

## 1. Project Description

The proposed project is a partial credit guarantee of up to PYG28.5 billion to be issued in favor of IPS. IPS will provide a loan in Guaraníes to Banco Familiar S.A.E.C.A. (the “Loan”) for up to PYG27 billion, and the IIC will grant a guarantee in favor of IPS covering the credit risk of Banco Familiar (“Guarantee”) under the Loan. The use of funds for the Loan will be to finance SMEs in the productive sector of Paraguay.

## 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. Banco Familiar’s portfolio is concentrated in consumer goods (49%), but has some exposure in agriculture (14%) and livestock (3%), 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. Banco Familiar will be required to manage these risks through the development and application of an Environmental and Social Management System (“ESMS”) with strict oversight given to operations in the Chaco or where deforestation is of heightened risk. Banco Familiar 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, deforestation with IIC’s use of proceeds will not be permitted. Banco Familiar will be required to report annually, and provide monitoring reports of client activity.

## 4. Mitigation Measures/Environmental and Social (“E&S”) Action Plan

Task	Description
Capacity Building in environmental and social standards and supervision for financial intermediaries	Participation in the IIC environmental training workshop for financial intermediaries (or another similar training course as approved by the IIC).
Development and implementation of an Environmental and Social Management System (“ESMS”)	Banco Familiar will establish, with the help of an adequately qualified consultant, an ESMS and provide a copy of the ESMS to IIC for review.
ESMS oversight	Designation of responsibility for overseeing the ESMS to an E&S Manager
Compliance with applicable national environmental and social law	Ensure that clients are in compliance with local law and request copies of environmental permits.
Exclusion of financing from High Value Conservation Areas (“HVCA”)	Banco Familiar to exclude financing with IIC’s proceeds from areas defined as high value conservation and in accordance with a map provided by IIC.
Adopt and implement the Cattle Ranching, Agriculture, and Agro-Industry Guides	Incorporate the requirements as defined within the respective guides.

Adopt satellite monitoring software for purposes of analyzing and monitoring sub-project performance	Use the Global Forest Watch Finance application as available. Provide annual monitoring reports that detail any deforestation activity.
Membership within the <i>Mesa de Finanzas Sostenibles</i>	Join the <i>Mesa de Finanzas Sostenibles</i> and actively contribute to its operation and wider engagement with other stakeholders.