**Document of the Inter-American Development Bank**



**Paraguay**

**Promoting private sector investments in energy efficiency in the industrial sector in Paraguay**

**PR-L1146**

**Environmental and Social MANAGEMENT REPORT**

**(ESMR)**

January 22, 2017

This document was prepared by: Isabelle Braly-Cartillier (IFD/CMF)

|  |  |
| --- | --- |
| **ENVIRONMENTAL AND SOCIAL MANAGEMENT REPORT (ESMR)** | |
| **Operation Name:** | **Promoting private sector investments in energy efficiency in the industrial sector and reduction of non-renewable biomass demand in Paraguay** |
| **Operation Number:** | PR-L1146 |
| 1. **Operation Details** | |
| **IDB Sector** | IFD/CMF |
| **Type of Operation** | Loan Operation (Financial Intermediary) |
| **Impact Categorization** | B.13 – FI3 |
| **Environmental and Social Risk Rating** | NA |
| **Disaster Risk Rating** | NA |
| **Borrower** | Agencia Financiera de Desarrollo (AFD) |
| **Executing Agency** | Agencia Financiera de Desarrollo (AFD) |
| **IDB Loan US$ (and total project cost)** | US$20,000,000 Investment Loan (INV) from the Green Climate Fund (GRN) |
| **Applicable Policies/Directives** | *OP-703 B.2, B.3, B.7, B.13 – OP-102* |
| 1. **Executive Summary** | |
| This operation is a financial intermediation operation, and as such cannot be classified as 'ex-ante', in accordance with the Bank's Directive B.13 of the Environment and Safeguards Compliance Policy (OP-703). In the light of the nature and magnitude of potential socio-environmental impacts identified for sub-projects expected to be financed under this program (small-scale investment projects for SMEs), this operation is considered as a low risk of Financial Intermediation (FI-3).  Only Category C sub-projects are eligible for financing. No category A or B project according to the IDB classification will be eligible for funding under the program.  Agencia Financiera de Desarrollo (AFD) is a second-tier bank in Paraguay with whom the IDB has had many ongoing loan operations for many years. With IDB resources, AFD developed the Environmental and Social Risk Management Systems it applies to the different financial products developed with IDB resources.  After the due diligence exercise, the project team concluded that this program could be handled similarly to the previous programs, with an ad-hoc Environmental and Social Management System (ESMS) based on:  1) The compliance with all applicable environmental, social, health and safety, and labor regulatory requirements of Paraguay for AFD, 1st Tier Banks participating in the Program and the sub-projects financed through this Program  3) The appointment of an Environmental and Social Coordinator for the duration of the Program  4) The application of the IDB exclusion list and of an extended exclusion list  5) For Energy Efficiency sub-projects, the adoption of a Decommissioning and Disposal Protocol for replaced equipment and materials acceptable to the IDB, to be presented by AFD and approved by the IDB as a condition prior to first disbursement.  6) For co-generation projects, the development of a classification tool. The tool will be based on the IFC Converting Biomass to Energy: A Guide for Developers and Investors and will be in line with the IDB safeguards. It will be presented by AFD and approved by the IDB as a condition prior to first disbursement. Once approved, said tool will be part of this ESMR. AFD will be responsible to classify the co-generation projects. Only C category projects and projects using agricultural waste will be eligible for financing.  7) The performance of compulsory site-visits for projects above US$1m (AFD E&S specialist)  8) The implementation of a grievance mechanism by AFD at the Program level  9) The presentation by AFD of an Annual Environmental and Social Compliance Report (ESCR)  Those socio-environmental requirements, presented in more detail later in this document, will be included in the Operating regulations (OR) of the Program, whose approval by AFD, prior to the non-objection of the Bank, will be a condition precedent to the first disbursement of the program's resources. | |
| 1. **Operation Description** | |
| In Paraguay, SMEs have an inadequate access to medium and long-term finance to narrow technology gaps and boost productivity and growth. This inadequate financing access, coupled with the limited access to sources of affordable and readily available hydro-electricity, has restricted SMEs in key energy consuming sectors to develop energy efficiency investments projects. Access to these investments could reduce energy consumption from non-renewable energy source and reduce greenhouse emissions by about 4 million tCO2eq over the project’s lifetime.  GCF reimbursable funding will help increase medium and long-term financing for energy efficiency (EE) projects in SMEs by supporting the structuring of financing mechanisms and instruments and improve the local technical capacity and knowledge on EE investments by local financial institutions (IFIs) and SMEs. Thus, GCF funding will increase energy efficiency in the industrial sector, in particular for SMEs, with reduced GHG emissions.  