

**1. Overview of Scope of IDB Invest E&S Review** The E&S review of the proposed transaction was carried out through desk research, phone calls with the client, and a portfolio review. BlueOrchard is not a new fund manager to IDB Invest (as in addition to participating in syndicated loans, it partnered with IADB/MIF and IIC in 2010 under the Microfinance Growth Finance Facility Fund (“MIGROF”) which matured in 2017), with a focus in lending to microfinance and SME FIs. As such, on-lending risks are generally considered low; BlueOrchard has developed a proprietary Impact and ESG Framework that is applied in its investment practices.

**2. Environmental and Social Categorization and Rationale** The proposed operation is classified as an FI-2 according to the IDB Invest Sustainability Policy. BlueOrchard will use the IDB Invest funds to finance FIs across LAC with a focus in microfinance and SMEs. The financing aims to address short-term financing needs stemming from COVID-19, and will focus on commerce, services, agribusiness, and small-scale manufacturing. The financing will attend primarily to working capital and capital expansion needs. The expected average loan size to microentrepreneurs is US\$4,000 and for SMEs US\$25,000, and the average tenor is 18-24 months and 30-36 months, respectively. It is currently estimated that more than 50% of the Fund’s finance will be directed towards microfinance institutions.

**3. Environmental and Social Risks and Impacts** The E&S risks are considered minimal given the proposed use of proceeds. The primary risk relates to the commitment and capacity of BlueOrchard, as the Fund Manager, and FI borrowers within the Fund to screen and manage for E&S risks associated with the end-beneficiaries. It is expected that all FIs have an Environmental and Social Management System (“ESMS”) to adequately manage these risks.

**4. Mitigation Measures** BlueOrchard has a strong commitment to E&S management, which is consistent with the requirements defined in IDB Invest’s Sustainability Policy. BlueOrchard’s ESG and impact management and measurement framework - B.Impact - is aligned with the Operating Principles for Impact Management- and has been subject to external independent verification in 2020. In the context of this Fund, BlueOrchard will be required to develop an ESMS that effectively screens the E&S management systems and capacity of sub-borrower FIs. All operations will include the application of the IDB Exclusion List and local law as applicable. BlueOrchard will report annually on the E&S performance of the Fund and the FIs contained within.

## 5. E&S Action Plan:

Task	Description	Deadline
Update of ESMS	BlueOrchard will update their ESMS (in development) with the aim to formalize the E&S evaluation, management and monitoring that the Fund does in assessing borrowers’ E&S performance. The updated ESMS will align, where relevant, to the IFC’s Interpretation Note for FIs, and include details on FI E&S risk categorization, evaluation, corresponding ESMS requirements (commensurate with the E&S risk of the FI identified), and related monitoring. The assessment of the FI’s ESMS (and related components) will be incorporated into BlueOrchard’s existing tools and/or Scorecard.	March 2021
Retain Capacity	Nominate or hire an individual with adequate capacity to operate the ESMS, screen FI borrowers accordingly, and define action plans as necessary.	At disbursement

**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 [divulgacionpublica@iadb.org](mailto:divulgacionpublica@iadb.org). As a last resort, affected communities have access to

the IDB Invest Independent Consultation and Investigation Mechanism by writing to [mecanismo@iadb.org](mailto:mecanismo@iadb.org) or [MICI@iadb.org](mailto:MICI@iadb.org), or calling +1(202) 623-3952.