total assets. The Project is focused on addressing the financing gap of SMEs in the country, including women-led SME, by strengthening Ficohsa’s capital structure. 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, including women-owned businesses), there are likely to be minimal to moderate indirect environmental, social or health and safety (ESHS) and labor impacts and risks. Ficohsa’s SME portfolio is concentrated in commerce, services, and higher risk investments in agriculture and manufacturing. The country context of Honduras presents complex environmental and social issues, which can affect sub-loans directed towards larger corporate energy and agriculture borrowers, which are not eligible under this operation. 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. Ficohsa will be required to manage these risks through the application of an Environmental and Social Management System (“ESMS”). Environmental and social management is a well-established function at Ficohsa and includes one manager and four technical specialists all of whom report to the Head of Risk. Its ESMS was first developed in 2009, enhanced in 2014 with support from FMO, DEG and IFC; and in 2016 extended to its SME operations. The ESMS is applied at a corporate level and in all four countries of operation (Honduras, Guatemala, Nicaragua, and Panama). Ficohsa applies the Exclusion List, National Laws, and the IFC Performance Standards in select cases based on loan amount, tenor, sector, and nature of financing requested (including project, corporate, credit line renewal). Ficohsa has categorized a majority of its portfolio at the corporate level (Cat A - 10%, Cat B - 60%, and Cat C 30%) and SME level (Cat A - 8%, Cat B - 67%, Cat C - 25%). It has defined action plans with 209 corporate clients, and 12 SME clients. In collaboration with an international DFI, Ficohsa is leading the development of a sustainable finance initiative at the level of the Honduran Banking Association. Ficohsa was recently recognized for their commitment to sustainability (as evidenced by its ESMS and related performance) by the Premios Latinamericanos Verde, an initiative of CAF (Corporación Andina de Fomento). 4. Mitigation Measures/E&S Action Plan. Ficohsa will be required, on a best efforts basis, to adopt satellite monitoring and database software for purposes of analyzing and monitoring sub-project performance. Ficohsa can commit to mapping clients when and as their operations come up for review and in accordance with its ESMS; ensure site location is mapped within the Global Forest Watch Finance application (when available); and provide access to mapped clients in order to evidence activity.