GCF funding will be channeled through a sovereign-guaranteed loan from the Inter-American Development Bank (IDB) to the Agencia Financiera de Desarrollo (AFD), a second-tier national development bank (NDB). The GCF reimbursable resources will be blended with AFD’s own resources to provide a concessional line of financing for first-tier local financial institutions (IFIs) so that they can, in turn, offer financing at adequate terms and conditions to SME firms interested in adopting eligible EE measures. The economic and financial analysis of the project show the project has an economic rate of return of 135%. The project is aligned with Paraguay’s National Development Plan 2030, National Climate Change Plan, National Climate Change Policy and the National Determined Contribution, where improvement of energy efficiency is one of the strategic areas included under those policy guidelines. The project design has taken into consideration the input of stakeholders, as they have been fully consulted and the NDA has issued a Letter of Non-Objection.  Eligible projects will include energy efficiency investments projects undertaken by SMEs, including: (i) the exchange of old equipment with new efficient equipment that reduces use of firewood, biomass and other fossil fuels; (ii) the exchange of old equipment with new efficient equipment that replaces use of firewood, biomass and other fossil fuels by electricity from hydropower; and (iii) the retrofit of equipment with new efficient equipment that reduces use of firewood, biomass and other fossil fuel. Within the spectrum of those eligible projects, the feasibility study identified 4 priority combination of energy efficiency technology /sector with higher potential demand for credit:  a. Ovens: In the production of bricks and roofing tiles, reduction in the consumption of non-renewable biomass through (i) investment on more efficient furnaces using firewood as energy input and (ii) the replacement of existing furnaces by electric furnaces.  b. Drying equipment: In grain dryers (drying and cleaning of seeds), reduction in the consumption of non-renewable biomass through the introduction of electrical installations for grain drying.  c. Boilers: Replacement, retrofit of old boiler / water heater systems with new efficient boilers using firewood as energy input, and the replacement of existing boilers by electric boilers.  d. Small scale co-generation projects from sugar bagasse.  For those specific sub-categories of eligible projects with potentially higher demand of credit for the Program, the study estimated the following expected demand and average sizes of sub-projects:   |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Target Sector** | **Technology** | **Beneficiaries** | **EE objective** | **Average total project size (in USD)** | | Oven in the production of bricks and roofing tiles | Reduction in the consumption of non-renewable biomass through (retrofit) investments on more efficient furnaces using firewood as energy input.  Reduction in the consumption of non-renewable biomass through investment in the replacement of existing furnaces by electric furnaces | 120 micro and SMEs.[[1]](#footnote-2) | 30/21/8% of energy savings | 195,000 | | Grain Drying Equipment: Grain dryers (drying and cleaning of seeds).[[2]](#footnote-3) | Reduction in the consumption of non-renewable biomass through the introduction of electrical installations for grain drying | 37 SMEs | 44% of energy savings | 48,300 | | Boilers | Reduction in the consumption of non-renewable biomass through (retrofit) investments on more efficient furnaces using firewood as energy input.  Reduction in the consumption of non-renewable biomass through investment in the replacement of existing boilers by electric boilers | 200 micro and SMEs | 30/21/8% of energy savings | 250,000 | | Small-scale Co-generation in the sugar Industry.[[3]](#footnote-4) | Joint production of electricity and steam | 8 Medium-sized firms resulting in the development of a total cumulative generation potential of approximately 4-6 MW (0.75MW on average per project) | Increased efficiency in the use of biomass | 1,500,000 estimated for a 0.75MW project (USD 2 million per MW) |   The Program is, however, also open to finance investments in other energy efficiency technologies in industrial SMEs such as changes in air conditioning, more efficient refrigeration chambers, imporvements in lighting system or higher efficiency motors.  The intended beneficiaries of the Program will be industrial small-and medium sized companies. An improved efficiency in the use and production of energy will also enable final consumers to benefit from greater and better availability of cleaner energy at competitive prices, and will allow the government to downscale current subsidies for fossil-fuel based generation. Finally, communities should benefit from positive externalities associated to the environmental and economic impacts of the Program. | |
