

1. **Scope of the environmental and social review:** The environmental and social analysis of the proposed operation consisted of a review of the documentation and a two-day field visit. During the field visit, the SEG officer met with corporate governance management, as well as risk management, and visited a banana project financed by BG. BG has been an IDB Invest client since 2010, with satisfactory environmental and social performance. In addition, BG has worked with other multilaterals such as UNEP FI, CAF and funds like EcoBusiness.
2. **Environmental and social classification and its rationale:** The proposed financing line for MSMEs receives the FI-2 classification according to the IDB Invest Sustainability Policy. The subprojects that will receive support have a potential risk between low and medium. The microcredit subloans are for up to US\$25,000 with terms of 6 to 42 months. The sub-loans to small and medium enterprises are for US\$25,000 to US\$1,000,000. The sectors in the portfolio are generally: manufacturing (27%), trade (23%), services (22%), construction (13%), agriculture (12%) and mines/petroleum (3%). The three largest sectors in the microcredit and SME portfolio are the same, with different percentages: trade (45% for microcredit; and 35% for SMEs), agriculture-livestock-fishing (24%; 4%), and manufacturing (10%; 11%). The fourth largest sector in the portfolio for microcredit is lodging and food services (10%), while for SMEs it is transportation and storage (10%). Subprojects in category A (high risk) as well as those engaged in activities in the IDB list of exclusions will be excluded from IDB Invest financing.
3. **Environmental and social risks and impacts:** Banco Guayaquil has 2.890 employees (56% women), a human resources policy, and a code of ethics. In 2011, BG developed an Environmental Risk Policy and Methodology Manual^[1] and has had an Environmental Management System (EMS) since 2014.^[2] With support from EcoBusiness and possibly from IDB Invest, BG has plans in 2019 to expand on both documents and develop an Environmental and Social Risk Analysis System and an Environmental and Social Management System and for this purpose will contract an outside consultant under the supervision of the Corporate Governance Management. In addition, since 2013 BG has undertaken an Environmental Responsibility Program (“*Yo cuido*”) that is used to measure the carbon footprint^[3] of its principal installations and implements a waste management and resource efficiency (primarily water and electricity) program. However, BG does not have an internal grievances mechanism; it only has an ethics line, and the resolution and monitoring of concerns are explained in general terms on the BG website. BG does have a list of exclusions that it uses in selecting its loans. It only activates its risks manual for loans exceeding US\$250,000 and, depending on the category, requires additional documentation from its clients. Environmental risk categorization is based on an equation that takes into account the economic sector, pollution generated, size and location of the activity, with all variables having the same weight. If the project is categorized as A (high risk), BG requires the borrower to submit an Environmental Impact Assessment (reviewed by a BG risk officer), and an Environmental Protection Plan and Environmental Audit, the review of which may be assigned to a consultant. Banco Guayaquil does not do environmental and social monitoring of loans, nor does it offer training to its loan staff on identification and mitigation of environmental and social risk. The supervision of Banco Guayaquil’s environmental and social aspects is divided between the offices of two Vice Presidents with different control and reporting channels. The environmental risk assessment of potential loans is assigned to the Office of the Vice President for Risk, while environmental management focused on reducing the carbon footprint, corporate social responsibility, and the development of green loan products is assigned to the Office of the Executive Vice President for Finances, under Corporate Governance Management. Interaction between the two areas is limited, but is expected to increase with the development of green credit products.
4. **Mitigation measures:** Banco Guayaquil will be required to evaluate, administer, and monitor the identified environmental and social risks by expanding its Environmental Management System to include its environmental risk manual (ERM) so as to achieve an Environmental and

Social Management System (ESMS) and subsequently assess the need to apply risk analysis to loans of less than US\$250,000. The ESMS will be required to include the items established by the International Finance Corporation (IFC) for Performance Standard 1,^[4] including: an environmental and social policy, environmental and social risk assessment, in addition to the definition of the roles and responsibilities of staff for assessing and monitoring loans. As part of the optimization and continuous improvement of its ESMS, Banco Guayaquil will be required to (i) update the exclusion list to include activities excluded by IDB Invest; (ii) strengthen the operation and execution of the ESMS; (iii) conduct training courses on the final ESMS for the commercial teams and management; and (iv) develop an internal grievances mechanism that specifies the process for resolving and following up such grievances. In conclusion, Banco Guayaquil must ensure that all supported loans comply with the provisions of the IDB Invest Exclusion List as well as local and national laws applicable to environmental and social issues. So that BG will be better informed regarding IDB Invest requirements, the Risk and Corporate Governance Managers will be required to attend the IDB Invest training workshop on Environmental and Social Risks Management for financial intermediaries.

