

ANNEX X.

ENVIRONMENTAL AND SOCIAL STRATEGY¹ **Banco Agrícola, El Salvador** **ES-L1033**

A. Environmental and Social Impacts and Risks

- 1.1 Based upon the nature of this project (i.e. a senior loan to support the MSME segment) there may be moderate direct environmental, social, health and safety (ESHS) and labor impacts and risks. To that end a specific environmental due diligence is required. The potential key ESHS and labor impacts and risks associated with this operation are those related to the specific projects financed by Banco Agrícola and could include (i) Banco Agrícola's environmental credit risks, (ii) IDB Reputation Risks associated to Banco Agrícola's ESHS and/or labor practices, and (iii) specific ESHS and labor impacts and risks related to MSME investment in certain sectors.
- 1.2 Environmental credit risks refer to potential negative effects on Banco Agrícola's ability to repay the IDB because of: (i) risks due to Banco Agrícola credit programs associated with environmental or social issues (e.g. environmental liabilities) or increased probability of non-repayment of loan due to environmental and social issues (e.g. law suits, fines, etc); and (ii) risks associated with Banco Agrícola facilities and operations, such as environmental liabilities in their offices due to asbestos, lead paint, etc. or Banco Agrícola employees having occupational health and safety problems due to working conditions (e.g. inadequate emergency preparedness, lack of fire exits, etc).
- 1.3 Reputation risks are associated with Banco Agrícola's involvement in projects, companies or activities considered unacceptable to the IDB and/or that will face significant public opposition or concerns, such as (i) inappropriate development sitting; (ii) Banco Agrícola's finance application and analysis process that is not equitable, fair, and unbiased in terms of social factors (e.g. gender, age, ethnicity, or cultural heritage, etc.); and (iii) significantly deficient labor practices by Banco Agrícola².
- 1.4 There may also be specific ESHS and labor impacts and risks related to MSME investment in certain sectors such as: dry cleaners; tanneries; print shops (all three of which may have impacts associated with solvent emissions and waste); food processing (waste water); textiles (air quality, labor); transport and construction (which may have impacts associated with noise, dust, traffic, health and safety as well as location);

¹ This Environmental and Social Strategy (ESS) is being made available to the public in accordance with the Bank's policy on information disclosure. The ESS has been prepared based primarily upon information provided by the Project sponsors and does not represent either the Bank's approval of the Project or verification of the ESS completeness or accuracy. The Bank, as part of its due-diligence on the feasibility of the Project, will assess the environmental and social aspects. This assessment will be presented in the Project Environmental and Social Management Report that will be prepared by the Bank, and will be made available to public prior to consideration of the Project by the Bank's Board of Executive Directors.

² Examples provided are general in nature and may not be specifically applicable to Banco Agrícola. Reputational risks will be analyzed during due diligence (see 1.7.c).

agriculture (land use conflicts, biodiversity loss), to give a number of examples³. There may also be potential environmental risks associated with investments in operations that could be affected by natural disasters, such as earthquakes, volcanic eruptions or landslides.

- 1.5 These risks are considered may be moderate and will be assessed during the due diligence.

B. Status and Compliance

- 1.6 Based on Directive B.13 of the Environment and Safeguards Compliance Policy, and given that this is a Financial Intermediary project, this operation is not categorized.

C. Strategy for Environmental and Social Due Diligence

- 1.7 As per the IDB Environment and Safeguards Compliance Policy and Guidelines and as part of its due diligence process, the Bank will assess Banco Agricola's capacity for environmental management, through an analysis of the ESHS and labor impacts and risks associated with the Facility. During this process the Bank will establish whether appropriate environmental procedures are in place to appropriately assess and manage these potential impacts and risks. The Bank will ensure that appropriate and feasible ESHS and labor requirements, including capacity building, in the form of an Environmental Management System (EMS), tailored to the particular needs of the Facility, are included in the legal agreements. To that end, the environmental and social due-diligence will specifically include the components listed below:
- a. An assessment of Banco Agricola's compliance status with the applicable country (national, state, municipal) environmental, social, health and safety, and labor regulatory requirements;
 - b. An assessment of the sufficiency of current credit appraisal, approval, and monitoring procedures to manage environmental and social liabilities, impacts and risks of its loan operations, including risks associated with Banco Agricola's MSME lending portfolio. Current procedure should at a minimum be able to (i) include in the application and analysis process (i.e., underwriting guidelines and risk review process) consideration of environmental or social aspects (such as possible impacts on coastal zones, lake and rivers; in protected areas; or on indigenous peoples or possible effects that may result from natural disasters), and assess potential environmental financial/credit risks and liabilities that may be associated with the loans; and (ii) include provisions to have credit officers qualified and trained to identify potential environmental, social, health and safety, and labor issues/liabilities.
 - c. An assessment of Banco Agricola's actual and pipeline MSME portfolio, to establish potential reputational risks associated with Banco Agricola's involvement in projects, companies or activities considered unacceptable to the IDB; and specific ESHS and labor impacts and risks related to MSME investment in certain sectors.

³ Examples provided are general in nature and may not be specifically applicable to Banco Agricola's portfolio. Banco Agricolas actual MSME portfolio will be analyzed during due diligence (see 1.7.c).

- d. An evaluation to assure an appropriate inventory of present environmental and occupational safety liabilities in Banco Agricola's facilities and operations, and if they exist, assess the adequacy of the action plan to properly resolve them.
- e. An evaluation to ensure that Banco Agricola has adequate Contingency Plans and procedures (i.e. emergency response programs, building evacuation drills, etc) including their technical adequacy, adequate level of training, and sufficient resources to ensure adequate implementation.
- f. An evaluation of Banco Agricola's compliance with the Fundamental Principles and Rights at Work and with any other international labor organization conventions and treaties which have been ratified by El Salvador, to determine presence of any existing major labor problems associated with Project companies, and whether they practice fair and unbiased labor practices related to sex, age, ethnicity, cultural heritage, and collective bargaining.
- g. An assessment of the adequacy of Banco Agricola's procedures to ensure that loan, finance application and analysis process is equitable, fair, and unbiased in terms of social factors (e.g. age, gender, cultural heritage, etc).