| 1. **Key Impacts, Risks, and Mitigation Measures** | |
| In accordance with (i) the Directive B.13 of the Bank's Environmental and Social Safeguards policy (OP-703) and (ii) the nature and magnitude of potential socio-environmental impacts of the eligible sub-projects, the operation is considered as Financial Intermediation category FI-3. | |
| **Assessment Requirements**  OP-703 (Environment and Safeguards Compliance Policy): B.3 (Screening and Classification), B.4 (Other Risk Factors), B.5 (Environmental Assessment and Plans Requirements), and Assessment requirements of OP-710 (Involuntary Resettlement Policy), OP-765 (Indigenous Peoples Policy), OP-761 (Gender Equality in Development Policy), and OP-704 (Disaster Risk Management Policy) as applicable | |
| Following the Bank's guidelines and taking into account the characteristics of the Program, the project team identified the potential negative impacts of the eligible sub-projects and their main mitigation measures and evaluated the capacity that AFD would have to manage these risks in compliance with the IDB safeguards. | |
| **Consultation**  OP-703 (Environment and Safeguards Compliance Policy): B.6 (Consultation); and Consultation requirements of OP-710 (Involuntary Resettlement Policy), OP-765 (Indigenous Peoples Policy), OP-761 (Gender Equality in Development Policy), and OP-704 (Disaster Risk Management Policy) as applicable | |
| * Only Cat C sub-projects are eligible for financing. No sub-project level public consultation will be required. * At the Program level, consultations have been held with government officers, executing agency (AFD), commercial banks and technology providers to understand investment and financing challenges, in order to define the relevance of seeking GCF support and the relevant financial instruments and technical cooperation activities and to fine-tune the Program design. * AFD has a general information request system in place: <https://www.afd.gov.py/contacto> and will also implement a grievance mechanism at the Program level. | |
| **Information Disclosure**  OP-703 (Environment and Safeguards Compliance Policy): B.5 (Environmental Assessment and Plan Requirements) and Information Disclosure requirements of OP-710 (Involuntary Resettlement Policy), OP-765 (Indigenous Peoples Policy), OP-761 (Gender Equality in Development Policy), and OP-704 (Disaster Risk Management Policy) as applicable;  OP-102 (Access to Information Policy) | |
| The IDB will publish the Program documents in compliance with OP-102. Only C category subprojects are eligible for financing. | |
| **Environmental and Social Impacts and Risks and Mitigation Measures**  OP-703 (Environment and Safeguards Compliance Policy): B5 (Environmental Assessment Requirements), B8 (Transboundary Impacts), B9 (Natural Habitats and Cultural Sites), B10 (Hazardous Materials), B11 (Pollution Prevention and Abatement), and B12 (Projects Under Construction)  OP-710 (Involuntary Resettlement Policy)  OP-765 (Indigenous Peoples Policy)  OP-704 (Disaster Risk Management Policy)  OP-761 (Gender Equality in Development Policy) | |
| **Energy Efficiency projects**: those projects consist in the financing of replacement of old equipment for new – more energy efficient – equipment. They happen in existing small-scale operations (SMEs) and do not involve green field project. It is expected that the substitution of old technologies and equipment for new ones through the adoption of EE measures will result in energy savings and hence will have a positive impact on the environment and climate change by reducing GHG and other emissions. However, this type of project could have reduced benefits and/or limited adverse impacts on the environment if the substituted units are not withdrawn from circulation and are not properly disposed. The Program stipulates that replaced old equipment should be properly decommissioned and disposed to avoid GHG emissions leakages.  The potential negative E&S impacts of the different types of EE projects are described below:   | Project Type | Description | Associated Waste | Impact before management | Management | Associated costs and revenues | | --- | --- | --- | --- | --- | --- | | Boilers, Ovens, Dryers, Motors | Replacement of old systems with new equipment consuming less fuel and/or energy. | Scrap | Soil contamination and reduced solid waste storage capacity in sanitary landfills | Decommission (based on a Decommissioning and Disposal Protocol) including potentially commercialization of scrap | Costs of disassembling and transport | | Air conditioning/Refrigeration Chambers | Substitution of old equipment with new energy efficient equipment that contain efficient, less polluting refrigerants (and no substances with high Ozone Depletion Potential) | Hazardous waste: ozone depleting substances (HCFC, CFC), and scrap | Release of ozone depleting substances