

- 1. Scope of Environmental and Social Review.** IDB Invest evaluated the capacity of Mercader Financial to manage the environmental and social risks (“E&S”) of its current portfolio, 70% which is comprised of loans and financing (financial leasing and leasing) to SMEs in the following sectors: i) transportation (DINA passenger buses) and 30% to ii) industry, iii) services, iv) consumer goods, and v) agriculture. The growth of new businesses over the next four years is expected to take the form of financing for SMEs focused on: i) Renovation of tortilla-making machinery; ii) leasing of solar panels for micro and small businesses for their own power needs; and iii) agribusinesses. The average loan size in the SME segment (transportation) is US\$400,000, with an average term of five years. Mercader Financial defines i) micro enterprises as enterprises with sales of between US\$1 million and US\$2.5 million and 1-10 employees; ii) small enterprises with sales of between US\$2.5 million and US\$5 million and 11-50 employees; and iii) medium-sized enterprises with sales of between US\$5 million and US\$15 million and 51-250 employees. The following documents of the financial intermediary were reviewed: i) MA-CR-2(17) Credit Policies Manual; ii) MA-RG-1(1) Risk Policies Manual; and iii) Loan Portfolio Breakdown. The review also included a phone call in March 2020 between the IDB Invest environmental and social officer and the CEO and CFO of the financial intermediary (“FI”). The review also included responses to several questions asked over email on the breakdown of the current and projected portfolio and the E&S risk management system.
- 2. Environmental and Social Categorization and Rationale.** The subprojects to be supported—such as to the transportation sector—have a medium risk potential. Consequently, pursuant to the IIC’s Environmental and Social Sustainability Policy, the FI has been classified as FI-2.
- 3. Environmental and Social Risks and Impacts.** This project’s main E&S are associated with the financial institution’s capacity to identify and manage the potential environmental and social risks related to its main lending activity, including emissions of CO₂ and particulate matter from the combustion of diesel fuel by buses. However, this impact is partially mitigated by the following aspects: i) implementation of clean technologies to the transportation sector through the installation of natural gas engines, which the FI has encouraged; ii) the transportation portfolio’s breakdown by fuel type is 33% natural gas and 67% diesel^[1]; and iii) as part of this transaction, IDB Invest will finance technical assistance to support Mercader Financial in the design of a corporate sustainability strategy to facilitate and drive the implementation of green financial products, in addition to the financial institution’s initiative to provide SMEs with financing for efficient tortilla making machinery and for solar power for their own use.

Mercader Financial has not yet implemented an Environmental and Social Management System (“ESMS”) to identify and manage the E&S risks in its portfolio. The client will develop adequate environmental and social procedures and has a plan to form and assign a team of qualified and trained staff to manage the environmental and social risks and impacts of its credit portfolio.
- 4. Mitigation measures.** Mercader Financial will develop an ESMS that is up to date with international best practices and is appropriate to the risk level of its credit portfolio. The ESMS will be developed by external consultant under a technical cooperation (“TC”) project with IDB Invest. It must comply with Performance Standard 1 and will require the application of local laws and IDB Invest’s Exclusion List.

Mercader Financial must guarantee that all the IDB Invest-backed loans comply with the IDB Invest Exclusion List and with applicable local environmental and social laws. In order for the Borrower to have a better understanding of IDB Invest’s requirements, Mercader Financial must attend IDB Invest’s training workshop on Environmental and Social Risk Management for financial intermediaries.
- 5. Action Plan:**

Task	Description	Deliverable	Deadline
Exclusion list	Adopt the IDB Invest exclusion list	Mercader Financial exclusion list	No more than three months from the signing of the agreements.
Contract an external consultant	Under an IDB Invest TC project, Mercader Financial will hire an external consultant to support the development and implementation of the ESMS with a focus on portfolio risks in the transportation and agribusiness sectors.	Contract with external consultant	No more than three months from disbursement.
Designate an individual responsible for E&S issues	Mercader Financial will designate an individual as implementation lead who will be responsible for E&S matters.	Letter designating the individual for this position.	Prior to disbursement.
Development of the ESMS	Mercader Financial will, with the support of a consultant, develop an ESMS that is consistent with IDB Invest's Sustainability Policy and in line with IFC Performance Standard 1. ^[2] It will include IDB Invest's exclusion list.	ESMS document.	No more than 12 months from disbursement.
Capacity building	Training of senior management, credit officials, and credit analysts on implementation of the ESMS and IFC Performance Standards by a consultant with experience in those areas. Training of new staff.	Certification of having completed the training.	No more than 12 months from disbursement (the certification of new staff will be included in the Environmental and Social Compliance Report).

6. **Contact information.** For questions about projects, including environmental and social issues associated with an IDB Invest transaction, please contact the client (see **Investment Summary**) or IDB Invest through e-mail requestinformation@idbinvest.org. As a last resort, affected communities have access to IDB Invest's Independent Consultation and Investigation Mechanism through mecanismo@iadb.org or MICI@iadb.org, or by calling +1(202) 623-3952.

[1] 33% of the engines financed are Euro 5 and EPA 10, while 67% are EPA 4. It should be noted that as of June 2019, only Euro 5 and EPA 10 engines are financed in Mexico.

[2] https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/publications/publications_policy_interpretationnote-fi