5. Environmental and social action plan (ESAP)

ITEM	TASK	ACTIVITY	DELIVERABLE	COMPLETION
1	Update the exclusion list	Include all activities from the IDB Invest Exclusion List	Updated exclusion list.	Prior to the first disbursement.
2	Internal Grievances Mechanism	Develop a mechanism with the following elements: i) record grievances, ii) evaluate issues raised and determine how to address them, iii) provide, document, and following up responses, and iv) supplement the ESMS as required. The grievances mechanism must be communicated to all Bank employees, including management, in a clear and comprehensible way.	Internal Grievances Mechanism. Evidence of internal dissemination.	Three months after the first disbursement.
3	Expand approach, revise and strengthen existing policies	Develop an Environmental and Social Management System (ESMS) following the guidelines of IFC Performance Standard 1. ^[5] These include: i) environmental and social policy, ii) internal organizational capacity, iii) environmental and social due diligence processes/procedures to identify risks and impacts, iv) portfolio monitoring and supervision, v) external communication mechanism, vi) emergency response (e.g. fires).	Environmental and Social Management System (ESMS).	Six months after the first disbursement.

4	Pilot evaluation and implementation of the ESMS	Test the ESMS on selected clients/projects, adjusting E&S policies, procedures, and tools according to their evaluation in the pilot and ensuring the inclusion of E&S procedures, sectoral guidelines.	Report on implementation and evaluation of pilot projects.	12 months after the first disbursement.
5	Final ESMS	Approval of the ESMS by the Board.	Approved ESMS.	16 months after the first disbursement.
6	Capacity building and training	Train management (risk and corporate governance), loan officers, and credit analysts on the E&S requirements of national laws and attend lectures or virtual courses on Environmental and Social Risk Management of UNEP FI. ^[6] For new staff, offer training on the ESMS, the requirements of national legislation, and the BG exclusion list.	Certificate of E&S training for members of management, loan officers, and credit analysts, in addition to E&S training tests for new staff.	Depending on the availability/timeliness of training, but before six months have elapsed since the first disbursement.

6. Contact information For queries on projects, including environmental and social issues related to an IDB Invest transaction, please contact the client (see **Summary of the Investment**), or IDB Invest via e-mail requestinformation@idbinvest.org. As a last resort, affected communities have access to the IDB Invest Independent Consultation and Investigation Mechanism via e-mail at mecanismo@iadb.org or MICI@iadb.org, or by telephone at +1(202) 623-3952.

[1] Banco Guayaquil-Multibanco. Octubre 2012. Manual de Políticas y Metodologías de Gestión de Riesgo Ambiental. Versión 1. Unidad de Riesgo. (UR-RA-2011-001). 56 pp.

[2] Banco Guayaquil. 2014. "Sistema de Gestión Ambiental". 17 pp.

[3] Consists of monitoring and reducing consumption of water and electricity, using eco-friendly refrigerants, waste management, use of natural light, etc..

[4] Interpretation Note on Financial Intermediaries, November 2018.

<https://www.ifc.org/wps/wcm/connect/38d1a68049ddf966af3cbfda80c2ddf3/FI+Interpretation+Note+November+2018.pdf?MOD=AJPERES>

[5] Interpretation Note for Financial Intermediaries, November 2018.

<https://www.ifc.org/wps/wcm/connect/38d1a68049ddf966af3cbfda80c2ddf3/FI+Interpretation+Note+November+2018.pdf?MOD=AJPERES>

[6] [https://events.iadb.org/calendar/event/19881?lang=en;](https://events.iadb.org/calendar/event/19881?lang=en)
<https://www.unepfi.org/training/capacitacion/aras/>