to the atmosphere | Decommission (based on a Decommissioning and Disposal Protocol) including Final disposal of CFC or HCFC and potentially commercialization of scrap | Costs of disassembling and transport  Costs of treatment by competent and approved third party |   A Decommissioning and Disposal protocol will be designed and implemented during the project implementation phase. The protocol will be based on the following principles:   * Replaced equipment will have to be handled in a technically appropriate manner to ensure that its disposal is (i) final, (ii) undertaken in accordance with all relevant national regulations and (iii) undertaken with the assistance of national licensed or certified waste management service provider. * The Project verification scheme will include verification of compliance with the Project Decommissioning and Disposal Protocol. * If for any reason a Project beneficiary fails to decommission and dispose any substituted equipment according to the Project Decommissioning and Disposal Protocol, it will be forced to repay the loan immediately and may be subject to regulatory sanctions as established in relevant laws and regulations of the country.   **Co-generation projects**: the identified projects are small scale (2.0 MW maximum) and from secondary resources[[4]](#footnote-5) only, more specifically agricultural waste from an existing operation (in particular bagasse from sugar production). Eligibility criteria would require projects to only use agricultural waste and to be calibrated to run mainly on the existing operation waste production. None of them would include land acquisition for extension of the biomass production. The feasibility study did confirm that small scale projects could not involve external waste supplying as the transport would make the project economically unviable.  Biomass projects in general could have a number of environmental impacts on air and soil quality, biodiversity, water, land and a number of social impacts on employment, economy and food security. The small-scale projects targeted in this Project have limited potential negative impacts.  Land and Biodiversity: the projects targeted would have no negative impact on land and biodiversity as only the use of secondary resources is eligible.  Water: the projects targeted do not involve additional production of biomass and therefore there would not be any increased use of groundwater. The financed operations would follow the Argentinian regulation, hence avoiding any impact on water quality through discharge of wastewater. Liquid effluents in this type of operation is in any case very limited.  Air quality: the financed operations will comply with the Argentinian regulation. And the transport of resources should be minimal.  Social impacts: the projects use secondary resources e.g. agricultural waste that had no previous use. There should be no impact on communities for land use, source of income, or food security. The projects could generate employment even if not in major number and the generation of clean energy definitely benefits the larger populations.  Therefore, the only potential environmental risk could come from the project procedures for acquisition of additional waste, beyond the facility own waste, in those exceptional cases additional supply is necessary. The objective is to make sure that (i) those cases are exceptional, and that the co-generation facility is calibrated to run on its own waste, (ii) nothing else than agricultural waste is used. Specific E&S requirements will be imposed for those few projects (see below) in order to mitigate these risks[[5]](#footnote-6).  Due to the nature of the investments to be financed under the Program (see above) and its main beneficiaries, particularly existing small- and medium-sized enterprises, negative environmental and social impacts from the facilities other than those described above are not foreseen. All sub-projects eligible to the Program are classified as C, the Program will involve the development of a specific classification tool for cogeneration projects in order to make sure only C projects are financed (see below Mitigation Measures). | |
| **Noninvestment Lending and Flexible Lending Instruments**  OP-703 (Environment and Safeguards Compliance Policy): B.13 (Noninvestment Lending and Flexible Lending Instruments) | |
