

Environmental and Social Review Summary (“ESRS”)

LAC Green Debt Fund / 13976-01 – Regional

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- 1. Scope of Environmental and Social Review.** The environmental and social (“E&S”) review of the proposed transaction was carried out in April and May 2022 through in-person meetings with the client and a desk review. This included the assessment and analysis of the Fund’s E&S policies, procedures, and pipeline. Darby International Capital (“Darby”), who is the manager of the Fund, is a new client of IDB Invest with a strong track record in E&S management. The LAC Green Debt Fund aims to further contribute to climate finance in the region.
- 2. Environmental and Social Categorization and Rationale.** The sub-projects to be supported are expected to have moderate to high E&S impacts and risks as the Fund will be providing senior debt in a variety of sectors. These include manufacturing, renewable energy, healthcare, retail, agriculture and aquaculture as well as water and sanitation. Therefore, the transaction was categorized as a high-risk FI-2 per the IIC Environmental and Social Sustainability Policy. The Fund will not be permitted to invest in category A projects per IDB Invest's definition. Each individual investment is expected to average US\$28M to US\$30M in size with an average tenor of five years. The Fund will have a five-year investment period and a total life of 10 years, with the possibility of two one-year extensions.
- 3. Environmental and Social Risks and Impacts.** The Fund has several target sectors which include agriculture and aquaculture, renewable energy, water and sanitation, retail, and manufacturing. The main E&S risks of the project are associated with the Fund’s capacity to identify and manage the E&S risks associated with its lending activities. The potential risks associated with its main lending activities concern a variety of issues including pollution prevention and mitigation, biodiversity impacts, community impacts, community relations, health, safety and labor concerns, and water and waste management, among others. The client uses a table of critical issues per sector which outlines the main potential risks associated with the respective target sector. As detailed below, the Fund engages an external E&S consultant to assess all related impacts and assist in the development of an appropriate action plan in line with the Fund's environmental and social management system (“ESMS”) and the IFC Performance Standards.
- 4. Mitigation Measures.** The client has in place a comprehensive ESMS to identify and manage the E&S risks of its portfolio. The ESMS was developed by an external consultant in 2016 and implemented in a previous Fund, which also had DFI lenders. The same ESMS, with some additional enhancements, will be applied to this Fund, and includes a policy, categorization guide, screening and monitoring procedures, defined roles and responsibilities, and legal covenant requirements. Application of the IFC Performance Standards is mandatory in all instances. The

client is in the process of hiring a full-time person qualified to manage E&S risks and impacts associated with the Fund’s lending activities. Furthermore, the client will contract an external consultant in all instances to conduct the environmental and social due diligences (“ESDDs”) and monitoring of all its investee companies. The Fund’s E&S specialist will oversee the implementation of the ESMS, liaise with the consultant and serve as contact point with all sub-borrowers on E&S matters. As part of the sub-project ESDD, the consultant’s scope of work will include defining corrective action plans in line with the requirements laid out in the client’s policies as well as making recommendations specific to added value areas. Those pertain to opportunities for cost reductions, income increases, reputation impact or risk exposure reduction that go beyond the immediate requirements. The consultant is engaged to prepare a Social and Environmental Performance Report for the Fund’s Limited Partners on an annual basis. This report will detail every investment and respective social and environmental key performance indicators, risk categorization, main findings of the ESDDs and contingent E&S problems that occurred during the reporting year.

The Fund will invest at least 30%, with an aspirational target of 50%, of the portfolio in investments contributing to climate change mitigation in accordance with international taxonomies such as the Common Principles for Climate Mitigation Finance Tracking. Furthermore, Darby is already a signatory to the Principles for Responsible Investment (“PRI”) starting in 2022. Darby is developing a carbon footprint tool in coordination with its ESG consultant to identify and track main sources of greenhouse gas (“GHG”) emissions for each investee portfolio company in the Fund. It will not invest in companies that produce more than one million tons of CO₂e per year. The Fund will update its ESMS with respect to climate risk management to incorporate procedures for the identification and management of climate risks, covering both risks related to GHG emissions and risks related to the physical impacts of climate change.

The Fund will be required to ensure that all loans supported comply with IDB Invest’s Exclusion List, applicable E&S local laws, and the IDB Invest Environmental and Social Guidelines including the IFC Performance Standards. The Fund will be required to submit the first three individual investments to IDB Invest with the purpose of: (i) confirming categorization; and (ii) reviewing and commenting on individual action plans. The Fund will undergo a comprehensive Fund-tailored training directed to its E&S and Investment staff detailing the requirements of the ESMS, the implementation of IFC Performance Standards, and the various roles and responsibilities. IDB Invest requires that the Fund develops and implements an External Communication Mechanism to review inquiries or complaints from any interested party regarding the E&S risks and impacts of their operations.

5. Environmental and Social Action Plan

Task	Action	Product	Completion date
E&S Management	Ensure that the Fund’s ESMS incorporates the IDB Invest Exclusion list; complies with National Environmental and Social Laws and regulations, and applies the IFC Performance	Updated ESMS	Before first disbursement

	Standards as well as the World Bank Group EHS Guidelines where relevant.		
Climate risk management	Incorporate climate risk identification and management procedures into the ESMS covering both risks related to GHG emissions and to physical climate-related impacts.	Climate risk identification and management procedure	Six months after disbursement
Capacity building and training	Hire an E&S Officer with experience and background to oversee the implementation of the ESMS and to be designated as the E&S focal point; undertake with the support of a consultant a comprehensive training for its E&S and investment staff on the requirements of its ESMS, the implementation of the IFC Performance Standards and the various roles and responsibilities; ensure that all new personnel receive the same training.	Proof of E&S trainings	Before first disbursement and every time new personnel are incorporated.
External consultant for sub-project Environmental and Social Due Diligence	The Fund will assess depending on the ESMS categorization if it will hire external E&S consultants for individual sub-loan to conduct an Environmental and Social Due Diligence, apply the IFC Performance Standards, and prepare a tailored E&S Action Plan. The consultant and the E&S Officer will negotiate with each borrower the action plan and incorporate it into the legal agreement.		For every sub-project
External Communication Mechanism	Develop a system in accordance with the IFC Performance Standards to register and process external complaints related to the Fund's projects.	Grievance Mechanism	Before first disbursement
Pre-categorization review	The Fund will submit for each operation at a pre-due diligence stage the E&S categorization and proposed due-diligence scope to IDB Invest.		For every sub-project
Review of first three sub-loans	For the first three sub-loans, the Fund will provide in addition to the pre-categorization review the due diligence reports, proposed action plan, and any other related information for IDB Invest's review prior to its investment committee meeting.		For the first three sub-projects
Reporting	Submit to IDB Invest annually a summary of all sub-investments, the status of their respective		Annually

	action plans, and any issues identified during monitoring. The report will be prepared by an external consultant with review from the Fund.		

- 6. Contact Information** For project inquiries, including environmental and social questions related to an IDB Invest transaction please contact the client (see **Investment Summary** tab), or IDB Invest using the email requestinformation@idbinvest.org. As a last resort, affected communities have access to the IDB Invest Independent Consultation and Investigation Mechanism by writing to mecanismo@iadb.org or MICI@iadb.org, or calling +1(202) 623-3952.