

1. **Scope of the Environmental and Social Review** The environmental and social (E&S) analysis of the proposed transaction consisted of a documentation review and two telephone interviews with Kandeo's management and risk team. Kandeo has experience working with multilateral and bilateral banks (IFC, DEG, KFW), particularly in capital investments. This fund will be Kandeo's first debt fund and the third one managed by it, as the two previous ones were private equity funds.
2. **Environmental and Social Categorization and Rationale:** The proposed transaction is classified as FI-2 under IDB Invest's Sustainability Policy. The potential risks of the subprojects requiring support are considered low to moderate. The financing provided by the Fund will be primarily for middle-market companies in Mexico, Colombia and Peru, with an average credit term of 5 years. Subprojects classified as Category A (high-risk) and those that are in the sectors stipulated in IDB Invest's exclusion list shall not be able to procure financing by the Fund.
3. **Environmental and Social Risks and Impacts:** The E&S risks of this transaction are related to Kandeo's personnel capacity and strength of its procedures for assessing and managing the risks associated with its investments. Kandeo has an Environmental and Social Management System (ESMS), cited as "Environmental, Social and Corporate Governance Policy," approved in February 2019, that is applied to all its transactions. Kandeo's ESMS includes a detailed exclusion list, procedure analysis and E&S categorization, and guidelines for developing investment action plans. Kandeo implements the Principles of Responsible Investment (PRI) and the International Finance Corporation's (IFC) Performance Standards. Kandeo has an Environmental, Social and Governance (ESG) Director responsible for corporate E&S risk assessment, which guides teams from each country (Mexico, Peru and Colombia) in the implementation of the ESMS. In moderate or moderate-high risk projects, the ESMS stipulates the contracting of external consultants to assist in the E&S analysis. Project monitoring is annual and in moderate-high risk projects it may be more frequent and usually includes a visit from the ESG Director. All projects must deliver an Annual Environmental and Social Report that includes qualitative information (measures implemented to mitigate risks) and quantitative information (internal/external complaints, resource consumption, generated employment, etc.). Kandeo also publishes an annual impact report aligned with the Sustainable Development Goals (SDGs). Kandeo has a Human Resources policy aligned with the Performance Standards.
4. **Mitigation Measures:** Kandeo shall identify potential gaps in its Environmental, Social and Governance Policy in comparison to the IFC's Performance Standard 1^[1] guidelines. In addition, it should adapt its processes, procedures, forms and contractual requirements so that they could be applicable for a debt fund. Furthermore, IDB Invest requires that all transactions categorized as moderate-high E&S risks shall contract external consultants to assist in the analysis and implementation of the mitigation initiatives for these risks. The financing provided by Kandeo must comply with IDB Invest's Exclusion List, applicable E&S local and national laws and the IFC Standards, when applicable. In order for Kandeo personnel to better understand IDB Invest requirements, those responsible for the implementation of the ESMS should attend IDB Invest's Environmental and Social Risk Management training for financial intermediaries.
5. **Environmental and Social Action Plan (ESAP)**

No. TASK	ACTION	PRODUCT	COMPLETION DATE
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No.	TASK	ACTION	PRODUCT	COMPLETION DATE
1	Implement IDB Invest's exclusion list	Ensure the inclusion of all activities on IDB Invest's exclusion list in Kandao's exclusion list.	Updated exclusion list.	Prior to the first disbursement.
2	Strengthen existing policies	<p>Improve the ESMS by following the International Finance Corporation's (IFC) Performance Standard 1 guidelines, strengthening its procedures to assess its projects in relation to the Performance Standards.</p> <p>Together with an independent consultant, the ESMS should include: i) Environmental and Social Policy, ii) Internal organizational capacity, iii) Environmental and due diligence processes/procedures in identifying risks and impacts, iv) Portfolio monitoring and supervision, v) External communication procedure.</p> <p>The ESMS should indicate that in projects categorized as moderate-high risk, Kandao will require the implementation of the IFC's Performance Standards and the contracting of an external consultant to assist in the assessment and mitigation of environmental and social risk.</p> <p>Together with an independent consultant, implement the ESMS in selected clients/projects. Kandao will send the first three fund transactions to IDB Invest for review and feedback, in order to: (i) confirm E&S categorization and (ii) assess the proposed action plan.</p>	Environmental and Social Management System (ESMS). Proof of personnel training.	9 months after financial closure (signing of investment commitment).
3	Assessment of the first three transactions	will send the first three fund transactions to IDB Invest for review and feedback, in order to: (i) confirm E&S categorization and (ii) assess the proposed action plan.	Report on the implementation and assessment of pilot projects.	When the first three transactions have been made.
4	Capacity Building and training	Train personnel responsible for implementing ESMS on E&S requirements of national laws and the implementation of IFC's performance standards (PS). Ensure that all new personnel receive the same training.	E&S training certificate for the personnel responsible for implementing the ESMS, as well as proof of E&S training for new personnel.	14 months after financial closure. And every time new personnel responsible for implementing the ESMS is incorporated.

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5	External Communication Mechanism	Implement and maintain an external communication procedure, including methods for receiving, recording, examining and evaluating, tracking, responding and clearing external doubts or complaints following PS 12 requirements.	External Communication Mechanism.
			3 months after financial closure.

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.

[1] Interpretive note for Financial Intermediaries. November 2018.
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