| Following the Bank's guidelines and taking into account the characteristics of the Program, the project team identified the potential negative impacts of the eligible sub-projects and their main mitigation measures and evaluated the capacity that AFD would have to manage these risks in compliance with the IDB safeguards.  Only sub-projects of category C will be eligible to financing with resources from this Program.  The IDB has been successfully working in the past with the AFD and has been accompanying them in the building of their capacity in the management of environmental and social risks.  AFD has formally appointed an E&S specialist.  AFD manages environmental and social risks on all its portfolio via the development of a specific Environmental and Social Management Systems (ESMS) for each of their banking products (<https://www.afd.gov.py/productos>). The ESMS is integrated in the Program Operating regulations and further in the AFD product own Operating Manual. For this Program, the requirements listed in this document will be integrated into the Program Operating Manual.  The E&S due diligence concluded that AFD has the capacity to apply the requirements included in this document as an Environmental and Social Management System (ESMR) and manage a portfolio with the E&S risks magnitude assessed for this Program.  Furthermore, the loan operation will be supported by technical cooperation (PR-T1249) providing for institutional capacity support to AFD, including to monitor and supervise ESMS. Under the context of the TC trainings on the Program will be providing to the participating FIs and will include a presentation of this ESMR. | |
| **Livelihoods and Resettlement**  OP-710 (Involuntary Resettlement Policy) | |
| * not triggered | |
| **Indigenous Peoples**  OP-765 (Indigenous Peoples Policy) | |
| * not triggered | |
| **Gender Equality**  OP-761 (Gender Equality in Development Policy) | |
| * In compliance with the preventive action part of Policy OP-761, the project team concluded that policy OP-761 is not activated since no gender based adverse impacts were identified | |
| **Disaster Risk Management**  OP-704 (Disaster Risk Management Policy) | |
| * not triggered | |
| **Supervision**  OP-703 (Environment and Safeguards Compliance Policy): B.5 (Environmental Assessment and Plans Requirements) and B.7 (Supervision and Compliance)  OP-710 (Involuntary Resettlement Policy)  OP-765 (Indigenous Peoples Policy)  OP-704 (Disaster Risk Management Policy)  OP-761 (Gender Equality in Development Policy) | |
| The AFD will present an Annual Environmental and Social Compliance Report (ESCR) with information on the guaranteed portfolio and any particular risk issues identified, mitigation measures agreed with clients as well as compliance status.  The IDB will supervise the ESHS and labor aspects related to the use of the proceeds of the Program, as necessary either by an IDB in-house specialist or with external consultants, hired by the IDB. To this end, AFD will provide and facilitate access by IDB to all relevant documentation, personnel and sub-projects facilities.  If necessary, IDB and AFD will agree on corrective actions or measures necessary to address impacts and risks and/or to enhance their management. | |
| 1. **Environmental and Social Requirements** | |
| In order to meet the requirements of the Bank’s Environmental and Social Safeguard Policies, the AFD will comply to the satisfaction of the Bank with the ESHS contractual terms and conditions set forth in Annex B. These terms and conditions can only be modified with the prior written consent of the Bank, including clearance by ESG. The ESG conditions and definitions will be incorporated into the Loan Agreement and as such the Borrower is legally bound to comply with these conditions.  For this Program, within the framework of eligibility requirements established for the sub-projects in agreement with IDB, the Bank will require AFD to manage the Program according to the following requirements:   1. Comply with all applicable environmental, social, health and safety, and labor regulatory requirements of Paraguay. 2. Confirm that the 1st Tier Banks participating in the Program and the sub-projects financed through this Program comply with all applicable environmental, social, health and safety, and labor regulatory requirements of Paraguay. 3. Appoint an Environmental and Social Coordinator for the duration of the Program. 4. Design and Implement the Program specific requirements in the Operating Regulation and further in an internal Operating Manual that will include the E&S requirements (Environmental and Social Management Framework) described in this document and integrate the Program Operating Regulations and further in an internal Operating Manual. 5. Integrate the IDB exclusions list (see Annex I) in the sub-loan approval process. It is worth noting that this list excludes – among others – projects that (i) involve involuntary resettlement of people, (ii) have a potentially adverse social impact on communities and/or indigenous peoples, (iii) involve conversion or degradation of critical natural habitats or cultural sites. 6. For Energy Efficiency sub-projects, adopt a Decommissioning and Disposal Protocol for replaced equipment and materials acceptable to the IDB, to be presented by AFD and approved by the IDB as a condition prior to first disbursement. The protocol must ensure that any equipment replaced is not reused and is appropriately disposed. It will include the necessary description of each party responsibility. Once approved, said Protocol will be part of this ESMR and as such will apply to AFD, the participating FI and each respective sub-borrower as pertinent to their respective responsibilities. 7. For co-generation projects, develop a classification tool. The tool will be based on the IFC Converting Biomass to Energy: A Guide for Developers and Investors and will be in line with the IDB safeguards. It will be presented by AFD and approved by the IDB as a condition prior to first disbursement. Once approved, said tool will be part of this ESMR. AFD will be responsible to classify the co-generation projects. Only C category projects will be eligible for financing. 8. For co-generation projects, ensure that all projects will only use agricultural waste. AFD will be responsible for the verification that could be obtained via the contractual documents between the FI and the sub-borrower (affidavit). 9. For firewood-utilizing projects, require from participating SMEs to source any firewood used during the lifetime of the sub-loans from certified sustainable sources only 10. Perform compulsory site-visits for projects above US$1m (AFD E&S specialist) 11. Implement a grievance mechanism at the Project level 12. Present an Annual Environmental and Social Compliance Report (ESCR) with information on the guaranteed portfolio and any particular risk issues identified, mitigation measures agreed with clients as well as compliance status.   The IDB will supervise the ESHS and labor aspects related to the use of the proceeds of the Program, as necessary either by an IDB in-house specialist or with external consultants, hired by the IDB. To this end, AFD will provide and facilitate access by IDB to all relevant documentation, personnel and sub-projects facilities. If necessary, IDB and AFD will agree on corrective actions or measures necessary to address impacts and risks and/or to enhance their management. | |
| 1. **Summary of Compliance with IDB Safeguard Policies** | |
| See Annex A. | |

**Annex A. Summary of Compliance with IDB Safeguard Policies[[6]](#footnote-7)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Policies / Directives** | **Applicable Policy / Directive Aspect** | | **Compliance Status and Rationale with Policy / Directive Requirements** | **Requirements / Actions / Plans** | |
| **OP-703 Environment and Safeguards Compliance Policy** | | | | | |
| B.2 Country Laws and Regulations | Obtain local  environmental  licenses and  permits | | Compliance expected during Program execution | The Bank will require AFD to manage the Program according to the following requirements:  1. Comply with all applicable environmental, social, health and safety, and labor regulatory requirements of Paraguay.  2. Confirm that the 1st Tier Banks participating in the Program and the sub-projects financed through this Program comply with all applicable environmental, social, health and safety, and labor regulatory requirements of Paraguay. | |
| B.3 Screening and Classification | Environmental and  social risk  categorization | | Compliance expected during Program execution | Only Category C project will be eligible for financing. For co-generation projects a classification tool will be developed. The tool will be based on the IFC Converting Biomass to Energy: A Guide for Developers and Investors and will be in line with the IDB safeguards. It will be presented by AFD and approved by the IDB as a condition prior to first disbursement. Once approved, said tool will be part of this ESMR. AFD will be responsible to classify the co-generation projects. Only C category projects will be eligible for financing. | |
| B.4 Other Risk Factors | NA | | | | |
| B.5 Environmental Assessment and Plans Requirements | NA | | | | |
| B.5 Social  Assessment and Plans Requirements | NA | | | | |
| B.6 Consultation (including consultation with affected women, indigenous persons, and/or minority groups) | NA | | | | |
| B.7 Supervision and Compliance | Program and sub-project supervision and monitoring. | | Compliance expected during Program execution | AFD will ensure that the ESMR requirements apply to participating FIs and sub-projects borrowers.  The ESMR includes the following requirement from AFD:  1. To perform compulsory site-visits for projects above US$1m (AFD E&S specialist)  2. To present an Annual Environmental and Social Compliance Report (ESCR) with information on the guaranteed portfolio and any particular risk issues identified, mitigation measures agreed with clients as well as compliance status.  3. To provide and facilitate access by IDB to all relevant documentation, personnel and sub-projects facilities.  4. If necessary, to agree with IDB on corrective actions or measures necessary to address impacts and risks and/or to enhance their management. | |
| B.8 Transboundary Impacts | NA | | | | |
| B.9 Natural Habitats | NA | | | | |
| B.9 Invasive Species | NA | | | | |
| B.9 Cultural Sites | NA | | | | |
| B.10 Hazardous Materials | Avoid impacts associated with production, acquisition, use, and final disposal of hazardous materials | Compliance expected during Program execution | | | Compliance with applicable legislation includes the necessary requirements for the proper management of waste and hazardous waste. AFD only finances projects that comply with the applicable legislation |
| B.11 Pollution Prevention & Abatement | Reduce or eliminate emissions, including gaseous, liquid, and solid waste | | Compliance expected during Program execution | Compliance with applicable legislation includes the necessary requirements for pollution prevention. AFD only finances projects that comply with the applicable legislation | |
| B.11 Pollution Prevention & Abatement |  | | *.* |  | |
| B.12 Projects under Construction | Not triggered | | | | |
| B.13 Noninvestment Lending and Flexible Lending Instruments | Implement an appropriate and feasible Environmental Management System (EMS) tailored to the particular needs of the operation. | | Compliance expected during Program execution | During the Due Diligence process, the Program team identified potential negative E&S impacts from eligible sub-projects and assessed the executing agency capacity to manage those. As a result, an ESMR was designed and will be included in the Operating Regulation of the Program, whose approval by AFD, prior to the non-objection of the Bank, will be a condition precedent to the first disbursement of the program's resources. | |
| B.14 Multiple Phase and Repeat Loans | Not triggered | | | | |
| B.15 Co-financing Operations | Not triggered | | | | |
| B.16 In-Country Systems | Not triggered | | | | |
| B.17 Procurement | Not triggered | | | | |
| **OP-704 Natural Disaster Risk Management Policy** | | | | | |
| A.2 Analysis and management of Type 2 risk scenario | Not triggered | | | | |
| A.2 Contingency planning (Emergency response plan, Community health and safety plan, Occupational health and safety plan) |
| **OP-710 Operational Policy on Involuntary Resettlement** | | | | | |
| Resettlement Minimization | Not triggered | | | | |
| Resettlement Plan Consultations |
| Impoverishment Risk Analysis |
| Resettlement Plan and/or Resettlement Framework Requirement |
| Livelihood Restoration Program Requirement |
| Consent (Indigenous Peoples and other Rural Ethnic Minorities) |
| **OP-765 Operational Policy on Indigenous Peoples** | | | | | |
| Sociocultural Evaluation Requirement | Not triggered | | | | |
| Good-faith Negotiations and proper documentation |
| Agreement with Affected Indigenous Peoples |
| Indigenous Peoples Compensation, and Development Plan or Framework requirement |
| Discrimination Issues |
| Transborder Impacts |
| Impacts on Isolated Indigenous Peoples |
| **OP-761 Operational Policy on Gender Equality in Development** | | | | | |
| Consultation and effective participation of women and men | Not triggered | | | | |
| Application of safeguard and risk[[7]](#footnote-8) analysis |
| **OP-102 Access to Information Policy** | | | | | |
| Disclosure of relevant Environmental and Social AssessmentsPrior to Analysis Mission, QRR, OPC and submission of the operation for Board consideration | Disclosure of E&S documents | | Compliance expected | The IDB will publish the Program documents in compliance with OP-102. Only C category subprojects are eligible for financing. | |
| Provisions for Disclosure of Environmental and Social Documents during Project Implementation |  | |  | NA | |

**Annex B. ESHS Legal Requirements**

|  |
| --- |
| **A. ESHS Conditions of the Loan Agreement.**  The following ESHS conditions are required to be fulfilled to the satisfaction of the Bank and will be included in the Loan Agreement and further detailed in the Operating regulations (OR) in order to comply with the Bank’s ESHS Safeguard Policies. |
| **1. Conditions to be Met Prior to the First Disbursement of the Loan.**  The AFD shall present evidence that an Operating Manual (OM), that will be part of the Operating Regulations to be agreed upon with the Bank, is in effect, including the specifications ESMR for the Program, and in particular the requirements set forth in the paragraph B below. |
| **2. Conditions of Execution for Compliance During the Life of the Loan.**  The AFD shall implement and comply with the OR and the related OM, and shall cause the Financial Intermediaries and every sub-Borrower, contractor, operator or any other Person performing Program related activities to, design, build, operate, maintain and monitor the Program, each Program activity and sub-Project in accordance with the OR.  Any substantive changes to the OR and the related OM shall be in writing and approved by the Bank in a manner consistent with the Bank's environmental and social safeguards policies. |
| **3. Monitoring, Reporting and Supervision.**  a) For the purposes of monitoring supervision of ESHS compliance, the following requirements shall apply:   1. The AFD shall prepare and present to the Bank’s satisfaction, an ESHS Compliance Report (ESCR), in the form and content agreed upon with the Bank, as part of the annual Program report. 2. The IDB will supervise the ESHS and labor aspects related to the use of the proceeds of the Program, as necessary either by an IDB in-house specialist or with external consultants, hired by the IDB. To this end, AFD will provide and facilitate access by IDB to all relevant documentation, personnel and sub-projects facilities. |
| **B. ESHS Conditions of the Operating Manual (OM) to be incorporated in the Program’s Operating Regulations**  The following ESHS conditions are required to be fulfilled to the satisfaction of the Bank and will be included in the Operating regulations of the program and further in an internal Operating Manual in order to comply with the Bank’s ESHS Safeguard Policies.  The Operating Regulations shall ensure that AFD shall comply with the following ESHS conditions:   1. Comply with all applicable environmental, social, health and safety, and labor regulatory requirements of Paraguay. 2. Confirm that the 1st Tier Banks participating in the Program and the sub-projects financed through this Program comply with all applicable environmental, social, health and safety, and labor regulatory requirements of Paraguay. 3. Appoint an Environmental and Social Coordinator for the duration of the Program. 4. Integrate the IDB exclusions list (see Annex I) in the sub-loan approval process. It is worth noting that this list excludes – among others – projects that (i) involve involuntary resettlement of people, (ii) have a potentially adverse social impact on communities and/or indigenous peoples, (iii) involve conversion or degradation of critical natural habitats or cultural sites. 5. For Energy Efficiency sub-projects, adopt a Decommissioning and Disposal Protocol for replaced equipment and materials acceptable to the IDB, to be presented by AFD and approved by the IDB as a condition prior to first disbursement. The protocol must ensure that any equipment replaced is not reused and is appropriately disposed. It will include the necessary description of each party responsibility. Once approved, said Protocol will be part of this ESMR and as such will apply to AFD, the participating FI and each respective sub-borrower as pertinent to their respective responsibilities. 6. For co-generation projects, develop a classification tool. The tool will be based on the IFC Converting Biomass to Energy: A Guide for Developers and Investors and will be in line with the IDB safeguards. It will be presented by AFD and approved by the IDB as a condition prior to first disbursement. Once approved, said tool will be part of this ESMR. AFD will be responsible to classify the co-generation projects. Only C category projects will be eligible for financing. 7. For co-generation projects, ensure that all projects will only use agricultural waste. AFD will be responsible for the verification that could be obtained via the contractual documents between the FI and the sub-borrower (affidavit). 8. Perform compulsory site-visits for projects above US$1m (AFD E&S specialist) 9. Implement a grievance mechanism at the Program level |

1. According to ISIC Rev.4, code 2392: manufacture of structural non-refractory clay building materials: manufacture of ceramic bricks, roofing tiles, chimney pots, pipes, conduits etc. Section C, manufacturing: Division 23, Manufacture of other non-metallic mineral products. [↑](#footnote-ref-2)
2. According to ISIC Rev.4, code 0164: This activity includes the drying, cleaning, grading and treating of seeds until they are marketed. [↑](#footnote-ref-3)
3. According to ISIC Rev.4, code 1072: Manufacture of sugar. Section: C – Manufacturing; Division: 10 - Manufacture of food products; Group: 107 - Manufacture of other food products; Class: 1072 - Manufacture of sugar. [↑](#footnote-ref-4)
4. ‘Secondary crops refer to byproducts used for energy production. As such, the main crop harvested (for example grain for food and feed) is not used for energy generation, but any residues (straw husks, shells) are.’ – Source [Converting Biomass to Energy - A Guide for Developers and Investors](https://www.ifc.org/wps/wcm/connect/7a1813bc-b6e8-4139-a7fc-cee8c5c61f64/BioMass_report_06+2017.pdf?MOD=AJPERES), June 2017 [↑](#footnote-ref-5)
5. For more information, see IFC [Converting Biomass to Energy - A Guide for Developers and Investors](https://www.ifc.org/wps/wcm/connect/7a1813bc-b6e8-4139-a7fc-cee8c5c61f64/BioMass_report_06+2017.pdf?MOD=AJPERES), June 2017 [↑](#footnote-ref-6)
6. Please note that ESG is working on preparing a compliance checklist. [↑](#footnote-ref-7)
7. Risks may include: (i) Unequal access to project benefits/ compensation measures, (ii) Men or women disproportionally affected due to gender factors, (iii) Non-compliance with applicable legislation related to equality between men and women, (iv) Increased risk of gender-based violence, including sexual exploitation, human trafficking and sexually transmitted diseases, and (v) Disregard of women’s ownership rights. [↑](#footnote-ref-8)